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SESSION 1947

HOUSE OF COMMONS

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

NO. 1

MONDAY, APRIL 28, 1947

TUESDAY, APRIL 29, 1947

CANADIAN NATIONAL RAILWAYS ANNUAL REPORT (1946)

WITNESSES

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

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

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

OTTAWA
EDMOND CLOUTIER, C.M.G., B.A., L.Ph.,
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY
1947

ORDERS OF REFERENCE

THURSDAY, 13th March, 1947.

Resolved,—That a Sessional Committee on Railways and shipping owned, operated and controlled by the Government be appointed to consider the accounts and estimates and bills relating thereto of the Canadian National Railways, the Canadian National (West Indies) Steamships, and Trans-Canada Air Lines, saving always the powers of the Committee of Supply in relation to the voting of public moneys; and that the said Committee be empowered to send for persons, papers and records and to report from time to time, and that, notwithstanding Standing Order 65, in relation to the limitation of the number of members, the said Committee consist of Messrs.: Belzile, Bourget, Chevrier, Clark, Emmerson, Gibson (*Comox-Alberni*), Harkness, Hatfield, Hazen, Jackman, Kuhl, LaCroix, Lockhart, Maybank, McCulloch (*Pictou*), McLure, Moore, Mutch, Nicholson, Picard, Pouliot, Reid, Warren.

TUESDAY, 15th April, 1947.

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

TUESDAY, 22nd April, 1947.

Ordered,—That the Annual Reports for 1946 of the Canadian National Railway System, the Canadian National (West Indies) Steamships Limited, and the Canadian National Railways Securities Trust, tabled this day, be referred to the said Committee.

Ordered,—That the Resolution passed by the House on March 4, 1947, referring Estimates for the financial year 1947-48 to the Committee of Supply, be rescinded in so far as the said Resolution relates to Vote 434, Maritime Freight Rates Act—Canadian National Railways;

Vote 435, Maritime Freight Rates Act—Railways other than Canadian National;

Vote 479, Prince Edward Car Ferry and Terminals—Deficit 1947.

Ordered,—That the said Votes Nos. 434, 435 and 479 be referred to the said Committee.

WEDNESDAY, 23rd April, 1947.

Ordered,—That the Financial Budgets of the Canadian National Railways and the Canadian National (West Indies) Steamships Limited, for the calendar year 1947, tabled this day, be referred to the said Committee.

THURSDAY, 24th April, 1947.

Ordered,—That the Report to Parliament of George A. Touche and Company, Auditors for the Canadian National Railways System, for the year ended December 31, 1946, tabled this day, be referred to the said Committee.

MONDAY, 28th April, 1947.

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

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

Ordered,—That the quorum of the said Committee be reduced from 12 to 8 members, and that Section 3 of Standing Order 63 be suspended in relation thereto.

Ordered,—That the Annual Report of the Trans-Canada Air Lines for the year ended December 31, 1946, tabled this day, be referred to the said Committee.

WEDNESDAY, April 30, 1947.

Ordered,—That the name of Mr. Dion (*Lake St. John-Roberval*) be substituted for that of Mr. LaCroix on the said Committee.

Attest

ARTHUR BEAUCHESNE,
Clerk of the House.

REPORT TO THE HOUSE

MONDAY, April 28, 1947.

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

FIRST REPORT

Your Committee recommends:

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

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

3. That its quorum be reduced from 12 to 8 members, and that Section 3 of Standing Order 65 be suspended in relation thereto.

All of which is respectfully submitted.

S. M. CLARK,
Chairman.

MINUTES OF PROCEEDINGS

MONDAY, 28th April, 1947.

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

Members present: Messrs. Chevrier, Clark, Emmerson, Harkness, Hazen, Jackman, Kuhl, LaCroix, Lockhart, McCulloch (*Pictou*), McLure, Mutch, Nicholson and Warren.

On motion of Mr. McCulloch (*Pictou*), seconded by Mr. LaCroix,—

Resolved,—That Mr. S. M. Clark be Chairman of this Committee.

Mr. Clark took the chair. He thanked the Committee for the honour conferred on him and expressed the wish to discharge his duties to the satisfaction of all.

On motion of Mr. Lockhart,—

Resolved,—That the Committee ask leave to print, from day to day, 500 copies in English and 200 copies in French of the minutes of proceedings and evidence.

On motion of Mr. Mutch,—

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

On motion of Mr. McCulloch (*Pictou*),—

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

The Committee considered the agenda for future meetings. After some discussion it was agreed that the Annual Report, 1946, of the Canadian National Railways would be considered at the next meeting and the Committee would proceed, as convenient, to other questions on the agenda.

The Committee adjourned until Tuesday, 29th April, at 11.00 a.m.

TUESDAY, 29th April, 1947.

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

Members present: Messrs. Belzile, Bourget, Chevrier, Clark, Emmerson, Gibson (*Comox-Alberni*), Harkness, Hatfield, Hazen, Jackman, Kuhl, LaCroix, Lockhart, McCulloch (*Pictou*), McLure, Moore, Nicholson, Lapointe, Pouliot, Reid and Warren. (21).

Mr. R. C. Vaughan, President, Canadian National Railways, was called. He read the 1946 Annual Report of the Canadian National Railways and was examined thereon. He was assisted during the examination by Messrs. N. B. Walton, Executive Vice-President, and T. H. Cooper, Vice-President and Comptroller, Canadian National Railways.

The witnesses retired.

The Committee adjourned at 1.00 o'clock p.m. until 4.00 o'clock p.m. this day.

The Committee resumed at 4.00 o'clock p.m. The Chairman, Mr. Clark, presided.

Members present: Messrs. Bourget, Clark, Emmerson, Hatfield, Hazen, Jackman, LaCroix, Lockhart, McCulloch (*Pictou*), McLure, Moore, Mutch, Nicholson, Lapointe, Pouliot, Reid and Warren. (17).

Consideration was resumed of the 1946 Annual Report of the Canadian National Railways.

Messrs. Vaughan, Walton and Cooper were recalled and further examined.

On motion of Mr. McCulloch (*Pictou*),—

Resolved,—That the 1946 Annual Report of the President of the Canadian National Railways be adopted.

The Committee adjourned until Wednesday, 30th April, at 10.00 a.m.

J. G. DUBROY,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

April 29, 1947.

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

The CHAIRMAN: Gentlemen, we have a quorum so let us come to order. First may I, on behalf of the committee, extend a welcome to the C.N.R. officials who are making their annual visit to us; we are always glad to see them. The arrangement of this room is not the best and we will see what we can do about it before our meeting this afternoon.

Mr. LOCKHART: Did you say this afternoon's meeting?

The CHAIRMAN: That is, if the committee agrees, Mr. Lockhart; I will put it that way.

Mr. LOCKHART: That sounds much better.

The CHAIRMAN: I believe our practice in the past has been to ask Mr. Vaughan to read his report and after making that report to make such comments as he wishes and then he will be open for questioning. If that is agreeable to the members of the committee I shall ask Mr. Vaughan to proceed now with his report.

Mr. R. C. VAUGHAN, C.M.G. (President, Canadian National Railways):

MONTREAL, March 15, 1947.

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

SIR,—In conformity with The Canadian National-Candian Pacific Act, 1936, the Board of Directors submit the following report of the operations of the Canadian National Railways for the calendar year 1946.

The repatriation of Canada's armed forces has been completed and during the year large numbers of wives and dependents were also carried from dockside to various parts of the country. The change-over from a war economy to one of peace perplexed the world with urgent and serious problems, of which Canada had its share, and produced for the Canadian National System, as a vital public utility, a difficult year. Return to a normal flow of traffic was hampered by reconversion in industry, by strikes, and by shortages of rolling stock, conditions common to all railways in Canada and the United States.

Nevertheless, railway traffic moved in heavy volume and, measured in train miles, was only 3·8 per cent below the traffic of 1945. In revenue earned, however, the decrease was 7·7 per cent. The savings in operating costs from the reduction in traffic were far more than offset by increased rates of pay and increased prices for fuel and the materials used in railway operation and maintenance.

With revenues reduced and expenses increased, it was inevitable that the net income should be sharply decreased in 1946 as compared with the preceding year.

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

	1946	1945
Operating revenues	$400,586,025 89	$433,773,393 56
Operating expenses	357,236,718 29	355,294,048 48
Net operating revenue	$ 43,349,307 60	$ 78,479,345 08
Taxes, equipment and joint facility rents	11,790,360 40	10,601,406 83
Net railway operating income	$ 31,558,947 20	$ 67,877,938 25
Other income, less deductions—*Credit*	*4,160,579 72*	*3,206,334 49*
Interest on funded debt—public	$ 23,358,514 18	$ 26,021,784 56
Interest on government loans	21,322,583 23	20,306,358 18
Deficit 1946—Surplus 1945	$ *8,961,570 49*	$ 24,756,130 00

Results of Operations

Operating Revenues. There was a recession from the high levels reached during the war years, but nevertheless the gross receipts during 1946 totalled $400,586,000. This is an indication of the tremendous transportation services furnished by the National Railway System during the reconversion period.

The 1946 revenues were 7·7 per cent below those of the previous year. Traffic commenced to decline in August, 1945, and the reduction continued at an increasing pace until June, 1946, when it began to level off. In the last quarter of the year the downward trend was reversed and there was an increase of 3·7 per cent as compared with the same period of 1945.

Passenger train service revenue (fares, mail, express, dining and sleeping cars etc.) in 1946 was less by $17,267,000, and revenue from the carriage of grain decreased $14,726,000. The decreases in these two sources of revenue account, in the main, for the reduction in gross receipts.

The freight rate increases authorized by the Interstate Commerce Commission of the United States effective July 1, 1946, added $4,290,000 to the gross revenues of the System.

Operating Expenses. In passenger service, passenger miles decreased 31·4 per cent and revenues from fares 23·1 per cent, while train miles decreased only 4·1 per cent. Passengers per car mile decreased by 20 per cent. These figures reflect a change in the type of traffic.

In freight service, although car loadings were greater by 2·6 per cent than in 1945, revenue decreased 5·1 per cent and tons hauled 1·2 per cent. The average length of haul decreased 9·8 per cent. The volume of grain moved was less by 27 per cent. The decrease in the amount of grain handled and the change in the character of commodities hauled resulted in a lighter per car load of 7·9 per cent, and net train load of 7·3 per cent. This condition—more cars carrying lighter loads for shorter distances—was one of the factors which made it impossible to reduce costs in proportion to the reduction in revenues.

Wage increases added $17,821,000 to operating costs. The cost of fuel and materials continued to rise, resulting in an estimated increase in operating costs of $4,338,000 as compared with the previous year.

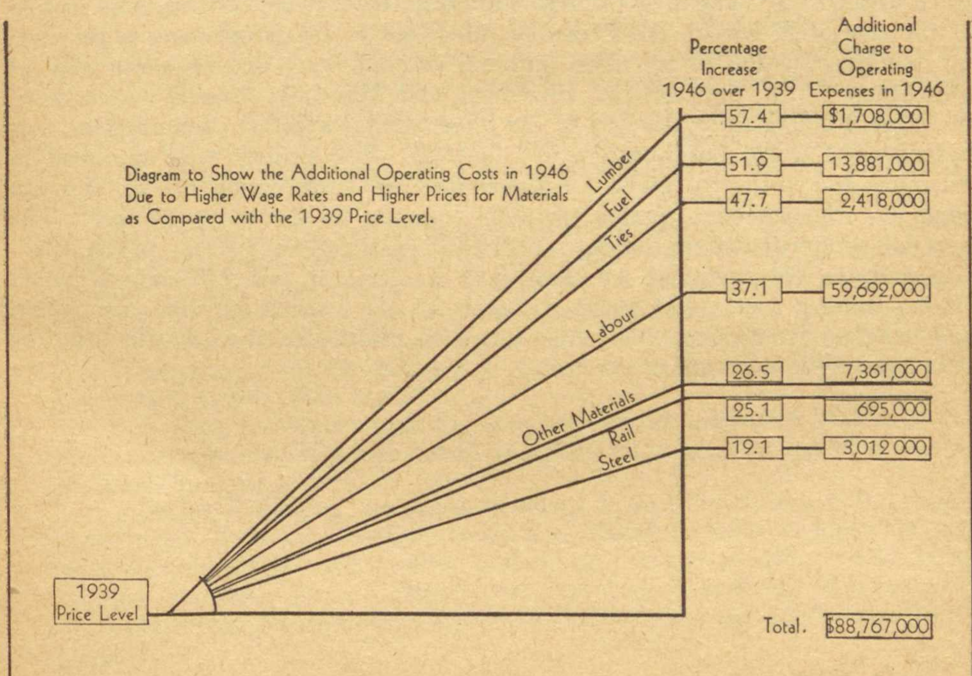
Commencing in 1942 and continuing through 1945, reserves were accumulated against a possible decline in inventory values and for repairs and renewals to road and equipment which had to be deferred due to shortages of labour and material. These reserves were built up to a total of $46,524,000. During 1946, some progress was made in overtaking deferred maintenance and $13,524,000 was taken from these reserves and credited to the expense accounts which had been charged in the first instance.

For depreciation on rolling stock the total charge to operating expenses was $17,701,420 as compared with $16,974,015 in the previous year. The rates remained the same, but the investment in rolling stock was greater.

The number of employees throughout the year averaged 105,353. The payrolls for the year totalled $237,335,781.

The official cost of living index in Canada stood at 127·1 per cent in December, 1946, against 103·8 per cent in December, 1939, an increase of 22·45 per cent. For the railway the cost of living means the cost of labour and materials. Labour costs increased 37·1 per cent between 1939 and 1946 and the cost of materials increased 35·9 per cent during the same period. The additional operating costs in 1946 due to higher wage rates and material prices as compared with the 1939 price level amounted to $88,767,000.

In previous reports the Directors have called attention to mounting operating costs. They pointed out that with freight rates and passenger fares frozen at their pre-war levels the railway was dependent upon additional volume of traffic to produce satisfactory financial results and that in the event of any substantial decrease in traffic, not otherwise compensated for, a continuance of favourable financial results would not be possible. The developments in 1946 demonstrated the truth of that warning. The higher costs, which have been obscured by peak traffic conditions, became apparent as traffic volume diminished, and their impact has not yet been fully felt. The wage increases of June 1, 1946, will be in effect for the full year in 1947. It is estimated that material prices will be 10 per cent higher. Thus operating costs will be some $20 millions greater than in 1946. Confronted with these facts the directors approved of the Canadian National Railways joining with other Canadian railways in making application, through the Railway Association of Canada to the Board of Transport Comissioners for an increase in freight rates. This application is now being heard by the Board.



Net Operating Revenue.—After deducting operating expenses of $357,236,718 from operating revenues of $400,586,025, the net operating revenue was $43,349,307. The corresponding amount in 1945 was $78,479,345.

Net Income Result.—After making provision for various charges consisting of taxes, equipment and joint facility rents, exchange and discount, also for various income credits such as dividends and interest income, the results of hotel and subsidiary company operations, etc., the net income available for the payment of interest was $35,719,527, equal to a return of 1·78 per cent on the total capitalization of the System. Interest payments due to the public and to the government totalled $44,681,097. Thus, after providing for interest, there was an income deficit for the year of $8,961,570, as compared with an income surplus of $24,756,130 in 1945.

CAPITAL EXPENDITURES

The capital expenditure during the year amounted to $16,309,797, details of which are given on page 18.

New equipment acquired included 16 diesel-electric locomotives and 856 box cars.

In September the lines of the Manitoba Railway Company, which had been under long-term lease, were purchased for the capital sum of $7,000,000 resulting in an annual saving of $106,000.

Surveys were completed for the new line of railway in Quebec from Barraute to Kiask Falls, which will permit of the development of the natural resources of the Bell River valley north of the National Transcontinental Railway. The contract has been awarded for the construction of 39 miles in 1947. The length of the line is approximately 55 miles.

Looking toward the development of the valuable building sites above the track area of the Company's Central Station in the centre of the business section of the city of Montreal, the Directors submitted to the government a proposal for the construction of an office building and an hotel on the south side of Dorchester Street, between Ste. Geneviève and Mansfield Streets, one wing of the office building to be devoted to the international aviation organizations now having their world headquarters in Montreal. The project was approved in principle and authority given for the immediate construction of the aviation wing and the essential service facilities common to the whole project. The aviation wing will contain the offices of the International Civil Aviation Organization and the International Air Transport Association and will include ticket offices, waiting rooms and baggage rooms for the various air line companies. The contract for the structural steel has been awarded and work will begin as soon as conditions permit.

FINANCE

The capital debt of the System was reduced during the year by $15,193,307.43. Details are as under:

Funded Debt Retirements		
2¼% 7-year Gtd. Bonds, matured Jan. 15, 1946...	$15,000,000 00	
6½% S.F. Deb. Bonds, matured July 1, 1946....	23,752,000 00	
4% St. John & Quebec Ry. Debenture Stock	622,657 40	
Equipment Trusts—annual principal payments ..	3,150,000 00	
Various securities repatriated	232,342 59	
Reduction in Funded Debt		$42,756,999 99
New Government Loans		
Loans to retire the first two bond issues referred to at par, Atlantic & St. Lawrence Railroad stock and various securities repatriated at market value	$38,713,077 75	
Loan under Equipment Hire Purchase Agreement	2,345,949 56	
	$41,059,027 31	
Government Loans Repaid		
Loans repaid out of 1945 surplus earnings	$ 4,756,130 00	
Equipment Hire Purchase annual principal payments	6,193,793 46	
Payment under Financing and Guarantee Act 1945	2,545,411 29	
	$13,495,334 75	$27,563,692 56
Reduction in debt during the year		$15,193,307 43

Details of the funded debt and government loans and of the interest charges thereon are shown on pages 18 and 19.

GENERAL

The total number of shipments handled by Canadian National Express in 1946 was 18,937,707, an increase of 1,873,991 (10·98 per cent) over 1945. Traffic handled and revenues earned were the largest in the history of the department. The greater proportion of the traffic was general merchandise.

Canadian National Telegraphs handled more telegrams and cablegrams than in any previous year, the total number exceeding twelve millions. The demand for leased telegraph, telephone and broadcasting circuits continued at a high level.

With a view to the expansion of commercial telegraph facilities, experimental work was advanced during the year on a radio relay system, Montreal-Ottawa-Toronto. These experiments are conducted by Canadian National Telegraphs in collaboration with Canadian Pacific Communications and the National Research Council. A radio link between Toronto and Hamilton will be included.

During the year, the railway re-opened its traffic office in Hong Kong and established a new office in Calcutta.

Following a decision that the company would undertake its own testing of materials, a well equipped chemical and physical laboratory has been established in Montreal.

Industry is making increasing demands upon the services of the company's department of research and development. Based on a broad experience in this field, on extensive source material and surveys on the ground, detailed economic studies are made by this department, ensuring a scientific and co-operative approach to the problems connected with the location and servicing of industrial plants.

The Department of Colonization and Agriculture is active in promoting the settlement of agricultural lands served by the railway. During the year, 1,439 families and 690 single men were established on 253,742 acres of land and 4,922 persons were placed in agricultural, forestry and mining employment. The department brought a limited number of British immigrants into Canada and is in a position to deal with large-scale movements when it is called upon to do so.

An agreement was completed with the Canadian Pacific Railway for the abandonment of 12·2 miles of Canadian National line between Trelle Junction and Morinville, Alberta, and the joint use of 20·2 miles of the Northern Alberta Railways between N.A.R. Junction and Morinville. The appeal to the Governor in Council from the order of the Board of Transport Commissioners authorizing the abandonment of 64·7 miles of Canadian Pacific line between Forth (near Red Deer) and Ullin, Alberta, was dismissed and an agreement between the two railways is being negotiated.

The Interstate Commerce Commission authorized the abandonment of 49·08 miles of line of the Grand Trunk Western Railroad between Greenville and Muskegon, Michigan, and service was discontinued as of May 30, 1946.

The directors desire to express appreciation of the excellent work done by the officers and employees throughout the system during a busy and difficult year.

Practically all the employees who served in the Armed Forces during the war have now been re-established in the company's service and many war veterans not previously in the employ of the company have been engaged.

I have no special comments to make, gentlemen, except to say that we have had a very difficult year. We are at your service here as long as you want us to answer any questions which may come to your minds in connection with our operations for the year.

Mr. Reid: Mr. Vaughan, at the top of page 6, you speak of revenue from passenger and train service and then in that clause you give only the decrease in revenue for grain. Why did you not complete the picture? You gave us all the passenger train services, but when you come to the revenue you only give grain. Why did you single out grain, and why did you not give the total decrease in revenue from all freight when you were speaking of all passengers?

Mr. Vaughan: I think Mr. Cooper can answer that question.

Mr. Cooper: The decrease in the passenger train service revenue and grain were the two outstanding decreases in the revenue account. Really, these two items account for the total decrease in gross receipts. If you notice they add up to about $32,000,000—that is, these two items account for $32,000,000 out of the decrease of $33,000,000 in gross receipts.

Mr. Reid: If you are comparing the decreases in revenue, all revenue, grain is one of the major matters: what would it be as compared to the decrease in passenger revenue? You have given the figures $14,726,000 for grain and $17,267,000 as the decrease in passenger service all over.

Mr. Cooper: Let us turn to page 13. At the top of the page you will see all the revenue accounts set out in detail. If you wish to see the decreases in particular classifications of revenue they are there. Does that answer your question?

Mr. Reid: Yes, I think so. What is the ratio of expense as between wages and the other outlays? What proportion of the total outlay is wages?

Mr. Cooper: Now, shall we turn to page 28? On the right-hand side of that page you will see the distribution of our operating expenses. Labour absorbed 61·79 per cent of our total expenses; fuel, 10·82 per cent; and other things, 27·39 per cent.

Mr. Reid: That is right. With regard to hotels, I notice the government have authorized a new hotel at Montreal. How many of your hotels are paying?

Mr. COOPER: Every one of our hotels made money in 1946. The net operating revenue of our hotels in 1946 was $1,102,000. I will read the hotels to you, if you wish: the Charlottetown Hotel, $29,000; the Pictou Lodge, $1,956; the Nova Scotian, $139,946; the Chateau Laurier, $383,036; the Prince Arthur, $47,819; Manaki Lodge, $20,256; Fort Garry, $111,128; Prince Edward, $6,878; the MacDonald, $101,892; Jasper Park, $114,085; and the Bessborough at Saskatoon, $145,303.

Mr. REID: What are your outlays for the new hotel in the business section of Montreal?

Mr. COOPER: The expenditure to date?

Mr. REID: Yes.

Mr. COOPER: We have spent about $24,000 making studies of the project.

Mr. VAUGHAN: This expense has been almost entirely in connection with this new International Aviation building. It is the first building we are proceeding with.

Mr. REID: With regard to the officers at Hong Kong, what is the real purpose of having officers in Hong Kong when you have no sailing line between Vancouver and the Orient?

Mr. VAUGHAN: Of course, we are preparing in the first place for additional business to come, but our Hong Kong office does business with all steamship lines. We may get traffic from Hong Kong going via England, coming to Canada. We may get it either way or we may get it through Vancouver or Montreal. Here is a memorandum which may interest you.

"Hong Kong. Prior to the war C.N. maintained traffic organizations in Hong Kong and Singapore and our traffic department has for some time been watching closely developments in the Far East with a view to again establishing direct representation there in order that C.N. would, as in pre-war days, participate in the handling of freight and passenger traffic moving from the Orient.

Indications are that a much larger business will develop between China and Canada than was the case prior to the war. The Chinese government have a mission located in Ottawa for the purpose of purchasing Canadian materials and recently two new steamship companies have been formed and will operate services between Vancouver and China, the Philippines and Singapore. Other transportation interests are re-establishing connections and the Canadian Pacific have reopened offices in Hong Kong and Shanghai on a modified scale.

In view of these considerations the conclusion was reached that C.N. should set up a limited organization in the Orient with a view to surveying the situation on the ground, our future policy with regard to the setting up of a permanent organization to be decided when reports on these surveys are received. In accordance with this decision there has been appointed as general agent, a member of our traffic organization who has had considerable experience in the Orient."

That is to say, the purpose of opening that office is really to survey the situation and report later on when we will determine whether or not we will make that a permanent office.

Mr. REID: Was it in existence before the war?

Mr. VAUGHAN: Yes.

Mr. REID: It is not something new?

Mr. VAUGHAN: No, it was in existence before the war.

Mr. REID: What staff do you keep there and at what expense?

Mr. VAUGHAN: There is a very small staff. There is a general agent. I have not the number here, but we could get it for you. It is a very small staff, perhaps three or four in the office.

Mr. Reid: Turning to page 8 would it be right for me to assume that in the reduction of capital debt the capital debt was first increased and then reduced by $15,193,000? I note $41,059,000 is the figure given for new loans. If you read the first sentence you would think the capital debt had really been reduced by $15,000,000. Am I right in assuming that—

Hon. Mr. Chevrier: Are you referring to page 8?

Mr. Reid: Yes—it was first increased by $41,000,000 and then reduced by $15,000,000?

Mr. Cooper: That is so far as government loans is concerned. We borrowed from the government in 1946—

Mr. Reid: So we are making no headway so far as the reduction of debt is concerned? It is true that the $15,000,000 is a reduction, but we have an increased debt taking the $15,000,000 odd from the $41,000,000 odd?

Mr. Cooper: No, sir, it was a net reduction in debt of $15,000,000. We reduced the funded debt held by the public by $42,000,000. We increased the debt held by the government by $27,000,000, making a net reduction of $15,000,000.

Mr. Reid: I have one further question. I am glad you mentioned that the freight rates question is before the Board of Transport Commissioners. I have one question to ask in regard to that matter. It has been brought before the committee by the statement of the president.

Hon. Mr. Chevrier: Mr. Reid, perhaps you were not here yesterday. There was a discussion on that, and I hope we will be able to abide by the decision reached then. Perhaps I should not call it a decision. It was recalled that the speaker had made a ruling which applies to this committee as well. The ruling was to the effect that the freight rates application is now before the Board of Transport Commissioners and therefore *sub judice*, and that we should not enter into a discussion of what is now before the Board, but if some member wanted to ask a question of a general nature I do not think the president would refuse to answer it. I do not think that a member of the committee should be prevented from asking those questions.

Mr. Reid: I have one general question. I remember the speaker of the House giving that ruling, but when the matter was mentioned here I thought it had come before the committee. In the report it is definitely mentiond that they are now before the Board of Transport Commissioners. My question probably is on the border line as to whether or not it is within the rules. It has to do with the two provinces which are not appearing before the Board on the hearing. I think that takes it out from being under the speaker's ruling. I am informed on fairly good authority that some assurance has been given by both railway companies that freight rates in Ontario and Quebec are not going to be reduced, and that is given owing to the fact the truck companies—

Hon. Mr. Chevrier: Not going to be increased?

Mr. Reid: The truck companies are prepared to take all the freight. It is a serious question. I heard this from a fairly reliable source, that the reason for the silence of the two provinces and the fact they are not appearing before the Board is that some understanding has been given them by both the C.P.R. and the C.N.R. that freight rates will not be touched in the provinces of Ontario and Quebec.

Mr. Vaughan: I can say your information is not correct. There has been no such assurance given to anyone.

Mr. Reid: I will accept that.

Mr. Vaughan: Freight rates in Ontario and Quebec will be increased.

Mr. Reid: That clears up that matter.

The CHAIRMAN: I may say to the committee I have a copy of the ruling of the speaker here if any of the members would like to see it. Perhaps they have not a copy. The clerk says he has copies here. If you would like to have one he will distribute them. I hope we can keep away from this because it would lead to a lot of difficulties.

Mr. REID: I am not raising it further.

The CHAIRMAN: Fine.

Mr. JACKMAN: May I ask Mr. Vaughan what the estimate was as to 1946 results this time last year when we had the accounts before the committee?

Mr. VAUGHAN: I think it was a surplus of about $7,500,000.

Mr. JACKMAN: What did we overlook in making that estimate, wage increases?

Mr. VAUGHAN: We had a higher increase in wages than we expected to have, and materials increased to a greater extent than we expected. Those were the two main reasons.

Mr. EMMERSON: Did you take into consideration the change in the type of freight to be handled when you made the estimate last year?

Mr. VAUGHAN: Yes, we did take that into account, but we predicated our statement on the assumption that the increases in wages would not be as great as they were.

Mr. HAZEN: But you expected an increase in wages; you referred to that in your report last year?

Mr. VAUGHAN: There were applications then for various increases in wages, and we knew there would be negotiations in that connection, but we had taken the position for a long time that we could not afford to pay any increases in wages. Finally we did come to what we thought was a fair arrangement with our men.

Mr. HAZEN: You say that the carriage of grain has decreased. I was under the impression we had as much grain last year as we had the year before and it had to be moved, and that we were sending large quantities to the United Kingdom. How did that decrease take place?

Mr. VAUGHAN: The crop of the previous year was cleaned up early. If you will turn to page 30 you will find there was a decrease in wheat tonnage handled of 3,206,000.

Mr. HAZEN: Page 30?

Mr. VAUGHAN: Page 30, the top item. The decrease in grain is covered in the first six items there.

Mr. HAZEN: Was that due to lack of cars?

Mr. VAUGHAN: No, it was due to the fact there was not any more wheat to move. All the wheat was moved that was offered to the railways.

Mr. JACKMAN: What is the situation with regard to the carry-over for the 1947 results?

Mr. VAUGHAN: I think perhaps that figure is here some place. Have you that figure, Mr. Walton?

Mr. WALTON: I do not know that I have the actual figures. Discussions with the chairman of the Canadian Wheat Board indicated that there should be loadings on the Canadian National lines in the west of approximately 475 cars a day from the first of April until the end of the crop year, July 31st. Our loadings have been running about that figure, and it is estimated that will substantially clear up the 1946-47 crop before the new crop comes in.

Mr. NICHOLSON: Have you the figures for the percentage of the total wheat crop the Canadian National moved?

Mr. VAUGHAN: I think we have that. It is 40 odd per cent.

Mr. NICHOLSON: What per cent?

Mr. VAUGHAN: On western grain we moved to Fort William approximately 50·7 per cent as compared with 47·3 per cent the previous year, and to other points, Vancouver, New Westminster, etc., we moved 41 per cent.

Mr. NICHOLSON: As compared with what for the previous year?

Mr. VAUGHAN: Compared with 58 per cent the previous year. No, I am sorry, that is the C.P.R. The figure is 41·9 to Vancouver and west this year as against 51·7 last year. To Fort William we moved 50·7 this year as against 46·6 last year.

Mr. HAZEN: You submitted to the government a proposal for the construction of an office building and hotel on the south side of Dorchester street in Montreal?

Mr. VAUGHAN: Yes, sir.

Mr. HAZEN: The government evidently did not approve of the construction of that hotel at the present time, I should judge, from your report?

Mr. VAUGHAN: We are studying and preparing plans for the construction of the hotel, but the actual construction of it has not yet been approved. The only building we are proceeding with in the meantime is this first building which is known as the International Aviation building.

Mr. HAZEN: The proposal you submitted to the government gave what figure as to the estimated cost of this biulding you propose to construct?

Mr. VAUGHAN: I think it is about $4,750,000, but we will give you the figures.

Mr. COOPER: The cost of the International Aviation building—

Mr. HAZEN: I am asking for the estimated cost of the proposal for the construction of an office building and hotel, your proposal to the government?

Mr. COOPER: The estimated cost for a 700-room hotel was $10,000,000, and as to the offive building the estimated net cost was $6,750,000.

Mr. HAZEN: Apparently according to this report you did not get the approval of the government to go on with the 700-room hotel, but authority was given for the immediate construction of an aviation wing and the essential service facilities common to the whole project?

Hon. Mr. CHEVRIER: I wanted to interject a moment ago when you asked that question to say that the proposal was put before the government, and the government approved in principle of the proposal, that is, of the aviation building and of the hotel building, but determined that the aviation building was of extreme necessity and urgency at the moment, and authorized the Canadian National Railways to go ahead with that leaving the time for the construction of the hotel at a later date when materials and circumstances justify it.

Mr. HAZEN: There could not be any more expensive time to erect this proposed building which is going to cost $6,250,000 than the present time.

Mr. COOPER: We are not building the $6,750,000 building.

Mr. HAZEN: I understood you to say the hotel was $10,000,000 and the office building was $6,250,000?

Mr. COOPER: $6,750,000, but that included a building for the general offices of the railway as well as this International Aviation building.

Mr. HAZEN: According to your report you got authority for the immediate construction of the aviation wing?

Mr. COOPER: Yes, that is a wing of the $6,750,000 building.

Mr. HAZEN: I asked what is the estimated cost of that wing?

Mr. COOPER: $4,000,000.

Mr. HAZEN: And when do you propose to start its construction?

Mr. COOPER: We propose to start construction the beginning of May.

Mr. HAZEN: Then I will ask you as I asked before, is there any more expensive time that you could start the construction of this building than the present time?

Mr. VAUGHAN: There are very good reasons for constructing that building. As you know, these two international air organizations are in Canada. We want to keep them in Canada. They have no permanent place of abode. The arrangement which has been or will be made with these people will give us a very good return on the cost of construction of this building.

Mr. HAZEN: I was going to ask you about that. Perhaps you could give us some figures. To begin with why should the railway erect this building instead of the Trans-Canada Air Lines? Why should you be more interested in it than the Trans-Canada Air Lines?

Mr. VAUGHAN: Of course, it is our property. We have a vast amount of property in Montreal, and it is the best location in Montreal for a building of that kind. In fact in Montreal we have the best property for development of its kind of any city on the North American continent. We figure we have to start something on it. We have this opportunity to provide accommodation for these international organizations and at the same time give ourselves a fair return on the investment.

Mr. HAZEN: Did Trans-Canada Air Lines approach you about this? Were they interested in it?

Mr. VAUGHAN: They have agreed to take space there, but this was something that was originated by the railway.

Mr. HAZEN: As I understand it it is going to cost $4,000,000.

Mr. VAUGHAN: Yes, sir.

Mr. HAZEN: What arrangements have you made to rent the space in that building when it is completed?

Mr. VAUGHAN: Mr. Cooper is the chairman of the committee which is handling that. He can give you full information on it.

Mr. COOPER: We have not concluded our agreement with the International Civil Aviation Organization. The council of that organization meets this morning, and I understand one of the matters that will be dealt with at the present meeting is the matter of the agreement with the Canadian National. We have had considerable discussions with them, and we have settled the main heads of agreement. The terms are considered satisfactory both to ICAO and to the railway company.

Mr. HAZEN: Will you go ahead before the agreement is completed?

Mr. COOPER: Well, I think that in the next week or two we shall have a commitment by ICAO.

Mr. HAZEN: The question I asked is will you go ahead before the agreement is completed?

Mr. COOPER: Yes, we intend to do that.

Mr. HAZEN: Do you think it is a wise policy?

Mr. COOPER: We commence construction at the beginning of May, and in the next two weeks we expect to have a firm commitment by ICAO, so we are only taking a chance on a week or two.

Mr. HAZEN: What is the proposed agreement that will be executed? What revenues do you expect to get from operating this building, and to whom are you going to rent it?

Mr. COOPER: I will give you the tenants first. The top six floors will be rented to the International Civil Aviation Organization. The next floor underneath that will be rented to the International Air Transport Association.

Mr. HAZEN: How many floors for the International Air Transport Association?

Mr. COOPER: One. Then Trans-Canada Air Lines will take one floor. Then there is one floor left for the various operating air lines which may wish to take this space in the building. Then on the Dorchester street level is the air line terminal which will be used as a consolidated air lines ticketing and baggage concourse.

Mr. HAZEN: For the six floors you are going to rent to the International Civil Aviation organization how much do you expect to get in rent?

Mr. VAUGHAN: Do you think we should divulge all that information here? I would rather give it privately to Mr. Hazen, if necessary.

Mr. HAZEN: I think the committee should know. You are proposing to make an investment of $4,000,000 of the funds of this company at a time when you are applying for an increase in freight rates. This is going to add materially to the costs of the company.

Mr. VAUGHAN: No, sir, it is not, because there will be a good return on it.

Mr. HAZEN: You say it is going to bring in a return. I think the committee is entitled to know what that return will be on the money invested.

Hon. Mr. CHEVRIER: If I may interject here, are we not face to face with the same difficulty we have from time to time in the committee, namely, that there is some information which the railway feels it can give and some which it feels it should not give because of its competitors. If the committee wishes to get that information and insists upon getting it then I think the committee is entitled to it.

Mr. JACKMAN: There are not any competitors.

Hon. Mr. CHEVRIER: But in the past the committee has not insisted.

Mr. HATFIELD: There is no competition in this line. The president has suggested he might give it to Mr. Hazen in confidence.

Mr. HAZEN: I am not interested in having that information in confidence. It does not concern me any more than it would any other member of this committee. I do not see where competition enters into the matter. You have decided to go ahead and erect a building. Construction is going to start on the 1st of May. You say that building is going to cost $4,000,000. That is a large amount of money. Before that money is spent I think this committee should know what return there is going to be because we are starting to go behind on the railway now.

Mr. VAUGHAN: We will give you the figures.

Hon. Mr. CHEVRIER: You say there is no competition. There is competition to this extent. Picao has come to Canada and established its headquarters here and has sought rental space everywhere, and in some cases has obtained it. The point I was making was is it fair to give that information under those circumstances? If the committee feels it should have it the matter is in the hands of the committee, but I am pointing out what we have done in the past.

Mr. LOCKHART: May I ask one quesion? Is there any tangible reason why the property was not sold to these people and let them develop it themselves? That is in connection with Mr. Hazen's question.

Mr. COOPER: The entire building is not going to be rented to any one organization.

Mr. LOCKHART: We are going into the real estate business. That is the point.

Mr. COOPER: One purpose that the railway had in commencing this development was to make a beginning of the development of our central station area.

Mr. VAUGHAN: We have some plans here which we will show you so you can see what the ultimate development may be.

Mr. MCCULLOCH: The land you have there is not bringing in any return now?

Mr. VAUGHAN: We are paying heavy taxes on that land.

Mr. MCCULLOCH: What you are aiming at is to put a building there which will bring in a return on the land and the building?

Mr. VAUGHAN: Will bring a return and will encourage building on the other parts of the property.

Mr. MCCULLOCH: I think it is good business.

Mr. VAUGHAN: I thought you might be interested in these plans.

Mr. HARKNESS: Have we the total of the amount of rent which is going to be secured?

Mr. HAZEN: He says he will give those figures.

Mr. VAUGHAN: That is the building we are referring to right now.

Mr. COOPER: The International Civil Aviation Organization will occupy these six floors (pointing to the plans). The International Air Transport Association will take this one. Trans-Canada Air Lines will take that one. The other air lines will take this one.

Mr. HAZEN: What street is that?

Mr. COOPER: This is now Ste. Genevieve, but the city of Montreal is going to merge it with University street and make University a wide north and south artery.

Mr. HAZEN: Is that the upper level? I am not familiar with the streets of Montreal.

Mr. COOPER: This is Dorchester street running east and west. This is the St. James's Club, if that will help identify it. This is now Ste. Genevieve street. The property here is now occupied by some rather poor buildings. That property will have to come down. One of the first things the city of Montreal is going to do, and which they have promised to do this year, is to widen University street southward from Dorchester street to St. Antoine.

Mr. HAZEN: What is the big structure rising behind there?

Mr. COOPER: That is the general office of the Canadian National Railways.

Mr. HAZEN: That is not there now?

Mr. COOPER: Oh, no, there is really nothing on this site except the station buildings which are down in between here and here. You cannot see them.

Mr. REID: Where are your offices at the present time?

Mr. VAUGHAN: Our offices are spread around. We have a building on the east side of McGill street, and another on the west side, and under the viaduct over which the trains come in, which is a very unhealthy place for a staff. We have nearly 2,000 people under that viaduct. They were put there before the trains came in over the viaduct. It is not a good place for them.

Mr. MCCULLOCH: Will those two buildings on McGill street be done away with when this new building is put up?

Mr. VAUGHAN: The buildings there will be disposed of.

Mr. MCCULLOCH: You are renting those now, are you not?

Mr. VAUGHAN: No, we own them.

Mr. NICHOLSON: The estimated cost of this is what?

Mr. COOPER: The estimated net cost of the large building is $6,750,000.

Mr. NICHOLSON: With the taller addition?

Mr. COOPER: The estimated cost of the office buildings as a whole was $7,750,000, but since that estimate was made the International Civil Aviation Organization asked for much more space.

Mr. HAZEN: You were going to give the figures. You said you would give some figures.

Mr. COOPER: Giving you them in total the estimated cost of the main building—that is this one here—is $3,936,000. The annual cost to the railway is $406,000. The annual revenue is $544,000.

Hon. Mr. CHEVRIER: Would you mind giving those figures again?

Mr. COOPER: The estimated cost of this International Aviation building—because that is the name of it—is $3,936,000. The estimated carrying charges are $406,000. That is per annum. The annual revenue is estimated to be $544,000.

Mr. NICHOLSON: How do you arrive at the $406,000?

Mr. COOPER: I can give you that. First of all we have the cost of the land. The cost of the land was $364,000 We have charged interest on that at 3·85 per cent. Then we have a sinking fund charge on the building of 5 per cent on the cost, covering interest and amortization. Then we have taxes. Then we have operating expenses of 70 cents per square foot. In the annual carrying charges we have included a return on capital sufficient to recoup the capital in thirty-one years.

Mr. HAZEN: You said you anticipated a revenue of $534,000?

Hon. Mr. CHEVRIER: $544,000.

Mr. HAZEN: $544,000. Is that the net revenue after the cost to the railway of $406,000 has been deducted?

Mr. COOPER: No, that is the gross revenue.

Mr. HAZEN: What is the net revenue you anticipate?

Mr. COOPER: $138,000.

Mr. HAZEN: What rate of interest is that on $3,936,000?

Mr. COOPER: It gives us a return on our investment of 3·53.

Mr. HAZEN: 3·52?

Mr. COOPER: 3·53 which, as I mentioned, is after providing for the amortization of the investment itself over a period of thirty-one years.

Mr. HAZEN: Are you prepared to break down that revenue?

Mr. VAUGHAN: I do not think it would be desirable to do that, Mr. Hazen, because after all, there may be others who would go to this International Aviation concern if they knew what we were charging and perhaps offer to put up a building and endeavour to entice this concern away from us. I do not think it would be desirable to give the amount per square foot.

Mr. HAZEN: They could not do that very well if you had your agreement signed. How long are the leases for?

Mr. COOPER: The lease on the International Aviation building is a 20 year lease with an option to renew.

Mr. JACKMAN: This International Aviation organization is permanently in Canada, is it? Have they voted to reside here forever?

Mr. COOPER: They did, yes.

Mr. HAZEN: Mr. Vaughan mentioned a moment ago the fact that you have to pay taxes on it.

Mr. VAUGHAN: We are the largest taxpayers in the city of Montreal by a good deal.

Mr. HAZEN: Do you have to pay taxes on your land in the city of Montreal?

Mr. VAUGHAN: Yes, we are the largest taxpayers in the city of Montreal.

Mr. HAZEN: I was under the impression you did not pay taxes. Are not the city of Halifax and the city of Saint John trying to find some way of taxing you?

Mr. VAUGHAN: That is up now, but that property is vested in the Crown. This property is not vested in the Crown, it is vested in the railway.

Hon. Mr. CHEVRIER: The point is this, Mr. Hazen, in the case to which you refer the lands are owned by the Canadian government, it is still a Canadian government railway as opposed to property owned by the Canadian National in Montreal and other parts of Canada. You are aware that that matter is now before the court.

Mr. HAZEN: Was that because the I.C.R. was a Crown company and these other companies were private companies which were taken over by the government?

Mr. VAUGHAN: That is correct.

Mr. HATFIELD: Does the Canadian Pacific pay taxes in Montreal?

Mr. VAUGHAN: They do, but not as much as we do. They do pay taxes.

Mr. HARKNESS: In the matter of taxes, I see on page 4 that taxes have increased this year by about $34,000,000; what is the reason for that? I thought the taxes were coming down.

Mr. VAUGHAN: There is some provision for back taxes there. Mr. Cooper has the figure.

Mr. COOPER: In the United States lines we paid $355,000 more than in 1945 due to the United States Retirement Act and Unemployment Insurance tax on wages. Our wage rates in the U.S. lines increased and therefore the taxes on the wages increased.

Then, in Canada, we increased our provision for taxes payable to the city of Montreal by $422,000. In 1946 our tax provision for the city of Montreal was $1,078,000. The charge increased by $422,000 because in 1946 there was a judgment of the court on the taxability of the Victoria Jubilee Bridge for which, from an accounting point of view, we felt we should make provision in case we have to pay something under that judgment. The case is under appeal.

Mr. HATFIELD: What is the amount of taxes paid at Portland, Maine?

Mr. COOPER: $39,280.

Mr. HATFIELD: $39,000?

Mr. COOPER: Yes.

Mr. HATFIELD: Do you pay any rentals at Portland, Maine?

Mr. COOPER: Not that I know of. There may be some very small rentals, but nothing of any consequence.

Mr. NICHOLSON: In connection with the item of $10,000,000 for this proposed 700 room hotel in Montreal, I wonder if we could have information regarding the total capital investment in hotels for the system and also information as to whether these hotels have been profitable if you take into account the interest on your original investment?

Mr. COOPER: Our investment in hotels at the end of 1946, that is the hotels we operate, was $26,946,000.

Mr. NICHOLSON: Does that include the Vancouver Hotel?

Mr. COOPER: No, that does not include the Hotel Vancouver.

Mr. NICHOLSON: What is your investment in the Hotel Vancouver?

Mr. COOPER: It is about $12,000,000. I will get that figure for you, Mr. Nicholson.

Mr. NICHOLSON: I know the hotels have been operating at a profit in recent years, but if you charged 3·53 per cent on your original investment, what would the picture be?

Mr. VAUGHAN: These hotels were all built, originally, as a service to the public in locations in which, for the most part, inadequate accommodation was available. Hotels were not always constructed with the idea of making money. We would not build hotels today as we built them then. Our hotel in Montreal will be a hotel which will be built to make money.

Mr. NICHOLSON: Would it make money on the basis of a $10,000,000 investment?

Mr. VAUGHAN: Oh yes, it will make a return on a $10,000,000 investment.

Mr. NICHOLSON: What have you invested in the Bessborough hotel in Saskatoon?

Mr. VAUGHAN: Approximately $4,000,000.

Mr. NICHOLSON: You have been charging 5 per cent on that investment?

Mr. VAUGHAN: Of course, that was a very heavy expenditure for a city such as Saskatoon. $3,500,000 is the exact figure.

Mr. COOPER: The investment in the Hotel Vancouver is $11,626,000.

Mr. NICHOLSON: I understand you consider there will be a return of the $10,000,000 investment in Montreal?

Mr. VAUGHAN: Yes.

Mr. NICHOLSON: With present costs in the hotel business?

Mr. VAUGHAN: Yes.

Mr. JACKMAN: The cost works out at about $14,300 per room. It is rather expensive accommodation.

Mr. VAUGHAN: The hotel is in the course of development, the plans are being prepared. Nothing will be done this year on it.

Mr. NICHOLSON: I suppose there are no photographs of this proposed building?

Mr. VAUGHAN: There is a photograph here which will give an idea of our property available for development in Montreal.

Mr. COOPER: (Indicating) This is Dorchester Street, running from east to west. This is the Sun Life Building, this is the International Aviation building of which we were speaking. This is the office building and this is the hotel, here. The hotel also runs down Mansfield street. This (indicating) group of buildings is just imaginary and represents the architect's conception of how the whole area should be developed. We really have to get this picture to decide on the location, size and design of that particular building.

Mr. POULIOT: Is it in accordance with Sir Henry Thornton's project?

Mr. VAUGHAN: No, sir; it is not. Of course, when this property was originally bought, long before Sir Henry Thornton came to the Canadian National Railways, some of it was bought with the intention of putting up a hotel. However, nothing was done about it and we have this vast amount of property there which is eating its head off in taxes. Office buildings are now being constructed rather close to us. The Shawinigan Water and Power Company are putting up a building about a block away, the Bell Telephone Company are putting up a new building which will cost several million dollars and it is just a block away, so that this property is on the eve of development.

Mr. POULIOT: What is the difference between Sir Henry's plan and this one?

Mr. VAUGHAN: Sir Henry had a project of this kind in view, Mr. Pouliot, it is true; but this project was also in view at the time the property was bought originally. Some of the property was bought in Sir Henry's time, but there was a large amount of property purchased at the time the tunnel was put through.

Mr. COOPER: I think I should mention, sir, that it is not the intention that the railway would build these buildings. It is our expectation in commencing this development that we might dispose of these building sites which are very valuable.

Mr. LOCKHART: Would that not be a good idea at the present time? May I ask, Mr. Chairman, if the officials of the railway consider a return of 3·53 per cent on the net investment is a good gamble considering the present cost of construction? Do you consider that is a good investment? Might I ask, Mr. Chairman, considering the present high cost of construction and the fact you are only providing for 3·53 per cent return, what will happen if things slide back? Will that mean your investment is in jeopardy?

Mr. VAUGHAN: We have provided in the expenses for the total amortization of the cost in a thirty-year period, so that the cost of the building would be wiped out in that period as well as securing a 3½ per cent return.

Mr. LOCKHART: Do you still think it would be better to start a project at this time at this place rather than to dispose of the lands which have a high value as suggested by Mr. Cooper in connection with the proposed office building. If the proposal is good in that connection, why is it not good in this connection?

Mr. VAUGHAN: In the first place, these aviation interests require a building. We want to keep them in Canada. If they do not have a place to dwell in they will not stay in Canada. It is very important that a building be provided for them. They like this set-up. They like the location. They are willing to enter into a contract with us which will provide a fair return on the investment. In addition to that, we consider if we erect this building it will assist us in disposing of the rest of the property to advantage.

Mr. LOCKHART: You would not suggest the aviation people purchase the site and go ahead with the construction of their own office?

Mr. VAUGHAN: They will not do it.

Mr. LOCKHART: That is definitely decided?

Mr. VAUGHAN: Yes, they will not occupy all of it. They would only occupy a portion of the building. If they could occupy the whole thing, it would be different, but they will not occupy the whole building.

Mr. LOCKHART: It is a precarious venture considering present costs because you are going to be faced with terrific costs. Costs are increasing all the time and with that margin, I can see there would be difficulties.

Mr. VAUGHAN: We have given the matter careful consideration. We have provided for what we think are the contingencies which may arise which might increase the costs on this building. We believe after all of those are taken care of we will have a fair return on the building.

Mr. LOCKHART: Mr. Chairman, as I stated at the outset, we are going into the real estate business in a very large way on a rather narrow margin, I am afraid, according to these figures.

Mr. REID: Will the new office building be part of this business block?

Mr. VAUGHAN: Yes.

Mr. REID: Will there be any saving at all? It will cost over $3,000,000 for the office accommodation; I think the figures given by Mr. Cooper were $7,000,000, and the building for the present office accommodation cost about $950,000. When you have the new office accommodation completed, apart from the fact it will benefit the employees and quite properly so, what will the business effect be?

Mr. VAUGHAN: There will be no saving to us in the construction of the office building. However, it is something which must be done sooner or later because it is not fair to keep 2,000 employees in a place which was built for warehouse purposes.

Mr. NICHOLSON: I do not think there can be much quarrel with what the president has said concerning the office space. The present offices are not in keeping with an organization such as the Canadian National. However, I am not satisfied with the hotel situation. If there is a shortage of materials throughout the country, an expenditure of $10,000,000 in the city of Montreal appears to be a fairly large item.

Hon. Mr. CHEVRIER: There is no question of building the hotel immediately.

Mr. NICHOLSON: No, but plans are afoot and I should like to have the information as to what the present position would be if the total investment in the hotels had been amortized over a 30-year period, what would be the present position?

Mr. COOPER: I gave you a figure of $1,200,000 as being the net operating income of our hotels in 1946 on an investment of nearly $27,000,000. Figuring interest on the investment at 3 per cent, which I think is fair, that would be $810,000 and would still leave a margin of income of $290,000 after providing for interest.

Mr. NICHOLSON: That has been true during the war years, but some of them have been built for thirty years.

Mr. COOPER: People did not make money prior to the war.

Hon. Mr. CHEVRIER: What is the situation in regard to hotel accommodation in a city the size of Montreal?

Mr. COOPER: You cannot secure accommodation. Mr. Vaughn was telling me that when our directors come to Montreal, we really have to get out and dig up accommodation for them. It is almost impossible to secure space in a hotel in Montreal.

Mr. LACROIX: Dou you not think it would be a good idea to dispose of the land in front, there, considering the high cost of property hight now, providing there would be a term in the contract that the building would not spoil the original layout of your plan.

Mr. COOPER: That is exactly what we are hoping for. There are indications we may succeed.

Mr. MCCULLOCH: If everyone were to stop building at this time, what would happen? Business would be at a standstill. Buildings have to be put up now in order to keep employment at a high level.

Mr. HAZEN: There is a demand for housing all over the country now. Builders cannot get materials.

Mr. LACROIX: I really believe you would get a better revenue from your property now than you would five years from now.

Mr. NICHOLSON: It is proposed to spend these millions of dollars in the city of Montreal and those of us from other parts of Canada are having a very difficult job trying to get even a few dollars spent for better stations and so on. For instance, we need a station agent at Lintlaw. The only accommodation for heated storage there is in the waiting room. Sometimes we have to store nearly a carload of apples and potatoes in there. The train gets in about six-thirty, too late for delivery to the stores. There is a great difficulty in getting authority for the very minor but necessary extensions such as this which are necessary all over the country; $17,000,000 to be spent in the city of Montreal seems a very large percentage of the total which is going to be spent.

Mr. VAUGHAN: I think nearly every city from the Atlantic to the Pacific desires a new station. We have applications from a great many of them. A few of them are, no doubt, needed; there is no doubt about that. A new Board of Trade comes along and says their station does not look well, so we receive an application for a new station. This happens all over Canada.

Mr. NICHOLSON: Could I enquire as to what your program is for all over Canada, that is the amount to be spent on new stations and other buildings?

Mr. VAUGHAN: I think that will come up in a discussion of our budget.

Mr. REID: I should like, at this point, to put in a plug for New Westminster.

Mr. HATFIELD: How much of your tonnage revenue in 1945 consisted of munitions, war supplies?

Mr. VAUGHAN: That is a question we could not answer. We have not kept those records separately from our general business. It would be very difficult and almost an impossible thing to do.

Mr. HATFIELD: You handled very little munitions and war supplies in 1946?

Mr. VAUGHAN: There were a few war supplies moved in 1946. They were supplies left over from the war, but generally speaking, there was not any large movement of war supplies moved in 1946.

Mr. HATFIELD: Were munitions carried on a commodity rate or a class rate during the war years?

Mr. VAUGHAN: They were carried on both.

Mr. HATFIELD: What was the idea in charging a class rate on munitions? Such a rate is nearly as high as the express rate. Why should carloads of munitions be charged class rates?

Mr. VAUGHAN: We merely charged in accordance with the tariff approved by the Board of Transport Commissioners.

Mr. HATFIELD: Was there not an application made by the Department of Munitions and Supply to put commodity rates into effect on these munitions?

Mr. VAUGHAN: There were negotiations constantly carried on in regard to the revision of freight rates.

Mr. HATFIELD: Were not most of the munitions throughout the country handled on class rates instead of commodity rates?

Mr. VAUGHAN: Whatever the tariff said. There were no alterations made in the tariff and the goods were handled in accordance with the tariff.

Mr. HATFIELD: That would have a lot to do with the revenue.

Mr. VAUGHAN: That would have more to do with the revenue in 1945, but not much to do with the revenue in 1946.

Mr. LACROIX: May I move the adoption of that report?

Mr. REID: Before that happens, I have two questions to put. On page 9 of the report there is the following statement:—

> Following a decision that the company would undertake its own testing of materials, a well-equipped chemical and physical laboratory has been established in Montreal.

Is that not something new?

Mr. VAUGHAN: Yes, we have established a new laboratory in Montreal. Previous to that we had our work done outside by commercial laboratories. This was not completely satisfactory, so we decided, as some of the large railroads in the United States have done, to put in our own lab. We believed we would get better results, and, in the final analysis, it would be more economical.

Mr. Reid: What did it cost?

Mr. Vaughan: I have not the cost of establishing the laboratory, but it was not heavy. The payroll cost is about $24,000 a year.

Mr. Reid: I am not questioning the advisability of it, but how would it compare with the cost of having it done outside?

Mr. Vaughan: I have not the exact figures here, but it was not satisfactory having it done outside. You will appreciate that a system the size of ours calls for research to be carried on all the time in connection with the various materials which we use. Here is a report which will give you some idea:—

> There were 7,336 analytical determinations on samples arising out of the inspection and acceptance of materials purchased and 2,747 determinations on samples of materials sent in by various railway departments.
>
> There were 115 special investigations of a research nature which required 24 per cent of the total time of the staff. The reports included investigation of damage claims and failure of materials in service; research on lubricating and diesel fuel oils; oil and waste reclamation; paints for cars and locomotives; anti-corrision paints; tie treating materials; heat insulating materials; hardwood charcoal substitutes; fire extinguisher liquids; fiameproofing compounds; truck fusees and torpedoes; soap and cleaning compounds; carbon monoxide conditions caused by internal combustion engines, etc.

Those are just a few examples of the work we carry one.

Mr. Reid: Regarding the Department of Colonization and Agriculture, does it work in conjunction with the immigration authorities here?

Mr. Vaughan: Yes, they co-operate very closely with them.

Mr. Hatfield: I should like to ask why the National Research Council is not used. Is it not doing the same work?

Mr. Vaughan: The National Research Council would not care to undertake the work for the railway.

Mr. Hatfield: They are doing it for private corporations, why not do it for the government owned railway.

Mr. Vaughan: There is no corporation which would have anything like the work which the railway has to do. Our people co-operate very closely with the National Research Council. They work together on various developments.

Mr. Nicholson: In connection with this paragraph on colonization and agriculture, I wonder if Mr. Vaughan could give us a supplementary statement indicating the amount of land still available and where it is located? What are the prospects for having it made available?

Mr. Vaughan: I do not think I have that information here, but I will get it for you, Mr. Nicholson.

Mr. Hazen: Where is this new chemical and physical laboratory located?

Mr. Vaughan: It is located on property in Pointe St. Charles.

Mr. Hazen: You have not the cost of establishing it with you?

Mr. Vaughan: I have not the cost of establishing it. It was an old building which we remodelled.

Mr. Hazen: Could you get that information?

Mr. Vaughan: Yes.

Mr. Hazen: Did I understand you to say it was going to cost $24,000 a year to operate?

Mr. Vaughan: That is correct, for wages.

Mr. Hazen: Who did this work for you prior to the establishment of the laboratory?

Mr. VAUGHAN: We had several outside firms, we had the Milton Hersey Company, the Canadian Inspection Company, Donald and Company, I think there were perhaps half a dozen outside firms who did work.

Mr. HAZEN: I understood you to say it was not satisfactory?

Mr. VAUGHAN: I would not say they did not do it in a satisfactory manner, so far as the work is concerned, but they did not always go as far as we wanted to go.

Mr. HAZEN: Could you tell us what this work cost for the last three years, by the year?

Mr. VAUGHAN: I think we could get that information for you.

The CHAIRMAN: If you have discussed the preseident's report sufficiently—

Mr. HARKNESS: No, I should like to ask a question in connection with page 9 of the report, the fourth last paragraph. It states,

> An agreement was completed with the Canadian Pacific Railway for the abandonment of 12·2 miles of Canadian National line between Trelle Junction and Morinville, Alberta, and the joint use of 20·2 miles of the Northern Alberta Railways between N.A.R. Junction and Morinville. The appeal to the Governor in Council from the order of the Board of Transport Commissioners authorizing the abandonment of 64·7 miles of Canadian Pacific line between Forth (near Red Deer) and Ullin, Alberta, was dismissed and an agreement between the two railways is being negotiated.

What does that mean? Who launched the appeal and what is happening now in connection with it?

Mr. VAUGHAN: The Board of Transport Commissioners granted the railways permission to abandon that line and lift the tracks. This appeal was made by the local people to the Governor in Council. The appeal was dismissed and the order of the Board of Transport Commissioners confirmed. Therefore, the line was taken up.

Mr. HARKNESS: What is the situation going to be out there now?

Mr. VAUGHAN: The situation is taken care of by each company using a portion of the other company's line. We consider the transportation facilities provided will be entirely adequate.

Mr. NICHOLSON: Was this the line discussed by Mr. Shaw a few years ago?

Mr. VAUGHAN: Yes.

Mr. HARKNESS: There will now be just one line of railway running from Red Deer out to Rocky Mountain House?

Mr. VAUGHAN: That is correct.

Mr. MCLURE: I should like to ask a question in connection with the operating revenue and expenses. Do you keep any records of the operating revenue and expenses on a divisional basis?

Mr. VAUGHAN: No, sir, we do not.

Mr. MCLURE: You do not know whether one divisional operation is operating at a profit or at a loss?

Mr. VAUGHAN: We do not keep details of that type, Colonel McLure. It would be a tremendous accounting proposition to do it, and I do not think there would be any advantage in it. Such figures might show that losses would indicate certain lines should be abandoned, which would not be practical.

Mr. MCLURE: That was my reason for asking this question. Our division is entirely separated from the main division by a water course, and, having an idea our division of the railways is operating at an excellent profit, I thought we might be in a position to come to the honourable minister of transport and get some more benefits for our people.

Mr. REID: It is nice to hear that one division is operating at a profit.

Mr. HATFIELD: How much was paid by way of damage claims in 1946 and 1945? Have you those figures?

Mr. VAUGHAN: I think we have those figures.

Mr. HATFIELD: Was there not a large amount of perishable goods lost on your line during the war?

Mr. VAUGHAN: Nothing out of the ordinary. There are always a tremendous number of damage claims before us. Our loss through damage to freight in 1946 was $2,318,000 and in 1945, $2,150,000.

Mr. HATFIELD: I have in mind three carloads of eggs and three carloads of beef which were held on the siding at Napadogan for a month. You had to pay a damage claim on that. It was a complete loss. How many cases of that nature would there be during the war years?

Mr. VAUGHAN: I do not think there were many if any such cases. Do you know anything about that case Mr. Walton?

Mr. WALTON: I do not recall that particular case. Our average on claims compares favourably with the large American roads. All of these claims which arise, are, needless to say, carefully investigated and steps taken to avoid any mistake which may have been made. In many of these cases where claims are made, especially on freight coming from American lines, evidence is available to show that the damage occurred prior to our receiving the car. The whole situation is handled on an organized basis and no claims are paid which are not warranted.

Mr. EMMERSON: I wanted to go back to the research and testing laboratory. This is the first time it has been mentioned in any report in the last number of years. Is that more of a testing than a research laboratory?

Mr. VAUGHAN: It is both. It is both for research and testing purposes.

Mr. EMMERSON: Is there any precedent for this? Are there any other large railway corporations which maintain their own testing and research laboratories?

Mr. VAUGHAN: Yes, there are.

Mr. EMMERSON: And which have been established for some time?

Mr. VAUGHAN: Some of them have been doing that for a long time, such as the Pennsylvania railroad. They have had their own testing laboratories for years.

Mr. EMMERSON: So this is not a new departure?

Mr. VAUGHAN: No, sir.

Mr. JACKMAN: May I ask Mr. Vaughan in regard to the land settlement question, which you are going to amplify later, if the C.N.R. still owns substantial lands or were they all turned over to the old Canadian Northern Prairie Lands Company?

Mr. VAUGHAN: No, we still have some few hundred thousand acres of land left, but I will get that figure for you.

Mr. JACKMAN: It is not very substantial as far as future settlement is concerned?

Mr. VAUGHAN: Some of it is. Most of the good land was sold, but there is some left. We are selling it from year to year. We have been getting a fairly good price for it during the war.

Mr. JACKMAN: In regard to this predicated or imaginary hotel in Montreal if it is going to cost $14,300 a room what are you expecting to charge per day for a room? What is your scale?

Mr. VAUGHAN: I do not think I have that figure here. We have not got quite that far. Of course, we can charge more now than we could a little while ago.

Mr. JACKMAN: Granting that there may be a shortage of hotel space in Montreal, and that when your directors meet you have to scurry around to get accommodation for them, if there is a shortage and a possibility of erecting a first class structure there there certainly is no shortage of private capital that might be put into it. Why does the railway want to venture into this type of expenditure?

Mr. VAUGHAN: We come back again to the point, Mr. Jackman, that we have this property there which is very valuable, and which is capable of development, and is an exceedingly good site for a hotel. We have had several hotel companies approach us which wanted to erect hotels on both the north and south sides of Dorchester street, but they always wanted to exact too much from the railway, and we were never able to make a deal with them. In other words, we could not come to terms with them. We nearly had a deal completed with the Statler people, but it fell through. We have had other large hotel chains which have approached us, too, but none of them have submitted what we considered was a satisfactory proposition.

Mr. JACKMAN: The same reasoning would apply to all of that vacant space which Mr. LaCroix mentioned would be suitable for disposing to other interests. You said that was one of the reasons why you were anxioux to put up the present office building.

Mr. VAUGHAN: That is quite true.

Mr. JACKMAN: But when it comes to a bird in the hand, when you can sell some property to a private hotel interest which will do a first class job, as the Statler people would, or any of these others, you find reasons for wanting to do it yourselves and for asking us to vote money for you in parliament.

Mr. VAUGHAN: These hotel companies which approached us always made conditions we could not meet. They either wanted the land thrown in, or they wanted an office building put up in conjunction with the hotel, and wanted us to guarantee to take so much space in the office building. There was always something attached to it which we could not agree to do.

Mr. NICHOLSON: If you had such a building as the Royal York near your terminal in Montreal would you consider you could pay interest on your investment and meet your actual expenses?

Mr. VAUGHAN: I imagine the Royal York is doing very well.

Mr. JACKMAN: Would you also imagine the Royal York did pretty well prior to 1940?

Mr. VAUGHAN: When the Royal York was put up undoubtedly there were some years when they did not make money, but that applied to all hotels and to a great many businesses in Canada.

Mr. HATFIELD: It will apply again, too.

Mr. NICHOLSON: The Canadian Pacific considers it brings revenue to the company to have in Toronto a hotel such as the Royal York. Would you possibly feel that a similar hotel in Montreal might attract international tourists?

Mr. VAUGHAN: Yes, except we would not spend as much money on a hotel in Montreal as they did in Toronto. We are not going to put up as large a hotel, and the investment would not be as great.

Mr. HAZEN: Do the hotels you own and operate now pay interest on the capital invested?

Mr. VAUGHAN: The hotels we own have never paid a great return on the capital but as I said before most of those hotels were put up not with the idea of making money but with the idea of providing service for the public.

Mr. HAZEN: Is that your idea about this new hotel we have been talking about in Montreal? Is it to provide service for the public?

Mr. VAUGHAN: That hotel will be of a different class entirely. Its service arrangements will be such that it can be operated economically.

Mr. HAZEN: If you do go on with the construction of a hotel in Montreal your intention is to build a hotel which will pay interest on the investment?

Mr. VAUGHAN: That is correct. We expect it will pay more than the interest on the investment.

Mr. LACROIX: Do you not think costs of construction will go down in three years from now?

Mr. VAUGHAN: I did not catch what you said?

Mr. LACROIX: The cost of construction will go down?

Mr. VAUGHAN: I think it will go down, but I should like to point out again that the construction of this hotel is not before us to-day. We do not intend to build it this year.

Mr. LACROIX: I quite understand that.

Mr. JACKMAN: By the time it does come it may be like your aviation office building. It is only a week away from signing on the dotted line. I do not think that we have heard before in this committee about an aviation building being proceeded with in Montreal, and it is almost too late now for the railways to even go so far as to accept wise counsel, shall I say.

Mr. LACROIX: I think it is different in that case, because they have been guaranteed a certain amount of revenue. They are closing the deals right now.

Mr. JACKMAN: Once they get the leases they have some assurance.

Hon. Mr. CHEVRIER: Mr. Jackman, is it not a matter for the board of directors of the Canadian National Railways to decide whether or not in their judgment, this project, which appears to be an integrated project, is a wise thing? Having decided that they ask for the approval of the government. That is the method in which the Canadian National Railways operate. Then, having done that they come before the committee to receive approval of their action.

Mr. VAUGHAN: I should like to amplify that and say that there is no project that we proceed with which is not very carefully analysed in the greatest detail by our board of directors before anything is done about it.

Mr. JACKMAN: I do not doubt that. I have more confidence in the operating management than I would have in the board. If you pass it they will probably pass it because you have so much more knowledge, not that they are not an able board.

Mr. VAUGHAN: Our board is not a "yes" board. They are a very active board. We have got to prove to them the reason for everything we do.

Mr. JACKMAN: Well, you know how it operates, Mr. Vaughan, but, as the minister said, these things sometimes get so far along you cannot stop them. I think we should decide whether or not a hotel in Montreal put up by the railway itself is necessarily an integral part of the railway's operations. Mr. Vaughan said the only reason certain other offers were not accepted was because they were not satisfactory in terms, not because they would interfere with the integration of the railway itself. In other words, it is just a question of bargaining which was not quite satisfactory, so the railway would like to operate it itself. There is no doubt that the larger your whole structure is and the more monumental the hotels you have the greater is your enterprise. It is a natural human desire, but at the same time this committee is here to make sure that we do not get too far embarked on a policy of expansion for the railways, and some of us prefer private ownership to public ownership.

Mr. VAUGHAN: This matter was very carefully analysed by the Statler Hotel Company and by ourselves in co-operation with them. It was found there were fewer hotel rooms per capita in Montreal than in any city on the North American continent. It was found, notwithstanding the fact that Montreal has a very much larger population than Toronto, that Toronto has very many more hotel rooms than Montreal. Vancouver has more hotel rooms. Montreal is greatly deficient in hotel accommodation.

Mr. JACKMAN: Those reasons would all be evident to the people who are seeking to build on the railway property, Mr. Vaughan, and I should think their terms would be modified accordingly. In other words, it would be such a splendid place to build a hotel that it would be apparent to those people who are in the business and who understand the operation of hotels.

Mr. HATFIELD: Did you make allowance for the new hotel going up in Montreal at the present time?

Mr. VAUGHAN: Yes, we did. Of course, that hotel is a popular priced hotel, so-called, which would cater to a different class of people. There are very few facilities in Montreal for conventions or anything of that kind, and Montreal has a lot of advantages as a convention city. Many people do not come to Montreal at all because they cannot get hotel accommodation.

Mr. HATFIELD: Is there not a proposed extension to the Windsor hotel?

Mr. VAUGHAN: I do not know what the Windsor intend to do. They have been talking about putting up an extension for a great many years, but they have not done anything about it yet.

Mr. MCLURE: Has there not been a demand made to you by the travelling public to build this hotel?

Mr. VAUGHAN: Yes.

Mr. MCLURE: And different associations?

Mr. VAUGHAN: We have had many requests to put up a hotel in Montreal.

Mr. HARKNESS: At the bottom of page 5 you make this statement:—

> In the last quarter of the year the downward trend was reversed and there was an increase of 3·7 per cent as compared with the same period of 1945.

I have three questions I should like to ask on that statement. The first is, what is the reason for that increase? The second is, has it been continued into the first quarter of 1947, and the third is, what do you estimate is going to be the situation as far as traffic is concerned for the year 1947?

Mr. VAUGHAN: I would say in reply to the first question that factories have got back again from war production to producing consumer goods, and they can sell all their products to-day without difficulty. I think that was the reason for the increase in the latter part of the year. You might say the change-over from war production to domestic production had started, which caused an increase in traffic after the lull.

Mr. HARKNESS: This increase in traffic was mostly in manufactured goods and supplies for these factories?

Mr. VAUGHAN: I think so. In regard to the second question we are showing an increase in traffic so far this year. In fact, our increase this year is 9·9 per cent.

Mr. HARKNESS: For the first quarter of this year?

Mr. VAUGHAN: For the first quarter of this year. That is up to the 21st of April this year.

Mr. REID: Do you get your fair share of traffic arriving on the Queen Elizabeth at New York and coming to Canada?

Mr. HARKNESS: I wonder if Mr. Vaughan could answer the third question as to the estimate for the current year of what the traffic is likely to be?

Mr. VAUGHAN: We have a budget prepared here which will be submitted to the committee in due course. It shows that we expect to earn this year $402,000,000 gross as against $400,000,000 in 1946. We expect our traffic to level out and be maintained on an even keel during the last six months of the year.

Mr. HARKNESS: You do not anticipate this 9 per cent increase, which you have had so far, will continue?

Mr. VAUGHAN: We do not think it will continue in that ratio, no. We think there may be a small increase, or perhaps no increase at all, but after calculating the thing for all our regions and getting all the information we can we figure at the end of this year we will have $2,000,000 more gross than we had in 1946.

Mr. HARKNESS: That sounds very satisfactory.

Mr. JACKMAN: What is the estimate of net?

Mr. VAUGHAN: The estimate of net is not very good.

Mr. JACKMAN: On the basis of present rates and on the basis of the 30 per cent application?

Mr. VAUGHAN: On the basis of present rates we estimate a deficit of $31,000,000 in 1947.

Mr. JACKMAN: And on the basis of the 30 per cent increase for which you are asking?

The CHAIRMAN: We are getting on to the budget gentlemen.

Mr. VAUGHAN: I have not got these statements. They have all been filed with the Board of Transport Commissioners.

Mr. JACKMAN: If your application is granted you would break about even in 1947?

Mr. COOPER: It would depend on when you get the increase.

Mr. VAUGHAN: Perhaps you can hurry it along a little bit.

Mr. JACKMAN: May I ask this question? In your consolidation income account under operating expenses you have maintenance of way and structures $73,000,000 against $76,000,000 in the previous year.

Hon. Mr. CHEVRIER: $67,000,000.

Mr. JACKMAN: Yes, I am sorry, that is on maintenance of way. Maintenance of way structures and maintenance and depreciation of equipment are the first figures, both of which are about $3,000,000 short of what they were in 1945. It would seem to me that this would indicate that you have saved on your controllable expenses wherever possible by not spending money on maintenance of way. I will have that applied to the first item, chiefly, and not to depreciation. It will apply almost equally to both, perhaps, but I have noted that you transferred from deferred maintenance, $13,524,000 and credited this to expense account which, of course, improved the position. You were $13,500,000 better off in 1946 because of certain monies you accumulated during war years, than you would otherwise be. I wonder if Mr. Vaughn or Mr. Cooper would explain what did happen, what procedure was followed which caused the railway to spend less money on actual maintenance of way, structures and equipment than you did the previous year. You charged less to the year's operation, as it were, and at the same time you drew back or transferred from the deferred maintenance account accumulated on your books, $13,500,000; that would seem to me to indicate that you rather charged last year's operation about $16,000,000 or $17,000,000 less than you did the previous year. Had you charged an equal amount, your deficit would be $16,000,000 or $17,000,000 greater than you show?

Mr. VAUGHAN: We actually spent more money, Mr. Jackman. The difference was taken out of reserve.

Mr. JACKMAN: You did not spend more money.

Mr. COOPER: You are looking at figures which have been reduced by $13,000,000. If you would add the $13,000,000 before you make a comparison, you would see there was an increase in 1946 expenses over 1945.

Mr. JACKMAN: As I see it, you spent on maintenance of way and structures last year $67,000,000 as compared with $70,000,000 in 1945.

Mr. COOPER: Yes, but $67,000,000 is after applying these credits from the reserves.

Mr. JACKMAN: I realize that.

Mr. COOPER: Prior to the application of the credit, the figure was larger in 1946.

Mr. JACKMAN: You mean you really spent $80,000,000, that is the effect, is it?

THE CHAIRMAN: Mr. Reid has a question he wanted to ask.

Mr. JACKMAN: You really spent $80,000,000 on maintenance of way and structures last year and charged $67,000,000 of it to the year.

Mr. COOPER: Not if you confine your question to the one point. Taking the maintenance account, we actually spent more money in 1946 than we did in 1945, but by reducing our expenditures by credit from the reserve account, it appears as if we had spent less.

Mr. JACKMAN: As a result of being able to draw on this accumulated deferred maintenance account you were able to save $3,000,000 expenditure on one account and $3,000,000 on maintenance and depreciation on the equipment account, so really you would have had to spend $6,000,000 currently, not just for deferred maintenance but for current maintenance, had you not had the deferred maintenance account upon which to draw. Therefore, I say your true picture for the year might have been $6,000,000 worse than it was.

Mr. VAUGHAN: Except this, we would not have spent the money had we not had the reserves.

Mr. JACKMAN: I presume the money was well spent.

Mr. VAUGHAN: It was very well spent. Those reserves were built up to take care of maintenance which had to be deferred during the war when men and materials were not available.

Mr. JACKMAN: How much have you got left in the deferred maintenance account now?

Mr. COOPER: We have $33,000,000.

Mr. JACKMAN: This year, I suppose, you will do something the same as last year, you will be drawing to some extent on that account?

Mr. COOPER: To some extent; our budget allows about $10,000,000 to be paid out of reserves in 1947.

Mr. JACKMAN: It did seem to me, had you been building up a case for a rate increase, you could have charged more to the year's operations.

Mr. COOPER: We could have shown a very much worse picture.

Mr. JACKMAN: And still be true to sound accounting principals.

Mr. COOPER: The reserves were created to take care, after the war, of expenditures which should have been made during the war. We are using them for the purpose for which they were created.

THE CHAIRMAN: Mr. Reid, I think you have a question.

Mr. REID: I was interested in knowing what facilities you have for taking care of passengers arriving say, on the Queen Elizabeth or other ships coming to Canada and landing in New York?

Mr. VAUGHAN: We have an organization in London. We have a European manager there who supervises all our traffic offices in Europe. We have offices in Southampton, Glasgow and Liverpool. I think if you refer to page 33, you will find we have offices in Great Britain, in Belfast, Cardiff, Glasgow, Liverpool and Southampton. Then we have, for unrouted passengers, our own offices in New York. We are constantly after every passenger we can get.

Mr. HAZEN: The second paragraph on page 6 says,

> The freight rate increases authorized by the Interstate Commerce Commission of the United States effective July 1, 1946, added $4,290,000 to the gross revenues of the system.

Mr. VAUGHAN: Yes.

Mr. HAZEN: Could you give, not now, but perhaps this afternoon, a breakdown of the earnings of the system in the United States, passenger and freight earnings? You are operating a number of railways in the United States?

Mr. VAUGHAN: Yes, we have three important railways there, the Grand Trunk Western, the Central Vermont and the Duluth, Winnipeg and Pacific.

Mr. HAZEN: Could you give us a breakdown of those?

Mr. VAUGHAN: All right, sir.

Mr. HAZEN: What I am more particularly interested in is your road which runs to Portland. It runs from Montreal to Portland, does it?

Mr. COOPER: We have a breakdown of that.

Mr. VAUGHAN: You probably saw where we are in trouble with the city of Portland because they consider we are letting our facilities deteriorate and not putting sufficient traffic through there.

Mr. HAZEN: I was going to ask a question about that line and I should like to get this information.

Mr. VAUGHAN: We will give you what grain was handled through there in 1945 and 1946, that will give you a good idea.

Mr. LACROIX: I would move the adoption of this report.

The CHAIRMAN: Have you discussed this report sufficiently? I have a motion that it be adopted.

Mr. POULIOT: Is it true that there have been Interstate Commerce Commission rulings which favoured the longer haul on the American railways rather than the shorter haul via the Canadian National lines in the United States? They are setting rates cheaper for the American railways than for the Canadian National railways?

Mr. VAUGHAN: I do not think so. The United States rates are substantially higher than our rates in Canada, taking them all the way through. They were higher before they received this recent interim increase which they received on the first of July, and they received another increase on the first of January. Before they received any increase at all, our average per ton mile rate was lower than the average in the United States.

Mr. POULIOT: Do not the rulings of the Interstate Commerce Commission favour the American railways to the detriment of the Canadian National in some instances?

Mr. VAUGHAN: I do not recall any instances. I think the Interstate Commerce Commission has been very fair in that respect.

Mr. POULIOT: Are their rates standard?

Mr. VAUGHAN: Oh, yes.

Mr. HAZEN: May I ask a question concerning the last part of Mr. Vaughan's report? It says,

> The department brought a limited number of British immigrants into Canada and is in a position to deal with large scale movements when it is called upon to do so.

How did you bring them in? You had no ships of your own?

Mr. VAUGHAN: No, sir, their transportation is, in some cases, arranged by our London office. We get them from vessels at Halifax, Saint John or somewhere else.

Mr. HAZEN: What part did you play in bringing them in? Did you start in the old country or where?

Mr. VAUGHAN: Our activities in connection with them would start in the old country.

Mr. HAZEN: You arranged for their coming out here?

Mr. VAUGHAN: Yes.

Mr. HAZEN: Could you give us any idea as to how many came?

Mr. VAUGHAN: The figures are given on that page, but I may say this, we have had to add one or two additional stenographers to our London immigration office because the enquiries are coming in so fast we had not sufficient staff to answer them.

Mr. HAZEN: I was referring to the number you have brought in..

Mr. VAUGHAN: I think a large number of those were the wives of soldiers and some may have been Poles who were brought in under the auspices of the government.

Mr. HAZEN: You have referred to them as British immigrants. Are you in a position to give us the number?

Hon. Mr. CHEVRIER: It is set out on the page from which you have read, 4,922 persons.

Mr. HAZEN: It refers to the number of people who were established in agriculture, mining and forestry. It also says,

"The department brought in a limited number of British immigrants—" It does not say how many were brought in and I am asking about the British immigrants only.

Mr. VAUGHAN: We will give you that information.

Mr. HAZEN: You say you are in a position to deal with large scale movements when called upon to do so.

Mr. VAUGHAN: Yes.

Mr. HAZEN: But you have no ships of your own. How would you be prepared to handle a large scale movement?

Mr. VAUGHAN: That means we have a staff to look after those people when ships are available. We have staffs there who are answering all kinds of enquiries about Canada as well as enquiries from industries which are considering establishing in Canada.

I might say this, too, that we have an agreement with the Canadian Pacific with regard to certain immigration traffic which permits us to handle people ex their boats.

Mr. POULIOT: When people come on Canadian Pacific ships, do they take the Canadian National railways at the port?

Mr. VAUGHAN: It is fifty-fifty, I think.

Mr. POULIOT: Is that because the Canadian Pacific cannot handle the situation alone?

Mr. VAUGHAN: No, we have an arrangement with them in respect to handling immigration which is working out satisfactorily to all parties.

Mr. POULIOT: Before the report is adopted, Mr. Vaughan, will you say why there is no electricity in the station at St. Arsene? There have been many complaints about that condition, and they have to use fuel, which is a great inconvenience. I assume that there should be a standard service with electricity in all stations.

Mr. VAUGHAN: We will go into that right away and we will find out what the reason is for it and what can be done about it.

Mr. POULIOT: I have brought that to your attention now and you may answer me later.

Mr. VAUGHAN: We will do that.

The CHAIRMAN: Gentlemen, would you care to adopt the president's report?

Mr. HAZEN: No; I move we adjourn.

The committee adjourned to meet again this afternoon at 4 o'clock.

AFTERNOON SESSION

The committee resumed at 4 o'clock p.m.

The CHAIRMAN: At 1 o'clock we were discussing Mr. Vaughan's report. Are there any other questions relating to his report before we take the financial statements?

Mr. JACKMAN: Mr. Vaughan, I have been thinking about that hotel which is admittedly somewhat in the future, and perhaps not of very practical import at the moment, but nevertheless I did not draw on my own imagination. It was brought out here by somebody who knew about it. I was just wondering how any private railroad company, let us say which had the same financial position as the C.N.R. has, could possibly contemplate going into an enterprise of that nature which was not absolutely necessary for the carrying on of its operations. I thought it might possibly be a situation for having a subsidiary company, but then the bonds of that company would have to be guaranteed by a guarantor who was credit-worthy, and I do not understand how if this were a private enterprise, and on the financial record, you could possibly contemplate going into a new hotel venture such as that mentioned. Therefore it puts me on guard and makes me think possibly an enterprise of the nature of the C.N.R., which has public backing, may get into things which it would not otherwise get into if it had to apply the sound common sense that is applied in the market place to ordinary enterprises.

Mr. VAUGHAN: I would not agree with that. Every proposition that we put up, and every dollar we spend is carefully analysed as to the results. This hotel would undoubtedly be of very great value to the railway. The railway has the property there. We believe, after studying the situation very carefully, that it will be a paying proposition. We can obtain a reasonable return on the investment as well as very substantially improve the railway's position.

Mr. JACKMAN: I realize that from the figures and from the amortization which you have given although when I got down to that rather essential feature of what is the rate per room per day it was not known. I suppose one can make estimates without starting at the bottom although frequently I like to go right to the bottom and find out how it is built up. But it comes back to the point again that you could not, if you were an ordinary private concern and did not have the government of Canada behind you or parliament to advance you capital moneys, get into a situation like this. Would you not be stopped if you were on your own and not able to draw on what apparently has been an unlimited treasury?

Mr. VAUGHAN: Well, of course—

Mr. JACKMAN: It may be sound but how would you finance it if you did not have the government behind you?

Mr. VAUGHAN: If we did not have the government behind us we would not be in the position we are in. To begin with, we would have a much better financial set-up and we would not be operating a lot of unprofitable lines. There is no doubt about that. On the other hand, if we were a private institution and if I owned that property personally and could raise funds to build a hotel there I believe it would be a good paying proposition.

Mr. JACKMAN: It is the testing place of the market which gives validity to our views and our judgments on things. In other words, we may have an idea that we can go into business and do well out of it, but by the time we have tried to raise money from our friends and then gone to the bank to raise some working capital sometimes our point of view is changed.

Mr. VAUGHAN: It may be. All I can say to you is that from a very close study of this situation we think it is a good business proposition. We think it will be very useful to the railway and improve the railway's position very materially. The railways of South Africa are building hotels. The railways are building more hotels in England. They do not do it in the United States because they are not permitted to do it under the I.C.C. rulings.

Mr. JACKMAN: While some of the American railroads have not done very well it has not interfered very much with the service to the people. There are just as good hotels or better all through the United States.

Mr. VAUGHAN: Except their situation is different to ours. It may not be different in Montreal, but in some of these other places where we have built hotels it is different. We put up a hotel in Edmonton when there was no first class accommodation there, and the same in Saskatoon. You are aware, of course, that the C.P.R. has double the investment in hotels we have.

Mr. JACKMAN: They may not be profitable there, either.

Mr. VAUGHAN: They consider they have been necessary to the welfare of the railway, I think.

Mr. JACKMAN: What was the reason for the I.C.C. ruling against the railways mingling in the hotel business?

Mr. VAUGHAN: As you know the I.C.C. does not permit railways to go into any outside business of any kind. They do not operate their express. They do not operate commercial telegraphs. They are not allowed to operate passenger aeroplanes. They are not allowed to operate steamships.

Mr. JACKMAN: Is the I.C.C. composed of men who have the public interest at heart?

Mr. VAUGHAN: They are supposed to be.

Mr. JACKMAN: Or, are they just difficult to get along with?

Mr. VAUGHAN: That body is supposed to be a properly constituted body which has the interests of the country at heart.

Mr. JACKMAN: If the railways of this country, and particularly the C.N.R. with public money behind it, are going to go into every venture which may return a profit, there would apparently be no end to what they might do because you have an unlimited amount of money behind you.

Mr. VAUGHAN: I can assure you that is the last thing in the world we want to do. Across my desk every day there is somebody who wants us to go into something, but we have declined right along to put money into various things which might bring a return to the railway because we considered it was not in the railways' province to do that. I think this is a little different. We already have a string of hotels. We are in the hotel business. We own this land, which is very valuable, on which we pay taxes, and we believe that instead of having an outgo we can make a return on this investment.

Mr. JACKMAN: Was hotel occupancy down last year over the year before?

Mr. VAUGHAN: I do not think occupancy was down. The earnings were down a little on account of the increased wages we had to pay.

Mr. JACKMAN: Your service charges were more?

Mr. VAUGHAN: There was very little difference in the service charges. Earnings may be a little higher now because we have been granted permission to increase rates.

Mr. NICHOLSON: Did I understand Mr. Cooper to say that you could not make money on the hotels during the war, or did not make money in hotel operation?

Mr. VAUGHAN: I said we were not permitted to increase our rates.

Mr. NICHOLSON: I understood Mr. Cooper to say that this morning.

Mr. VAUGHAN: We made money on our hotels all during the war. We did not make any great amount of money but we did make money. All the hotels individually were profitable, but that happened the world over, you might say.

Mr. NICHOLSON: You did better than you did in any other five years prior to the war?

Mr. VAUGHAN: Undoubtedly.

Mr. JACKMAN: What was your rate of occupancy over the system for last year and the year before?

Mr. COOPER: I have it by hotels. Do you want it for the Chateau?

Mr. JACKMAN: I want the average figure. Approximately will do.

Mr. COOPER: I have it by hotels. I have not the average over the system.

Mr. JACKMAN: Is it 80 or 90?

Mr. COOPER: The Chateau was 84. The Prince Arthur was 84. Minaki was 82. Fort Garry was 89, Macdonald 93, Jasper Park 82, Bessborough 79. You might say about 83 or 84 per cent on the average.

Mr. NICHOLSON: Have you comparable figures for a number of years ago, say 1937 and 1938?

Mr. COOPER: No, but we can get them. I do not have them here.

Mr. JACKMAN: Would 1939 be the break-even point in hotel occupancy?

Mr. VAUGHAN: We figure on the new hotel we can break even at 60 per cent.

Mr. JACKMAN: Did you ever break even at 60 per cent on the hotels presently owned and operated?

Mr. VAUGHAN: As I said this morning this hotel that we propose to build in Montreal—I do not know when we will build it—will be constructed in a way that will enable us to operate it much more economically than any of our other hotels can be operated.

Mr. JACKMAN: There is no doubt that 80 per cent occupancy which you have enjoyed in recent years is extraordinarily high in relation to common experience.

Mr. VAUGHAN: I think that is a fair statement, but we believe the hotel business is going to be good for some time. Tourists are pouring into this country. We have to turn them away if there is not accommodation for them. They bring a lot of money into the country.

Mr. LACROIX: There is a lack of accommodation in Montreal right now. There is no doubt this new hotel will be entirely occupied. It would be a good proposition. There is no doubt about it.

Mr. JACKMAN: I wonder if some officer familiar with the details on hotel occupancy can tell the committee what the experience was in the latter 30's when we had a fair average of business.

Mr. VAUGHAN: It was not very good.

Mr. JACKMAN: Not all good, but one or two years were good.

Mr. VAUGHAN: Some years it was good and some years it was not good, but our experience was no different to that of the other hotels.

Mr. JACKMAN: I wonder if one of the officials could estimate what the break-even point was during those years?

Mr. VAUGHAN: I hope you do not want us to go back to the depression days.

Mr. JACKMAN: No. 1937 was not a bad year.

Mr. NICHOLSON: You stated this morning that you have $38,000,000 invested in hotels over the system. How much trouble would it be to give us a complete picture of all of the operation up to date since you have been in the hotel business?

Mr. VAUGHAN: I do not think that would be difficult. It has been filed with the board every year.

Mr. NICHOLSON: And what interest on your investment you could pay on your operation?

Mr. VAUGHAN: It can be done. We can give you what you want in connection with hotels. How far back do you want to go?

Mr. NICHOLSON: When was the Chateau taken over?

Mr. VAUGHAN: I guess about thirty years ago.

Mr. JACKMAN: Perhaps we could put the question this way. Since when have the hotels been in the black?

Mr. VAUGHAN: We will look that up.

Mr. COOPER: As a group they have been in the black right along.

Mr. JACKMAN: All during the 30's?

Mr. COOPER: I do not say every hotel but as a group, yes.

Mr. NICHOLSON: Without including interest on your capital?

Mr. COOPER: I would not include interest on capital, no.

Mr. JACKMAN: I would expect you to make an operating profit. You are not including interest on the capital or, under your railway accounting, depreciation on the hotels?

Mr. COOPER: No.

Mr. VAUGHAN: But I think you will agree that some of our hotels probably are run on a little higher standard than they would be if they were ordinary commercial hotels. Take, for instance, the Chateau Laurier. We could cut down the services very materially and make a lot more money, but we would not think it was in the interests of the Dominion of Canada to do that.

Mr. HATFIELD: You could not cut down very much on food.

Mr. VAUGHAN: Do you not get enough to eat?

Mr. HATFIELD: I get enough to eat but it is not cooked.

Mr. VAUGHAN: That can be very easily corrected.

Mr. HATFIELD: It is prepared in such a way. I never ate food like it in a hotel.

Mr. VAUGHAN: This is the first complaint I have ever heard about the food in the Chateau.

Mr. McCULLOCH: I have been there for twelve years and I find the food very good.

Mr. LACROIX: I have been there for fifteen years and I find it to be very good.

Mr. HATFIELD: I do not know what you consider to be good food.

Mr. JACKMAN: It is not as good as it used to be. I think you will have to admit that.

Mr. VAUGHAN: It is still pretty good.

Mr. JACKMAN: Not bad.

Mr. HATFIELD: You cannot find a hotel like it in this country.

Mr. NICHOLSON: Have you estimated what the profits on the cocktail bar will be?

Mr. VAUGHAN: Yes, some estimates have been made in that connection. We think they are going to be very good.

The CHAIRMAN: Any other questions?

Mr. HAZEN: I asked for some information about the earnings of the roads in the United States.

Mr. VAUGHAN: We have that here.

Mr. HAZEN: I understood you to say this morning you had three main lines in the United States?

Mr. VAUGHAN: Yes, but they are really operated under different names. The line to Portland is operated under the name of the Canadian National Railways.

Mr. HAZEN: This is the line to Portland?

Mr. VAUGHAN: That is the line to Portland.

Mr. HAZEN: Oh, I see. Thank you.

Mr. LOCKHART: Is that a lengthy statement? Can we have it read?

Mr. VAUGHAN: This is a statement of earnings and expenses of what we call our lines in New England. That is the line that runs from a point near Island Pond, Vermont, to Portland.

Mr. HAZEN: How many miles is that?

Mr. VAUGHAN: Between 150 and 160 miles. Freight earnings in 1946 were $1,732,000. Passenger earnings were $144,000. Other earnings were $217,000. Total gross earnings were $2,094,000. Operating expenses were $2,674,000, leaving a deficit on that portion of the line of $580,307. In 1946 we handled 88,505 tons of wheat on the line. In 1945 we handled 489,819 tons of wheat. Does that give you the information you want, Mr. Hazen?

Mr. HAZEN: Thank you very much.

Mr. HATFIELD: What do you propose to do with the old sheds you have at Portland? They are very much in need of repair?

Mr. VAUGHAN: They are in need of repair. One of the elevators was dismantled. Some of the sheds have been dismantled, but the others, of course, are there to take care of the business that is offered.

Mr. HATFIELD: The cargo sheds are not in very good shape. I do not know about the elevator.

Mr. Vaughan: Some of those sheds were rented during the war to the United States government. We hope to fix them up sufficiently so they will not be dangerous, anyway.

Mr. Hazen: The only question I might ask is, do you consider it advisable to operate a line of railway that shows a deficit of $580,000?

Mr. Vaughan: We could not do otherwise. The I.C.C. would never give us permission to abandon that line, and besides we have a 999 year lease made by the Grand Trunk many years ago on portions of that line which obligate us to operate it.

Mr. Jackman: You lease it to other American railroads?

Mr. Vaughan: No, we leased this from companies that were in existence at that time.

Mr. Jackman: Companies not owned by the system?

Mr. Vaughan: Not owned by the system. We paid a rental for the railway. We own it to-day. We did not own it up until a year or two ago, but we own it to-day.

Mr. Jackman: As a matter of perhaps theoretical interest could you not abandon that line?

Mr. Vaughan: No, the I.C.C. will not permit a line to be abandoned as long as that portion of the country needs railway service regardless of what the financial results are. They will not allow anybody to abandon a line purely on financial results.

Mr. Jackman: It is a nice type of business.

Mr. Vaughan: The Board of Transport Commissioners would not do that in Canada either. There are any number of railways in the United States which would like to abandon portions of their lines, but the I.C.C. would not permit them to do it.

Mr. Jackman: You are seized with the public interest then?

Mr. Vaughan: We have to be.

Mr. Lapointe: Do I understand you to say that the Board of Transport Commissioners will not allow the abandonment of a line merely on the financial results the company produces?

Mr. Vaughan: That is one of the reasons advanced by us, but I have never known the Board of Transport Commissioners—perhaps I may be wrong—to consent to the abandonment of a line purely on account of the financial results obtained. They always take into consideration whether there are other forms of transportation that will give public service if that line is abandoned.

Mr. Hatfield: Do you have any service on that line from Island Pond to Portland?

Mr. Vaughan: We have a daily passenger train from Montreal to Portland as well as freight trains.

Mr. Hatfield: They pick up in the United States?

Mr. Vaughan: Yes. For instance, there are some large paper mills down there. There is the Brown Paper Corporation at Berlin, New Hampshire, and other industries which are served by our railway.

Mr. Lapointe: Mr. Vaughan knows what I am thinking. The reason I brought it up was that every time the case has been argued before the Board of Transport Commissioners the argument of the railway has always been based on the bad financial results of the year's operation?

Mr. Vaughan: Yes, sir.

Mr. Lapointe: I have noticed similar cases where abandonment was asked by the railroad for exactly the same reasons.

Mr. VAUGHAN: When we want to abandon a line we use every reasonable argument as to why we should do it, and the principal reason we do want to abandon a line is because it does not pay. There is no doubt about that, but the Board of Transport Commissioners in considering these matters always takes into account whether there is any other form of transportation which will enable the people in those communities to be provided for.

Mr. WARREN: I imagine most members have had experiences of that nature.

Mr. LAPOINTE: Most of them sad experiences, too.

Mr. JACKMAN: Perhaps Mr. Cooper can tell me why the amortization of discount on funded debt is $537,000 in 1946 as against $1,183,000 in the previous year, half as much, and what happened to your financial set-up during that time?

Mr. COOPER: I think the explanation of that is in 1945 we called some bonds, and where bonds are called before their maturity date then any unamortized discount at that time must be written off.

Mr. JACKMAN: In that year.

Mr. HATFIELD: I see you spent twice as much on advertising in 1946 as you did in 1945.

Mr. VAUGHAN: We did step up our advertising very considerably in 1946, but it is still considerably below what it was some years ago.

Mr. HATFIELD: I suppose you did not have to advertise during the war?

Mr. VAUGHAN: No, we did not have to advertise to any great extent, but we feel that the time has now come when it is necessary to again do some advertising.

Mr. NICHOLSON: I notice the new timetables are out, and the trans-continental trains both leave Vancouver within half an hour of each other. I was wondering if you could not have one leave in the morning so that travellers could see the province by day.

Mr. VAUGHAN: That matter has been up a great many times and has been studied very carefully by our traffic and operating officials. They all come back to the point where they consider it is in the interests of the public, from their investigation of the thing, and certainly in the interests of operation, to have the two trains run fairly close together.

Mr. NICHOLSON: It would seem to me, in the summer time particularly, when so many people are travelling it might be a good arrangement.

Mr. VAUGHAN: Perhaps Mr. Walton can tell us something on that.

Mr. WALTON: As Mr. Vaughan says, we have had the situation canvassed pretty extensively. Our officers who have so canvassed the situation tell me that there are eight or ten in favour of the evening departure from Vancouver for one who is favourable to the suggestion of leaving in the morning. Apparently it is the same situation that applies in so many of the large cities where people are anxious to transact their business during the day and then be on their way at night. You can probably tell from your own movements whether or not that is your customary procedure but our people tell us that the public reaction is in that direction. As far as the mountain scenery is concerned those trains running on the schedules they do pass Mount Robson and Jasper and vicinity in the daylight hours although they miss the scenery closer to the coast.

Mr. NICHOLSON: Both trains get to Edmonton late at night. I would imagine people going to Edmonton might prefer to get in there in the morning. They both get into Saskatoon at an unearthly hour in the morning.

Mr. WALTON: Yes, although there is a sleeper set off there to take care of that awkward hour of arrival.

Mr. NICHOLSON: A few years ago you ran a crack train through Regina. I imagine the capital city of Saskatchewan might deserve a little better service than the C.N.R. provide. Have you given consideration to running one of those transcontinental trains through Brandon and Regina?

Mr. WALTON: That also was looked into and in view of the time loss that would be taken to cover Brandon and Regina it was concluded they should operate on the main line.

Mr. HATFIELD: What is the idea behind changing the schedule at different periods of the year?

Mr. WALTON: Different running times for the trains, you mean?

Mr. HATFIELD: Yes.

Mr. WALTON: Usually that is in response to some requirement in the cities, something of that kind. On the whole, long distance trains do not change time greatly.

Mr. HATFIELD: I know they do not. What is the idea for changing at all?

Mr. WALTON: The change that has just been made, for example, in the transcontinental train from Vancouver to Montreal is made in order to secure an earlier arrival in Montreal, nine o'clock instead of eleven fifteen as it was during the war.

Mr. HATFIELD: How many times do you change your timetable?

Mr. WALTON: Two changes, when daylight saving time comes in and goes out. Those changes are necessary because a large number of local services are changed to coincide with daylight saving time. Other than that, the customary changes are made in June and September when the summer trains come on and are discontinued.

Mr. HATFIELD: Is that not an old custom and one which costs a lot of money?

Mr. WALTON: The supply of timetables is regulated according to the length of time the timetable will be in effect. We do not order as many as we would if it were in effect for the whole year. There are quite a number of trains which come on in the summer and go off in the fall.

Mr. NICHOLSON: How much time have you cut off the train from Vancouver?

Mr. WALTON: Two hours and five minutes.

Mr. NICHOLSON: Those who travel through the mountains seem to think your train goes a good deal slower than it might. Is there some arrangement with the Canadian Pacific which would account for that?

Mr. WALTON: No, we think it is a reasonable speed for mountain conditions.

Mr. NICHOLSON: It appears as though the Canadian Pacific trains go as fast as would be safe to travel, whereas your trains travel at a leisurely rate and could go faster since you have a better roadbed.

Mr. VAUGHAN: Those trains are all timed so they will arrive and depart from Vancouver, Montreal and intermediate stations at convenient times. You cannot make them convenient to all people, as you will appreciate, but at the important centres we do try to have trains arrive and depart at convenient times. In connection with this transcontinental service, the Canadian Pacific and ourselves make practically the same time.

Mr. NICHOLSON: I suppose you could cut off two hours between Vancouver and Winnipeg?

Mr. VAUGHAN: We might have to depart and arrive too early at some other place.

Mr. MUTCH: You could cut a substantial amount off the time between Montreal and Winnipeg, if it were desirable?

Mr. VAUGHAN: Yes.

Mr. MUTCH: I have had the experience of being two hours late and yet arriving on time in Winnipeg.

Mr. WALTON: There is some difference between the occasional case where a train is late and able to make up time and being able to do it day in and day out.

Mr. MOORE: Could the time be cut between Boston Bar and Vancouver?

Mr. VAUGHAN: There would not be much object in doing that if we were going to bring our train into Vancouver too early in the morning. What time do we arrive in Vancouver now?

Mr. WALTON: It does not change the arrival of west bound trains. It is around 8.30 or nine o'clock in the morning.

Mr. VAUGHAN: That is early enough for most people to arrive.

Mr. WALTON: The Toronto train arrives at 8.45 and the Montreal train at 9.20.

Mr. HAZEN: You acquired 856 box cars last year, do you propose getting more box cars this year?

Mr. VAUGHAN: Yes, sir. You will find that when you come to our budget. There is quite a lot of equipment in it.

Mr. HAZEN: Are there a good many more box cars on order this year?

Mr. VAUGHAN: Yes, we have a lot of box cars on order.

Mr. HAZEN: May I ask how many?

Mr. VAUGHAN: This is all given in the budget, but I can give you all the cars on order.

Mr. HAZEN: No, just the box cars.

Mr. VAUGHAN: There are 3,700 box cars on order for Canadian lines and 500 for the U.S. lines.

Mr. HAZEN: Do you expect any shortage of box cars during this year?

Mr. VAUGHAN: I think the situation will be a little tight on box cars during the year, but the worst is over. We had very unusual weather this year which delayed the movement of cars very considerably, as you know. We had storms all over the country, much more severe in some parts than were ever known before. This delayed the movement of traffic.

Mr. HAZEN: I understand there was a shortage of about 15,000 box cars in the east last year.

Mr. VAUGHAN: I do not think there was anything like that, Mr. Hazen.

Mr. HAZEN: I understood the shortage in the west was around 8,000 or 9,000.

Mr. VAUGHAN: There was not a shortage of that much. There was a shortage of cars for grain, but we have pretty well caught up with that. You must take account of the fact that a great many industries have stepped up their production in Canada, such as the paper and pulp people as well as various other industries. They are now producing to capacity and they require more cars.

The CHAIRMAN: Mr. Moore, you were going to ask a question?

Mr. VAUGHAN: Since 1940 we have added 17,966 freight cars.

Mr. WALTON: Through to the end of 1946.

Mr. JACKMAN: How many have you discarded?

Mr. COOPER: 4,638.

Mr. MOORE: Would the tonnage of the new cars be approximately the same as the old ones?

Mr. VAUGHAN: Not compared with the very old cars, but with the cars which were ordered in the last four or five years, there is little difference in the tonnage.

Mr. EMMERSON: I was going to ask whether you were handicapped by your loaded cars being held up for ships at the port?

Mr. WALTON: There is always a certain lag in connection with those cars. They are loaded on permits based on advice as to when the shipper expects the boat in. If that ship has to go in for some repairs or is delayed on the way over, any of those conditions would delay the discharge of the contents of those cars.

Mr. EMMERSON: Was this condition particularly bad on the Atlantic coast this year?

Mr. WALTON: Well, we had a lot of cars delayed, many for the reason of which you speak and some on account of weather.

Mr. EMMERSON: The delays due to weather would be in the central region?

Mr. WALTON: Yes.

Mr. EMMERSON: Not many of those delays would be in the Atlantic region?

Mr. WALTON: No, it was a very good winter in the Atlantic region, as you know.

Mr. HATFIELD: Is it not true there were a lot of cars in storage on sidings during February and March in the Atlantic division, empty cars? I understood that on one siding in the Atlantic division in February and March when the shortage of cars took place you had 300 empty cars.

Mr. WALTON: I do not know where that would be.

Mr. HATFIELD: I can tell you, it is east of Napadogan, on the siding you built for the munition dump.

Mr. WALTON: That may be so.

Mr. HATFIELD: They were stored in the summer time and they stayed there during that period.

Mr. VAUGHAN: They must have been cars which were not fit for service.

Mr. EMMERSON: Those cars may have been stored there waiting to go to the shops.

Mr. WALTON: There was also a slow movement last winter due to the unprecedented weather we had.

Mr. VAUGHAN: There never would be 300 cars stored there in the summer which would stay there during the winter if they were fit for service.

Mr. HATFIELD: I was told of this by a conductor on your own line.

Mr. VAUGHAN: I am not able to say definitely, but offhand I would say the conductor did not know what he was talking about.

Mr. McLURE: Is there a shortage of refrigerator cars?

Mr. VAUGHAN: Yes; we depend for our supply of refrigerator cars, to some extent on the cars we get from the Refrigerator Car Company. We own a number of refrigerator cars. We are ordering more refrigerator cars. We are building some and have ordered some to try and improve our situation.

Mr. WALTON: We are building them in the Transcona shop.

Mr. NICHOLSON: What is the situation in regard to diesel operated units?

Mr. VAUGHAN: You mean diesel locomotives?

Mr. NICHOLSON: Combination cars, oil-electric, I think you call them.

Mr. VAUGHAN: We have not added much to that equipment. We have a good many such cars in operation. I do not know whether we have a list here of the number of oil-electric cars which we have.

Mr. JACKMAN: On some of the branch lines where traffic during most of the year, at least, is not very heavy, is it cheaper to operate a diesel locomotive with a few cars attached to it than it is to operate the old type of steam locomotive which you use on most of these branches?

Mr. VAUGHAN: I do not think it would be on the branch lines where traffic is light. Diesel equipment is expensive and you have to get intense use out of diesel equipment to make it pay. It is the availability of the diesel for intensive use which makes it economical.

Mr. JACKMAN: The capital cost of a diesel engine—I am not speaking of the big moguls or the great big ones, but take a small one such as I travelled on in another country recently—would the cost of a small one capable of hauling three or four cars perhaps, or a half dozen cars—I do not know what would be reasonable—would it be very much more than the cost of a locomotive of the old type?

Mr. VAUGHAN: I do not know that it would be today; but we, of course, have many light steam locomotives on branch lines which are very suitable for this service. We pay for a diesel switcher, which is a light locomotive, about $110,000, delivered in Canada duty paid. Some of the steam locomotives we have operating on these branch lines did not cost us $30,000. They are getting old and obsolete. They use considerable coal. Your argument is, of course, it might be more economical to discard those engines and buy diesel equipment. There are no diesel locomotives as yet manufactured in Canada. The time may come when they will be manufactured in Canada. There are none made here as yet. We ordered some small diesels for Prince Edward Island and they are being partly built in Canada.

Mr. NICHOLSON: Between Saskatoon and Prince Albert you have a small diesel unit operating. This would appear to be inexpensive. How many of those have you?

Mr. VAUGHAN: 37 for the system.

Mr. WALTON: We are not planning any additions to those.

Mr. NICHOLSON: Would not that type of equipment enable you to compete with the buses a little more successfully? Some of our branch lines are complaining about getting trains three times a week, or a train once a day which picks up the local freight. I imagine something will have to be done if your local passenger service is to be made attractive to these people.

Mr. WALTON: One thing which slowed us down in getting more of these cars similar to the one operating between Saskatoon and Prince Albert is the fact that there are only certain places where they can be used to advantage. We have to move them around from place to place at various times. Sometimes the travel gets too heavy for the amount of accommodation there is in a diesel car, or the trailers it can haul, in which case we transfer it to some other place. There are not an unlimited number of places where such a unit could operate satisfactorily. There has been one operating between Saskatoon and Prince Albert for a considerable time and it has done a good job.

Mr. MUTCH: How are they in the snow?

Mr. WALTON: For real heavy snow, it is advisable to change to a steam locomotive, but in a light snow they would get through.

Mr. MCCULLOCH: In regard to the train which leaves Ottawa at four o'clock to connect with the Ocean Limited, if that train is ten or fifteen minutes late on arrival at Montreal, you have to get out of the Ottawa train, have your baggage taken upstairs and then take it down again to the Ocean Limited. Under the old arrangement we could step off the four o'clock train and cross the platform to the Ocean Limited, but now we cannot do that.

Mr. WALTON: I will have that looked into, Mr. McCulloch, to see the reason for that. On many occasions the trains have been side by side.

Mr. VAUGHAN: We used to plan to have that done. I do not know any reason why it should not be done. We will look into it.

Mr. McCULLOCH: Coming up on April 1st, I was in car 27. I think that car must be very nearly 50 years old. It is the roughest car I was ever in.

Mr. VAUGHAN: What kind of car, a sleeper?

Mr. McCULLOCH: Yes, I was in drawing room B. I ordered a drawing room a month ahead and paid for it. When I got down to the train, someone else had that drawing room. It just happened there was this drawing room vacant and I obtained it.

Mr. VAUGHAN: Probably that drawing room was over the wheels, which is where the drawing rooms are in the older cars. Probably the car needs shopping. We have stepped up our staff to shop as many cars as we can since the war, but we have not caught up as yet.

Mr. McCULLOCH: The main thing is that connection between the four o'clock train and the Ocean Limited.

Mr. McLURE: Is it planned to place diesels in service on the whole of the Prince Edward Island railway?

Mr. VAUGHAN: Yes.

Mr. McLURE: It would take about how many?

Mr. VAUGHAN: About twenty locomotives.

Mr. WARREN: I think Mr. Lapointe has a plan for that old car.

Mr. LAPOINTE: I am collecting all 50 year old cars for that little trunk line in Lotbiniere. What is the situation with regard to passenger cars? Is there any necessity for feeding out to these little branch lines all the obsolete equipment the railroad has? The last time I travelled on that line in the winter, we had one of those old cars with the stove in it. It took us from ten minutes to six, which is the time it leaves Levis, to 12.30 to get to the terminal which is 34 miles away.

Frankly, I quite realize that in the summer, possibly the local population does not encourage the Canadian National as much as it should. But, in the winter, it is the only means of travel. There are absolutely no roads open. These trains are packed and people are standing up in the aisles.

Mr. VAUGHAN: Perhaps if they would use the railroad in the summer as well as the winter, they would get better equipment.

Mr. LAPOINTE: Possibly if we got the proper service in the winter, we could encourage the people to use the railroad in the summer.

Mr. VAUGHAN: We have a lot of equipment on order. We will enquire into the situation and see if we can do anything about it.

Mr. LAPOINTE: It is a mixed train, passenger and freight service, but, I do not see any reason for stopping for an hour and a half in the middle of a field as is done, where there is no station. I do not know whether the engineer has his supper or what happens, but that is a regular thing. As a matter of fact, people do not complain about it any more. They take it as a sort of routine.

Mr. VAUGHAN: That is not a very busy line.

Mr. LAPOINTE: It runs regularly. As I say, in the wintertime it is the only means of transportation for at least ten municipalities. There are no roads open.

Mr. LOCKHART: May I confirm what Mr. Lapointe says on this matter. We are travelling up from Toronto to the border on a train which is operating practically all the time with these old cars with stoves in them. This train is running twelve months in the year. I was just about to ask Mr. Vaughan or someone in authority if they could give us some idea as to when that situation might be corrected. I think they have had plenty of notice about it.

Mr. VAUGHAN: As you know, it has been next to impossible to get passenger equipment during the war. In fact, the manufacture of passenger equipment was banned during the war and we could not get any.

Mr. LOCKHART: But it is two years since that ended.

Mr. VAUGHAN: Yes, but we have had passenger equipment on order for some time and have not got it. We have had passenger cars on order for a year and we have not received them.

Mr. LOCKHART: May I say, Mr. Vaughan, that I think I brought it to your attention some time ago. The train leaving Toronto at 1.30 has five air-conditioned cars travelling west of Hamilton, all nicely upholstered with pivot seats. Travelling from that point on to the border, at which time there were a lot of United States people who were complaining very bitterly of it, we had the old stove cars about which Mr. Lapointe complains. The air-conditioned cars were taken off at Hamilton and we went on through to the border with the United States people who are used to travelling on better trains, riding in these old cars. I wrote a letter to the minister pointing that out, and that has been going on for some time. I think it was probably brought very definitely to your attention because I checked the equipment. I can give you the numbers of the cars.

Mr. VAUGHAN: Is that on a specific train?

Mr. LOCKHART: The one leaving Toronto at 1.30. Five cars, one a buffet car, were going west of Hamilton and the other three cars were of the very obsolete type. The conductor was kind enough to say he was going to try to have one of those air-conditioned cars carried through to Buffalo.

Mr. VAUGHAN: Was that a condition which occurred recently?

Mr. LOCKHART: Yes.

Mr. VAUGHAN: We are short of passenger equipment, but we will look into the matter. I think people going to the Niagara frontier are entitled to better equipment.

Mr. LOCKHART: They are writing to me all the time. I wrote to the minister about it and he probably passed the letter on to you.

Mr. VAUGHAN: Yes, he passed it on to us. We have taken it up with Mr. Pringle in Toronto. We hope to be able to improve that situation.

Mr. LOCKHART: In view of the fact we are going to spend many millions in hotels, office buildings and so on, I might say there is also a service which has fallen into disrepute and that is the boat service from Toronto crossing Lake Ontario. How long, Mr. Vaughan, do you suppose it will be before there will be any improvement in the service across the lake, or will it be discontinued?

Mr. VAUGHAN: That is a very difficult question to answer, Mr. Lockhart. I know the situation very well. You have one ship which is not too old and one which is very old operating there. They do perform a service. They carry about 1,000 passengers each. The Northumberland is not the type of boat we would like to have there, and we would not have her there if we had anything to take her place. That is another case where before the war we had thought seriously of abandoning the operation of these vessels.

Mr. LOCKHART: Yes, but I mean are they continuing?

Mr. VAUGHAN: Yes. And I think you were one of the ones who took it up at that time.

Mr. LOCKHART: Yes.

Mr. VAUGHAN: Then the war came along and the boats did reasonably well during the war because people could not get gasoline with which to operate their automobiles. We intend to operate that service this summer. Some people have approached us with a view to selling the boats to them. If we did sell, of course, a condition would be that they continue to operate the boats in this service. We have done nothing about that as yet, but we intend to carry on that service this summer.

Mr. LOCKHART: There is no improvement in sight?

Mr. VAUGHAN: Not immediately.

Mr. LOCKHART: Mr. Chairman, I might point out that a number of complaints have come from the people living on the peninsula there, and there are a lot of nice people, American citizens, who are inclined to use the boats and who like to travel that route but who are terrified by the type of equipment; not only the old steamers but they complain of other conditions as well. That is why I thought the matter should be brought up.

Mr. VAUGHAN: We are trying to improve the inland situation there. We have a number of additional buses on order.

Mr. LOCKHART: You are going to improve the service?

Mr. VAUGHAN: We have improved that situation very considerably, as you know; but we have not been able to do anything in a large way. We have a number of items of equipment on order at the present time for that service.

Mr. LOCKHART: May I ask Mr. Vaughan to go into that situation before he throws $16,000,000 into that other thing.

Mr. MUTCH: I would like to add a little to Mr. Lockhart's observations with respect to the American tourist. In the part of the country from which I come we have a lot of very antiquated equipment, it is used particularly on our branch lines.

Mr. LOCKHART: That is not British Columbia, I hope.

Mr. MUTCH: No.

Mr. WALTON: If I might say a word before you leave the matter of passenger equipment; we started out at the beginning of 1946 with a stepped-up program of repairs to existing passenger equipment and we have made only a moderate improvement in conditions because of the slow receipt of materials and also the limited extent to which we could get qualified workmen to do the job. We have made some advances in it and we have continued to, but we are not making anything like the progress we had hoped to at the beginning of 1946. Since the close of the war the material situation has deteriorated. I am speaking now of the repair of existing equipment. The difficulty with respect to getting new equipment is even greater and, I believe, is well known.

The CHAIRMAN: Gentlemen, if it is permissible for me to say a word or two; on the line between Toronto and Windsor there have been some two chair cars. I understand they were rebuilt from hospital cars, and I have heard some very nice comments on those cars. I do not know whether any of the gentlemen present have been on them or not. The comments have been very appreciative, and I understand that they were made from hospital cars used during the war. Is that so, Mr. Vaughan?

Mr. VAUGHAN: Yes.

Mr. HAZEN: The first page of Mr. Vaughan's report gives the interest on the funded debt, $23,358,514, and interest on government loans $21,000,000-odd. I wonder if we could have placed on the record the debt of the railway from 1937, when we had a capital revision, to 1946. I suppose that would be the funded debt and the Dominion loans and the share capital.

Mr. COOPER: We could give you that for each year.

Mr. HAZEN: Have you got that before you? Would that be any trouble.

Mr. COOPER: That would be no trouble whatever.

Mr. HAZEN: You have it here?

Mr. COOPER: We have it in Ottawa. We could give it to you to-morrow.

Mr. HAZEN: Could we have it on record?

Mr. COOPER: Yes, sir.

Mr. HAZEN: Also I would like to have each year from 1937, whether you had a deficit or a surplus, and the amount.

Mr. VAUGHAN: Yes, sir.

Mr. HAZEN: It says here that in 1946 you had a deficit and the year before, 1945, you had a surplus.

Mr. VAUGHAN: We will give you those figures.

Mr. HATFIELD: Has any consideration been given to the building of a frost-proof potato house on the mainland across from Borden?

Mr. VAUGHAN: The matter has been talked about on different occasions. We did not feel that it was an obligation of the railway.

Mr. HATFIELD: It should be an obligation of the railway. You save a lot of time in your refrigerator cars. These refrigerator cars cross to the Island and probably half the cars you take over there are full of ice. They are set out on some siding and can't be used while the ice is in them. They have to be shipped to some division point and have the ice taken out of them, and it very often takes as much as ten days to get the car back into service, before it can be returned to the mainland.

Mr. VAUGHAN: That matter has been up on different occasions, Mr. Hatfield, and the position we have always taken is that it was not an obligation of the railway but rather an obligation of the potato growers.

Mr. HATFIELD: Well, I think it is an obligation of the railway, myself. In the state of Maine practically all, at least half of the potato warehouses are owned either by the C.P.R. or the B. & A. Railway.

Mr. VAUGHAN: We made an investigation of that not so very long ago, and we found out that most railways over there did not own the potato warehouses.

Mr. HATFIELD: Well, there must have been a change lately.

Mr. VAUGHAN: That is just recently. We sent people to investigate that.

Mr. HATFIELD: I think it would save the railways a lot of money and they would be rendering a useful public service, particularly to Island shippers; and then if you could get a lot of cars across in the fall of the year and have storage on the mainland you would save a great many delays.

Mr. VAUGHAN: Mr. Walton, do you know the average time a refrigerator is over there after it leaves the mainland until it returns.

Mr. WALTON: There is considerable delay, just as you say. I haven't the figures with me, but I know that to be the case.

Mr. HATFIELD: Most of these refrigerator cars come back full of ice, and that is one of the great difficulties in the winter shipping season. It applies to New Brunswick as well as to the Island. Half the cars are placed on the siding and when you go to load them you find there is so much ice in them that they cannot be used until they have been taken away to a division point and thawed out, and that, of course, involves demurrage charges as well as delay. Sometimes they wait at the division point for weeks before they can get a crew to take the ice out.

Mr. VAUGHAN: Well, if any superintendent allows a thing like that to happen he should not be there very long. We will certainly look into the matter of the operation of refrigerator cars on the Island. I know that the Moncton officials give very close attention to that matter. We certainly want to keep the refrigerator cars moving on the line and keep them loaded.

Mr. HATFIELD: They go over to the Island loaded with beef, or something else, and then they come back to be loaded with potatoes or turnips or some kinds of vegetables and the ice has to be taken out.

Mr. VAUGHAN: A great many empty refrigerators go over there too.

Mr. HATFIELD: I know, a great many; but there is a lot of trouble with this ice to which I have referred.

Mr. VAUGHAN: We will look into that icing situation certainly.

Mr. MOORE: During the past eighteen months we have heard quite a bit about the construction of a branch line up in the Flin Flon area into Lynn Lake. I was wondering if you were contemplating the constructing of a branch line from the Flin Flon running through that new area up to Lynn Lake?

Mr. VAUGHAN: We are not contemplating that at the present time. There would have to be a c onsiderably greater development up there before we could even consider such a branch. We do not think we would be justified in recommending construction of any branch lines unless we can show some return on them.

Mr. MOORE: Has not your company been approached with a view to considering it?

Mr. VAUGHAN: No, sir. We had a tentative survey made of that district by air, but we have not had any approach to build it.

Mr. WALTON: No.

Mr. VAUGHAN: Certainly, nothing has come to me. But, as I said, we have had a tentative survey made by air to give us an idea of the kind of country that would have to be built through if we received such a request.

Mr. MOORE: What would be the cost of such a road.

Mr. VAUGHAN: It would depend on what point it would reach. It would be very expensive building up there. I do not know the distance. I think it is between 175 and 200 miles.

Mr. MOORE: I believe the branch they contemplate will be about 48 miles.

Mr. WALTON: There would be a possibility of going up there from Flin Flon or of going in from the Hudson Bay railway. In either case the distance would be about 150 miles.

Mr. VAUGHAN: You could not build a line up there for less than $100,000 a mile. It would average at least that in that kind of country, very rough and rocky.

Mr. NICHOLSON: Have you had a loss in the operation of the branch you put in to Flin Flon?

Mr. VAUGHAN: Flin Flon has done very well. That line was built, of course, at their request, according to my recollection and they contributed something towards the cost of construction, the same as with some other lines that we have built.

Mr. NICHOLSON: And there is a line at Sudbury; are you considering extending that?

Mr. VAUGHAN: I suppose when the country becomes sufficiently developed the railway may be interested in providing a service, but with what is there now there is little likelihood that anything will be done in the immediate future.

Mr. NICHOLSON: What is the general policy in connection with branch line construction?

Mr. VAUGHAN: Well, as far as I am concerned, Mr. Nicholson, I feel that the railway should not be asked to build, at its own expense and operate at its own expense, any line which can't return a new dollar for an old one.

Mr. HAZEN: But I see that you are constructing a line this year of some 39 miles.

Mr. VAUGHAN: But we have a guarantee from the paper company which ensures profitable operation of that line.

Mr. HAZEN: We discussed that last year, in committee, as I remember.

Mr. VAUGHAN: Yes.

Mr. HAZEN: Who was the contract let to?

Mr. VAUGHAN: A man named Therien.

Mr. HAZEN: Not a company?

Mr. VAUGHAN: He has his own construction company, the Therien construction company.

Mr. HAZEN: What was the contract price?

Mr. VAUGHAN: $1,036,000.

Mr. HAZEN: Did the contract price exceed the estimate?

Mr. VAUGHAN: I haven't got the estimate here but my recollection is that the contract price was approximately the estimate. We called for tenders and we gave it to Mr. Therien because his tender was the most satisfactory.

Mr. JACKMAN: What would that cost work out to by the mile; 79 miles, costing $1,036,000 would be—?

Mr. VAUGHAN: His part of it is only $25,000 per mile. That does not cover all of it. We do a certain amount of work ourselves such as track-laying and providing steel.

Mr. JACKMAN: But it is a firm contract, there are not escalator clauses in it?

Mr. VAUGHAN: I do not know whether there is an escalator clause in it or not. No, I do not think there is an escalator clause in that, although there are a good many contracts to-day with escalator clauses in them. I do not think there is in that one.

Mr. HAZEN: I understand that the contract price exceeded the estimate considerably.

Mr. VAUGHAN: You are referring to the engineer's estimate?

Mr. HAZEN: Well, the cost of construction.

Mr. VAUGHAN: That is the only estimate we would have, our own engineer's estimate.

Mr. HAZEN: Yes.

Mr. VAUGHAN: I cannot tell you that but I can find out for you. I do not happen to have the figures with me.

Mr. HAZEN: When was the work to be completed under the contract?

Mr. VAUGHAN: We think the work will be completed about the end of the year.

Mr. HAZEN: Is it your intention this year to offer contracts for the balance of the road?

Mr. VAUGHAN: Any additional work to be done that we do not do ourselves we will ask tenders on.

Mr. HAZEN: And there are approximately 55 miles to be built?

Mr. VAUGHAN: It is not our itnention to build beyond the 39 miles at the present time.

Mr. REID: Might I ask a question. On page 9 it states that Canadian National Telegraphs handled more telegrams and cablegrams than in any previous year, the total exceeding $12,000,000; now, going back to page 4, I find that the revenue is about $200,000 less than in 1945. If you handled more, a greater volume, why the drop in revenue?

Mr. VAUGHAN: Well, I think that is a very good question. I do not know that we have the answer here; we can get it. We will try to prepare an answer to that question for you. It is pretty hard to anticipate them all.

Mr. REID: I would like to take just a little more time on that.

Mr. JACKMAN: It has been the custom to build branch lines and contract out to independent contractors?

Mr. VAUGHAN: Yes, sir.

Mr. JACKMAN: To do the work?

Mr. VAUGHAN: Yes, sir.

Mr. HATFIELD: In regard to that matter of telegrams, I presume that includes telephone services as well.

Mr. VAUGHAN: Why, there are various reasons for that. I would like to get a proper answer to that for Mr. Reid, and I will get it for him.

Mr. REID: Thank you.

Mr. VAUGHAN: We may have had more of our own telegrams handled in that period. I do not know.

Mr. NICHOLSON: May I refer to this branch line question again. Before the depression I understand that you expected to complete branch lines beyond Arborfield and Arufell and up in the Carrot river valley country, a rich farming area. I wonder if we could get information as to how that situation stands to-day, as to whether or not it would be feasible to extend your branch lines to that area to the point that you had in mind before the war.

Mr. VAUGHAN: I cannot tell you off hand whether we have made any study of that situation recently or not.

Mr. WALTON: There has been no recent study.

Mr. VAUGHAN: I will try to get you some information on that.

Mr. McLURE: Do you operate any trucks for pick-up?

Mr. VAUGHAN: Yes.

Mr. McLURE: Do you use them to feed your branch lines, to extend your branch line service?

Mr. VAUGHAN: No, we do not operate any trucks outside of our system.

Mr. McLURE: You do not operate any bus lines?

Mr. VAUGHAN: Well, we have bus lines operating in connection with the railway; we operate in the Niagara peninsula, in Oshawa, and between Port Arthur and Longue Lac.

Mr. McLURE: Bus lines run down to Tormentine and Borden; why does the Canadian National Railways object to their coming down to the piers with their passengers or to pick passengers up? The Canadian National Railways do not take any objection to an automobile going down or a taxicab, but they have put a charge on buses going down.

Mr. VAUGHAN: I suppose it is only reasonable, these buses are using our facilities and they should pay for them.

Mr. McLURE: What services would they be using? The road on the Borden side is owned by the province under the act of 1936. The Road Act there eliminates the improvement on it; at least up to a year ago when the Canadian National made some further improvements, and they exact a charge on the buses I understand of $1.50 or $2 a trip.

Mr. VAUGHAN: I do not know that particular circumstance but we will find out about it and give you the reason for it. I haven't any information. I do know that there was some charge made for buses down there because I understood they were using our facilities.

Mr. McLure: Just recently?

Mr. Vaughan: And competing with us.

Mr. McLure: It is a convenience to the travelling public, especially sections of the province where there are no railway lines and they are taking these passengers direct to the boat.

Mr. Vaughan: It seems to me that we can hardly be expected to facilitate the business of our competitors.

Mr. McLure: I know you are not doing it in this case. The road is owned entirely by the Canadian National Railways; that is, the road where the buses go.

Mr. Vaughan: I am afraid I am not sufficiently familiar with the matter to give you an answer at the moment, but I will find out for you.

Mr. McLure: It is a serious point with us; not that it amounts to much but it is most inconvenient.

Mr. Vaughan: I think there must be some good reason for it and I will find out what it is.

Mr. Jackman: Now, why is it that apparently this branch line into Lynn Lake would cost so much more than the average per mile suggested by you?

Mr. Vaughan: I would say with respect to this contract, Mr. Jackman, that it is not for the complete line. It covers largely the grading, the removal of rock and things of that kind. There is a lot more work to be done than that is covered by the contract.

Mr. Jackman: Then the $26,000 average and the $100,000 average are not comparable?

Mr. Vaughan: When I say $100,000 per mile I am thinking of new rail, stations and equipment and everything that enters into the construction that would cost $100,000 per mile.

Mr. Walton: Also, sir, the aerial survey made showed a terrain which was particularly difficult.

Mr. Vaughan: Mr. Cooper draws my attention to the fact that the total cost of this line will probably be $76,000 per mile.

Mr. Bourget: Is that the general average cost for constructing a line of that kind?

Mr. Walton: No, to-day you could not build a new line of that kind for anything less than $100,000, but on this line we will not be using new steel, we will be using old steel taken up from another line which is being replaced with new steel.

Mr. Jackman: I suppose it is single track?

Mr. Walton: Yes.

Mr. Hazen: Do I understand you to say that it will cost between $75,000 and $100,000.

Mr. Vaughan: Yes, approximately $75,000.

Mr. Hazen: And the contract calls for an expenditure of $36,000.

Mr. Vaughan: That is simply preparing the roadbed for laying the track. All the work in addition to that will be done by ourselves, we have to supply all materials, steel, ties, and things of that sort. The total cost by the time it is through will be approximately $75,000 per mile.

Mr. Hazen: And his contract is for—?

Mr. Vaughan: His is only for a portion of it.

Mr. HAZEN: Less than half?

Mr. VAUGHAN: Yes.

Mr. HAZEN: Less than a third, I would say.

Mr. VAUGHAN: This is what is covers; his contract is for clearing, grading, installation of culverts and trestles. That is what his contract covers.

Mr. JACKMAN: He does not even make the road ready for you. You have to put on the gravel and the top-dressing and everything else.

Mr. VAUGHAN: Yes.

Mr. JACKMAN: If you were to apply modern costs to the whole of your lines you would have a much higher figure on your books?

Mr. VAUGHAN: The replacement cost of our lines to-day would make it much higher.

Mr. JACKMAN: It would be staggering.

Mr. COOPER: The average per mile is $84,000, according to the investment account.

Mr. VAUGHAN: That is cost.

Mr. COOPER: Yes, recorded cost.

Mr. REID: On the first page of your report it states, "traffic moved in heavy volume and, measured in train miles, was only 3·8 per cent below the traffic of 1945. In revenue earned, however, the decrease was 7·7 per cent." Now, if you turn to page 6 it says there, "In passenger service, passenger miles decreased 31·4 per cent," and, "the average length of haul decreased 9·8 per cent."

Mr. VAUGHAN: Yes.

Mr. REID: If the train passenger miles decreased 31·4 per cent and the other 9·8 per cent, how do you arrive at the average of train miles decreasing by only 6·8 per cent?

Mr. VAUGHAN: I think Mr. Cooper can explain that statistic to you.

Mr. COOPER: The passenger train miles decreased only 4·1 per cent.

Mr. REID: It says on page 6, that operating expenses were reduced 21·4 per cent.

Mr. COOPER: Passenger miles are not passenger train miles; passenger miles represent the number of passengers carried one mile and it has nothing to do with the train miles. The passenger train mileage is shown further on and it decreased only 4·1 per cent.

Mr. JACKMAN: You are not giving as much service.

Mr. VAUGHAN: We have to run practically as many trains but there are fewer people on them.

Mr. COOPER: The number of passengers per car decreased by 20 per cent.

Mr. REID: You speak of car miles decreasing by 20 per cent—

Mr. COOPER: Yes, there was 20 per cent less in the number of passengers per car than there was the previous year; that is, every car carried on the average 20 per cent less passengers than in the previous year.

Mr. EMMERSON: In other words, more people got a chance to get a seat this year than last?

Mr. COOPER: That is right.

Mr. JACKMAN: I understand you have put an extra train on between Ottawa and Montreal for Friday night; is that so?

Mr. WALTON: No.

Mr. JACKMAN: Did you just change the time?

Mr. VAUGHAN: That was not our train.

Mr. JACKMAN: Oh, that was your competitor's train?

Mr. VAUGHAN: Yes.

Mr. NICHOLSON: How about the pool train to Quebec, do you operate that?

Mr. VAUGHAN: Yes, we are interested in the service between Montreal and Quebec, which is a pooled service.

Mr. LOCKHART: There are one or two other matters on which I would like to have some information. One is in connection with operating revenue. I notice that demurrage has increased this year over last, 1946 over 1945 by half a million dollars; what is the explanation of that?

Mr. VAUGHAN: I think that is largely due to strikes, such as the Steel Company of Canada.

Mr. LOCKHART: Holding up the cars?

Mr. VAUGHAN: Yes.

Mr. LOCKHART: I have never heard of any increase in rates or anything of that kind.

Mr. HATFIELD: Oh yes, there was an increase in your demurrage rates.

Mr. WALTON: There was some time ago, but it would not affect the increase in 1946 versus 1945.

Mr. VAUGHAN: This is the explanation we have here. This was due to cars held in strike-bound plants at Hamilton, Welland, Pontiac, Detroit and Flint.

Mr. LOCKHART: I think that explains it. Further up, in the operating revenue statement, I notice there has been a drop in the Railway Express Agency revenue of over $400,000. What is the explanation for that?

The CHAIRMAN: What page is that?

Mr. LOCKHART: It is page 13, about the eighth item on the page.

Mr. COOPER: It is due to the fact—well, first of all, I should say this amount represents payments to the Canadian National by the American Railway Express Agency. Their payments to us are based on the profit from their operations, and the profit from their operations in 1946 was very much less than it was in 1945.

Mr. LOCKHART: They only pay you a proportion?

Mr. COOPER: Yes, sir.

Mr. VAUGHAN: We have exactly the same contract with the American Railway Express Agency as all the American railways have.

Mr. LOCKHART: That would account for the very large decrease?

Mr. VAUGHAN: Yes.

Mr. LOCKHART: If I might just satisfy my curiosity a little further, Mr. Chairman, in connection with the mail in 1947, is the revenue from the mail service holding its own as compared with the two years previous or is there a tendency to drop?

Mr. VAUGHAN: We will just give you our figures in a moment.

Mr. COOPER: In 1947, for the first quarter, our revenue from mail was $1,046,000, as against $1,048,000. There is a drop of $2,000 in the three months. It is running neck and neck.

Mr. LOCKHART: Do you expect any T.C.A. contracts or other contracts will materially affect the revenue of the railway from that source? Do you feel that a decrease is coming?

Mr. VAUGHAN: With the present contracts I do not think we will be affected to any greater extent than we are now, Mr. Lockhart, but we do not know what the post office may have in mind with regard to increasing the delivery of mail by air.

Mr. LOCKHART: I wanted to get your slant on this first. We will tackle them later.

Mr. VAUGHAN: We do not know what they are planning to do.

Mr. LOCKHART: You have no fears at the moment.

Mr. VAUGHAN: Not at the moment. Undoubtedly the more mail the Post Office Department decides to send by air, the less we will get from it.

Mr. REID: I have one question to ask and I do not know whether it properly comes under the heading of the general well-being of the railway or not. I suppose it does. I suppose the president's attention has been drawn to the great competition which the two railways in Canada are going to have since the Great Northern put on that fast train from Seattle to Chicago?

Mr. VAUGHAN: Yes, sir.

Mr. REID: I am told, I do not know, but I am told you get into Toronto from Vancouver one day ahead of the Canadian National by going through the United States via Chicago.

Mr. VAUGHAN: It is not quite a day, but it is very close to it. We have studied it very carefully. In fact, it is not very long ago that I had a report from our vice-president of traffic and our general passenger traffic manager on the subject. I raised that question, as to what effect the new train would have on our trans-continental business. They have gone into the matter very carefully. It is believed because of the inconveniences travellers may meet who take that train, due to the necessity of making changes, that it will not affect our service very much. It will not take very many passengers away from us.

Mr. REID: Before I left the coast during the Easter holiday, I discovered four men who had travelled across the continent on that train. Ninety-two miles an hour is the average speed. They stated it was luxurious travel. They believed if this were known in Canada by those who want to go to Toronto, Ottawa or Montreal, it would certainly take away the traffic from the Canadian National.

Mr. VAUGHAN: It may affect us. Some people have to change, as you know, at Chicago. They might have to change again at Toronto to go to Montreal or Ottawa, and there might be a few people who would be willing to make that change who wanted to stop off at Chicago for some reason, but we do not think there will be a great many. There will be some, there is no doubt of that.

Mr. REID: How many hours could you cut off your schedule if you were not held down by the Board of Transport Commissioners?

Mr. VAUGHAN: That would depend entirely on the number of stops we were permitted to eliminate. Our traffic, of course, is not as dense in Canada as it is in the United States. Between the large centres such as Seattle and Chicago, there are large cities intervening, but we could undoubtedly make better time if we did not make all the local stops which we do make. This would mean putting on a special train and there might not be sufficient business to warrant it.

Mr. REID: Are you held down by the Board of Transport Commissioners in regard to the speed you may travel? By the way, I have travelled 56 times across Canada between New Westminster and Ottawa so I have some idea of what the travelling is like. I have left here six hours behind time and been in on the dot at New Westminster. I have enquired as to why it takes 86 hours and I have been informed that, due to regulations of the Board of Transport Commissioners, the Canadian National Railways are not allowed to speed up and do it in less time, as they could.

Mr. VAUGHAN: I do not think it is fair to the Board of Transport Commissioners to say that, Mr. Reid. I think if there is any trouble along that line, it is with ourselves. It is because, as I say, of the departures and arrivals. You would not want to leave Ottawa any earlier than you do and you probably would not want to arrive in New Westminster any later than you do.

Mr. REID: Have you ever travelled on the slowest part of that journey from Chilliwack to the coast? The ordinary motor car will do it in about an hour, about half the time it takes you. Have you ever taken note of how slow it is. These people, when they have the option of travelling by bus or by air are not going to stay with the trains which take four days and three nights.

Mr. EMMERSON: Is there any extra charge for this fast train in the United States?

Mr. REID: So far as I know there is not. The Great Northern is out to beat the bus and air travel. They are putting on a train between Vancouver and Seattle which will make the journey in two hours. They have a very fast train and I think it is going to give you serious competition. I do not think you can sit down and allow that competition to go unchallenged.

Mr. MUTCH: I think we should hesitate to adopt the schedule of the United States railroads in view of the traffic fatalities record they have had in the last four months on these so-called crack trains. The percentage of casualties on those trains has been something out of this world in so far as railroading in North America is concerned.

Mr. REID: You could clip hours off the stops. There is no reason for stopping an hour at Winnipeg and forty-five minutes here and there. You have not travelled and sat in these coaches day after day the way I have.

Mr. MUTCH: I will not argue with you as to the number of times we have travelled that route.

Mr. VAUGHAN: We have made a start, we have cut two hours off these trans-continental trains.

Mr. JACKMAN: In connection with these box cars you are ordering now, have these that latest type of air brake equipment, the A. B. air brake equipment?

Mr. VAUGHAN: Yes.

Mr. JACKMAN: Are you converting the old cars to the new type of brake equipment?

Mr. VAUGHAN: Yes, as rapidly as we can.

Mr. JACKMAN: How rapidly is that?

Mr. WALTON: We had about 1,000 done last year. It is limited by our inability to get the equipment.

Mr. JACKMAN: Is there an order from the Transport Board ordering you to install this type of equipment on all cars?

Mr. VAUGHAN: There is an order from the I.C.C. that cars cannot be used for interstate traffic unless equipped with A.B. brakes as from a certain date. Do you remember Mr. Walton what that date is?

Mr. WALTON: It was up to the end of 1947, I think, but with devices of this kind it is frequently necessary to move the time limit as set when there has been a proper attempt to complete the cars and it has not been possible because of material shortages.

Mr. JACKMAN: Is the Canadian National as well equipped with the A.B. brake as a typical American class 1 roadbed?

Mr. VAUGHAN: Yes, we are. We are equipping as fast as we can.

Mr. JACKMAN: How do you find the special car service like the counterpart of the General American Transit service which handles refrigerator equipment and other special equipment for oils, chemicals and such things? How do you find the arrangement with them?

Mr. VAUGHAN: It is working out very satisfactorily.

Mr. JACKMAN: Do they supply all the oil tank cars?

Mr. VAUGHAN: They supply the oil tank cars which the companies do not own.

Mr. JACKMAN: Do they supply cars for chemicals, acids and things of that kind?

Mr. VAUGHAN: Yes.

Mr. JACKMAN: Why do those companies appear to have an easier time securing cars than the railroads do?

Mr. VAUGHAN: Take refrigerator cars, for example. We only need them at certain seasons of the year. At other times they might be idle. These other companies can use these cars practically all the year round. They lease them for part of the year to one concern for one business and another part of the year to another concern in another line of business. They seem to be able to get more general use out of them than we can. We did own a number of tank cars for quite some time. We believe in owning refrigerator cars and we are equipping ourselves as fast as we can to take care of our own refrigerator car requirements. We have to rent a large number each year, not because we believe in doing it, but because we have not been able to get refrigerator cars as fast as we would like, nor have we had the money to spend on them. They are expensive. They are not always useful the year round.

We did have a number of tank cars. After going into the matter thoroughly, we figured we could save money by being out of that tank car business. I am referring to tank cars for general chemicals and things of that kind.

Mr. JACKMAN: Has there been any further thought given to the electrification of the road between Toronto and Montreal or any other portion of the road with an equal density of traffic?

Mr. VAUGHAN: We have not given any thought to it recently, no. We thought we would wait to see if the St. Lawrence development came along and see if there were some cheap power available.

Mr. JACKMAN: By how much does the traffic have to increase in density before it is practical?

Mr. VAUGHAN: I could not give you that figure offhand, but with power sufficiently cheap it might be well worth considering electrifying the line between Toronto and Montreal. It would have to be a lot cheaper than it is to-day.

Mr. JACKMAN: How cheap do you want it?

Mr. VAUGHAN: I have not seen a report on that for a long time. We did have a study made on it. We have a report some place in the office, but it is two or three years since I looked at it.

Mr. JACKMAN: Would you need to get power for $4 or $5 a horse power?

Mr. VAUGHAN: Yes, it would have to be something like that.

Mr. REID: May I compliment you on that new bedroom car you have. I had the privilege of travelling on that. It is one of the finest cars I have ever travelled in.

Mr. VAUGHAN: I am glad you like it.

Mr. WALTON: That is another instance where we should like to get some more of these cars into service, but have not been able to get them.

Mr. REID: I should like to make one suggestion and that is that you allow about four inches more in each bedroom.

Mr. VAUGHAN: You mean in the width or length?

Mr. REID: In the width.

Mr. VAUGHAN: You have reference to the room or the bed?

Mr. Reid: I think the bed is splendid, put the other way. I think that is a splendid way to have the bed for travelling long distances. I am thinking of the width of the room.

Mr. Vaughan: The idea is to get all the revenue we can out of these cars and fit all the rooms into the cars we can.

Mr. Reid: It seemed to me you had a lot of space in the parlour part of it. It is splendid and well laid out, but you might add a few inches to those rooms.

Mr. Vaughan: We will check over the measurements again.

Mr. Jackman: There is one very general question arising from a statement I think you made some years ago when results were a bit better, that so long as you had the volume of business the justification for the Canadian National existed, that is to say, the financial justification. Last year, when the volume was pretty high, we hope it will not drop very much lower, we nevertheless faced a deficit of $8,961,000. I presume it is due to increased costs in wages and materials as you point out in your report. But if your revenue decreases any more, you are going to be in a very perilous situation, are you not?

Mr. Vaughan: If revenues decrease and expenses remain where they are, we will be showing very substantial deficits, but that is not uncommon with other lines. Of course, that does not help the situation here. As you know, a good many lines in the United States last year lost money. Take the Pennsylvania, for example, for the first time in a hundred years, it lost money, for the same reason we are losing money. If you refer to page 7 of the report, I think that will pretty well tell you the answer. It is indicated on that chart.

Mr. Jackman: Yes, your total operating revenues last year were $400,000,000. What plans do you have in mind should those revenues drop to $350,000,000?

Mr. Vaughan: If the revenue drops to $350,000,000, all we can do is cut our service down to the bare minimum. We can only do it by the elimination of employees which we do not want to do unless absolutely necessary. So long as we are judged entirely upon the financial results we produce rather than upon the service we give, we have no alternative but to reduce our staffs when the revenue falls. As against that, as we pointed out on many occasions, our interest charges are entirely too high. If we could get some relief there, it would help us.

Mr. Jackman: We have had a pretty high volume of business all through the war, a volume which we could hardly have hoped for in 1939. It is entirely possible that we might drop to a figure of $350,000,000; it is not a tremendous drop.

Mr. Vaughan: It might be, sir. I made a statement, I think in answer to an enquiry from you two or three years ago, that we could live on a gross of $300,000,000, but conditions have changed so much since then that, with present expenses, we need a gross of $400,000,000 or more to pay our operating expenses and all our fixed charges.

Mr. Hazen: Could I ask another very general question? The motor bus companies, truck companies and steamship companies which are in competition with the railways, to some extent, at least I presume they are in competition with the railways?

Mr. Vaughan: Yes.

Mr. Hazen: Air transport is in competition with the railways. You have recently applied to the Board of Transport Commissioners for an increase in freight rates?

Mr. Vaughan: Yes.

Mr. Hazen: What I was wondering was this, have you ever thought or given any consideration to the idea that it might be advisable to have one

Board of Transport Commissioners, a single board, which would control rates not only on the railways, but on the trucks, aeroplanes, buses and so on?

Mr. VAUGHAN: Yes, sir, we think that would be a very desirable thing.

Mr. HAZEN: Has that been suggested?

Mr. VAUGHAN: It has been up on numerous occasions, but a good deal of this motor truck travel is intraprovincial and the provinces will not agree to give that authority to a central board of transport commissioners. That has been up on different occasions in the last two or three years, and it was up on several occasions before that, Mr. Hazen.

Mr. HAZEN: Has that not been in the formal report?

Mr. VAUGHAN: I do not know that it has been in any of our formal reports, but I know that those representations have been made; if not in writing, verbally.

Mr. JACKMAN: I presume it would be on your advice then that the present government formed the aeronautical board to take jurisdiction over aviation from the Board of Transport Commissioners?

Mr. VAUGHAN: The government never asks me for any advice.

Mr. NICHOLSON: A year ago I raised a question on this very large amount of l.c.l. freight being carried on passenger trains. There has been a decided slowing down on passenger train service on many of the lines operating out of Winnipeg in my area. For instance, one of your fast trains averages 24 miles an hour including stops, and in that particular area they sometimes stop as long as 20 minutes at a station unloading flour and heavy machinery. That applies to all trains, but I notice also with respect to your "flyer" that it travels at the rate of 24 miles an hour for the distance of 426 miles from Regina to Flin Flon. There is a lot of freight on both these lines and you have a good freight service, particularly out of Winnipeg. It is obvious that most of this delay is caused by handling this freight. I wonder if you would care to report to the committee on what steps have been taken with a view to moving this heavy freight traffic by freight trains rather than by passenger trains?

Mr. VAUGHAN: The reason it moves by passenger train is to give service competitive with trucks. These trains, however, run very fast between stops, although they may average only 24 miles an hour over all. I think it will be generally conceded that we are giving a very fair service on freight there. If you will look around at almost any of our division points, take Saskatoon for instance, you will find a lot of baggage cars there being loaded up with freight which goes on passenger trains. I do not know what you have in mind.

Mr. WALTON: I think it is the same point as Mr. Nicholson raised a year ago, the large amount of freight being handled by passenger train service, and that the situation is deteriorating instead of improving because of the freight being handled.

Mr. NICHOLSON: Yes.

Mr. WALTON: Following your remarks I took up the matter with our people and drew their attention to the undesirability of long delays on these passenger trains. According to what you say there apparently has been no improvement and I will certainly take the matter up again. I will point out the things you have mentioned, like flour and heavy machinery which really should have gone by straight freight.

Mr. NICHOLSON: My information is that the company does not get as much revenue out of freight that goes by l.c.l. as it would if it went straight freight.

Mr. VAUGHAN: Revenue does not enter into it. It is the matter of trying to give service on the freight. It may be that in some cases we go too far with it when we handle heavy commodities with resultant serious delays at stops.

Mr. NICHOLSON: What is the cost of shipping by express as compared with l.c.l.?

Mr. WALTON: Express is a higher rate than l.c.l. freight.

Mr. VAUGHAN: I recall your having brought that matter up last year, Mr. Nicholson; and I know an investigation was made; and I recall that you brought to attention some specific instances of trains being held up because of the handling of heavy freight. We want to overcome that type of delay if we can. We will look into the matter again. That is just something which perhaps needs more supervision.

Mr. NICHOLSON: A speed of 23 or 24 miles an hour would not seem to be a very fast rate for one of your crack trains from Winnipeg to Calgary, for example, would it?

Mr. VAUGHAN: You mean that would be the overall speed taking into consideration all the stops?

Mr. NICHOLSON: Yes.

Mr. VAUGHAN: That train would probably have to run at a pretty high speed between stations.

Mr. NICHOLSON: Apparently they are working on a timetable which allows for very long stops at most stations.

Mr. VAUGHAN: That is right.

Mr. NICHOLSON: It seems to me that if you improve your schedule you would do a lot more business than you are doing at the moment; otherwise the buses will get more business.

Mr. WALTON: Bus competition has been quite a question with us, and this improved l.c.l. freight service was put on with a view to holding the business againts the trucks.

Mr. JACKMAN: Has there been very much of an inroad on the l.c.l. shipments by the trucking companies? I have in mind particularly the trucks that collect l.c.l. shipments from the various shippers and deliver direct?

Mr. VAUGHAN: There has not been very much in the last year or two. We never in our history were handling so much l.c.l. traffic as at the present time. Our l.c.l. freight has showed a steady improvement.

Mr. HATFIELD: Isn't that on account of the short supply of goods?

Mr. VAUGHAN: That is one reason. The other reason is that probably the truck rates more nearly approach the railway rates at the present time, because trucks have had to increase their rates.

Mr. WALTON: Then, of course, the trucks can take what they like at their own figures. We have to take everything that is offered, including freight that takes up a lot of space and weighs very little.

Mr. JACKMAN: The trucks are not common carriers?

Mr. VAUGHAN: They are not common carriers.

Mr. JACKMAN: They are not required to take everything that is offered.

Mr. VAUGHAN: We as common carriers have to take everything that is offered, the trucks can pick and choose.

Mr. WALTON: And the fact that the truckman can charge whatever rate he likes makes it very unfair competition.

Mr. JACKMAN: In the last paragraph on page 6 you pointed out that the various passenger rates are frozen at their pre-war levels. Have there been any increases since 1940 in our rates in Canada?

Mr. VAUGHAN: There have been no increases in freight rates at all. I think there were one or two adjustments in passenger rates; not in the rates, but connected with such things as excursions and week-end rates. I am sorry I haven't got those here. There has been no adjustment in freight rates except downwards since 1920.

Mr. JACKMAN: And in the U.S.A. since 1939 there have been some increases in passenger rates?

Mr. VAUGHAN: There was an increase of about 6 or 7 per cent effective the first of July last, that has been stepped up to nearly 20 per cent effective the first of January this year.

Mr. JACKMAN: And the over-all increase is about 20 per cent on freight and passenger, they are both about the same?

Mr. VAUGHAN: Yes, sir; and recently I saw an order of the Interstate Commerce Commission increasing passenger rates—I am sorry I haven't got that at hand—that only came through very recently.

Mr. JACKMAN: And, is this increase in rates on the American lines reflected in your operations; you are not operating at a loss over there?

Mr. VAUGHAN: We are not operating at a loss on our American lines at the present time.

Mr. JACKMAN: Not on any of them?

Mr. VAUGHAN: These rates have helped us, and the increase in volume has helped us very considerably.

Mr. JACKMAN: Yes. Now, take the matter of grain; of course there is much less of it now going through Portland than there was before. I do not recall whether we had this question answered this morning, but the carry-over of grain at the lake head and in the west for 1947; do you expect a large carry-over?

Mr. VAUGHAN: I think we are trying to get you that. We have the figure to the end of the year, but not up to date. I think perhaps we will be able to get you that figure up to date.

Mr. JACKMAN: Why is there more grain in storage now than there was at this time last year?

Mr. VAUGHAN: When you speak of carry-over, what do you have in mind?

Mr. JACKMAN: Well, the carry-over—available for shipment over the line east.

Mr. VAUGHAN: You are speaking of western grain only?

Mr. JACKMAN: Yes, as compared to what you had last year.

Mr. VAUGHAN: And you want it up to the end of the crop year, not the calendar year. We will try to get that for you.

Mr. JACKMAN: What I want to find out is whether or not you can reasonably expect larger grain shipments from the west this year than you had last year?

Mr. VAUGHAN: Yes, we have that now. Last year at this time the movement was tapering off. We expect we will have 475 cars per day from now until the end of the crop year July 31.

Mr. JACKMAN: That figure of 475 cars that you expect to be able to move does not mean very much to me; that is as compared to how many cars in 1946, 250?

Mr. WALTON: Yes, I think it would be probably 250 up to the middle of May and not over 200 from the middle of May to July. It was a very light movement. The crop was really cleaned up at the end of the last crop year.

Mr. JACKMAN: These 475 cars per day will continue through how much of this year?

Mr. VAUGHAN: They will continue until the new crop begins to move; frankly, it will continue throughout the whole year.

Mr. HATFIELD: Do you have any advantage on the increased freight rates in the United States by being initial carriers, furnishing the freight, do you get any advantage from that?

Mr. VAUGHAN: No, sir; except that the initial carrier usually gets the benefit of a higher proportion of the rate. If it goes over two or three lines the initial carrier gets the greatest proportion of the rate on a mileage basis.

Mr. HATFIELD: I know, but do you get any greater proportion on account of the increase in rates than you had before the increase?

Mr. WALTON: No greater proportion.

Mr. VAUGHAN: Not a greater proportion; no, sir.

Mr. HATFIELD: It is a percentage increase?

Mr. WALTON: Yes.

Mr. JACKMAN: If rates remain about constant this year how will the competition by the lake boats from Fort William affect you?

Mr. VAUGHAN: There has been some increase in lake freight rates.

Mr. JACKMAN: But you are not competitive with them the way rates are now, I refer to the competition with lake shipping from Fort William?

Mr. VAUGHAN: Freight rates by lake are much lower than ours.

Mr. JACKMAN: And always will be.

Mr. VAUGHAN: And always will be, yes.

Mr. JACKMAN: On page 7, the net income result of $35,719,000 is equal to a return of 1·78 per cent on the total capitalization of the system; may I just ask what goes into capitalization; is that the funded debt to the public, or the government?

Mr. COOPER: That is set out on page 12, Mr. Jackman. The capitalization of our railway at the end of last year was $2,008,206,878; and interest return, $35,719,000 is 1·78 per cent on that total capitalization.

Mr. JACKMAN: That includes proprietors' equity?

Mr. COOPER: Yes, sir.

Mr. JACKMAN: That does not include the capital written off?

Mr. COOPER: There was no capital written off. What you means is—

Mr. JACKMAN: This includes the historic capital of the C.N.R. system?

Mr. COOPER: In 1937, if you remember, certain government loans were transferred into equity capital.

Mr. JACKMAN: Yes.

Mr. COOPER: $270,000,000; that is in the $2,008,000,000 we speak of.

Mr. JACKMAN: Everything complete?

Mr. COOPER: Everything is complete. That represents as far as I can figure it the total capital which is invested in the Canadian National at the end of 1946, $2,008,206,878.21.

Mr. JACKMAN: With no allowance for write-offs or anything?

Mr. COOPER: No. The amount we wrote off in 1937; if I may make that clear; the amounts we wrote off were for deficits and interest on deficits. Advances for capital were continued in the capitalization of the railway.

The CHAIRMAN: Gentlemen, have you covered with sufficient thoroughness the report presented by Mr. Vaughan so that we may now take up the balance sheet item by item? Are there any other questions about Mr. Vaughan's report?

Mr. NICHOLSON: I wonder if you have any information regarding the total cost of maintaining railway offices in other countries, and whether it is a profitable and necessary service to maintain such offices?

Mr. VAUGHAN: It is a very necessary service and we think it is a profitable service. It is very difficult actually to say what volume of traffic is originated by these offices, but we will be very glad to furnish you with a copy of our expenses in these places.

Mr. HAZEN: Relating to the relay system you have been experimenting with, has it reached the stage where it is practical?

Mr. VAUGHAN: It is still in the experimental stage. There is a long statement here in connection with it. It is something we have gone into with the Canadian Pacific communication department and it is still in the experimental stage.

Mr. HAZEN: How long have you been working on it?

Mr. VAUGHAN: Since early 1945.

Mr. HAZEN: Has it been an expensive undertaking?

Mr. VAUGHAN: Is the cost there, Mr. Cooper?

Mr. COOPER: To the end of February, 1947, the Montreal-Ottawa-Toronto section, we have spent $6,166. I do not see the figure here for the Hamilton-Toronto section. I would say that up to the present time we have spent about $6,000 on it.

Mr. HAZEN: Is there any system like this in operation any place?

Mr. VAUGHAN: I do not think there is in Canada. This is something new, but I think the experiment is being tried elsewhere too.

Mr. McLURE: Mr. Chairman, I move the adoption of Mr. Vaughan's report.

Mr. EMMERSON: I am pleased to second that motion.

The CHAIRMAN: Those in favour of the motion?

Carried.

Now we are in a position to go on with the balance sheet. It is nearly six o'clock. Do you think we had better adjourn at this stage and take up the balance sheet tomorrow?

(Discussion as to procedure continued off the record.)

The CHAIRMAN: I think we had better call it six o'clock and if it is agreeable to members of the committee we will meet to-morrow morning again at ten o'clock in room 497.

The committee adjourned at 5.50 o'clock p.m. to meet again to-morrow, April 30th, 1947, at 10 o'clock a.m.

SESSION 1947

HOUSE OF COMMONS

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

WEDNESDAY, APRIL 30, 1947

CANADIAN NATIONAL RAILWAYS ANNUAL REPORT (1946)

WITNESSES:

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

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

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

Mr. N. J. MacMillan, General Counsel, Canadian National Railways.

OTTAWA
EDMOND CLOUTIER, C.M.G., B.A., L.Ph.,
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY
1947

MINUTES OF PROCEEDINGS

WEDNESDAY, 30th April, 1947.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government met at 10.00 o'clock, a.m. The Chairman, Mr. S. M. Clark, presided.

Members present: Messrs. Bourget, Chevrier, Clark, Emmerson, Gibson (*Comox-Alberni*), Hatfield, Hazen, Jackman, Kuhl, LaCroix, Maybank, McCulloch (*Pictou*), McLure, Moore, Mutch, Nicholson, Lapointe, Pouliot, Reid, Warren.

The Committee considered the Consolidated Balance Sheet of the 1946 Annual Report of the Canadian National Railways.

Mr. T. H. Cooper, Vice-President and Comptroller, Canadian National Railways was called. He reviewed the balance sheet in detail and was questioned thereon.

Supplementary questions were put to Mr. R. C. Vaughan, President, Mr. N. B. Walton, Executive Vice-President and Mr. N. J. MacMillan, General Counsel, all of the Canadian National Railways.

The Committee adjourned at 12.30 p.m. o'clock to meet again this day at 4.00 p.m.

The Committee resumed at 4.00 p.m. The Chairman, Mr. Clark, presided.

Members present: Belzile, Bourget, Chevrier, Clark, Dion (*Lake St. John-Roberval*), Emmerson, Harkness, Hatfield, Hazen, Jackman, Lockhart, McCulloch (*Pictou*), McLure, Moore, Mutch, Nicholson, Lapointe, Reid, Warren.

Consideration was resumed of the Consolidated Balance Sheet of the 1946 Annual Report of the Canadian National Railways.

Messrs. Vaughan, Cooper, Walton and MacMillan were recalled and further examined.

On Motion of Mr. Mutch,—

Resolved: That the Annual Report of the Canadian National Railways, 1946, be adopted.

It was agreed that the 1947 Budgets of the Canadian National Railways and the Canadian National (West Indies) Steamships, Limited, would be considered at the next meeting.

The Committee adjourned at 5.30 o'clock, p.m., to meet again at 11.00 a.m. Thursday, 1st May, 1947.

J. G. DUBROY,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

April 30, 1947.

The Standing Committee on Railways and Shipping met this day at 10 a.m. The Chairman, Mr. S. M. Clark, presided.

The CHAIRMAN: Gentlemen, last night we had concluded Mr. Vaughan's statement and we are ready to start on page 10.

Mr. VAUGHAN: I may say that Mr. Walton has a statement to file which I think we asked for yesterday.

Mr. WALTON: This is a statement in connection with the grain situation. It is as follows:

CANADIAN NATIONAL RAILWAYS

Grain Situation

Country elevators on C.N.R.	
April 15, 1946	14,360,000 bus.
April 15, 1947	28,195,000 bus.
In farmers' hands tributary to our lines	
April 15, 1946	24,848,000 bus.*
April 15, 1947	47,465,000 bus.*
In store at lakehead	
April 15, 1946	51,685,000 bus.
April 15, 1947	39,550,000 bus.

* estimated.

April 30, 1947.

These necessarily are estimated figures.

Mr. HAZEN: I understood we were going to have figures in connection with the cost of that new telegraph service which we were discussing last evening.

Mr. VAUGHAN: We have a statement on that which Mr. Cooper will file.

Mr. COOPER: The cost of establishing the research laboratory was $39,257. The other costs were as follows:

C.N.R. Expense 1946		
Research		$11,291
Testing and Inspection		14,791
Total		$26,082
Labour	$24,606	
Supplies	1,476	
	$26,082	
Paid to Outside Parties	1944	1945
Milton Hersey	$22,208	$21,825
Can. Inspn. Co.	2,575	2,205
Total	$24,783	$24,050

Then Mr. Hazen asked for a statement showing the capitalization of our system as it was at the end of 1937 and at the end of 1946, and showing how much was represented by equity capital and how much was in the form of fixed interest debt. I have a statement here which I will be glad to place on the record. This statement shows that in 1937 the capital invested in the Canadian National Railways was in round figures $1,955,000,000; in 1946 the corresponding figure is $2,008,000,000, that is an increase in the nine-year period of $52,866,000. That is an increase of less than $6,000,000 a year, and I think it is a very modest increase for a railway of our size which operates almost 24,000 miles of line, including all our other activities, and including Trans-Canada Air Lines.

In 1937 our interest debt was $1,280,000,000; in 1946 it was $1,232,000,000, a decrease of $48,000,000 in interest bearing debt. In the same period our equity capital increased from $676,000,000 to $776,000,000, an increase of $100,000,000. Our interest charges in 1937 were $50,633,000; in 1946 they were $44,681,000, a decrease of $5,952,000 per annum; in other words, in this nine-year period—

Mr. Hazen: Pardon me, you speak of 1947.

Mr. Cooper: 1946, I should have said.

Mr. Hazen: But you just referred to 1947, I think that should have been 1946.

Mr. Cooper: In each case it should have been at the end of 1946, you are right, Mr. Hazen.

Mr. Hazen: At the end of 1946?

Mr. Cooper: Yes. In other words, in this nine-year period the capital increased at the rate of $6,000,000 a year whereas our interest charges have been reduced at the rate of $6,000,000 per year.

Mr. Jackman: Could you continue it; I suppose that depends on Mr. Ilsley or Mr. Abbott.

Mr. Cooper: The detailed statement is filed for the record.

CANADIAN NATIONAL RAILWAYS

Capitalization of the System and Net Income Available for the Payment of Interest

—	1937	1938	1939	1940	1941
	$	$	$	$	$
CAPITALIZATION AT YEAR END					
Equity Capital:					
Capital Stock of Canadian National Ry. Co.	18,000,000.00	18,000,000.00	18,000,000.00	18,000,000.00	18,000,000.00
Capital Stock of Canadian National Securities Trust	269,325,705.67	266,612,868.53	264,012,426.42	265,706,605.62	267,283,019.32
Capital Expenditures by Dominion of Canada on Canadian Government Railways	388,204,322.18	388,075,722.18	388,075,722.18	385,752,583.69	377,893,343.58
	657,530,027 85	672,688,590 71	670,088,148 60	669,459,189 31	663,176,362 90
Fixed Interest Debt:					
Held by Public	1,217,327,734.65	1,245,721,137.19	1,259,110,895.83	1,199,816,334.09	1,134,394,303.29
Dominion of Canada Loans	62,480,567.10	48,144,804.73	45,382,081.52	113,882,334.43	195,345,883.53
	1,279,808,301.75	1,293,865,941.92	1,304,492,977.35	1,313,698,668.52	1,329,740,186.42
Total Capitalization	1,955,338,329.60	1,966,554,532.63	1,974,581,125.95	1,983,157,857.83	1,992,916,549.72
Net Income Available for the Payment of Interest	8,287,228.00	*3,549,048.00*	10,635,023.00	33,474,443.00	54,361,316.00
Per Cent Return on Total Capitalization	·42	—	·54	1·70	2·73

—	1942	1943	1944	1945	1946
	$	$	$	$	$
CAPITALIZATION AT YEAR END					
Equity Capital:					
Capital Stock of Canadian National Ry. Co.	18,000,000.00	18,000,000.00	18,000,000.00	18,000,000.00	18,000,000.00
Capital Stock of Canadian National Securities Trust	298,842,882.17	336,680,462.71	359,080,515.31	381,711,556.78	380,403,604.43
Capital Expenditures by Dominion of Canada on Canadian Government Railways	377,885,131.95	377,614,971.84	377,614,970.84	377,614,970.84	377,614,970.84
	694,728,014.12	732,295,434.55	754,695,486.15	777,326,527.62	776,018,575.27
Fixed Interest Debt:					
Held by Public	809,216,074.19	744,232,472.60	629,453,905.93	573,179,997.54	530,422,997.55
Dominion of Canada Loans	502,856,460 88	537,323,765 07	645,103,871 64	674,201,612 83	701,765,305 39
	1,312,072,535.07	1,281,556,237.67	1,274,557,777.57	1,247,381,610.37	1,232,188,302.94
Total Capitalization	2,006,800,549.19	2,013,851,672.22	2,029,253,263.72	2,024,708,137.99	2,008,206,878.21
Net Income Available for the Payment of Interest	74,045,460.00	85,302,456.00	71,096,564.00	71,084,272.00	35,719,526.00
Per Cent Return on Total Capitalization	3·69	4·24	3·50	3·51	1·78

There was another statement requested. Someone asked why if our telegraph business was greater, our revenue in 1946 was lower than it was in 1945. The explanation of that is the average revenue per message in 1946 was somewhat smaller than it was in 1945. In 1946 we averaged 52 cents per message as compared with 55 cents in 1945. In other words there was more economy shown in the writing of messages. I believe that the soldiers in 1945 wrote their messages freely and they were not fussy about counting the number of words; so that there was a reduction in the average number of words per message and that accounts for the fact that in 1946 we had less revenue although we did more business.

CANADIAN NATIONAL TELEGRAPHS

	Messages		Revenue	
	1946	1945	1946	1945
Revenue—domestic	5,670,000	6,104,000	$3,641,039	$3,878,393
—international	2,888,000	2,305,000	1,157,653	1,024,272
Cables	343,000	490,000	242,097	305,548
Press	1,013,000	782,000	113,116	89,753
Other	252,000	251,000	135,723	173,133
Railway service	2,063,000	1,884,000	....	....
	12,229,000	11,816,000	$5,289,628	$5,471,099
Average revenue per message			52c	55c

The decrease in total revenue was caused by a decrease in the average revenue per message from 55 cents to 52 cents.

Mr. NICHOLSON: Have you any statement regarding hotel operation?

Mr. COOPER: That is being prepared, Mr. Nicholson. You asked for the average occupancy back to 1937. We have to get that from the hotel management.

Mr. HAZEN: How about the deficit or surplus figures from 1937 to date which I asked for?

Mr. COOPER: I can give you those figures. I will call them off and they will get in the record, Mr. Hazen.

INCOME STATEMENT

Year	Deficit	Surplus
1937	$42,345,000	....
1938	54,314,000	....
1939	40,095,000	....
1940	16,965,000	....
1941	....	$ 4,015,000
1942	....	25,063,000
1943	....	35,639,000
1944	....	23,026,000
1945	....	24,756,000
1946	8,961,000	....

The CHAIRMAN: I think those are all the statements that were asked for with respect to which answers are ready.

Mr. NICHOLSON: There was the question about the cost of maintaining offices outside of Canada.

Mr. VAUGHAN: We are getting that.

Mr. COOPER: If you will turn to page 23 of the report you will see the number of offices outside of Canada. While we have the figures, I feel that it is going to take some time to get the data prepared in statement form.

Mr. VAUGHAN: I think Mr. Nicholson was only interested in the ones in Europe and in the East.

Mr. NICHOLSON: I was concerned—apparently there is quite a large cost in maintaining these offices and I wondered if it was a paying proposition to maintain them.

Mr. VAUGHAN: That is checked over regularly and carefully.

Mr. NICHOLSON: How much trouble would it be, or perhaps it appears some place in this report, to give us a statement of the cost of maintaining those offices outside Canada?

Mr. COOPER: We will try and get that information. It may take a little time.

Mr. JACKMAN: Do you have to cable Europe to dig up those costs?

Mr. COOPER: No.

Mr. JACKMAN: I was just wondering, if Mr. Nicholson wants the information and if it is going to be expensive to obtain because I understand the Saskatchewan government now has an agent general in Europe and people will wonder what good purpose is being served by him if you have to cable Europe.

Mr. COOPER: No, we have the costs of those offices, but it will take a little time to prepare a statement.

The CHAIRMAN: Gentlemen, would you like to have Mr. Cooper explain this statement, or do you wish to ask questions? What is your pleasure. I think perhaps he explained the balance sheet last year, so he had better resume along that line.

CONSOLIDATED BALANCE SHEET AT 31st DECEMBER, 1946

ASSETS

Investments:			
Road and Equipment Property	$1,987,950,289.98		
Improvements on Leased Property	2,092,069.76		
Miscellaneous Physical Property	62,598,083.38	$2,052,640,443.12	
Capital and Other Reserve Funds:			
System Securities at par	$ 471,500.00		
Other Assets at cost	3,692,933.20	4,164,433.20	
Deferred Maintenance Fund		33,000,000.00	
Investments in Affiliated Companies		43,463,493.16	
Other Investments:			
System Securities at par	$ 80,000.00		
Other Assets at cost	916,563.50	996,563.50	$2,134,264,932.98
Current Assets:			
Cash		$ 13,095,225.50	
Temporary Cash Investments		8,208,638.99	
Special Deposits		7,552,145.74	
Net Balances Receivable from Agents and Conductors		15,004,290.63	
Miscellaneous Accounts Receivable		8,628,666.58	
Dominion of Canada—Railway Deficit, 1946		8,961,570.49	
Material and Supplies		53,887,477.48	
Interest and Dividends Receivable		656,996.79	
Accrued Accounts Receivable		3,118,033.12	
Other Current Assets		162,850.31	119,275,895.63
Deferred Assets:			
Working Fund Advances		$ 359,681.10	
Insurance Fund:			
System Securities at par	$ 4,734,802.38		
Other Assets at cost	7,599,966.58	12,334,768 96	
Pension Contract Fund		35,943,000.00	
Other Deferred Assets		2,771,910.19	51,409,360.25

LIABILITIES

Stocks:		
Capital Stocks of Subsidiary Companies held by Public		$ 4,635,440.00
Long Term Debt:		
Funded Debt Unmatured:		
Held by Public	$525,136,695.17	
Held in Special Funds	5,286,302.38	530,422,997.55
Dominion of Canada (Accounts treated as assets in Public Accounts of Canada):		
Loans	$ 701,765,305.39	
Canadian Government Railways—Working Capital	16,771,980.54	718,537,285.93
Current Liabilities:		
Traffic and Car-Service Balances—Credit	$ 8,938,477.50	
Audited Accounts and Wages Payable	16,543,035.69	
Miscellaneous Accounts Payable	6,018,149.62	
Interest Matured Unpaid	6,152,189.94	
Interest Payable to Dominion of Canada	19,261,876.25	
Unmatured Interest Accrued	6,097,254.28	
Accrued Accounts Payable	5,280,083.64	
Taxes Accrued	2,276,647.93	
Other Current Liabilities	3,010,739.68	73,578,454.53
Deferred Liabilities:		
Pension Contract Reserve	$ 35,943,000.00	
Other Deferred Liabilities	5,855,621.40	41,798,621.40
Reserves and Unadjusted Credits:		
Insurance Reserve	$ 12,334,768.96	
Accrued Depreciation—Canadian Lines—Equipment only	85,786,241.90	
Accrued Depreciation—U.S. Lines—Road and Equipment	24,013,924.23	
Accrued Amortization of Defence Projects	3,691,602.43	
Deferred Maintenance Reserve	33,000,000.00	
Other Reserves	946,924.10	
Other Unadjusted Credits	7,637,172.34	167,410,633.96
Dominion of Canada—Proprietor's Equity— (See Note)		
Represented by:—		
1,000,000 shares of no par value capital stock of Canadian National Railway Company	$ 18,000,000.00	
5,000,000 shares of no par value capital stock of The Canadian National Railways Securities Trust	380,403,604.43	

Unadjusted Debits:			
Prepayments	$ 77,117.65		
Discount on Funded Debt	5,164,916.57		
Other Unadjusted Debits	2,209,785.56	7,451,819.78	
		$2,312,402,008.64	

Capital Expenditures by Dominion of Canada on Canadian Government Railways	377,614,970.84	776,018,575.27
Contingent Liabilities:		
Major contingent liabilities, as shown on statement attached.		
		$2,312,402,008.64

NOTE:—The Proprietor's Equity is included in the net debt of Canada and is disclosed in the historical record of Government assistance to railways as shown in the Public Accounts of Canada in accordance with The Canadian National Railways Capital Revision Act, 1937.

T. H. COOPER,
Vice-President and Comptroller.

CERTIFICATE OF AUDITORS

We have examined the books and records of the companies comprising the Canadian National Railway System for the year ended the 31st December, 1946, and subject to our report to Parliament, we certify that, in our opinion, the above Consolidated Balance Sheet is properly drawn up so as to exhibit a true and correct view of the affairs of the System as at the 31st December, 1946, and that the relative Income Account for the year ended the 31st December, 1946, is correctly stated.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

15th March, 1947.

Mr. COOPER: Running briefly over the balance sheet, the first item, investment in road and equipment, represents the recorded cost of the property investment of all the railways which were comprised in the Canadian National Railways system. Of the total amount, $525,000,000 represents rolling stock equipment and $1,426,000,000 represents road property, which is an average investment per mile of road operated of $84,714.

The second item, improvements on leased property, carries the improvements by the Canadian National Railways to properties of other railway companies operated by the Canadian National under long term lease, principally, the New London and Northern, $1,093,000; the Vogel property at Milwaukee, and the Mountain Park Coal and Luscar Spurs. Those are the three principal items.

Miscellaneous physical property, that includes Canadian National hotels, $38,932,000; subsidiary land companies, Rail and River Coal Company and such like activities, $16,406,000. Various grain elevators and warehouses represent $3,914,000. These accounts are properties owned by the railway but are not directly rail line property.

Capital and other reserve funds: this includes the proceeds of sale of mortgaged property, on deposit with trustees to meet mortgage requirements. All that amount is invested in Dominion of Canada securities or Canadian National securities guaranteed by the dominion.

Deferred maintenance fund, that is invested in Dominion of Canada securities and represents the amount set aside during the war with respect to deferred maintenance.

Investments in affiliated companies, they are set out in detail on page 20 of the printed report.

Mr. JACKMAN: Just in regard to the income from those companies, Mr. Cooper do you consolidate that in your income account? I think we had the question up once before.

Mr. COOPER: Yes, sir, it is taken in under the headings of interest income or divided income, details of which you get on page 4.

Mr. JACKMAN: No substantial amount would be represented by those affiliated companies which are not declaring any dividends or did not come into the C.N.R. account?

Mr. COOPER: Not any substantial figures, no. I can tell you what dividends we did receive from them if you are interested.

Mr. JACKMAN: If you have it there.

Mr. COOPER: The Belt Railway Company of Chicago, we did not get dividends. The Canadian Government Merchant Marine Limited, of course, that is just directors shares. The Central Vermont Transportation Company, a dividend of 2⅝ per cent; the Chicago and Western Indiana Railroad Company was 6 per cent; the Detroit and Toledo Shore Line Railroad Company was 8 per cent; the Detroit Terminal Railroad Company did not pay a dividend, nor did the Northern Alberta Railways Company. The Ontario Car Ferry Company paid a dividend of 66 per cent; Public Markets Limited paid a dividend of 4 per cent. The Toronto Terminals Railway Company did not pay a dividend. It is not expected to, it is just a joint facility operation with the Canadian Pacific Railway. The Toledo Terminal Railway Company did not pay a dividend. Trans-Canada Air Lines paid a dividend of 3 per cent and the Vancouver Hotel Company—we received both rents and dividends from that company amounting to $210,000 in rent and $114,000 in dividends.

On the Northern Alberta Railway Company bonds we received 5 per cent interest; on the Toronto Terminals Railway lands we received 5 per cent interest.

There is really nothing on the advances in the way of return. We do not expect one. Other investment carried on the balance sheet at $996,563, represents the investment of the Montreal Warehouse Company in Dominion of Canada securities, $544,000, and our investments in hotels and commercial companies in various communities which were investments we made for business reasons. They are rather small.

Temporary cash investments $8,208,000. This represents an amount set aside for war projects which we expected might have to be written off after the war $3,509,000, and $4,700,000 taken out of deferred maintenance fund—you remember we took $6,000,000 out of that fund in 1946 but we had not converted the bonds into cash at the end of the year and $4,700,000 were held at December 31st and have since been sold for cash.

Mr. JACKMAN: $13,000,000 was drawn out from the deferred maintenance account?

Mr. COOPER: $6,000,000 out of the deferred maintenance, Mr. Jackman, the balance was out of the inventory reserve; $6,750,000 out of the inventory reserve and $6,000,000 out of the deferred maintenance reserve. Those bonds were all sold with the exception of $4,700,000 which have been sold since the turn of the year.

Mr. JACKMAN: Did you have an inventory reserve on your assets side last year?

Mr. COOPER: It was carried in capital funds at the end of 1945.

Mr. JACKMAN: What item is that? It is in this year's balance sheet?

Mr. COOPER: Yes.

Mr. JACKMAN: Last year we had an account on the assets side of the balance sheet called inventory reserve?

Mr. COOPER: It was carried in capital funds or temporary cash investments, I am not sure which.

Mr. JACKMAN: It is all right, it is gone now.

Mr. COOPER: It is gone. The special deposit account are deposits with trustees to pay funded debt which has matured but not yet been presented for payment, and deposits with the bank to pay interest due on funded debt.

Accrued accounts receivable represents transportation charges against the Dominion of Canada in the process of billing, $847,000; estimated accounts from other railways and joint facilities, $669,000; revenue freight in transit for payment to be handled at destination, $547,000; delayed inter-line passenger returns from other companies, $149,000; the amount due from the Hotel Vancouver for rent and surplus $349,000. That was due but had not been paid to us by the hotel company at the end of the year. It has been paid since.

The insurance fund represents the investment of our self-insurance reserve established to protect company property against fire risk which is mainly invested in Canadian National and Dominion of Canada securities.

Mr. NICHOLSON: Just before you leave the insurance item, I wonder if Mr. Cooper has the figure for a year ago?

Mr. COOPER: Yes, $12,455,000. There is a decrease of $91,000 during the year.

Mr. JACKMAN: Yet there is the Dominion of Canada railway deficit, $8,961,000. Does that mean you carry that as an asset, what do you do with a deficit under the ordinary system?

Mr. COOPER: Well, we collected that from the government. Parliament has voted, in the supplementary estimates, an amount of $8,961,000. That was paid to the railway and having received it we turned around and paid it back to the government as interest due on the government loans to the system.

Mr. JACKMAN: I think this is the first year you have had that condition, unfortunately. The government simply makes up the deficit under the 1938 revision.

Mr. COOPER: No, it was under a policy laid down in 1933. Mr. Rhodes was the finance minister at the time and he laid down a policy that the government should vote to the National any deficit of the system. Previous to that time the National railways had been required sometimes to issue bonds to the public to finance its deficits and that policy was condemned in the Duff report, if you remember. Following that report the government announced a policy that in future, that is commencing with the year 1932, parliament would vote to the railway shortage of income to meet the interest requirements of the railway.

Mr. JACKMAN: That is, you just carry this account over the year end and subsequently parliament reimburses the railway?

Mr. COOPER: That is so.

Mr. JACKMAN: That is the policy we need to adopt in West Indies steamships.

Mr. COOPER: West Indies steamships deficit go back to earlier years. It is not done with West Indies steamships.

Mr. JACKMAN: Mr. Rhodes' principle was not applied.

Mr. COOPER: No, it was not carried into steamships. Then there is the pension contract fund.

Mr. VAUGHAN: I would just like to mention there, we paid $23,221,000 to the government for interest and then we asked them for $8,961,000 of that amount back.

Mr. COOPER: The pension contract fund is next. That represents the investment of our reserve against pension contracts. The amount is invested in Dominion of Canada bonds. Other deferred assets, mainly land contracts receivable, deferred accounts receivable, and deposits with the Ontario Workmen's Compensation Board. Prepayments cover prepaid insurance and rents. Other unadjusted debits, that is not a very large item. I do not know whether you want to go into all this detail. Perhaps if I just touched on the more interesting accounts. On the liability side there is the pension contract reserve of $35,943,000. That represents amounts which we have built up since 1943 and is the actuarial value of all pension contracts outstanding at the end of 1946.

Mr. JACKMAN: Just on that rather odd looking item, government railway working capital $16,771,980.54. What does that account mean?

Mr. COOPER: Well it means this, Mr. Jackman. The Canadian government railways were entrusted to the Canadian National for management around 1922. At that time the Government railways owned, in the form of working capital, that amount. In bringing the Canadian government railways into our system we took over the working capital as assets of our system and we did that by an offset credit to the dominion for the amount of such working capital. They had cash, accounts receivable, and stores on hand and we took those over and made them part and parcel of the system working capital. To do that we had, of course, to set up entries on the opposite side of the ledger. It has not changed, and I cannot see how it can change. It just stays there and has stayed there for the last twenty years. It is not the working capital of the Canadian National system, it is the working capital which was in the Canadian government railways at the time they were entrusted to the Canadian National railways for management.

Mr. JACKMAN: You surely do not need to carry forward all the various accounts of the Canadian government railways when you took them over under the Canadian National system, do you? You must have consolidated it.

Mr. COOPER: Yes, absolutely, we consolidated it.

Mr. JACKMAN: With your own accounts?

Mr. COOPER: Yes.

Mr. JACKMAN: Well, why do you treat the working capital separately?

Mr. COOPER: We do not. We set the cash up in our cash account and we set the accounts receivable in our accounts receivable account.

Mr. JACKMAN: And on the liability side you had to have an offsetting entry?

Mr. COOPER: We had to have an offsetting entry and this is it.

Mr. JACKMAN: It seems too bad you could not merge it with proprietorship or something else. I do not think it is important, it is just rather peculiar.

Mr. COOPER: The point on that is, in public accounts it is carried as an active asset and anything which, in public accounts, is an active asset, we consider should be shown in our balance sheet as a liability so that if anyone wishes to combine the National accounts with those of the dominion there will be no duplication.

Mr. JACKMAN: It is really more because of the government than because of the railway.

Mr. COOPER: Yes, we would be glad to see it down in proprietor's equity account, or if any adjustment to our loans from the dominion is made, well, perhaps the railway might be willing to treat that as a loan with interest, I do not know.

Mr. JACKMAN: Yes, it is there particularly to earmark an active asset on the government's books.

Mr. COOPER: That is right.

Mr. JACKMAN: That is the chief reason for it being there.

Mr. COOPER: Yes, that is right. Under double entry bookkeeping you have no alternative, you must set up a corresponding contra account. I do not know if there are any other items on the balance sheet in which any members are interested. We have the details here.

The CHAIRMAN: Is that all right then?

Mr. JACKMAN: May I just ask on that last item under proprietor's equity account, capital expenditures by Dominion of Canada on Canadian government railways, that is the whole system again. That is not the same Canadian government railways that we were on under working capital?

Mr. COOPER: Yes, it is the same, Mr. Jackman. As I said, we took up in our system accounts the accounts of the C.G.R., that is, we consolidated them.

Mr. JACKMAN: The C.G.R.?

Mr. COOPER: The Canadian government railways. We call them the C.G.R.

Mr. JACKMAN: What is the C.G.R., the old Intercolonial?

Mr. COOPER: It consists of all the railways owned by the government with the exception of the Hudson's Bay road. It is the Intercolonial, the National Transcontinental and—

Mr. JACKMAN: The Canadian Northern?

Mr. COOPER: No.

Mr. JACKMAN: Everything but the Canadian Northern and the Grand Trunk Pacific.

Mr. COOPER: That is right, the Grand Trunk, the Grand Trunk Pacific, the Canadian Northern. They are the three old companies, and then we had the Canadian government railways which are owned by the Crown and in our consolidation as a system in 1923 took in those four entities.

Mr. JACKMAN: The $377,000,000 refers to the capital expenditure by the government on the old government railways this year?

Mr. COOPER: We included the amount in property investment account on the asset side, this first item on the left hand side, and we set up a corresponding amount here as capital invested by the dominion in the Canadian Government Railways.

The CHAIRMAN: All right.

Mr. JACKMAN: I must say at first reading it gave one the impression that was the amount of money which had been advanced by the government for capital expenditure of the C.N.R. I can see now that you mention it how it works but I was thinking of the layman who looks at it that way.

Mr. COOPER: It is very specifically worded.

Mr. JACKMAN: Once you know what the Canadian government railways are, but I was not quite sure what they were and I do not suppose the public does either.

Mr. COOPER: They are the Crown-owned railways with the exception of the Hudson's Bay railway.

Mr. HAZEN: Would you explain the item "accrued amortization of defence projects; what does that mean?

Mr. COOPER: Well, during the war, Mr. Hazen, we were required to construct a number of facilities, sidings into war plants and that sort of thing, and we felt that maybe after the war was over those facilities would be of no use for ordinary commercial operations. We felt perhaps they would have to be taken up and therefore we made provision out of wartime revenue for the loss which we would suffer if and when those facilities were taken up.

The CHAIRMAN: If there are no more questions we will turn to page 12.

Mr. JACKMAN: May I just ask a question on the terminology of the expression "affiliated companies". You do not use the word subsidiary companies in the railway business?

Mr. COOPER: No, our use of the word subsidiary indicates a company that we control. An affiliated company is one in which we have an interest but which we do not control.

The CHAIRMAN: Page 12, Dominion of Canada proprietor's equity account, capitalization of Canadian National railways and operating expenses:

DOMINION OF CANADA—PROPRIETOR'S EQUITY ACCOUNT

	Balance at 31st Dec., 1945	Transactions Year 1946	Balance at 31st Dec., 1946
Capital stock of Canadian National Railway Company	$ 18,000,000 00	$	$ 18,000,000 00
Capital stock of the Canadian National Railways Securities Trust:			
Initial stated value	$270,037,437 88	$	$270,037,437 88
Surplus earnings	112,502,061 64	......	112,502,061 64
Capital gains	19,105,651 38	......	19,105,651 38
Capital *Losses*	*19,933,594 12*	**1,307,952 35*	*21,241,546 47*
	$381,711,556 78	*$1,307,952 35*	$380,403,604 43
Capital Expenditures by Dominion of Canada on Canadian Government Railways	$377,614,970 84	$	$377,614,970 84
	$777,326,527 62	*$1,307,952 35*	$776,018,575 27

*Loss (applicable to period prior to 1940) on retirement of rolling stock equipment.

CAPITALIZATION OF CANADIAN NATIONAL RAILWAYS

		Balance at 31st Dec., 1946	Per Cent of Total
Equity Capital:*			
Capital Stock of Canadian National Railway Company	$ 18,000,000 00		
Capital Stock of the Canadian National Railways Securities Trust	380,403,604 43		
Capital Expenditures by Dominion of Canada on Canadian Government Railways	377,614,970 84	$ 776,018,575 27	38.6
Fixed Interest Debt:			
Held by the public	$530,422,997 55		
Dominion of Canada—Loans	701,765,305 39	1,232,188,302 94	61.4
		$2,008,206,878 21	100.0

*Excluding shares of subsidiary companies held by public—$4,635,440.

OPERATING REVENUES

	1946	1945
Freight	$296,403,320 83	$313,013,450 06
Payments under Maritime Freight Rates Act (20%)	3,909,878 07	3,519,878 84
Passenger	50,128,223 16	65,199,923 28
Baggage	182,522 20	159,084 91
Sleeping Car	3,587,104 21	4,580,963 69
Parlour and Chair Car	284,444 29	271,537 54
Mail	4,275,981 70	4,204,835 42
Railway Express Agency	118,269 78	534,662 43
Express	19,461,209 16	18,674,783 58
Other Passenger-train	41,901 84	61,942 53
Milk	504,275 89	469,169 82
Switching	3,334,010 96	3,358,414 26
Water Transfers	242,268 32	183,272 66
Dining and Buffet	3,104,899 44	4,608,534 74
Restaurants	281,704 48	301,391 10
Station, Train and Boat Privileges	462,921 99	570,327 56
Parcel Room	118,919 06	150,749 63
Storage—Freight	140,305 04	116,214 52
Storage—Baggage	77,644 73	117,651 20
Demurrage	2,270,174 93	1,840,217 42
Telegraph Commissions (U.S.)	13,580 86	14,314 32
Telegraph—Commercial	7,340,019 34	7,540,499 50
Grain Elevator	205,476 07	513,618 04
Rents of Buildings and Other Property	868,635 14	898,493 41
Miscellaneous	2,524,982 72	2,165,022 58
Joint Facility—Credit	812,390 49	822,641 49
Joint Facility—*Debit*	*109,038 81*	*118,200 97*
	$400,586,025 89	$433,773,393 56

OPERATING EXPENSES

Maintenance of way and structures	1946	1945
Superintendence	$ 4,467,817 94	$ 3,944,226 92
Roadway Maintenance	8,761,886 50	8,705,847 73
Tunnels and Subways	51,215 45	35,459 50
Bridges, Trestles, and Culverts	2,859,062 67	2,715,192 03
Ties	6,168,103 68	7,599,421 14
Rails	2,825,137 53	3,183,715 56
Other Track Material	2,660,235 82	3,025,663 44
Ballast	1,721,467 58	1,803,873 16
Track Laying and Surfacing	18,381,101 75	18,150,434 30
Fences, Snowsheds, and Signs	648,759 21	660,415 74
Station and Office Buildings	2,801,982 31	2,956,783 30
Roadway Buildings	362,193 55	352,973 30
Water Stations	563,851 22	517,550 95
Fuel Stations	315,665 52	290,714 31
Shops and Enginehouses	2,023,021 72	2,210,765 77
Grain Elevators	43,447 21	49,693 94
Wharves and Docks	197,504 42	217,414 67
Telegraph and Telephone Lines	1,255,079 31	1,078,893 03
Telegraph—Commercial	1,475,967 63	1,389,630 12
Signals and Interlockers	1,219,980 43	1,137,962 58

OPERATING EXPENSES—*Continued*

	1946	1945
Power Plants	17,268 47	9,2,62 96
Power Transmission Systems	185,378 39	170,753 66
Miscellaneous Structures	2,490 45	3,193 01
Road Property—Depreciation—U.S. Lines	903,079 96	853,390 97
Road Property—Retirements	1,860,910 12	1,231,167 29
Deferred Maintenance	—	2,500,000 00
Roadway Machines	642,934 84	594,557 02
Dismantling Retired Road Property	248,973 14	81,071 66
Amortization of Defence Projects	2,147 41	2,284 68
Small Tools and Supplies	887,800 55	887,741 95
Removing Snow, Ice, and Sand	3,192,937 07	3,540,663 13
Public Improvements—Maintenance	656,394 58	369,035 18
Injuries to Persons	718,369 45	661,012 09
Insurance	28,329 53	28,140 76
Stationery and Printing	79,530 04	70,819 65
Other Expenses	41,343 70	63,059 99
Maintaining Joint Tracks, Yards, ect.—Debit	909,722 71	1,015,097 95
Maintaining Joint Track, Yards, etc.—*Credit*	*2,084,511 95*	*1,942,157 33*
Right of Way Expenses	59,905 78	75,431 46
Protective Services	—	70,004 62
	$ 67,156,485 69	$ 70,311,162 19

Maintenance of Equipment

	1946	1945
Superintendence	$ 1,782,438 48	$ 1,539,394 18
Shop Machinery	2,216,834 46	2,083,485 62
Power Plant Machinery	133,788 39	115,858 50
Machinery—Retirements	371,828 28	200,386 19
Machinery—Depreciation—U.S. Lines	66,352 14	65,986 47
Dismantling retired machinery	4,345 76	2,963 50
Steam Locomotives—Repairs	23,160,658 70	22,780,691 45
Other Locomotives—Repairs	386,951 98	379,394 25
Freight-train Cars—Repairs	19,060,111 97	16,879,507 30
Passenger-train Cars—Repairs	10,559,617 41	9,358,057 50
Floating Equipment—Repairs	483,483 83	361,454 04
Work Equipment—Repairs	2,239,503 28	2,187,604 46
Express Equipment—Repairs	226,514 32	207,157 24
Miscellaneous Equipment—Repairs	209,953 42	201,051 70
Miscellaneous Equipment—Retirements	11,154 35	1,798 53
Dismantling Retired Equipment	79,149 70	56,308 77
Equipment—Depreciation	17,701,420 95	16,974,015 87
Express Equipment—Depreciation	170,773 90	167,252 45
Injuries to Persons	527,141 28	579,957 56
Insurance	31,396 38	35,089 17
Stationery and Printing	63,278 45	60,202 15
Other Expenses	47,555 34	2,667 17
Joint Maintenance of Equipment—Debit	412,118 29	250,211 17
Joint Maintenance of Equipment—*Credit*	*213,041 34*	*205,885 87*
Deferred Maintenance—Equipment	*6,000,000 00*	2,500,000 00
	$ 73,733,329 72	$ 76,784,609 37

Traffic

	1946	1945
Superintendence	$ 2,394,625 68	$ 2,145,109 43
Outside Agencies	3,139,627 52	2,853,589 00
Advertising	729,962 98	341,215 04
Traffic Associations	124,634 02	121,328 18
Stationery and Printing	329,271 27	267,094 28
Other Expenses	....	225 00
Industrial Bureau	138,375 29	115,414 99
Colonization, Agriculture and Natural Resources	236,392 04	202,627 10
	$ 7,092,888 80	$ 6,046,603 02

OPERATING EXPENSES—*Continued*

	1946	1945
Transportation		
Superintendence	$ 4,105,576 51	$ 3,765,343 35
Dispatching Trains	2,313,357 02	2,271,473 15
Station Employees	27,621,315 08	25,073,729 27
Weighing, Inspection, and Demurrage Bureaus	130,763 83	101,453 06
Coal and Ore Wharves	78,885 12	15,236 45
Station Supplies and Expenses	1,806,146 24	1,830,272 84
Yardmasters and Yard Clerks	5,256,575 69	4,912,250 62
Yard Conductors and Brakemen	9,304,920 39	8,518,726 18
Yard Switch and Signal Tenders	907,568 58	854,640 08
Yard Enginemen	5,871,797 48	5,364,395 97
Yard Motormen	762,186 62	666,539 83
Yard Switching Fuel	6,457,988 44	6,661,625 37
Yard Switching Power Produced	16,216 95	16,203 75
Yard Switching Power Purchased	83,300 13	95,393 59
Water for Yard Locomotives	228,337 42	215,453 80
Lubricants for Yard Locomotives	91,655 52	79,906 67
Other Supplies for Yard Locomotives	64,643 58	58,692 35
Enginehouse Expenses—Yard	2,237,604 10	2,101,901 21
Yard Supplies and Expenses	207,415 36	202,198 84
Operating Joint Yards and Terminals—Debit	1,909,538 93	1,828,166 68
Operating Joint Yards and Terminals—*Credit*	*2,087,574 92*	*2,031,612 59*
Train Enginemen	16,035,536 72	15,501,769 73
Train Motormen	133,665 09	121,351 22
Train Fuel	32,185,554 37	35,698,139 57
Train Power Produced	5,309 93	7,038 71
Train Power Purchased	49,531 11	43,019 07
Water for Train Locomotives	1,415,603 09	1,363,258 83
Lubricants for Train Locomotives	595,205 92	582,271 77
Other Supplies for Train Locomotives	331,374 48	326,289 07
Carried Forward	$118,119,998 78	$116,245,128 44

Enginehouse Expenses—Train	$ 6,379,506 62	$ 6,031,058 67
Trainmen	18,710,228 33	17,902,623 65
Train Supplies and Expenses	11,445,162 14	11,108,584 78
Operating Sleeping Cars	2,150,487 70	2,157,966 96
Signal and Interlocker Operation	650,174 62	564,925 05
Crossing Protection	979,709 04	846,625 97
Drawbridge Operation	166,447 98	131,636 51
Telegraph and Telephone Operation	464,575 98	434,880 56
Telegraph—Commercial	5,798,271 25	5,418,338 96
Operating Floating Equipment	1,265,123 95	1,231,744 64
Express	11,117,190 76	9,905,469 86
Stationery and Printing	795,388 85	761,103 05
Other Expenses	1,505,911 48	1,307,751 13
Operating Joint Tracks and Facilities—Debit	1,102,710 56	880,785 07
Operating Joint Tracks and Facilities—*Credit*	*494,378 63*	*421,589 49*
Insurance	21,676 65	16,976 80
Clearing Wrecks	496,239 06	500,501 25
Damage to Property	99,436 65	78,515 34
Damage to Live Stock on Right-of-Way	76,434 34	77,005 86
Loss and Damage—Freight	2,318,846 70	2,050,234 82
Loss and Damage—Baggage	16,416 69	15,744 26
Injuries to Persons	2,168,016 61	1,873,160 28
	$185,353,576 61	$179,119,172 42

Miscellaneous		
Dining and Buffet Service	$ 4,193,154 21	$ 5,615,717 45
Restaurants	280,544 06	278,591 80
Grain Elevators	195,697 54	351,532 81
Other Miscellaneous Operations	40,280 84	36,767 03
	$ 4,709,676 65	$ 6,282,609 09

OPERATING EXPENSES—*Concluded*

	1946	1945
General		
Salaries and Expenses of General Officers	$ 539,613 28	$ 493,631 92
Salaries and Expenses of Clerks and Attendants	6,904,342 48	6,197,145 02
General Office Supplies and Expenses	354,481 91	308,283 54
Law Expenses	429,900 22	393,064 75
Relief Department Expenses	27,500 00	27,500 00
Pensions	10,446,942 09	8,864,923 03
Stationery and Printing	280,250 94	247,722 64
Valuation Expenses	15,075 89	15,987 70
Other Expenses	148,898 15	165,347 34
General Joint Facilities—Debit	55,756 14	47,948 29
General Joint Facilities—*Credit*	*11,999 78*	*11,661 84*
	$ 19,190,761 32	$ 16,749,892 39

Mr. EMMERSON: There is a question there, Mr. Chairman. There is an item in the operating revenue, water transfers. That is revenue obtained from merchandise and other freight and passengers?

Mr. COOPER: Yes, we operate certain transfers. The principal one is across Lake Michigan.

Mr. JACKMAN: It would not include the car ferry for Prince Edward Island, would it?

Mr. COOPER: No.

Hon. Mr. CHEVRIER: That would be in the other item, Mr. Jackman, the other half of the page.

Mr. EMMERSON: I might ask Mr. Walton this question. For instance, one travels from the maritimes to Shawinigan, let us say. He checks his baggage. He pays water transfer or ferry transfer in addition to his check for his baggage. How does that come about?

Mr. WALTON: You mean if he is coming from Prince Edward Island?

Mr. EMMERSON: We will say even from Moncton, any point in the maritimes, from my own dwelling. You travel by C.N.R. to Shawinigan. You have to take the ferry to make proper connections. You check your baggage. You pay for the transfer of that baggage by the ferry at Levis. I was rather surprised to learn that. My point is how does that come about?

Mr. COOPER: We do not operate the ferry at Levis.

Mr. EMMERSON: You operate the trains. Suppose I travel from Moncton to Montreal. I am able to check my baggage.

Mr. WALTON: It would not apply on the trip from Moncton to Montreal but it does on the ferry at Levis.

Mr. EMMERSON: If you are travelling you check your baggage. There are C.N.R. trains that cross the bridge, are there not?

Mr. WALTON: Yes, but it is built up on the principle of having the baggage follow the same route as the passenger so as to permit delivery of it on arrival. If we send the baggage around by a different route from that travelled by the passenger and the baggage is not available on his arrival it always results in complaints. That is why the Levis ferry and transfer is involved in this, and it is not our own operation.

Mr. EMMERSON: But is it possible for a person, who is not so anxious to have his baggage arrive on the same date, to have it travel around the other way? Has he the option of having it go a different way?

Mr. WALTON: I would have to check the tariff to be sure of that, but I think if he said, "Send this any route you wish", that the ferry charge would not apply. I can confirm that.

Mr. EMMERSON: That is the point I wanted to find out. It is only a very small item.

The CHAIRMAN: Operating revenues.

Mr. NICHOLSON: May I inquire if there is any way of knowing the position of sleeping cars, parlour cars and dining cars as to the relative revenue received from those sources compared with freight. Do you keep track of your operating expenses in connection with hauling your parlour cars?

Mr. WALTON: They are not separated in our expenses.

Mr. NICHOLSON: Do they pay for themselves as compared with your first class car, for example?

Mr. WALTON: The cost of hauling a parlour car is approximately the same as an ordinary car except for the porter's wages.

Mr. NICHOLSON: What is your initial investment in the two cars?

Mr. WALTON: It would be slightly more in the case of a parlour car, not materially different.

Mr. NICHOLSON: How many passengers do you carry in a parlour car, and how many in one of your new first class cars?

Mr. WALTON: A parlour car would probably average thirty, whereas the modern coach average would be sixty-four.

Mr. NICHOLSON: It would seem to me that chair car rates should be a little higher if they are not to be operated at a loss. What do you pay for a chair from here to Montreal, for example?

Mr. WALTON: Seventy-five cents.

Mr. NICHOLSON: It would not appear to me to be a profitable enterprise to have such a large investment in chair cars.

Mr. WALTON: In many cases the operation of a parlour car itself is not profitable, but it is one of those things that is more or less demanded by the public, and provides something over and above what the bus gives the passenger.

Mr. NICHOLSON: I think those who demand luxury travel should be prepared to pay a fair share of the cost.

Mr. WALTON: The experience has been they will not pay it. They will use something else. There is a dividing line. Maybe we have not hit it right, but if you charge too much they will not patronize the parlour cars and they will complain that the coach accommodation possibly is not as good as it should be.

Mr. NICHOLSON: Revenue of $22.50 for hauling a chair car from here to Montreal does not appear to be very much.

Mr. WALTON: On the train which runs anyway the additional cost of hauling one car is not very great.

Mr. NICHOLSON: Your first class accommodation in the new cars is really very comfortable.

Mr. WALTON: Very good.

Mr. NICHOLSON: I think when you are operating in the red you are hardly justified in asking the taxpayers to subsidize this type of luxury travel.

Mr. WALTON: It is a case of public demand as far as we are concerned. If we could be satisfied we would get the patronage without having parlour cars on the trains, we would be quite satisfied to take them off and convert them into coach use or something of that kind.

Mr. EMMERSON: I do not think that is always luxury travel. Take the case of an elderly woman or a woman travelling with children. It is almost a necessity in some cases for the mothers.

Mr. NICHOLSON: In my experience very few women with children travel that way. They are mostly in the ordinary cars.

Mr. VAUGHAN: You recall, Mr. Nicholson, that during the war the operation of parlor cars between Toronto and Montreal was discontinued, but there was always a tremendous demand even during the period when they were not operated to have them restored.

Mr. NICHOLSON: I can appreciate that when you can get a chair from here to Montreal for 75 cents. It is more comfortable. You are not so crowded. I think those who demand that service should be prepared to pay what it is worth.

Mr. WALTON: It was pointed out to us yesterday what the Great Northern was doing in stepping up their service, providing good equipment, and so on. In some cases we have not gone as far as we would like to go in providing equipment attractive to the passengers and which will retain travel for the trains.

Mr. NICHOLSON: I think on most American lines you have additional fares for the privilege of travelling in that fashion.

Mr. WALTON: On some trains, not on the majority of them.

Mr. VAUGHAN: On many of those trains in the United States there is a charge made for a seat in the coach.

Mr. NICHOLSON: Yes, but they have a better coach than we have.

Mr. VAUGHAN: Not necessarily.

Mr. HAZEN: Why was there such a falling off in the amount of revenue received from grain elevators?

Mr. VAUGHAN: There was less grain to be moved last year on account of the crop having been shipped out earlier than usual.

Mr. COOPER: I have here the number of bushels handled, the revenue from which enters into that account. In 1946 at Saint John we handled 1,591,000 bushels against 2,995,000 bushels in 1945. At Portland, we handled, in 1946, 8,177,000 bushels as against 32,044,000 in 1945. At Tiffin we handled 20,091,000 bushels in 1946 as compared with 54,274,000 bushels in 1945.

Mr. JACKMAN: Where is Tiffin?

Mr. WALTON: Near Midland, Ontario.

Mr. HAZEN: Would the C.P.R. and other elevators be down as much as yours?

Mr. COOPER: I would not say that.

Mr. WALTON: I think they are pretty well comparable. It had reference to the relative crops.

Mr. NICHOLSON: In connection with this first item of freight have you any way of breaking that revenue down according to districts?

Mr. COOPER: No, sir. We can break it down by regions.

Mr. NICHOLSON: Can you break down your operating expenses by regions as well?

Mr. COOPER: We can break down some of the expenses, but we do not attempt to break down, for example, our headquarters expenses. Properly a portion of our headquarters expenses is applicable to the western region, central region, Grand Trunk Western, and so on. We do not attempt to do that. It is the same thing with maintenance of freight cars. Our cars run from seaboard on the east to the seaboard on the west. A car may go into a shop here or there, and it would not be informative if we were to say the expense of repairing cars in Montreal should be charged to the central region and that cars repaired at Winnipeg or Stratford should be charged to those particular places. That expense has to be spread throughout the entire system. We do not do that for our ordinary purposes. It would be a waste of time and effort. It can be done on arbitrary pro-rates. For example, take freight car repairs. We could take the car mileage made on a region and charge that region its car mileage proportion of the system car repair costs. That can be done if we are making a particular study for a particular purpose, but we do not do it for ordinary purposes.

Mr. NICHOLSON: In deciding where your new stations are going to be built would there not be some value in knowing whether the eastern, western or central regions are more profitable? Would it not be in the more profitable regions where you get your greatest net profit that you might have greater expansion?

Mr. COOPER: I think our people know from their knowledge and experience just as well as if the accounting department was to produce some figures, particularly if those figures were to be built up from a formula. When you begin to get averages on a system of 24,000 miles they are not particularly useful in applying them to a particular situation. It is the divisional officer's knowledge of a local situation rather than some statistical information produced by the accounting department in Montreal which would guide the officer in determining what he should do to deal with a local situation.

Mr. McLURE: You would have to keep a separate freight account for your water travel and ferries, for instance the one from Borden to Tormentine?

Mr. COOPER: Yes.

Mr. McLURE: You would have a breakdown of all of that?

Mr. COOPER: You are speaking of revenues, yes.

Mr. McLURE: Yes.

Mr. COOPER: We do that because if you remember the revenues and expenses of that particular operation are covered by special appropriation of parliament.

Mr. McLURE: Yes, and any deficit is met from the consolidated revenue fund?

Mr. COOPER: Yes, sir.

Mr. McLURE: It should not appear as a deficit of the railways.

Mr. COOPER: It does not.

Mr. McLURE: While we are on that, where did the Canadian National Railways get the authority for the rates they charge on the ferry? To whom do they look for authority?

Hon. Mr. CHEVRIER: Perhaps I can answer that. It is given to the Canadian National Railways by virtue of a trusting order. The ferries are owned by the government of Canada and their operation is entrusted to the Canadian National Railways.

Mr. McLURE: Then the mandate comes from the government of Canada, or the Minister of Transport?

Hon. Mr. CHEVRIER: Not from the minister, no. The minister is not the owner of the ferry, but the government of Canada; title is in the name of His Majesty.

Mr. McLURE: He is the trustee?

Hon. Mr. CHEVRIER: No, the Canadian National Railways are the trustees of it.

Mr. McLURE: That comes to the question that we have always had trouble over, freight rates. On the freight rates on that ferry your board of control or whatever you call it, your transport board, have no authority to set rates for the Canadian National. By what system are those rates set?

Hon. Mr. CHEVRIER: Perhaps I can answer that. The Board of Transport Commissioners; in fact the chairman went down there some time ago, and when they considered the matter they stated that while they had some doubt as to whether or not they had the authority to set freight rates they did proceed to take upon themselves authority and reduce one such rate.

Mr. McLURE: Yes.

Hon. Mr. CHEVRIER: The question as to whether or not they have the legal authority is one which I would not like to give an opinion on because there is some doubt.

Mr. McLURE: Well, of course according to the terms of confederation they had no legal authority, they cannot set the freight rate on any water-borne traffic operating between any of the provinces or between any of the provinces and a British-owned territory. For instance, they cannot set a freight rate from Charlottetown to St. John's, Newfoundland. That must be set by private concerns. They have no jurisdiction over these freight rates and my claim has always been to you that they have no right to set a freight rate on trucks on Canadian National ferries operated by the Canadian National.

Hon. Mr. CHEVRIER: Freight rates are governed by the Railway Act. They are set up under the Railway Act, and the Board of Transport Commissioners have already exercised jurisdiction.

Mr. McLURE: And that notwithstanding the fact that their legal counsel down there, Mr. Dysart, stated when he was giving evidence that they did not have jurisdiction.

Hon. Mr. CHEVRIER: Well, I am not going to enter into a discussion of the legal aspect. All I can tell you is the position which my officers advise me is the correct one; namely as government-owned vessels they have been entrusted for operation to the Canadian National Railways and the Board of Transport Commissioners maintain that they have doubt whether they have jurisdiction in the matter of fixing rates but notwithstanding that doubt they have fixed them. That is the position.

Mr. McLURE: When we had automobiles first; you see, up to 1919 automobiles were prohibited in our province by law; but after that when automobiles got running across on the ferry there was a rate set to take them over and that rate was set by the government at $7 for a return trip for automobiles.

Hon. Mr. CHEVRIER: You are now referring to the Wood-Cariboo ferry?

Mr. McLURE: No, no; to Borden-Tormentine. After 1922—

Hon. Mr. CHEVRIER: I am aware of that.

Mr. McLURE: We took objection to that rate which the government had set in 1922 and in 1931 we appealed to the Minister of Transport—he was then the Minister of Railways and Canals—and he had it reduced to $3. That was not done by any Board of Transport Commissioners.

Hon. Mr. CHEVRIER: That is a different thing. You are referring now to the rate on trucks?

Mr. McLURE: Yes.

Hon. Mr. CHEVRIER: Let us get back to this question of freight rates.

Mr. McLURE: That is what I am leading up to.

Hon. Mr. CHEVRIER: Those are two different things.

Mr. McLURE: No, the same thing. Now, with respect to the load on the truck, trailer or whatever it was—to-day on the Wood-Cariboo ferry there is no account taken of the load, only of the truck itself. They charge for the truck. If there is a 5-ton load on it of first-class freight they do not make any charge for the load. On what authority are you people making a charge on the other ferry at Borden?

Hon. Mr. CHEVRIER: You know why that is, of course; that is because there is a subsidy of $100,000 paid there by the government.

Mr. MCLURE: I know, we are paying the Canadian National this year a subsidy of $880,000, isn't it?

Hon. Mr. CHEVRIER: I put it the other way, that the government is paying a subsidy of $880,000 to the Canadian National Railways for their deficit in the operation of the car ferry, so that one outweighs the other. In other words, it might be said that we have subsidized the Wood-Cariboo ferry to a position where its rates for a truck are lower than those on the car ferry.

Mr. MCLURE: Undoubtedly the same thing must occur on both ferries. You are subsidizing both in the same way but in the case of the one you call it a deficit and in the case of the other you use the term subsidy. While the terms are different, there is no difference in fact; but why should our people be penalized for carrying freight over the Borden-Tormentine ferry?

Hon. Mr. CHEVRIER: Well, now—

Mr. MCLURE: Pardon me, I don't want to argue this.

Hon. Mr. CHEVRIER: You are referring to freight again?

Mr. MCLURE: Well, it is the same thing whether it is freight or—

Hon. Mr. CHEVRIER: If you are referring to freight I would say it is a matter for the Board of Transport Commissioners.

Mr. MCLURE: Well, they had not been taking any part in it up until about six months ago. Someone must have set the freight rates prior to that time. If it was the Canadian National Railways then I think they had no right to put on these exhorbitant freight rates.

Hon. Mr. CHEVRIER: I presume the freight rates they put into effect were approved of, were filed as tariffs with the Board of Transport Commissioners.

Mr. VAUGHAN: I think the ferry is different. The ferry is operated as a part of the railway, it is really part of the railway because it bridges the journey between the island and the mainland. All this leads up, I suppose, that you want reduced rates on your trucks and other things on the ferry.

Mr. MCLURE: They are tremendous to-day.

Mr. VAUGHAN: I would say in connection with that that is a matter which is receiving very careful consideration from the railway officers at the present time and I think perhaps before long we may be able to say something to you on it. Perhaps we cannot satisfy you entirely but we hope we will be able to give you something which will please you.

Mr. MCLURE: Well, as a matter of fact, from statements which Mr. Vaughan made himself we were afraid to look to him for any relief because, when asked the question in one of these committees, was the freight rate too high, he replied that he did not consider them too high and he thought that the people of Prince Edward Island ought to be well-satisfied that they were allowed to bring a truck over at all because it was in direct competition with the railway.

Mr. VAUGHAN: I would say that I recall having said that, but at the same time we are giving this matter very serious consideration.

Mr. MCLURE: If it will make it any easier for you, I will make this statement; that in 1926 on a similar occasion the then president of the railways, the late Sir Henry Thornton, made a similar statement, and he said that the Canadian National Railways were not interested in the terms of Confederation regarding the operation of the ferry, they were only interested in the Canadian National Railways. However, after that he became one of our very best friends and gave us a very fine hotel down there.

Hon. Mr. CHEVRIER: The railway is still your friend.

Mr. McLure: I am reminding you of this; what you said was detrimental to us down there, and I hope that now you have studied this problem we will have a real rate. Of course, if we got justice as a province we should not pay any freight for coming over on that ferry to any government. I do not say that the Canadian National Railways should carry it free, but let the consolidated revenue fund of Canada pay it as they agreed to pay it.

Hon. Mr. Chevrier: Now, Colonel McLure, I don't want to interrupt you, and I do not want to delay proceedings, but I wish some day you would show me the authority for that because I am extremely interested in knowing under what authority you make such a statement.

Mr. McLure: What statement?

Hon. Mr. Chevrier: The statement that it was understood at Confederation that you were to have free movement on that car ferry.

Mr. McLure: Sure.

Hon. Mr. Chevrier: I wish you would show me that in the statute. I have asked to have it shown to me on more than one occasion.

Mr. McLure: I think I put in on record three times since 1945.

Hon. Mr. Chevrier: In discussing the estimates you have made statements?

Mr. McLure: Yes, and I refer to the man who started it up.

Hon. Mr. Chevrier: Who was that?

Mr. McLure: I refer to the Hon. Mr. Dunning. That was his idea; when inaugurating the ferry service at Wood-Cariboo, he stated that freight must be carried free because it is in the bond of agreement. Those were his words.

Hon. Mr. Chevrier: I would like to see that bond of agreement. When I was down in Prince Edward Island I was told exactly what you say and I believe that is the feeling they have down there; but I would like to see the agreement in the statute or in the imperial order in council. If you have it I wish you would show it to me.

Mr. McLure: I think I have it and can give it to you because we base our argument on that.

Hon. Mr. Chevrier: I am not arguing with you that the rates are not high. I am simply asking for the authority.

Mr. McLure: Yes, they are prohibitive. I will get you the authority. I thought we had settled that point.

Mr. Vaughan: I would suggest, Colonel McLure, if I may, that you leave that with us another week or two until we can see what can be done.

Mr. McLure: As I said before, you are facing this charge laid against you for not taking any interest in what we are doing on the Island.

Mr. Vaughan: We are all greatly interested in the Island, I can tell you that.

Hon. Mr. Chevrier: And we are going to give you a nice, new ferry down there.

Mr. McLure: Yes.

Mr. Maybank: I hope you will not use that as an argument for charging an additional 30 per cent on their freight rates down there.

Mr. McLure: Speaking about this new ferry down there, I think the Canadian National Railways should be very kind with reference to freight rates because we are handing over to them a fine, new boat, a boat and docks which they do not maintain. They do not even charter them, and they do not own them. It is a wonderful proposition if it is turned over to them. We will look forward, Mr. Vaughan, to proper consideration with respect to freight charges.

Mr. VAUGHAN: We are giving it our consideration now, Mr. McLure. I was just going to point out that there is no revenue from that ferry which comes to the Canadian National Railways, and the expenses are taken out of our accounts, the operating expenses do not come out of our funds at all.

Mr. HATFIELD: What account does it come out of?

Hon. Mr. CHEVRIER: We all have a soft spot in our hearts for the Island.

Mr. VAUGHAN: The loss is naturally offset by the subsidies; that is to say the dominion government reimburses us for any loss there may be on the operation of the ferry.

Mr. McLURE: You would have to have the revenue freight last year. Now, there were 177,000 passengers passed over that ferry.

Mr. VAUGHAN: That accrued to the ferry and the expenses are charged to the ferry, but, in the final analysis the government pays the loss, whatever it may be.

Mr. McLURE: You pay out, first, the charges for repairs on the ferry and then charge it back?

Mr. HATFIELD: Does not the ferry come into your operating revenue?

Mr. VAUGHAN: It comes in and out.

Mr. JACKMAN: You are just the agent for the government.

Mr. NICHOLSON: In connection with the removal of snow, ice and sand, an amount of $3,000,000. Have you the comparable figure for 1947?

Mr. WALTON: I have some figures here which may be of interest to you. For the three months, January, February and March of this year the expense for removing snow was $4,200,000 as against $2,336,000 in the same three months of last year. It is very close to double.

Mr. NICHOLSON: Is this the highest amount you have ever had for those three months?

Mr. WALTON: Yes.

Mr. EMMERSON: It is a good thing the Maritimes did not add to it.

Mr. WALTON: Yes, it is.

Mr. NICHOLSON: If you did not keep your accounts separated how did you arrive at the amount the snow removal cost?

Mr. WALTON: It is kept under a definite account number. I think Mr. Cooper has a breakdown of that here. There is a note on page 13, about eight lines from the bottom.

Mr. NICHOLSON: But how do you arrive at the amount of $4,000,000 for the first three months if you do not keep the accounts separated?

Mr. WALTON: The wages and other expenses which go into the removing of snow go into that account and those expenses are kept separately.

Mr. NICHOLSON: Do you charge rental for engines or equipment which you use in this operation?

Mr. WALTON: No, the wages and supplies, the general cost of running the trains and the wages of the gangs which are shovelling snow, but not the rental of equipment. We do not charge that rental against ourselves.

Mr. JACKMAN: It is just a direct charge?

Mr. WALTON: Just a direct charge.

Mr. JACKMAN: In the item for dining and buffet car receipts, for 1946 it is shown as $3,104,000 as against $4,608,000 in 1945. Is that because of the disappearance of so much troop travel?

Mr. WALTON: Yes, that is the main reason.

Mr. JACKMAN: Just looking down at the operating expenses for that same item, how much was that? You lost money on your dining car and buffet service?

Mr. WALTON: Yes.

Mr. JACKMAN: How much?

Mr. WALTON: On page 15, under miscellaneous, the first item, dining and buffet service, the expenses are shown there.

Mr. JACKMAN: The expenses were $4,193,000 against an income of $3,104,000, so you lost $1,000,000 on that service?

Mr. WALTON: Yes.

Mr. JACKMAN: Was that because of the Wartime Prices and Trade Board regulations or because the passengers would not stand for a higher rate?

Mr. VAUGHAN: We have always lost money in the operation of dining car service. One of the reasons for this large loss was that prices were controlled. Prices were controlled, and, of course, if you charge too much for dining car service the people will not use it. It is a service provided by the railways for which we are not fully compensated.

Mr. WALTON: The experience in regard to a loss on that branch of the service is common to all railways.

Mr. JACKMAN: Have you raised the prices recently?

Mr. WALTON: Yes, there has been a slight increase.

Mr. JACKMAN: You have certainly cut down on the variety and quality during the latter war years.

Mr. WALTON: Would you say that is the case now?

Mr. JACKMAN: I do not know that it is quite so bad now, but you could not get the good meals to which you were accustomed in the train service.

Mr. MUTCH: You could not get them anywhere.

Mr. NICHOLSON: I understood you to say you always lost money in the operation of the dining car service?

Mr. WALTON: Yes.

Mr. NICHOLSON: Would that not also be the case in connection with chair cars, yet you are asking for an increase in freight returns. You are asking the freight shippers to pay for the losses in these luxury services.

Mr. WALTON: The way to stop the loss would be to take the dining cars off these trains. Would that be a satisfactory move or would it not? We do not think it would.

Hon. Mr. CHEVRIER: You would certainly have a great howl if you did that.

Mr. JACKMAN: It is this extra tax which you pay when passing through Saskatchewan which bears so heavily on the passengers.

Mr. NICHOLSON: That is not on now, you have not been travelling or you would know. Those who want to use the dining car service should be prepared to pay for that service. There is always a fuss about taking a million dollars out of the consolidated revenue fund.

Mr. VAUGHAN: If you applied that rule all the way through, don't you think the people shipping freight via Canadian National should give us enough to pay our expenses?

Mr. NICHOLSON: But not for the other branches of your service. I do not think the freight shippers should be asked to pay for the losses on your luxury service.

Mr. VAUGHAN: The railway is running in the red because we are not getting an adequate payment for the services we are performing.

Mr. WALTON: In practice, what would happen if we took the dining cars off is the passengers would patronize those railways who had dining cars.

Mr. NICHOLSON: But, if you raised your charges by 10 per cent?

Mr. WALTON: No, 10 per cent would not do it. If we raised the charges enough to show a profit on this operation, nobody would buy meals in the dining car. The meals would have to go up by 30, 40 or 50 per cent.

Mr. JACKMAN: Do you break even on your restaurant service?

Mr. WALTON: Yes, we break even on those. They are operated, all except the one in Montreal, by the Canada Railway News Service.

Mr. McCULLOCH: You make very little on your elevators?

Mr. WALTON: Yes, there are only three elevators, one at Portland, one at Saint John and one at Tiffin.

Mr. HAZEN: There is an item under maintenance of way and structures headed, "Injuries to persons," and there is also an item under maintenance of equipment headed, "Injuries to persons, $927,000." Now, "Injuries to Persons", does that include injury to property as well?

Mr. COOPER: No.

Mr. HAZEN: What does it include? Does it cover passengers or what?

Mr. COOPER: The item under maintenance of way and structures is one covering injuries to employees in the Maintenance of Way Department. The item under maintenance of equipment, again, is the mechanical and maintenance of equipment people. The injuries to the public you will find on page 15, the last item under the heading of "Transportation", "Injuries to persons". In this account there is the expense for injuries to passengers, but it would also include—

Mr. HAZEN: Does that include injury to property as well?

Mr. COOPER: No, sir, you have up above two or three casualty accounts. You have items for clearing wrecks, damage to property, damage to livestock on the right of way, and loss and damage to freight, then the item for injuries to persons. "Injuries to persons" is not solely injuries to the public, it also includes injuries to transportation employees.

Mr. HAZEN: Did you have many accidents on the road last year which resulted in injuries to persons?

Mr. COOPER: I could not answer that.

Mr. VAUGHAN: We did not have many that resulted in injuries to passengers. We did have a few, but we did not have many very serious accidents. Of course, a casualty is always a serious matter, but we did not have what might be termed a very bad accident.

Mr. HAZEN: About what proportion of those injuries to persons and property were paid for after judgments were rendered by court?

Mr. VAUGHAN: We could not give you that information offhand. Our claims representatives and legal departments endeavour to make settlements with people who are injured where the injury can be attributed to the Canadian National Railways' negligence. We find it better to endeavour to make a settlement than to have the case go to court, that is, provided a reasonable settlement can be made. If we find a reasonable settlement cannot be made, the case goes to court.

Mr. HAZEN: Are the majority of cases settled before suit is commenced?

Mr. VAUGHAN: I would say yes.

Mr. NICHOLSON: In connection with roadway maintenance, the first item, I wonder if the president could tell us whether this expenditure has remained fairly constant during the war? Is the road in reasonably good shape? The second item, operating expenses, $8,000,000, did we spend approximately that amount each year during the war.

Mr. VAUGHAN: We spent, I think, a lower amount than that during the war because we could not get the men and materials to do the work we wanted to do.

Mr. NICHOLSON: Will that expenditure have to be increased over the next few years to bring the road back?

Mr. VAUGHAN: We are doing some additional work each year to catch up on the deferred maintenance as indicated in our accounts. This year we took $13,000,000 out of our reserves and did additional work on the roadway and on our equipment.

Mr. MCLURE: I should like to ask one question with regard to rent. Does the Canadian National Railways, on their bridge over the Hillsborough river, receive the rent from the government or is it paid into your account? I am speaking of the Hillsborough railway bridge from Charlottetown to Southport.

Mr. VAUGHAN: We would have to look that up. I do not know just how that matter is handled.

Mr. MCLURE: Instead of it being a direct toll, the government of Prince Edward Island has paid the toll of some $12,000 annually and has now paid, with interest, something like $600,000 for the bridge.

The CHAIRMAN: Any other questions.

Mr. BOURGET: On item No. 4, bridges, trestles and culverts, does that item include the reconstruction of old bridges or culverts or is it for the maintenance of bridges and culverts?

Mr. WALTON: It is for the maintenance of existing bridges, trestles and culverts.

Mr. BOURGET: Does that include the reconstruction of some that are completely out of order?

Mr. WALTON: In the case of reconstruction, a portion of the charge goes to maintenance and there may be also some capital charge. Generally speaking, it is for maintenance and upkeep. Just to amplify that last question you were asking, with respect to bridges, trestles and culverts. That is ordinary repair and upkeep as I said a moment ago. About ten lines further down you will find an item under road property—retirements, which in 1946 is put at $1,860,000. That takes care of the retirement of any structure of that nature which is taken out of commission and retired.

Mr. LAPOINTE: Could you find out whether there were any new bridges and trestles built during the year?

Mr. WALTON: Yes, there would be, in scattered locations in various parts of the country, probably quite a number of them. On page 18 about 8 lines from the top you notice bridges, trestles and culverts, an item of $541,000.

The CHAIRMAN: Mr. Emmerson, I think you had a question.

Mr. WALTON: That item is a capital expense in connection with any job such as you speak of.

Mr. LAPOINTE: Would it be very complicated to have a break-down of these figures as regards bridges and trestles? Is it possible to have it?

Mr. VAUGHAN: You mean with respect to new structures?

Mr. LAPOINTE: Yes.

Mr. COOPER: We could get it, but not to-day.

Mr. LAPOINTE: Yes, I understand that.

Mr. VAUGHAN: We will file it.

Mr. EMMERSON: I would like to ask on the item "roadway machines", does that refer to mechanical ditch-diggers and so on?

Mr. WALTON: Yes, various machines.

Mr. JACKMAN: Where do you have your dividing line between replacements of trestles, bridges and culverts, that is between operating expenses? Would you charge to operating expenses only brand new bridges and trestles?

Mr. COOPER: No, if a unit is retired from service and replaced by a new one we write the old one off. If the work is a case of retiring part of a unit that is all maintenance.

Mr. JACKMAN: If you replace a wooden bridge by a steel bridge what would that be?

Mr. COOPER: That would be a replacement. We would write the old bridge out by a charge to operating expenses and we would write the new bridge into capital.

Mr. JACKMAN: On these operating expenses, bridges, trestles, ties, and rails, I presume the $13,000,000 you mentioned earlier, being deferred maintenance and the inventory reserve, that was spread over and some charged against inventory account and some to maintenance reserve?

Mr. COOPER: The amounts taken from deferred maintenance and inventory reserves were credited to the accounts which had been charged in the first instance.

Mr. JACKMAN: It does not show in the operating expenses at all.

Mr. COOPER: No. For instance under the heading of "ties" there is a credit in there equal to the amount which had been charged to that particular account when the reserve was established. With respect to the credits from deferred maintenance reserve, they were confined to the equipment account and you see the application of credit is the last item in the first group of accounts on page 14.

Mr. JACKMAN: Your expenses were $6,000,000, a credit there.

Mr. COOPER: We applied the $6,000,000 credit to reduce our total expenses for maintenance of equipment.

Mr. JACKMAN: So that your equipment maintenance in the year 1946 is really a credit item? You brought the figures in italics in there?

Mr. COOPER: Yes, we spent $79,000,000 against which we applied a credit of $6,000,000 making a net of $73,000,000. With respect to the inventory credit that went to the same accounts which had been charged when the reserve was established.

Mr. JACKMAN: So that the amount spent on ties in that year, I will put it that way, was greater than $6,000,000.

Mr. COOPER: Yes. Our purpose was, Mr. Jackman, while in one year there was a credit to reserve and in the next year there was a debit to reserve, over a period, the accounts for each classification would be the same as if we never had any reserve. The accumulation figure would truly represent the total cost for the period for that particular class of expenditure.

Mr. JACKMAN: And we have deferred maintenance amounting to how much to write off yet?

Mr. COOPER: $33,000,000.

The CHAIRMAN: Gentlemen, we are asking questions on page 14.

Mr. McLure: There is one question I would like to ask on page 13 with reference to insurance, operating expenses of $28,000. What does that mean? "Insurance?"

Hon. Mr. Chevrier: That is the seventh item from the bottom.

Mr. Cooper: That would be property which is insured with outside underwriters. It represents premiums we pay to outside underwriters with respect to certain property insured with them. Ordinarily all our property is insured in our own insurance fund but in certain specific instances we prefer to carry the risk outside.

Mr. McLure: Take the new ferry boat, will she be insured by the Canadian National?

Mr. Cooper: I would not think she would be insured at all.

Mr. Vaughan: It has not been customary to insure those ferry boats because it has not been considered a very hazardous trip. However, when the boats go for overhaul they are usually insured.

Mr. McLure: They are insured then.

Mr. Vaughan: Yes.

Mr. McLure: When the Charlottetown went around for an overhaul she was lost.

Mr. Vaughan: Yes.

Mr. McLure: Was she insured by the government or the Canadian National railways?

Mr. Vaughan: She was insured by the Canadian National railways, the expense of which was charged to the government. We put $1,000,000 insurance on that boat just the day before she started on the journey and the underwriters paid that in full.

Mr. McLure: You paid the premium on that $47,000 or $49,000?

Mr. Vaughan: I do not recall what the amount was.

Mr. Emmerson: It was good business.

Mr. Watson: She was actually held a few hours until confirmation of that much insurance was received.

Mr. McLure: Yes, I know.

Mr. Hatfield: Who saved the money?

Mr. Walton: The government.

The Chairman: Is that all we have to ask on page 14?

Mr. Emmerson: Under maintenance of equipment, steam locomotive repairs, other locomotive repairs, freight train car repairs, I would like to get a statement if I could from the railway, over the last five years, of manufactured locomotive miles and the mileage consumed for the system in the various regions.

Mr. Walton: I think we can get that.

Mr. Emmerson: And in the car repairs the same return for the system over the last five years. The average work unit per hundred man hours, and the average wages per work unit for the system.

Mr. Vaughan: Have we got that set up that way Mr. Walton?

Mr. Walton: We can get that, sir. On the locomotives we have figures, I am quite sure on the basis of the manufactured miles, the miles run. On the car situation the figures will probably be in this shape. They will be by regions, and the number of cars repaired and the number of miles run. They are not quite as comparable as in the case of the locomotives. I will see when I come to the figures.

Mr. EMMERSON: It was not so much cost, as unit cost in the shops, for various reasons.

Mr. WALTON: I think we can give you that. I gave you some figures last year that were practically along the lines you are now asking.

Mr. HATFIELD: What is the difference in this "deferred maintenance—equipment", between the $6,000,000 for 1946 and the $2,500,000 for 1945, what does that consist of?

Mr. COOPER: In 1945 we charged our expenses with $2,500,000 with respect to work which was deferred. In 1946 we drew on our reserve to the extent of $6,000,000 and credited it back to the account to which it had been charged. There is a charge to expenses in 1945 and a credit to expenses in 1946.

Mr. NICHOLSON: The item on fuel, I notice, has been reduced from $35,000,000 in 1945 to $32,000,000 in 1946. With fuel costs rising generally, what is the explanation of this item being smaller?

Mr. VAUGHAN: We have used less fuel for one thing.

Mr. REID: You used more water, and that is an increase.

The CHAIRMAN: Are there any more question on page 14?

Mr. REID: May I ask does the railway pay for injuries to passengers? I thought they were all insured.

Mr. VAUGHAN: Let Mr. Walton answer Mr. Nicholson's question.

Mr. COOPER: With respect to fuel expenses and the amounts in 1946 as compared with 1945, there was an increase due to price of $679,000 and there was a decrease due to quantity of $1,423,000. There was also a write-back from inventory reserve of $3,100,000.

The CHAIRMAN: Now, Mr. Reid.

Mr. REID: My question was with regard to injury. I thought all insurable persons, travellers and so on, were insured but I see an item there of $527,000.

Mr. VAUGHAN: The answers is we do not insure them, we assume that risk ourselves.

Mr. REID: You do?

Mr. VAUGHAN: Yes.

Mr. REID: That is the amount paid out?

Mr. VAUGHAN: Yes, that is the amount paid out.

Mr. JACKMAN: In connection with damages, in a train wreck where a person loses his life and negligence on the part of the railway is proved, what are the damages anyway? Do they run to high figures? Are they much higher in the United States than in Canada, on account of the judgments?

Mr. VAUGHAN: Mr. MacMillan, our chief counsel is here and very likely he could make some remarks on that.

Mr. MACMILLAN: Well sir, there is really no yardstick on the question of the quantum of damages. It varies very materially with the individual concerned and again with the locality in which the cause of action is brought, or the locality in which the parties are injured. The damages generally are very much higher in the United States than in Canada.

Mr. JACKMAN: If a person has an earning power of $5,000 a year about how much would he get if he was killed?

Hon. Mr. CHEVRIER: If there was any contributory negligence, that would enter into it.

Mr. MACMILLAN: Yes.

Hon. Mr. CHEVRIER: There are so many factors that enter into it.

Mr. MacMillan: Yes, his age, his dependents, his earning power and the location in which he is killed affect the amount. For example, in some jurisdictions there is no right to recover funeral expenses while there is in other places. In the province of Quebec judgments for fatal injuries to young people of no earning power are very very small. In the maritimes they have the same rule we have elsewhere in Canada. Some jurisdictions take cognizance of loss of expectation of life and various other principles. There is no general rule that can be followed.

Mr. Jackman: Are the judgments in the United States about double what they would be in Canada?

Mr. MacMillan: Oh yes, all of that, and they vary by locality. Judgments in the New England states are higher than they are in Canada but not materially so. Claims on the Grand Trunk Western in Chicago are very heavy. Certain claims that are brought in New York City are very heavy.

Mr. Jackman: In connection with this T.C.A. accident, if it proves as unfortunate as it appears to be, there will be very heavy claims?

Mr. MacMillan: There possibly will be.

Mr. Jackman: All common carriers have to assume that liability? You cannot contract yourself out of it?

Mr. MacMillan: You can if certain very rigid rules are followed. T.C.A. in its contract of carriage does not attempt to contract itself out of common law liability.

Mr. Jackman: A man who is an importer of fruit was telling me that if the strike on the American railways last fall had been prolonged a few days a great many cars of fruit in transit would have been completely destroyed. Does the railway have any liability in that connection?

Mr. MacMillan: Our liability in Canada differs somewhat from the liability in the United States on the contents of a car. Generally speaking the rule is the carrier is under obligation to minimize the loss as much as possible. If they are moving a carload of perishable fruit, vegetables, fish or anything of that kind it is normally sold as soon as the point has been reached at which it is evident delivery is not going to be possible before the date on which the goods will perish.

Mr. Jackman: In connection with a strike where it might be impossible to get help to unload the car, your own men being on strike, would the railway be liable in that case?

Mr. MacMillan: Railway people on strike?

Mr. Jackman: Yes.

Mr. MacMillan: Or the consignees?

Mr. Jackman: Railway people on strike. Does the railway contract itself out of that liability?

Mr. MacMillan: I would rather hesitate to answer that on a general basis again. The bill of lading is quite different in so far as strike provisions are concerned in American carriage and our own. Generally the situation is that the railway must assume responsibility for those things which are in its control, and if a difficulty were to arise by virtue of a condition over which it did have a degree of control then I would think the railway would probably be responsible, but we do not encounter that problem frequently because the movement of perishable goods is very closely watched. When strikes appear imminent every effort is expended to get the goods to the destination or get a market where they can be disposed of without any loss. In the last American lines strike I do not think we had a carload of perishable goods that suffered loss at all. We knew exactly where they were at the time the strike was going to hit, and they were taken into terminals where they could be either refrigerated or disposed of. We watched that for 36 or 48 hours prior to the deadline, and moved it that way. As I recall there were a few carloads that we had to take into St. Albans and refrigerate in the plants there. I do not think we had any claims on it.

Mr. JACKMAN: Generally speaking the railway does not contract itself out of liability on account of strikes?

Mr. MACMILLAN: No, we cannot. As you well know we do not determine these contracts. We carry the freight and the contract is given us by the Interstate Commerce Commission in the United States or the Board of Railway Commissioners in Canada.

Mr. JACKMAN: They allow you to contract yourself out?

Mr. MACMILLAN: Only in very isolated instances.

Mr. NICHOLSON: In connection with the question of injury to persons I was in correspondence with the mother of an engineer who was killed in a railway accident. I understand that compensation is being paid to her by the Workmen's Compensation Board of Manitoba. Is that the customary practice?

Mr. MACMILLAN: He was an employee.

Hon. Mr. CHEVRIER: That is a different question to the one asked by Mr. Jackman. One is an action arising out of liability by the railway company, and the one you speak of is compensation.

Mr. NICHOLSON: Injuries to a person.

Mr. MACMILLAN: All our employees are subject to workmen's compensation acts, and those statutes are provincial. They destroy the common law right of the deceased's estate to sue the employer, but give a right to compensation under legislation. That situation is general throughout Canada. In the case you have mentioned it would be the Workmen's Compensation Board that would determine firstly the validity of the claim of this man's mother, and secondly the amount of compensation to which she becomes entitled.

Hon. Mr. CHEVRIER: Fixed by the law of Manitoba.

Mr. HAZEN: Where did most of these injuries to persons occur, on the trains as a result of accidents, in stations or on roads? It is a large amount of money, $2,168,000.

Mr. MACMILLAN: That would be the last item?

Mr. HAZEN: The last item on page 15.

Mr. MACMILLAN: I am not personally familiar with the break-down of that account, but I should think in that item would be included injuries to passengers, which actually are not very large, probably injuries to persons at grade crossings and perhaps injuries to train employees.

Mr. HAZEN: Does it include train employees?

Mr. WALTON: Yes. In fact, that would be a very large proportion of the item.

Mr. HAZEN: Are all these claims based on negligence on the part of the railway?

Mr. MACMILLAN: Employees' claims are not determined by negligence at all. The right to compensation under the compensation Acts arises by virtue of the employment.

Mr. HAZEN: Under the compensation Acts do you contribute every year to the Workmen's Compensation Boards of the different provinces?

Mr. MACMILLAN: Yes, sir.

Mr. HAZEN: Would that be included in this item?

Mr. MACMILLAN: I would think it would be. Perhaps Mr. Cooper can tell you.

Mr. HAZEN: I should like to know.

Hon. Mr. CHEVRIER: The contribution would not be included but the amount of compensation fixed by the province would be included.

Mr. HAZEN: The compensation fixed by the province is paid by the board, not by you?

Mr. MACMILLAN: The railways are generally in what is the second part of a compensation Act, the class of self-insurers, and the mechanics of that part of the Act are different. We do not pay an assessment on the payroll but rather when an accident occurs and the board has determined the capital value of the pension or payment then we are called upon to recoup the previously made deposit to the extent of that specific case.

Mr. HAZEN: Can you give us any break-down between injuries to employees and injuries to other persons represented by this amount of $2,168,000 you paid out, part of it being to employees and part to the public? Would you have any figures?

Mr. COOPER: We can get that. It would take a little breaking down.

Mr. HAZEN: I do not want to be too much bother. What I have in mind is whether every effort is made on the part of the railway to prevent these claims for negligence arising?

Mr. VAUGHAN: We conduct campaigns constantly in respect to that.

Mr. HAZEN: Are they having any results? How do the figures compare taking one year with another as to the amounts you have to pay for injuries to the public? Is there any noticeable decrease in the last few years?

Mr. MACMILLAN: If I may say a word on that, the number of accidents bears a relatively chose relationship to the total traffic, and to the extent our passenger movements and the number of trains operating have increased in recent years the number of claims has gone up. Also in recent years the public has become much more claims conscious. The amount that we have been called upon to pay in respect of individual accidents has increased. That is particularly so in any claims that originate in the United States, or Canadian claims which are sued in the United States.

Mr. HAZEN: Is the public any more claims conscious in one part of Canada than another?

Mr. MACMILLAN: I think they are.

Mr. HAZEN: In which parts are they most claims conscious?

Mr. MACMILLAN: I would say it is a definite fact that on the prairies the claims are not as large as they are elsewhere in Canada.

Mr. MUTCH: They are accustomed to doing without.

Mr. WALTON: One thing should be mentioned in connection with these figures. As the wage scale rises payments from this source will increase comparably, of course, because the larger part of these injuries is to employees, not to passengers. The higher the wages go the more money.

Mr. NICHOLSON: The total amount for injuries to persons under maintenance of way, maintenance of equipment and transportation comes to $3,413,000. That appears to be a very large amount. What are the prospects of carrying on a more effective educational program in coming years with a view to reducing it?

Mr. VAUGHAN: We have a safety department. We are constantly carrying on campaigns with meetings amongst our various employees impressing upon them the importance of carrying on their duties with regard to safety.

Mr. NICHOLSON: Have you had any films produced?

Mr. WALTON: Yes, we have been using films.

Mr. VAUGHAN: We have had films produced. We are constantly after that. It is something that has given us much concern because we realize the expense is considerable. Sometimes we think very unfair verdicts are given, particularly in the United States. Their verdicts over there are tremendous for comparatively slight injuries. We have contested a great many of them. If a man lost his leg what would he get over there?

Mr. MACMILLAN: Probably about $30,000.

Mr. VAUGHAN: We get many verdicts of that kind over there.

Mr. MCLURE: Was it not the proud boast of the Canadian National Railways that during the years 1939 to 1945 they carried a very large number of people, soldiers and so on, with a minimum of injuries, the lowest that had ever been known to the road?

Mr. VAUGHAN: Are you referring to the Canadian National Railways?

Mr. MCLURE: Yes.

Mr. VAUGHAN: We did carry a very large number of passengers, and our accidents were very few. That is injuries to passengers.

Mr. MCLURE: That is what I mean.

Mr. VAUGHAN: But unfortunately almost every day we are having some of our employees injured or killed in a yard here or there in switching operations.

Mr. REID: What is meant by colonization agriculture and natural resources? I see that has increased. Is that always under one department? What is meant by agriculture there? What do you do there by way of work and what expenses do you have, and the same thing as to natural resources?

Mr. VAUGHAN: We have a department under Mr. McGowan who handles agriculture, immigration and colonization. It is quite a large department. They have much to do with assisting farmers and co-operating with agriculture departments of provincial governments. It is an important department, a very busy department.

Mr. HAZEN: Can you tell us what your losses are of freight due to theft?

Mr. WALTON: I do not know whether we have the figures with us. A breakdown is available of that part of the loss which was due to theft. Unfortunately, they have been higher in recent years. We maintain a police force and do our best to prevent these losses, but relatively they have been high in the last two or three years; may I add that that is particularly true with respect to the theft of tobacco and cigarettes.

The CHAIRMAN: Mr. Hatfield, I think you had a question?

Mr. HATFIELD: Yes, I had a question I wanted to ask about the disciplinary action taken with respect to employees who fail to observe the rules; for instance, let us say with respect to the meeting of trains. What punishment applies?

Mr. WALTON: There is a system of discipline by which for a very serious offence a man is dismissed; and for something less he may be graded down or suspended.

Mr. HATFIELD: I have a case here where an engineer passed a meeting point, this was in February, the 27th of February, 1947; he had had two other accidents in the Quebec region, one at Matane; and they resulted in two deaths and some injuries, but he only received forty-five days suspension. What was the cause of that?

Mr. WALTON: I do not know that particular case but I would be glad to look into it for you.

Mr. HATFIELD: I would like to have a report on that.

Mr. WALTON: What did you say the date of the accident was?

Mr. HATFIELD: February 27, 1947.

Mr. NICHOLSON: What is the general policy in cases of that sort? That was the third offence and it seems to me that forty-five days out of the service would not be anything like an adequate penalty.

Mr. WALTON: I will look the papers up and see what the story is.

The CHAIRMAN: Is page 17 carried?

Agreed.

Can we go down now to page 18, "Property Investment Account"?

PROPERTY INVESTMENT ACCOUNT

Expenditures Year 1946

ROAD:		
New Lines Constructed	$ 23,645.15	
New Lines Acquired	7,000,000.00	
Abandoned Lines	*788,321.20*	
Rails and Fastenings	542,882.92	
Tie Plates and Rail Anchors	848,592.03	
Ballast	491,232.85	
Widening Cuts and Fills, etc.	210,548.03	
Large Passenger Terminals	108,340.00	
Yard Tracks and Sidings	432,647.67	
Roadway Machines	170,722.22	
Bridges, Trestles and Culverts	541,053.78	
Stations and Station Facilities	550,312.93	
Shops, Enginehouses and Machinery	1,314,920.09	
Automatic Signals and Interlocking Plants	128,507.69	
Telegraphs—Railway	157,656.40	
Telegraphs—Commercial	753,570.13	
Land	*864,436.91*	
General	90,188.42	
		$11,712,062.20
EQUIPMENT:		
Equipment Purchased or Built	$5,909,373.89	
Equipment Retirements	*1,607,382.21*	
General Betterments to Equipment	877,606.40	
Equipment Conversions	*191,204.07*	
Expenses and Miscellaneous Equipment	105,093.52	
		5,093,487.53
HOTELS		46,912.26
SEPARATELY OPERATED PROPERTIES		*542,664.55*
NET ADDITIONS AND BETTERMENTS DURING 1946		$16,309,797.44

Ledger Balance 1st January, 1946		$ 2,037,638,598.03
Net Additions and Betterments during the year	$16,309,797.44	
Equipment retirements—proportion of ledger value charged to Proprietor's Equity	*1,307,952.35*	
		15,001,845.09
Ledger Balance at 31st December, 1946		$ 2,052,640,443.12

DOMINION OF CANADA—LOANS

	Principal Outstanding at Dec. 31, 1946	Interest Accrued 1946	Average Interest Rate
Loans for repatriation of U.K. securities	$391,390,473.11	$13,693,940.90	3·50%
Loans for debt reductions	226,464,594.21	5,001,669.12	2·30%
Loans for new rolling stock	70,003,238.36	2,140,228.23	2·89%
Loans for working capital	13,906,999.71	486,774.98	3·50%
	$701,765,305.39	$21,322,583.23	3·05%

Mr. JACKMAN: Do you want to go on to one o'clock, Mr. Chairman?

The CHAIRMAN: We started a little early. It is up to the committee. I would like to get in as much time as we can. We have been here approximately two hours.

Hon. Mr. CHEVRIER: We have been two days on this.

Mr. JACKMAN: Do you want to sit to 1.30 and call it a day?

The CHAIRMAN: I think the committee would rather shut off at a reasonable time and come back at four o'clock, if that is agreeable. No one wants to sit too long at a stretch. Do you want to go until half-past twelve? What is the feeling of the committee? We have been here since ten.

Mr. McLURE: Let's sit till 12.30.

Mr. JACKMAN: Yes.

The CHAIRMAN: We will go on until 12.30 and if agreable we will try to come back at four o'clock.

Mr. LAPOINTE: Is there any new construction in that?

Mr. COOPER: That is all new construction.

Mr. LAPOINTE: Would that be the proper item under which to discuss stations?

Mr. COOPER: New stations?

Mr. LAPOINTE: Or should we wait until the budget is before us to bring up matters of that kind?

Mr. VAUGHAN: I think it would be well to get it out of your system now.

Mr. LAPOINTE: Mr. Nicholson yesterday brought up the question of stations and there is a similar condition which exists at some points in my section of the country. I would like to refer particularly to one station at a place called Laurier where I myself experienced what Mr. Nicholson was speaking about yesterday, having to wait outside in sub-zero weather because the station was filled with perishables, there was no other place to put them. That has been going on all during the war years. Traffic at that point is heavy and I think you will find the revenue from that station has increased considerably because it serves seven or eight of the larger municipalities and communities, but the facilities are definitely not adequate. Many representations have been made about that situation. I made them myself. I did not get any action on it last year because I was told it would have to be considered in the budget for the coming year. I was told the same thing again this year. I suggest that two years is sufficient time in which to give consideration to a matter of that kind and something should be done about it, by enlarging facilities, and possibly putting up another building, freight sheds for all commodities that go through there. The thing has not been cleared up by any manner of means. I would be very much surprised if the health department would approve of a good many of the commodities stored in a waiting-room in the condition in which that one is. And I want to point out that that is not due to the service given by the agent who is doing his best to cope with the situation. I recall that when I asked him last year that he only received an allowance of $4.50, a budget of $4.50 a week out of which to hire somebody to keep the place clean and he could not find anyone to do it for that amount and he could not do it himself because he was so busy with other work.

Mr. VAUGHAN: I will certainly look into that. I have a recollection of seeing something for the Laurier station. We will look at the budget and see whether there is anything in there. I would like to again draw attention of members of the committee to the fact that it is still very difficult to get materials. I know that has been a stock excuse.

Mr. LAPOINTE: If you want me to, I can direct you to people who will be glad to furnish you with any supplies necessary for building purposes.

Mr. VAUGHAN: There never was a time, even during the war when lumber or steel were so difficult to get as they are to-day. But I have a recollection of something about the Laurier station. We will look it up and if it is not in our budget we will look over the situation again.

Mr. NICHOLSON: I would like to draw your attention to this, we had a report last year of losses amounting to $2,000,000, and I think it can be argued that where you have so much perishable freight stored in waiting rooms, and where it all has to be handled by one agent or station master who has also to look after his wires and everything else, it is almost impossible for him to keep his eyes on all of it. From the business point of view it would seem to me to be desirable to have heated storage facilities in these larger centres so that it would not be necessary to fill the waiting rooms with perishable freight.

Mr. VAUGHAN: Sometimes they do that as a matter of convenience, because it is warmer and easier to handle inside than outside in a shed which is not heated.

Mr. NICHOLSON: That is true, and there is also the point I raised yesterday, that there is no other place in which to put it except the waiting-room.

Mr. VAUGHAN: We took a note of that place you mentioned yesterday.

Mr. HAZEN: Does this item include that new line you are constructing to Barraute?

Mr. COOPER: Yes.

Mr. EMMERSON: While you are on that subject of buildings, there are a number of stations on the main line in the Atlantic region where they have proper or sufficient equipment but these stations are locked up at various points where night trains are operated. In the summer that is not so bad but during the cold weather it is different, people have to come in there and wait for trains and there is no shelter for them of any kind. The shelter is there, but the doors are locked. It used to be the practice that these stations were left open for the convenience of people waiting for trains; now they are closed.

Mr. VAUGHAN: In cases where a train is scheduled to stop at the station or stop on flag the station is usually left open for the convenience of anyone who may come down to meet a passenger arriving, or anyone wishing to take the train.

Mr. WALTON: Is there any particular locality which you have in mind, or is the situation fairly general?

Mr. EMMERSON: I would not like to say it is general, but on the Moncton division I had in mind one point, Dorchester, where that applies. The operator or station master lives some distance from the station and both waiting-rooms are locked at night.

Mr. WALTON: We will take that up, particularly with regard to Dorchester but it may apply to other points.

Mr. EMMERSON: I cannot say definitely.

Mr. WALTON: The intention is to have the waiting room available.

Mr. VAUGHAN: We have to watch the hours of the staff carefully because the matter of overtime is involved. That is very expensive to the railway.

Mr. EMMERSON: That is true, you do not want to run an extra trick to give the service. It used to be that station waiting rooms were left open.

Mr. WALTON: There is some objection to leaving waiting rooms open if no one is in attendance. You get loiterers, and sometimes it is not very desirable.

Mr. EMMERSON: In many cases one has to wait an hour or two hours, and the waiting room should be open.

Mr. VAUGHAN: We will check that up, Mr. Emmerson.

The CHAIRMAN: Any other questions on page 18?

Mr. LAPOINTE: Coming back to the question of repairs, I do not know whether I am in order or not and if I am not you can tell me, I am given to understand that the district superintendents have a budget of which they can dispose. In other words, they have the authority to do certain maintenance work or repairs to stations up to a certain amount, say $500, and after that, the matter has to be decided by a higher authority in the company. Is that the case?

Mr. WALTON: Yes, that is substantially the case. The smaller jobs are left to the local men to look after. When it comes to the larger expenditures there has to be the necessary supervision and consideration of the territory as a whole.

Mr. LAPOINTE: In other words, the district superintendent is the man upon whom you should put the pressure to get the small repairs done?

Mr. WALTON: Yes, but, on the other hand, we do limit his expenditure.

Mr. VAUGHAN: Expenditures on our railway are budgeted very carefully and I should like to impress upon this committee the fact that we do not waste any money if we know it.

Mr. McLURE: With respect to the item for shops, houses and machinery, that is not for new equipment, is it? It is just an inventory of your total investment in that, is it not?

Mr. WALTON: That is the capital expenditure for the year 1946 on all the various shops, engine houses and machinery installed in those shops and round houses.

Mr. McLURE: Is it still your policy to centralize all repairs, for instance, in such places as Moncton and Montreal? The reason I bring that point up is that we had an engine house and shops in Charlottetown. At one time these shops employed some 300 men. To-day the number of employees is reduced to about 65 or 70. Apparently, there is work which could be done cheaper right in Charlottetown than by having it done in Moncton. For example, take the fixing of car wheels, I do not know just what term you use for it, I think it is the grinding of them. These wheels are loaded on cars and shipped to Moncton. Then, they go through the process there and have to be returned to Charlottetown. This takes a long time. The machinery to do that work and the men are right in Charlottetown and it could be done in one-tenth of the time it takes and perhaps for one-tenth of the expense.

Mr. WALTON: The work on Prince Edward Island will be rather self-contained in regard to locomotives when these new diesels are placed there. Apart from that, we favour the plan of centralization for general repairs just as much as we can. When all factors are considered, it is the economical way to handle general repairs. As a matter of fact, we still have several more general repair shop points than our competitors have. They have narrowed it right down to three shops, Montreal, Winnipeg and Calgary. We still have locomotive shops at Moncton, Riviere du Loup, Montreal, Stratford, Transcona, Winnipeg, Edmonton and Port Mann. The car repair points for the heavy work are Moncton, Pointe St. Charles, London, Transcona, Winnipeg and Leaside, Toronto. In other words, we are not nearly as centralized as our competitors and we think it is rather unfortunate that is the case because centralization is the economical way to handle these standardized, heavy repairs.

Mr. JACKMAN: Who owns that locomotive round house out at the junction in Toronto, near the packing plants?

Mr. WALTON: At John Street?

Mr. VAUGHAN: That is the Canadian Pacific round house there.

Mr. JACKMAN: They have another one in Toronto.

Mr. VAUGHAN: Yes, we both have round houses in Toronto, but they have a round house in West Toronto.

Mr. JACKMAN: You mentioned only three places for them.

Mr. WALTON: I am not speaking of round houses, but heavy repair shops. We do running repairs at a hundred different round houses throughout the country.

Mr. JACKMAN: Does the engine go into the round house after every trip?

Mr. WALTON: Yes, in some cases with heavy power they make a longer trip before going to the round house, such as running over two or three subdivisions. However, after every trip they go into the round house for running repairs as distinct from heavier repairs.

Mr. EMMERSON: Are the engines still running from Halifax to Montreal?

Mr. WALTON: Yes; on the passenger trains.

Mr. NICHOLSON: In connection with the item on automatic signals, $928,000, which is fairly small, what are the plans for making a more extensive use of automatic signals?

Mr. WALTON: At the moment, we are not planning any extensive additions to our automatic signal system. We have quite a mileage in signalized territory already, notably Moncton to Halifax and Montreal to Chicago, and a few smaller, short sections. Having in mind the density of traffic, we have not an extensive scheme of additional automatic signal installation in mind at the moment.

Mr. EMMERSON: Has there been reduction in accidents since the establishment of C.T.C. on the Moncton run?

Mr. WALTON: Yes, there has been, the accident record has been exceptionally good in that C.T.C. territory for the reason the whole movement is governed by signals. The man does not have to remember his train orders, and so on.

The CHAIRMAN: Is there anyone else who desires to ask questions?

Mr. LAPOINTE: Those signals are signals for the operation of the railroad and not for railway crossings?

Mr. WALTON: No, those are for the operation of the railway. One reason we have for not extending too fast in that direction is that it costs upwards of $10,000 a mile for centralized traffic control. We can only afford to put it on very heavily travelled sections of the line.

The CHAIRMAN: What about page 19?

Mr. MCLURE: That property, land, the $864,000 on page 18, is that an investment in property?

Mr. VAUGHAN: That is a credit item, Colonel McLure. That represents land sold.

Mr. JACKMAN: What is the credit item of $542,000 for separately operated properties? Under property investment accounts, the last item, page 18.

Mr. COOPER: The Canadian Northern Land Department $426,000, that would represent land grant lands disposed of; the Canadian National Realties, $173,000; the Industrial Land Company, $146,000; Consolidated Land Corporation, $94,000. Those last two companies are in the States of Michigan, Indiana, and Illinois. I think the four items substantially account for the total.

Mr. JACKMAN: Have you some millions of dollars of land still not being used in the railway service?

Mr. COOPER: We have considerable acreage but I do not think it is in the magnitude of millions of dollars.

Mr. VAUGHAN: We are getting that information, I think you asked for it yesterday, Mr. Jackman.

The CHAIRMAN: Is that all on page 18?

Mr. JACKMAN: I noticed in the final paragraph of the president's remarks that service men had been pretty well replaced and you had taken on additional men who had seen service. In regard to the men that were in your employ and who did see service in the armed forces, did you have any difficulty in giving them back their seniority? Were they allowed that time towards their seniority?

Mr. VAUGHAN: Yes, in each case they were reinstated in as good or a better position than they had.

Mr. JACKMAN: What did you do about their accrued pension rights?

Mr. COOPER: We protected them, we gave them one per cent of each year of war service on their annual earnings.

Mr. JACKMAN: The company made its contribution towards the pension fund on their behalf.

Mr. COOPER: That is right.

Mr. JACKMAN: At the full rate?

Mr. VAUGHAN: Based on an average.

Mr. COOPER: Our pension is on a contributory basis and these employees were not in a position to contribute so we made a rather special arrangement for them which special arrangement took the form of giving them one per cent of their last ten years' average salary for each year of war service.

Mr. JACKMAN: Had they still been working with the company instead of enlisting would they have received a greater contribution than one per cent from the company?

Mr. COOPER: I do not think so. I think the one per cent is possibly better.

Mr. JACKMAN: There has been no dissatisfaction among their numbers?

Mr. COOPER: No sir, none whatever.

Mr. JACKMAN: Some years ago we mentioned the advisability of university men being taken on by the railway. Is that now progressing?

Mr. VAUGHAN: It is progressing.

Mr. JACKMAN: Have you anything to report?

Mr. VAUGHAN: I have nothing to report, we are getting men from the university each year, largely based on recommendations from the principals or the deans of the universities as to the capabilities of these young men and we take a certain number of them into the service each year and move them around from department to department. We think that we will know in a couple of years whether they will make railroad men or not.

Mr. JACKMAN: You have not yet had enough experience.

Mr. VAUGHAN: No, you see we were not able to get any of these men during the war, but since the war we have had quite a few.

Mr. JACKMAN: I suppose if you move them around it will lessen any possibility of indignation on the part of the men who have not had that university experience.

Mr. VAUGHAN: Oh yes, it is very well understood by the heads of the departments that these young men are to be given every opportunity to learn something about various departments. However they are not displacing men who have been with us for some time.

Mr. JACKMAN: You are still giving preference to servicemen?

Mr. VAUGHAN: Yes.

Mr. JACKMAN: Do you draw particularly from the engineering graduates?

Mr. VAUGHAN: To a large extent but not altogether.

Mr. JACKMAN: It looks very promising altogether, does it?

Mr. VAUGHAN: Yes, we think that we will be able to build up a good staff.

Mr. EMMERSON: You allow shop men and others leave of absence to attend college.

Mr. WALTON: Yes, after a certain length of time. The point is he cannot just join and then get leave of absence.

Mr. JACKMAN: They leave to attend full time courses of instruction.

Mr. WALTON: Yes.

The CHAIRMAN: Are there any other questions?

Page 19, funded debt, principal and interest:

FUNDED DEBT—PRINCIPAL AND INTEREST

Name of Security	Issuing Company	Date of issue	Date of maturity	Principal outstanding at Dec. 31, 1946	Interest accrued 1946
				$	$
GUARANTEED BY DOMINION OF CANADA:					
5% Perpetual Debenture Stock.	G.T.R.	1875 to 1883	Perpetual	1,473,495.26	73,342.58
5% G.W. Perp. Debenture Stock and Bonds..........	G.T.R.	1858 to 1876	Perpetual	853,272.66	42,372.47
4% Perpetual Debenture Stock.	G.T.R.	1883 to 1918	Perpetual	5,960,094.73	236,903.50
4% Nor. Rly. Perpetual Debenture Stock.............	G.T.R.	July 31, 1884	Perpetual	27,457.73	1,098.31
3% 1st Mortgage Bonds........	G.T.P.	July 1, 1905	Jan. 1, 1962	26,465,130.00	793,953.90
4% Sterling Bonds.............	G.T.P.	July 1, 1914	Jan. 1, 1962	7,999,074.00	319,962.96
3% 1st Mortgage Debenture Stock.....................	Can. Nor.	July 29, 1903	July 10, 1953	1,162,768.33	34,883.04
3½% 1st Mortgage Debenture Stock.....................	Can. Nor.	Mar. 1910	July 20, 1958	5,636,508.16	197,287.05
3½% 1st Mortgage Debenture Stock.....................	C.N.A.	Mar.22, 1911	May 4, 1960	550,726.60	19,276.88
3½% 1st Mortgage Debenture Stock.....................	C.N.O.	Dec. 8, 1911	May 19, 1961	3,603,182.68	126,008.21
5% 30 Year Guaranteed Bonds.	Can. Nat.	Feb. 1, 1924	Feb. 1, 1954	50,000,000.00	2,500,000.00
4½% 30 Year Guaranteed Gold Bonds....................	Can. Nat.	July 1, 1927	July 1, 1957	64,136,000.00	2,886,120.00
5% 40 Year Guaranteed Gold Bonds....................	Can. Nat.	Oct. 1, 1929	Oct. 1, 1969	57,728,500.00	2,886,425.00
5% 40 Year Guaranteed Gold Bonds....................	Can. Nat.	Feb. 1, 1930	Feb. 1, 1970	17,338,000.00	886,900.00
4¾% 25 Year Guaranteed Gold Bonds....................	Can. Nat.	June 15, 1930	June 15, 1955	48,496,000.00	2,303,560.00
4½% 25 Year Guaranteed Gold Bonds....................	Can. Nat.	Feb. 1, 1931	Feb. 1, 1956	67,368,000.00	3,031,560.00
4½% 20 Year Guaranteed Gold Bonds....................	Can. Nat.	Sept. 1, 1931	Sept. 1, 1951	48,022,000.00	2,160,990.00
3% 17 Year Guaranteed Bonds.	Can. Nat.	Feb. 15, 1936	Feb. 15, 1953	25,000,000.00	750,000.00
3% 15 Year Guaranteed Bonds.	Can. Nat.	Feb. 1, 1937	Feb. 1, 1952	20,000,000.00	600,000.00
3% 20 Year Guaranteed Bonds.	Can. Nat.	Jan. 15, 1939	Jan. 15, 1959	35,000,000.00	1,050,000.00
Total..............	....	....	....	486,820,210.15	20,880,643.90
GUARANTEED BY PROVINCE OF BRITISH COLUMBIA:					
4% 1st Mortgage Debenture Stock....................	C.N.P.	Nov. 16, 1911	Apr. 2, 1950	798,055.48	31,687.99
4½% Terminal Debenture Stock.	C.N.P.	1913 and 1914	Apr. 2, 1950	1,154,052.13	51,979.00
Total..............	....	....	....	1,952,107.61	83,666.99

FUNDED DEBT—PRINCIPAL AND INTEREST

Name of Security	Issuing Company	Date of issue	Date of maturity	Principal outstanding at Dec. 31, 1946	Interest accrued 1946
				$	$
EQUIPMENT TRUST ISSUES:					
2¼% Series "O"	Can. Nat.	Aug. 1, 1937	Ser. 1, 8, '47	1,430,000.00	56,604.17
2¾% " "P"	Can. Nat.	Sept.15, 1938	Ser. 15, 9,'53	3,600,000.00	108,739.61
2½% " "Q"	Can. Nat.	July 1, 1939	Ser. 1, 7, '49	1,950,000.00	56,875.00
2½% " "G.T.W."	G.T.W.	June 1, 1941	Ser. 1, 6, '51	2,557,000.00	73,425.00
Total				9,537,000.00	295,643.78
OTHER ISSUES:					
4% Canada Atlantic 1st Mortgage Bonds	G.T.R.	Jan. 1, 1905	Jan. 1, 1955	9,947,934.00	397,919.79
4% 1st Mortgage Bonds	Pem. Sou.	Sept. 1, 1906	Sept. 1, 1956	150,000.00	6,000.00
4% 2nd Mtge. Bonds, Prairie "A"	G.T.P.	Apr. 1, 1905	Apr. 1, 1955	3,574,530.00	142,991.45
4% 2nd Mtge. Bonds, Mountain "B"	G.T.P.	Apr. 1, 1905	Apr. 1, 1955	3,144,906.00	125,827.00
4% 1st Mtge. Bonds, "Lake Superior"	G.T.P.	Apr. 1, 1905	Apr. 1, 1955	2,152,008.00	86,090.57
4% Perpetual Cons. Debenture Stock	Can. Nor.	1903 to 1912	Perpetual	3,994,024.66	158,939.70
4% Perpetual Cons. Debenture Stock	C.N.O.	June 21, 1909	Perpetual	890,084.13	35,605.37
4% Perpetual Cons. Debenture Stock	C.N.Q.	Oct 1906	Perpetual	465,545.33	18,621.81
4% 1st Mtge. Perp. Debenture Stock	Q & L. St.J.	June 1, 1912	Perpetual	287,289.07	11,491.56
4% 1st Mortgage Bonds	G.T.W.	Nov.30, 1900	July 1, 1950	6,527,336.00	261,237.86
4½% 1st Mortgage Series "A" Bonds	G.T.W.	Jan. 1, 1930	Jan. 1, 1980	400,000.00	18,000.00
4% 1st Mortgage Gold Bonds	M. & P.L.	Oct. 1, 1900	Oct. 1, 1950	200,000.00	8,000.00
5% Indebtedness to Province of N.B.	Can. Nat.	Sept. 3, 1929	Feb. 15, 1958	380,022.60	19,001.12
Interest on Securities retired in 1946				—	808,833.28
Total				32,113,679.79	2,098,559.51
Total Debt held by Public (including therein $5,286,302.38 par value held in Special Funds and Accounts) as per Balance Sheet				530,422,997.55	23,358,514.18

These obligations are stated in Canadian currency, Sterling and United States currencies being converted at the par of exchange.
This schedule does not include securites in the Railway treasury or those held by The Canadian National Railways Securities Trust, or by the Dominion Government as collateral.

Mr. JACKMAN: The total equipment and trust issue shows $9,537,000 for the whole system.

Mr. COOPER: Yes.

Mr. JACKMAN: I was just wondering whether in view of the fact you have $525,000,000 of rolling stock on hand if it would not be a cheaper way to raise money by increasing the equipment trust issues because I noticed under the Dominion of Canada loans here on rolling stock, the loans have an average interest of 2·89 per cent, whereas other borrowings are at 3½ per cent. Would it be worth while buying more of your rolling stock under equipment loans in order to get the cheaper rate?

Mr. VAUGHAN: That is a matter that we are considering at the present time, particularly in connection with financing equipment that is in our budget. We have not determined yet whether we will call for tenders on an equipment issue or not. We will have to wait until after consultation with the Department of Finance to see if we can borrow from them at a satisfactory rate or whether money would be cheaper outside.

Mr. JACKMAN: What do they charge you on loans when you borrow from the government?

Mr. COOPER: I think the answer is, Mr. Jackman, that on the second day of January of this year we made a $50,000,000 issue.

Mr. JACKMAN: For rolling stock?

Mr. COOPER: No, it was a general issue and out of it we repaid to the government all our loans for rolling stock which were on a 3½ per cent basis.

Mr. JACKMAN: What rate did the $50,000,000 issue run at?

Mr. COOPER: 2¾ per cent.

Mr. JACKMAN: Sold at par?

Mr. COOPER: There was a fractional discount.

Mr. JACKMAN: The net cost was about 2¾ per cent?

Mr. COOPER: About 2·77.

Mr. VAUGHAN: I think it was 2·77.

Mr. JACKMAN: In other words if you do not get the money you want for the rolling stock requirements at 2·77 or better, and by the way this, then, was not a rolling stock equipment issue?

Mr. COOPER: No.

Mr. JACKMAN: Just a government guaranteed issue?

Mr. COOPER: A government guaranteed issue.

Mr. JACKMAN: Would the rolling stock issue bear about the same rate now?

Mr. COOPER: No, rolling stock is cheaper.

Mr. JACKMAN: In Canada what would it likely bear, roughly?

Mr. VAUGHAN: We think we should get a rolling stock issue here at 2 per cent or 2¼ per cent.

Mr. JACKMAN: And in the United States?

Mr. VAUGHAN: In the States they have had some fairly low rates depending upon the amount of money paid back each year through sinking funds. I think they have been getting some as low as 1¾ per cent.

Mr. JACKMAN: Well, may I ask if you are a free agent to decide for yourself how you want to do it, if you have a new rolling stock issue to finance?

Mr. VAUGHAN: Oh yes, sir, we are.

Mr. JACKMAN: You do not have to accept the government's terms if you think you can do better somewhere else.

Mr. VAUGHAN: No. Of course, during the war we did keep out of the way of the government when they were raising loans.

Mr. COOPER: The government equipment issues were entirely due to war conditions.

The CHAIRMAN: Colonel Lapointe, you had another question.

Mr. LAPOINTE: No, it does not matter at the moment.

The CHAIRMAN: Well it is 12.30. We can meet at 4.00 o'clock. Perhaps we can carry on from 4.00 until 5.30 this afternoon.

We are on page 19 now.

The meeting adjourned at 12.30 p.m. to meet again this afternoon at 4.00 o'clock p.m.

AFTERNOON SESSION

The committee resumed at 4 p.m.

The CHAIRMAN: I believe we have a quorum and we can start. There were some questions asked before we closed up at noon and I think Mr. Vaughan has a number of the answers ready. If it is agreeable with you he will give them now.

Mr. VAUGHAN: A question was asked by Mr. Jackman as to the number of acres of unsold land we still have in western Canada. The answer is 278,120 acres.

Mr. JACKMAN: May I ask as a matter of interest, when the C.N.R. was taken over by the system, Prairie Lands I suppose had been formed before that and all the C.N.A. land went into that company?

Mr. VAUGHAN: This occurred many years ago. As I recall, when Prairie Lands was formed, they purchased several thousand acres of land from the Canadian Northern.

Mr. JACKMAN: And those acres which you have now, did they come from the old system, from the old C.N.R. or are they other lands?

Mr. VAUGHAN: I think they are mostly C.N.R., also some Grand Trunk-Pacific and some Crown grants.

Mr. JACKMAN: Most of the land is suitable for colonization?

Mr. VAUGHAN: Some of it is and some of it is not. We have a report on each individual section as to the nature of the soil. I do not recall off-hand just what portion of that might be considered good land. A lot of it is marginal and perhaps not fit for much except grazing, but there is still some good acreage.

Mr. NICHOLSON: Have you a breakdown according to provinces?

Mr. VAUGHAN: No, I haven't got that.

Mr. JACKMAN: Have you still a lot of land agreements? Last year, for instance, you had got in quite a bit of money. Do you have the expectation of getting in substantial sums of money from lands which you have sold?

Mr. COOPER: Last year's collections were very good indeed.

Mr. JACKMAN: Does it amount to a considerable sum?

Mr. COOPER: That is, what amount is still outstanding?

Mr. JACKMAN: Yes.

Mr. LOCKHART: While Mr. Cooper is looking up the answer for Mr. Jackman could Mr. Vaughan tell us whether any of those lands are still being offered for sale?

Mr. VAUGHAN: Those lands are still being offered for sale.

Mr. LOCKHART: Yes, and could you tell us the approximate sale price?

Mr. VAUGHAN: I have not the figure here, but could get it.

Mr. LOCKHART: I have had one or two inquiries.

Mr. COOPER: $2,000,000.

Mr. JACKMAN: Is that what came in last year?

Mr. COOPER: No, $2,000,000 outstanding on contracts.

Mr. NICHOLSON: What is the general selling policy with regard to land available? Do you try to push sales?

Mr. VAUGHAN: Yes, sir. We have a land department located in Winnipeg which has been supervising our land sales for many years and they are constantly endeavouring to sell these lands particularly at times when the market is good and the price fair.

Mr. NICHOLSON: Have you a record of the land sold last year?

Mr. VAUGHAN: I do not think we have it here but we can get it for you. Have you got it, Mr. Cooper?

Mr. COOPER: No.

Mr. VAUGHAN: We will get it for you.

Mr. JACKMAN: Do you have to pay taxes on this land or was it granted to you tax-free?

Mr. VAUGHAN: We pay taxes on it.

Mr. JACKMAN: Speaking of the system as a whole, what is the general principle in regard to municipal taxation on all the Canadian National lines, apart from the Canadian government railways, you pay taxes on Canadian National lines?

Mr. COOPER: We pay taxes in Quebec, that is municipal taxes, Ontario and in Alberta and British Columbia.

Mr. NICHOLSON: How about Saskatchewan and Manitoba?

Mr. VAUGHAN: We pay a special tax there.

Mr. COOPER: Under provincial legislation we were exempted from municipal taxation in Manitoba and Saskatchewan. We pay taxes to the provinces which I think were intended to cover the taxes to the municipalities.

Mr. JACKMAN: Was it part of the agreement when you went there in the first place that you did not pay taxes on the land which you had?

Mr. COOPER: Well, I do not know about that. It is in the legislation of Manitoba and Saskatchewan that municipalities cannot tax the railways.

Mr. JACKMAN: That must be a right which the railways acquired at some time, I suppose. In the maritime provinces you do not pay any municipal taxes at all.

Mr. COOPER: We pay in a few isolated instances on what we term non-railway properties.

Mr. JACKMAN: Was that because the railway there was the old Intercolonial?

Mr. COOPER: Generally, yes.

Mr. McCULLOCH: What about your properties in Montreal?

Mr. VAUGHAN: The situation there is different. Our property in Montreal is vested in the railways. The property at Halifax is vested in the Crown.

Mr. McCULLOCH: Could you have that changed?

Hon. Mr. CHEVRIER: I suppose parliament could do that, but that is a question which has come up before I think on many occasions. It is the subject of a lawsuit now in Halifax and Saint John. Mr. Hazen brought that up the day before yesterday. It is a question of the railways in the maritime provinces being vested in the Crown as opposed to the railways in upper Canada being vested in the Canadian National Railways.

Mr. McCULLOCH: I am thinking not of Halifax as much as the rest of Nova Scotia, Halifax is not all of Nova Scotia.

Hon. Mr. CHEVRIER: It covers Nova Scotia, part of Prince Edward Island and some of it is in New Brunswick as well.

Mr. JACKMAN: Does the Crown not pay those municipalities anything in lieu of their rights to tax?

Hon. Mr. CHEVRIER: I understand that there are some payments made. Is that not correct, Mr. MacMillan?

Mr. MACMILLAN: That is right, sir.

Mr. JACKMAN: I understand that during the war in Great Britain where they had many war factories the Crown there paid a rate which I understand was identical to that to which the property would have been subject had it not been held in the name of the Crown. Is there anything paid to those municipalities down there equivalent to what they would have if the property had been taxable?

Hon. Mr. CHEVRIER: I do not know if they are on the same basis at all. I do not know whether there is any relationship between the amounts paid in Great Britain and here.

Mr. JACKMAN: The principle was that they gave exactly the same amount but did not recognize the right of the municipality to tax the Crown. Do we deal as fairly here with this property which is owned by the Crown and used by the railway system? Do you happen to know if the amounts paid for the use of the properties, that is in the way of rates paid in lieu of taxes, is about equivalent to what the taxes would be?

Mr. VAUGHAN: We pay very little, Mr. Jackman, in the way of taxes down there. We pay taxes voluntarily, for instance, at Halifax, on the hotel. There are certain negotiations now going on in respect to taxes and something may come out of them.

Mr. JACKMAN: I understand there is a suit pending at the present time?

Hon. Mr. CHEVRIER: Yes.

Mr. JACKMAN: How much would the value of the property used by the railway be in the city of Halifax?

Hon. Mr. CHEVRIER: The lawsuit has to do not only with the taxation at Halifax, I think it has to do with taxation elsewhere as well. Is that right, Mr. MacMillan?

Mr. MACMILLAN: Yes. The present legislation is with respect to legislation given the cities of Halifax and Saint John to levy a business tax against the Canadian National as manager of Canadian government properties, based virtually on the assessed value.

Mr. JACKMAN: That business tax, is it the same as the normal tax rate of the city of Halifax?

Mr. MACMILLAN: Yes, it is on a sliding scale.

Mr. JACKMAN: Is it a general tax rate they apply in the city of Halifax against business assessments, the tax to which you have just referred; and, is it about equal to the value of the property?

Mr. MACMILLAN: I think the business tax situation in the city of Halifax is quite unlike that which is in effect elsewhere in the dominion. The scale climbs very quickly and it provides revenue derived elsewhere from the annual assessment on real property. It would really be quite difficult to compare it to the general assessment in Toronto, or the business tax.

Mr. JACKMAN: In considering the results of the system it might be of some interest to the committee to know how much property was held in the various municipalities of the maritimes which was not subject to the ordinary municipal taxes; and once given that you could deduct from it the amount paid in lieu of taxes. I understand there is some contribution, as Mr. Vaughan mentioned with respect to the hotel business; and in that way you could arrive at the net saving to the railway company because of certain properties held by the Crown. That would be very interesting. Could that be given to us?

Hon. Mr. CHEVRIER: I understand that that is evidence which has already been submitted in the Saint John court; and if it is, then I do not think it should be given here since the matter is sub judice. This matter of taxation is one that is under litigation now and I doubt if it is a rule of this committee any more than it is a rule of the House to give information which is given in evidence in a court of law while the matter concerned is still before the court.

Mr. JACKMAN: I am not trying to do that so much as to get certain facts which have to do with the results of the C.N. system. They have certain advantages on some parts of the system and it would be interesting to know how extensive they are.

Mr. VAUGHAN: I do not think, taking it all in all, that we have any advantage over any other system. Some of our competitors have exemptions in the west similar to what we have down east.

Mr. JACKMAN: Have you not got certain exemptions in the west also?

Mr. VAUGHAN: Not to the same extent, on account of their charter they have specific exemptions. We do not want to withhold any information, but I do think it might prejudice the case which is now before the courts if we discuss the matter here.

Mr. JACKMAN: I had no intention of doing that. I would like to have the information if it were available. It is hard for me to see how it could in any way prejudice the case which is now before the courts down there. All I want is the mere fact of the value of the properties you have in that category down in the maritimes.

Hon. Mr. CHEVRIER: Are we not bound by the rules of the House and of the committee? I do not want to appear to be curtailing discussion on it, but it is a clear rule of the House by which this committee is bound that when a matter is before the courts it should not be discussed here.

Mr. JACKMAN: I am not asking for a discussion of the whole matter. I am asking for a simple bit of information which apparently is public property already.

Hon. Mr. CHEVRIER: Well, there has been no attempt to stop you getting any information or to answer any questions; in fact, they have practically all been answered until you got to that one. It strikes me that there is a valid objection to answering it and I would think it should not be pressed.

Mr. JACKMAN: Perhaps we can defer it until the next time and maybe then we will have the decision of the court.

Hon. Mr. CHEVRIER: I think you should have it then.

Mr. VAUGHAN: Another question was asked by Mr. Hazen. He asked for a breakdown of the $2,168,000 spent under the heading of injuries to persons. The answer is, to the public, $172,927, and to employees, $1,995,000. There was another question asked, I think, by Mr. Nicholson, as to the cost of the oriental and European organizations. The answer is the cost of conducting our business there, that is, salaries, offices and all incidental expenses, was $108,796; that was for the European organization, and the Orient office cost $8,740.

The CHAIRMAN: Were those all the questions which were asked? Gentlemen, we were at page 19 when we adjourned.

Mr. HAZEN: I asked a question yesterday and I am not quite clear about the answer. I asked if the eight hotels operated by the company have earned enough to pay interest on the amount of capital invested. Do I understand the answer was that they did not earn enough, is that right? I had in mind the hotel here, surely it earns enough to pay interest on the investment?

Mr. COOPER: Are you speaking of 1946?

Mr. HAZEN: I was speaking in broad terms, yesterday. I asked if the eight hotels owned by the railway earned enough to pay interest on the capital invested. I understood the answer was that they did not.

Mr. COOPER: No, the answer was that they did. In 1946, our net operating income was $1,102,000 and I said we had $27,000,000 invested in hotels. Taking that amount at 3 per cent it would give us $810,000, so that if from $1,102,000, you deduct $810,000 for interest, you see that the hotels earned their interest.

Mr. HAZEN: That was in 1946?

Hon. Mr. CHEVRIER: Was the position the same in 1945, 1944 and 1943?

Mr. COOPER: In 1945, the hotels earned a little more than they did in 1946. I have not the 1944 figures here, but in answer to a question from Mr. Nicholson, we undertook to prepare a statement of hotel results from 1937 forward. That statement is in the course of preparation and possibly will be ready tomorrow.

Mr. HAZEN: That will give the answer?

Mr. COOPER: Yes.

The CHAIRMAN: Very well, gentlemen, what about page 19 which we were considering at the noon adjournment. It concerns funded debts, principal and interest. Have you any questions on that?

Mr. NICHOLSON: Nearly every year the president has made some comment on the burden imposed on the company by fixed charges. I wonder if he could report whether any progress has been made with a view to having the government relieve the railway of some of this burden? I think in view of the fact representations have been made to get relief from the public in the way of increased freight rates, some adjustment should be made in the capital structure.

Mr. VAUGHAN: I made quite a lengthy statement on that last year, as you will recall. There has not been any change in the situation since that time. I do not think I can say anything more on the subject. We are still carrying on negotiations with the Department of Finance, but we have not reached any conclusions as yet.

Mr. NICHOLSON: I wonder if the minister has any comment to make?

Hon. Mr. CHEVRIER: I can substantiate that by saying the government has been considering and is sitll considering the very broad question of fixed charges on the Canadian National Railways. It is a question which involves many things and it is not one easy of solution or decision. There has been no final decision on it and, while I should like to be able to encourage the honourable member as to what the decision may be, I am afraid, at the moment, all I can say is that it is being carefully looked into.

Mr. JACKMAN: Mr. Chairman, I noticed with regard to that subject, the auditor's report also contains a statement pointing out the ratio of fixed charges to operating revenue was 11·3 per cent. This was relatively high. I suppose that that ratio was very much higher in the pre-war years?

Mr. COOPER: Oh yes, in 1939, for example, it was 26·24 per cent.

Hon. Mr. CHEVRIER: As compared to 16·76 for the Canadian Pacific.

Mr. COOPER: And as compared with 5 per cent for the class 1 roads in the United States.

Mr. JACKMAN: It has been declining?

Mr. VAUGHAN: The ratio has not been declining.

Mr. JACKMAN: Have you a statement giving the ratio for the Canadian Pacific and similar lines in the United States?

Mr. COOPER: In 1945, the Pennsylvania was 7·8; the New York Central was 6·7; the Southern Pacific 4·4; the Santa Fe 1·7; the Union Pacific, 2·8; the B & O, 4·8; then, the class 1 roads as a group, 5·8 per cent. The Canadian Pacific was 6·1 per cent and the Canadian National 11·3 per cent.

The roads which I mentioned are the large roads with which it is reasonable to compare the Canadian National Railways in a broad way. You can see that the ratio of our fixed charges to revenue is approximately twice that for any other comparable road.

Mr. NICHOLSON: What was the Canadian Pacific figure again?

Mr. COOPER: 6·16 per cent.

Mr. JACKMAN: Has the ratio on other railways, that is, on fixed charges to operating revenue, been declining to anything like the same degree as the Canadian National's?

Mr. COOPER: Well, Mr. Jackman, under war traffic conditions where railway revenues doubled, you see, obviously the relation of fixed charges to revenue—

Mr. JACKMAN: But it is, relatively, comparing your railroad to the other lines?

Mr. COOPER: I do not think so at all.

Mr. JACKMAN: They have all gone down very substantially?

Mr. COOPER: I think we were a little further out of proportion than we were in 1939.

Mr. JACKMAN: You mean if they were 8 and you were 16, you are 8 now and they are less than 4?

Mr. COOPER: In 1929, the class 1 roads were 15 and we were 26. They are 5·8 now, and we are 11·3. We are now about twice but we were not twice in 1939. We were as 26 is to 15, now we are as 11 is to 5; the disproportionate charge on the Canadian National has been increased rather than diminished.

Mr. JACKMAN: The problem of your relatively bad ratio has been greatly lessened with the tremendous increase in volume. As Mr. Vaughan said yesterday, $300,000,000 of gross operating revenue might have been sufficient to keep the railroad in a sound financial position, but now it takes $400,000,000, so it is the bondholder who is taking the loss in this matter because you are handling far more revenue and the whole National income is higher.

Mr. COOPER: I would not say that because you must—

Mr. VAUGHAN: Wages and material have gone up so we are in exactly the same position, Mr. Jackman, as we were before.

Mr. COOPER: Our operating ratio has increased and the margin between net operating revenue and fixed charges has shrunk.

Mr. JACKMAN: I know, you have not very much margin.

Mr. COOPER: Our operating ratio is 89 per cent. Taking 11 per cent as available, we do not have enough left over from operating to pay fixed charges. We had a deficit of $9,000,000.

Mr. NICHOLSON: I wonder if Mr. Vaughan could outline briefly just what is the most recent proposal you have made to the government about giving you relief?

Mr. VAUGHAN: The proposal as made to the government was that they accept from us income bonds to take the place of the vested securities, that is the debenture stocks of the C.N.R., G.T.R. and G.T.P. vested in Great Britain during the war. That is to say the interest would be paid when earned to the extent that interest was earned.

Mr. REID: Has any valuation ever been made of the physical assets of the company, the entire physical assets? Has a valuation been made? That is to say if it was at 3 per cent what would the interest be per annum? I raise the question because the statement was made that if all the overhead and financial liability of the C.N.R. were withdrawn, if they did not have that overhead to meet as a railroad company, they could make ends meet. I am interested in knowing what the actual physical valuation at 3 per cent is? What would the interest charges be per annum?

Mr. VAUGHAN: You mean what the interest on the valuation at 3 per cent would amount to?

Mr. COOPER: If we had to pay our fixed charges at their present rates and in addition had to pay 3 per cent on the shareholders' capital, in 1946 we would have had a deficit of $40,000,000.

Mr. REID: I am not speaking of the shareholders' capital. There are certain figures which go before the board of transport commissioners whenever they want an increase, and usually they are asked what total amounts of money have been spent by the company. The share capital would not probably have any relation to what has been spent by the company, but I am anxious to know if any survey has ever been made as to the value of the physical assets of the company? Surely that has been done over the years? What would happen if someone in the world would be bold enough to come along and say "we will buy the entire concern"? Take a hypothetical case. The first thing that would happen would be to find out what the physical assets were worth, that is in land and everything else?

Mr. VAUGHAN: I think the first thing you would do would be to find out what the railway could earn. You would not want to know what the railway cost but what it could return on the investment if you were to buy the property. That is the first thing you would want to find out. You would want to know what interest could be earned on that investment.

Mr. REID: I am not that smart. I would be asking what the thing was worth and I would want a practical figure. If I were buying a building that is what I would want.

Mr. VAUGHAN: No, you would be interested in the value more than in the cost.

Mr. REID: Yes, that is what I would want to know, I would want to know what the building cost and what it is valued at today.

Mr. VAUGHAN: If you were buying an apartment building you would sit down and say "I will make an offer on that apartment building based on say an earning of 4 per cent". That might have absolutely no relation to the cost of the building at all. It might be only for half the cost.

Mr. REID: I have been in the House of Commons eighteen years and every year I have heard it stated that if you just removed all this overhead and put the C.N.R. on the same basis as the C.P.R. it would make a good showing. I would like to know if it would make a good showing if you cleared it of all this capitalization which has been endured through the years.

Mr. VAUGHAN: I think the only proper comparison is with other railroads with which we compete, those having fixed charges on a comparable basis. We all know if these properties had not been taken over by the government they would have gone through receiver's hands and the fixed charges would have been scaled down very materially just as the Soo line of the Canadian Pacific was dealt with.

Mr. REID: We have a railroad in British Columbia which I would like to sell, the P. and G., and I venture if you went in to buy it you would want to know what the property was worth.

Mr. VAUGHAN: I would want to know what it could earn, but I would not pay much attention to what had been spent on it.

Mr. REID: You would be very interested in the financial statement, and you would not say "I am not interested in what is invested".

Mr. VAUGHAN: I would be interested in what the property could earn.

Mr. REID: What it is able to earn.

Mr. NICHOLSON: If your fixed charges were the same as the C.P.R. what would have been the difference in 1946 operations?

Mr. COOPER: I will have to work that out for you. I think I have it for 1945.

Mr. VAUGHAN: We have the fixed charges of the C.P.R.

Hon. Mr. CHEVRIER: It would have meant the difference between a surplus and a deficit.

Mr. WARREN: In the meantime, to go back to Mr. Reid's point. I think it is very interesting. The picture we have is that the C.N. railways are pledged to pay more than the system can bear and if that were not true they would be able to make a good showing. I can understand why Mr. Reid wants that cleared up.

Mr. VAUGHAN: That is the point we are making. If the fixed charges were scaled down to a point where the railway could pay interest it would be fine. Coupled with that is always the fact, it applies to the C.P.R. as well as ourselves, we have got to have adequate freight rates to enable us to pay our way.

Mr. WARREN: I have never been on this committee before but it occurred to me that a favourite piece of propaganda has been that we were paying in taxes $1,000,000 a week, $55,000,000 a year at one time.

Mr. VAUGHAN: That was a good many years ago.

Mr. WARREN: Yes, and I am very glad and I am very proud to listen to the discussion on the setup now and hear that the system is getting to the position where they had a surplus last year.

Hon. Mr. CHEVRIER: I think there is one thing that has been forgotten, and that is when the Canadian National railway took over the roads and operation of the roads on the system, they did not go into liquidation such as the roads in the United States did and they had to take over tremendous debt. Mr. Cooper probably knows what it was, but the interest charges on that debt has amounted to over $100,000,000. It has been $161,000,000 over the years. That is why I take it the president answers the question Mr. Reid asks by saying it is not so much the money that has gone into the road as what it is able to earn that counts.

Mr. REID: Coming back to that, surely with all the accounting systems they have, and I understand they have a very splendid one, surely some estimate has been made as to the physical value.

Hon. Mr. CHEVRIER: If you will look at page 10 you will see under the investment statement, a brokendown statement, what the physical assets are.

Mr. NICHOLSON: Attacking the problem from another angle, if one were to assume you had the same fixed charges since Canadian National was incorporated as your competitor, the Canadian Pacific railway has, you would not have had these large deficits built up in the 1930's. I think you have always paid operating expenses. I imagine since you were first organized there would have been the same return on the capital if you had similar fixed charges to those of the C.P.R.

Hon. Mr. CHEVRIER: How did you put that again?

Mr. VAUGHAN: The fixed charges of the C.P.R. last year according to their annual report were $18,000,000.

Hon. Mr. CHEVRIER: And what were those of the Canadian National?

Mr. VAUGHAN: Our fixed charges were $44,000,000.

Hon. Mr. CHEVRIER: That is including government loans?

Mr. JACKMAN: But you are the largest railway, the largest in the world.

Mr. VAUGHAN: Yes, but we have more unprofitable territory to operate in and much higher interest charges.

Mr. JACKMAN: Just looking at the balance sheet, would you not say, on the basis of replacement, and I would not want to hold you to this statement, there is no padding on the asset side and we have nothing omitted on the liability side, there is actually $2,000,000 worth of replacement value at today's level.

Mr. VAUGHAN: Those figures of course represent the cost of the property.

Mr. JACKMAN: But there is no water in it as you know it, the way it comes to us today? It may be an unwise expenditure but it is not watered?

Mr. VAUGHAN: All I can say to that is that when these operations were taken over, such as the Grand Trunk, Grand Trunk Pacific and Canadian Northern Railway, there was not one of them earning its interest charges.

Mr. NICHOLSON: Has Mr. Cooper the information I was asking for?

Mr. COOPER: These figures show what their results would have been if their fixed charges in relation to revenue had been on our scale. The Pennsylvania, which in 1945 had a surplus of $49,000,000, would have had a surplus of $16,000,000. That is if their fixed charges had been in the same relation to gross revenues that they are on the Canadian National. The New York Central, which had a surplus of $24,000,000, would have had a deficit of $5,000,000. The Southern Pacific, which had a surplus of $33,000,000 would have reported a deficit of $7,000,000. The Santa Fe, which reported a surplus of $29,000,000, would have had a deficit of $21,000,000. The Union Pacific, which had a surplus of $33,000,000, on our basis would have reported a deficit of $8,000,000. The B & O, which reported a surplus of $15,000,000, would have reported a deficit of $7,000,000. The class I roads as a whole, which reported a surplus of $450,000,000, would have reported a deficit of $32,000,000 if their fixed charges had been in the same relation as ours. The Canadian Pacific, which reported a surplus of $31,000,000 in 1945, would have had a surplus of $15,000,000.

Mr. NICHOLSON: In view of the fact that the Minister of Finance reported a surplus of about $1,000,000 a day last year I think the government should give favourable consideration to your representations to extend some relief to bring your fixed charges in line with other similar railways.

Hon. Mr. CHEVRIER: I am hopeful they will.

Mr. REID: What would be the saving in interest charges per year if it were possible to call in all the shares and issue them at the regular rate of interest prevailing which is around 2½ to 3 per cent? What saving would there be?

Mr. VAUGHAN: What is our average?

Mr. COOPER: Our average interest rate in 1946 was 4·24. That is on our debt to the public. If you include amortization of discount and things of that sort it was 4½ per cent. If you put it on a 3 per cent basis the interest would be scaled down just one-third and instead of paying $23,000,000 we would have been paying about $15,000,000 in so far as interest to the public is concerned.

Mr. REID: Quite a saving.

Mr. COOPER: Yes.

Mr. JACKMAN: If your request last year to have the government exchange repatriated securities for an income debenture had been acceptable what difference would that have made in your deficit?

Mr. COOPER: It would have wiped it out. The interest on the repatriated securities was $13,698,000, and our deficit was $8,961,000.

Mr. JACKMAN: It would have put you in the clear for last year.

Mr. COOPER: We would have had a surplus of $4,700,000.

Mr. JACKMAN: I will not draw the deduction that in that case you would not have had to join in the application for an increase in freight rates.

Mr. COOPER: We would not have had to get an appropriation of parliament to pay the government the interest we owe.

Mr. JACKMAN: You are asking me a question. I asked you one.

Mr. COOPER: No, sir.

Mr. VAUGHAN: In answer to that, I would say we would have had to join in the application just the same because our expenses this year are so much higher than they were last year.

Mr. JACKMAN: Well, that is a very broad and large question.

Mr. REID: Does the term "guaranteed gold bonds" mean anything as against "guaranteed bonds"? Is it just a financial term?

Mr. COOPER: I do not think it has any significance today. Possibly it had at the time those bonds were issued when Canada was on the gold standard.

Mr. WARREN: This morning there was some conversation that brought up the question of the Canadian National as a service in connection with parlour cars. Yesterday the question was brought up from another angle. We have lines running from Arnprior to Eganville, and from Golden Lake to Pembroke, that the C.N.R. have been trying to get rid of because they do not pay. The residents of North Renfrew have always been able to argue the matter on the basis of service to the people. I can easily understand that a lot of these expenditures are actually for a service and well worth while even if we do go in debt a bit on the Canadian National System.

The CHAIRMAN: Have you discussed that problem enough to turn over another page? We will turn to page 20, Investments in affiliated companies.

INVESTMENTS IN AFFILIATED COMPANIES

COMPANY	Total Par Value Outstanding	Owned by Can. Nat. System Par Value	Owned by Can. Nat. System Book Value
STOCKS:			
The Belt Railway Company of Chicago	$ 3,120,000.00	$ 240,000.00	$ 240,000.00
Canadian Government Merchant Marine, Limited	800.00	800.00	800.00
Central Vermont Transportation Company	200,000.00	50,000.00	20,000.00
Chicago & Western Indiana Railroad Company	5,000,000.00	1,000,000.00	1,000,000.00
The Detroit & Toledo Shore Line Railroad Company	3,000,000.00	1,500,000.00	1,500,000.00
Detroit Terminal Railroad Company	2,000,000.00	1,000,000.00	1,000,000.00
Northern Alberta Railways Company (representing amount paid up, i.e. 10%)	625,000.00	312,500.00	312,500.00
The Ontario Car Ferry Company (Limited)	500,000.00	250,000.00	179,007.53
The Public Markets, Limited	1,150,000.00	575,000.00	575,000.00
Railway Express Agency, Incorporated (no par value)	1,000 shares	6 shares	600.00
The Toronto Terminals Railway Company	500,000.00	250,000.00	250,000.00
The Toledo Terminal Railroad Company	4,000,000.00	387,200.00	387,200.00
Trans-Canada Air Lines (representing amount paid up, i.e. 82·5%)	6,600,000.00	6,600,000.00	6,600,000.00
Vancouver Hotel Company Limited	150,000.00	75,000.00	75,000.00
			$12,140,107.53
BONDS:			
Northern Alberta Railways Co. 1st Mortgage Bonds	$31,530,000.00	$15,765,000.00	$15,765,000.00
The Toronto Terminals Railway Co. 1st Mortgage Bonds	25,810,000.00	12,905,000.00	12,905,000.00
			$28,670,000.00
ADVANCES:			
Chicago & Western Indiana Railroad Company			$ 2,482,544.01
The Railroad Credit Corporation			5,555.86
Railway Express Agency, Incorporated			155,077.87
Vancouver Hotel Company Limited			10,207.89
			$ 2,653,385.63
			$43,463,493.16

MAJOR CONTINGENT LIABILITIES

Trans-Canada Air Lines:

At 31st December, 1946, Canadian National Railway Company had subscribed for $8,000,000 of the Capital Stock of the Air Lines of which $6,600,000 has been called and paid in.

Northern Alberta Railways Company:

At 31st December, 1946, Canadian National Railway Company had subscribed for $3,125,000 of the Capital Stock of the Railways Company of which $312,500 has been called and paid in.

The Detroit & Toledo Shore Line Railroad Company:

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

The Toledo Terminal Railroad Company:

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

Chicago & Western Indiana Railroad Company:

Assumed by Grand Trunk Western Railroad Company, pursuant to joint supplemental lease dated 1st July, 1902, between Grand Trunk Western Railway Company and four other proprietary companies. Obligation is for repayment of principal of bonds at their maturity, and of interest as it falls due by way of annual rentals. The Grand Trunk Western's obligation is for one-fifth of the bonds issued for "common" property and the entire amount of bonds issued for its "exclusive" property. The bonds are Consolidated Mortgage 50 Year 4 per cent bonds due 1952 and the amounts outstanding at 31st December, 1946, are:—

Issued for "common" property	$39,973,019.39
Issued for "exclusive" property	252,535.36

Assumed by Grand Trunk Western Railroad Company pursuant to joint supplemental lease dated 1st March, 1936, between Grand Trunk Western Railroad Company and other proprietary companies. Obligation is to pay as rental sinking fund payments sufficient to retire bonds at maturity and interest as it falls due. The Grand Trunk Western's proportion is one-fifth in the absence of default of any of four other tenant companies. The bonds are First and Refunding Mortgage 4¼ per cent Series "D" Sinking Fund Bonds due 1962 and the amount outstanding at 31st December, 1946, is $17,198,000.

C.N.R. Pension Plan:

Reserves have been set up against contracts in force under the 1935 contractual plan, but not against pensions conditionally accruing under that plan or prior non-contractual plans.

Mr. Reid: Why does the Canadian National Railway invest in Trans-Canada Air Lines? Trans-Canada Air Lines had a deficit last year. What was the object of the investment by the C.N.R. of $8,000,000 in stock?

Hon. Mr. Chevrier: The Canadian National Railway own T.C.A. They own all the shares.

Mr. Jackman: On that point why did the C.N.R. go into the T.C.A.? I understand your competitor turned a somewhat similar offer down, perhaps to their regret, but was that forced on you by the government, or was that something the board of directors of the C.N.R. wanted to do?

Mr. Vaughan: As I recall it when Trans-Canada Air Lines was formed the government was exceedingly anxious that there should be an air line in Canada worthy of the importance of the country. They came to both the Canadian Pacific and the Canadian National Railways and offered each an equal interest in it. My understanding is that the C.P.R. did not take it because they could not control it. Many times since they would like to have had an interest in Trans-Canada Air Lines.

Mr. Nicholson: What sort of price would they be likely to offer if they were to get a monopoly of it now?

Mr. Vaughan: I could not say that, but Trans-Canada Air Lines has been a very successful operation. It is true they lost money last year, but that was not uncommon with air lines on the North American continent. I think you will get the full story in connection with Trans-Canada Air Lines in a few days when Mr. Symington comes before you.

Mr. JACKMAN: As far as its relation to the C.N.R. system is concerned did you want to go into it or were you the willing work horse to take it on?

Mr. VAUGHAN: I think our people were quite willing to go into it. They felt that air lines were a coming method of transportation, and as the Canadian National Railway was in the transportation business it was felt that it would be better for us to control the air lines than to have a competing air line.

Mr. JACKMAN: That is the reason that the I.C.C. in the United States does not allow railways to go into it, because they do not want one form of transportation to control another form of alternative service.

Mr. COOPER: It is not I.C.C., it is the C.A.B.

Mr. VAUGHAN: That was a government ruling. That was not the I.C.C.

Mr. JACKMAN: As a matter of fact, is it quite fair to say that the C.P.R. did not go into it because they could not control it? Was it not a fact that had there been this joint operation or joint ownership the C.N.R. would have had so many directors, the C.P.R. would have had so many, and the Department of Transport, or the government, would have had so many, so that the Department of Transport and the C.N.R. being one and the same at times—

Hon. Mr. CHEVRIER: Not always.

Mr. JACKMAN: —would have control, and the other party would be in the minority. Is that not somewhat close to the facts?

Mr. VAUGHAN: As a matter of fact, I cannot tell you the whole story. It was not handled by me. I had nothing to do with it at the time.

Mr. JACKMAN: You cannot say definitely the C.P.R. turned it down because they could not control. Perhaps they turned it down because they could not be an equal partner in the enterprise.

Mr. VAUGHAN: I understand they would have been an equal partner with the Canadian National Railways.

Mr. JACKMAN: There might have been a third party.

Mr. VAUGHAN: There might have been. I have not got all the facts before me now.

Hon. Mr. CHEVRIER: You can get all that information from Mr. Symington next week or the week after when he comes here.

Mr. VAUGHAN: Mr. Symington will be prepared to answer any questions you have to ask in connection with the T.C.A.

Mr. NICHOLSON: With regard to the Northern Alberta Railway, how did the operation turn out last year?

Mr. VAUGHAN: There was a substantial loss. Mr. Cooper has the figures in that regard.

Mr. COOPER: The Northern Alberta Railway's deficit absorbed by the Canadian National Railway Company in 1946 amounted to $495,000; and as that represents one-half of their deficit they must have lost $990,000.

Mr. NICHOLSON: How many years have you operated surplus there?

Mr. COOPER: Three or four years of the war were profitable years for the Northern Alberta Railway.

Mr. NICHOLSON: Some of the people living up there argue that if they had their connection with the west coast it would operate on a profitable basis; have you studied that problem?

Hon. Mr. CHEVRIER: That is the road from Dawson Creek to Prince George?

Mr. NICHOLSON: Yes. What are the prospects of completing that link?

Mr. VAUGHAN: That question has been studied many times. We have not been able to discover any justification as yet for spending so large a sum of money which would be necessary to build that line from the Peace River country down to Prince George.

Hon. Mr. CHEVRIER: Have you seen the report of the British Columbia legislature on it?

Mr. REID: I wish to refer to the investments in various United States companies, on page 20. Will those investments have any interest retirement value?

Mr. COOPER: That information was given to the committee this morning.

Mr. REID: Oh, well, then you need not answer it now.

Mr. JACKMAN: Speaking generally, with regard to the talk of the line between the Peace River country and Prince George, would the traffic then flow to Vancouver on that line?

Mr. VAUGHAN: Yes, but there is a good deal of the grain from the Peace River country today that goes there because it goes down to Edmonton and then over our line to the Pacific coast. I do not think the people up there are handicapped to any extent.

Hon. Mr. CHEVRIER: There has been discussion with regard to a line from Dawson Creek to Prince George, the Pine Pass and the Peace River Pass, and other routes.

Mr. VAUGHAN: That would involve the expenditure of a large sum of money on the P.G.E., because they have no connection from Quesnel to Prince George nor from Clinton down to our main line or the main line of the C.P.R.

Mr. NICHOLSON: Do you remember offhand how many miles it is from Dawson Creek to Prince George?

Mr. VAUGHAN: Several hundred miles; it would be 400 or 500 miles.

Mr. JACKMAN: Is that the black line on your map—the P.G.E.?

Hon. Mr. CHEVRIER: There is nothing shown on your map. That is the black line. There were two or three projects, one from Dawson Creek to Hudson Hope, and then there was this other one through Pine Pass and another through the Peace River Pass.

Mr. JACKMAN: Is that a matter of any immediate concern—that is the development of that line—or are you waiting for a large population to go into the Peace River district?

Mr. VAUGHAN: The Peace River people, of course, are constantly pushing for the construction of that line because they feel it would give them a direct outlet to the Pacific coast. It would involve the completion of the P.G.E. and the expenditure of a large amount of money. They are able to get their grain out to the Pacific coast through Edmonton.

Mr. JACKMAN: Most of the traffic arising in the Peace River country flows to the Pacific coast, does it?

Mr. VAUGHAN: No, there is a good deal flows east from Edmonton. Today the grain that originates there is directed to destination by the Wheat Board.

Mr. JACKMAN: If the normal channel of movement were followed would most of it go to the Pacific coast?

Mr. VAUGHAN: That would depend entirely on the market for grain and how the elevator companies which owned the grain desired to move it.

Mr. JACKMAN: But if shipping is free—and I presume it is getting freer all the time—is that the normal movement, to the Pacific coast rather than the long rail haul across the country?

Mr. VAUGHAN: Yes, there is a substantial movement, mostly from the province of Alberta to the Pacific coast of grain.

Mr. REID: May I suggest to you that the company give some consideration to the valuable piece of property you have lying on your branch line between the city of New Westminster and Vancouver, along the north arm of the Fraser river? The Vancouver industries are coming along until that is a great industrial area in British Columbia. Under a scheme in co-operation with the Department of Public Works there is no reason why that land could not be filled in through dredging sand in the river and it would make a very valuable industrial centre which would bring returns as well to the company. It is on that branch line. That land is becoming valuable, but it would be of very little use unless it is levelled and filled in from the river. I am asking you to give that matter consideration.

Mr. VAUGHAN: We will give it consideration. We have a substantial amount of land available for industrial purposes in New Westminster.

Mr. REID: It cannot be used until it is filled in. It can be filled in and a double purpose can be served of dredging the river and putting that sand into the fill, and you have a valuable industrial property which will bring a return by way of rentals an dalso a return to the railway.

Mr. VAUGHAN: I am not sure that I understand which piece of property you mean.

Mr. REID: You know the branch line that goes along the north arm to New Westminster?

Mr. WALTON: Lulu Island?

Mr. REID: Yes. It follows the north arm for some distance. The land has been low-lying for several years and it cannot be used, but most property owners and industrial concerns get sand pumped from the river into it. The C.N.R. has done nothing with that property, and yet they have a branch line there. The whole area is industrialized. Lumber and other materials have been shipped from the north arm in large quantities.

Mr. WALTON: We had a request from our western region officials. I do not know whether that is the same piece of land that Mr. Reid speaks of; it is in the bend of the river. Material could be deposited there when dredging is being done, and we have had that up with the Department of Public Works. I think I am speaking of the same place.

Mr. REID: Would you please take note of it again?

Mr. WALTON: Yes.

Mr. JACKMAN: How soon would you think consideration might be given to the development of that Peace River railway—five, ten, fifteen years; or is it too far in the future?

Mr. VAUGHAN: It is too far in the future. It would depend entirely upon the need for a railway and whether there were minerals and other things developed along the line of the proposed route which would produce sufficient traffic to make the line pay.

Mr. JACKMAN: It is very distant?

Mr. VAUGHAN: Yes.

The CHAIRMAN: Is that all the discussion on page 20; what about page 21?

Mr. LOCKHART: What is the actual position of the Toronto Terminals? Has any information been given? What is the financial position there?

Mr. VAUGHAN: It was not expected that there would be any return. That was mentioned this morning. The railway is owned jointly by the two railways. We get 5 per cent on the bonds. That is all.

Mr. LOCKHART: There has been a deficit, has there?

Mr. COOPER: The Toronto terminal is operated as a joint facility with the Canadian Pacific. The operating costs of the joint facility are divided between the two companies on a wheelage basis and the result is that the operation breaks even. The two railways pay sufficient to balance the account.

Mr. LOCKHART: In other words it is fifty-fifty?

Mr. COOPER: The wheelage is not divided fifty-fifty. I think the Canadian National wheelage is more like 58 or 60 per cent.

Mr. VAUGHAN: But the capital charge is divided 50-50.

The CHAIRMAN: Are those all the questions on 20? Any questions you wish to ask on 21, companies comprising the Canadian National Railways system? Carried.

COMPANIES COMPRISING THE CANADIAN NATIONAL RAILWAY SYSTEM

CAPITAL STOCKS OWNED BY DOMINION OF CANADA

Company Number		
1	Canadian National Railway Company	$ 18,000,000.00
2	The Canadian National Railways Securities Trust	380,403,604.43
		$398,403,604.43

CAPITAL STOCKS OWNED BY SYSTEM OR PUBLIC

	Name of Issuing Company	Owned by Company Number	Capital Stock Issued	Owned by Public
3	Atlantic and St. Lawrence Railroad Company	1	$ 6,302,340.00	$ 111,840.00
4	The Bay of Quinte Railway Company	22	1,395,000.00	
5	The Bessemer and Barry's Bay Railway Company	22	125,000.00	
6	*Brooksay Realty Company	28	2,000.00	
7	The Canadian Express Company	1	1,768,800.00	
8	Canadian National Electric Railways	22	1,750,000.00	
9	Canadian National Express Company	23	1,000,000.00	
10	Canadian National Land Settlement Association	1	—	
11	*Canadian National Railways (France)—francs 30,000,000	1	1,893,573.92	
12	*Canadian National Realties, Limited	22	40,000.00	
13	Canadian National Rolling Stock Limited	1	50,000.00	
14	*Canadian National Steamship Company, Limited	43	50,000.00	
15	Canadian National Telegraph Company	22	500,000.00	
16	*Canadian National Transportation, Limited	1	500.00	
17	The Canadian Northern Alberta Railway Company	22	3,000,000.00	
18	Canadian Northern Manitoba Railway Company	22	250,000.00	
19	The Canadian Northern Ontario Railway Company	22	10,000,000.00	
20	Canadian Northern Pacific Railway Company	22	25,000,000.00	
21	The Canadian Northern Quebec Railway Company	22	9,550,000.00	3,849,200.00
22	The Canadian Northern Railway Company	1	18,000,000.00	
23	The Canadian Northern Railway Express Company, Limited	22	1,000,000.00	
24	Canadian Northern Steamships, Limited	22	2,000,000.00	
25	Canadian Northern System Terminals (Limited)	22	2,000,000.00	
26	Canadian Northern Western Railway Company	22	2,000,000.00	
27	Cannar Oils Limited	1	100.00	
28	*The Centmont Corporation	30	176,400.00	
29	The Central Ontario Railway	22	3,331,000.00	
30	Central Vermont Railway, Inc.	1	10,000,000.00	
31	Central Vermont Terminal, Inc.	30	5,000.00	
32	*Central Vermont Transit Corporation	28	5,000.00	
33	*Central Vermont Warehouse, Inc.	28	5,000.00	
34	The Champlain and St. Lawrence Railroad Company	1	50,000.00	
35	*Consolidated Land Corporation	46	64,000.00	
36	*The Dalhousie Navigation Company, Limited	22	50,000.00	

CAPITAL STOCKS OWNED BY SYSTEM OR PUBLIC—*Con.*

	Name of Issuing Company	Owned by Company Number	Capital Stock Issued	Owned by Public
37	Duluth, Rainy Lake & Winnipeg Railway Company	39	2,000,000.00	
38	Duluth, Winnipeg and Pacific Railroad Company	39	100,000.00	
39	Duluth, Winnipeg and Pacific Railway Company	22	3,100,000.00	
40	*Grand Trunk-Milwaukee Car Ferry Company	46	200,000.00	
41	The Grand Trunk Pacific Branch Lines Company	43	200,000.00	
42	*The Grand Trunk Pacific Development Company, Limited	43	3,000,000.00	
43	The Grand Trunk Pacific Railway Company	1	24,940,200.00	
44	The Grand Trunk Pacific Saskatchewan Railway Company	43	20,000.00	
45	*Grand Trunk Pacific Terminal Elevator Company (Limited)	43	501,000.00	
46	Grand Trunk Western Railroad Company (Common)	1	20,000,000.00	
	Grand Trunk Western Railroad Company (Preferred)		25,000,000.00	
47	The Great North Western Telegraph Company of Canada (Including $331,500.00 held in escrow)	15	373,625.00	6,925.00
48	The Halifax and South Western Railway Company	22	1,000,000.00	
49	*Industrial Land Company	46	1,000.00	
50	International Bridge Company	1	1,500,000.00	
51	The James Bay and Eastern Railway Company	22	125,000.00	
	Carried Forward		$183,389,538.92	$ 3,967,965.00

The CHAIRMAN: Let us go to page 22? Carried.

	Name of Issuing Company	Owned by Company Number	Capital Stock Issued	Owned by Public
	Brought Forward		$183,389,538.92	$ 3,967,965.00
52	The Lake Superior Terminals Company Limited	22	500,000.00	
53	The Maganetawan River Railway Company	1	30,000.00	
54	Manitoba Northern Railway Company	1	500,000.00	
55	The Marmora Railway and Mining Company	22	128,600.00	
56	The Minnesota and Manitoba Railroad Company	22	400,000.00	
57	The Minnesota and Ontario Bridge Company	22	100,000.00	
58	Montreal and Province Line Railway Company	28	1,000,000.00	
59	*Montreal and Southern Counties Railway Company	1	500,000.00	165,600.00
60	The Montreal and Vermont Junction Railway Company	30	197,300.00	
61	*Montreal Fruit & Produce Terminal Company, Limited	1	500.00	
62	*The Montreal Stock Yards Company	1	350,000.00	
63	*The Montreal Warehousing Company	1	236,000.00	12,240.00
64	Mount Royal Tunnel and Terminal Company, Limited	22	5,000,000.00	
65	Muskegon Railway and Navigation Company	46	161,293.00	
66	*National Terminals of Canada, Limited	1	2,500.00	
67	National Transcontinental Railway Branch Lines Company	1	500.00	
68	*The Niagara, St. Catharines and Toronto Railway Company	22	925,000.00	
69	*The Niagara, St. Catharines and Toronto Navigation Company (Limited)	68	100,000.00	
70	*The Oshawa Railway Company	1	40,000.00	
71	The Ottawa Terminals Railway Company	1	250,000.00	
72	The Pembroke Southern Railway Company	1	107,800.00	

CAPITAL STOCKS OWNED BY SYSTEM OR PUBLIC—*Con.*

	Name of Issuing Company	Owned by Company Number	Capital Stock Issued	Owned by Public
73	*Prince Rupert, Limited	1	10,000.00	
74	The Quebec and Lake St. John Railway Company	22	4,508,300.00	489,160.00
75	The Qu'Appelle, Long Lake and Saskatchewan Railroad and Steamboat Company	22	201,000.00	
76	*Rail & River Coal Company	1	2,000,000.00	
77	St. Boniface Western Land Company	22	250,000.00	
78	The St. Charles and Huron River Railway Company	22	1,000.00	
79	St. Clair Tunnel Company	1	700,000.00	
80	*The Thousand Islands Railway Company	1	60,000.00	
81	†Trans-Canada Air Lines	1	6,600,000.00	
82	The United States and Canada Rail Road Company	1	219,400.00	475.00
83	Vermont and Province Line Railroad Company	1	200,000.00	
84	The Winnipeg Land Company Limited	22	100,000.00	
			$208,768,731.92	$ 4,635,440.00

The Income Accounts of Companies indicated (*) are included in the System Income Account as "Separately Operated Properties."

†Treated as an Affiliated Company.

The CHAIRMAN: We come now to railway equipment on page 24.

Mr. MCLURE: You should not miss page 23.

Mr. REID: Mr. President, the new bedroom car, what would such a car cost?

Mr. VAUGHAN: A new bedroom car, today, would cost approximately $100,000.

Mr. REID: Is that your own design?

Mr. VAUGHAN: To some extent it is our own design. We have taken the best from the designs of other companies in the United States and have modified them to suit our own conditions.

Mr. REID: I think it is a splendid car.

Mr. JACKMAN: Has the manufacture of rolling stock equipment, including locomotives for foreign countries, using Canadian credits to pay for them, interfered very much with your own requirements?

Mr. VAUGHAN: Well, I think during the war, perhaps it did. I do not think it is doing so now.

Mr. MCLURE: When I was referring to this page 23, I was looking at the new Canadian National day coach. I was just wondering how long it would be before the line from Sackville to Tormentine might have a coach like that. I mention that for this reason, passengers coming from the United States or from Montreal, Toronto and other points, come down on a beautiful train, the Maritime or the Ocean Limited. These people travel in wonderful accommodation right through to Sackville. They get off at that point and, presumably, they are going to Prince Edward Island. They look for the Island train and, I do not know whether Mr. Vaughan has ever seen that Island train—

Mr. VAUGHAN: I have seen it many times.

Mr. MCLURE: It is a terrible, a disgraceful advertisement both for the road and, more so, for our province, when they have to get off these beautiful trains and then get into what is really a cattle car. I know that from travelling many times, so I know what I am going to meet.

Mr. VAUGHAN: Of course, you can get a sleeping car right from Montreal.

Mr. MCLURE: Once we had that sleeping car, yes, but we should have an additional coach, something like that, or even if you gave us one of the cast off ones you have up here instead of these which we have down there. They are really terrible.

Mr. VAUGHAN: We are trying, just as fast as we can, to rehabilitate our equipment. When that is done, we do hope to replace some of these types of cars which we know are not satisfactory. We simply have not got the equipment at the present time to do it. We are working towards that end.

Mr. McLURE: Mr. Lapointe said yesterday he was buying up all the fifty year old cars. He might come down and buy some of these.

The CHAIRMAN: Are there any more questions on page 24, railway equipment?

Carried.

RAILWAY EQUIPMENT

	December 31, 1945	Additions During Year	Retirements During Year	Conversions During Year Added	Conversions During Year Retired	December 31, 1946
LOCOMOTIVES						
Passenger—Freight	1,975		7		1	1,967
Switching	523		2	1		522
Electric	24					24
Oil Electric	37	16	3			50
Total	2,559	16	12	1	1	2,563
FREIGHT EQUIPMENT						
Box Cars	70,901	856	750	26	341	70,692
Flat Cars	5,373		29	1	33	5,312
Stock Cars	3,037		8			3,029
Coal Cars	15,661		94		5	15,562
Tank Cars	142		1			141
Refrigerator Cars	3,205	1	8			3,198
Caboose Cars	1,648		35			1,613
Other Cars in Freight Service	10		3	3		10
Total	99,977	857	928	30	379	99,557
PASSENGER EQUIPMENT						
Coach Cars	1,196		21		30	1,145
Combination Cars	270		4			266
Dining Cars	96					96
Colonist Cars	190		1			189
Parlor Cars	47			3		50
Café Cars	28					28
Sleeping Cars	302		3	1	2	298
Tourist Cars	46			1		47
Baggage and Express Cars	1,042	* 22	14			1,050
Postal Cars	49					49
Unit Cars	40		2		1	37
Other Cars in Passenger Service	65		1		6	58
Total	3,371	22	46	5	39	3,313
WORK EQUIPMENT						
Cars in Work Service	7,444	20	385	385	2	7,462
FLOATING EQUIPMENT						
Car Ferries	8					8
Barges	5					5
Tugs	4					4
Work	3					3

* Previously under lease from Arms-Yager Company.

The CHAIRMAN: Next is operated mileage on page 27.

Mr. JACKMAN: Just on the equipment, Mr. Vaughan, do you find in order to meet competition you have to be a little more, I will say, ultra modern, over there than you do in Canada and spend more money on rolling stock, passenger equipment particularly?

Mr. VAUGHAN: You are referring to our lines in the United States?

Mr. JACKMAN: Yes.

Mr. VAUGHAN: We have not done so as yet. We have good steel equipment over there the same as we have on our major lines in Canada. We have been considering the desirability of running streamlined trains between Detroit and Chicago where we have dense populations in both cities. We have not come to any conclusion as yet. Those new trains are very expensive. By the time you buy diesel engines and streamlined cars you have an expenditure of nearly 1½ million dollars in one train.

Mr. JACKMAN: Competition has not forced you to do so yet?

Mr. VAUGHAN: It has not forced us to do so yet, but it may.

Mr. WALTON: We have not yet, on the United States lines, anything which compares with the cars about which Mr. Reid has spoken.

Mr. MOORE: Has the Canadian National made any decision as between streamlined diesels and streamlined steam locomotives?

Mr. VAUGHAN: No, sir, that is something we are studying very carefully. We have, as you know, many diesel switching locomotives in service. We are purchasing more. We have, in Canada, at the present time, a couple of diesel road locomotives which we are testing. We will probably know, after we test those engines this summer, whether or not they will be suitable for any of our particular services.

Mr. MOORE: Have you had them on your continental runs yet?

Mr. VAUGHAN: Not as yet.

Mr. REID: May I call your attention to something which the Canadian Pacific is doing on the line between Kamloops and the coast. There is a place called Hell's Gate which is one of the wonders of the continent at which fish ladders have been established by the International Fisheries Commission. The Canadian Pacific has made that a regular stop. The people get off the train to look at them. We are beautifying this place to encourage tourists to visit the spot. The Canadian Pacific stops there but the Canadian National does not.

Mr. VAUGHAN: That is because our trains do not go through there in daylight.

Mr. REID: You have no local going through there, but the Canadian Pacific has a local?

Mr. VAUGHAN: That is the reason, we have no trains going through there in daylight.

The CHAIRMAN: Any further questions on statistics of rail line operations and operated mileage on pages 26 and 27?

Carried.

STATISTICS OF RAIL-LINE OPERATIONS

	1946	1945
TRAIN-MILES:		
Freight Service	41,817,432	43,381,957
Passenger Service	23,581,125	24,600,264
Total	65,398,557	67,982,221
Work Service	1,583,828	1,732,082
Total	66,982,385	69,714,303
LOCOMOTIVE-MILES:		
Freight Service	44,374,635	46,392,068
Passenger Service	23,380,822	24,382,258
Train Switching—Freight	3,797,979	3,659,667
—Passenger	118,597	104,120
Yard Switching Freight	15,339,794	15,247,844
—Passenger	1,647,359	1,474,192
Total	88,659,186	91,260,149
Work Service	2,154,186	2,402,612
Total	90,813,372	93,662,761

STATISTICS OF RAIL-LINE OPERATIONS—*Concluded*

	1946	1945
CAR-MILES—FREIGHT SERVICE:		
Loaded Freight Cars	1,140,162,216	1,173,624,393
Empty Freight Cars	477,233,755	528,469,997
Passenger Coach and Combination Cars	6,605,024	6,956,586
Sleeping, Parlor and Observation Cars	308,517	313,716
Dining Cars	20,328	15,796
Other Cars	6,851,524	6,789,874
Caboose	41,314,017	42,490,621
Total	1,672,495,381	1,758,660,983
CAR-MILES—PASSENGER SERVICE:		
Loaded Freight Cars	213,046	386,155
Empty Freight Cars	29,557	162,865
Passenger Coach and Combination Cars	67,830,334	81,828,393
Sleeping, Parlor and Observation Cars	54,245,384	61,263,172
Dining Cars	9,189,041	11,440,316
Other Cars	70,863,420	69,802,421
Motor Unit Cars	890,569	972,725
Caboose	1,147,231	1,669,296
Total	204,408,582	227,525,343
CAR-MILES—TOTAL	1,876,903,963	1,986,186,326
Work Service	4,598,630	3,989,987
Total	1,881,502,593	1,990,176,313
AVERAGE MILEAGE OF ROAD OPERATED	23,437·12	23,498·36
FREIGHT TRAFFIC:		
Tons carried—Revenue freight	78,950,008	79,941,296
Tons carried one mile—Revenue freight	30,811,920,078	34,599,518,473
Freight revenue	$300,313,199	316,533,329
Revenue per ton	$3·80384	$3·95957
Revenue per ton mile	$0·00975	$0·00915
Miles per revenue ton	390·27	432·81
Ton-miles—Revenue freight per mile of road	1,314,663	1,472,423
Ton-miles—All freight per mile of road	1,425,942	1,589,767
Gross-ton-miles of cars, contents and cabooses	71,654,047,848	77,301,216,775
Net ton-miles of freight (Revenue and non-revenue)	33,419,975,710	37,356,916,946
Train-hours in freight road service	2,723,640	2,850,886
PASSENGER TRAFFIC:		
Passengers carried	22,320,490	30,370,680
Passengers carried one mile	2,289,022,387	3,338,197,658
Passenger revenue	$50,128,223	$65,199,923
Revenue per passenger	$2·24585	$2·14680
Miles per revenue passenger	102·55	109·92
Revenue per passenger mile	$0·02190	$0·01953
Passenger-miles per mile of road	97,667	142,061
NET RAILWAY OPERATING INCOME:		
Gross Revenue per mile of road	$17,091.95	$18,459.73
Gross Railway operating charges per mile of road	$15,745.41	$15,571.11
Net railway operating income per mile of road	$1,346.56	$2,888.62

OPERATED MILEAGE, 31st DECEMBER, 1946

Territory	Owned	Leased	Trackage	Total
OPERATED ROAD MILEAGE				
Atlantic Region	2,986·85	6·41	82·95	3,076·21
Central Region	7,089·00	353·13	27·85	7,469·98
Western Region	11,427·18	34·84	64·07	11,526·09
Grand Trunk Western Lines	903·19	9·50	59·75	972·44
Central Vermont Lines	237·92	125·18	58·73	421·83
Total First Main Track	22,644·14	529·06	293·35	23,466·55
Lines in Canada	21,287·60	222·05	170·48	21,680·13
Lines in United States	1,356·56	307·01	122·87	1,786·42
OPERATED MILEAGE ALL TRACKS				
First Main Track	22,644·14	529·06	293·35	23,466·55
Second Main Track	1,218·37	9·34	85·42	1,313·13
Third Main Track	26·65	....	3·49	30·14
Fourth and Other Main Tracks	10·78	....	5·09	15·87
Spurs, Sidings and Yard Tracks	5,926·39	172·79	1,178·51	7,277·69
Total All Tracks	29,826·33	711·19	1,565·86	32,103·38

The CHAIRMAN: Then, we come to page 28 which is headed disbursement of total operating revenues and expenses, employees and their compensations.

DISBURSEMENT OF TOTAL OPERATING REVENUES AND EXPENSES

	Operating revenues were disbursed:—		Operating expenses were disbursed:—	
	1946–%	1945–%	1946–%	1945–%
Labour	55·10	47·19	61·79	57·61
Fuel	9·65	9·77	10·82	11·92
Other Expenses	24·43	24·95	27·39	30·47
Total Operating Expenses	89·18	81·91	100·00	100·00
Available for Taxes and Other Accounts	10·82	18·09		
Total	100·00	100·00	100·00	100·00
Maintenance of Way Accounts	16·76	16·21	18·80	19·79
Maintenance of Equipment Accounts	18·41	17·70	20·64	21·61
Traffic Accounts	1·77	1·39	1·99	1·70
Transportation Accounts	46·27	41·30	51·88	50·42
Miscellaneous Accounts	1·18	1·45	1·32	1·77
General Accounts	4·79	3·86	5·37	4·71
Total Operating Expenses	89·18	81·91	100·00	100·00

EMPLOYEES AND THEIR COMPENSATION

Year	*Average Number of Employees	*Total Payroll	% Inc. over Previous Year Employees	Payroll
1939	78,129	$122,354,101		
1940	82,831	132,584,063	6·02	8·36
1941	89,536	153,654,368	8·09	15·89
1942	94,592	177,042,773	5·65	15·22
1943	101,126	195,555,045	6·91	10·46
1944	102,764	222,649,839	1·62	13·86
1945	105,624	220,507,637	2·78	*0·96*
1946	105,353	237,335,781	*0·26*	7·63

*Includes railway, express and telegraph employees. Excludes hotel and subsidiary company employees.

Mr. JACKMAN: Just on that breakdown of the dollar in operating expenses, labour is down at 55·10 per cent. Many of the other items do embrace some labour, would that not be so?

Mr. COOPER: When you speak of the breakdown in operating expenses, labour is 61·79.

Mr. JACKMAN: But fuel also embraces quite a bit of labour.

Mr. COOPER: No, fuel would be material, but the other accounts would involve some labour. In our stores department, for example, we charge the wages of store employees to material stock. Then, it is added to the issue price and it goes in as material rather than labour. These are the usual statistics. It is really the direct payroll charge to the operating expense account.

Mr. JACKMAN: But you have not got a breakdown of the dollar that you get in.

Mr. COOPER: Yes, it is over on the left hand side, Mr. Jackman, that was the figure you quoted first.

Mr. JACKMAN: But you have not got it divided as between labour, taxes, and return on investments.

Mr. COOPER: It is all down there, labour, 55·10 per cent; fuel 9·65 per cent; other expenses 24·43 per cent; total operating expenses, 89·18 per cent, leaving available for taxes and other accounts 10·82 per cent.

Mr. JACKMAN: I know you have it here but in many of those items, you mentioned stores, there is a labour content there.

Mr. COOPER: A small labour content.

Mr. JACKMAN: And the purchase of stores, etc., all have labour content.

Mr. COOPER: In the final analysis everything is labour.

Mr. JACKMAN: In other words the percentage going for taxes and for capital return might amount to 3 or 4 cents out of the dollar. It would have to be an arbitrary estimate.

Mr. COOPER: I think the answer is 10·82 per cent.

Mr. NICHOLSON: There was a small increase in the total number of employees in 1946. Have you reached the peak or what are your forecasts for 1947.

Mr. VAUGHAN: We had a few less in 1946 than in 1945. I think our employees will probably run about the same in 1947.

Mr. EMMERSON: The same as 1946?

Mr. VAUGHAN: Yes.

Mr. EMMERSON: Does that number of employees include temporary employees?

Mr. COOPER: Yes, the employment figure is arrived at by making a count on the 15th of the month.

Mr. EMMERSON: Each month?

Mr. COOPER: Each month, and dividing the total by twelve.

Mr. WALTON: That would take in the temporary men.

Mr. MCLURE: I understand you have taken back new employees in addition to the veterans who have returned.

Mr. VAUGHAN: Yes.

Mr. MCLURE: Possibly some of them were not in your service previously.

Mr. VAUGHAN: Yes.

Mr. MCLURE: But preference is still being given to the veterans?

Mr. VAUGHAN: Yes, it is.

Mr. NICHOLSON: Is there any trouble recruiting employees for the railway?

Mr. WALTON: We have been short in the shops.

Mr. VAUGHAN: Outside of mechanics we have had no difficulty.

Mr. NICHOLSON: How about the running trades?

Mr. VAUGHAN: There are plenty available in the running trades.

Mr. MUTCH: Has there been any relaxation of the apprentice regulations in the shops?

Mr. VAUGHAN: The old apprentice arrangements had to be suspended in the shops during the war because the men were not available, but they have been restored.

Mr. MUTCH: Restored as they were in 1939?

Mr. WALTON: Yes, the full apprenticeship program is working at the various shops.

Mr. MUTCH: Is there any difficulty in getting as many apprentices as you want?

Mr. WALTON: No, I would say at the present time, the supply was very good.

Mr. LOCKHART: I presume, Mr. Chairman, under this heading I could make a brief inquiry with reference to the employees, the old veterans as we might call them, who had been superannuated and then called back during the war, but some of those were not physically able to assist you. You have quite a number of them who were not able to do any physical work. They receive a certain amount in the way of pension.

Mr. VAUGHAN: Yes.

Mr. LOCKHART: What I am asking is was anything done during the latter part of the war to give them any further compensation in lieu of the usual cost of living bonus that we know or did they get no further remuneration? Did they just get their pension?

Mr. VAUGHAN: They got the usual remuneration when they came back.

Mr. LOCKHART: I am speaking of those who were physically unable to come back.

Mr. VAUGHAN: No sir, we did not increase the pension.

Mr. LOCKHART: You did not give them any consideration at all?

Mr. VAUGHAN: No sir, not in the way of increased pensions.

Mr. MUTCH: Just one other question with respect to the apprentice regulations. Do you know if any credit is being given towards the shortening of the apprentice's time in the case of those chaps who come in having qualified in the armed services as mechanics?

Mr. WALTON: The arrangement made in that respect, Mr. Mutch, was that any man who had been working for his apprenticeship and went into the armed services was given full credit for the time he was in the army if he was engaged in work that was of a nature that could be considered a continuation of the work he was doing in the company, such as a naval artificer, and work like that. If he went into some branch of the service which did not help qualify him say, as a machinist, then if he was an apprentice his continuity of service was preserved but he did not get credit for those years spent in the army so far as his apprenticeship is concerned. If that were not done we might have a man with a five year apprenticeship record which would work out that he had been in the army four years and he just could not qualify as a competent mechanic. We thought that the best arrangement had been made, consistent with qualifying him for his trade.

Mr. MUTCH: The position is clear with respect to those in the service of your company, and as you say it would not make for efficiency. There were however, boys who went into the air force where they had an excellent opportunity of qualifying as machinists and in other mechanical trades. They came out, some of them, with a rating as high as master-mechanics. My point is if some of those boys should desire to come into the shops anywhere, do they have to begin all over again?

Mr. WALTON: No, a man like that would not come in as an apprentice. If he is an experienced man he can be hired as a regular mechanic.

Mr. MUTCH: Without going through an apprenticeship?

Mr. WALTON: Yes.

Mr. MCLURE: On that question of apprenticeship, due to the centralization in Moncton, and due to our work in Prince Edward Island, it will only be a matter of two or three years until we will not have a mechanic in the railway shops whatsoever. I wish to bring this question up before the president here. Is there any way we could be allocated a certain number of apprentices who are desiring to go in and learn a trade so they can get a position and become apprentices at the shops in Moncton?

Mr. VAUGHAN: You mean to give them the opportunity in Moncton of becoming apprentices.

Mr. MCLURE: Yes.

Mr. WALTON: I can give you some information on that particular point. We have not checked up recently because the regular apprenticeship arrangements were disrupted during the war and they are only now getting back to the ordinary flow but some years ago this particular point was the subject of some correspondence with our regional officer. At that time, a plan was being followed where the recruiting of apprentices was done throughout the various provinces in relation to the population.

Mr. McLure: That is what I would like to see happen.

Mr. Walton: That is the scheme we followed during the years prior to the war but I have not had occasion to check on it recently.

Mr. Vaughan: We will check it up just to be sure the original instructions are now being carried out.

Mr. Emmerson: I want to ask if apprentices are now being taken into the shops?

Mr. Walton: Yes, as they are required. Just what the numbers are is something I would have to look up.

Mr. Emmerson: There are some being taken on in some of the shops?

Mr. Walton: Yes.

The Chairman: We have pages 30 and 31 before us, revenue tonnage by commodities.

REVENUE TONNAGE BY COMMODITIES

	Year 1946	Year 1945	Increase or *Decrease*	
	Tons	Tons	Tons	Per-cent
Agricultural Products:				
Wheat	5,630,365	8,836,831	*3,206,466*	*36·29*
Corn	442,397	470,431	*28,034*	*5·96*
Oats	1,724,535	1,853,887	*129,352*	*6·98*
Barley	1,141,953	1,370,197	*228,244*	*16·66*
Rye	76,929	85,227	*8,298*	*9·74*
Flaxseed	104,275	116,848	*12,573*	*10·76*
Other Grain (including dried peas, beans, soya beans)	166,668	155,894	10,774	6·91
Flour	1,216,415	1,177,277	39,138	3·32
Other Mill Products	2,235,176	2,120,249	114,927	5·42
Hay and Straw	242,828	253,578	*10,750*	*4·24*
Cotton	92,383	79,755	12,628	15·83
Apples (fresh)	110,715	91,224	19,491	21·37
Other Fruit (fresh)	470,823	432,482	38,341	8·87
Potatoes	397,721	411,572	*13,851*	*3·37*
Other Fresh Vegetables	262,100	261,268	832	0·32
Other Agricultural Products (excluding dried peas, beans, soya beans)	747,320	725,845	21,475	2·96
Total	15,062,603	18,442,565	*3,379,962*	*18·33*
Animal Products:				
Horses	68,869	46,296	22,573	48·76
Cattle and Calves	390,505	398,994	*8,489*	*2·13*
Sheep	27,983	27,136	847	3·12
Hogs	153,108	218,802	*65,694*	*30·02*
Poultry (live)	990	2,431	*1,441*	*59·28*
Dressed Meats or Dressed Poultry (fresh or frozen)	230,219	294,449	*64,230*	*21·81*
Dressed Meats (cured or salted)	132,800	233,454	*100,654*	*43·12*
Other Packing House Products (edible)	55,474	42,377	13,097	30·91
Eggs	73,970	91,125	*17,155*	*18·83*
Butter	50,205	65,345	*15,140*	*23·17*
Cheese	61,519	88,219	*26,700*	*30·27*
Wool	72,043	67,404	4,639	6·88
Hides and Leather	85,239	85,696	*457*	*0·53*
Other Animal Products (non-edible)	127,285	114,463	12,822	11·20
Total	1,530,209	1,776,191	*245,982*	*13·85*

REVENUE TONNAGE BY COMMODITIES—*Concluded*

	Year 1946 Tons	Year 1945 Tons	Increase or *Decrease* Tons	Per-cent
MINE PRODUCTS:				
Anthracite Coal	3,077,841	2,095,409	982,432	46·88
Bituminous Coal	9,882,636	9,193,585	689,051	7.49
Sub-Bituminous Coal and Lignite Coal	1,836,392	1,823,304	13,088	0.72
Coke	1,274,250	1,472,883	*198,633*	*13·49*
Iron Ores and Concentrates	977,456	646,270	331,186	51·25
Copper Ore and Concentrates	161,310	181,605	*20,295*	*11·18*
Other Ores and Concentrates	1,348,638	2,033,078	*684,440*	*33·67*
Base Bullion, Matte, Pig and Ingot (non-ferrous metals)	506,658	819,398	*312,740*	*38·17*
Sand and Gravel	1,944,218	1,438,943	505,275	35·11
Stone (crushed, ground, broken)	2,030,272	2,009,009	21,263	1·06
Slate, Dimension or Block Stone	103,640	70,984	32,656	46·00
Crude Petroleum	523,124	606,176	*83,052*	*13·70*
Asphalt (natural, by-product petroleum)	268,972	199,882	69,090	34·57
Salt	515,273	567,193	*51,920*	*9·15*
Other Mine Products (not fully processed)	1,440,335	1,042,179	398,156	38·20
Total	25,891,015	24,199,898	1,691,117	6·99
FOREST PRODUCTS:				
Logs Posts, Poles, Piling	988,519	677,158	311,361	45·98
Cordwood and Other Firewood	553,648	580,163	*26,515*	*4·57*
Ties	56,505	61,290	*4,785*	*7·81*
Pulpwood	4,842,085	4,104,087	737,998	17·98
Lumber, Timber, Box, Crate and Cooperage Material	4,461,841	4,090,454	371,387	9·08
Other Forest Products	254,088	252,371	1,717	0·68
Total	11,156,686	9,765,523	1,391,163	14·25
MANUFACTURERS AND MISCELLANEOUS:				
Gasolene	1,726,698	1,391,244	335,454	24·11
Petroleum Oils and Petroleum Products (except asphalt and gasolene)	1,382,975	1,769,601	*384,626*	*21·76*
Sugar	294,174	375,950	*81,776*	*21·75*
Iron, Pig and Bloom	290,772	288,527	2,245	0.78
Rails and Fastenings	48,110	61,635	*13,525*	*21·94*
Iron and Steel (bar sheet, structural, pipe)	1,479,516	1,733,839	*254,323*	*14·67*
Castings, Machinery and Boilers	308,264	259,747	47,517	18·68
Cement	728,357	488,525	239,832	49·09
Brick and Artificial Stone	309,630	213,776	95,854	44·84
Lime and Plaster	371,760	367,387	4,373	1·19
Sewer Pipe and Drain Tile	36,479	30,085	6,394	21·25
Agricultural Implements and Vehicles other than autos	249,980	228,674	21,306	9·32
Automobiles, Auto Trucks and Auto Parts	1,255,043	1,701,549	*446,506*	*26·24*
Household Goods and Settlers Effects	26,815	20,268	6,547	32·30
Furniture	64,680	49,525	15,155	30·60
Beverages	506,792	473,298	33,494	7·08
Fertilizers, All Kinds	1,266,345	1,130,242	136,103	12·04
Newsprint Paper	1,833,686	1,462,742	370,944	25·36
Other Paper	419,293	317,307	101,986	32·14
Paper Board, Pulpboard and Wallboard (paper)	440,603	400,422	40,181	10·03
Woodpulp	1,237,955	1,295,781	*57,826*	*4·46*
Fish (fresh frozen, cured, etc.)	152,113	164,628	*12,515*	*7·60*
Canned Goods (all canned food products)	681,801	624,518	57,283	9·17
Other Manufactures and Miscellaneous	7,736,068	8,709,255	*973,187*	*11·17*
Merchandise (all L.C.L. Freight)	2,461,586	2,200,594	260,992	11·86
Total	25,309,495	25,757,119	*447,624*	*1·74*
Grand Total	78,950,008	79,941,296	*991,288*	*1·24*

Mr. McLURE: Do not forget you want to draw to everyone's attention the second picture on page 32.

The CHAIRMAN: Yes, especially the second one.

Mr. McLure: Yes, the Canadian cruiser, the new Canadian government ice-breaking car ferry for service between New Brunswick and Prince Edward Island. So that we will not be isolated.

Mr. Mutch: They will never be isolated down there, Colonel McLure, as long as you are here.

Mr. Jackman: The only recommendation I would like to make with regard to that ferry boat is that it be called the S.S. McLure.

The Chairman: Would someone move the adoption of that?

Mr. Mutch: I would move the adoption of that report.

The Chairman: It is moved by Mr. Mutch and seconded by Mr. Warren that we adopt the report. Is that agreeable?

Carried.

Gentlemen, I think the next matter is the budget.

Mr. Jackman: Have you distributed the budget yet?

Hon. Mr. Chevrier: No. It should be distributed before the members leave.

The Chairman: Shall we meet tomorrow morning at 11 o'clock?

Mr. McLure: We had better meet at 10 so we can get through.

Mr. McCulloch: Half past ten?

Mr. Jackman: Eleven o'clock.

The Chairman: Perhaps we had better keep our regular hours and meet at 11 o'clock.

The committee adjourned at 5.30 p.m. to meet again on Thursday, May 1, 1947, at 11 o'clock a.m.

SESSION 1947

HOUSE OF COMMONS

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 3

THURSDAY, MAY 1, 1947

Consideration of

Canadian National Railways and Steamships Budget (1947);
Canadian National (West Indies) Steamships, Limited, Annual Report (1946);
Canadian National Railways Securities Trust Annual Report (1946);
Auditors Report to Parliament (1946) on the Canadian National Railways, The Canadian National Railways Securities Trust, and the Canadian National (West Indies) Steamships, Limited;
Items 434, 435 and 479 of the Estimates for 1947-48.

WITNESSES:

Mr. R. C. Vaughan, Chairman and President, Canadian National Railways;
Mr. N. B. Walton, Executive Vice-President, Canadian National Railways;
Mr. T. H. Cooper, Vice-President and Comptroller, Canadian National Railways;
Mr. O. A. Matthews, of George A. Touche & Co., Auditors.

OTTAWA
EDMOND CLOUTIER, C.M.G., B.A., L.Ph.,
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY
1947

MINUTES OF PROCEEDINGS

THURSDAY, 1st May, 1947.

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

Members present: Messrs. Belzile, Bourget, Chevrier, Clark, Dion (*Lake St. John-Roberval*), Emmerson, Hatfield, Hazen, Jackman, McCulloch (*Pictou*), McLure, Moore, Mutch, Nicholson.

The Committee considered the 1947 Budget for the Canadian National Railways and the Canadian National (West Indies) Steamships, Limited.

Messrs. R. C. Vaughan, President, N. B. Walton, Executive Vice-President, and T. H. Cooper, Vice-President, and Comptroller, Canadian National Railways, were called and examined thereon.

By unanimous consent, Mr. Knight, M.P., (*Saskatoon City*), was permitted to address the Committee and ask questions concerning the activities of the Hudson Bay Railway.

On motion of Mr. Emmerson, the said Budget was adopted.

The 1946 Annual Report of the Canadian National (West Indies) Steamships, Limited, was read by Mr. Vaughan. He was questioned thereon. Mr. T. H. Cooper was also examined.

On motion of Mr. McCulloch (*Pictou*), the said Report was adopted.

The Committee adjourned at 1.00 o'clock p.m. to meet again this day at 4.00 o'clock p.m.

The Committee resumed at 4.00 o'clock p.m. The Chairman, Mr. Clark, presided.

Members present: Messrs. Belzile, Bourget, Chevrier, Clark, Emmerson, Dion (*Lake St. John-Roberval*), Hatfield, Hazen, Jackman, Lockhart, McCulloch (*Pictou*), Moore, Mutch, Lapointe, Reid, Warren.

Mr. T. H. Cooper read the 1946 Annual Report of the Canadian National Railways Securites Trust and was questioned thereon. He was assisted by Mr. R. C. Vaughan.

On motion of Mr. McCulloch (*Pictou*), the said Report was adopted.

Mr. O. A. Matthews, of George Touche & Company, was called. The 1946 Report to Parliament of the Auditors of the Canadian National Railways, The Canadian National Railways Securities Trust, and the Canadian National (West Indies) Steamships, Limited, was taken as read and considered.

On motion of Mr. McCulloch (*Pictou*), the said Report was adopted.

The following items of the Estimates for the year ending 31st March, 1948, were considered:

Vote No. 434, Maritime Freight Rates Act—Canadian National Railways;

Vote No. 435, Maritime Freight Rates Act—Railways other than Canadian National;

Vote No. 479, Prince Edward Island Car Ferry and Terminals—Deficit 1947.

On motion of Mr. Reid, the said items were adopted.

At 6.00 p.m. the Committee adjourned to meet again Tuesday, 13th May, at 11.00 o'clock a.m.

J. G. DUBROY,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS

May 1, 1947

The Standing Committee on Railways and Shipping met this day at 11.00 a.m. The Chairman, Mr. S. M. Clark, presided.

The CHAIRMAN: Gentlemen, I believe we have a quorum. I think there are some questions which were asked yesterday for which Mr. Walton has the answers.

Mr. WALTON: I have some answers here. There was an inquiry by Mr. Pouliot regarding the installation of electric lights in the station at St. Arsene. I find that is on our list for this year and it is expected the installation will be made within the next few weeks.

There was also an inquiry, I believe by Mr. Hatfield, with respect to an accident which occured on February 27th. On February 27, 1947, on Grand Falls subdivision, Extra 3392, west, in charge of Engineer J. R. Richard approached Odell, mileage 34·84 holding an order to meet First 710 at that point; Extra 3392 west was required to enter the siding at the east switch. First 710 had just arrived at Odell and stopped on the main line with the engine of that train about 500 feet west of the east switch. There was not time for the crew of First 710 to set the switch for the siding when Extra 3392, west, arrived and overran the switch at a speed of about ten miles per hour with brakes set and struck First 710 where it stood at a speed of about six miles per hour.

Approaching mileage 33 the fireman of Extra 3392 had some difficulty operating the injector and Engineer Richard concentrated his attention on assisting the fireman with the injector which diverted his attention from the fact that he was closely approaching Odell, and the view of the switch, approaching from the east is restricted to about 650 feet. At the time of this accident, Engineer Richard was 58 years of age, had been in our employ 34 years and had been promoted to engineer 30 years ago. He was discharged in March, 1920, for striking the rear of a snow plough train, but weather conditions at the time were taken into consideration and he was reinstated in January 1921. He was again discharged in April, 1942, for damage caused by him in an accident in a yard, but was reinstated in November of the same year. His record otherwise was normal and shows many years of service without a mark against his record.

The occurrence on February 27, 1947, was not a head-on collision in the sense that Engineer Richard had overlooked or forgotten the order to meet the opposing train. His testimony at the investigation showed that he had the order in mind, but that it was a matter of having over-shot the switch. This was apparent from the slow speed at which he passed the switch and at which the collision occurred.

As has been done in other cases, Engineer Richard's previous record was taken into consideration, and the case was dealt with by 45 days' suspension of Engineer Richard. I concurred in this decision, as it seemed a fair and reasonable conclusion and neither persecuted the engineer because of the error he had made nor dealt too leniently with an accident involving damage which could have been avoided by Engineer Richard had he brought his train to a stop before attempting to assist in the operation of the injector. All such cases are carefully considered and an effort is made to handle them in such a manner that discipline will be maintained, but with the feeling that men who have served the railway for many years, and whose record justifies consideration, should not be treated with undue severity.

Mr. HATFIELD: Whose report is that?

Mr. WALTON: That is a memorandum I prepared from the file.

Mr. HAZEN: His previous record was taken into consideration, but his previous record would seem to indicate he was discharged twice.

Mr. WALTON: That is true, but at the same time, he had operated an engine for some thirty years.

Mr. HAZEN: I think Mr. Hatfield's suggestion was that there was some influence brought to bear to have this man reinstated. I presume there usually is with persons who get discharged. There is an effort made to get the man back. Efforts are made to show, this might have been his first offence or something of this kind. Evidently, in this case, it was not the man's first offence but apparently he was discharged, as I say, on two previous occasions and taken back.

Mr. WALTON: That is right.

Mr. HAZEN: What I have in mind about it is this, there is a suggestion, I think, that some outside influence was brought to bear which got this man back. The reason I mention it is because I had a case brought to my attention not long ago of an engineer who started in the service as a boy. He knew nothing else. He worked up to be an engineer and was discharged. Apparently, he was an accessory after the fact. In any event, it had to do with a theft of sugar. The story he told and wrote me seemed a very good one, but perhaps it was not correct. Perhaps the facts as he gave them to me were not true. I am not in a position to say, but here was a chap who started in as a boy on the railway and he worked his way up. He had never had any other charge against him but, because two other fellows apparently got drunk and took this sugar into his engine, he was discharged. He had no chance to get back. Perhaps he should not have had that opportunity, I do not know, but it does not seem quite fair to make fish of one and fowl of another.

Here is a man who was discharged twice but taken back, while the man for whom I speak never had a previous charge brought against him. He had a clean record. He went into the railway as a boy and yet he was not given a second chance. It was not, as I understand it, a case in which he had done something wrong deliberately. He was a victim, more or less, of circumstances. These other fellows stole the sugar, took it into his engine, and put him in a very difficult position. However, as I say, I do not know all the facts.

Mr. WALTON: We do make a very great distinction between a man who is guilty of an error in judgment and one who is mixed up in the stealing of freight or anything like that. We have to do that. If we are not strict about pilferages, they will reach proportions with which we cannot cope. This man on whom I wrote the memorandum was dealt with as many others have been dealt with. We have had men make serious mistakes. If their previous records are reasonably good, and have devoted a large part of their life to the railway with the consequent difficulty of getting employment anywhere else, we try to give that consideration. We have many men who have been discharged once, and we have men who have been discharged twice who follow that with ten years or fifteen years of excellent service.

In the case to which Mr. Hazen has referred, he has been given one side of the story and we have the other side of the story. It was definitely a case of pilfering. If the man on whose behalf you have spoken was not implicated in the matter, we do not understand why he threw some of this sugar into the firebox of the locomotive in order to destroy the evidence. Now, you can talk about being an accessory after the fact, but, when we receive information of that kind, we have to take action. I do not think the case of which you speak is, in any sense, parallel to this.

Mr. NICHOLSON: In connection with this accident case, were there fatal injuries?

Mr. WALTON: No.

Mr. EMMERSON: Did the Brotherhood of Locomotive Engineers make any representation on behalf of this man Richard?

Mr. WALTON: I would have to take that up with Mr. Johnson of the Atlantic Region to know about that. The decision for the forty-five days' suspension was made on the merits of the case and has not been changed since and is not going to be changed.

Mr. HATFIELD: I should like you to look over that file and inform me of the reason for discharging this conductor.

The CHAIRMAN: Have you anything else to file, Mr. Walton?

Mr. WALTON: That is all I have.

Mr. JACKMAN: I might say, Mr. Chairman, if it is the policy of the railway to take drastic action with that we might call moral errors, as compared with much less drastic action in connection with errors of judgment, I think there might be some call for us to consider whether or not there is not some error in the weighing of these two crimes, if you wish to call them that. Certainly, in a railway, the most important thing is judgment in the operation of the trains. It is not like some other business where you do not have to be right or are not expected to be right all the time. In the railway business, I would think you would not be allowed more than one bite. After it is found a man is not capable of using extraordinary care in the operations of trains, I think he should not be put in charge of trains again. He should, at least, be demoted to where someone else would be responsible.

I think this particular case, of which I know nothing except what I have heard here, would indicate that a man who has twice been the cause of accidents was again put in charge of trains. It is very peculiar that the railway company, no matter what his moral claim should be, keeps him in that capacity. I do not want to see a man hurt, of course, no one does, but it seems to me he should certainly be given a position where he cannot cause damage, much less loss of life to others who are on the railroad. I believe that is a much more important feature than the stopping of petty thievery which also, of course, must be stopped.

Mr. VAUGHAN: This matter of discipline is one which causes a great deal of concern. Discipline is not applied lightly nor without very careful consideration. The seriousness of the offense has to be taken into account. There are two things for which we will not reinstate a man, one is for thieving and the other is for being intoxicated on duty. I would not like to create the impression we reinstate men who have been discharged for offences as a regular thing. We are discharging scores of men every year for offences and they are not returned to the service. However, we do have to be governed by the circumstances surrounding each instance in applying discipline. I do not see how we could do otherwise. This must be left to the best judgment of the officials of the railway. The matter of the application of discipline is a very serious one. I do not know of any case, certainly none have come before me, where anyone has been reinstated as the result of influence. Of course, these cases do not all come before me.

Mr. HATFIELD: Do you think an engineer, 58 years old, after he has had three accidents, could be given another job if you wanted to keep him in service.

Mr. VAUGHAN: I do not know anything about the circumstances, this is the first I have heard about it. In this particular case, the discipline would be applied by our Atlantic Region officials, the discipline would be recommended by them. I do not think the vice-president and general manager of our Atlantic region has a reputation for being very easy.

Mr. McCULLOCH: These men all belong to a union. They have their own officers in the union and if the men are right the union will certainly take their case up with the authorities. However, there are some cases in which even the union will not interfere. I know Mr. Johnson of the Atlantic region is very strict in these things and has been very fair, considering the whole situation.

Mr. NICHOLSON: As a matter of policy, it would appear that forty-five days out of service would be a rather lenient penalty for a third offence? It appears to me, from hearing the memorandum, that this was a case of gross negligence on the part of the engineer. I have had some experience with men being out of service for six months for offences which appeared to me, on the surface, to be much less serious than this one.

Mr. VAUGHAN: He would lose perhaps $450 in wages as a result of that penalty. I think, perhaps, we might investigate this case a little further.

Mr. NICHOLSON: I have known of men being out of service for six months for offences which, on the surface, would not appear to be as serious as this one.

Mr. McCULLOCH: It appears to me to be a very small matter with which to take up the time of this committee.

Mr. EMMERSON: Is not a case of a defective injector rather a serious thing. There might be danger of damage to the locomotive if this failed to work?

Mr. WALTON: The injector had to be attended to, but he could have brought the train to a stop and attended to it. It was for this reason I did not gloss over it. He could have brought his train to a stop.

Mr. JACKMAN: I think we should have a word from the president on this matter. If you have men who have had two serious accidents and are again in charge of a locomotive, it might indicate that they actually have a lapse—I am not criticizing a man for that alone because it requires a certain mentality to be an engineer. A man might be imaginative and have great scope in other fields, but may not be fit to be an engineer. Certainly an engineer must be a man who is careful and conscientious to a very high degree. This man might very well be fitted for another position. It does take a certain type of man to be an engineer. This man has committed these errors of judgment twice and, human life being at stake each time, I think the president should indicate to this committee whether he thinks it is sound, except under the most exceptional circumstance such as a blinding snowstorm, that there may ever be a reasonable excuse for such a thing. They used to have a classification in the air force when nothing could ever be proven against a man, every regulation had been followed, but he still had accidents, there was a notation on his record, "prone to accidents". Some people are unlucky that way. There are some people who seem to have accidents. Do you have many men who do?

Mr. VAUGHAN: Generally speaking we would not reinstate a man who had two serious accidents. This accident might not be classed as a very serious accident. Nevertheless, we are very serious about reinstating a man. I should like to see the files and all the evidence surrounding this case before I would render judgment as to whether or not this man should have been reinstated. I should like to again stress that our railroad officers are very experienced men.

They are not going to allow any man to remain in charge of the operation of a train if they consider he is incompetent to handle it. This case is an isolated case and the circumstances surrounding it may be entirely different to those we have heard.

Mr. HATFIELD: There were a number of cases of the same thing on the Atlantic division.

Mr. VAUGHAN: You think, Mr. Hatfield, our discipline is too lenient down there?

Mr. HATFIELD: No, I do not think that. I think some of your conductors and engineers have been discharged without reason and they have not been taken back. There are these two men who have had very serious accidents and have been kept on. One man has been suspended thirty days. There was another accident at Bathurst in February in which four people were injured, four trainmen. The two engines were ruined and the man was let out for only thirty days. Other men have been discharged and not taken back for no reason whatever.

Mr. VAUGHAN: I would not say that. No man has been discharged without good reason.

Mr. HATFIELD: I just want to get the facts.

Mr. VAUGHAN: We would not have the facts of this particular case here, but I would say that if this committee is going to go into the discipline as applied to every officer and employee of the railway, you will be sitting constantly every day for the 365 days of a year.

Mr. WALTON: Mr. McCulloch's point is well taken, that these men are represented by their duly authorized representatives in the brotherhood. It is not possible for us to discharge a man for no reason at all and not hear about it or have representations made.

Mr. JACKMAN: Mr. McCulloch's point is well taken. If your punishment is excessive, the union will protect the man, but it is the other side of the question with which this committee is concerned, the fact that you might be too lenient.

Hon. Mr. CHEVRIER: May I point out that this committee has spent one-half hour considering this case which if it should be taken up at all, should have been taken up during the consideration of the report yesterday. I suggest we move on to the discussion of the budget.

Mr. JACKMAN: Do you ever change a man's position? Do you ever demote an engineer to a fireman if the offence is not serious enough to discharge him?

Mr. VAUGHAN: We sometimes demote a man if we consider his offence is not serious enough to warrant discharging him. We may engage him in another position.

Mr. JACKMAN: You can, as a disciplinary measure, demote an engineer to a fireman?

Mr. VAUGHAN: We could, but there are, of course, seniority rights which might be involved. These things would have to be taken into consideration.

The CHAIRMAN: If that is all the discussion on that matter, gentlemen, let us consider the budget. How would you like to deal with the budget?

Mr. VAUGHAN: I think Mr. Cooper might read the budget.

Mr. COOPER: This is the operating budget for 1947:—

CANADIAN NATIONAL RAILWAYS

Summary of Financial Requirements—Year 1947

—	1946 Budget	1946 Actual	1947 Budget	Details on page
	$	$	$	
Operating Budget—				
Surplus or (*) Deficit	7,500,000	*8,961,570	*31,000,000	2
Capital Budget—				
Additions and betterments	14,000,000	3,757,010	18,000,000	3
New equipment	8,863,000	3,183,193	41,500,000	4
Barraute branch line	....	23,645	2,684,000	5
Acquisition of Manitoba Railway	7,000,000	7,000,000	....	....
Acquisition of securities and retirement of capital obligations	840,000	592,442	1,057,000	6
Sinking fund and equipment trust principal payments	9,347,000	9,347,100	....	....
	40,050,000	23,903,390	63,241,000	....
Less amounts available from reserves for depreciation and debt discount amortization	17,500,000	17,146,604	16,518,000	....
Total Capital Budget	22,550,000	6,756,786	46,723,000	....

Retirement of $6,969,191 equipment trust principal payments will be financed under the 1947 Refunding Act.

The authorized capital stock of The Trans-Canada Air Lines is $25,000,000. The capital paid in to December 31, 1946 by Canadian National Railways was $6,600,000. During 1947 the railway may be required to pay the balance of $18,400,000 to enable Trans-Canada Air Lines and its subsidiaries to finance the air lines 1947 capital budget.

Mr. JACKMAN: That is based on the present rate structure?

Mr. COOPER: Yes, so far as the Canadian lines are concerned; yes.

CANADIAN NATIONAL RAILWAYS

Operating Budget

—	1946 Budget	1946 Actual	1947 Budget
	$	$	$
Operating Revenues—			
(*a*) Operating revenues, excluding (*b*) and (*c*)	381,251,000	395,788,184	397,467,000
(*b*) Payment under Maritime Freight Rates Act (20%)	3,042,000	3,909,878	3,950,000
(*c*) Payment of deficit in the operation of P.E.I. Car Ferry and Terminals	707,000	887,964	743,000
	385,000,000	400,586,026	402,160,000
Operating expenses	325,500,000	357,236,718	380,500,000
Net operating revenues	59,500,000	43,349,308	21,660,000
Net income charges, excluding interest	7,174,000	7,629,781	8,106,000
Interest on funded debt—public	23,377,000	23,358,514	22,485,000
Interest on government loans	21,449,000	21,322,583	22,069,000
Total income charges	52,000,000	52,310,878	52,660,000
Surplus or (*) Deficit	7,500,000	*8,961,570	*31,000,000

NOTE.—The 1947 budget includes $2,763,700 for contribution to the deficit of the I.C.R. and P.E.I. Provident Fund also $100,000 for contribution to the Grand Trunk Superannuation Fund Association.

Mr. JACKMAN: May I just ask in this regard whether or not you are budgeting for larger revenue than last year on your United States lines?

Mr. COOPER: I would have to check that to make sure. We are expecting much better results in 1947 on our United States lines than we experienced in 1946.

Mr. JACKMAN: In gross operating revenue?

Mr. COOPER: Yes, sir. I might say that at the present time the operating revenue on our lines in the United States shows an increase of 33 per cent over 1946; that is in the first three months of the year, or I should say up to the third week in April.

Mr. JACKMAN: Is it expected that we will have a larger wheat movement over C.N. lines?

Mr. COOPER: Yes.

CANADIAN NATIONAL RAILWAYS

Additions and Betterments

—	1948 Budget	1946 Actual	1947 Budget
	$	$	$
Additions and Betterments—			
Atlantic region	1,686,067	920,736	1,912,944
Central region	5,914,660	1,957,202	7,420,829
Western region	3,109,860	951,936	3,878,047
Grand Trunk Western Railroad Company	1,985,729	60,508	2,476,568
Central Vermont Railway	344,931	137,977	333,362
Subsidiary companies	1,967,705	307,155	3,173,504
Express, telegraphs, and other departments	1,674,277	313,300	3,157,068
Additions and betterments to equipment (Canada)	2,116,956	715,578	2,708,541
Equipment retirements	Cr 1,800,185	Cr 1,607,382	Cr 2,060,863
	17,000,000	3,757,010	23,000,000
Less—Portion of projects included in the above requirements which will not be physically completed by December 31 each year	3,000,000	....	5,000,000
Total	14,000,000	3,757,010	18,000,000

Then, on page 3A these things to which I have just referred are broken down to what we call engineering classifications. Perhaps we should run over the balance of the budget first and then come back and take these up section by section.

CANADIAN NATIONAL RAILWAYS SYSTEM

ADDITIONS AND BETTERMENTS BUDGET—YEAR 1947

Expenditures Less Retirements Applicable to Capital Account

—	Atlantic Region	Central Region	Western Region	Grand Trunk Western Lines	Central Vermont Railway	Other	Total
	$	$	$	$	$	$	$
Additions and betterments—							
Rails and fastenings	107,970	806,479	416,459	155,000	10,475		1,496,383
Tie plates and rail anchors	162,129	634,361	546,919	74,600	27,334		1,445,343
Ballast	300,800	406,560	57,810	238,200	51,135		1,054,505
Widening cuts and fills	261,232		2,000		5,750		268,982
Rip-rap, retaining walls and cribs	8,000						8,000
Ditching drainage and sewers	13,785	24,600	30,010				68,395
Yards, tracks and sidings	93,293	507,336	201,462	139,400			941,491
Roadway machines	92,204	126,565	150,040	41,900			410,709
Bridges, trestles and culverts	158,166	348,057	646,578	32,700	92,347		1,277,848
Tunnels		4,500	8,800				13,300
Highway and crossing protection	10,310	118,272	7,030	129,673	5,109		270,394
Montreal office building		750,000					750,000
Stations and station facilities	303,864	1,119,506	1,313,345	469,624	12,406		3,218,745
Water supplies	4,054	129,845	66,025	38,540	10,768		249,232
Fuel stations		50,906	83,387	84,000	8,474		226,767
Shops, enginehouses and machinery	144,965	1,538,420	466,234	325,001	10,680		2,485,300
Docks and wharves	67,400	25,000	Cr 4,000	71,000			159,500
Signals and interlockers	942	21,957	35,944	140,556	12,500		211,899
Telegraphs—railway						906,186	906,186
Telegraphs—commercial						2,024,526	2,024,526
Land	5,000	20,000	5,155				30,155
General additions and betterments and contingencies	178,830	777,915	Cr 162,291	88,183	17,897	Cr 424 675	475,859
Express and miscellaneous equipment		10,550	7,140	16,900	1,782	411,528	447,900
Subsidiary companies						3,173,504	3,173,504
Hotels						239,503	239,503
Additions and betterments to equipment				431,191	66,705	2,708,541	3,206,437
Equipment retirements						Cr 2,060,863	Cr 2,060,863
Total estimated additions and betterments	1,912,944	7,420,829	3,878,047	2,476,568	333,362	6,978,250	23,000,000
Less—Portion of projects included in the above requirements which will not be physically completed by December 31, 1947							5,000,000
Net estimated additions and betterments							18,000,000

Canadian National Railways System

Equipment Purchases

Canadian National Railways System

Purchase of equipment:—

350 Ore cars
500 Automobile cars
400 Overhead freight refrigerator cars
50 Overhead express refrigerator cars
150 Covered hopper cars
3700 Box cars (Canadian lines)
500 Box cars (U.S. lines)
18 600 H.P. 75-ton diesel locomotives
2 380 H.P. 44-ton diesel locomotives

CANADIAN NATIONAL RAILWAYS SYSTEM—*Con.*
Equipment Purchases—*Con.*

3 Electric locomotives, similar to series Z-1-A
8 1,000 H.P. diesel switchers (U.S. lines)
20 1,000 H.P. diesel switchers (Canadian lines)
6 1,000 H.P. multiple unit cars

Total cost, including sales tax and inspection charges—$41,500,000.

On page 4 we find details of the new equipment estimated for 1947.

On page 5 we have a memorandum with respect to the further construction work on the branch line from Barraute to Kiask Falls.

CANADIAN NATIONAL RAILWAYS

Construction of new branch lines from Barraute to Kiask Falls, province of Quebec.

Authorized under Statutes of Canada 10 George VI Chapter 41

Total estimated mileage–55. Total estimated expenditure $4,125,000

Construction of 39·02 miles estimated to cost $3,234,367 from Barraute northerly to the boundary between Cartons Bartouille and Lass is spread over 3 years 1946 to 1948. In 1947 the cash requirement is estimated at $2,684,000. This is the first portion of the line to be constructed.

CANADIAN NATIONAL RAILWAYS

Acquisition of Securities
and
Retirement of Capital Obligations

—	1946 Budget	1946 Actual	1947 Budget
	$	$	$
Toronto Terminals Railway— Joint with Canadian Pacific Railway Co. General additions and betterments—C.N.R. proportion 50 per cent	....	....	87,500
Northern Alberta Railways— Joint with Canadian Pacific Railway Co. General additions and betterments—C.N.R. proportion 50 per cent	250,000	....	350,000
Chicago and Western Indiana Railroad— Advances under agreement of March 1/36	160,000	161,774	169,500
Atlantic and St. Lawrence Railroad— Purchase of capital stock	....	....	20,000
Payment to State of Michigan *re* Wider Woodward Avenue, Detroit	430,000	430,668	430,000
	840,000	592,442	1,057,000

Mr. JACKMAN: Are the C.N. securities in the old country all back now?

Mr. COOPER: Substantially, yes. There are still a few dribbling in and that will probably continue, but in the main all the securities that could be repatriated under the vesting orders have been dealt with.

Mr. JACKMAN: Some bonds of the system are with the American public, of course?

Mr. COOPER: Perhaps we had better finish the budget first.

Mr. JACKMAN: Yes.

CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS, LIMITED

—	1946 Budget	1946 Actual	1947 Budget
	$	$	$
Operating Budget—			
Operating revenue	3,677,000	6,669,128	6,359,000
Operating expenses	2,790,000	4,959,240	5,293,000
Net operating income	887,000	1,709,888	1,066,000
Vessel replacement fund earnings	175,000	196,887	250,000
Interest requirements on 5%—25-Year bonds due 1955, principal amount $9,400,000	470,000	470,000	470,000
U.S. exchange premium on bond interest	49,500	8,225	....
Interest on government notes and advances	126,500	126,499	126,000
Surplus	416,000	1,302,051	720,000
Capital Budget—			
3 diesel-driven cargo vessels	3,750,000	1,226,052	2,549,900
5 vessels from Park Steamship Company	450,000	1,085,000	1,540,000
	4,200,000	2,351,052	4,089,900
Less vessels sold—sale price	....	Cr 475,000	Cr 500,000
Net cash requirements	4,200,000	1,876,052	3,589,900

NOTE.—Funds for the purchase of these vessels will be taken from the vessel replacement fund.

Mr. HATFIELD: You are now going back over these items?

Mr. COOPER: Yes.

The CHAIRMAN: Now we will start again at page one. Are there any questions?

Mr. JACKMAN: If you get a freight increase then the moneys appropriated by parliament would not be used, I suppose that is the situation?

Mr. COOPER: It will of course depend on when the increases become effective.

Mr. JACKMAN: You don't spend any money before you get it.

Mr. COOPER: I think you may be assured, Mr. Jackman, that the Department of Finance will see that we do not get any money that we are not entitled to; I can assure you of that.

Mr. VAUGHAN: We do not ask for anything we do not need.

Mr. NICHOLSON: Why is it your expenditures have been so much more than the amount for which you have estimated; take 1946, for instance?

Mr. VAUGHAN: That has occurred for several years past because we have not been able to get the materials and sometimes could not get the labour to proceed with the work. Mr. Cooper I think has a statement showing what our actual budget amounted to over the last five years and how much of it we actually spent.

Mr. COOPER: It is also due to the fact, Mr. Nicholson, that each year we must include in our budget an amount for a project which might be contemplated but which may not be undertaken or which may not be completed at the end of the year. In the 1947 budget before you there is $10,213,000 which is more or less a re-vote from the previous year; that sort of thing goes on from year to year. In 1946 our "additions and betterments vote" was $29,863,000, and of that we spent $13,963,000, that was an under-expenditure of $15,900,000. In the previous year our under-expenditure was $12,377,000. In 1944 our under-expenditure was $12,226,000. In 1943 our under-expenditure was $8,000,000; and so it goes. Over seven years we under-expended our capital budget by $66,000,000. As Mr. Vaughan says, it depends on the availability of railway materials and labour and the fact that we must ask for a new vote for any work which we plan to commence even though it may not be completed within the year.

Mr. McCULLOCH: On page 4 you have new cars, 3,700 box cars; how are these being allotted for manufacture?

Mr. VAUGHAN: We have a statement here on that. There were 1,500 box cars to Canadian Car & Foundry, 500 to the National Steel Car company of Hamilton, and 1,700 to the Eastern Car company.

Mr. McCULLOCH: What I am trying to get at is this; the employment situation in New Glasgow is, I suppose, worse than at any other point in Canada to-day. There is less employment there now than at any other point in Canada; and the reason I am asking this question is to find out why more of these cars have not been allotted to them to keep unemployment down.

Mr. VAUGHAN: They have always had a fair share, Mr. McCulloch.

Mr. McCULLOCH: I know they have, but it is an extraordinary situation there to-day.

Mr. VAUGHAN: The cars now on order will keep them busy for a long time.

Mr. McCULLOCH: Yes.

Mr. VAUGHAN: And they will get their share in future of any equipment which we have to place.

Mr. McCULLOCH: Can you tell me whether or not they have started to manufacture these cars yet?

Mr. VAUGHAN: They got the order some time ago and I know they expect to start delivering cars in July; which means I suppose, they have been assembling their materials before starting to build cars.

Mr. McCULLOCH: Do you have any trouble getting materials?

Mr. VAUGHAN: There is considerable trouble particularly with lumber and steel products; but our purchasing department is co-operating with these companies and doing everything possible through the department of supply and elsewhere to get materials available as quickly as they can.

Mr. McCULLOCH: You know, of course, that so far as Eastern Car is concerned they do not get any business at all from the C.P.R.

Mr. VAUGHAN: They get a few cars, but very, very few—they possibly would get 100 cars from that source this year.

Mr. McCULLOCH: Then there is another item for cars, 400 refrigerator cars; how about them?

Mr. VAUGHAN: We build the refrigerator cars in our own shops at Transcona.

Mr. McCULLOCH: There are none built outside of your own shops?

Mr. VAUGHAN: No.

Mr. HATFIELD: What do you mean by overhead?

Mr. VAUGHAN: The ice bunkers are overhead.

Mr. McCULLOCH: How about the automobile cars?

Mr. VAUGHAN: The automobile cars were given to Canadian Car & Foundry Company. In allotting this equipment we always take into account the delivery dates and the capacity of the plants to furnish the cars within a reasonable period of time.

Mr. McCULLOCH: I understand that Canadian Car & Foundry are filled up with orders to the end of 1947, and yet it would appear that they are getting a very much larger proportion of these orders than we are getting.

Mr. VAUGHAN: They got 1,500 box cars while Eastern got 1,700.

Mr. McCULLOCH: What about the ore cars?

Mr. VAUGHAN: They went to Hamilton because Hamilton had built ore cars for us before and have all the plans and specifications for those cars. It was just a repeat order so far as they were concerned.

Mr. McCULLOCH: Those 1,700 for Eastern Car will last them probably all of 1947.

Mr. VAUGHAN: Yes, they have not promised delivery before the end of 1947 and I think those cars will carry over into 1948.

Mr. McCULLOCH: What is the outlook for 1948 for Eastern Car?

Mr. VAUGHAN: I cannot say, Mr. McCulloch; it will depend on how business keeps up. As you know, we have been very short of freight cars for a number of years.

Mr. McCULLOCH: The only thing I am interested in is the labour end of it.

Mr. VAUGHAN: I think is it a very good order for Eastern Car; it amounts to $8,500,000.

Mr. HATFIELD: How about these refrigerator cars? Do they have heat control equipment?

Mr. WALTON: They have what is know as an under-slung heater, and there is a thermometer, with outside reading

Mr. HATFIELD: What about the hopper cars?

Mr. WALTON: The covered hopper car handles various commodities which require protection from the weather but they are unloaded from the under side of the car.

Mr. EMMERSON: Is that a new type, have you many of them?

Mr. VAUGHAN: No, we have only a few, about 20 built in our own shops at Leaside last year. It is the same as the hopper car, but it has a roof covering, with hatches in the roof.

Mr. NICHOLSON: I wonder if Mr. Cooper could give us a breakdown of this $41,000,000 on page 4 in unit cost for each of the items shown on that page.

Mr. VAUGHAN: We have never given unit costs before on equipment. We have no objection to giving them privately but it is just another case where competition enters into it between the various railway companies.

Mr. HAZEN: On page 1 there is the item of "retirement" of $6,969,191 for equipment trust principal payment which will be financed out of the 1947 Refunding Act; would you explain what that means? I do not understand it.

Mr. COOPER: Yes, a bill has been introduced or will be introduced to authorize the Canadian National Railways to issue securities to finance maturing or callable obligations. That is the usual procedure. We have had two or three previous Refunding Acts. We take authority through this method to give us authority to finance maturing obligations. When we get the authority equipment trust notes which you referred to will be refinanced by securites issued under the authority of the 1947 Refunding Act.

Mr. HAZEN: Do I understand that it is to retire certain obligations that are falling due this year?

Mr. COOPER: Not necessarily this year, they fall due in the next four years.

Mr. HAZEN: Are they shown in the tables here?

Mr. COOPER: I can give them to you, Mr. Hazen.

Mr. HAZEN: I was just wondering if they were here.

Mr. COOPER: The annual report only shows the maturity date of them, others are callable, and just by looking at this schedule you would not get the information. If you look at the maturity date possibly you would not find all the securities which are going to be dealt with in the four-year period, but the principal ones are these; we have $25,000,000 17-year bonds which are due in 1953. They are callable on and after February 15, 1948. I would think that if money remains at its present cost we would call in those bonds and refinance at a lower rate. We have another issue of $20,000,000, 3 per cent bonds, due in 1952 that are callable on or after February 1st, 1948. Then we have an issue of $57,728,000 due in October of 1969—it is a three-way arrangement, it is callable on and after October 1st, 1949; and we have $17,338,000 of 5 per cent, 40-year, due in 1970. That also is a three-way issue which can be called after February 1st, 1950. And this bill which will be or has been introduced is intended to authorize the Canadian National Railways to issue new obligations to re-finance these maturing or callable obligations.

Mr. HAZEN: Are you able to get your hands on any of the perpetual bonds?

Mr. COOPER: No, sir, you cannot; a perpetual bond has no maturity date and is not callable.

Mr. HAZEN: No, and they do not come on the market, that is the only way in which you could get hold of them at all.

The CHAIRMAN: Mr. Hatfield, you have a question.

Mr. HATFIELD: I was trying to ask if they were all 3 per cent bonds?

Mr. VAUGHAN: Some of them are at a higher rate.

Mr. COOPER: There are $57,000,000 of 5 per cent and $17,000,000 of 5 per cent.

Mr. JACKMAN: Do I understand that this fresh appropriation of $9,000,000—what appropriation is Mr. Hazen speaking about? Is it that item for retirement, $6,969,000-odd?

Mr. HAZEN: Yes.

Mr. COOPER: That is part of it.

Mr. JACKMAN: Are you anticipating those maturities which become callable in future years or are you just looking after 1947?

Mr. COOPER: I am speaking of both. I believe they aggregate over $200,000,000; that is the amount which will be needed to take care of our maturities and callable securities for the period of 1947 to and including 1951. It is a four-year program.

Mr. JACKMAN: In other words, you are going to take advantage of the present very low rates by doing your long-term financing now and getting the money when it is at a low cost point—

Mr. COOPER: No, we shall only issue new securities as of the date the old securities mature or are called. We will not secure funds in advance of need.

Mr. JACKMAN: What I was getting at is this, you have a right to call some of these bonds ahead of the maturity date, some of these issues which I mentioned. I was wondering whether or not you were going to ask authority to anticipate your needs for the next three or four years when you can now get money at what might be considered a low rate. Of course, the money market might go against you over the next three or four years, or it might continue in your favour; in which case it would be worth while anticipating a call.

Mr. VAUGHAN: No, sir; we have no such intention. That would mean that we would have a whole lot of cash on hand and probably have to loan it out at call rates at a very low interest. We think we will be better off to wait until these securities either mature or become callable then issue securities at a lower rate to replace them.

Mr. JACKMAN: That would be all right so long as the lower rate continues.

Mr. VAUGHAN: That is the chance we will have to take. The Act which is before you, or which is to come before you, is similar to other Acts which have been put through the House on previous occasions to take care of maturing securities. I think the authority we had has been pretty well used up and that is the reason for this new Act.

Mr. JACKMAN: What would you think of giving consideration to the fact that we can perhaps call $100,000,000 worth of bonds over the next three or four years and for that purpose borrowing the money now at the present low rates—

Mr. VAUGHAN: What would we do with the money?

Mr. COOPER: There is no assurance that rates will not come down.

Mr. JACKMAN: No, but I was thinking that you might take the advice of the Bank of Canada.

Mr. VAUGHAN: We co-operate very closely with the Bank of Canada in our various financial transactions and take their advice on trends, and get all the useful information we can to be of assistance in helping us to judge as to when is a proper and suitable time to issue securities, when we can obtain the best rates for them.

Mr. JACKMAN: I was just wondering because of the nature of these companies, and the question of tying in with government finance, if you could get rid of $100,000,000 of 3 per cent obligations inside of the next three or four years; if the money could be usefully employed as an off-set against some of your debt to the government now by assuring yourselves of a rate of ·68 or something of that nature—do you not think there might be some value in considering such a suggestion?

Mr. COOPER: I do not think so, Mr. Jackman. That is a matter of opinion.

Mr. JACKMAN: Is there no place where you could use that money as an off-set in the government accounts?

Mr. COOPER: I do not believe there would be any advantage to the railway in doing as you suggest, borrowing $100,000,000 and holding it until it is needed and taking a chance on an upward swing of money rates, a possible increase in what we would have to pay for money.

Hon. Mr. CHEVRIER: I can imagine what would happen in the House if the Canadian National Railways were to do that, particularly with respect to one section of the House. There would be great opposition to it.

Mr. JACKMAN: It might make a considerable saving in money to the company. You owe the government a great deal of money and you are being charged 3 per cent or more for it.

Mr. COOPER: Having paid it back to the government we would not be able to re-borrow it.

Mr. HAZEN: If you were called upon to pay $18,400,000 to Trans-Canada Air Lines this year for shares of stock where would you obtain the money? You do not appear to have budgeted for that in this statement which appears to be only a summary of financial requirements. If you were called upon to put up that money, where would you get it?

Mr. COOPER: Our authority for financing the Trans-Canada Air Lines is contained in the Trans-Canada Act. The Trans-Canada Act authorizes that company to issue $25,000,000 in share capital. It authorized the Canadian National Railways to subscribe for that capital and to issue Canadian National obligations to finance it.

The CHAIRMAN: That was passed two years ago.

Mr. COOPER: Yes.

Mr. MUTCH: Do I understand the method of refinancing would be a new bond issue?

Mr. COOPER: Yes. For example, we made an issue in January of this year of $50,000,000, $2\frac{3}{4}$ per cent bonds. Some portion of that issue was to finance our investment in Trans-Canada Air Lines.

Mr. NICHOLSON: In connection with item 3(a), stations and station facilities, I wonder if we could have information with regard to the amount which was budgeted last year?

Mr. HAZEN: Those bonds which you issued, $6,000,000 of bonds, was that this year?

Mr. COOPER: The $50,000,000?

Mr. HAZEN: Yes.

Mr. COOPER: They are dated January 2, 1947.

Mr. HAZEN: They are not shown then in this report?

Mr. COOPER: No, sir, it is 1947 business.

Mr. NICHOLSON: How much of the money budgeted last year for stations and station facilities did you actually spend?

Mr. COOPER: The budget estimated $1,516,000 and we spent $658,000.

Mr. NICHOLSON: Was that due to a shortage of materials, would that be the reason?

Mr. COOPER: The same explanation which I gave with respect to the budget as a whole would apply, namely, a shortage of material and labour and the fact we receive authorization for work which may not be done or which may not be completed within the year.

Mr. NICHOLSON: In arriving at the amount you have set for different regions, have you any special policy? Do you rebuild stations that are lost through fire or where there is no heated storage or what?

Mr. VAUGHAN: We do not deal with the matter by regions, we deal with the need in the case regardless of where the station may be located. If we think a station needs replacing badly, whether it is in the Atlantic, Central or Western regions, we deal with it on its own merit. We have no allocation for stations by regions.

Mr. NICHOLSON: For the western region, you estimate $1,313,000. At this stage, you have decided certain new stations are to be erected. How do you arrive at this amount?

Mr. VAUGHAN: We can get you the details of that.

Mr. NICHOLSON: I do not want individual cases, I wondered how you arrived at this amount.

Mr. VAUGHAN: There are four pages in this statement, Mr. Nicholson, which contain all the work for the Western Region. For instance, at Winnipeg, there is the installation of four new elevators. I might read the item. The first item is Winnipeg,

> Installation of four new elevators, two to operate from ground floor to fourth floor, and two to operate from basement to fourth floor, replacing present four deteriorated elevators in passenger stations. Total cost $163,000, spread over two years, of which $87,000 will be required in 1947 and $76,000 for 1948. Construction of central heating plants required to replace four deteriorated plants now used for heating the Union station, the engine shed in east yard, the Fort Garry hotel and the immigration building, all of which are located in close proximity to each other, and effect estimated annual savings in heating costs of $35,880.

Then, we come to Edmonton. There is an item of $17,000 for Edmonton for some construction work. Here is anothed item of $403,000. We are doing some work on the station at Edmonton, as you know.

Then, we have Red Lake Road, $17,000. A new highway has been built by the province of Ontario up into the Red Lake district which commences at our line and we are putting in facilities there to handle the freight to and from trucks.

We have an item for Sheraton, B. C., to construct a freight and passenger station to replace a deteriorated third class station. I think that is really a credit account. It is because the new unit is of less value than the old one.

For the Dauphin subdivision there is an item for a new station at Birch River and a new station at Endeavour. There is an item for a new station at Pine Falls and one at Carrot River. There is an item for the construction of a twenty-foot extension to the station building at Kindersley.

Mr. NICHOLSON: I was particularly concerned with finding out how long one has to wait before it is decided a new station is essential?

Mr. VAUGHAN: It is just a matter of the judgment of our officials as to how badly a new station is needed.

Mr. NICHOLSON: And the amount of business which is done?

Mr. VAUGHAN: The amount of business which is done and the condition of the station.

Mr. MOORE: Is anything going to be done about a new station at Minitonas.

Mr. VAUGHAN: I do not see any mention of Minitonas.

The CHAIRMAN: What about the operating budget on pages 1 and 2.

Mr. MUTCH: Could we proceed by pages?

The CHAIRMAN: Page 1 carried? Page 2?

Mr. HATFIELD: On page 2, net income charges excluding interest, $8,000,000. Of what does that consist? You do not pay income tax do you?

Mr. VAUGHAN: No, sir.

Mr. COOPER: It takes care of taxes, equipment rents, joint facility rents. discount on funded debt, dividend income, operating income, interest, the results of separately operated properties and items of that sort.

Mr. HATFIELD: The Prince Edward Island Car Ferry is handled under a separate item. I fail to find that account in the report. Is it in there?

Hon. Mr. CHEVRIER: It is a separate item in the estimates and is dealt with in the Committee of Supply. It is taken from the Committee of Supply and brought here for consideration. It will be dealt with after these gentlemen have finished with their budget.

Mr. HATFIELD: Is it your intention to do anything more about building storage warehouses at Tormentine?

Mr. VAUGHAN: No, sir, it is not at the present time.

Mr. HATFIELD: I should like to point out that I believe 75 per cent of your carloadings from Prince Edward Island consist of potatoes and turnips, is that not right?

Mr. VAUGHAN: I believe so, yes.

Mr. HATFIELD: You will find, unless storage places are built at Tormentine you are going to lose 50 per cent of that business within the next two or three years. Steamers will call at Charlottetown, Summerside and two or three other ports, at which places they will load potatoes off trucks. You will lose that business the same as you lost the newsprint business at Three Rivers and at other places where you used to haul to Portland. Steamships are coming into these ports now and taking the newsprint right from the mills. The same thing is going to take place in Prince Edward Island unless storage houses are built.

As soon as it appears that the growers of Prince Edward Island can get cheap storage at Tormentine, then they are going to load these potatoes in the fall of the year, at harvest time, ship them to some storage by water where they can get a cheap rate. The rate is very high in the United States.

In the future, our potato business is going to be done with the United States and the South American countries. It will be a water haul. I do not believe you will be able to retain this business unless you do something about it.

Mr. VAUGHAN: We will be glad to have our tariff department look into it and have a report made on it.

Mr. HATFIELD: You see, during the war years, practically 100 per cent or 90 per cent of this business has been a rail business. Before the war, only about 50 per cent of it was a rail business. The growers were shipping potatoes down to Port Newburg, Philadelphia, Baltimore and Norfolk. This will likely happen again as soon as steamships are available.

Mr. VAUGHAN: The potato shippers will ship potatoes via the cheapest route, no matter whether we have warehouses available or not.

Mr. HATFIELD: No, I think if you had warehouses available they would be used. Then you would have the rail haul to Halifax or Saint John at least.

Mr. VAUGHAN: We have a somewhat similar situation in various parts of the country such as the Okanagan Valley and the Niagara district from which fruit is shipped. If we are to provide warehouses for shippers of food products all over the country, it would be an endless expense.

Mr. HATFIELD: No, this is a different situation. You have a territory which is blocked by ice at various times of the year. These potatoes will be taken somewhere easy of access, so that when the growers have an order to ship seed potatoes they can get at them at any time of the year.

The CHAIRMAN: Is there anything else on page 2?

Mr. MCLURE: On page 2, operating revenues, item (c), "Payment of deficit in the operation of P.E.I. Car Ferry and Terminals." I have always taken serious objection to the use of this word, "deficit". In 1926 it was suggested by the Rae Duncan Commission that the bookkeeping operations should be taken out of the hands of the Canadian National Railways. This was done and it was kept as a separate account. This should not appear as a deficit because it is rather a bad advertisement and associates itself with Prince Edward Island. I have suggested all along an item such as this should appear, "Operating payment on dominion owned ferry and terminals at Borden and Tormentine."

Mr. VAUGHAN: I think if that wording is objectionable to you, we could perhaps do something about it.

Mr. MCLURE: It would not do any harm to the item.

Mr. VAUGHAN: The wording expresses the situation.

Hon. Mr. CHEVRIER: I suppose the Hudson Bay Railway people will want the same thing. They have a similar situation up in that part of the country.

Mr. MUTCH: As a matter of fact, we will insist upon it.

The CHAIRMAN: Are there any other questions on page 2? Page 3, additions and betterments?

Mr. HAZEN: How many additions or betterments are to be made to the line which runs to Portland?

Mr. COOPER: I do not see anything in our budget for the line to Portland, that is, from the international boundary line down to Portland.

Hr. HAZEN: Does that come under the central region?

Mr. WALTON: Central region, Montreal district.

Mr. HAZEN: This Central Vermont railway, what is that?

Mr. COOPER: It is a subsidiary company of the Canadian National Railways. The Canadian National owns all the capital stock of that company, but it is operated as a separate railway.

Mr. HAZEN: Between what points does it run?

Mr. COOPER: It runs from St. John's, Quebec, down to New London, Connecticut.

Mr. HATFIELD: Are the old sheds at Portland covered by insurance?

Mr. VAUGHAN: We cover them in our own fund.

The CHAIRMAN: Are there any other questions on page 3, gentlemen?

Mr. EMMERSON: I notice that the budget for 1947 for the Atlantic region is very small in comparison with some other regions. Is it considered that betterments and additions are not required on the Atlantic region to the extent they are on the other regions?

Mr. VAUGHAN: That is not the reason, the mileage on the Atlantic region is very much less than the mileage on either of the other regions.

The CHAIRMAN: Then, gentlemen, we have this long list on page 3(*a*). Are there any questions on that?

Mr. NICHOLSON: On page 3(*a*), under the item docks and wharves, we find you have a credit of $4,000 to the Western region. Could I have some explanation as to how it happens there is a credit under that item to the Western region?

Mr. VAUGHAN: We will ascertain that.

Mr. HATFIELD: There is an item here of $750,000 for an office building in the Central region, what is that?

Mr. VAUGHAN: That is the item we discussed the other day, the new International Aviation building. That is the amount we expect to spend this year on that project.

Mr. COOPER: The item of $4,000 under docks and wharves on the Western region is in connection with the trestle at Port Arthur.

The CHAIRMAN: Are there any other questions?

Mr. EMMERSON: What about this one item in the Western region which seems to be a credit of $162,000 under the heading of general additions and betterments and contingencies?

Mr. COOPER: It was principally due to a provision for the retirement of properties. In the operating department, the budget anticipates a retirement of property to the extent of $125,000 and in the mechanical department of $35,000.

The CHAIRMAN: Are there any other questions on page 3(*a*)?

Mr. JACKMAN: Mr. Emmerson is interested in how it happens to be turned into a credit item in the budget.

Mr. COOPER: If we take down a piece of property, retire it and it is not replaced we write it out of our property account. It is a credit to the capital account.

Mr. JACKMAN: That is how it happens to be a credit item?

Mr. COOPER: Yes.

The CHAIRMAN: Page 4? Page 5, new railway construction? There is a map on page 5. Page 6, the acquisition of securities and retirement of capital obligations in connection with these different railroads?

Mr. JACKMAN: I still cannot think out very clearly the suggestion I made about borrowing some money from the public in advance of your right to call in the near future, so all I can do is think out loud on the subject. You have no premium to pay on those bonds you will be allowed to call over the next few years.

Mr. VAUGHAN: There is a premium on most of them.

Mr. JACKMAN: A premium on most of those bonds you have a right to call over the next few years?

Mr. VAUGHAN: They are callable over par.

Mr. JACKMAN: Generally speaking, you would get rid of the 3 per cent charge.

Mr. COOPER: The $57,000,000 of 5 per cent bonds due in 1969 are callable, but there will be a premium to pay if they are called between October 1949 and 1954. We would have to pay $105.

Mr. JACKMAN: That is a certainty, you will call those.

Mr. COOPER: I would say so. The other big one is $17,338,000 of 5 per cent bonds due in 1970. They are callable at February 1, 1950 at $105. Both of these two issues are threeway bonds, that is to say, they are payable in Canadian currency, U.S. or Sterling. As things stand, there is not the slightest doubt we shall call.

Mr. JACKMAN: Then you have $25,000,000 due in 1953.

Mr. COOPER: There is no premium on those bonds nor on the $20,000,000 at 3 per cent due in 1952, callable after 1948.

Mr. JACKMAN: You could get permission to call them now?

Mr. COOPER: I do not think there is any possibility of calling them before their callable date.

Mr. JACKMAN: No, I realize that, but the reason for raising the question is whether you think the interest rate is going down or whether you believe we have reached the low point in interest rates.

Mr. VAUGHAN: It is a difficult matter to decide. It is a matter of judgment. We believe it would not be wise for us now to borrow a considerable sum of money in anticipation of needing it in 1949.

Mr. JACKMAN: All I am trying to do is calculate whether you should not be satisfied to get, let us say, a $2\frac{2}{3}$ per cent rate on long term bonds, even though you will not be able to use the money for repayment to the public for a period of two or three years. What would you do with the money in the meantime? I was wondering whether or not you could not repay the government some of the loans you have, some of which are charged at 3 per cent.

Mr. VAUGHAN: Three and a half per cent, but we are hoping to have those cancelled.

Mr. COOPER: We did, in 1917, as I mentioned, make an issue of $50,000,000. Of that, $42,000,000 was paid to the government in discharge of loans on which we were paying $3\frac{1}{2}$ per cent. There is also this point to be considered, the Canadian National is not in a position to go into the money market at any time it sees fit. It would be guided in that respect by the financial officers of the government and the Bank of Canada.

Mr. JACKMAN: I was wondering what would happen to the money if you raised it from the public now and took advantage of the low rate. Then you could turn the money over to the government in extinction of the $3\frac{1}{2}$ per cent charge.

Mr. COOPER: We have no more $3\frac{1}{2}$ per cent loans other than the repatriated securities.

Mr. JACKMAN: As a matter of policy, you do not want to touch those.

Mr. COOPER: No, we do not.

Mr. HATFIELD: What about the steamships in the item of capital budget, where would they operate?

Mr. VAUGHAN: They are going to be used in the West Indies trade. Some will be used in the Jamaica trade and some to other West Indies Islands such as Bermuda, Saint Kitts, Nevis, Montserrat, Dominica, Saint Lucia, Barbados and Demerrara, Trinidad.

Mr. HATFIELD: From which ports will they sail?

Mr. VAUGHAN: Montreal in the summer-time and Halifax and Saint John in the winter-time.

Mr. HATFIELD: It has been the plan to send a steamer out of Saint John into Halifax and keep it at Halifax two or three weeks before it sails. Now, that is rather poor service.

Mr. VAUGHAN: Some of the steamships partially discharge at Saint John and then go to Halifax to finish discharging and load up cargo again.

Mr. HATFIELD: It does not take two weeks to discharge and load if you have good weather.

Mr. VAUGHAN: I assure you, they are discharging and loading just as quickly as we can possibly get the work done by stevedores.

Mr. HATFIELD: Goods which might be shipped to Saint John would be shipped to Halifax at extra cost in order to get away from that delay, especially perishable food. I was wondering about that delay between Saint John and Halifax.

Mr. VAUGHAN: The boats coming from the south put in at Saint John to discharge cargo, and then go on to Halifax. We believe it works out very well from an economical standpoint.

Mr. HATFIELD: Is the treaty with the West Indies still in effect?

Mr. VAUGHAN: The treaty has expired.

Mr. HATFIELD: Is there any reason why your boats should not go on to LaGuaira and other points? They go within probably one hundred miles of Trinidad, Port of Spain, but they could not go on farther on account of the West Indies treaty then in effect. A large part of the business of Saint John is carried on with Venezuela. You come within 100 miles of it, but you cannot go to Venezuela because of the West Indies treaty. If that treaty has expired, why can you not go the other 100 miles and call at the Port of LaGuaira.

Mr. VAUGHAN: Our boats are fully occupied in the trade in which they are now engaged. If we were to call at various points outside of British Guiana, we would have to have more boats.

Mr. HATFIELD: That might have been so during the war years, and, no doubt they are full now, but it might not be so in the future.

Mr. VAUGHAN: We have had no demand of which I know, to call at Venezuela.

Mr. HATFIELD: Yes, I have applied for it at different times.

Mr. VAUGHAN: There are other local steamship companies operating out of Saint John and perhaps they make the call.

Mr. HATFIELD: There are other steamship companies and it is only likely they call at Venezuela. However, you go down there almost to LaGuaira where the big business is, but you stop short of it. Your excuse was that the West Indies treaty was in effect, but now I do not know what the excuse is. At that time, your boats went down half loaded. I cannot see now why they do not go to Venezuela.

Mr. VAUGHAN: Do I understand you to say it was due to the trade agreement that we could not make the required call.

Mr. HATFIELD: That was the excuse at the time, but that agreement has expired. I do not see why you should not take in Cuba on the way down.

Mr. VAUGHAN: We have not sufficient boats to call at all those places. Our boats are now going down there fully loaded.

Mr. HATFIELD: Were all the Lady boats sunk during the war?

Mr. VAUGHAN: There were three sunk and two were left, the *Lady Nelson,* which was used as a hospital ship and the *Lady Rodney* which was chartered as a troop ship. One is in Halifax and one in Saint John now being rehabilitated.

Mr. MCCULLOCH: How soon will the *Lady Nelson* start running?

Mr. VAUGHAN: I do not think she will be running before the end of June.

Mr. HATFIELD: You might fill your boats now, I know it is hard to get space, but that condition is not going to last

Mr. VAUGHAN: We will look into that situation.

THE CHAIRMAN: If that is carried, gentlemen, would you like to have Mr. Cooper saiy something about the operating budget of West Indies Steamships?

Mr. NICHOLSON: Mr. Chairman, before we leave the matter of the railways, Mr. Knight was discussing the Hudson Bay Railway situation in the House and the minister made reference to the fact that some questions could possibly be asked before this committee. Mr. Knight is not a member of this committee, but he is here and I wonder if the committee would consent to his being accorded the privilege of asking a few questions about the Hudson Bay Railway before we go on with the West Indies Steamships?

Mr. JACKMAN: We have no statement relating to the Hudson Bay Railway company before us, have we?

Hon. Mr. CHEVRIER: There has been no reference of the Hudson Bay Railway to this committee this year.

Mr. JACKMAN: I though that was a permanent arrangement.

Hon. Mr. CHEVRIER: No, it is not.

Mr. JACKMAN: Then I move that the Hudson Bay Railway account be referred to this committee this year.

Hon. Mr. CHEVRIER: I am afraid it is now too late for the government to entertain such a motion. In any event, that is a motion which should be made in the House.

Mr. JACKMAN: It was definitely understood, I thought, that we would have an opportunity of examining into this Hudson Bay Railway matter.

Hon. Mr. CHEVRIER: It has not been the practice to refer the Hudson Bay Railway accounts to this committee. I believe two years ago at your request we had Mr. MacLachlan, the general manager of the line, come down from The Pas, and he was examined. We have no objection to answering any of these questions. I am not sure any questions will be asked, but if any are I should be happy to do my best to provide an answer.

Mr. JACKMAN: I think on two years we heard Mr. MacLachlan?

Hon. Mr. CHEVRIER: Just one year.

Mr. JACKMAN: Did we not have the accounts a second year?

Hon. Mr. CHEVRIER: No, just one year. This is an item which will be up in committee of supply and should be discussed there, and can be discussed there at any time very fully.

Mr. JACKMAN: But Mr. Howe, who was minister at the time was quite agreeable to having that statement presented.

Hon. Mr. CHEVRIER: It was not done in Mr Howe's time, I am informed.

THE CHAIRMAN: So far as I am aware they are not before the committee for discussion.

Mr. JACKMAN: Is there any objection to having the Hudson Bay statement taken up here?

Hon. Mr. CHEVRIER: There is no objection to giving all the information that is available, but there would be objection at this stage to bringing the general manager of the railway down here. Is there any objection on the part of the committee to hearing Mr. Knight?

Mr. JACKMAN: May I ask what the result of the operation of the Hudson Bay Railway was last year?

Mr. VAUGHAN: We haven't got the figures here.

Hon. Mr. CHEVRIER: I can give you the figures; the results of the operations for 1946-47 was a deficit of $466,883. That is the difference between the expenditures for operation and maintenance, and the revenue; The estimated deficit for 1947-48 is $525,000.

Mr. JACKMAN: Could we have the details of that? How was the deficit paid? Where did they get the money to take care of that?

Hon. Mr. CHEVRIER: That is an item which can be taken up when the item is up for discussion in the House.

Mr. JACKMAN: Is there an item in the estimates with respect to that?

Hon. Mr. CHEVRIER: Yes, there is an item on it in the estimates and it will be up for discussion in committee of supply in the House.

Mr. MUTCH: To the best of my recollection the matter is one which has always been taken up in the House for discussion on previous occasions.

The CHAIRMAN: What is your pleasure, gentlemen? Mr. Knight is here. I know that no one wants to curtail the discussion. Is it agreeable to the committee that we should allow Mr. Knight to take a few minutes on this matter with the hope that he makes his remarks as brief as possible? It really is not on our agenda. What is the feeling of the committee? I certainly do not want to be arbitrary in the matter in any way.

Mr. NICHOLSON: I move that Mr. Knight be permitted to proceed.

The CHAIRMAN: Is that agreeable, gentlemen?

Agreed. Mr. Knight, will you proceed.

Mr. KNIGHT: Mr. Chairman, and gentlemen: I thank the committee for their courtesy in allowing me to ask these questions, although my presumption was that I had the right so to do. Perhaps I was mistaken in that. If I was I was misled by the statement of the minister—

Hon. Mr. CHEVRIER: Well now,—

Mr. KNIGHT: —who suggested that I should ask questions before this committee.

Hon. Mr. CHEVRIER: When you say that it was I who suggested that, I do not think you are quite correct. A member of the committee may ask questions, but Mr. Knight is not a member of the committee and cannot ask questions unless he has the permission of the committee so to do.

Mr. KNIGHT: I am thanking the committee for that permission, and I am thanking the committee for the courtesy extended. I do not know whether I am supposed here to express opinions or merely to ask questions.

Hon. Mr. CHEVRIER: I think you had better limit yourself to questions, Mr. Knight.

Mr. KNIGHT: I was going to answer Mr. Jackman's suggestion in regard to the deficit reported on this road and offer a suggestion as to how it could be wiped out. However, that is not a question, and as I see it it is unfortunate because I thought perhaps the details would be rather a matter of interest to some members of the committee.

Hon. Mr. CHEVRIER: If it has to do with details of operation it may be that the general manager is the only one who can give you the information; but go ahead, we will see how far we can go.

Mr. KNIGHT: Is there a way by which these questions can be registered and submitted?

Hon. Mr. CHEVRIER: Yes. Any information we are able to give we will be glad to give you here, and we will be glad to get whatever information we can for you.

Mr. KNIGHT: I think it would be too bad to put the company to the expense of bringing the general manager down here to answer one of two such detailed questions as I have. I may say that I only knew half an hour ago that there was a chance of my being able to appear before this committee.

Mr. MCCULLOCH: Carry on.

Mr. KNIGHT: I wanted to ask first of all where the cattle pens at Churchill, the material, the lumber that was in them, is? I refer to the pens there which were used for the housing of cattle, and I wanted to ask that question.

Hon. Mr. CHEVRIER: That question was put on the order paper and answered there. I do not remember what the answer was that I gave at the time but my recollection is that they were torn down and sold to the American army.

Mr. KNIGHT: And was compensaton received in full and the amount recorded?

Hon. Mr. CHEVRIER: Yes.

Mr. KNIGHT: What I am interested in, are the necessary repairs being made at Churchill, that also applies in connection with the cattle pens; are full facilities available for the activities for the coming season, 1947? That was my next point.

Hon. Mr. CHEVRIER: I do not think this committee can give you that information. We will have to get it from the National Harbours Board, under whose jurisdiction the port of Churchill comes.

Mr. KNIGHT: If you will look into it.

Hon. Mr. CHEVRIER: A note is being made of your questions as we go along.

Mr. KNIGHT: Right. I wanted to ask a question about—I do not know whether this should be on the record or not, I think it is an important matter and it is one that I brought up before, it deals with accommodation at that port. The matter I want to talk about is the toilet accommodation and I refer to the accommodation at the port, not at the elevator. As I said, I did not know that I would have an opportunity of appearing here, but I wish you would take that up with the officials and talk to them about it.

Then there is the matter of the elevator and sheds. I presume those are for handling rather than for storage purposes. The point I want to make is that to make this port successful it is necessary that wheat be moved through it. There is no possibility of assuring wheat in sufficient quantity at that port to make it pay and in that way take care of the deficit, this operational deficit of which Mr. Jackman has spoken. The point I am trying to make is this; I would assume that it was necessary that wheat be kept in a strategic position so that the port may do away with this deficit. It is not enough just to keep the elevator at that port filled, you will have to have a volume of shipments through and out of that port if you expect the railway to pay. I would like to ask this, is it possible to load one ship a day under present conditions at that port; also, would it be possible to load a ship and a half per day for the full period for which marine insurance rates are available?

Hon. Mr. CHEVRIER: You know, Mr. Knight, that the shipping season is very short, some fifty or sixty days.

Mr. KNIGHT: What shipping season does the minister refer to, is it the marine insurance season?

Hon. Mr. CHEVRIER: I am referring to the shipping season at the port of Churchill during which ships will go there because of the protection from insurance, and it is only, if I remember right, some five or six weeks. Last year there were nine or ten ships loaded wheat. I have a statement on that which I will place on the record.

SHIP LOADINGS AT CHURCHILL

Year 1946

Sailing Date	*Name*	*Contents*
August 15th—S.S.	*Revelstoke Park*	335,000 bus. Wheat and 101 tons Lumber
" 18th—S.S.	*Hillcrest*	329,000 " " " 424 " "
" 20th—S.S.	*Essex Trader*	345,000 " "
" 22nd—S.S.	*Dalcross*	304,000 " "
" 24th—S.S.	*Whiteshell Park*	335,000 " " and 110 tons Logs
Sept. 11th—S.S.	*Belwoods Park*	241,759 " " " 450 " Lumber— 2,200 tons Flour
" 19th—S.S.	*Revelstoke Park*	347,500 " "
" 24th—S.S.	*Fort Richelieu*	347,200 " "
" 25th—S.S.	*Hillcrest Park*	344,416 " "
		2,928,875 bus. Wheat

I did not want to interrupt you but these are all matters which affect the National Harbours Board and not the railway. This committee has no reference to discuss Harbours Board matters, just railway matters.

Mr. KNIGHT: May I ask where I am to get the information?

Hon. Mr. CHEVRIER: If you want to write to me about it I shall be glad to get it for you.

Mr. MUTCH: Mr. Chairman, I know the particular interest that western members have in this matter, but I would point out with respect that the questions which have been asked so far are questions which should be taken up when the estimates for the Harbours Board and the Hudson Bay Railway vote are up in committee of supply.

Hon. Mr. CHEVRIER: Yes.

Mr. MUTCH: For the protection of yourself, Mr. Minister, and the other members of the committee, it should be on the record that these questions have no bearing on the matter which is before this committee.

Hon. Mr. CHEVRIER: I hesitate to instruct any member on his rights and obligations, but this is a committee which is dealing with the reports of the railways, the budget and the securities trust; and, from the notes which you have it looks as though you were going to go on for some time.
obligations, but this is a committee which is dealing with the reports of the railway and ask a few questions about that?

Hon. Mr. CHEVRIER: Well, let's see how it goes.

Mr. KNIGHT: I would like to find out if it has been anybody's business to hunt up traffic for what we call the Hudson Bay Railway?

Hon. Mr. CHEVRIER: I presume it is the business of the general manager of any railway to endeavour to get business for that railway—

Mr. MUTCH: They probably have a traffic department.

Hon. Mr. CHEVRIER: And as Mr. Mutch points out, they have a traffic department.

Mr. KNIGHT: Is it the sole duty of the general manager to look after the management of the Hudson Bay Railway, or has he certain functions to perform in connection with the C.N.R. at the same time?

Hon. Mr. CHEVRIER: No, I understand his duties are exclusively those of general manager of the Hudson Bay Railway.

Mr. VAUGHAN: That is correct.

Mr. KNIGHT: Would you say that the Canadian National Railways have been benevolent, as it were, to the Hudson Bay Railway; or might it be considered the reverse, might it be considered a rival of the Hudson Bay Railway?

Mr. VAUGHAN: No, sir; it is not a rival. I think the Canadian National is benevolent to the Hudson Bay Railway.

Mr. KNIGHT: If I might make one statement, I want to assure the committee that I am not at all antagonistic in this matter but these things are constantly broached to us western members. People out there are constantly asking us questions about these things and I want to get some answers on the record. And now, as to the rates on the Hudson Bay Railway: are they set by the C.N.R. or are they set by the Board of Transport Commissioners? I think someone said that the Board of Transport Commissioners have no power to set rates over that route.

Hon. Mr. CHEVRIER: That is right. I understand they have no jurisdiction over that railway.

Mr. KNIGHT: Is the general manager charged solely with the operation of the railway—does the rate which is charged apply solely to the operation of the line from The Pas through to the port of Churchill?

Hon. Mr. CHEVRIER: Yes. I understand the rate paid is low.

Mr. VAUGHAN: That is right.

Mr. KNIGHT: The Hudson Bay Railway is listed as being under construction. Would somebody explain what the significance of that term is in regard to shall we say overhead charges? I confess to being very ignorant on this matter. I am here for information.

Hon. Mr. CHEVRIER: It has no relation, I am informed, to overhead charges whatever.

Mr. KNIGHT: No relation to overhead?

Hon. Mr. CHEVRIER: No.

Mr. KNIGHT: Then will you tell me this, most people are led to believe that the line has been completed, why is it still listed as being under construction?

Hon. Mr. CHEVRIER: I am afraid I cannot answer that, other than to say there may be certain advantages to the locality.

Mr. WALTON: Mr. Minister, that is a feature which I think might have some bearing.

The Hudson Bay Railway owns no locomotives or cars of its own, they are rented from the Canadian National as and when required. All repairs are taken care of by the Canadian National and if they are taken out of the construction classification and are listed in the official guide and elsewhere, in the official equipment register, as a railway in operation there is the question of the ownership especially of cars in relation to the general car pool. I think that has some bearing on it.

Hon. Mr. CHEVRIER: Do you think the railway should be under the jurisdiction of the board? Is that what you are representing?

Mr. KNIGHT: No. I am not expressing any opinion. I wanted to know what the significance of that term was. Another point; grain going down the C.N.R. has a cheaper rate, do you call that the import-export rate? I am not so familiar with these terms; at any rate, I do know there is a cheaper rate down to The Pas; and I understand there is a separate rate which applies from The Pas to the Fort.

Mr. VAUGHAN: I really do not know what is meant by that statement. The Hudson Bay railway has variable rates into Churchill.

Mr. KNIGHT: What I wanted to get at was a comparison, an assurance that the rates that are being charged on the grain going down to The Pas—they are certainly not too high; but how about the rate per bushel from The Pas in to the quay?

Mr. VAUGHAN: We cannot say that offhand. These are all questions on which we will have to prepare replies. If you would care to submit these questions we would be very glad to give you answers, particularly in so far as they may relate to the Canadian National Railways.

Hon. Mr. CHEVRIER: I am told that is a through rate.

Mr. KNIGHT: It is a through rate?

Hon. Mr. CHEVRIER: Yes.

Mr. KNIGHT: I had one or two other questions but I will not take the time to develop the matter further at the moment. May I say that I should not be apologizing for asking these questions. These are questions which are of vital interest to our people in the west. My next question is this: How many bushels of grain would you require to handle in 1947 to wipe out the operating deficit on that road?

Hon. Mr. CHEVRIER: About 15,000,000 bushels, I am informed, Mr. Knight.

Mr. KNIGHT: 15,000,000 bushels! What I had in mind was giving that railway a fair chance to operate.

Mr. JACKMAN: I suppose that if the rate is increased a fewer number of bushels would be needed to cover a smaller deficit.

Mr. KNIGHT: Any saving, I take it, would be a saving to the government. I mean, the deficit is charged against the Canadian government now. It would also be a saving to the wheat board, wouldn't it; on account of the charges they would otherwise have to pay let us say if the grain went through the port of Montreal; and there would be a saving to the board shipping—there would be a three-way saving?

Hon. Mr. CHEVRIER: I am not prepared to accept that statement as to whether there would be a saving or not, I do not know.

Mr. KNIGHT: I am not arguing.

Hon. Mr. CHEVRIER: I could not give you an answer to that. I could not say it would be a saving.

Mr. KNIGHT: Would you say it would require thirty or forty ships in and out of that port to ensure successful operation of that road? Of course, that would come under the Harbours Board and it would have a direct bearing on marine insurance. Of course, that is a question which is out of your jurisdiction.

Hon. Mr. CHEVRIER: I suppose a great deal would depend on the load. If the ships were able to bring in a load of freight and could take out a load of wheat then it might be a profitable venture; but if they are not able to bring in any freight and if there is no demand in that part of the country for supplies of the type which these ships are likely to bring, it would have a bearing on the answer to your question.

Mr. KNIGHT: Would the strategic importance of Churchill have any bearing upon the interest, shall we say, of the government in the use of the route?

Hon. Mr. CHEVRIER: It might.

Mr. KNIGHT: Together with the use of the port?

Hon. Mr. CHEVRIER: It might.

Mr. KNIGHT: Well, I think those are the questions I wanted to ask in regard to the railway; and I thank you again for your courtesy and for the information supplied, and for such information as it may be possible for me to obtain.

The CHAIRMAN: With regard to railway information, may I suggest that if you were to write the railway people they would be happy to give you as much of it as they can; and I am sure the Harbours Board, through the minister, would be glad also to give you any information.

Mr. MUTCH: If you want to ask further questions in the House there are two votes, that of the Harbours Board and that of the Hudson Bay Railway, still to come up in the estimates.

Hon. Mr. CHEVRIER: May I just say one thing, Mr. Knight; the practice has always been for a member to ask questions such as yours in the House, and should the occasion arise again, that perhaps would be the quickest way to dispose of them.

Mr. KNIGHT: I may say, Mr. Minister, that I had no intention of appearing. As a matter of fact I only prepared these notes in the half hour since Mr. Nicholson suggested that I appear.

Mr. MOORE: I understand that this question is one that has been under consideration for a number of years. Is there any possibility of the Canadian National Railways taking over and operating the Hudson Bay railway? Would you want to do that, Mr. Vaughan?

Mr. VAUGHAN: No, sir; I would not like to do that.

Hon. Mr. CHEVRIER: I understand there are some advantages to the people in the locality in listing it as under construction.

The CHAIRMAN: Gentlemen, would it be possible to consider West Indies Steamships?

Mr. JACKMAN: Just before we leave the matter of the Hudson Bay Railway, I understand the C.N.R. receive a fee for management; could you tell me what the amount of that is?

Hon. Mr. CHEVRIER: The Canadian National receive a fee of $1,000 per month.

Mr. NICHOLSON: Does the manager of that route have any seniority standing in the C.N.R.?

Mr. COOPER: He would not be in the seniority group at all, supervisory officers do not have seniority.

Mr. JACKMAN: Who fixes the rates on the Hudson Bay Railway?

Hon. Mr. CHEVRIER: What rates are you referring to?

Mr. JACKMAN: I have in mind grain rates.

Mr. VAUGHAN: That would be done to a large extent I would think by the traffic officers of the Canadian National Railways.

Hon. Mr. CHEVRIER: And not under the supervision of the Board of Transport Commissioners?

Mr. VAUGHAN: No.

The CHAIRMAN: Is that all on the Hudson Bay railway? Then, let us proceed with this budget on the West Indies Steamships. Mr. Cooper, would you like to say a few words on the West Indies budget? We have not gone through the report. It is attached here. Would it be agreeable to discuss it now and clean up? That is page 7?

Mr. COOPER: I read that section of the budget.

Hon. Mr. CHEVRIER: I thought the committee might prefer to get on with it now, and then they can take up the report.

Mr. JACKMAN: Did we make more money out of the West Indies Steamships operations last year?

Mr. VAUGHAN: We made more. We have $720,000 in the budget for 1947 as compared to $1,302,000 last year.

Mr. JACKMAN: What is the cause of that; slowing off in traffic, or higher costs?

Mr. VAUGHAN: Higher cost is one thing, and the revenues will be down because last year we operated more boats for other companies and we handled a number of Park boats; more voyages were made last year than this, I mean with chartered vessels.

Mr. JACKMAN: Have cargo rates gone up this year?

Mr. VAUGHAN: Cargo rates did not go up last year.

Mr. JACKMAN: Are you having more competition from lines like the Saguenay?

Mr. VAUGHAN: They are our principal competition, the Saguenay and the Alcoa steamships.

Mr. JACKMAN: How are the rates fixed, by bargaining between the parties?

Mr. VAUGHAN: To some extent; and as far as sugar goes, the rates on sugar northbound are arranged with the sugar controller at Ottawa. All sugar is under control.

Mr. JACKMAN: And you are expecting $720,000 operating net—

Mr. VAUGHAN: Surplus, this year.

Mr. COOPER: Not operating surplus, sir; after the payment of interest. That is over-all profit.

The CHAIRMAN: Well now, gentlemen, shall we take this report and ask Mr. Vaughan to read it?

Mr. MUTCH: Can we not have it put in the record taken as read, Mr. Chairman?

Hon. Mr. CHEVRIER: Someone has suggested that we dispense with the reading of it.

The CHAIRMAN: Shall we do that?

Mr. MUTCH: We have had the report in our hands for nearly a week.

The CHAIRMAN: Perhaps we had better have Mr. Vaughan read it, we have just about time enough left to permit him to do so.

Mr. VAUGHAN:

MONTREAL, March 15, 1947.

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

Sir,

On behalf of the Board of Directors of Canadian National (West Indies) Steamships, Limited, I beg to submit the Annual Report of the Company for the calendar year 1946.

The operating results for the year compare with the previous year as follows:—

Operating Revenues	$6,669,128.45	$4,412,251.34	$2,256,877.11	51·15%
Operating Expenses	4,959,240.08	2,849,091.51	2,110,148.57	74·06%
Operating Profit	$1,709,888.37	$1,563,159.83	$ 146,728.54	

The number of voyages completed was 49 as compared with 23 in 1945. Export tonnage increased 65,446 tons, of which flour constituted the largest increase, 19,515 tons. Import tonnage increased 85,030 tons, largely due to increased sugar tonnage of 60,381 tons. Freight revenue for the year amounted to $5,700,121, an increase of $2,544,407 or 80·6 per cent. Passenger revenue increased from $55,326 in 1945 to $96,727 in 1946, but the limited passenger accommodation fell far below the increasing demands for passage.

Operating expenses amounted to $4,959,240, in increase of $2,110,148. This increase reflects the upward trend of vessel operating costs and cost of cargo handling, particularly at West Indies ports where increased costs have been substantial. Provision was also made in the year's expenses for the cost of overhaul (on owner's account) of the *Lady Nelson* and *Lady Rodney*. These two ships were released in December from their wartime duties and are now in dry dock undergoing reconversion and overhaul preparatory to resuming regular freight and passenger service to the Eastern group of islands.

Net profit from operations for the year was $1,709,888, an increase of $146,728 over the previous year. After adding interest earnings to the operating profit and providing for fixed charges (including interest on government advances) there was an income surplus for the year of $1,302,051. Of this surplus $196,887, being the interest earnings of the vessel replacement fund, was retained in that fund and the balance, $1,105,164, has been paid to the government in reduction of advances made for deficits in the development period 1929-1934.

In line with the decision to dispose of certain of the older vessels, mentioned in last year's report, three vessels were sold during 1946, the *Cathcart, Cavelier* and *Connector*. The proceeds of sale were placed in the vessel replacement fund. Two 4,700 ton cargo vessels of the tween deck (dominion) type were purchased from War Assets Corporation during the year and three other similar "Park" vessels, on bare boat charter to the company at the end of the year, will be purchased in 1947. The first of the three diesel powered cargo vessels being purchased from War Assets Corporation was delivered late in 1946, the remaining two early in 1947. These vessels have a deadweight tonnage of 7,500 tons each, with over 15,000 feet of refrigerated space and a speed of 15 knots. They have accommodation for 12 first class passengers, and 70 deck passengers for inter-island travel. All vessel purchases have been financed from the vessel replacement fund.

At December 31, 1946, the Company owned the following vessels:

	Gross Tonnage	Deadweight Tonnage
Lady Nelson	7,970	6,370
Lady Rodney	8,194	4,665
Chomedy	6,136	8,600
Colborne	6,230	8,650
Canadian Conqueror	2,930	4,532
Canadian Cruiser	6,745	7,460
Canadian Observer	2,967	4,532
	41,172	44,809

In 1947 the fleet will be increased by the three "Park" and two diesel powered vessels referred to above. The *Colborne* has been sold and the *Chomedy* may be sold later in the year. These changes made, the company will own ten vessels with a total deadweight of 56,075 tons.

Acknowledgment is made of the loyal and efficient service rendered by the officers and employees of the company, both ashore and afloat.

For the Board of Directors,

R. C. VAUGHAN,
President.

CONSOLIDATED BALANCE SHEET

AT 31ST. DECEMBER, 1946

ASSETS

INVESTMENTS:			
Vessels		$ 6,687,917.89	
Less accrued depreciation		*3,000,066.19*	
		$ 3,687,851.70	
Vessel replacement fund		5,436,415.73	
Prepayments		135,000.00	
			$ 9,259,267.43
CURRENT ASSETS:			
Cash in banks	$940,032.70		
Special deposits	12,775.00		
		$ 952,807.70	
Accounts receivable		356,692.96	
Freight, passenger and agency balances		121,130.90	
Inventories		25,218.86	
Advances to captains, crews, etc		17,015.80	
Due from vessel replacement fund		1,814,173.18	
			3,287,039.40
INSURANCE FUND			1,338,029.09
DISCOUNT ON CAPITAL STOCK			40,000.00
			$13,924,335.92

LIABILITIES

CAPITAL STOCK:		
Authorized and issued 400 Shares of $100.00 each		$ 40,000.00
FUNDED DEBT:		
25 Year 5% Dominion of Canada guaranteed gold bonds due in 1955		9,400,000.00
DOMINION OF CANADA ADVANCES		5,059,960.94
CURRENT LIABILITIES:		
Accounts payable	$ 701,423.10	
Interest matured unpaid	12,775.00	
Unmatured interest accrued	156,666.67	
Passage money paid in advance	20,970.38	
Accrued reconversion and overhaul expense	712,089.86	
		1,603,925.01
UNADJUSTED CREDITS		144,002.47
INSURANCE RESERVE		1,338,029.09
PROFIT AND LOSS—*Deficit*		*3,661,581.59*
		$13,924,335.92

NOTE.—A reserve has been provided for pension contracts in force under the 1935 contractual plan, but not for pensions conditionally accruing.

T. H. COOPER,
Vice-President and Comptroller.

CERTIFICATE OF AUDITORS

We have examined the books and records of the Canadian National (West Indies) Steamships, Limited and subsidiary companies for the year ended the 31st December, 1946, and subject to our report to parliament, we certify that, in our opinion, the above consolidated balance sheet is properly drawn up so as to exhibit a true and correct view of the affairs of the steamships as at the 31st December, 1946, and that the relative income and profit and loss accounts for the year ended the 31st December, 1946, are correctly stated.

15th March, 1947.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

CONSOLIDATED INCOME ACCOUNT

	1946	1945
OPERATING REVENUE:		
Freight	$5,700,121.21	$3,155,714.43
Passenger	96,726.72	55,325.89
Agency fees, etc	97,436.71	258,869.34
Subsidies	119,587.00	132,235.50
Charter	655,256.81	810,106.18
Total	$6,669,128.45	$4,412,251.34
OPERATING EXPENSES:		
Voyage accounts	$4,427,367.90	$2,397,075.48
Depreciation on vessels	288,092.02	279,466.28
Management and office expenses	209,980.03	166,402.86
Pensions	29,021.99	4,329.72
Other expenses	4,778.14	1,817.17
Total	$4,959,240.08	$2,849,091.51
Operating profit	$1,709,888.37	$1,563,159.83
Vessel replacement fund earnings	*$ 196,887.28*	*$ 216,842.16*
Interest on bonds held by public	470,000.00	470,000.00
Exchange on U.S. funds	8,225.00	50,916.66
Interest on government advances	126,499.02	142,999.42
Surplus	$1,302,051.63	$1,116,085.91

CONSOLIDATED PROFIT AND LOSS ACCOUNT

at 31st December, 1946

Balance at 31st December, 1945—*Deficit*	*$4,963,633.22*
Surplus as per income account, year 1946	1,302,051.63
Balance as 31st December, 1946—*Deficit*	*$3,661,581.59*

The CHAIRMAN: Now, gentlemen, is there any discussion on the balance sheet?

Mr. JACKMAN: Your operating ratio certainly went up a lot last year.

Mr. VAUGHAN: It increased very materially because there was $715,000 provided in the expenses for overhauling two of the "Lady" ships.

Mr. NICHOLSON: Last year as I recall we had considerable discussion about the profit and loss deficit of $3,661,000; has there been any conversation between the company and the government with regard to that matter?

Mr. VAUGHAN: The finance department has declined to make any further adjustment in that. We have made substantial progress in reducing the profit and loss deficit. At the end of 1936 it was $9,078,000, at the end of 1946 it is $3,661,000; so we have wiped out nearly $6,000,000 of that deficit which we do not think should ever have been charged against us.

Mr. NICHOLSON: Would the minister care to make any statement as to why the government takes a stand?

Hon. Mr. CHEVRIER: I am afraid that I shall have to repeat what I have said; that I am of the same view as the Department of Finance and of the same opinion as the government was at the time.

Mr. JACKMAN: Would the minister like to give the reasons why the accumulated deficit in the early years should not be wiped out?

Hon. Mr. CHEVRIER: I think the matter is similar to the one we have been discussing with reference to income bonds; there is a relationship between the two, and the government has not seen fit thus far to adjust certain fixed charges of the railway by accepting income bonds in lieu thereof; and neither has it decided with reference to the profit and loss account of the steamships; although I think there is a far better case—I speak personally now, of course—for acceptance of income bonds in this case.

Mr. VAUGHAN: I would like to point out that of the deficit of $3,661,581, $3,353,000 represents interest on deficits.

Mr. JACKMAN: Is that not excepting part of the operation of 1937 in connection with the railways, wiping out the interest on deficits?

Mr. COOPER: Yes, that was what was done.

Mr. JACKMAN: It does not seem to me that this case is quite on the same four legs as the other one.

Hon. Mr. CHEVRIER: I said there was a relationship between the two.

Mr. JACKMAN: If you carried out the same principle which was carried out in 1937 in connection with the railway, giving it a fair chance, it seems to me the same principle might be applied in connection with the steamships.

Mr. VAUGHAN: It would probably need an Act to do that. As it happens in this case, we are making pretty good progress in whittling that down. As I say, I do not think it should have been there, but that was a matter for the Department of Finance at the time. I think the Act, as it read or as it does read, required them to charge interest, so it would need a change in the Act to wipe that out.

Mr. JACKMAN: Perhaps, after the adjournment we could hear from either the minister or the president as to the future policy of the Canadian West Indies Steamship Company.

The CHAIRMAN: Very well, can we adopt this report? It has been moved the report be adopted and Mr. Vaughan will perhaps make a statement. Does that meet with your wishes Mr. Jackman?

Carried.

Gentlemen, can we meet at four o'clock? We have not very much work left and perhaps we can get it fairly well cleaned up this afternoon.

At 1.00 p.m. the committee adjourned to meet again at 4.00 p.m.

AFTERNOON SESSION

The Committee resumed at 4.00 p.m.

The CHAIRMAN: Now, I think before we adjourned at noon, Mr. Jackman asked Mr. Vaughan for a short statement.

Mr. VAUGHAN: Last year, I made a rather full statement in connection with the Canadian National West Indies Steamships. We had a good year in 1946 and I think the prospects are fair for 1947. We have almost an entirely new fleet which we paid for from our replacement fund, so that we will have ten modern boats in operation this year and probably one of the older boats. Our returns for the first three months of this year are on a parity with last year. It looks as if there will be plenty of sugar coming northbound for the various steamship companies and there is good cargo offering southbound, both to the eastern and western islands.

Mr. JACKMAN: What I had in mind, Mr. Vaughan, was while it is true the Canadian National owns—no, it does not own.

Mr. COOPER: The government owns the stock.

Mr. JACKMAN: The company which you operate as a service to the government.

Mr. COOPER: The directors of the Canadian National Steamships are the same directors as for the railway company, but the stock, in both cases, is owned by the government.

Mr. Hatfield: Mr. Vaughan, has there been any consideration given to operating of a line to South America in view of the increased trade between Canada and South America? I noticed that within the last two years the Mornac Line has come into Canadian ports and taken your newsprint business for South America away from the railways. They dock their ships near the factories. Has there been any consideration given to having steamships operate on a line to South America?

Mr. Vaughan: We have not given that matter consideration recently, Mr. Hatfield, but some time ago we did give consideration to that. We believed that, with the boats we would have available, we could not operate down to South America and give a satisfactory service to the West Indies.

Mr. Hatfield: I know there will be more boats available. Has not the Park Steamship Company boats available?

Mr. Vaughan: Many of them have been sold. I do not know how many of them have been disposed of, but I think the great majority of them have gone. We had an experience somewhat similar following the last war when the Canadian Government Merchant Marine was in operation. We operated a number of steamers down to South America calling at Pernambuco, Rio de Janeiro, Bahai, Montevideo and Buenos Aires. The business was good until Great Britain and European countries built up their Merchant Marine again. After that, our business to South America disappeared.

Mr. Hatfield: Exports to South America have increased about 100 per cent since then. I do not like to see a foreign company come in, use foreign stevedores and get this business.

Mr. Vaughan: There are lines running out of Montreal to South America. I think there are some foreign vessels.

Mr. Hatfield: I know the Mornac Line operates there. There is a big business down in South America. Our export business is going to be with South America in the future. After two or three years, we are not going to have any export business with Europe. We might as well forget about that.

Mr. Vaughan: It is something we will go into again. If there were any prospect of that business being profitable and we had more vessels, we might go into it. We have tried to keep out of the way of privately operated steamship companies.

Mr. Hatfield: Those steamships which are coming in there and taking this business are owned by the United States government. The United States government started a policy of building ships in about 1936, I think, and having the different steamship companies operate them, provided the companies would follow the trade routes the government designated.

Mr. Vaughan: That is correct.

Mr. Hatfield: We should have followed the same policy.

Hon. Mr. Chevrier: We did that with reference to Park Steamships, but most of the vessels were sold and many were chartered.

Mr. Hatfield: You did that because of the war, but not as a steamship policy.

Hon. Mr. Chevrier: As you are aware, Mr. Howe intends to bring down an Act to set up a Maritime Commission. I do not know what the duties of the Maritime Commission would be because I have not seen a draft of the bill, but I presume the commission will have the duty and responsibility of advising the government on trade routes and matters of that kind.

Mr. Jackman: What I had in mind was a little more general than what has been stated and perhaps it is a little more relevant to what Mr. Hatfield has said. As I recall, some years ago, we did not seem to be quite certain in our own minds exactly what the destiny of the Canadian National West Indies Steamship Line was going to be, whether we would continue it under government ownership or expand it or what?

Mr. VAUGHAN: We intend, speaking from the standpoint of the Canadian National Railways, to operate these vessels continuously to the West Indies, the same as if the trade agreements were in effect unless we find later on that we would be sustaining heavy losses. We propose to handle the situation the same as we would if we were a private organization. I do not know what is going to be done about the trade agreements. We are operating now pretty much as if the trade agreements were in existence. As it happens we have plenty of cargo both northbound and southbound.

Mr. JACKMAN: Do I understand correctly that, many years ago, the government was in the steamship business? The government gave up its ownership and operation of the vessels. Then, when these trade agreements with the West Indies were entered into, this line came into being. I am very hazy about it.

Mr. VAUGHAN: The Canadian Government Merchant Marine was formed following the last war. There were many boats built at various points in Canada for war purposes. None of them were delivered until after the war was over. Then, the Canadian Government Merchant Marine was formed to enable Canada to expand her trade with the various other countries in the world. They were turned over to us for operation. At that time, there was plenty of cargo available. We operated ships everywhere, to South America, Egypt, India and South Africa. However, that trade gradually disappeared and we had no more use for the boats, so they were disposed of.

Mr. JACKMAN: You operated them for the Canadian Government Merchant Marine?

Mr. HATFIELD: They were very poor boats.

Mr. VAUGHAN: They were not fast boats, but they were fair cargo boats.

Mr. JACKMAN: Then, those boats were disposed of and we got out of the shipping business?

Mr. VAUGHAN: Except that we began the West Indies business.

Mr. JACKMAN: Agreements were entered into at that time with the West Indies government?

Mr. VAUGHAN: Yes.

Mr. JACKMAN: And that is where we are to-day?

Mr. VAUGHAN: That is where we are to-day.

Mr. JACKMAN: May I ask what the scale of wages is on these boats?

Mr. VAUGHAN: I have not got it here, but I can get it for you. We pay the standard scale of wages on these ships. We have had some negotiations with our men and some adjustments were made the first of June last. Those adjustments were only recently made.

Hon. Mr. CHEVRIER: They would be on the same scale and rate as the new schedule put into effect by the Department of Transport on its boats?

Mr. VAUGHAN: That is correct. The Shipping Federation also had a hand in it.

Hon. Mr. CHEVRIER: I have not those schedules on hand, but they were tabled in the House. They are substantially higher than they were in 1946. They came into effect on the first of January, 1947, and some were retroactive to a period prior to that. I do not know just when.

Mr. VAUGHAN: There have been very substantial increases granted in the last year to every one on the ship from the master down.

Mr. JACKMAN: The reason I asked the question was, last November I had occasion to sail down to the Caribbean. While I thought the ship was of American registry, I found it was under Honduras registry. The crew were all

Hondurans either Indians or coloured. I found their wage scale was substantially lower than the American scale. I understood they were paid $80 to $125 a month with everything found. When they were in port, they were housed and boarded, so they had no expenses whatever. That rate is substantially less than the American rate and I was wondering how the Canadian rate compared with that.

Hon. Mr. CHEVRIER: Speaking from memory, I would say substantially higher than that. Our rates were devised in accordance with the prevailing rates. Our rates were divided into three parts, first, in accordance with the prevailing rates on the great lakes, and, by that, I mean the rates paid by the steamship companies on the Great Lakes. A similar rate was fixed in accordance with the rate paid by independent steamship companies on the west coast, and equally on the east coast; there is a difference between the three, depending upon whether the vessel operates on inland waters or whether it is a deep sea vessel. However, I think I am safe in saying that the rate in Canada is much higher than the rate to which you have referred, but somewhat less than that in the United States. It is higher than the rate in Great Britain.

Mr. VAUGHAN: Our rates are substantially lower than the rates paid on vessels flying the American flag.

Mr. JACKMAN: But, I suppose substantially higher than the rate paid by Great Britain or European countries.

Mr. VAUGHAN: Somewhat higher than Great Britain. There is nothing like the differential between our wages and those paid in Great Britain such as existed before the war.

Mr. JACKMAN: I suppose our traffic is all competitive. Other lines can get it, we have no monopoly.

Mr. VAUGHAN: No, we have no monopoly. We are soliciting all the business we can.

Mr. JACKMAN: In the absence of trade agreements or mail subsidies or other forms of subsidy, do you think we can hold our own in this West Indies trade?

Mr. VAUGHAN: I think we can.

Mr. JACKMAN: May I ask, on the Saguenay Line, and that is your chief competitor in Canada, I suppose it brings some bauxite?

Mr. VAUGHAN: Yes, those boats are the principal competition. They bring bauxite up the Saguenay and then come down to Montreal and load general cargo for the West Indies.

Mr. JACKMAN: They can clean out the bauxite dust and make the vessels suitable?

Mr. VAUGHAN: Yes, and they are keen competitors, but we get along very well together.

Mr. JACKMAN: Do not answer this question if you do not care to, but would that line exist were it not for the fact it was, to some extent, an integrated operation of the Aluminum Company?

Mr. VAUGHAN: I would not like to express an opinion on that, but I do not think it would ever have been in existence but for its connection with the Aluminum Company.

The CHAIRMAN: Does that answer your question, Mr. Jackman?

Mr. JACKMAN: So far as the government is concerned, it must have a policy in connection with the West Indies Steamship Company. Is it simply acting on the advice of the operators? If the company makes a profit, it is all right and if it is a loss the government stands it?

Hon. Mr. CHEVRIER: It is not acting exclusively on the advice of the operators, but it is guided to some extent by their advice. You see, there is a question, not only of the steamship operation, but there is also a question which was brought up by Mr. Hatfield, of new trade avenues, which brings up the question of trade agreements. If trade treaties were signed with these countries they may or may not contain a clause having to do with the shipment of goods. While the war was on, there was no question of entering into negotiations with these countries. I know the Minister of Trade and Commerce is keenly interested in trade with South America. He has some strong views on that subject.

Mr. JACKMAN: I would agree with Mr. Hatfield's view that we should do everything possible to facilitate trade between ourselves and the central and South American countries.

Mr. HATFIELD: I do not think any trade agreement should tie up any steamship line. I do not think that should enter into any treaty.

Hon. Mr. CHEVRIER: I am not suggesting it should tie it up. I am suggesting that if there were a trade agreement, it might well contain a clause covering—

Mr. HATFIELD: I do not think a trade agreement should have anything to do with the steamship line.

Hon. Mr. CHEVRIER: It did in the case of the West Indies.

Mr. HATFIELD: I do not think we should compel a steamship line to run at a loss just because of any clause in a treaty. This was the case in the West Indies treaty, it forced the West Indies company to take a loss during the depression.

Mr. VAUGHAN: We have not lost any money since 1934. This line has operated at a profit since 1934.

Mr. HATFIELD: When the treaty was in effect, you had heavy losses.

Mr. VAUGHAN: There was quite a large development and organization expense in the early days.

Mr. HATFIELD: Those losses might have been cut down, had you called at certain ports on your way. I think you could help the operation of your company by having small cargo steamers down in the West Indies to take cargoes between ports. There are probably 25 or 30 ports at which you call that are not worth calling at.

Mr. VAUGHAN: We did operate boats from Kingston to such places as British Honduras. We lost a great deal of money and we abandoned the service.

Mr. HATFIELD: There are lots of points at which you call that are not worth calling at.

Mr. VAUGHAN: My experience has been that if there is cargo available on a profitable basis, usually a private company gets into the business sooner or later.

Hon. Mr. CHEVRIER: Is not that the basis on which the whole problem should be canvassed? I am thinking now of the Australasian service we had prior to the war. It was a complete loss in so far as the government of Canada was concerned. Efforts have been made to bring it into operation again. I have not the figures before me now, but if anyone saw them I think they would not encourage the Canadian government to go into an operation of that sort. While I am not familiar with the situation to which Mr. Hatfield refers, I think before I would make any recommendation, I would want to know whether the trade route would be a profitable one or not.

Mr. HATFIELD: I do not think you could compete with the Norwegians and Danes in so far as a steamship service is concerned. Considering the wages paid by the United States and Canada, I do not think you could compete with these other countries after the war.

The CHAIRMAN: You have discussed that gentlemen, is that satisfactory?

Mr. JACKMAN: I do not think we have a very clear picture of just what the policy is with respect to the West Indies Steamship Lines as yet. As I understand it, it is going to be continued because we want to develop this trade. We had some ships as a nucleus, and we entered into this agreement with the West Indies. The company has made satisfactory progress in recent years. As Mr. Vaughan has just stated, if there is good cargo offering down there, private enterprise seems to go into the business and provide a service.

Now, we have this company which is progressing very nicely. The natural tendency on the part of the operators will be, I take it, to expand it and call upon parliament to make a capital appropriation so they can compete more and more with private enterprise. At the same time, we have to give consideration to the fact it may give employment to some of our population who prefer the sea to other occupations. I suppose that must be considered, but, at the same time, I do not think there is anything clear—

Hon. Mr. CHEVRIER: How could there be anything clear until there is something definite put before us? If there is profitable cargo from South America to here and the West Indies Steamship Company is able and willing to undertake it, I am sure the company will make representation to the government. If that does happen, we will certainly be glad to consider it. If the directors of the steamship company, after having gone into it fully, came to the conclusion that it is a profitable venture and recommended it to the government, then I think before we would turn it away, we would give it very serious consideration. I think to-day we would not turn it down.

Mr. HAZEN: The annual report of the Canadian National Railways gives a great deal more detail about the railways than does your report on steamships give about steamships. For instance, the net operating revenue of the railways on page 13 of the report, also pages 14 and 15, gives a good deal of detail. In the case of the steamships you give no details whatever. It came to my attention because I was looking to see how much you received from passenger service and how much from freight.

Mr. VAUGHAN: You will find that on page 8, Mr. Hazen.

Mr. HAZEN: Well then, I was looking also to see what amount of damages you have had to pay for loss of property and lost persons, and so on; you give that in connection with the railways in considerable detail but there is no similar statement in connection with your steamships that I can see.

Mr. VAUGHAN: No, we have not submitted any statement of that kind because it is a very insignificant amount.

Mr. HAZEN: It would be a very interesting detail to have.

Mr. VAUGHAN: It is a small company and losses of that kind would be almost insignificant.

Hon. Mr. CHEVRIER: It is a small venture compared with the Canadian National Railways.

Mr. HAZEN: Now, you sold three ships during the last year; what did you get for those ships, and who bought them?

Mr. VAUGHAN: We have the prices here and we can give it to you.

Mr. COOPER: We sold the S.S. *Cathcart* for $150,000; the S.S. *Cavelier* for $175,000; and the S.S. *Connector* for $150,000; a total of $475,000.

Mr. HAZEN: Who was the purchaser, to whom did you sell them? How did you sell them?

Mr. VAUGHAN: I do not remember offhand who the purchasers were. Tenders were called but the tenders were not satisfactory and we sold them for a great deal more than the tenders we got.

Mr. HAZEN: Were they sold in this country?

Mr. VAUGHAN: I do not think so.

Mr. HAZEN: Are they still under Canadian registry?

Mr. VAUGHAN: I do not think so. Some were sold abroad, and I think two or three were sold to Chinese interests.

Hon. Mr. CHEVRIER: They were old ships, Mr. Vaughan?

Mr. VAUGHAN: They were old ships, built during the last war.

Hon. Mr. CHEVRIER: And by that you mean the war of 1914-1918?

Mr. VAUGHAN: Yes. They became obsolete and were expensive to operate and required a lot of money to be spent on them to keep them in condition.

Mr. HAZEN: Were they all sold outside of this country?

Mr. VAUGHAN: As far as I recall they were all sold outside this country and are going to be used outside of this country. There was no market for them in Canada.

Mr. HAZEN: I would think that you would have a record of to whom they were sold.

Mr. VAUGHAN: I can very easily get that for you.

Mr. HATFIELD: There is another thing about the West Indies steamship service, Mr. Chairman; there are a great many young men in our navy who have no place to go except to foreign ships. I was wondering if you could not use more ships and in that way give employment to more of our Canadian seamen.

Mr. VAUGHAN: If we have any great indication of business available which might make it desirable for us to extend our services down to South America we will certainly give the matter consideration, but we do not want to be in the position we were following the last war when there was a great deal of criticism because the boats were operated at a loss. We try to operate these boats on a business basis and make them pay.

Hon. Mr. CHEVRIER: I might point out, gentlemen, that our merchant marine is in far better shape to-day than it was. Before the war we had 39 ships operating where we now have some 250 or 300.

Mr. HATFIELD: You should make plans to extend your trade and thereby give more employment to the men of our merchant navy.

Mr. HAZEN: Is there not a comparatively small number of men employed on these ships?

Mr. VAUGHAN: We made a full report last year in regard to the operation of Canadian National Steamships to this committee, in which we outlined the operation of our vessels from the beginning up to that time. That is in the Minutes of Proceedings of this committee. We can file additional copies of that report if members of the committee so desire. Our position in connection with the operation of steamships is that we do not feel that we are justified in going into services which we cannot make pay. We do not get any credit for operating vessels at a loss.

Some Hon. MEMBERS: Hear, hear.

Mr. JACKMAN: I notice that the present budget calls for three diesel-powered vessels being acquired. Could you tell us something about that.

Mr. VAUGHAN: One was acquired I think last year and there are two more now in service. We will have five "Park" boats which we bought at current market price that is the price other steamship companies paid for them. Those three diesel boats were built as a war measure. We still have two of the "Lady" boats, and we have one of the older boats, the *Chomedy,* still in operation which we expect will be sold this year.

The CHAIRMAN: Does that conclude the discussion on the steamships; gentlemen?

Agreed?

Then, let us take up the Canadian National Railways Security Trust.

Before we go into that, Mr. Cooper has the answers to certain questions which were asked.

Mr. COOPER: Mr. Nicholson asked a question.

> How much land did you sell in western Canada last year, by provinces, and what was the average price received for same?

The answer is:

	acres
Saskatchewan	74,387
Manitoba	10,487
Alberta	160
Total	85,034

The average price received per acre was $11.20.

Then there was another question asked:—

> How much unsold land have the Canadian National Railways at present in western Canada, by provinces:

And the answer is:

	acres
Saskatchewan	270,599
Manitoba	17,208
Alberta	4,567
Total	292,374

The CHAIRMAN: Now, Mr. Vaughan, do you want to read the report, or do you want Mr. Cooper to read it?

Mr. VAUGHAN: I think Mr. Cooper had better read it.

Mr. COOPER:

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

OTTAWA, 21st February, 1947.

The Honourable Lionel CHEVRIER, K.C., M.P.,
Minister of Transport,
Ottawa.

Sir,—In conformity with Section 23 of The Canadian National Railways Capital Revision Act, 1937, the Trustees submit the following report of the transactions of The Canadian National Railways Securities Trust for the calendar year 1946.

The book value of the capital stock of the Securities Trust has been decreased during the year by $1,307,952.35, due to capital loss on retirement of rolling stock equipment charged to proprietor's equity and in respect of which His Majesty has not made cash reimbursement to the railway.

There were no transactions during the year affecting the collateral securities held by the Securities Trust.

The Trustees present herewith the balance sheet of the Securities Trust at at December 31, 1946.

F. P. VARCOE,
For the Trustees.

THE CANADIAN RAILWAYS SECURITIES TRUST

BALANCE SHEET AT 31ST. DECEMBER, 1946.

ASSETS

Claims for Principal of Loans—			
Canadian Northern Railway		$312,334,805.10	
Grand Trunk Railway		118,582,182.33	
Grand Trunk Pacific Railway		116,006,599.08	
Canadian National Railway Company		96,936,971.75	$ 643,860,558.26
Claims for Interest on Loans—			
Canadian Northern Railway		$309,702,897.65	
Grand Trunk Railway		103,250,802.95	
Grand Trunk Pacific Railway		107,326,622.84	
Canadian National Railway Company		54,501,313.57	574,781,637.01
Transactions subsequent to 1st. January, 1937, affecting the book value of the capital stock of the Securities Trust—			
Canadian National Railway System:	Year 1946	Total to Date	
Surplus earnings	$	$112,502,061.64	
Capital gains		19,105,651.38	
Capital *losses*	*1,307,952.35*	*21,241,546.47*	110,366,166.55
Collateral Securities—			
As per Schedule A.1			
			$1,329,008,361.82

LIABILITIES

Capital Stock Owned by His Majesty—		
5,000,000 shares of no par value capital stock: —Initial stated value	$270,037,437.88	
Gain from transactions subsequent to 1st. January, 1937—per contra	110,366,166.55	$380,403,604.43
Amount by which the book value of claims and interest thereon—per contra— exceeded the initial stated value		948,604,757.39
		$1,329,008,361.82

T. H. COOPER,
Comptroller.

CERTIFICATE OF AUDITORS

We have examined the books and records of The Canadian National Railways Securities Trust for the year ended the 31st. December, 1946.

There have been produced for our inspection the notes and other evidences of indebtedness, the collateral securities and the certificate of the special depositary, as set out in Schedule A.1 attached hereto.

We certify that, in our opinion, the above balance sheet is properly drawn up so as to exhibit a true and correct view of the accounts of the Trust as at the 31st. December, 1946, in accordance with the provisions of The Canadian National Railways Capital Revision Act, 1937.

20th. February, 1947.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

SCHEDULE A.1

SUMMARY OF INDEBTEDNESS TRANSFERRED FROM THE GOVERNMENT TO THE SECURITIES TRUST

Loans Outstanding		**Notes and Collateral Held*	
CANADIAN NORTHERN RAILWAY:			
3½% Loan, Chapter 6, 1911	$ 2,396,099.68	None. Charge is on premises mortgaged October 4, 1911.	
4% Loan, Chapter 20, 1914	5,294,000.02	None.	
5% Loan, Chapter 4, 1915	10,000,000.00	None.	
6% Loan, Chapter 29, 1916	15,000,000.00	Mortgages dated June 23 and June 26, 1916.	
Temporary Loan, 1918, repaid	....	6% Demand Notes	$ 497,566.80
†6% Loan, Chapter 24, 1917	25,000,000.00	6% Demand Notes	33,012,414.32
†6% Loan, Vote 110, 1918	25,000,000.00	6% Demand Notes	27,203,003.65
†6% Loan, Vote 108, 1919	35,000,000.00	6% Demand Notes	40,031,122.27
†6% Loan, Vote 127, 1920	48,611,077.00	6% Demand Notes	53,008,779.65
†6% Loan, Vote 126, 1921	44,419,806.42	6% Demand Notes	50,259,312.47
†6% Loan, Vote 136, 1922	42,800,000.00	6% Demand Notes	46,691,634.60
6% Loan, War Measures Act, 1918	1,887,821.16	6% Demand Note	5,700,000.00
		3½% and 4½% Debenture Stocks	7,139,399.00
†6% Equipment Loan, Chapter 38, 1918	56,926,000.82	6% Demand Notes	56,858,496.44
Indebtedness refunded by Government under Chapter 24, 1917 and Chapter 11, 1918	....	Miscellaneous Bonds and Debentures	14,097,470.59
		Miscellaneous Bonds and Debentures	20,721,191.12
†Mortgage covering loans above	....	Mortgage dated November 16, 1917	....
Total Canadian Northern	$ 312,334,805.10		
GRAND TRUNK RAILWAY:			
6% Loan, Vote 478, 1920	$ 25,000,000.00	6% Demand Notes	$ 25,479,226.97
6% Loan, Vote 126, 1921	55,293,435.18	6% Demand Notes	56,646,816.12
6% Loan, Vote 137, 1922	23,288,747.15	6% Demand Notes	23,288,747.15
4% Loan to G.T. Pacific Chapter 23, 1913, guaranteed by Grand Trunk	15,000,000.00	4% Demand Note	15,000,000.00
		4% G.T.P. Debentures	15,000,000.00
Temporary Loans, repaid through subsequent issues of guaranteed securities and loans	....	4% Debenture Stock	60,801,700.00
		6% 2nd Mortgage Equipment Bonds	1,693,113.33
Total Grand Trunk	$118,582,182.33		
GRAND TRUNK PACIFIC RAILWAY:			
3% Bonds, Chapter 24, 1913	$ 33,048,000.00	3% 1st Mortgage Bonds	$ 33,048,000.00
6% Loan, Chapter 4, 1915	6,000,000.00	4% Sterling Bonds	7,499,952.00
6% Loan, Vote 441, 1916	7,081,783.45	Mortgage, June 28, 1916	....
6% Loan, Vote 444, 1917	5,038,053.72	Mortgage, October 18, 1917	....
6% Loan, Vote 110, 1918	7,471,399.93	Mortgage, October 18, 1917	....
Receiver's Advances, P.C. 635, March 26, 1919	45,764,162.35	Receiver's Certificates	53,339,162.74
Interest Guaranteed by Dominion	8,704,662.65	Cremation Certificates, coupons destroyed	8,698,170.42
Interest Guaranteed by Provinces of Alberta and Saskatchewan	2,898,536.98	Cremation Certificates, coupons destroyed	2,925,723.88
Agreement with Government under Chapter 71, 1903	....	Grand Trunk Pacific Development Company Capital Stock	2,999,000.00
Total Grand Trunk Pacific	$ 116,006,599.08		

forward

SCHEDULE A. 1—*Concluded*

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

SUMMARY OF INDEBTEDNESS TRANSFERRED FROM THE GOVERNMENT TO THE SECURITIES TRUST

Loans Outstanding		**Notes and Collateral Held*	
CANADIAN NATIONAL RAILWAY COMPANY:			
6% Loan, Vote 139, 1923	$ 24,550,000.00	6% Canadian Northern Demand Note	$ 12,655,019.57
		G.T.P. Receiver's Certificates	3,313,530.01
		G.T.P. Interest Coupons	1,530,831.96
5% Loan, Vote 137, 1924	10,000,000.00	5% Canadian Northern Demand Note	1,318,315.86
		G.T.P. Receiver's Certificates	4,691,173.58
		G.T.P. Interest Coupons	1,530,822.24
5% Loan, Vote 377, 1925	10,000,000.00	5% Canadian Northern Demand Note	9,496,718.21
		G.T.P. Receiver's Certificates	*Cr. 1,422,425.17*
		G.T.P. Interest Coupons	1,530,802.80
5% Loan, Vote 372, 1926	10,000,000.00	5% Canadian Northern Demand Note	9,062,624.30
		G.T.P. Receiver's Certificates	*Cr. 364,898.78*
		G.T.P. Interest Coupons	1,530,880.56
5% Loan, Vote 336, 1929	2,932,652.91	5% Canadian National Railway Company Demand Notes	2,932,652.91
5% and 5½% Loans, Chapter 22, 1931	29,910,400.85	5% and 5½% Canadian National Railway Company Demand Notes	29,910,400.85
5½% Loans, Chapter 6, 1932	11,210,815.56	5½% Canadian National Railway Company Demand Notes	11,210,815.56
Temporary Loan 1930, repaid		166,877.6376 shares of Capital Stock of Grand Trunk Western Railroad	4,171,940.94
		5% 1st. and General Mortgage Temporary Gold Bonds of Central Vermont Railway, Inc.	8,609,000.00
Less: adjustment authorized by the Capital Revision Act, 1937	*Cr. 1,666,897.57*		
Total Canadian National Railway Company	$ 96,936,971.75		
Total Loans	$ 643,860,558.26		

* The Notes and Other Evidences of Indebtedness and the Collateral Securities are all held for safekeeping in the vaults of the Department of Finance, Ottawa, excepting Grand Trunk Pacific Railway 3% 1st. Mortgage Bonds in the amount of £5,307,000 ($25,792,020) which are held for safekeeping by the Bank of Montreal, London, England, as evidenced by the certificate of that depositary.

Mr. JACKMAN: Would you care to comment on that item in the second paragraph of this report in layman's language; you wrote off the sum of $1,307,000-odd for rolling stock equipment, cars and other rolling stock standing on your books and that was charged to "proprietor's equity"; and you say the government did not see fit to reimburse you for that amount. That does not mean very much to me in that form.

Mr. COOPER: We went over the same ground last year, if you remember, Mr. Jackman; In 1940 we changed over from "equipment retirement accounting" to "depreciation accounting".

Mr. JACKMAN: I know that.

Mr. COOPER: We did not at that time set up a reserve for past accrued depreciation. That is the depreciation existing at December 31, 1939.

Mr. JACKMAN: I can follow you that far down, but you have written this rolling stock off completely and there is a big account for that still in 1947.

Mr. COOPER: Let me explain it again. When we come now to writing off retired equipment our practice is to charge to depreciation reserve the amount of depreciation which has been accrued since January 1, 1940. We have charged that proportion of the loss to the depreciation reserve because we have established the reserve by charges to operating expenses since 1940; but with respect to the loss applicable to the period prior to 1940, having no reserve against that, we charge it off to the shareholder's equity account as I explained to you last year. That conforms to the policy which was threshed out with the trustees of the security trust, including three deputy ministers—finance, transport and justice. You asked me last year how long we would continue to make those charges against shareholders' equity account and I said we would continue to do so until our reserve had been permitted to build up to a level at which it could absorb all equipment retirement losses; and I expressed the opinion, if you remember, that it might run for ten years; that is to say if we continue our present practice we shall have at the end of nine or ten years from now a reserve for equipment depreciation which will be sufficient in my opinion to absorb all losses on the retirement of equipment. And it was my impression, Mr. Jackman, that you were in full agreement with that practice.

Mr. JACKMAN: I may have been. However, you will appreciate that the question is a little technical.

Mr. COOPER: I would like to add this, too; that we are following exactly the same policy which was followed by United States railways, when they changed over from retirement accounting to depreciation accounting. They did not set up a reserve for past depreciation; but they have since built up a reserve which to-day is quite sufficient to absorb all retirement losses. I believe that the progress we have made in building up a reserve is more favourable than theirs. Taking our own American lines, for example, we have been accruing depreciation on rolling stock equipment, since 1907, which is a period of forty years. The present reserve is equal to 38½ per cent—of the ledger value of the equipment owned by our American lines. On our Canadian lines we commenced to accrue depreciation in 1940, which is only seven years ago, and we now have a reserve equal to 17·5 per cent of the ledger value of our equipment. In other words, on our American lines their depreciation reserve has been built up on an average of less than 1 per cent per annum; that is to say the reserve itself has increased by about one per cent per annum of the ledger value of the equipment; whereas in Canada we have reached 17·5 per cent in seven years; and I think therefor it is obvious that if we continue our present practice, which is identical with theirs, we shall reach the same result by the same methods, but in a shorter time.

Mr. JACKMAN: Thank you.

The CHAIRMAN: Are there any other questions?

Mr. HATFIELD: Are there any outstanding provincial bonds for the Canadian National Railways?

Hon. Mr. CHEVRIER: You will find that in the annual report.

Mr. COOPER: You will have to go back to the annual report for that. They are shown on page 19 of the railway report. The first four items on page 19 are perpetual bonds, and there are four items down in the bottom section of securities on that page. All in all we have eight different issues of perpetual obligations. They are not now in total any large amount. Prior to the repatriation orders of the United Kingdom government in 1941 and 1942 the amount was very substantial indeed. It has now been cut down to a small figure. There are securities of that kind held by other than United Kingdom residents against whom a vesting order issued by the British government would not have any effect. Some of these bonds are held on the continent of Europe, some in Ireland, some in the United States and some in Canada.

Mr. HATFIELD: What about the Canadian Bank of Commerce?

Mr. COOPER: I could not say.

Mr. VAUGHAN: Quite likely they have some.

Mr. HATFIELD: Are these all 6 per cent?

Mr. COOPER: If you are looking at the security trust those are only collateral securities. That does not mean very much. Those are notes and obligations which were given by the Canadian Northern, the Grand Trunk and the Grand Trunk-Pacific to the government at the time the government was making advances to those companies.

Mr. HATFIELD: You are not paying interest on them?

Mr. COOPER: No, sir.

Mr. REID: There is just one question I would like to ask; I see that in 1932 you issued some 5 per cent securities. I was wondering the reason for that, I thought money was fairly easy at that time?

Mr. VAUGHAN: I think those loans, Mr. Reid, were all issued on a competitive basis. I think tenders were called. I did not have anything to do with it at that time, but my information is that tenders were called at the time and in any event when those securities were issued the rate prevailing was much higher than it is now.

The CHAIRMAN: Is it the pleasure of the committee to adopt the security trust report?

Agreed.

Now the auditors' report? That closes the story. I do not think it will be necessary to read the whole of it. I suggest that it be taken as read because no doubt everyone has read it.

Agreed.

CANADIAN NATIONAL RAILWAY SYSTEM

15th March, 1947.

THE HONOURABLE
THE MINISTER OF TRANSPORT,
OTTAWA, CANADA.

SIR:—Acting under authority of The Canadian National-Canadian- Pacific Act, 1933 as amended 1936, and Chapter 4, 1946, "An Act respecting the appointment of Auditors for National Railways", we have audited the accounts of the Canadian National Railway System for the year ended the 31st December, 1946, and we now submit, through you, our report to parliament.

Supplementing our audit certificate appended to the accounts published by the railway, we comment on the consolidated income account, consolidated balance sheet, general scope of audit, uniform accounting regulations and the Canadian National Railways Securities Trust as follows:—

CONSOLIDATED INCOME ACCOUNT

Consolidated Income Account

The deficit amounting to $8,962,000 for the year 1946 is summarized hereunder:—

Surplus after making provision for the general expenses of operation but before fixed charges and depreciation	$56,873,000
Less: fixed charges	46,685,000
Surplus before depreciation	$10,188,000
Less: depreciation of system equipment and United States lines depreciable fixed properties	19,150,000
Deficit	$ 8,962,000

Operating expenses reflect the utilization of $7,525,000 i.e. 100 per cent from the inventory reserve and $6,000,000, i.e. 34·3 per cent, from the deferred maintenance reserve for equipment or 15·4 per cent from the combined maintenance reserve.

The general expenses of operation in 1946 largely consisting of wages and materials include the following items, reference to which may be of interest:—

(*a*) Loss of service value in replacements and retirements of depreciable fixed properties, i.e. bridges, buildings, stations, shops, etc. on the Canadian lines;

(*b*) Loss of service value in replacements and retirements of non-depreciable track structure, i.e. ties, rails, other track material and ballast on both the Canadian and United States lines;

(*c*) Pensions covering

(i) Railway's portion of payments to retired employees under all plans, and

(ii) Increase in pension contract reserve for the railway's portion of the estimated capital amount of all pension contracts in force at the year end under the 1935 plan;

(*d*) Insurance premiums limited mainly to risks carried outside of the insurance fund;

(*e*) Loss on operations of insurance fund, and

(*f*) General taxes relating principally to dominion unemployment insurance, United States federal and state taxes, municipal taxes in Canada and the United States, and taxes assessed against hotels and separately operated properties.

Fixed charges, shown in the foregoing summary and in accordance with the principles defined by the Interstate Commerce Commission, cover interest on funded debt held by the public, interest on loans from the government, interest on unfunded debt, armortization of discount on funded debt and rent for leased roads and equipment. The ratio of fixed charges to operating revenues was 11·7 per cent. We would again call the attention of parliament to this disproportionate ratio of fixed charges as borne by the National System in comparison with other major railways in North America.

Interest on funded debt averaged 4·24 per cent and interest on loans from the dominion government 3·05 per cent or a composite rate of 3·56 per cent at the year end.

Depreciation provision has been made for the equipment of both the Canadian and United States lines of the National System, the 3-1/3 per cent annual depreciation rate used for rail equipment of the Canadian lines being comparable with the latest available composite of the rates used by the Class I Railroads in the United States under the authority of the Interstate Commerce Commission.

In respect of depreciable fixed properties-defined in the 1943 order of the Interstate Commerce Commission as including bridges, buildings, stations, shops, etc., but excluding track structure—depreciation provision has been made during the year for the United States lines of the National System in accordance with the 1943 order but not for the Canadian lines which continue on the retirement basis. In pursuance of our 1944 report on this matter, we again recommend the early adoption of depreciation accounting for the depreciable major units of fixed properties on the Canadian lines at rates comparable with those used by the Class I railroads in the United States for like properties. For the convenience of parliament we quote from our 1944 report as follows:—

> In so far as the Canadian lines are concerned, it would not appear practicable to institute any similar depreciation plan (i.e., to the United States lines) until after the termination of hostilities, because of the substantial expense involved in determining unit property costs prior to 1923 and the need for all of the technical personnel of the railway in meeting the transportation requirements arising out of the present national emergency. The post-war adoption of depreciation accounting for major units of fixed properties on the Canadian lines is embodied in the recommendations made later in this report, under the caption "Uniform accounting regulations".

Loss of service value in replacements and retirements of fixed properties, as charged to operating expenses in 1946 through the appropriate primary accounts in maintenance of way and structures, are matters on which the following explanatory comments may be helpful.

(*a*) These charges are made where depreciation accounting has not been prescribed by the Interstate Commerce Commission or, if prescribed, has not been adopted by the Canadian lines.

(*b*) Loss of service value in the case of bridges, buildings, stations, shops, etc., is based on book cost whereas in the case of track structure such loss is based on current cost if the property is replaced or on book cost if retired from service, salvage being taken into account in all cases.

(*c*) The term "replacements" used herein refers to renewals of complete property units continued in service whereas the term "retirements" refers to properties withdrawn from service and not replaced.

(*d*) In addition to the charges for replacements and retirements, the maintenance of way and structures accounts include the cost of "day-to-day" or "running" repairs and partial renewals on both the

Canadian and United States Lines. These repairs and partial renewals are recognized costs of maintenance whether or not depreciation accounting is in effect.

(*e*) In the broad consideration of replacements and retirements, it should be borne in mind that the war-time reserve for deferred maintenance of fixed properties still applies partly to such replacements and retirements as were postponed because of traffic demands during the period of military exigencies.

In the matter of maintenance policy we have received certificates from the responsible officers to the effect that, subject to the unexpended balance of $33,000,000 in the deferred maintenance reserve, the fixed properties and equipment of the National System have been maintained in a proper state of repair and in an efficient operating condition during the year.

With respect to physical retirements of fixed properties and equipment, we have been furnished with certificates from the responsible officers to the effect that, insofar as traffic demands would permit, such physical retirements as should have been made during the year, as a result of wear and tear and obsolescence, have been made and that notification of all such retirements has been given to the accounting department.

The deficit of $8,962,000 compares with a surplus of $24,756,000 in 1945. This change in results reflects, in large measure, the impact of increased wage rates and material prices on decreased post-war revenues, an unfavourable factor to which the attention of parliament has been drawn in previous years. A factor comparatively favourable to the 1946 result relates to the utilization through operating expenses of the inventory reserve.

Consolidated Balance Sheet

The total amount of the investments in fixed properties and equipment as brought into the National System accounts at the 1st January, 1923, from the books of the several corporations and the Canadian government railways was accepted by us. As against the corporate portion of such property investments, there have been applied the substantial reductions authorized by The Canadian National Railways Capital Revision Act, 1937 Since the 1st January, 1923, the additions and betterments less retirements of the National System have been shown on the general basis of cost. During the year 1946 the additions and betterments less retirements amounted to $15,002,000, the principal expenditures being for the purchase of rolling stock and the acquisition of the fixed properties of The Manitoba Railway Company.

The several special funds of the National System including capital and other reserve funds, deferred maintenance fund, insurance fund and pension contract fund, amounting in total to $85,442,000, are composed of investments in the securities of dominion and provincial governments and the National System, together with cash and sundry current assets. The year-end market value of the securities held in these special funds in total exceeded the book figure, which for government securities was based on cost and for National System securities on par value. During the year the total of the funds was increased by the net amount of $360,000.

Investments in affiliated companies, as detailed in the relative schedule, are represented by the capital stocks, bonds and obligations for advances of companies affiliated with but not forming a part of the National System. Apart from the Trans-Canada Air Lines, this type of "unlisted" investment is made, in association with other railways primarily to secure the benefits of traffic interchange and terminal facilities. The basis of the balance sheet figure is cost or, in respect of certain United States securities, less than the special valuations approved by the Interstate Commerce Commission. Apart from the Trans-Canada Air Lines, the 1946 financial statements issued by the companies representing the larger investments indicate that:—

(*a*) The affiliates have utilized the funds from the sale of their securities up to the 31st December, 1946 mainly for investment in fixed properties and equipment.

(*b*) Profits aggregated some $1,138,000 and losses some $1,210,000 during the year 1946. Included in the latter total is the loss amounting to $991,000 of the Northern Alberta Railways Company, 50 per cent of which loss has been taken up as an income charge by the National System, the other 50 per cent being chargeable to the Canadian Pacific Railway.

(*c*) No major corporate deficits exist at the 31st December, 1946. This indicated position, however, should be considered in conjunction with the varying accounting policies relating to accrued depreciation of fixed properties. Generally speaking, the principal affiliates in Canada do not accrue such depreciation whereas those in the United States have done so since the 1st January, 1943, in accordance with the relative order of the Interstate Commerce Commission.

During the year investments in affiliated companies increased $2,121,000 of which $2,000,000 is represented by the purchase of additional shares of the Trans-Canada Air Lines.

Other investments are comprised partly of "unlisted" investments of a miscellaneous nature in the amount of $377,000, including those in hotel and grain elevator companies held primarily for purpose of traffic benefit, and are valued at or below cost. The balance is represented by securities of the Dominion Government and the National System the year-end market value of which in total exceeded the book figure based respectively on cost and par value.

Temporary cash investments are represented by Dominion of Canada securities, the year-end market value of which exceeded the book figure based on cost.

Accounts receivable and payable of all classifications have been tested by us with the subsidiary and controlling records, cash and other transactions subsequent to the year end, departmental files and general supporting information but such accounts have not been verified by direct communication with the individual debtors and creditors.

The amount of the deficit for the year 1946 has been set up as a current account against the Dominion of Canada pending the appropriation of the required funds by Parliament.

No physical inventory of material and supplies on the Canadian Lines was taken by the railway during the year. In the case of the United States Lines, however, a physical inventory was taken as at the 30th September, 1946, and in connection therewith we have received certificates from the responsible officers to the effect that the quantities were determined by actual count, weight or measurement or by conservative estimate where actual count, weight or measurement was impracticable. Material and supplies of the National System at the 31st December, 1946, as represented by the ledger balances, are carried on the basis of laid down cost for new material and estimated utility or sales value for usable second-hand, obsolete and scrap materials after making reasonable pricing allowances for condition thereof.

Current assets show a ratio of 1·6 to 1 of current liabilities. The working capital position of the National System is regulated, broadly, by the application of the cash from depreciation and discount amortization in the reduction of capital debt and requirements for capital expenditures, any deficits being subject to replenishment by way of Parliamentary appropriation.

Other deferred assets are composed mainly of contracts receivable in connection with the sale of land in western Canada. It may be of interest to note that the unsold land is included in miscellaneous physical property.

Discount on funded debt represents the unamortized portion of the discount incurred at the time the relative securities were sold, which will be written off against income in pro-rata annual instalments during the remaining life of each issue.

Other unadjusted debits consist of the unamortized cost of opening ballast pits which is to be written off on the basis of yardage used; the estimated salvage value of non-perishable material in ballast pits and other temporary tracks; accepted inter-line freight claims paid in advance of investigation with other carriers, and debit items not otherwise provided for or which cannot be disposed of until additional information is received.

Capital stock and long term debt do not include securities held in the treasury of the railway nor those held as collateral by The Canadian National Railways Securities Trust and the Dominion Government.

The combined capital debt, i.e., long term debt and Dominion of Canada Account, was reduced by the net amount of $15,193,000 during the year. Generally speaking, this net reduction results from utilization of the cash from the balance of the 1945 surplus and a portion of the 1946 provisions for depreciation and amortization of discount on funded debt.

The several corporate reserves for pension contracts, insurance, accrued depreciation and defence projects amortization, deferred maintenance and miscellaneous purposes aggregate $195,716,000 of which $84,787,000 is represented by special funds and other specific investments. None of these reserves are presently in the nature of reversible appropriations of surplus. Reserves, as a whole, were increased by the net amount of $9,296,000 during the year as follows:—

	Increase	Decrease
Pension contract reserve	$ 6,272,000	
Insurance reserve—including the amount set aside for unadjusted loss claims at the date of the balance sheet		$ 91,000
Accrued depreciation—covering Canadian lines equipment	14,996,000	
Accrued depreciation—covering United States lines—Road	700,000	
—Equipment	913,000	
Accrued amortization of defence projects		127,000
Deferred maintenance reserve —Fixed properties	(no change)	
—Equipment		6,000,000
Reserve for inventories of material and supplies		7,525,000
Miscellaneous reserves	158,000	
	$23,039,000	$13,743,000

The decreases shown in the reserves for deferred maintenance of equipment and inventories, reflecting their utilization through operating expenses, are equivalent respectively to 34·3% (or 15·4% in the combined maintenance reserve) and 100%.

Accrued depreciation—Canadian Lines—applies only to equipment and dates from the 1st January, 1940, retirement accounting continuing in effect for fixed properties. We make the following comments on this account:

(*a*) In the matter of unaccrued depreciation of Canadian lines equipment prior to 1940 we quote, for the convenience of Parliament, from our 1944 Report as follows:

"In respect of equipment, it should be pointed out that as no depreciation accruals were made prior to 1940, the present reserve would be liable to serious impairment from abnormal losses which would have to be accounted for if and when abnormal retirements were found necessary, because of exhausted service life and obsolescence, under any major post-war program for the modernization of the rolling stock of the National System similar in scope to that presently contemplated by other large railways in North America. We recommend to Parliament that the railway be furnished with whatever authority may be deemed necessary to establish a special depreciation reserve to provide, at least in part for this anticipated post-war situation. It should be made clear, however, that the creation of such a reserve would be an accounting provision only, involving in itself no cash outlay, because all expenditures as and when proposed to be made by the railway on the purchase of new equipment in the post-war period would form part of its capital budget subject to the annual approval and vote of Parliament at that time."

Supplementing the foregoing, we now recommend that Parliament authorize the railway to set up a reserve to cover all unaccrued depreciation on Canadian lines equipment prior to 1940 and thereby to place the accrued depreciation account on a basis broadly comparable in principle with the Interstate Commerce Commission regulations, which made equipment depreciation accounting mandatory from 1914 although the rates prescribed for use by the Class I railroads of the United States were not defined until 1935.

(*b*) In the event that depreciation accounting were currently adopted for depreciable major units of Canadian lines fixed properties, as previously set out herein under the caption "Consolidated Income Account", we recommend to Parliament that authority be given the railway to set up unaccrued depreciation retroactively as least to the 1st. January, 1943. If this were done, the accrued depreciation account covering major units would be placed on a basis similar in principle to the Interstate Commerce Commission regulations for Class I railroads of the United States, because such regulations leave the setting up of unaccrued depreciation of fixed properties prior to 1943 optional with the individual carriers.

(*c*) If Parliament were to give its approval to the foregoing recommendations, either in whole or in part, the resulting prior years adjustments of the accrued depreciation accounts on the Canadian lines would be made by concurrent charges to proprietor's equity account. In respect of both equipment and depreciable fixed properties, it might be well to restate the principle that the creation of the suggested reserves would be an accounting provision only, involving in itself no cash outlay, because all capital expenditures as and when proposed to be made by the railway in the future would form part of its capital budget subject, as heretofore, to the approval and vote of Parliament from year to year.

Accrued depreciation—United States lines—applies to equipment from a date prior to the 1st. January, 1923, and to fixed properties (excluding track structure) mainly from the 1st. January, 1943.

Other deferred liabilities consist principally of the outstanding capital amounts of the workmen's compensation awards by the provinces of Ontario and Quebec, and the balance of the obligation to the state of Michigan in respect of the wider Woodward Avenue extension in Detroit.

Other unadjusted credits are made up of the Canadian lines estimated proportion of prepaid revenues on freight in transit; estimated liability for injuries to persons; estimated liability for loss and damage claims, and credit items not otherwise provided for or which can not be disposed of until additional information is received.

Dominion of Canada—proprietor's equity—is set forth in the balance sheet and the relative schedule in accordance with section 2 (*f*) of The Canadian National Railways Capital Revision Act, 1937, which defines the composition of the account as follows:—

> 2(*f*) "proprietor's equity" means
>
> (i) the initial stated value of the capital stocks of the Canadian National Railway Company and the Securities Trust as determined pursuant to sections five and fifteen of this Act as of January first, nineteen hundred and thirty-seven, plus any subsequent surplus earnings of the National Railway System not paid over to His Majesty, less subsequent capital losses and other charges of the National Railway System in respect of which His Majesty has not made any contribution, and
>
> (ii) the capital investment of His Majesty in the Government Railways.

The Dominion's equity decreased $1,308,000 during the year as a result of the retirement of equipment on the Canadian Lines. In respect of the latter item it should be pointed out that as no depreciation accruals were made prior to 1940, the loss of service value, i.e. ledger value less salvage, has been charged against the Reserve to the extent of depreciation accruals from 1940 the balance being charged against the Equity Account. The following explanatory comments may be of some value in clarifying this account;

(*a*) The proprietor's equity account, as detailed in the relative schedule, may be compared in principle with the shareholders' equity in privately-owned corporations represented by the combined book value of capital stock and surplus. It should be borne in mind, however, that the total book value shown for proprietor's equity would be subject to adjustment if, at any time in the future:—

(I) The book value of fixed properties and equipment as brought into the National System at the 1st January, 1923, were restated as to the residual balance after taking into account the applicable retirements since that date and the substantial reductions authorized by the Capital Revision Act, 1937, or

(II) Prior years unaccrued depreciation, either as a whole or in part, were set up against the book value of fixed properties and equipment, or

(III) In lieu of (I) and (II), a physical valuation were made of the fixed properties and equipment for incorporation on the books of the system, based either on depreciated cost values or depreciated replacement values as of any given year, or

(IV) The present basis of capitalizing the railway's portion of pensions were expanded to apply to those being paid under non-contractual plans or, as an extreme measure, to those accruing under all plans conditionally not only upon the factor of life expectancy but also continuity of employment.

The foregoing items (I) to (IV) relate to the qualifying factors referred to in our comments in this and former reports to parliament on investments in fixed properties and equipment, accrued depreciation and major contingent liabilities in respect of pension plans.

(*b*) The capital stock of the Canadian National Railway Company is the medium through which the Dominion controls the corporations which formerly were privately owned but now form part of the National System.

(*c*) The initial stated value of the capital stock of The Canadian National Railways Securities Trust is shown as at the 1st January, 1937, and represents the total amount of the corporate loans by the Dominion utilized for capital purposes prior to that date as converted to share capital.

(*d*) The surplus earnings are for the years 1941 to 1945 only, as Section 12 of the Canadian National-Canadian Pacific Act stipulates that "Income deficits shall not be funded" but voted annually by Parliament. Taken as a whole, the capital gains on repatriation of securities and capital losses on major retirements of road and equipment not covered by depreciation accruals are for the ten-year period 1937 to 1946 inclusive. For purposes of accounting simplicity these surplus earnings, capital gains and capital losses of the National System have been applied in their entirety to the capital stock of the securities trust.

(*e*) The capital expenditures by Dominion of Canada on Canadian Government Railways represent the direct appropriations by Parliament prior to entrustment and are exclusive of certain capital expenditures on the Crown property financed by the Canadian National Railway Company out of funded debt issues and government loans.

Major contingent liabilities, apart from any undertakings for the purchase of additional equipment and general operating materials, are outlined in the relative schedule. In respect of pension plans referred to therein, we would point out that:—

(*a*) Under the 1935 contractual plan a reserve is set up on the books of the railway against the estimated capital value of contracts in force but not against pensions conditionally accruing. The reserve is represented by the pension contract fund established by the railway, the assets of which, amounting to $35,943,000 are in the form of Dominion of Canada securities together with cash and sundry current assets.

(*b*) The contribution under the 1935 plan by employees presently in service are invested through the separately administered pension trust fund, the accounts of which are not included with those of the railways. The assets of the separate pension trust fund amounting to $23,472,000 are in the form of Dominion of Canada and Dominion Guaranteed National System securities together with cash and sundry current assets.

(*c*) The year-end market value of the securities held in the pension contract fund and the separate pension trust fund exceeded the book figure based respectively on cost and par value.

(*d*) The total amount of the two funds in operation under the 1935 plan is $59,415,000.

(*e*) Under pre-1935 non-contractual plans no reserve is set up against either the capital value of pensions now being paid or those conditionally accruing.

In considering the foregoing outline of pension plans, it should be borne in mind that operating expenses are charged with pension costs covering

(i) Railway's portion of payments to retired employees under all plans, and

(ii) Increase in pension contract reserve for the railway's portion of the estimated capital amount of all pension contracts in force at the year end under the 1935 Plan.

Where foreign currencies are involved, the balance sheet accounts of the National System are stated in Canadian Funds converted generally at the par of exchange.

General Scope of Audit

The general scope of the test audit of the National System accounts for the year 1946 may be outlined briefly as follows:—

(*a*) Examination of major expenditure authorities in conjunction with the recorded resolutions of the directors, which in turn are related to corporate by-laws, orders-in-council and Acts of Parliament;

(*b*) Audit tests in the offices of regions, separately operated properties and system headquarters, limited to a cross-section of the major expenditures so authorized;

(*c*) Examination into the adequacy of the internal audit control in general as exercised by the accounting department of the system. In this connection we work in collaboration with the executive accounting officers at headquarters having as a common objective the securing of maximum internal protection to the system in the control of cash receipts and expenditures, securities held, material stores, accounts receivable, etc., and through the carrying of fidelity bond insurance with outside underwriters, and

(*d*) Audit and certification of the consolidated income account and consolidated balance sheet for presentation to Parliament, which body is thus placed in possession of facts upon which conclusions can be reached as to the stewardship of the duly appointed administrators of the system.

The test audit involving the use of some 475 audit programs covers the various balance sheet accounting units in Canada, the United States, London (England) and Paris (France) with income accounts originating in the revenue offices, regions, separately operated properties and system headquarters. These accounts apply to some 83 companies, as detailed in the relative schedule, and the Canadian Government Railways which comprise the National system as an operating entity.

Apart from those pertaining to the Canadian Government Merchant Marine Limited and the Trans-Canada Air Lines, the holdings in the capital stocks of the affiliated companies, as set out in the relative schedule, are insufficient to give voting control and accordingly the companies are not treated as units of the National system nor are their accounts audited by us. In a few instances their accounts are certified by public accountants but for the most part they are audited by joint committees composed of National system accountants and representatives of outside interests.

Uniform Accounting Regulations

In pursuance of our 1944 report on the above matter, we again recommend to Parliament the early establishment of uniform accounting regulations for Canadian railways under the statutory authority of the Dominion. For the convenience of Parliament we quote from our 1944 Report as follows:

Having in mind the conflicting elements in the railway situation in Canada and the widespread publicity given to the matter from time to time in the decade preceding the present war, we are persuaded that the uniform presentation of the published accounts of the two major Canadian railways will be of far-reaching importance in the post-war years to the government and people of Canada as the shareholders of the National system. Accordingly, we deal briefly with the matter to which we have made reference for several years.

Viewed strictly from an operational standpoint, the published accounts of the two railways have not been subject to proper comparison because of:—

(*a*) Difference in the accounting bases as between operating, income, surplus and reserve accounts and as between the "consolidated" and "parent company" presentation, and

(*b*) Disparity in traffic density over the peace-time years, due largely to the difference in purposes of original construction and extension of a considerable portion of the two properties.

We therefore recommend to Parliament the establishment, as early as practicable in the post-war period, of uniform accounting regulations for Canadian railways under the statutory authority of the Dominion.

The recommendation is primarily that, after providing for any special requirements inherent in the ancillary operations of Canadian railways, these regulations governing the published accounts should follow the broad bases of the Interstate Commerce Commission classification for the United States railways in respect of the accounting allocations to total operating revenues, total operating expenses (suggested to include depreciation of all equipment and the larger units only of depreciable fixed properties), net income, surplus and the general balance sheet accounts including specific provisions covering the utilization of reserves. Whilst the adoption of the broad bases of the Interstate Commerce Commission classification is recommended because of international operations, it is in regard to the voluminous details involved in some of the orders affecting the railways of the United States that we see the desirability of the proposed Canadian regulations differing in policy by simplifying the methods of accounting distribution at the source and by the avoidance of a certain amount of clerical expense.

It is further recommended that the regulations require the published income accounts to show the two principal traffic density factors of freight tonnage and passenger volume per mile of road operated.

The main advantage arising from the adoption of the proposed regulations would be the making available to the government and people of Canada, particularly during periods of public discussion, an improved yardstick with which to measure the relative operating performances (apart from fixed charges) of the two major railways, thus eliminating the misconceptions arising through the endeavour to compare published results which have not been computed on the same basis.

We wish to make clear to Parliament, as we have done on previous occasions to the Railway Committee, that the accounts of the National System are maintained with a high degree of efficiency and that our recommendation is not in any sense an attempt to question the right of the Canadian Pacific Railway to present its accounts to its stockholders in any way it may deem proper within the structure of existing railway legislation in Canada. The present objectives of our recommendation are threefold and relate only to:

(*a*) The securing to the National System and in turn the Dominion as its proprietor of the assurance, particularly during any periods of economic stress in the Canadian transportation field and public consideration of the remedies therefor as may recur in the future, that a strictly uniform basis will be effective in the public presentation of the relative operating performances (apart from fixed charges) of the two major railway systems in Canada. It has been our publicly expressed opinion for many years that this objective could be accomplished, without prejudice to the respective interests involved, through the medium of accounting regulations prescribed by a department of the Dominion Government vested with authority and facilities for enforcement similar to those of the Interstate Commerce Commission in the United States.

(*b*) The substitution in Canada of present public reference to the classification of the Interstate Commerce Commission of the United States in respect of the accounting practices of the National System in Canada by future public reference to the Dominion Classification as the basic authority for such accounting, and

(*c*) The making available to the Dominion of standarized accounting and financial information on Canadian railways, drawn up in strict accordance with its own prescribed regulations, in any consideration it may be called upon to give from time to time in the long-term future in respect of transportation rates and related matters affecting the public interest in Canada.

Canadian National Railways Securities Trust

The constitution of the Securities Trust is set out in Section 12 of The Canadian National Railways Capital Revision Act, 1937 as amended 1945, as follows:—

> There shall be a Corporation to be known as "The Canadian National Railways Securities Trust," hereinafter in this Act referred to as the "Securities Trust," consisting of five trustees who shall be the persons who, respectively, hold the offices from time to time of Deputy Minister of Finance, Deputy Minister of Transport and Deputy Minister of Justice and such two officers of the National Railways as may be named from time to time by resolution of the Board of Directors of the National Railways. The trustees shall serve without remuneration.

The primary function of the Securities Trust, as provided in Section 13 of the Capital Revision Act, is the holding alive of the corporate indebtedness (formerly to the Dominion but now to the Trust) and relative collateral securities, for the purpose of preserving any priority rights of the Dominion in respect of certain unguaranteed securities and subsidiary company capital stocks held by the public. This function of the Trust lessens in importance with the passing of time as unguaranteed securities are redeemed and the relative subsidiary companies are liquidated.

Supplementing our audit certificate appended to the accounts published by the Securities Trust, we comment on the balance sheet as follows:—

The Securities Trust, under authority of Section 22 of the Capital Revision Act, has been treated as a constituent unit of the National System. There is, however, a provision in Section 23 of the Act requiring presentation to Parliament annually of a Trustees' report and a separate balance sheet for the Trust. It is further provided that the Trustees' report is to set forth the transactions of the Trust during each year, which are deemed to comprise the net change in the book value of its Capital Stock originating in the accounts of the railway and, subject to the approval of the Governor in Council, any releases of indebtedness or collateral securities belonging to the Trust.

CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS, LIMITED

15th March, 1947

The Honourable the Minister of Transport,
Ottawa, Ontario.

Sir,—Acting under your authority we have audited the accounts of the Canadian National (West Indies) Steamships, Limited, for the year ended the 31st December, 1946, and we now submit, through you, our report to Parliament.

The accounts of the steamships and its subsidiary companies are not consolidated with those of the National System, the 100 per cent stock ownership of the parent steamship company being vested in the Dominion Government.

Supplementing our audit certificate appended to the accounts published by the Steamships, we comment on the consolidated income account, consolidated profit and loss account and consolidated balance sheet as follows:—

Consolidated Income Account

The surplus amounting to $1,302,000 for the year 1946 is summarized hereunder:—

surplus after making provision for the general expenses of operation but before interest and depreciation	$2,186,000
Less: interest	596,000
Surplus before depreciation	$1,590,000
Less: depreciation	288,000
Surplus	$1,302,000

The general expenses of operation largely consisting of wages and materials include the following items, reference to which may be of interest:—

(*a*) Provision covering the presently estimated excess expenditure over the cost to be assumed by the Dominion Government with respect to the reconversion and overhaul of the "Lady" ships *Nelson* and *Rodney;*

(*b*) Administrative charges by Canadian National Railways;

(*c*) Pension payments to the Canadian National Railway Company as pension contract underwriter;

(*d*) Insurance premiums on risks carried both by the insurance fund and outside underwriters, and

(*e*) General taxes covering principally Dominion Unemployment Insurance and municipal taxes.

Interest on funded debt was at the rate of 5 per cent and interest on government advances for deficits 2·5 per cent or a composite rate of 4·12 per cent at the year end.

Depreciation covers all vessels at the uniform rate of 5 per cent for the year.

We have received the customary certificates from the responsible officers of the Steamships relating to current maintenance and physical retirements of capital assets.

The Surplus for the year shows an increase of $186,000 in comparison with 1945. An important factor in the relatively low net return from the increased operating revenue was the provision made in 1946 for the reconversion and overheaul of the two "Lady" ships.

Consolidated Profit and Loss Account

The deficit decreased $1,302,000 as a result of the surplus in 1946.

Consolidated Balance Sheet

Investment in vessels is carried on the general basis of cost. During the year the additions and betterments less sales amounted to $1,129,000, the major expenditures being for the purchase of one diesel and two "Park" vessels.

Accrued depreciation covers the period from the inception of operations in 1929 to 1946. The reserve decreased $253,000 during the year after absorbing the charges arising from the sale of three old type vessels.

Replacement and insurance funds aggregating $6,774,000 are composed of investments in the securities of the Dominion Government together with cash and sundry current assets. The year-end market value of the securities held in these funds in total exceed the book figure based on cost.

The replacement fund decreased $1,304,000 during the year. An important factor in this decrease was the utilization of fund assets for the acquisition of three vessels in 1946 and the 10 per cent deposits on three additional vessels for delivery in 1947.

In connection with the insurance fund we would point out that the "Lady" ships now undergoing reconversion and overhaul and the recently acquired diesels are presently insured with outside underwriters. In the event that 100% of the risk on any of these ships were transferred to the fund in the near future its adequacy on the present basis would be open to question. The fund increased $77,000 during the year.

Accounts receivable and payable of all classifications have been tested by us with the subsidiary and controlling records, cash and other transactions subsequent to the year end, departmental files and general supporting information but such accounts have not been verified by direct communication with the individual debtors and creditors.

The amount shown as due from vessel replacement fund represents payments made out of current cash in 1946 in connection with the purchase of vessels subject to replenishment by the fund in 1947.

Current assets show a ratio of 2 to 1 of current liabilities. In this connection it should be mentioned that a cash payment of $1,105,000 was made to the Dominion Government in reduction of advances in the early part of 1947. The working capital position of the Steamships is regulated, broadly, by the depositing of the cash from depreciation and fund earnings in the vessel replacement fund and by the application, in due course, of the cash from residual surpluses in reduction of Dominion Government advances, any requirements for capital expenditures being currently financed through the replacement fund.

Discount on capital stock represents an intangible book value set up at the time of incorporation to offset the par value of the shares issued without cash or equivalent consideration.

Capital stock, funded debt and Dominion of Canada advances were unchanged during the year. At the year end, the Dominion of Canada account represents only advances for deficits, all advances on capital account having been previously repaid to the government.

Unadjusted credits are comprised largely of uncompleted voyage suspense items.

The insurance reserve, which includes the amount set aside for unadjusted loss claims at the date of the balance sheet, increased $77,000 during the year.

Profit and loss covers the period from the inception of operations in 1929 to 1946. In considering the deficit we would again point out to Parliament that interest on advances for deficits has been charged for the entire period.

Apart from any undertakings for the purchase of additional vessels and general operating materials, the major contingent liabilities of the steamships relate to pension plans. With reference to pension plans we would point out that a funded reserve is provided through the C. N. R. as pension contract underwriter against the estimated capital value of contracts in force under the 1935 plan but not against pensions conditionally accruing. In this connection it should be borne in mind that operating expenses of the Steamships are charged with pension payments to the C. N. R. pension contract fund. The contributions by the Steamships employees presently in service are invested through the separately administered pension trust fund under the C. N. R. 1935 plan.

Where foreign currencies are involved, the balance sheet accounts of the Steamships are stated in Canadian funds converted mainly at the par of exchange.

The test audit of the Steamships for the year 1946 was similar in scope to that of the National System previously outlined in this report.

Now, gentlemen, Mr. Matthews is here. Are there any questions you wish to ask him about the auditors' report on the Canadian National Railways System?

Hon. Mr. CHEVRIER: Perhaps I might ask one question to start. Have you made any changes in your recommendations to those that were in last year's report?

Mr. O. A. MATTHEWS (Geo. A. Touche & Co., Auditors): There are no new principles.

Mr. JACKMAN: Perhaps I might ask Mr. Vaughan what his opinion is in regard to proceeding with the adoption of uniform I.C.C. accounting, perhaps by Board of Transport Commissioners' order.

Mr. VAUGHAN: We think that would be a very difficult thing to accomplish because there is no power that can force the Canadian Pacific Railway into uniform accounting, especially on their United States lines.

Mr. JACKMAN: The I.C.C. compels them to have uniform accounting over there, does it not?

Mr. VAUGHAN: Yes, but it does not follow that the same instructions would be issued over here.

Mr. JACKMAN: Has our Board of Transport Commissioners not the power to not only authorize but insist upon the form in which accounts are kept?

Hon. Mr. CHEVRIER: I do not think they have. The authority which the Board of Transport Commissioners get is from the Railway Act. I do not think the Railway Act authorizes it to impose uniform accounting practices. Mr. Matthews would probably know more about that technical point than I do.

Mr. MATTHEWS: I think there would be further legislative steps necessary if such a recommendation were adopted.

Mr. HAZEN: Would that be legislation to compel the C.P.R. to adopt another system, or how could we get it?

Mr. MATTHEWS: It would resolve itself into a question of the government, through a department similar to that of the Interstate Commerce Commission in the United States, adopting accounting rules and regulations that would be mandatory, yes. While we have recognized ever since 1934, when this matter was first brought to the consideration of parliament, that it is one on which there is a wide difference of opinion, nevertheless throughout the years we have seen nothing to alter our opinion. In view of the fact that the basis of our appointment is that we are to call matters of this character to the attention of parliament we feel that looking back over the 30's, remembering the public discussion that took place in this country, and recognizing that to-day with the level of wage rates and material prices in the country, and the natural effect of that upon the required revenue of railroads generally, the proprietor for whom we work would be in a position better to deal with contentious matters that may arise in the future if they, like the Interstate Commerce Commission in the United States, could start with information that they themselves had set out.

We have said in this report, as we have said before, that the accounts of the national system are maintained with a high degree of efficiency. The Canadian Pacific Railway accounts are drawn according to their own standards. They have every right to do what they do, but we are only dealing with what we believe to be the necessity eventually of this country having, in regard to its transportation, a basis of information that will be standard, and that will be according to the rules and regulations that the government itself prescribes, the same as the government does for the railroads of the United States.

Mr. HAZEN: Do the Canadian National Railways follow the system that is laid down by the Interstate Commerce Commission?

Mr. MATTHEWS: Yes, very largely they do, but there are exceptions that cannot be avoided under present circumstances. Take, for instance, the question of depreciation on fixed properties. Of course, that is prescribed for the United States lines. That is one of the exceptions. We also have dealt with that matter as far back as 1934. While we recognize there are differences of opinion again on this matter nevertheless we draw the situation to your attention again. Our view generally is that the Canadian National Railway inherently has certain handicaps that it inherited. In view of the fact that when periods of depression come and the Dominion of Canada have a big stake in this enterprise we have always felt that anything that places the national system in any disadvantage with any other railway was something that was our job to call to your attention. Whether or not anyone agrees with it, of course, is not within our power to control.

Mr. LOCKHART: I might ask if the uniform system in the United States is adhered to strictly?

Mr. MATTHEWS: Yes.

Mr. LOCKHART: Very strictly adhered to?

Mr. MATTHEWS: Yes.

Mr. LOCKHART: I have one other question that occurs to me. It is as to any loss in operations of the insurance fund. Probably that amount is set forth somewhere?

Mr. MATTHEWS: It is not large. It is just $40,000. It is the difference between the premiums collected and risk losses in the insurance fund.

Mr. LOCKHART: It only runs to about $40,000?

Mr. MATTHEWS: That is all it runs to.

Hon. Mr. CHEVRIER: With reference to uniform accounting methods perhaps I should have added to what I said a moment ago that in 1936 the then Minister of Railways and Canals invited both railways to set up a committee to consider uniform regulations for accounting. A representative committee did meet but could come to no agreement on it, and because of the war nothing further was done.

Mr. LOCKHART: Perhaps it could be taken up again.

Hon. Mr. CHEVRIER: The matter rests there now.

Mr. JACKMAN: I wonder if I might ask Mr. Vaughan this question. It strikes me that some years ago, when we were comparing the results of the C.N.R. system with the C.P.R., that you rather favoured the adoption of a uniform system of accounting, if not the I.C.C. system an amendment thereof suitable to Canada. Is my memory correct, and are you still of the same opinion?

Mr. VAUGHAN: There was some discussion on the matter. I think it is a matter on which Mr. Cooper can give you more light than I can.

Mr. COOPER: Our difficulty is due to the fact first that we are an international railway. We are operating railroads in the United States as well as in Canada. Seventeen per cent of our revenue is earned on our United States lines. We operate the Grand Trunk Western Railway, Central Vermont Railway, the Duluth, Winnipeg and Pacific Railway, the line to Portland, the International Bridge Company, St. Clair Tunnel Company, the Canadian Northern Lines through the state of Minnesota, the United States and Canada railway, which runs down to Massena, the Champlain and St. Lawrence Railway which runs to Rouses Point, the Vermont and Province Line which runs to Alburg Junction. With respect to all these operations we are compelled to adhere to the Interstate Commerce Commission regulations, and we do not wish to be in the position of having to maintain two sets of accounts if they differ from one another.

Our difficulty, of course, would increase according to the degree of difference between the two systems of accounting. It would not be merely an accounting difficulty. Some of our sections cross the international boundary line. Our section men, our B and B men and our train crews would be involved. If when they are in Canada they have to keep their reports according to one classification of accounting, and when they cross the line they have to make reports for the identical kind of work on a different basis, you can see a great deal of difficulty would be involved in computing the expense.

In any event we are presenting our accounts as a consolidated system. If we kept accounts in Canada on a different basis from those of the United States we would, for the purpose of the annual report, and for the purpose of managerial reports, control reports, at headquarters, have to restate one set of accounts to bring them to some common comparable basis.

There are other railways in Canada. United States railways operate here, the Northern Pacific, the Great Northern, the Wabash, the New York Central, the Michigan Central, the Central Vermont, the Pere Marquette, and so on. They are required, of course, over there to keep their accounts according to the Interstate Commerce Commission classification. They would run up against the same kind of difficulties.

There are certain fundamental differences between Canadian National and Canadian Pacific accounts. I should like to make clear that in anything I say I am not saying that we are right and they are wrong, or even suggesting that one is right and the other is wrong. Our system accounts are prepared on the basis that all companies comprising the Canadian National system are consolidated as if a legal merger had taken place, and we present our accounts to you as those of one corporation. Although there are some eighty or ninety corporations in the system we give you our accounts on a consolidated basis as if they were a single corporation. We wash out all inter-company transactions.

The Canadian Pacific is not on that basis. I am not suggesting we are better than they are because the two bases are very commonly used. Theirs is what I would describe as a parent company controlling a number of subsidiary companies. For example, we treat the Grand Trunk Western, which is one of our United States subsidiaries, as if it were a part of our system. We bring its revenues and expenses into our accounts exactly as we treat the Canadian operations. The Canadian Pacific bring their Soo line operations in on a dividend basis, and they are quite right if that is their policy. I am sure there is no law, and you would never write a law, that would compel the Canadian Pacific Railway to publish a report from their directors to the shareholders in any particular form. It is an internal matter between the directors and the shareholders.

For instance, we treat our telegraph department as a department of the railway. We bring in our telegraph revenues and expenses in the same way we bring in express, freight, passenger, and everything else. They do not. Canadian Pacific Telegraphs is a separate company, and they bring it in as "other income". Who shall say they are not correct?

Mr. JACKMAN: Are they bound in their presentation of their accounts by the ordinary clauses in the Companies Act whereby you have to state whether it is a consolidated return or what you have drawn down from your subsidiaries?

Mr. COOPER: I would think so, but they are not compelled to make a consolidated report. In the United States, where the railways are very much more regulated than they are in Canada, there is no requirement with respect to the form in which directors shall make reports to shareholders except that they shall be a true reflection of the accounts. When you think of the Canadian Pacific's operations, its steamships, its land operations, and so on, you will see that there are some fundamental differences between these two large transportation systems. They are not identical. I do not think you can ever get to the point where they can make identical reports. I quite agree that from time to time, when an investigation is under way for one purpose or another, the two accounts have to be brought down to some common basis, but that is a matter for a special presentation at the time for the purpose. As Mr. Matthews kindly said we are maintaining our accounts strictly in accordance with the Interstate Commerce Commission's regulations except with respect to this matter of depreciation on fixed property. We desire to continue on that basis.

The minister has referred to the committee which the Rt. Hon. C. D. Howe created in 1936. If I may I should like to read the answer which the minister made to a question in the House. Mr. Donnelly asked the question.

> Is there any hope of having the Canadian Pacific Railway and the Canadian National Railways adopt the same system of accounting so that we may be able to compare the statements of the two roads?

The answer of the minister was:—

> A committee was formed, I believe in 1937, to bring that about. The committee worked for two years and at the end of that period submitted a report which was unsatisfactory to both railways. The Canadian National felt that, having worked towards the objective of adopting Interstate Commerce Commission accounting, they did not wish to take a retrograde step. The Canadian Pacific was not prepared to come all the way towards Interstate Commerce Commission accounting practice. The result was a disagreement to the extent that the department dropped the project. It is quite a considerable matter suddenly to change the accounting practices of a railway, and I hardly think that any progress can be expected at present.

Speaking for the Canadian National I hope nothing will be done which would prevent us continuing to keep our accounts in accordance with the Interstate Commerce Commission classifications.

Mr. JACKMAN: Mr. Chairman, it is very interesting to hear Mr. Cooper's view on behalf of the railway. I do not see that his view differs from the suggestion that it might be well for parliament to exercise its authority and compel other railways operating in Canada to adopt I.C.C. regulations, because you said in ending your statement you hoped nothing would be done to change your present procedure under which you follow I.C.C. regulations to a very large extent. Is that not what you said?

Mr. COOPER: I do not think that is entirely what is recommended or suggested by the government auditors. I rather think they are suggesting that we should establish a different—it may be similar but in some respects I think it would be different—classification, a distinctively Canadian classification. As I said, to the extent that it differs from the Interstate Commerce Commission classification it will do nothing other than create difficulty and expense for the Canadian National Railways.

Mr. JACKMAN: Then perhaps I should ask Mr. Matthews this question. Your suggestion is not on all fours with the I.C.C. regulations in regard to accounting in the United States?

Mr. MATTHEWS: Yes, the only suggestion that we have made that would differ from the I.C.C. is that the Canadian classification should not extend itself into such detail regarding the depreciation of fixed property accounting etc. In the Canadian classification for those ancillary operations which are peculiar to Canadian operations so far as the broad basis of accounting is concerned, our suggestion has always been that it be based upon I.C.C. The only difference is not to involve it in too great an amount of accounting detail. The principle, as far as we see it, would change the accounting of the Canadian National railways not at all except in the matter of fixed property accounting.

Mr. JACKMAN: Mr. Cooper, I gather it does not follow your recommendation to carry it out is quite as simply as we might think. In other words there is a difference of opinion in the carrying out of the principle, is that fair Mr. Cooper?

Mr. COOPER: If Mr. Matthews is recommending adoption by the Canadian National railways of the Interstate Commerce Commission classification I am all for it.

Mr. JACKMAN: He says he is.

Mr. COOPER: Of course we are not following their method of depreciation accounting which I have referred to and I am always ready to defend our practice.

Mr. JACKMAN: With regard to depreciation.

Mr. COOPER: The depreciation of fixed properties.

Mr. REID: I have a few questions I would like to ask. I, more than anyone else, realize my own limitations in studying these reports. The question I would like to ask concerns page 4, item (*b*). It states,

> Profits aggregated some $1,138,000 and losses some $1,210,000 during the year 1946. Included in the latter total is the loss amounting to $991,000 of the Northern Alberta Railways Company, 50 per cent of which loss has been taken up as an income charge by the National system, the other 50 per cent being chargeable to the Canadian Pacific railway.

My question is now, and the one following has the same object in view, where in your annual balance sheet, the annual report, is that asset.

Mr. MATTHEWS: Under investment of affiliated companies.

Mr. REID: It is marked down.

Mr. MATTHEWS: Yes, it is on page 20 of the annual report. The Northern Alberta railways shows a capital stock of $312,500,000 and bonds $15,765,000. The Canadian Pacific holds the same investment in the same road and when the accounts of the Northern Alberta railway are taken off each year, the loss is determined and 50 per cent is debited each way. That is under an agreement between the Canadian National and the Canadian Pacific railways. As far as the Caandian National railway was concerned their half was taken in the accounts in 1946.

Mr. REID: Another question. That $377,000 in the second part, is that taken into account?

Mr. MATTHEWS: Yes, that is other investments, and those are on the balance sheet. As a matter of fact the report follows the balance sheet at that point. At page 10, under other investments, it shows system securities at par $80,000 and other assets at cost $916,000. It is the makeup of that account.

Mr. REID: My other question is at page 6 of your report. You there make recommendation to the committee or to parliament with regard to accrued depreciation. If you go down to the third paragraph where it states.

> Supplementing the foregoing, we now recommend that parliament authorize the railway to set up a reserve to cover all unaccrued depreciation on Canadian lines equipment prior to 1940 and thereby to place the accrued depreciation account on a basis broadly comparable in principle with the Interstate Commerce Commission regulations.

My question is, in doing that, if that were put into effect would, it mean more money would have to be appropriated by parliament. That it would have to be taken from the Canadian National system. Am I correct?

Mr. MATTHEWS: No, Mr. Reid, as pointed out in (c), there is no cash involved in this. There is a charge this year to proprietor's equity of some $1,300,000. There is no cash involved there as far as appropriation by parliament is concerned. It would merely be establishing the depreciation reserve position of the C.N.R. on a basis as if they had been accruing depreciation throughout the years. There is no cash involved but moneys, if and when required, would be voted by parliament as it is at present. However it would require some parliamentary approval to make such a charge on proprietory equity.

Mr. JACKMAN: How large amount would that be in millions?

Mr. MATTHEWS: I could not say.

Mr. VAUGHAN: That is what Mr. Cooper was referring to in his opening remarks.

Mr. JACKMAN: Would that be suitable to the operating officials?

Mr. VAUGHAN: We have, on different occasions, tried to have the government take up that amount or one similar, in proprietor's equity account. After considerable discussion we arrived at the decision the amount should be taken up each year rather than in one sum.

Mr. JACKMAN: In ten years the problem would disappear, likely.

Mr. VAUGHAN: Perhaps.

The CHAIRMAN: Are there any other questions?

Mr. JACKMAN: I mean to say, this is very difficult for a layman to express an opinion on and it does seem from a lay point of view that if the railways in Canada were operating or keeping their accounts in the same form we would be able to compare, on a surer foundation, one railway with another and I do not thoroughly understand Mr. Cooper's suggestion. If the change were made he might have to almost keep three sets of accounts in connection with border properties.

Mr. VAUGHAN: I do not think he quite meant that. He meant, as so many of our railways at the present time are covered by the I.C.C. accounting that it would cause confusion if there were any different system of accounting incorporated in Canada. Mr. Matthews has said he is in favour of I.C.C. accounting. Mr. Cooper has said he would be in favour of I.C.C. accounting with the one exception.

Mr. MATTHEWS: As a matter of fact we have already said the Canadian National, apart from the depreciation of fixed properties are mainly on the I.C.C. basis now, and our recommendation suggests the adoption of I.C.C. in these Canadian classifications with the one exception that under I.C.C. rules there are instances where the amount of detail required is very expensive and in our opinion adds very little. As far as the principle of comparability is concerned we have talked Interstate Commerce Commission since 1934. Let me make this point clear. With the adoption of our recommendation the only change in the C.N.R. accounts of any importance would be the adoption of depreciation accounting on fixed property. Generally speaking the Interstate Commerce Commission classification is now in use by the Canadian National, and, to the extent that it is, we certainly would not make any recommendation or any change with respect to it. The matter is much broader than appears on the surface. I suppose we might as well be frank about it. In recent years the Canadian Pacific have built up some tremendous reserves for depreciation and our feeling, in so far as the Canadian National is concerned, and, recognizing that the most potent factor in accounts is reserves, and that the Canadian National railway is an instrument of operation of the dominion, it is the only major railway on the continent that has not got depreciation accounting on fixed properties. We feel from the point of view of the National system being owned by the dominion that it would be in the interests of the dominion that this property be on the basis where they would have the use of reserves the same as any other railroad. To talk about uniform accounting on the surface is meaningless and when reserves are created in the proportion that they have been created in recent years, the utilization of those reserves is most important.

Mr. Reid: Suppose right there you were to take a reserve and set it aside. To do that last year you would not have shown a $16,000,000 surplus. It would have meant you would have taken the money from the whole system and put it into a reserve similar to the C.P.R.

Mr. Matthews: No, Mr. Reid, the thing we had in mind is, where you have regulatory accounting, the creation of reserves and the utilization thereof would be subject to one main authority.

Mr. Reid: You just told us the C.P.R. had a big reserve and that was a potent factor in any company.

Mr. Matthews: I did.

Mr. Reid: If you were to do that in the C.N.R. you would not have a surplus because you would be putting up that reserve.

Mr. Matthews: No, Mr. Reid, what would happen would be, for our recommendation is, if we were to adopt depreciation accounting on fixed property the same as it is on equipment, and then bring past accrued depreciation up to date and start over again, it would involve no vote by parliament. It, thereafter, places the accounts on a comparable basis with other railroads that have reserves. If you have no reserves these retirements either have to be charged to operating expenses or to your profit and loss. I realize it is a very technical matter.

Mr. Reid: Let me ask this question, I am speaking about page 10 of the report to try and get a clearer picture or to compare more readily the two systems. If the accounting system was similar in both it would be possible for this committee and the public to get a comparable picture as to the actual performance of the Canadian National with the Canadian Pacific.

Hon. Mr. Chevrier: I suppose, if we called witnesses from the C.P.R. we would get their angle.

Mr. Reid: The auditor must have something in mind when he made the recommendation.

Mr. Mutch: If the public could understand it more clearly then perhaps we could.

Mr. REID: I suppose Mr. Mutch can speak for himself and I have told you I am not a financial expert either but I would just like to get the picture clear in the light of what you recommend on page 10.

Mr. MATTHEWS: Mr. Reid, the accounts would be presented in precisely the same form and with the same type of reserve to utilize. If one company has large reserves and another has not the effect on the operating expenses over all the years is quite considerable.

Mr. REID: You are advocating, with this idea, giving us an improved yard-stick with which to measure the relative operating performance apart from fixed charges.

Mr. MATTHEWS: That is right.

Mr. REID: Of the two major railways. That is to eliminate any misconception of the results if they were compared on the same basis.

Mr. MATTHEWS: That is correct.

Mr. JACKMAN: Is there any other firm or business that uses retirement depreciation.

Mr. MATTHEWS: You mean commercially.

Mr. JACKMAN: Yes.

Mr. MATTHEWS: Well of course speaking of commercial corporations, depreciation accounting has existed as a practice for a long time. Throughout the years our position on depreciation on the railways has been one of going along slowly. We started in 1934. We started then when the order of No. 15,100 was made effective by the I.C.C. It was postponed from one year to another and finally adopted in 1935. But you will find we have gone progressively along endeavouring at all times to not go ahead of the best practices that had been arrived at in the United States because certainly the Interstate Commerce Commission has spent a lot of money. The American roads have spent a lot of money in studying this question and it has been a matter of progressively following the steps that have been taken by these roads and it is all right to say the Canadian National are not going to be governed by what other railroads do. In the long run, however, you more or less find yourself in the position where you must in due course of time. However, we are not here to do any more than to present our opinion in the matter, and not with the idea of trying to force it.

Mr. REID: May I ask this question. At the top of page 11.

Mr. VAUGHAN: I think it would be helpful to hear Mr. Cooper express an opinion on that.

The CHAIRMAN: Mr. Cooper would you like to say something before Mr. Reid asks his question?

Mr. COOPER: This has particular reference to depreciation on fixed properties?

Mr. VAUGHAN: Yes.

Mr. COOPER: This is also a matter which has been before this committee on many occasions. In our 1942 report there was a full statement with respect to our policy and we said "It is considered desirable that the depreciation accounting policy of the railway shall be indicated so that the record may be clear as to the basis on which the accounts herein presented have been stated". The statement goes on to explain that United States carriers were changing from retirement accounting to depreciation accounting but that we did not intend to make a change at that time on our lines in Canada and some of the reasons behind our policy are these. The railways in the United States adopted depreciation accounting for fixed property on January 1, 1943.

That is only four years ago. Previous to that year they had continuously opposed depreciation accounting on fixed properties. They changed over in 1943, in my opinion because of the tax situation. They were confronted in that year with very sharply increased income taxes and excess profit taxes. That, in by opinion, was the reason for the change. It was not a logical change, it was a change based on expediency and having regard to their tax position. The Canadian National Railway has no tax problem in Canada and therefore the reasons which led the United States railways to make the change do not apply to the Canadian National Railway. As a prerequisite to the adoption of depreciation accounting by the American railways an inventory of their properties had to be made. This federal valuation of the railroads cost the Interstate Commerce Commission $50,657,000 to the end of June, 1937, and it cost the class 1 railroads $153,284,000. This was an average of about $830 per mile of road. We have 24,000 miles of road. There is no similar valuation of the Canadian National available. We have neither the technical personnel available for the work nor the inclination to spend the amount which would be necessary.

When you think of a railway, you think first of the rails, ties, ballast and all the other items which, collectively, are referred to as the track structure. On would suppose, as all the elements in track structure are subject to depreciation, that under a plan of depreciation accounting the track structure would be included. That is not so.

Mr. Jackman: Under the I.C.C.?

Mr. Cooper: The United States railways are not required to take account of depreciation in track structure, due to the practical difficulties involved. Nevertheless, the admission seems to me to contradict the theory that retirement accounting is inadequate and that there must be depreciation accounting, if the accounting is to be set up on a sound basis.

Mr. Jackman: What would you say to this point, if you have a railway which is going to run at all, it must keep its track in adequate shape, otherwise it would have an accident the next week. It has to be maintained at about 100 per cent efficiency.

Mr. Cooper: I think we have to do that with all our property. Perhaps I may continue and then we can argue it out afterwards.

Mr. Jackman: Yes.

Mr. Cooper: I think any accounting system should be patterned on the physical characteristics and nature of the operations of the business itself as well as its corporate and financial relationships. For myself I believe, in view of the size of our property, its physical components, the varying dates of their installation and their differing service lives, that we are able, by a continual process of repair, renewal and replacement, to maintain the property in good operating condition by charges to operating expenses reflected in the accounts of the year.

We have no outside shareholders. The question of dividends is not involved. The method of financing the railway does not hinge on its balance sheet position. It would be a matter for the government to say whether, in addition to our other requirements, they would be willing to advance an amount by which a theoretical depreciation charge might exceed the actual expenditures made for maintenance.

I would like to add this, because there is a seeming inconsistency in our refusal to adopt depreciation on fixed property when, in 1940, depreciation accounting for rolling stock was adopted. My explanation for that is, that as compared with fixed property which, as a whole, can be adequately maintained by renewal or replacements of its component units, rolling stock has a definite life cycle. It becomes obsolete and cannot be restored to a serviceable condition. It must, inevitably, be retired from the service.

I said that before 1943 U.S. carriers had consistently opposed the adoption of depreciation accounting for fixed property and the following quotation, which I have taken from a report on the federal valuation of railroads, is stated to be typical of the railway position. It is for this reason I am quoting it.

> The carriers protest against the principles, methods and rules employed in the determination of cost of reproduction less depreciation and against the results of their application. They maintain that the amounts ascertained and deducted as depreciation are but speculative estimates of future operating costs and are not depreciation. They further maintain that the service life of their properties is continuous and indefinite and that there is never at any time any known or ascertainable part of this service life which has expired. In other words, they contend that depreciation does not exist in well-maintained railroad properties.

Now, the position of the United States railways, as I was saying, up to 1943 was that. They changed for their own particular reasons.

Mr. JACKMAN: What is the date of that report?

Mr. COOPER: This report is dated 1939, and it was made by an engineer who was a past president of the American Railway Engineering Association.

Mr. JACKMAN: The authority of the booklet is from what, the association?

(Mr. Cooper passes booklet across to Mr. Jackman.)

Mr. COOPER: This is more or less a personal document written by a man who is recognized as an authority. I was not quoting him, I was only quoting from his booklet where he undertook to give a statement of the typical attitude of the United States railroads toward depreciation of fixed railroad property.

I feel in the case of the Canadian National Railways that it is possible for us to maintain our property, that is our fixed property, year by year by charges to operating expense. I think we do so; and I see no purpose in setting up in addition what is more or less a theoretical charge for depreciation. I do not deny that in many businesses depreciation is a necessary accounting provision. I think in the case of an industrial concern or even in the case of a new railway; I think it would be foolish to deny the principles of depreciation accounting but where you have a railroad such as this is, owned by the state, constructed over a period of 100 years, 24,000 miles of track with all its component parts, then it is possible for us to maintain that property from year to year by charges to operating expense and keep our accounts as far as possible on a cash basis rather than according to figures which the accounting people might compute. I think that we are on a sound basis.

Mr. JACKMAN: I see the gentleman who wrote this booklet is Edwin F. Wendt, a consulting engineer, of Pittsburgh, Pennsylvania, and the past president of the American Railway Engineers' Association; that is an association of railway engineers?

Mr. COOPER: The American Railway Engineering Association is a department of the Association of American Railroads. We are members of that association.

Mr. JACKMAN: And it is not an article expressing the engineers' point of view?

Mr. COOPER: No, sir. Again I am pointing out that it is not an expression of his views, but an extract from the report of the United States Bureau of Valuation and is taken to be a summing up or typical example of the arguments used by the American railroads on the application of depreciation accounting.

The CHAIRMAN: Gentlemen, you have heard the auditor; what is your view, can we adopt the auditors' report, outside of the Trans-Canada Air Lines section?

Mr. REID: I had one question I wanted to ask, if you don't mind, Mr. Chairman.

The CHAIRMAN: Yes, Mr. Reid, I am sorry I had forgotten that.

Mr. REID: With reference to page 11 of your report, Mr. Matthews; first of all I take it that the word "dominion" means the dominion government; "the making available to the dominion of standardized accounting—"; I take it that you mean the dominion government acting on behalf of the Canadian people, acting as proprietor of the Canadian National Railways system.

Mr. MATTHEWS: The dominion government acting in its capacity as the regulatory or legislative body of the country, the same as the Interstate Commerce Commission has powers so to do in the United States.

Mr. REID: What I had in mind was, you say, "in any consideration it may be called upon to give from time to time in the long-term future in respect of transportation rates and related matters affecting the public interest in Canada." I do not think the dominion government would undertake to set rates.

Mr. MATTHEWS: Mr. Reid, what we mean is this; that the dominion government looking ahead has a problem of transportation on its hands, as it had in the past. There is a higher level of wage and material costs, and it is more than likely that in this country we will see a period of difficult times for transportation interests. Naturally, that resolves itself into some form of added revenue. The source to which the railways of this country have to appeal is the dominion government, to some department of the dominion government.

Mr. REID: That is true, yet not true.

Mr. MATTHEWS: But it is there, under the authority of the dominion. Now, if in the future in the United States, for instance, there is a question of freight rates, there the Interstate Commerce Commission start with a set of accounts the construction of which they have previously designed; so that from the point of view of the dominion itself there does in our opinion seem to be some justification, in addition to what we have said in previous years, for having available a uniform type of accounting and information in regard to the railroads of Canada.

Mr. REID: Would it be fair to infer from this statement that it would be much easier and more simple for you to change and recommend transportation rates, let us say on the C.P.R., on account of their accounting system, than it would be under the present system of accounting on the Canadian National? I think that is really what your statement means.

Mr. MATTHEWS: We are not thinking of anything at present, particularly, Mr. Reid; but that is true, yes; that if the government in future in dealing with the transportation problems had before them a basis of information that was uniform and which was according to its own direction, and if it were giving, as the Interstate Commerce Commission have to do, any consideration to any problem having to do with its railroads they have a head start and are in a position to give the matter consideration at an advanced point which would be impossible if a great amount of time had to be spent in finding out what is in the accounts and what these things mean and what they really do produce.

I would like to make just this closing statement. As far as we are concerned we have suggested the Interstate Commerce Commission classification under government authority; and in these figures that Mr. Cooper gives as to the moneys spent in the United States by the Interstate Commerce Commission and the United States railroads, I have said before that our recommendation is only for the major fixed properties. We are thinking in terms of hotels, and large bridges and large terminals and stations, where the retirement of any one unit in any one year or two would be a serious distortion of the operating results of that year; and we certainly in no sense are making any recommendation that relates itself to any kind of an undertaking such as the Interstate Commerce Commission and the United States railroads undertook in the years gone by. You can see, gentlemen, that Mr. Cooper and ourselves do not see very closely on this matter. However, that is all in a very cooperative way.

Mr. JACKMAN: Would you not, Mr. Matthews, have to arrive at some basis of value of everything outside of trackage?

Mr. MATTHEWS: Trackage has never been a factor of depreciation by the Interstate Commerce Commission.

Mr. JACKMAN: You do have to arrive at some basis of value?

Mr. MATTHEWS: Not for trackage.

Mr. JACKMAN: But eliminating that you have to for everything else?

Mr. MATTHEWS: For your buildings and bridges, yes, you would. You would have to get your cost value.

Mr. JACKMAN: After all, under I.C.C. valuation for depreciation accounting they nevertheless do spend money and time. Mr. Cooper mentioned they have omitted trackage themselves. What was it they had to spend so much time and money on in the way of arriving at a starting figure for depreciation that we would not have to arrive at, too?

Mr. MATTHEWS: There are two reasons. In the 1928 order of the Interstate Commerce Commission it provided depreciation even on trackage, and that state went on from year to year. It was not until 1935 that the thing was resolved. They finally got down to the basis of deciding that trackage was not depreciable, but that other units were.

Mr. JACKMAN: In other words, if trackage is eliminated the job becomes much simpler?

Mr. MATTHEWS: Limited to the larger items. That is all we have ever suggested.

Mr. JACKMAN: Mr. Chairman, I must say while we cannot arrive at any conclusion or have all the pros and cons advanced at this hearing I do think there is a great deal to be said for depreciation accounting as compared with retirement accounting. Do they still use retirement accounting in the old country on railways? It is an old country practice, is it not?

Mr. COOPER: As I understand it they do not have depreciation accounting, that is, it is not mandatory. They go in for what they call replacement reserves. I might say that at one time I was in a British railway engineering department, and we used to build up what we called a renewal fund.

Mr. JACKMAN: Each year.

Mr. COOPER: And a replacement fund. The directors used to appropriate a lump sum of money and put it into a replacement fund according to the financial condition of the company. When they had a retirement of any magnitude they charged it to the reserve.

Mr. JACKMAN: To the replacement reserve?

Mr. COOPER: To the replacement reserve, yes.

Mr. JACKMAN: We are not in a position now to say whether or not the amount appropriated last year or in recent years through retirements was greater or less than would be placed in a depreciation reserve were we on the depreciation basis?

Mr. COOPER: For the Canadian National?

Mr. JACKMAN: Yes.

Mr. Cooper: I would say it was less.

Mr. Jackman: At the present time?

Mr. Cooper: Yes, sir. That in turn is all tied in with this question of the difficulty of getting men and materials to make replacements. Just as we have done in the case of rolling stock where we kept every last unit of equipment in service if we could, we have not been tearing down buildings which had any possibility of being kept in service.

Mr. Jackman: You still would be of that opinion if you included your deferred maintenance reserve?

Mr. Cooper: Not over the war years, no, but in 1946, of course, we did not charge expenses with anything on account of deferred maintenance. I do not mind admitting that, in general, charges to expenses are less under retirement accounting than they would be under depreciation accounting. I believe under depreciation accounting you build up a reserve over the years which, from the balance sheet point of view, is something that is very nice to look at, but that is all it would mean in our case. With ordinary companies, of course, it is an important element in their taxation problem. I do not think depreciation accounting can be divorced from taxation, but then we are not subject to income taxes.

Mr. Jackman: If the system is depreciating less under the retirement system now than under depreciation accounting you do not think we are piling up any trouble for an inevitable day?

Mr. Cooper: No, sir, I do not.

Mr. Jackman: It would also be my opinion that if we did have this uniform accounting and depreciation policy it would greatly facilitate the work of a rate hearing case such as the Board of Transport Commissioners have on their hands at the present time with a whole battery of very highly paid legal counsel there.

Mr. Cooper: On that particular point it occours to me one of the difficulties at the present hearing is due to the fact that the Canadian National accounts are on a system basis. Our figures all include our American operations. The matter before the Board of Transport Commissioners now is related to Canadian conditions, and it might well be from their point of view they would sooner see our accounts stated as a Canadian railway only. In other words, they might prefer the Canadian Pacific statement of accounts for rate hearing purposes as affecting Canadian rates and charges.

Mr. Jackman: Of course, under any system you would have to divorce your American properties from your Canadian properties, and their respective results, for a rate hearing case.

Mr. McCulloch: I move that this report be adopted.

Mr. Hatfield: I second that.

Mr. Lockhart: Before the report is finally adopted, in the light of the discussion that has taken place, and the very definite recommendations that are made here in the auditor's report, I am wondering whether the minister would care to say a word as to what he proposes to do. I am wondering whether we just simply pass the thing holus bolus and then forget about it until next year, or whether the minister has in mind taking some action in connection with it.

Hon. Mr. Chevrier: I do not know whether you were here when I referred to the statement that was made by my predecessor, Mr. Howe, and his setting up of a committee to deal with uniform accounting.

Mr. Lockhart: Nothing was done.

Hon. Mr. CHEVRIER: A great deal was done but the committee could not agree.

Mr. LOCKHART: Nothing was accomplished.

Hon. Mr. CHEVRIER: We are in the same position here with reference to the auditor making a recommendation and the railway taking the opposite view. In that position—

Mr. LOCKHART: Well—

Hon. Mr. CHEVRIER: Just a moment. You have asked me for a statement. In that position I would take it the matter is one which should perhaps be disposed of by governmental action. All that I could say on it would be that I would first of all have to submit it to the Minister of Finance to get his views because the financing of the Canadian National Railways is a matter which is under his jurisdiction. If his views were in accordance with that then I could ask for the opinion of our colleagues, but if his view were not in accordance with the report then I suppose this report would be similar to the report of any other corporation. Recommendations by the auditors are made, some are accepted and others are left in abeyance.

Mr. JACKMAN: When the I.C.C. made a valuation of the road did they use cost, or cost less depreciation?

Mr. MATTHEWS: They used cost as far as they could, based on the original cost as far as possible. But really it went back, I think probably to 1917. I am speaking from memory now. To determine valuation and set the values they endeavour to use the original cost.

Mr. JACKMAN: Less depreciation?

Mr. MATTHEWS: Oh yes.

Mr. JACKMAN: I understood the C.P.R. adopted depreciation accounting some years ago.

Mr. MATTHEWS: I notice from the balance sheet at the end of 1946 that they had a depreciation reserve of $302,000,000. Of course, as you know, they built that up by appropriations and so forth in a very few years, but there it is. The Canadian Pacific, with assets of $1,200,000,000 have a depreciation reserve built up to over $300,000,000. As you know you can go back a very few years and you will not find those reserves there.

Mr. REID: Is that in cash? Are those reserves in cash?

Mr. MATTHEWS: No, it was a revision of their surplus appropriations and other things in previous years which they had a perfect right to make, but, nevertheless, the Canadian National have no such provision possible in their accounts at the present time.

Mr. JACKMAN: Do you recall what year it was they made the transfer?

Mr. MATTHEW:: Yes, about 1940, 1942, it was in very recent years.

The CHAIRMAN: Gentlemen, it has been moved that we adopt this report, excepting the Trans-Canada Airlines section?

Mr. JACKMAN: May I just ask a question?

Mr. LOCKHART: Before this report is passed, and I presume there is nothing else to do but pass it, and I am not indulging in any platitudes as I have considerable confidence in the minister and I believe he will make a real effort, but it does seem to me it is rather a useless thing to come back year after year and go through the same discussion. I have been on this committee for quite a little while myself and I just suggest to the minister he might, with his fertile brain, bring us a constructive plan to avoid future difficulty.

Mr. JACKMAN: May I ask whether Mr. Matthews wants to draw the attention of the committee to anything else in particular in his report.

Mr. MATTHEWS: No.

Hon. Mr. CHEVRIER: Gentlemen, we still have those three items.

The CHAIRMAN: Well, is the auditor's report carried.

Carried.

Well, we have the three items which the Honourable Mr. Chevrier mentioned.

Hon. Mr. CHEVRIER: The items are numbers 434, 435, and 479. 434 is the maritime freight rates. It results from the 20 per cent reduction in tolls, and the amount is $3,042,000.

Mr. JACKMAN: What is this all about? It is a lot of money to be passed so quickly.

Hon. Mr. CHEVRIER: It is the statutory vote which we cannot change. It is in the estimates but it is referred to this committee because it is in the railway budget and while we cannot change it, it is brought here so that it can be discussed.

Mr. JACKMAN: Of course there are many things in the budget we might like to change. What is the number of this item?

The CHAIRMAN: 434.

Shall 434 carry?

Carried.

What about 435?

Hon. Mr. CHEVRIER: That is the maritime freight rates act with respect to the railways, other than Canadian National.

The CHAIRMAN: Is 435 carried?

Carried.

There is one more, number 479.

Mr. JACKMAN: Both of those are statutory?

Hon. Mr. CHEVRIER: Yes. 479 is the vote for the Prince Edward Island car ferry and terminals deficit, 1947, the amount is $707,000.

The CHAIRMAN: We discussed that this morning did we not, Mr. McLure?

Shall 479 carry?

Carried.

Now, gentlemen, I think when we started at the first organization meeting it was suggested that we might skip a week. The budget is down and we might wait a week before going on with Trans-Canada Airlines.

Mr. JACKMAN: Our correspondence is piling up.

The CHAIRMAN: Yes, and there is an air session in Montreal starting on Tuesday and if it is agreeable with the committee we shall skip a week. It would give everybody a chance to catch up on his work and in addition it would give the air officials a chance to be down there in Montreal. Is that satisfactory?

Some hon. MEMBERS: Satisfactory.

The CHAIRMAN: I might say that I have a note here from Mr. Howe which says: We can go on to-morrow or alternatively next Tuesday. We should finish without undue delay but if the committee prefers a recess for a week that will suit Mr. Howe very well.

Some hon. MEMBERS: Agreed.

The CHAIRMAN: We will meet a week from Tuesday then, and we will have the air officials all here. Before we go I want to thank the C.N.R. officials for being here and for their patience and courtesy.

Mr. VAUGHAN: I thank you, Mr. Chairman, and all the members of the committee for the consideration you have shown us.

The meeting adjourned at 6.00 o'clock p.m. to meet again on Tuesday, May 13, 1947.

SESSION 1947

HOUSE OF COMMONS

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 4

TUESDAY, MAY 13, 1947

TRANS-CANADA AIR LINES ANNUAL REPORT (1946)

WITNESSES:

Mr. H. J. Symington, C.M.G., K.C., President, Trans-Canada Air Lines;
Mr. W. F. English, Vice-President, Trans-Canada Air Lines;
Mr. O. A. Matthews, of George A. Touche & Co., Auditors.

OTTAWA
EDMOND CLOUTIER, C.M.G., B.A., L.Ph.,
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY
1947

REPORT TO THE HOUSE

THURSDAY, 8th May, 1947.

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

SECOND REPORT

Your Committee has considered the following items of the Estimates for the year ending March 31, 1948, referred to your Committee on 22nd April, 1947, and approves of same:—

Vote 434, Maritime Freight Rates Act—Canadian National Railways;

Vote 435, Maritime Freight Rates Act—Railways other than Canadian National;

Vote 479, Prince Edward Island Car Ferry and Terminals—Deficit 1947.

All of which is respectfully submitted.

S. M. CLARK,
Chairman.

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MINUTES OF PROCEEDINGS

TUESDAY, 13th May, 1947.

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

Members present: Messrs. Belzile, Clark, Dion (*Lake St. John-Roberval*), Emmerson, Hatfield, Hazen, Jackman, Maybank, McCulloch (*Pictou*), McLure, Nicholson, and Reid.

Mr. H. J. Symington, President, Trans-Canada Air Lines, was called. He read the 1946 Annual Report of the Company and was questioned thereon. Mr. W. F. English, Vice-President and Mr. S. May, Auditor, Trans-Canada Air Lines, assisted the witness during the questioning.

Right Honourable C. D. Howe, Minister of Reconstruction and Supply, was present and took part in the proceedings.

The Committee adjourned at 1.00 o'clock p.m. to meet again at 4.00 o'clock p.m. this day.

AFTERNOON SESSION

The Committee resumed at 4.00 o'clock p.m. Mr. Clark, the Chairman, presided.

Members present: Belzile, Clark, Dion (*Lake St. John-Roberval*), Emmerson, Hazen, Jackman, Lapointe, Lockhart, McCulloch (*Pictou*), McLure, Moore, Mutch, Nicholson, Pouliot, and Reid.

Mr. Symington was recalled and further questioned.

Right Honourable C. D. Howe was in attendance and participated in the proceedings.

On motion of Mr McCulloch (*Pictou*), the 1946 Annual Report of Trans-Canada Air Lines was adopted.

The Auditors' 1946 Report to Parliament, on the operations of the Trans-Canada Air Lines was taken as read and considered.

Mr. O. A. Matthews, of George A. Touche & Company, Auditors, was called and questioned.

The said report was adopted on motion of Mr. Reid.

In a farewell message to the Committee in which he announced his impending retirement from the presidency of T.C.A., Mr. Symington appealed for continued sympathetic understanding of T.C.A. difficulties.

The Chairman and Messrs. Howe, Jackman, Nicholson and Pouliot commented on Mr. Symington's efforts and expressed the appreciation of the Government, Parliament and of the people of Canada.

The Committee adjourned at 5.45 p.m. to meet again at the call of the Chair.

J. G. DUBROY,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

May 13, 1947.

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

The CHAIRMAN: Gentlemen, we have a quorum. I wish to extend a welcome to Mr. Symington and his officials who are appearing before this committee this morning. In other years the procedure has been to ask Mr. Symington to read his report, after which members of the committee may ask such questions as they wish. Following that we shall take the balance sheet, if that is agreeable. I shall ask Mr. Symington to read the report of Trans-Canada Air Lines.

Mr. H. J. Symington, C.M.G., K.C. (President, Trans-Canada Air Lines):

MONTREAL, March 15, 1947.

To the Right Honourable the Minister of Reconstruction and Supply, Ottawa.
Sir:

The Board of Directors submit the Annual Report of Trans-Canada Air Lines for the calendar year 1946.

In spite of the uncertainties and difficulties of the post-war period, air transport made great strides in Canada. As equipment and skilled manpower again became available, Trans-Canada mainline service moved forward on a new scale. Many desirable services had to wait upon the coming of peace and the recovery of this lost time is a paramount concern of the Air Line to-day.

Although T.C.A. is about to complete its first decade of service and has achieved a great degree of maturity in that period, it is now more than ever in the process of intensive development common to all growing transport enterprises. This calls for unusually heavy expenditures and, as forecast in the last Annual Report, 1946 proved to be a difficult year from a financial standpoint. Costs were high. Training requirements were extensive. Throughout the year additional offices were opened and field facilities were expanded, in the expectation of spring deliveries of twenty-four DC-3 aircraft of 21-passenger capacity each. Industrial conditions were such that these deliveries were delayed so that these aircraft were not available for the peak traffic of summer and early fall. Later in the year low load factors were general on all air lines throughout the world. This occasioned the Company real financial loss, especially as extensive preparations had been made in anticipation of earlier usage.

Routes and services were increased generally. The fleet was enlarged and improved. Preparations were made for the Air Line's assumption of the Atlantic operation on a full commercial status. Training of specialized personnel, particularly pilots, was advanced to a point where adequate staff has for some time been available for the carrying out of the expanded program.

Co-operative effort with the Department of Transport pointed the way to a general improvement in Canadian airports and airways and to better scheduled performance for aircraft. Through a continuous participation in the councils of the world air authorities, the Company played an important part in the standardization and rationalization of international air practices.

Passengers carried increased by 67 per cent. Air express poundage rose by 10 per cent, but air mail pounds fell by 32 per cent.

Daily scheduled miles totalled 45,021 at December 31, 1946, an increase of 12,667 miles per day or 39 per cent. Route miles had risen from 5,299 to 6,511. During the year, 15,864,670 miles were flown, as compared with 11,546,227 miles in 1945, an increase of 4,318,443.

A fourth daily transcontinental service was inaugurated between Montreal and Vancouver on April 1. Schedules were arranged to give improved service to Calgary and Edmonton, including a direct flight from Calgary to Vancouver.

Air transportation knit Canada and the United States even more closely together as four new routes were opened across the border. Two-and-a-half hour flights began between Toronto and Chicago on July 1, one-and-a-half hour flights between Toronto and Cleveland on August 1, one-hour flights between the Canadian Lakehead and Duluth on September 16 and fifty-minute flights between Victoria and Seattle on November 1. Stops are made at London on the Chicago and Cleveland routes.

Other service extensions were a fourth Toronto-New York schedule on April 15 and an increase in Vancouver-Victoria flight frequency from two to eight daily in November.

A general development of the Air Line's traffic organization took place during 1946. More ticket offices were provided and staffs were increased. Telephone answering service was placed on a twenty-four hour basis and reservation procedures adjusted to the heavier passenger flow.

RESULT OF OPERATIONS

	1946	1945
Operating Revenues	$12,810,805	$10,512,588
Operating Expenses	13,943,939	10,250,272
	$ 1,133,134	$ 262,316
Miscellaneous Income Net	$ 17,878	$ 456
Interest on Capital Invested	—	$ 230,000
Deficit 1946 - Surplus 1945	*$ 1,115,256*	$ 32,772

Operating revenues totalled $12,810,805, an increase of $2,298,217 or 22 per cent over the preceding year. Passenger revenues increased $2,602,537 or 48 per cent; mail revenues decreased $470,430 or 11 per cent; express revenues decreased $2,148 or 1 per cent; revenue from sales and service increased $77,841 or 26 per cent; other revenue increased $90,417. Passenger revenue contributed 63 per cent of total revenue and mail revenue 30 per cent.

The lifting of wartime priority restriction, the scheduling of additional flights and the use of larger aircraft brought air transport to more Canadians. The deterioration in the volume of air mail traffic was serious for T.C.A. because of a new mail contract with the Post Office Department. This agreement, which became effective on April 1, established pound-mileage as the basis for mail pay and thereby left the Air Line vulnerable to any decline in mail volume. Air mail poundage fell off by 32 per cent and air mail revenue by $470,430. Receipts were $2,000,000 less than they would have been had the Company been paid under the old agreement on a basis of mileage operated.

Operating expenses totalled $13,943,939, an increase of $3,693,667 or 36 per cent over the previous year. There was an increase of $2,346,000 or 23 per cent because of expansion and intensification of services and higher material costs. Payrolls increased by $400,000, due to higher wage rates. There was an increase of $948,000 covering training of personnel, depreciation and insurance on the new equipment acquired for the development of new routes and services.

After the income credit of $17,878, there was a deficit of $1,115,256.

The Company's reserve covering self-insurance of aircraft and other equipment, and liability to passengers and public, increased by $404,696 during the year. Accrued depreciation on aircraft and other property increased by $1,595,811.

Resulting from the 1945 amendments to The Trans-Canada Air Lines Act, 1937, the practice of charging operating expenses with 5 per cent interest per annum on invested capital, paid to the Canadian National Railways, was discontinued in 1946. For the year 1946 the return to the Railway is in the form of a dividend of 3 per cent per annum ($154,368) on invested capital, paid out of T.C.A. surplus.

Property and Equipment

T.C.A. flight equipment as of December 31, 1946, consisted of:

27 Douglas DC-3 aircraft, 24 of which are equipped with two Pratt and Whitney Twin-row Wasp engines, each of 1200 horsepower, and three equipped with two Wright Cyclone engines, each of 1200 horsepower.

14 Lockheed Lodestar aircraft, equipped with two Pratt and Whitney Twin-row Wasp engines, each of 1200 horsepower.

9 Lockheed 14-08 aircraft, equipped with two Pratt and Whitney Twin-row Wasp engines, each of 1200 horsepower.

Three additional DC-3's were on order at the close of 1946. Two of them are passenger aircraft, while the third is for cargo use.

With the acquisition of the DC-3's, the Company began to retire the Lockheed aircraft, which are being offered for sale as they are released from service.

One of the year's pressing problems was that of finding sufficient accommodation at the airports for T.C.A.'s developing organization and passenger requirements. Appreciating the necessity of avoiding, as far as possible, any new construction at the present time, the Air Line took steps to use buildings previously devoted to military purposes.

At Winnipeg, the Air Line's operations headquarters and site of the main repair base, additional office space was taken in nearby R.C.A.F. buildings and a former Air Force hangar was used as a stores depot.

In Edmonton and Toronto, arrangements were made to rent Air Force hangars.

At Montreal, T.C.A. acquired two large hangars previously used by the R.A.F. Transport Command.

At Vancouver, the Company acquired the large Boeing overhaul hangar which can serve domestic operations now and the proposed Pacific service later.

New and intensified schedules called for a system-wide improvement in ticketing facilities. Accordingly, traffic offices were opened in Chicago, Cleveland, Port Arthur and Seattle, while established offices were expanded at other points.

ROUTES AND SERVICES

At December 31, 1946, Trans-Canada Air Lines was providing service—passenger, air mail and express—over domestic routes totalling 6,511 miles between the Atlantic and Pacific. This was an increase of 1,212 miles or 23 per cent over 1945. The routes operated are as follows:

	Miles
Halifax—Victoria (via Moncton and Toronto)	3,307
Moncton—St. John's, Newfoundland	751
Halifax—Sydney	201
Halifax—Blissville	177
Toronto—New York	365
Toronto—London	97
Toronto—Cleveland	211
London—Cleveland	171
London—Chicago (via Windsor)	368
Fort William—Duluth	178
Regina—Vancouver (via Calgary)	281
Lethbridge—Edmonton	301
Victoria—Seattle	103
	6,511

Passenger Service

Revenue passengers number 305,442 in 1946, as compared with 183,121 in 1945, an increase of 122,321 or 67 per cent. The average passenger journey was 510 miles, as compared with 579 miles in 1945. Revenue passenger miles increased 47 per cent. Passenger revenue per revenue passenger was $26.41 and per revenue passenger mile 5·18 cents, as compared with $29.83 and 5·15 cents respectively in 1945.

In April, the Department of Transport authorized the abolition of the wartime passenger priority system and a return was made to normal reservation practices.

Improvements in passenger service included the provision of hot meals on the DC-3 aircraft. Reservation procedures were revised to provide faster service and to meet the much heavier flow of traffic.

Air Mail Service

The shrinkage of air mail volume which began in 1944 was greater in 1946. Mail amounted to 2,325,977 pounds, as compared with 3,429,232 pounds in the previous year (a decrease of 32 per cent) and 3,739,105 pounds in 1944.

Air Express Service

Air express increased 10 per cent, from 950,323 pounds in 1945 to 1,043,713 pounds in 1946. The average haul, however, was shorter and pound miles decreased 5 per cent.

Airway Facilities

Close co-ordination was maintained with the Department of Transport in the improvement of runways, field facilities, airport and navigational aids.

Construction of the Great Lakes airway progressed. When completed, this will permit flight between Toronto, Sault Ste. Marie, Port Arthur-Fort William and Winnipeg, cutting many miles and minutes from the transcontinental route north of the Lakes.

Work began at Winnipeg, Lethbridge and Toronto on the runway extensions needed for the scheduled operation of four-engined aircraft.

Although equipment was scarce, the first steps were taken towards the provision of instrument landing systems at Canadian airports. These electronic devices will facilitate scheduled performance of aircraft when visibility is limited.

T.C.A. continued to expand its network of very high frequency radio stations throughout the Maritimes and Central Canada. These provide static-free communication with the aircraft in flight. At the end of the year fourteen such installations had been completed and work was proceeding along the Montreal to Windsor airway.

Personnel

The staff of Trans-Canada Air Lines at December 31, 1946, was 3,641, as compared with 2,388 at the end of 1945. In addition, 796 employees were engaged in the Canadian Government Trans-Atlantic Air Service.

The Company had in its employ 2,371 men and women formerly in the Armed Forces. They are performing efficiently as pilots, mechanics, traffic and clerical employees and, indeed, in all areas of T.C.A. activity.

Staff training was required not only for newcomers to the Air Line but also to acquaint employees in general with the new aircraft and the changed techniques brought about by the development of traffic.

It became necessary to train many additional pilots for the increasing operations and larger fleet. Carefully selected former R.C.A.F. personnel were assembled at Winnipeg for intensive flight and ground instruction. New First Officers to the number of 147 qualified for T.C.A. service.

Approximately 1,700 maintenance employees were trained in the servicing of the DC-3 aircraft, different in many respects from the Lockheed equipment with which they had been familiar.

Special Activities

Canadian Government Trans-Atlantic Air Service

T.C.A., as the operator of the Canadian Government Trans-Atlantic Air Service, made its one thousandth crossing of the Atlantic in December. Under the Company's direction, schedules grew from twice weekly to a daily round-flight on the 3,000 mile route between Montreal and the United Kingdom. By the end of the year, the Canadian Atlantic service had come to rank in performance with any of the other international air lines. Almost 600 crossings were made without incident in 1946 and there were no scheduled flights cancelled.

On September 15, the trans-Atlantic route was extended to London. Prestwick airport, near Glasgow, remained the United Kingdom maintenance base. T.C.A. took complete control of all passenger reservations both east and westbound, trans-Atlantic passage being obtainable in all domestic offices.

The trans-Atlantic service, conceived in wartime to meet emergency transportation needs, will be operated by a T.C.A. subsidiary company, wholly owned and controlled by the Air Line. T.C.A. will soon introduce its own four-engined aircraft, larger and more suitable for passenger carriage than those first used in the service.

T.C.A.'s trans-Atlantic flight crews, maintenance personnel and technicians are experienced and are fully qualified to assume tomorrow's larger responsibilities. The trans-Atlantic service is Canada's first venture in the international air and T.C.A. will seek to develop with the same regard for quality that has attended the growth of the domestic system.

Service to Other Air Lines

The interdependence of world air transport was seen in T.C.A.'s growing service to other lines. In 1946, the Company handled the many flights of the various trans-Atlantic operators that stopped en route at Sydney and Moncton. At Goose Bay, in Labrador, T.C.A. agreed to organize and operate in 1947 an international hotel for the use of all trans-Atlantic travellers. Following the departure of the R.A.F. Transport Command from Dorval Airport, the Air Line accepted responsibility for a wide variety of airport functions. At Vancouver, T.C.A. serviced the trans-Pacific flights of Australian National Airlines and in Western Canada provided radio communications for Northwest Airline's operations to Alaska and the Orient.

Goose Bay, Labrador, Service

At the request of the Department of Transport, T.C.A. completed arrangements for the operation of a fortnightly service between Montreal and Goose Bay. These flights are primarily for the convenience of the Department's own personnel and the contractors at work at the Labrador air base. However, other passengers and cargo are carried as offered.

Work for British Overseas Airways Corporation

A wartime servicing agreement was terminated on November 30, when T.C.A. ceased its maintenance and overhaul of British Overseas Airway's Liberator aircraft at Montreal. The contract was designed to assist the British Company in its movement of ferry pilots.

Four-Engine Aircraft

It had been hoped that the first of the four-engined North Star aircraft being built by Canadair Ltd. at Montreal would go into T.C.A. service in 1946. But here again, the difficulty of procuring materials delayed manufacture. These 40-passenger aircraft will be introduced on the Atlantic route where their high speed and comfortable interior arrangements will improve the quality of trans-oceanic travel. Soon afterwards they will be seen in Canada and on a new service to Bermuda. Powered by liquid-cooled Rolls-Royce engines of British manufacture and based on Douglas airframe design, the North Star is a blend of the world's foremost aeronautical skills.

Proposed Services

The pace of T.C.A. growth will be determined by public response to air transportation. Certain specific extensions and betterments are planned for domestic air transport in 1947. With the completion of the Great Lakes airway, it is anticipated that flights between Toronto and Winnipeg via Sault Ste. Marie and the Lakehead will be possible this summer. Inauguration of the postponed Winnipeg-Saskatoon-Edmonton flights is similarly dependent upon completion of airport construction at Saskatoon. This operation will also begin in 1947. Service between Halifax, Saint John and Boston will begin in April, with a stop at Yarmouth. Windsor, Ontario, will be added as a traffic stop to the Toronto-Chicago service. The frequency of flights will be increased on eastern inter-city routes and between Vancouver, Victoria and Seattle during the summer months. A wider use will be made of the larger DC-3 aircraft and a transcontinental schedule with four-engined North Stars is planned.

T.C.A. will open a service to Bermuda with large aircraft and West Indian, South American and trans-Pacific operations are being studied.

Financial Considerations

The great service which aviation can render to the public interest, including commerce and industry, is widely recognized. Nevertheless, current conditions render immediate financial prospects very difficult to estimate. Material and labour costs are still rising and everywhere the major air lines are hard-pressed.

T.C.A. will strive for stability during the period of economic adjustment in the air line industry. Promotional activity to stimulate public understanding and acceptance of aviation will be intensified. New revenue sources will be developed, including possible carriage of first class mail by air and an air freight service. The Air Line will relate its scheduling closely to seasonal traffic trends. Expenses will be carefully controlled.

The Staff

It has been customary to regard T.C.A. employees as "young" men and women. In actual age, they are. But with the Air Line now in its tenth year, there are many who fully qualify as veterans in experience and who have helped build Canadian aviation from its inception.

To the members of the staff, the Directors extend their appreciation of service loyally given and valuable work well done.

The Chairman: Do you wish to make any other statement before the committee proceeds to question you?

Mr. Symington: Just as the committee likes. Naturally I am rather full of things after the difficult year, but perhaps it can arise best by questioning on the figures.

Mr. Jackman: The results of the year are very disappointing, and on behalf of the irate citizen shareholders may I ask Mr. Symington what about it?

Mr. Symington: Yes, sir, I would be very glad if you would.

Right Hon. Mr. Howe: Are you the representative of the irate citizens?

Mr. Jackman: That is our bounden duty, Mr. Minister.

Mr. Symington: The committee will remember that last year I told them this was going to be a very difficult financial year. It has been a very difficult one, even more difficult than I anticipated.

The primary difficulty arose from the fact that we did not get our aircraft in time for the peak loading months of the year. We had trained not only pilots but a whole maintenance staff and ticketing staff for the new operations. In an air line it is a major operation to switch from one particular aircraft to another. The switch which was made of necessity from the Lockheed to the Douglas caused a great deal of necessary expense to the air line. We did it anticipating that we would have planes ready for the peak months. Our judgment was wrong. We did not get the planes until late in the summer when the peak was over.

In addition to that we had certain men in training longer and earning no money than we would have had had we got delivery of the planes. Expenses, as you see, increased very materially, but although the cash showing is not good I would point out that we are depreciating the DC-3's in three years. That we consider essential and wise because of the quick changing character of airplane developments.

The committee will remember last year it was suggested we should not have bought those planes. There is no plane yet produced that compares with the DC-3 for two engine operation, and no plane produced which can operate in Canada because of the required range. There have been three planes promised for the last three years. None of them are yet flying in service. Had we waited for them we would have had no planes at all. Secondly, they are planes that are conceived for what we call short range operations. They are prepared for operations in the United States where every few hundred miles there are cities of a respectable size which give rise to air traffic. The result is these planes are devised with the idea of very fast and very heavy loading for a short distance. In other words, they cannot carry the gasoline to get you the range. When you come to operate in Canada they are unsuitable for the Canadian operation because you would have to leave off passengers to put on gas even if they had the necessary tanks to carry it.

The three planes have not flown in service. There have been several of them ordered and several orders for one of them cancelled. I believe one, according to reports, will probably be abandoned. We went into our situation with these manufacturers telling them our requirements as to range, loading, etc., and gave them a chance to see whether they would build us the planes which were required for the particular type of operation in this country. While they were all very anxious to do business with us they said they could not provide us with a plane because it was a different operation from the planes they were building, the market was not big enough, and they could not furnish us with those planes. You can understand that those planes would operate with efficiency when they do operate as they undoubtedly will— two of them, anyway,—in the east and in the inter-city business, but there they end because they have not got the range for further operation.

Gentlemen, you cannot operate an air line with any sort of efficiency or economy with a whole lot of different kinds of airplanes. You have to have different maintenance crews, different pilot training and there is a complete lack of flexibility if you operate with different kinds of planes. You have to have very large stores inventories, spare parts, etc., so that the aim and object of all air lines is to operate types of the same character. The types which we operate are Douglas types. The DC-3 was the greatest improvement in airplanes when it came in that had been made. It is still by far the airplane most used, and the Douglas company have had to restore what they expected to have abandoned, namely the manufacture of spare parts for Douglas DC-3 craft.

The DC-3 craft has a disadvantage so far as Canada is concerned. It cannot go over the mountains with one engine. Therefore we are forced to run a different type of aircraft from Calgary or Lethbridge to Vancouver. That is not a particularly desirable operation, but until a two engine aircraft is designed which can do it, or until we adopt, as we will probably have to, four engine aircraft that operation is an operation which is costly and difficult because you bring ten or fourteen passengers in good weather across the mountains to fill a 21 passenger plane. You take from a 21 passenger plane into a 14 passenger plane your passengers who are going to Vancouver, all of which creates some difficulties and disturbances.

The cause of some of the expenses you will see in our tremendously increased non-revenue mileage. The non-revenue plane miles flown were 1,702,293, as opposed to 1,040,152 last year.

Mr. Hazen: What page is that?

Mr. Symington: That is on page 14 at the bottom of the page, statistical data. That is the effect of the training of the larger body of personnel which was required for the larger number of planes we had, and the changing character of the planes which we had and, of course, cost us a great deal of money.

I have taken off what I consider abnormal expenses under the operating conditions under which we operated in 1946. Aircraft depreciation and insurance on account of the acquisition of DC-3 aircraft fleet with greater insurance values and a shorter depreciation period, $648,000.

Mr. Hazen: From what page are you reading?

Mr. Symington: I am not reading from the report. It is from my detailed figures of explanation of our revenues and expenses. It is a matter of adding up. If you look at that same page 14 under operating expenses you will see flight equipment depreciation, $1,388,635 as opposed to $785,000.

Mr. Hazen: Is that page 14?

Mr. SYMINGTON: Yes, under operating expenses, the third item. There are other depreciation items, of course, but that is the main one.

Mr. HAZEN: I think there is an item of insurance some place, too, that you referred to?

Mr. SYMINGTON: Yes, there is.

Mr. HAZEN: I do not know where it is now but I saw it.

Mr. SYMINGTON: That is at the top of page 15, flight equipment insurance. Then there were increased payroll expenses on account of increased salary schedules of $400,000. That is not numbers but increased salary expenses. There were increased training expenses due to the expansion and conversion of crews from Lockheed of $300,000. The total of those is $1,348,000.

Mr. HAZEN: You spoke of the total of those items, that is training expenses, increased pay-roll—

Mr. SYMINGTON: Depreciation, pay-roll and training expenses.

Mr. HAZEN: I thought that the depreciation was $1,348,000?

Mr. SYMINGTON: No, those are the abnormal expense increases over the previous year—$648,000.

Mr. HAZEN: The increase?

Mr. SYMINGTON: What I am trying to give you is that our expenses increased last year $3,694,000, and I am trying to give you how those increases came about, and I have given you depreciation, insurance due to the acquisition of the new aircraft $648,000; increased pay-roll expenses by reason of wage increases alone, $400,000; increased training expenses due to the conversion and expansion of the services, $300,000, and this total of $1,348,000; administration expense increases which were due to the expansion of the services from which additional revenue was, of course, earned: gasoline, oil, de-icer fluids were up $400,000 over the previous year. Passenger expenses, food, insurance, etc., were up $270,000; rents and landing fees $87,000; telephone, telegraph and teletype $66,000; office supplies and expenses $84,000; crew cycle and O.C.S. travelling expenses $244,000. We had to move our crews around to familiarize them with all the new routes and the new aircraft upon those routes. Advertising and publicity, $157,000; pay-roll increase to staff, $900,000; pensions, taxes, $90,000; agency commissions, $24,000; miscellaneous, $24,000; or $2,346,000, $3,694,000 being the increased expenses over last year.

Mr. JACKMAN: As some of this staff you have mentioned require training, what indication is there that that has been a good investment on which you will at least get the dollars spent back, if not something extra? I am raising that point because the minister said yesterday, in answer to a question by Mr. Maybank, that there was a certain amount of lay-off in Winnipeg at the present time of trained personnel.

Mr. SYMINGTON: What happened in the lay-off is a perfectly natural situation in that we have a great deal of cargo space, whether for mail or otherwise, that at the moment is not filled, but the planes are there to do the business if, as and when the business is to be done. Now, with respect to the lay-off, what happened was the logical thing. The staff, for instance, for the repair services of the Lockheeds was a large staff because one of the weaknesses of the Lockheed was its thin shell which blistered and had to be changed continually. The Douglas is a more rugged plane and has a stiffer shell. We have practically no maintenance on the shell. The result was that forty to fifty men who had to be retained for that particular purpose are now, with the change in the type of aircraft, no longer required. Now, these men are good men and will come back into some feature of the maintenance program as and when we get enough business to justify the run and enough frequencies to fill our capacity. Then, of course, in the DC-3 conversions—apart from the conversion you get at the plant itself—whether you buy a new plane or not—it still has to be amended in many ways or changed in some ways by our own people. We test that plane; we make changes in it in accordance with our tests, and we had a good deal of trouble with the DC-3 conversion in the matter of heating and oil pressure, all of which called for maintenance and engineering work in our own shops. Now, that work is all completed and, therefore, we have laid off some men; because I cannot, of course, submit to any doctrine that I must hire men that I do not require. I think that will meet with the approval of the committee. Nonetheless these men are valuable trained men and if the air line expands at all, as everybody expects it will, they will have their seniority and they will be the first men back. However, we have to get some reduction and we have been looking at our lists pretty hard to see where we can save a dollar here and there because I do not like to lose money, Mr. Jackman; that is the surest thing you know. We have done everything we can to see what we can do to reverse this position in as far as T.C.A. is concerned and which, in the figures I will give you in a moment, is completely general throughout the industry; and that situation is far worse elsewhere than it is here, in spite of the fact that I maintain that we have the most difficult operating conditions to contend with of any air line in the world. The money lost in Canada on last year's operations as compared with the United States and Great Britain, why, it is just a flea bite. Of course they are running larger systems, but comparing our line with a line of any similar character in the United States some are losing more money than we are.

Mr. Hazen: Have you the comparable figures?

Mr. Symington: I have, sir.

Mr. Jackman: How many men have been laid off recently and are they all, shall I say, riggers who fix up the planes or that part of the plane which you mentioned, the fuselage? You mentioned that there was a lot of patching to be done?

Mr. Symington: Yes. They are mechanics; sheet metal workers.

Mr. Maybank: A moment ago you were using the figure of forty-odd. Newspaper reports referred to a couple of hundred. From the way in which you have explained this matter it does not look as hopeful for these men as did the interviews that were given out in Winnipeg. I am rather disturbed over the development of a pool of unemployed men. I did not intend to take this matter up now, but you and Mr. Jackman, between you, got into this matter and I decided that it should be taken up. Now, what is the figure that we ought to have? Is it 40-odd or 200?

Mr. Symington: Well, at the moment it is 200.

Mr. Maybank: Are all of those 200 to await, as you say, upon the development of traffic, or is there some other hope of their early return to employment? I certainly got the impression from the interviews given in Winnipeg that there was a greater hope than traffic development.

Mr. Symington: It bears on development of traffic mostly. Of course, when we start the four-engine operation across the country that will require a certain number of men to look after those planes.

Mr. Maybank: But it is 200 at the moment in Winnipeg. I suppose there are others in other places? How many?

Mr. Symington: At Dorval and so on.

Mr. Maybank: How many were laid off altogether in recent days?

Mr. Symington: About 300.

Mr. Maybank: What would be the length of employment of these men? Would some of them be there for a matter of weeks and some for a longer period, or are they mostly men who have been there for long periods? I know their employment would not exceed ten years; but are they men who have been recently employed?

Mr. SYMINGTON: Mostly about six months.

Mr. MAYBANK: One of these men, according to a newspaper interview, said that it had been indicated to him when he was employed that he was going to have steady work. Is there any background to that?

Mr. SYMINGTON: I cannot say that. I do not know whether anybody here can.

Mr. MAYBANK: Mr. English, I am sure, has seen what I am referring to. Without recalling or even attempting to recall the person—because I do not think that matters—Mr. English, I am sure, will tell you that it was recorded in the newspaper that they had been assured steady employment. Now, is there any background for that?

Mr. ENGLISH: No more than with any other organization. The fact of the matter is this, that most of these people—so many people are anxious to get employment with the T.C.A. They feel there is a future in the company. Some of them have left other jobs to come to T.C.A. But there has been no guarantee of employment to anybody in the country. We have no such thing as a contract with anybody. We give nobody a guarantee of steady employment.

Mr. MAYBANK: I know there is nothing like a contract, but I think that these people are complaining that steady employment was held out to them as a decided possibility.

Mr. ENGLISH: If that was held out to them it would be through their organizations and not through the company.

Right Hon. Mr. HOWE: Is it not true that in any kind of company you get what the traffic needs?

Mr. MAYBANK: Yes. I want to be sure that if there are fluctuations we can expect a movement the other way.

Mr. SYMINGTON: The more you are able to operate your planes and the larger number of hours they are in the air, the overhauling of them is much more frequent and you require your maintenance men to do that. It all turns on the amount of traffic and the use of the planes.

Mr. MAYBANK: In this case it is a question of maintenance because we are going to operate more and that calls for more employment?

Mr. SYMINGTON: Quite so.

Mr. REID: I wish to ask another question with regard to man-power. I understand that there was spent over $1,000,000 on non-revenue plane miles flown, and I take it that this had to do with the training of certain men. Now, realizing that it costs a considerable amount of money to train personnel, is there any agreement or bond requiring these men to stay with the company for any particular length of time? I know that when you lay a man off that is a different situation; he can hunt around and go somewhere else and find another job; but I am thinking of the expense involved in training personnel when a man may say, "I do not like your working conditions" or "I do not like your salary and I am going to work somewhere else"?

Mr. SYMINGTON: Yes, he can. We have not had any experience with men leaving, but they can go. We cannot tie them in any way that I know. They get their training. They seem to like that type of life because we have had few if any who have resigned.

Mr. REID: I am not saying you should do this; but there should be some responsibility that the nationally trained person should stay on the job.

Mr. Symington: We screen these people carefully; we learn their past history and what they have done; we learn all about them—their character and everything else is very carefully screened before they are taken on. Then when we take them on in the first stage of their training their habits, their thoughts and their methods of life are watched closely. If there is one fellow we do not think is going to stick why he goes out early before costing us any more expense—he goes out in the early time of his training rather than at a later time. I do not know how you can control the matter in any other way. That matter certainly has not caused us any trouble up to this time.

Mr. Emmerson: I would like to ask Mr. Symington if this reduction in staff at various points is due to any change of location of repairing? I noticed a statement in the Saint John *Telegraph* the other day that some 60 men would be let out at Moncton because the overhaul and repair work was to be transferred to Dorval.

Mr. Symington: There is some of that. For instance, our trans-Atlantic overhaul will all be done at Dorval. Of course, we offer the job at the place where the work is to be done. We do not fire somebody there and take somebody on without giving the other fellow an opportunity to do the work. However, while this line is in the stage of development and reaching maturity there will, of course, be switches of that kind. It depends upon the renewing of new planes, and the old planes. It is like the abandonment of the 170 mile railroad shops. There would be concentration of work at Dorval with respect to trans-Atlantic flying. On the other hand, we have considerably extended our maintenance and repair work at Moncton and at Toronto and at Vancouver, whereas it was nearly all done at Winnipeg before. We decentralized a good deal on that. These are the things you learn; and of course you have to have a certain number of frequencies in order to justify the setting up of a maintenance shop. These are things which turn on progress and change. You have to meet the conditions in a fast changing industry as they arise. I think, probably, that some of the men at Moncton would be offered positions at Dorval but would not want to leave and, therefore, a few of them—not many—would be out. That may be possible.

Mr. English: They would be all given the chance to move.

Mr. Hazen: If I followed you correctly, this large deficit was due to the fact that you did not get the planes in time for the new operations which you had in mind?

Mr. Symington: That contributed, but that is not entirely correct. I have not got through with my story.

Mr. Hazen: Oh, I beg your pardon.

Mr. Symington: I was trying to take the actual figures and show you our expenses and why they had increased; but as a contributing factor, a disappointing factor, I thought it would be a different financial year—I did not expect it would be so difficult because we had expected these planes in the peak times of the year and we did not get them.

Mr. Hazen: Perhaps I was interrupting you—

Mr. Symington: Not a bit.

Mr. Hazen: With regard to the planes you referred to and which you did not have delivered, were they DC-3's?

Mr. Symington: Yes, being converted.

Mr. Hazen: Being converted by Canadair?

Mr. Symington: Yes.

Mr. Hazen: Twenty-four of them?

Mr. Symington: Twenty-seven. We bought twenty-four in one lot. We had a chance to get them. The original three—

Mr. HAZEN: You got those in the United States, I think, last year. The twenty-four you had to reconvert?

Mr. SYMINGTON: Yes.

Mr. HAZEN: Have you got these others yet?

Mr. SYMINGTON: Yes, we have them now.

Mr. HAZEN: When did you get delivery of them?

Mr. SYMINGTON: They came off the line at various times. I will try to give you the dates. You see, Canadair had a lot of contracts for various countries all over the world and to do the business they had to give everybody an occasional plane just as they gave us an occasional plane. In July we got ten, in August we got five, in September we got two, in October we got five, in November we got one and in December we got one more.

Mr. HAZEN: Now, with regard to the operations that you had in mind, the operations that you intended to use these planes for, have you got those new operations going now?

Mr. SYMINGTON: Pretty much. We are not through expanding, because we have planes enough to expand. Let me give you an instance. We had anticipated, for instance, about those twenty-one passenger planes which can be run more cheaply than the fourteen.

Mr. HAZEN: The DC-3's?

Mr. SYMINGTON: Yes, replacing the Lockheeds. We expected to extend them from Toronto to Winnipeg on May 1. We did not extend and were not able to extend until September 15. We had intended to extend the route to Lethbridge in June and we did not accomplish that until December. That means that there were planes with great capacity, relatively, which would have carried more traffic and earned more money, and we had prepared all our internal structure for it.

Mr. HAZEN: Those are the two operations you had in mind for those twenty-four planes?

Mr. SYMINGTON: Well, there is the maritimes, for instance. We did not get the maritimes in until this year, and we had intended to put the DC-3's in the maritimes last summer.

Mr. HAZEN: You are writing these DC-3's off in three years?

Mr. SYMINGTON: Yes.

Mr. HAZEN: What is the reason for that?

Mr. SYMINGTON: The reason for that is that the DC-3 is, as aeroplanes go, an old plane. It was in use a good many years.

Mr. HAZEN: Did you not tell us last year that the DC-3 was the finest two-engine plane in the world?

Mr. SYMINGTON: I still think it is to-day, just as I said it was last year; but there are other planes that have actually been built that are coming in, which, as a matter of performance and cost, puts the DC-3 out of business. They are not yet flying. They will be flying some day, no doubt, and they will reduce the costs and will retire the DC-3 some day. The question is whether we will fly them in Canada or not. That is a very great question. Nevertheless, the advances in the art are very great. For instance, we ourselves have been experimenting with a two-engine jet that would put these planes completely out of business. Therefore, we consider it good business, not because of depreciation but because of obsolescence to depreciate those planes in three years. If those planes do come in and you are left with much poorer ones you are going to suffer accordingly.

Mr. HAZEN: Where are these new planes being built—in the United States?

Mr. Symington: In the United States—the Convair, the Martin 202 and the Martin 303. I never trust any manufacturer on what he says to me when he says he is going to do something, because those planes should have been flying a year ago.

Mr. Hazen: You did not anticipate them two years ago, did you?

Mr. Symington: Yes, we were following them day by day, but they would not have suited the Canadian situation. Here we had a chance to get twenty-four planes that would do the job and we bought them.

Mr. Reid: Mr. Symington, have you anything further to say, other than what has appeared in the press, regarding the loss of the T.C.A. plane recently?

Mr. Symington: Not a thing, sir. We know of nothing that could have been done that was left undone. We do not know the cause of the accident and probably we never shall. It has been a very harrowing experience.

Mr. Reid: No trace of any kind has been found of the plane?

Mr. Symington: No.

Mr. Hazen: How old was that plane which disappeared?

Mr. Symington: Five years.

Mr. Hazen: And how much experience did the pilot in charge have?

Mr. Symington: Oh, he had long experience. He had flown this same route continuously for 267 flights. He has been with the line a good many years.

Mr. Jackman: I suppose the engine was replaced several times in that period?

Mr. Symington: Oh, yes, a major No. 7 overhaul. You have practically a new plane.

Mr. Jackman: May I revert again to the matter of these lay-offs; 300 was the total number, was it not?

Mr. Symington: 300. I am not saying that there will not be more; it may not be at the same places; but in some places there may be more. After all, when you try to do things too quickly you over expand a little and men are not required and you have to let them go.

Mr. Jackman: What are the classes of employees that these figures embrace as well as mechanics? Are there any pilots who have been laid off up to the present time?

Mr. Symington: Well, we have stopped any more schools of pilots. We stopped the last training school of forty.

Mr. Jackman: You stopped the class and let them out?

Mr. Symington: Yes.

Mr. Jackman: You have not temporarily let out any pilots?

Mr. Symington: No.

Mr. Jackman: Does the pay of your reserve pilots, those who are not doing any work for you at the time, continue during the time of non-operation? I presume that you have reserve pilots, and if you have not let out any of the trained and experienced pilots do they get paid even if they are not flying?

Mr. Symington: Yes, they get paid the minimum. They fly fewer hours, that is all.

Mr. Jackman: Do they get paid a guaranteed wage plus so much per mile of flying?

Mr. Symington: They get paid so much for a certain number of miles.

Mr. Jackman: May I ask a question about the seasonal trend of T.C.A. business during the year?

Mr. Symington: The best months are May to October and the worst months are November, February, March and January.

Mr. EMMERSON: Is that due to weather conditions?

Mr. SYMINGTON: That is due to weather conditions partly. People do not want to travel—of course, there were the accidents in the air this winter and they made a great difference. If the day is cloudy people may decide not to fly. It gets so that the business goes up and down with the weather.

Mr. JACKMAN: Would you get twice as much traffic during May and October as you do the balance of the year?

Mr. SYMINGTON: At present, yes. Whether that will continue, I do not know. We hope that our ability to go above trouble, and the better landing devices which are being put in will be the answer. As a matter of fact, I should think winter is a better time to travel by air than summer except in certain stormy areas, but it is a matter of the public learning that is probably just as safe a time to fly as any other time.

Mr. JACKMAN: What have you done about fares?

Mr. SYMINGTON: Fares have been increased on April 1st by 10 per cent both in the United States and Canada.

Mr. JACKMAN: April 1, 1947?

Mr. SYMINGTON: Yes.

Mr. NICHOLSON: Discounts on credit cards are off, too?

Mr. SYMINGTON: Yes.

Mr. NICHOLSON: The 10 per cent is in addition to that, is it?

Mr. SYMINGTON: With the discounts being off and the shorter distances it amounts to about a 10 per cent increase over all. Every specific one may not be 10 per cent, but over all it is about 10 per cent.

Mr. REID: You may have explained this, but what development is going on at Goose Bay, Labrador? I see that you have gone into the hotel business there, and that you are operating a flight which is for personnel and contractors. That must cost considerable money.

Mr. SYMINGTON: There is a big operation there militarily. Of course, it is on the great circle, and foreign air lines and American air lines land there, some by choice and some if Gander is out, but it is being used quite a lot by commercial air lines.

Right Hon. Mr. HOWE: There is a community of about 4,000 or 5,000 people that has to be served.

Mr. REID: I am wondering if it was incumbent upon T.C.A. to go into the international hotel business and operate a hotel there?

Mr. SYMINGTON: What happened in this case was that it was a pure matter of saving money. For instance, at Gander we all joined in and it is run by Newfoundland. All the air lines contribute so much at Gander. At Goose Bay there was nothing but Canada and the other air lines said to us, "This is a rotten situation here; something has got to be done about it. It is in your territory." That is what the members of IATA, the International Air Transport Association, said to us. The department felt as we had some experience in feeding passengers, and so on, that we should take one of these buildings and be prepared to give meals to a passenger plane when it comes down there. We are guaranteed against any loss by the department.

Mr. REID: It probably should not be chargeable to T.C.A. at all?

Mr. SYMINGTON: It is not a service we are looking for particularly, but in the joint interest somebody had to do it, and as we are guaranteed against any loss in it in the international picture we decided it was up to us.

Mr. REID: Is it a large hotel that was built there?

Right Hon. Mr. HOWE: It is an old building.

Mr. SYMINGTON: Just an old building.

Mr. HAZEN: Who guarantees the loss?

Right Hon. Mr. HOWE: The International Air Transport Association.

Mr. JACKMAN: What was the load factor last year compared with previous years?

Mr. SYMINGTON: 76 against 84.

Mr. NICHOLSON: For several years a flight between Toronto, Sault Ste. Marie, Port Arthur and Winnipeg has been promised. I see it is definitely promised for 1947. Have you any idea when that service will commence?

Mr. SYMINGTON: Again I should like to see everything signed on the dotted line before I make an announcement. I may say I have had an announcement which my people have wanted to make for some time that it would start on July 1st. I am pleased to say I think it will. In these matters of external affairs international negotiations seem to be unending. As you know we had to negotiate for the right to land at Kinross Field, which was an American field on which there seems to have been some dispute between the state and the military and the civil aviation departments in Washington. In addition to that we wanted an emergency field near Houghton in the peninsula of Michigan, and we had to make an agreement with the United States. Agreements have been signed. I am told by Mr. English this morning that at Kinross everything is ready now except a marker which Mr. Howe has promised to rig up for us, and I think an announcement will definitely come that it will start on July 1st.

Mr. NICHOLSON: How about the service between Winnipeg, Saskatoon and Edmonton?

Mr. SYMINGTON: Perhaps Commander Edwards can tell us when the Saskatoon air field will be ready. We have been waiting for that for quite a time. We want to run that one.

Mr. NICHOLSON: Is it proposed to include Yorkton on that service?

Mr. SYMINGTON: No, Yorkton is not on the line now, not to start with, anyway.

Mr. NICHOLSON: And it is proposed to give service to Medicine Hat and Swift Current?

Mr. SYMINGTON: We are going to stop our regular two engine operation at both Swift Current and Medicine Hat starting the 1st of July.

Mr. NICHOLSON: Are Brandon and Portage on that?

Mr. SYMINGTON: Brandon is on it but there has got to be a little lengthening of the field. Then it will be on it.

Mr. NICHOLSON: How about Moose Jaw?

Mr. SYMINGTON: No, it is too close to Regina and Swift Current. You cannot put planes up and down too continuously. You can motor in.

Mr. REID: My question has to do with the Trans-Atlantic service. Do the Trans-Atlantic flights pay?

Mr. SYMINGTON: I will tell you about that a little later at the end of the year. I sincerely hope it will pay. It has not paid on the American lines as yet. As you know we have constructed or helped to construct a plane that we think is better suited for that operation and for the potential traffic than any other.

Mr. REID: Why were the rates reduced?

Mr. SYMINGTON: The rates were reduced because the majority of the air lines wanted them reduced. They said they were too high. This reduction was approved by the various boards of the various countries. Personally I would not have reduced them, but perhaps I am wrong. Perhaps they were too high to induce traffic but, at any rate, we are members of an organization where the majority took that view and they were accordingly reduced. I may say the operation is going very well. We carry full loads westbound and very good loads eastbound. In fact, we are reserved up to almost the end of the year westbound.

Mr. MAYBANK: What is the percentage eastbound?

Mr. SYMINGTON: It runs this way. Some days there will be a full list, and perhaps the next day there will only be seven or eight. It varies a bit, but it is better than we expected. We have not really gone after it very hard yet, but we are educating the people as fast as we can.

Mr. REID: You are still landing at Prestwick?

Mr. SYMINGTON: Oh yes, we land at Prestwick.

Mr. JACKMAN: Did the reduction of the Trans-Atlantic rates stimulate traffic at all?

Mr. SYMINGTON: It is hard to tell so far as we are concerned because we only had 10 seats in the old planes, and we did not lower the rates until we brought these new planes in. Whether or not it has increased I do not know. Traffic last year from United States points was bad eastbound, particularly following the crashes they had. It is coming up and is surprisingly good now, about the same condition as here. When the weather is good their people seem to want to travel.

Mr. NICHOLSON: When eastbound passengers buy a return ticket what do you do about westbound passengers?

Mr. SYMINGTON: We give them a westbound reservation.

Mr. NICHOLSON: At what period?

Mr. SYMINGTON: They have got to name the time.

Mr. JACKMAN: But you guarantee it?

Mr. SYMINGTON: Yes, we cannot take people over there and leave them there.

Mr. HAZEN: Is T.C.A. operating its own Trans-Atlantic service now?

Mr. SYMINGTON: Now it is.

Mr. HAZEN: When did it start?

Mr. SYMINGTON: We put on the new planes on April 15th. Either that date or May 1st will probably be the starting date, but Trans-Canada Atlantic Limited is now operating the North Atlantic service and not the government.

Mr. EMMERSON: What type of plane?

Mr. SYMINGTON: A plane that is called the DC-4 M-1.

Right Hon. Mr. HOWE: Do not call it that. Call it the North Star.

Mr. SYMINGTON: It is a plane built by Canadair in Canada for the purpose. It is our four engine plane.

Mr. EMMERSON: You are getting sufficient deliveries of that plane?

Mr. SYMINGTON: We have got deliveries of the first type of it. The final plane we will not get until July.

Mr. NICHOLSON: How many of them have you in the Atlantic service?

Mr. SYMINGTON: We have four in the Atlantic service now.

Mr. MAYBANK: North Star is the name of the type that Mr. Howe and others came across Canada in a while ago?

Right Hon. Mr. HOWE: That was the prototype.

Mr. MAYBANK: That was the prototype?

Mr. SYMINGTON: Yes.

Mr. MAYBANK: I had the idea at that time you were aiming at the use of that across country?

Mr. SYMINGTON: We are. One of the things in the planning of it was that it was useful for the North Atlantic and for across Canada to have as far as possible the same equipment. It gives us greater flexibility to keep them in the air longer.

Mr. MAYBANK: You will have North Star in use across Canada?

Mr. SYMINGTON: Yes.

Mr. NICHOLSON: No trouble about crossing the mountains with it?

Mr. SYMINGTON: No. That plane will go 25,000 feet on three engines and it will go up to 28,000 on four engines.

Mr. REID: I wonder if the minister would care to say something about the Sea Island airport. I have in mind if that change is made that probably it will cost T.C.A. more if that airport goes back to the city.

Right Hon. Mr. HOWE: No, the rates are fixed. We have gradually worked out a new scale of rates for all airports on which we hope to standardize.

Mr. REID: The government still owns the Sea Island airport under an agreement with the city of Vancouver?

Right Hon. Mr. HOWE: No, the present situation is that the city is operating at our expense which is a very unsatisfactory arrangement to us.

Mr. HAZEN: What did these four DC-4 M-1's cost?

Mr. SYMINGTON: They cost $660,000 apiece.

Mr. HAZEN: If I may revert to the DC-3, I think it was, that disappeared last April on the Pacific coast, what was the value of it?

Mr. SYMINGTON: Which?

Mr. HAZEN: Was it not a DC-3 which disappeared?

Mr. SYMINGTON: That was a Lodestar.

Mr. HAZEN: What value did you place on that machine?

Mr. SYMINGTON: It was depreciated down to nothing, three or four thousand dollars. It was a five year old machine that was depreciated out.

Mr. JACKMAN: How did the load factor of 76 of the T.C.A. compare with transcontinental lines in the United States or comparable lines?

Mr. SYMINGTON: I would think it is a little below, but I am not sure. I have some notes here on that. They have had the same experience. I cannot give you the exact figures. Perhaps I can. The average for United States air lines was 81·7 per cent, and that varied from 73 up to 86. They have had the same experience as we have. Capacity was greatly increased and the load factor did not keep up with the increased capacity. Of course, that is the difference between profit and loss. I gave you the November figure. The year end figure for the United States lines is 78·74.

Mr. JACKMAN: That is for the twelve months?

Mr. SYMINGTON: That is for the twelve months. Here is the kind of thing that goes on. I have here the last issue of *Aviation News* which is a part of the bible. The heading is "Domestic air line traffic gains as operating losses mount, $17,000,000 deficit registered for the first two months of 1947." Although they have carried upwards of 25 per cent more passengers in the first two months of 1947 than in 1946 an unprecedented $17,000,000 operating deficit has been the result. Under their system the post office is supposed to grant mail rates which give them a fair operating profit over all. All lines are making applications to the C.A.B. to increase their mail rates. Mr. Tripp, who is head of the Pan-American, which is considered a very great line, before a committee at Washington on May 5, said that Pan-American will require mail pay of $22,000,000 if it is to maintain its credit position. All air lines are applying for increased mail rates. When you come to look at our results, as I said, they really are not quite as bad as they look although they are disappointing. We have, at any rate, to some extent saved the country or the government far more than our deficit. In other words, had we not—and I blame myself for it—made the new postal arrangement that we made the post office if they had paid for the miles run would have had to pay us $2,000,000 more last year than they did. However, the agreement was changed because the post office very properly said, "If we have got to pay on mileage we are going to have some say in how many miles you run." We did not think that was the way to run an air line but, as a matter of fact, if we had not made that new agreement the post office would have had to pay us on a mileage basis $2,000,000 more last year than we were actually paid. Then, our insurance fund has grown by $400,000 during the year, and our depreciation is very large, so that by and large taking the operation as a whole, while nobody hated a deficit more than I did—it is the first one —fortunately we had a surplus to meet it. The operation was much better than most air lines I know of in results.

Mr. McCulloch: Do you carry your own insurance?

Mr. Symington: Yes.

Mr. Hazen: If you had got your planes when you expected them and had got these new lines established do you think you would have had a deficit then?

Mr. Symington: I cannot say. That, of course, all depends upon how many people are going to travel. We think they would have travelled but we may be wrong. Travel was interfered with very greatly by the accidents that happened all over the world in the latter months of that year. We think we would have. I do not say we would have filled them all, but I think we certainly would have had a good deal better showing if we had not spent our money making training changes for them, and secondly if we had got the planes.

Mr. Nicholson: If you had carried as much mail as you did in 1944 what difference would that have made even at the new rates?

Mr. Symington: If we had carried as much it would have meant $470,000.

Mr. Reid: If the postal authorities decide to carry the great bulk or all of their mail by air can you take care of it?

Right Hon. Mr. Howe: That decision has not been made yet.

Mr. Symington: Could we take care of it? We think we can, particularly with the four engine aircraft coming in, and we certainly think that with the capacity we have now that we should be handling all the first class air mail that can be advanced by using the air.

Mr. Nicholson: How do you account for the falling off in the use of air mail in 1945 and 1946?

Mr. Symington: I do not know. Some people say that the pick-up and delivery service does not justify sending by air mail. The post office would not agree with that, and I am not getting into any dispute with them, but the fact is that people are not using air mail as much as they did. I do not know why. We advertise, and so on, but they are not using it as much as they did, as you can see from the figures.

Mr. Jackman: How is it working out in the United States as far as air mail?

Mr. Symington: Relatively the same.

Mr. Jackman: They are all down?

Mr. Symington: All down.

Mr. Maybank: Falling off there, too?

Mr. Symington: Falling off there, too, yes.

Mr. Jackman: Their air mail postage rate is less than ours?

Mr. Symington: A cent less. They put it down to 5 and are putting it up to 6 again. When they put it down to 5 it seemed to result in an increase, but apparently it did not last. At least, the post office people here tell me it did not last.

Mr. NICHOLSON: They had it at 8 cents in the United States. When did they reduce it from 8 cents?

Mr. SYMINGTON: They reduced it to 5 cents last year.

Mr. JACKMAN: You do not feel anything is to be gained by adjusting the postage rate on air mail?

Mr. SYMINGTON: I would not like to say that. In fact, I rather advocated that. In view of what I am informed about the United States perhaps I should not have advocated it, but I should like to have tried it. However, I do feel with the capacity we now have to carry mail and express that we should be carrying a great deal more mail than we are because a balanced load is a great thing in an air line. We have got so many conditions against us in Canada for a balanced load that we have all got to work together to get it.

Mr. MAYBANK: For the benefit of the post office I should like to say that in my experience a great deal of the air mail service from Winnipeg to here and back again over the last year and a half has been very poor. Over and over and over again I am getting letters which have saved very little time by coming by air mail. It may be they were not posted at the right time. Maybe they come in here and lie around after they get here. I do not know, but I often feel that it would be just as well for me to drop a letter in the box to catch the train out of here in the neighbourhood of 10 o'clock, especially if it is to a business firm in Winnipeg where delivery is more frequent than to a residence. I do not know whether there is anything the post office can do about that, or whether that is singular, but I have correspondents writing to me, and I think they are wasting quite a little bit of money on air mail stamps.

Mr. REID: It is strange that the opposite is the case to the Pacific coast.

Mr. MAYBANK: I should think that would be the case there.

Mr. REID: It is not unusual to post a letter on Monday morning and have a reply by Wednesday evening. I consider that very good service.

Mr. JACKMAN: May I ask how the rate paid by the post office to T.C.A. compares for similar distances in the United States?

Mr. SYMINGTON: You have asked that question each year.

Mr. JACKMAN: Things change so much that I want to be brought up to date.

Mr. SYMINGTON: It is very difficult to give an answer because some lines are considerably below us and other lines are considerably above us. When they do things over there they certainly do them properly, because they have been granted mail increases retroactive amounting to several millions of dollars in the United States in the last few months. For instance, C. and S. got 95 cents an airplane mile which is three times more than we get. That is Chicago and Southern. Pan-American have asked for $11,629,370 back pay in air mail rates.

Mr. JACKMAN: Is there any uniform measure, plane miles flown per hundred pounds, or what is the unit they are using now?

Mr. SYMINGTON: Some are given mileage and some are given pound miles. They treat each one in accordance with its necessities.

Mr. JACKMAN: You cannot make a comparison?

Mr. SYMINGTON: You just cannot make a comparison, but I will say that as to the great transcontinental lines they do carry mail cheaper than we do.

Mr. JACKMAN: That is on a basis of plane miles flown?

Mr. SYMINGTON: They carry mail cheaper than we do no matter what the basis is.

Mr. JACKMAN: What is their unit?

Mr. SYMINGTON: They carry on the same basis we do, a pound mile basis, except they have a minimum.

Mr. NICHOLSON: I notice in connection with the Trans-Atlantic service no scheduled flights were cancelled during the year. That would appear to be a very good record. How long have you been able to maintain that sort of record?

Mr. SYMINGTON: That was quite an extraordinary service, speaking of 1946. Mind you, they did not all arrive on time, but they were not cancelled. It was a very flexible service whether we went by Iceland or by the Azores or whether we came straight across. That plane, as opposed to most of the planes, has very great altitude performance, just as our new plane has. It was able to get over trouble. It was an expensive plane to fly, of course, being a military plane, but its performance was really remarkable. In fact, it was the performance of that particular engine that attracted our attention to what eventually evolved into the North Star.

Mr. REID: Having travelled over the route more by land than by air, is it only 281 miles from Regina to Vancouver?

Mr. MAYBANK: Where did you get that?

Mr. REID: That is on page 8.

Mr. MAYBANK: Maybe that is Regina, British Columbia.

Right Hon. Mr. HOWE: That is the extra mileage beyond Calgary.

Mr. SYMINGTON: The ordinary run is from Regina and Lethbridge, and we put in one from Calgary. It is badly expressed but I think that is the distance—

Mr. EDWARDS: It is the extra distance added.

Mr. SYMINGTON: Added on going by Calgary.

Mr. REID: I notice that the interest on the capital invested was $230,000 in 1945 and nothing in 1946.

Mr. SYMINGTON: I will explain that to you. It does look rather funny. It was a rather funny operation. Under the original T.C.A. Act we had a guaranteed mail rate, and there was a clause which said that the interest on the money which the railroad advanced to the air lines was to be paid as an operating expense. In the changing of the Act the guarantee went out. The C.N.R. was the only shareholder, and that clause with respect to making interest payable as an operating expense went out. The only way we could pay that interest was by declaring a dividend. That advanced us no money. It is purely a stock holding, so we had to pay them their interest by way of a dividend. We declared a dividend of $158,000 which was the actual interest on the money they had in stock.

Mr. JACKMAN: You are not afraid of going to jail for declaring that dividend on last year's results?

Mr. SYMINGTON: I do not think so. We had an earned surplus.

Mr. REID: I see that you say in your report that passengers carried increased by 67 per cent. Why would the percentage of passenger occupancy drop down?

Mr. SYMINGTON: Because we had more than twice the seats. We put on these larger planes and there were more frequencies.

Mr. EMMERSON: If the percentage of occupancy had remained at 83 instead of dropping down to 76 what would have been the financial results?

Mr. SYMINGTON: Oh, we would have made money. It is the top layer that counts.

Mr. JACKMAN: As to that dividend why did you want to pay that dividend when your working capital position is so adverse?

Mr. SYMINGTON: I do not see any reason why the Canadian National Railways should furnish us money for nothing. It was a perfectly proper and legal thing to do so I did it. Whether or not we have got to get the Act changed I do not know, but I do not think I want to present a statement to you or the country of the operations of this line if it is tied to a sacrifice by the Canadian National Railways financially because to my mind it would not be frank statement. I have told you we paid the railway interest upon the money that they have in this line at the rate which it cost them, and therefore they are not the loser, and it was to provide a better statement.

Mr. JACKMAN: With current assets at $4,365,000-odd and current liabilities at $5,475,000-odd, it is a little hard to understand, judging by what private business would have done, why you paid money out to your shareholders.

Mr. SYMINGTON: The current liabilities are largely accounts payable on capital account. At any rate, I did it, Mr. Jackman, and I think it was the right thing to do; and if you find me a surplus next year, of course, we can do it again.

Mr. MAYBANK: And about this criminal charge which has been suggested, I suppose you can defend yourself on that?

Mr. JACKMAN: I did not say there was a criminal charge.

Mr. SYMINGTON: If you have an earned surplus you can pay a dividend. It may not be wise; but I agree—

Mr. JACKMAN: I would think it would be unwise to pay it out. In fact, must you not balance your current assets against your current liabilities calling for a further subscription on capital stock?

Mr. SYMINGTON: Absolutely.

Mr. JACKMAN: I do not want to interject politics into this, but it seems to me that you are paying out a dividend which sound ordinary business prudence, in my humble judgment, would indicate you should not have done, and then you would have turned around, on the other hand, and asked for an appropriation to put in more money on capital account.

Mr. SYMINGTON: Yes. It is not for the purpose of paying dividends, but for capital account.

Mr. JACKMAN: You would have to ask for much less money.

Mr. SYMINGTON: No, I would not have done that.

Mr. JACKMAN: If you had been running this as an ordinary business concern, without the public coming into it, or the government, would you have paid the dividend?

Mr. SYMINGTON: I might have; but naturally what I would have done was not use all my money to buy capital equipment; I would have borrowed money at the bank.

Mr. JACKMAN: Then you certainly would not have paid a dividend because the bank would not have let you have the money.

Mr. SYMINGTON: I would have paid interest upon the money invested. This change took place in the middle of the year and the Canadian National Railways had put up $5,000,000-odd or whatever it was, and they got interest at 3 per cent on that money from Trans-Canada Air Lines.

Mr. REID: Have you any intention of going into the Pacific with air flights?

Mr. SYMINGTON: You mean to Australia?

Mr. REID: Yes.

Mr. SYMINGTON: Yes, it is going on. It all depends upon when we get our new planes. As far as I know the idea of running parallel operations with Australia will be carried out. That is as far as I know as an operator; I do not know about the policy. I have no reason to doubt that.

Mr. MAYBANK: I was wondering whether we might be able to complete this morning rather than to go on with another meeting. We have gone over this statement about as fully as we can, and I would like to move the adoption of the report.

Mr. JACKMAN: It is a litttle early, Mr. Maybank. The total miles flown last year increased 39 per cent, yet your operating revenues increased 22 per cent. You have given us an explanation, but how does one explain these figures? Your mileage flown increased 39 per cent over the previous year.

Mr. SYMINGTON: I will give you the answer. Our revenues, except mail, increased 44 per cent. It is all in the loss of mail revenue.

Mr. JACKMAN: You really cannot complain about the mail contract; the relations between the Post Office and the T.C.A. have not been unfair to you in any way?

Mr. SYMINGTON: I do not care to comment, but if you think we have been geeting any of the best of it, get that out of your head, because they are tough dealers. Certainly there is no air line that I know that has to deal as hard as we have in this respect. I had the president of the Central African Railways in to see me the other day and we started to discuss air mail rates—there are three South Africans over here just now—and why, goodness gracious me, they get paid by the Post Office rates that would make my mouth water. We do not approach them and they think that their Post Office makes money out of the arrangement, and they only have two-cent postage. When you see, according to their own statement, that Pan American have to have $22,000,000 a year for mail to maintain their present position; when you see all the applications that are being made; when you see as I see here in English Hansard where they have had a subsidy of £10,000,000 and on February 15 for a month and a half they had to pay a supplementary subsidy of £810,000 for the B.O.A.C.—compare figures like that with what we are doing here and with the amount of money it costs us, good gracious this line, as I see it, has saved this country millions of dollars. You will find Mr. Tripp, in arguing for his international line in the United States last week, telling the United States government that if they did not do that they would have to pay $100,000,000 in subsidies. Now, we have not cost the government of Canada one cent up to date. I do not say that that will continue, but we have not cost this government one cent in the operation of this line for seven years.

Mr. JACKMAN: May I ask a general question? What does the T.C.A. do, if anything, to help the small feeder lines? Is anything done to encourage them, or are they of any use to you?

Mr. SYMINGTON: I say that they all get our advice wherever we can give it. Certainly, our relations with them are excellent. We are the people they come to for advice.

Mr. JACKMAN: Do you have any definite policy in regard to some of these independently operated small lines?

Mr. SYMINGTON: Nothing except to encourage and help them all we can.

Mr. JACKMAN: What do you do?

Mr. SYMINGTON: Well, we give them advice—the most valuable thing we can give. We tell them how to organize a line and which are the best aircraft places.

Mr. JACKMAN: You definitely go out of your way to encourage them, do you?

Mr. SYMINGTON: Absolutely, yes.

Mr. NICHOLSON: On the basis of your operations for the first four months of 1947 what would be your position at the end of the year? Is that position forecast?

Mr. SYMINGTON: I cannot forecast it. There has been a loss in the first three months which is levelling out now. I think we can make it up, but I do not know. It depends upon whether the public fill our planes.

Mr. NICHOLSON: I thought you were rather pessimistic.

Mr. SYMINGTON: The experience of the past year and what is going on in other parts of the world makes us most careful about making statements about what will happen in the future.

Mr. HAZEN: I am sorry. I did not hear Mr. Nicholson's question. In the report of the directors of 1945 you said that until patronage on this new service was built up over the next few years the company will experience a difficult financial period.

Mr. SYMINGTON: Quite so.

Mr. HAZEN: Your report shows that you have had a difficult time this year—a large deficit.

Mr. SYMINGTON: Yes.

Mr. HAZEN: Now, looking ahead for next year, are you in a position to make any statement? The C.N.R. always submit a budget for the coming year's operations. The T.C.A. has never submitted a budget.

Mr. SYMINGTON: No. We show our capital expenditures, but I cannot prophesy. I think this year will also probably be a tough year, I do not know. We will wait and see. We have lots of capacity to be filled. If we fill it we are all right. Until we do we are going to have a difficult financial time.

Mr. HAZEN: In view of your experience this year do you propose to make any changes in your plans?

Mr. SYMINGTON: No, our plans are pretty largely completed. There are still things to be decided, of course, in connection with four engine operation, but we have got enough equipment. We want to keep them in the air. We will keep them in the air as long as we can get the people to give us the load factor, and if we can get, as we are pressing very hard to get, mail and air express. I think that will grow as we have more equipment. I think people will travel more when they know there are seats, but I would not like to prophesy at all what will be the financial results this year.

Mr. HAZEN: On page 6 of your report you say that more ticket offices were provided.

Mr. SYMINGTON: Yes.

Mr. HAZEN: Whereabouts were they?

Mr. SYMINGTON: They were provided for all the new lines we opened. There was Chicago, Cleveland, Victoria, Seattle. Since then we have opened up in Boston on April 1 of this year. We opened up in Duluth. We opened up in Port Arthur. We had to open ticket offices in all those places.

Mr. JACKMAN: Do you run those ticket offices in the United States along with the C.N.R. ticket offices?

Mr. SYMINGTON: No. We did in New York, but they sold the building, and now we have our own offices.

Mr. JACKMAN: Just how does T.C.A. in the United States keep clear of the refusal of the United States government to allow railways to operate aircraft companies? Do I make that plain?

Mr. SYMINGTON: Yes. They look on it that the government is operating it. I suppose that is the answer.

Right Hon. Mr. HOWE: The answer is that by agreement between the United States and Canada Canadian operations in the United States come under Canadian law and American operations in Canada come under United States law. That is part of the international agreement on aviation.

Mr. JACKMAN: There is no difficulty, anyway.

Right Hon. Mr. HOWE: No.

Mr. JACKMAN: You are renting air force hangars at Edmonton and Toronto. May I ask what the cost of those is?

Right Hon. Mr. HOWE: There is a regular scale of hangar charges. I might say the Department of Transport have been stepping up their revenue from their airports. They put in a standard scale of hangar charges and standard scales of landing fees recently which all air lines pay.

Mr. JACKMAN: You are the sole users of those hangers at Edmonton and Toronto?

Right Hon. Mr. HOWE: Certain hangars, but generally speaking hangars are a public facility people pay for by a standard scale of fees.

Mr. JACKMAN: Is there a rental fee? I might also point out that in Montreal T.C.A. acquired two large hangars previously used by the R.A.F. Transport Command. That service is not operating now at all?

Mr. SYMINGTON: No.

Mr. JACKMAN: It was not taken over by B.O.A.C.?

Mr. SYMINGTON: They were built by Canada for the R.A.F.T.C. to use them. They were always the property of the Canadian government, all hangars at Dorval.

Mr. JACKMAN: Whom did you pay, the Department of Transport?

Mr. SYMINGTON: Yes.

Mr. JACKMAN: May I ask how much that was?

Mr. ENGLISH: We bought them from War Assets.

Mr. SYMINGTON: I can let you have that figure. We bought them from War Assets.

The CHAIRMAN: Are there any other questions?

Mr. HAZEN: Yes, I would like to ask one or two more questions, but it is 1 o'clock.

The CHAIRMAN: If the committee is agreeable we will come back at 4 o'clock.

The committee adjourned to meet again this afternoon at 4 o'clock.

AFTERNOON SESSION

The committee resumed at 4 p.m.

The CHAIRMAN: When we adjourned at 1 o'clock I think Mr. Hazen was ready to ask some questions.

Mr. HAZEN: On page 10 of the report near the foot of the page it says:

"Service between Halifax, Saint John and Boston will begin in April, with a stop at Yarmouth."

Mr. SYMINGTON: Yes.

Mr. HAZEN: Was that service inaugurated?

Mr. SYMINGTON: Yes, it started the first of April.

Mr. HAZEN: Is it daily or weekly?

Mr. SYMINGTON: It is daily, two flights a day, and it also goes to Penfield. It stops at Yarmouth now.

Mr. HAZEN: Does it go from Boston to Halifax and then to Saint John or Boston, Yarmouth, Halifax and Saint John?

Mr. SYMINGTON: Boston, Penfield, Yarmouth, Halifax.

Mr. HAZEN: Does it return the same way?

Mr. SYMINGTON: Yes.

Mr. HAZEN: Halifax, Yarmouth, Penfield and Boston?

Mr. SYMINGTON: Yes.

Mr. JACKMAN: As to this proposed Bermuda line, will that be seasonal?

Mr. SYMINGTON: It will have to be continuous, but there will be more frequencies according to the season. Of course, it largely depends on the extensions to the other islands south. I would expect that route will run more flights to Bermuda, a lesser number down through the West Indies, and a still lesser number perhaps on to Brazil if we go there.

Mr. JACKMAN: When you take on a schedule like that do you have to undertake with an international board that you will maintain a certain schedule?

Mr. SYMINGTON: No, all we have to undertake is to maintain a schedule that will carry the people.

Mr. JACKMAN: The traffic offering?

Mr. SYMINGTON: The traffic offering, and that is with Bermuda. It is not with anybody else. It is all between Bermuda and ourselves as far as that is concerned.

Right Hon. Mr. HOWE: There is one thing we have to face in these routes. The Montreal London service will probably pay its way, but when you get far afield carrying the flag down to South America and out to Australia you have got to face a subsidized operation there, at least in the early stages.

Mr. JACKMAN: Which flag is this?

Right Hon. Mr. HOWE: The flag of Canada.

Mr. JACKMAN: Since the committee rose I had a discussion with one of the members from British Columbia. While I am not one to raise the question of lowering rates when the line is not paying he informs me that on fruits and flowers, especially the early season fruits, the rate on the T.C.A. from the west to the east is, to use his words, about three times the comparable rate in the United States. Have you had any experience along those lines?

Mr. SYMINGTON: No, I do not think we have carried any fruit. We have carried lots of flowers at Easter, Mothers' Day and that sort of thing. We are at the very start of our freight business. We are feeling around to see what is available. We are discussing it with the various merchants' associations, retailers, wholesalers, and so on, trying to lay out plans which are based, of course, upon the capacity of the planes to carry the stuff. That depends on the amount of mail and express we get, and then the cheaper commodity or freight. The rates have not been finally fixed. We have not any set organization. We are simply in the first stages of the development of that business which we hope will be quite material. When you compare United States rates they are, of course, in a terrible state. They are absolutely ruining themselves because they have allowed non-scheduled organizations without number to fly cargo freight, and so on. One by one they are all losing the $100,000 they put into that. They are just going down that way, and ultimately the regular lines are going to do the business. In my discussions with them down there they said they had got into such a mess they had decided they would let nature take its course, and if people wanted to lose their money they would have to let them lose it. Of course, you are always up against charter operations, uncontrolled, unscheduled operations because the standards of them, the care of them, the requirements and the regulations are much less stringent than they are on the scheduled commercial air lines. Their rates are by guess and by God. One man will come along and say, "I will take this plane load of strawberries for you for $500." Probably it is worth $3,000. That is the way business is being done over there just now. We do not get into that, thank goodness.

Mr. JACKMAN: Of course, we do not allow independent operators to run on the main lines and carry cargo?

Mr. SYMINGTON: Which?

Mr. JACKMAN: We do not allow independent operators even if there are cargoes.

Mr. SYMINGTON: Not on the line from Toronto to Chicago because for all purposes that has been given to T.C.A. under agreement, and nobody else.

Mr. JACKMAN: Let us say from Ottawa, Toronto or Montreal to Vancouver. An independent man cannot operate a cargo plane, can he?

Mr. SYMINGTON: No, not without getting special permission from the transport board. Of course, the facts are that there has not as yet been in Canada any such thing as a full cargo offering except for some lobsters which they tried to send to Boston—which we are dealing with now—and on which the claims exceeded the freight. They have got to be alive, and whether they were delivered dead or arrived dead it was not a very satisfactory operation. The other is blueberries which is just a two or three week operation. As to across Canada there never has been cargo freight that I know of, and I really do not know where it would come from. I do not think that is the answer. I think the answer is a balanced load of a certain amount of freight which is surplus tonnage, and therefore entitled to a lower rate after you take care of your passengers, mail and express.

Mr. HAZEN: Did you say you had carried lobsters to Boston?

Mr. SYMINGTON: We did not. We are studying it very hard now with them down there, but a Boston firm did go up and do it last year and they suffered very severely. They claimed, of course, that the lobsters were dead when they were given to them, but the shipper claims they were killed between there and Boston. Apparently they sell lobsters for acceptance on delivery. They got down there and if one of them was dead, even though he had been dead only a minute, that was out. The claims were very severe.

Mr. JACKMAN: I had a complaint from a man who said he was deplaned at Lethbridge, I think it was, for a cargo of Easter lilies.

Mr. SYMINGTON: I know the gentleman to whom you refer very well.

Mr. JACKMAN: He told me he had spoken to you.

Mr. SYMINGTON: His main object in life is to send me telegrams in the middle of the night to get me out of bed to say he is at some airport or something else. He seems to think that goes with running an air line. I wrote him a full explanation which was quite satisfactory to me.

Mr. JACKMAN: Is it the policy of the line to deplane people for express shipments?

Mr. SYMINGTON: No, it is not the policy of the line to deplane people for shipments, but it is the policy of the line to do business in the most economical and best way to make money and not have deficits. What happened was that last year when we put on an extra flight no flowers appeared. This year a great many flowers appeared. However, that was all right. We could take care of them. When we got to Lethbridge the clouds had fallen at Regina and we could not stop. The result was that it had to be decided whether we would deplane 800 or 900 or 1,000 boxes of flowers which would all perish and make us subject to very severe damages or would we ask four passengers to wait three hours for the next plane. Our men there decided to ask the passengers to wait. The gentleman to whom you refer is pretty hot-headed and impetuous. He decided not to wait and took the train to Calgary and got home three or four days late. The other people followed the advice and got the next plane and got home on time or not very much behind time. The funny thing about the operation of this line—I suppose it arises out of the dispute between public and private ownership but that should not interfere with the ordinary operation of a line—is that some people seem to think it gives them the privilege of badgering me all night because I happen to be the head of a public line. I do not see it that way. It is very annoying to have people call me up that they are deplaned at Ottawa, we will say. They will say, "All they will give me is a lower in Toronto. What are you going to do about it? Put on an extra car." This is five minutes before the train leaves. I have got out of bed to do that sort of thing. It is very annoying and very inconsiderate, and one of the gentlemen who likes to do that is your friend.

Mr. JACKMAN: I am not so sure from your description it is the same man.

Mr. SYMINGTON: I think it is.

Mr. JACKMAN: Perhaps you might tell us why the C.P.R. air line seems to have done fairly well last year. I understand they changed a loss into a profit.

Mr. SYMINGTON: I will tell you quite readily why they did it, and very creditably too. They decided they would not run too many scheduled commercial air lines. On what few they kept they lost money. They made that money by charter. There was a large development in Labrador, a large development in the northwest territories, a big contract for mapping, and they have done a good job.

Right Hon. Mr. HOWE: There was a little more to it than that. They got rid of the lines that required the operation of floats which are more economically done by smaller operators and confined themselves to three types of airplanes, all on wheels. There was a reorganization of the operation. It was made much more efficient, and today they have an operation that can be operated profitably.

Mr. JACKMAN: It is quite remarkable that in a year they could change a loss of $308,000 to a profit of $372,000 when their operating ratio is 95·3 per cent. It is a pretty slim margin. It is much higher than your cost.

Mr. SYMINGTON: The trouble with the high grade commercial air lines is that people have been spoiled. They want too much attention. On these planes that are going north you may be sitting next to a cow or anything else. It is all good business. It is the way it should be run. That is the kind of business they are running and running it very well, too.

Mr. JACKMAN: It seems to be quite sizeable, 6,813,000 miles in revenue service in 1946 as against your 12,400,000 miles?

Mr. SYMINGTON: Those are long trips from here to Labrador and up in the northwest territories.

Mr. MUTCH: Perhaps we could send them a letter of congratulations and get on with this.

Mr. JACKMAN: Pardon? I did not hear your question.

Mr. MUTCH: I did not ask a question. Perhaps we should write and congratulate them and get on with our own work.

Mr. JACKMAN: I was wondering whether or not they were extraordinarily capable operators.

Mr. SYMINGTON: They came in and looked over our show when they were reorganizing and spent some weeks there. I will say that to you.

Mr. JACKMAN: You would think you would not have a monopoly on all the ideas. May I ask, Mr. Symington, about the overseas service which you operate for the government. I presume if you have a profit you pay it over and if you have a deficit you are paid sufficient to balance the accounts.

Mr. SYMINGTON: The original agreement was different from that. The profits were split. That will be wound up shortly now. We were operating as agents for the government, yes.

Mr. JACKMAN: What is the policy at the present time?

Mr. SYMINGTON: Of course, the policy at the present time is that T.C.A. has taken it over as an operation. I shall ask the minister to guarantee the deficit on it, or the government, because I cannot see why they should not. I think they should on all these international routes. I cannot see any way out.

Mr. JACKMAN: It will be a straight T.C.A. operation?

Mr. SYMINGTON: A straight T.C.A. operation, not a government operation any more.

Mr. JACKMAN: That is as of a certain date shortly?

Mr. SYMINGTON: That is as of a certain date to be agreed upon in this agreement which is drafted now.

Right Hon. Mr. HOWE: It is either the first of April or the 15th of April.

Mr. SYMINGTON: I should think later than that.

Right Hon. Mr. HOWE: The first of May. We are just winding up the old operation now. We are in the process of winding it up.

Mr. JACKMAN: You started out with a split of the profits on some agreed upon basis?

Mr. SYMINGTON: Yes.

Mr. JACKMAN: What have you done last year?

Mr. SYMINGTON: The accounts are now being taken.

Right Hon. Mr. HOWE: They have operated in the black. In fact, exclusive of depreciation of the airplanes they have operated quite substantially in black ink.

Mr. JACKMAN: There was a 33 per cent depreciation rate.

Mr. SYMINGTON: These were war planes. They were not worth anything to all intents and purposes. They were war planes and the war was ended.

Right Hon. Mr. HOWE: We took whatever rate people wanted to pay pretty well. In the early days we carried mail, whether it was air mail or first class mail, for the value of the stamps. We did not have any rate with the post office particularly.

Mr. SYMINGTON: We did not carry passengers for part of that time.

Right Hon. Mr. HOWE: Only official passengers, and they were carried free. However, it was a very good operation.

Mr. JACKMAN: How long has it been on a commercial basis taking passengers at the regular rates?

Mr. SYMINGTON: I forget the date.

Mr. JACKMAN: What I want to know is does it make money or lose money at the present time?

Right Hon. Mr. HOWE: It makes money on straight operating, but if you charge depreciation for the airplanes it loses money. It has lost money. We are talking in the past tense because it is not operating any more.

Mr. JACKMAN: Is it not operating with North Stars now?

Mr. SYMINGTON: Nothing but North Stars now.

Right Hon. Mr. HOWE: It is operating as a Trans-Canada Air Lines operation.

Mr. JACKMAN: It is not suggested the North Stars do not cost money?

Mr. SYMINGTON: Any plane will cost money unless you get people to travel on it. The whole question of international travel is dependent on the potential traffic from a country the size of Canada. That is the whole question. All an air line can do is to get the most satisfactory and cheapest operating plane they can and try to get people to travel in it. If there is enough potential traffic that air line will pay. If there is not it will not pay, and as far as I can gather nobody can tell. I am much more doubtful about it than some people because I do not think that the great mass of our people are air travellers. We have a large agricultural population. The people who travel are manufacturers large and small, and certain people who want to visit who have a certain amount of money. The reason for the very high potential traffic in the United States is the thousands of medium and small size manufacturing plants there are in that country, the officers of whom all travel by air. We are not in that position. Let us say we run—and I say we must run—a trip a day, and probably more. That is every day in the year. You cannot operate one day and not operate the next day. If you multiply a plane with the potential capacity of 40 by 365 days in a year that is over 12,000 people. Whether there are 12,000 people in Canada who will travel to the old country by air is something only the future can tell.

Mr. JACKMAN: Recent experience is it is paying its way except for depreciation?

Mr. SYMINGTON: Oh no, do not go away with that idea.

Right Hon. Mr. HOWE: If you take planes off a war scrap heap and run them to perform a national service you do not worry very much whether they pay depreciation on the planes. We have several thousands of those planes around Canada today that we would sell very cheaply.

Mr. JACKMAN: What I am trying to get at is whether or not it is advisable from a commercial point of view for the government to go into the overseas transport business.

Right Hon. Mr. HOWE: We can tell you better a year hence, and each year after that.

Mr. SYMINGTON: We run them if we are told to run them. I have made it perfectly clear in this committee in other years that I thought that certainly the Pacific route will require a subsidy. I am sure the South American route will.

Mr. JACKMAN: Will pay?

Mr. SYMINGTON: No, will require subsidies, I am sure.

Mr. HAZEN: Before you would start to run a service to South America or a Pacific service would you get instructions from the dominion government to do it, or do the directors of T.C.A. decide on that themselves? Where does the power to do that rest?

Mr. SYMINGTON: The government will say to us that they have made an agreement with Australia whereby we are going to run a service to Australia under agreement with the Australian government. Their reasons may be trade, commonwealth, flag or anything you like. They say to us, "We want you to run it." We say, "All right, we will run it." From then on we run it, not the government. Do not make any mistake about that. We run it, but that is the relationship. Of course, policy matters as to routes of that kind are settled by the government.

Mr. HAZEN: As I understand it before you run a trans-ocean service you get instructions from the government to run it?

Mr. SYMINGTON: Yes, we certainly have consultations.

Right Hon. Mr. HOWE: Before you run any service.

Mr. SYMINGTON: Yes, we have to have them approved by order in council, even the domestic ones, but we recommend those, of course.

Mr. JACKMAN: I wonder if the picture could be made more clear as to your experience on the trans-Atlantic service. I thought the minister said that in recent months at least the service was paying for itself if we did not have to take into consideration depreciation at the present time, that it was very much better at the present time.

Mr. SYMINGTON: That is the big question. We could make a lot of money if it was not for the fact that we have to allow depreciation. We took over a lot of war planes and we spent a lot of money on them making them over so the engines wouldn't stop. They were built to go over and drop bombs and come back and then they would not be up again for three or four days. You had to do a considerable amount of work to turn them into dray horses who can run every day across the ocean, a three thousand mile hop. It required a great deal of work and a great deal of maintenance. And it only carried ten passengers, which is very different from carrying thirty or forty passengers. It only had ten seats. You have seen them. They were built for the dropping of bombs and did not lend themselves to carrying any more than ten passengers; they took over the mail as well. They used to carry mail over there during the war and they took over all the official people. But it could only take ten people every hop. It had a really very marvellous record.

Mr. JACKMAN: What I am trying to get at, and perhaps you could help me in my questions, is whether or not you had a regular commercial service, whether or not this service could operate without too great a loss or perhaps some profit, if you had planes on that run, the North Star type let us say; that is a typical commercial plane with a reasonable seating capacity?

Mr. SYMINGTON: Yes.

Mr. JACKMAN: How long have you been operating that service?

Mr. SYMINGTON: For two weeks. We have four of them on now and we are running seven services a week with them.

Mr. JACKMAN: So that service is really of no value.

Mr. SYMINGTON: Not very much yet. The value is that the mechanical and operational plan has been successful. There are not very many companies that undertake with four planes to run seven trips a week across a stretch of the most difficult piece of air operation in the world and maintain schedule, and that is what we are doing at the moment.

Mr. NICHOLSON: And did you say that you had accommodation for forty passengers each way on those planes?

Mr. SYMINGTON: We don't actually carry forty passengers on the westbound trip because you have to fly against a 33-mile gale on the westbound trip and there is no plane able to do that carrying its full quota against a continuing adverse wind. We will probably take from 28 to 30 passengers going west, with the mail and so on.

Mr. NICHOLSON: What percentage of the trans-Atlantic passenger traffic are you handling; do you or your officials know?

Mr. SYMINGTON: We have most of it to Canada. I cannot give you the figures between the United States and Europe because they have a great many planes and a great many frequencies and a tremendous amount of travel proportionately, population-wise, to the numbers that we have.

Mr. NICHOLSON: How many trips are the American lines flying, do you know?

Mr. SYMINGTON: The American lines must be flying I think forty trips a week.

Right Hon. Mr. HOWE: More than that, I think.

Mr. SYMINGTON: More than that. I have not seen the figures lately, but we have the Scandinavian air lines, the K.L.M.—that is the Dutch line, which is the best prewar line—and then there is Air France; and I am told they are all losing money. I have the figures here. The passengers from New York for the year 1946—early in the year the frequencies were not so many—were 48,000 out of New York and 56,000 from the continent.

Mr. JACKMAN: What other lines come to Canada?

Mr. SYMINGTON: B.O.A.C. is the only other one at the moment.

Mr. JACKMAN: How do you go, by way of Newfoundland, or Labrador, or straight across?

Mr. SYMINGTON: It all depends on the weather. The ordinary route may be over Goose or Gander, Prestwick, London.

Mr. NICHOLSON: How many flights a week are B.O.A.C. flying?

Mr. SYMINGTON: One a week now.

Mr. NICHOLSON: How many passengers do they carry?

Mr. SYMINGTON: They carry about, I don't know how many. They only started a week or two ago. Their capacity is about the same as ours. They have a bigger plane, more seats, but westbound they are not going to carry any more than we are.

Mr. JACKMAN: How much do they charge for these planes?

Mr. SYMINGTON: $660,000.

Mr. JACKMAN: And the DC-3's cost you, what was it, $120,000?

Mr. SYMINGTON: We may add some final stuff ourselves, but that is comparable to the price of any other factory for that plane.

Mr. JACKMAN: And on these reconversions how much did you have to pay Canadair for them?

Mr. SYMINGTON: They varied. The first three planes they did cost us $130,000, perhaps a little more.

Mr. JACKMAN: Each?

Mr. SYMINGTON: Each. Then the next one cost us about $120,000—that is a round figure.

Mr. JACKMAN: How long have you been taking planes from Canadair; did you start last year?

Mr. SYMINGTON: The first three DC-3's we got the year before, I think.

Mr. HAZEN: I thought you said the DC-3's cost you $150,000?

Mr. SYMINGTON: That includes all our ultimate fittings and that sort of thing.

Mr. JACKMAN: I wonder if you could let us know just how much T.C.A. has paid Canadair and for what; is that figure available?

Mr. SYMINGTON: I cannot give it to from the figures I have here. We have not paid them nearly as much as we owe them because of the question of price, and that was not fixed until quite recently. I can get you those figures without any difficulty.

Mr. NICHOLSON: How many North Stars are you taking, did you say?

Mr. SYMINGTON: Twenty.

Mr. JACKMAN: You said the price was fixed only recently; I suppose there were certain terms of contract on which you would buy. Have you ironed out all the details?

Mr. SYMINGTON: We did not iron out all the details. Nobody could give us a price.

Right Hon. Mr. HOWE: The operation was carried on government account until we could determine the price. When we could determine the price, we did.

Mr. JACKMAN: It was done on government account and then they determined the price and T.C.A. did what they were told?

Mr. SYMINGTON: No. I never went through any longer or more difficult negotiations than I had with them. I wanted them to continue. It was not a pleasant negotiation, but that is what they eventually arrived at.

Mr. JACKMAN: Well, I suppose I should not ask you, Mr. Symington, whether you paid the full cost or not. We can get that elsewhere.

Right Hon. Mr. HOWE: If they didn't pay the full cost, who did?

Mr. JACKMAN: Who did?

Right Hon. Mr. HOWE: Yes.

Mr. JACKMAN: I don't know; I am asking the question.

Right Hon. Mr. HOWE: They paid the full cost.

Mr. SYMINGTON: I objected very strongly to their first price. They asked me a great deal more than that when they started. Don't think it was easy at all. It was a thoroughly tough negotiation, one which lasted two or three weeks.

Right Hon. Mr. HOWE: They got the planes considerably cheaper than they could have got them anywhere else.

Mr. JACKMAN: Which ones, the North Stars or the DC-3's?

Right Hon. Mr. HOWE: The North Stars.

Mr. SYMINGTON: The DC-3 is a standard article and we paid a little more than some other people paid because our specifications and requirements were stiffer.

Right Hon. Mr. HOWE: You could not get a new DC-3 at twice the price.

Mr. SYMINGTON: Of course, there have been no more of them built. I don't think you could. But they continually reported, when I asked the price, that our specifications and requirements were stiffer than any other specifications they had, and they reconverted those planes for nearly all the companies in the world.

Mr. JACKMAN: That cost of $130,000 for the DC-3's, that would be the complete cost except for the alterations you made yourselves after delivery which amounted to about $20,000 a plane. You didn't purchase those as war assets surplus from either the Canadian or the United States government, you paid $130,000 and got the planes?

Mr. SYMINGTON: No. We agreed with them when we made deals for these planes which the United States were putting up for sale and we instructed them to go and buy the planes and the number of planes. Our people were to try to select the best we could, and told them where they were to fly them up here and they completed them. That is what was done.

Mr. POULIOT: Mr. Symington, I would like to ask you this.

Mr. SYMINGTON: Pardon me, Mr. Pouliot; sometimes this is a very bad room to hear in. I am old and no doubt getting a little deaf.

Mr. POULIOT: I do not want you to repeat what has been said before, but will you please tell me when you expect to complete the extension of that air line which is to operate between Montreal, St. Jean, Quebec, Riviere du Loup, Mont Joli and points on the lower St. Lawrence?

Mr. SYMINGTON: I am afraid I will have to refer you to the department, Mr. Pouliot. I am ready and prepared to run it when they give me some fields to run it on. We are very anxious to get the fields down in that part of the country completed; I am, particularly, perhaps for, shall I say, personal or sentimental reasons. But the fields are not completed yet.

Mr. POULIOT: No, but have you any idea when it will be done?

Mr. SYMINGTON: I haven't any idea, no.

Mr. POULIOT: But it is a definite plan with T.C.A.?

Mr. SYMINGTON: Oh, yes. We have submitted the plans and had them approved by order in council so it is a set route.

Mr. POULIOT: And the purpose of the route, I understand, is to give a chance to the older settled part of the country to have the same transportation facilities as the newer centres?

Mr. SYMINGTON: There may be something in that, Mr. Pouliot. But to be honest, and from a practical point of view I consider the population to be served on that combined route through these combined centres offers a chance to be able to run a useful air line giving service with the prospect of breaking even or of making some money, and I think it can do that.

Mr. POULIOT: How many air fields have been built by the Department of Transport?

Mr. SYMINGTON: For the T.C.A.?

Mr. POULIOT: Yes.

Mr. SYMINGTON: I do not know that they have built any particularly for the T.C.A.

Mr. POULIOT: Some airports have been built and they are used afterwards by the T.C.A.

Mr. SYMINGTON: Oh yes, all over Canada. We use the airports that are built.

Mr. POULIOT: But you have nothing to do with the building of the airports?

Mr. SYMINGTON: No.

Mr. POULIOT: You just use them?

Mr. SYMINGTON: Just use and pay for their use. We pay landing fees and so on for the use of airports which the government build.

Mr. POULIOT: I should ask Mr. Howe what are the special aids given to municipal airports?

Right Hon. Mr. HOWE: We have no policy for assisting municipal airports, Mr. Pouliot. As you know, at the moment the level of employment is very high in the country and we do not encourage work on airports at such a time. We think they can be deferred until employment means more to the country than it does at the present time. However, we are building airports required for the C.P.R. and main line transport. The trouble is that we have more work than we can do in the season with the money we have at our disposal. This year we have had to expand our runways to take bigger planes. We have had to enlarge our airports to accommodate transatlantic services, and we have not been able to tackle the route of which you speak as yet. We hope that next year we may be in a better situation to be able to do work that is required there. There are only one or two more airports required on the route, I believe; Riviere du Loup and Campbellton.

Mr. POULIOT: It will take much less time for you to carry your 2,000,000 passengers than it will to carry the first one.

Mr. SYMINGTON: I hope so.

Mr. POULIOT: And that will happen when you have landing facilities and sufficient routes to afford some opportunity to all who desire to use T.C.A. for transportation.

Mr. SYMINGTON: I sincerely hope so, Mr. Pouliot. It is not much use running an air line which will give people service unless they patronize it, and you have to give them a chance to patronize it, otherwise they won't know. But the centres of population along that route and the growth of such cities as Montreal, Quebec, Riviere du Loup, Mont Joli, which feeds Matane, Rimouski and those places down to Campbellton and across to St. John's, I think would be a route which has a very fair chance to be a successful route and certainly give service to a lot who to-day haven't got it.

Mr. POULIOT: It is evident that you can get a satisfactory return from the operation of such a line as this, Mr. Symington. What about jet planes? I don't suppose you are satisfied with what you are doing at the present time.

Mr. SYMINGTON: One is never satisfied in this business, Mr. Pouliot; because that is the trouble with it. We are considering jet planes, and when I say we are considering them, we are following the progress of the jets. Our engineers have been in consultation with the various manufacturers giving them ideas on what, if such planes are possible in this country, they would have to do —the flying characteristics, the climatic requirements and so on. We are always of necessity in touch with them. I do not anticipate there will be a jet plane flying commercially for three or four years yet. At least, that is what I think.

Mr. POULIOT: And the T.C.A. is taking advantage of research in that field?

Mr. SYMINGTON: Absolutely. In fact, I think probably we are the largest research bureau in Canada on aeronautics.

Mr. POULIOT: Thank you, Mr. Symington.

Mr. HAZEN: On page 8 of the report it says, "Great Lakes airway progressed".

Mr. SYMINGTON: Yes.

Mr. HAZEN: Have you any idea when that work will be completed?

Mr. SYMINGTON: I discussed that before lunch but I shall be glad to run over it again, if you wish.

Mr. HAZEN: I am sorry, I would not ask you to do that.

Mr. SYMINGTON: I shall be very glad to. As to that Great Lakes route we have completed the field near Owen Sound which was part of the route. We had to negotiate with the United States government for the use of Kinross field at the Sault, and for the use of an emergency field at Houghton. These international negotiations take time. They have been wound up and I have every reason to believe that the route will be in operation by the first day of July. In fact, the announcement has been in my office for some time now ready to go out, but I have not put it out because I wanted to make sure that the signature was on the dotted line, that these fields were absolutely ready, because I hate fixing a date and not living up to it. But I have every confidence that it will be in by July first.

Mr. HAZEN: Are those fields being built by the Transport Department?

Mr. SYMINGTON: No, they were military fields of the American government.

Mr. HAZEN: At Owen Sound?

Mr. SYMINGTON: Oh, at Owen Sound? One was a field which was fixed up a bit.

Mr. HAZEN: Who fixed it up?

Mr. SYMINGTON: The Department of Transport.

Mr. HAZEN: It says that work began at Winnipeg, Lethbridge and Toronto on runway extensions.

Mr. SYMINGTON: Yes. That is for the purpose of permitting safe landing of four-engine planes with a big load.

Mr. HAZEN: When will that work be completed?

Mr. SYMINGTON: I believe this spring, according to my information—this autumn, rather.

Mr. HAZEN: The Department of Transport is doing that work?

Mr. SYMINGTON: Yes.

Mr. HAZEN: Do you know what the cost is?

Mr. SYMINGTON: No; not very much, though.

Mr. HAZEN: Do you know whether any consideration has been given to the construction of an airport at Fredericton, New Brunswick?

Mr. SYMINGTON: I only know what I have heard at this committee year after year, what I see in the papers, and what the Board of Trade writes me, and so on, but there are no visible signs of a new airport at Saint John.

Mr. HAZEN: I am talking about Fredericton.

Mr. SYMINGTON: No, I know nothing about it.

Mr. REID: I see that more ticket offices were provided. Where were those offices provided or established?

Mr. SYMINGTON: Those were established at Chicago when we started our Toronto-Chicago run; at Cleveland when we started our Cleveland run; at Boston when we started our Boston run; at Duluth when we started our Duluth run; at Seattle when we started our Seattle run; at Victoria, at Port Arthur, at Fort William—wherever a new route was started we had to have a ticket office.

Mr. POULIOT: Who builds the beams; is that done by the Department of Transport?

Mr. SYMINGTON: The Department of Transport.

Mr. LAPOINTE: Mr. Symington, in answer to Mr. Pouliott's question you were talking about the possibility of establishing lines down the St. Lawrence from Quebec to Riviere du Loup and Mont Joli, would that mean taking over the present C.P.R. line which travels from Montreal to Quebec and all the way down?

Mr. SYMINGTON: I think that has been understood. That route was passed by an order in council some years ago as a T.C.A. route. I think Quebec Airways are quite willing to retire from that field because they do not make any money out of it.

Mr. LAPOINTE: Can it be said that that question is under active, and serious consideration, to use the usual terminology?

Mr. SYMINGTON: I do not know as to that point. All I know is that the order in council is passed, and I want to run the route; that is all, if the government will build the air field.

Mr. LAPOINTE: I think I can say that you would be very welcome if you did run the route.

Mr. HAZEN: Do you know if any steps are being taken to develop an airport at Fredericton?

Mr. SYMINGTON: None that I know of. I have no personal knowledge of that.

Mr. POULIOT: You have the planes to run that route?

Mr. SYMINGTON: Yes.

Mr. POULIOT: You await only accommodation provided for the company by the Department of Transport?

Mr. SYMINGTON: Yes.

Mr. POULIOT: As soon as it is completed you are ready to go on?

Mr. SYMINGTON: Yes.

Mr. POULIOT: Thank you. Tell me, Mr. Howe, when do you expect these projected expansions?

Right Hon. Mr. HOWE: I expect a call from you, Mr. Pouliot.

Mr. JACKMAN: Looking over the income account and bearing in mind the fact that operating revenue increased 22 per cent during the year, some items seem to amount to very much more than the 22 per cent and yet we find flight equipment maintenance $1,445,000 as compared with $1,459,000 in the previous year. That account is about equal.

Mr. Symington: I will explain that. That is another reason I like the DC-3, and I am perfectly satisfied that this year will show a good deal better. The cost of maintenance of DC-3's which will carry twenty-one passengers is less than the cost of maintenance of the Lockheeds which will carry fourteen; and our aircraft costs, if my investigations and information from my maintenance people are correct, will still improve a great deal. That shows that with a great many more planes our cost of maintenance is not up.

Mr. Jackman: No; I notice the cost of maintenance is a favourable item, but take ground operations and you find that amounts to $3,638,000 as against $2,851,000. The cost varies on ground operations; we find some items that are very much out of line with the previous year.

Mr. Symington: I can answer that item by item here.

Mr. Jackman: All I want is the general reaction of the management when they find that the revenues are going up 22 per cent and yet certain items are increasing 50 or 100 per cent?

Mr. Symington: I endeavoured to give the explanation this morning. I told you that we did spend a good deal of money on training and a great deal of money on switching equipment, operating new equipment, in getting ready for planes that did not come on time, and that our costs are abnormally high. The salaries and wages on ground operations were up 36 per cent; total increases in wages and salaries $521,460. It reflects a 23 per cent increase in ground personnel which reflects an expansion of the services in that 37 per cent more miles were flown. The route mileage was increased 22·9 per cent and passengers carried increased 67 per cent. Increased supervision and training, transfer of personnel, accommodation for employees at isolated stations—it reflects the expansion of the service. There are increased buildings and offices, schedules and rentals. Those are some of the items under ground operations.

Mr. Jackman: What I am interested in is your reaction, as head of the business management of the T.C.A., when you find the various items increasing so much more percentage-wise than the revenue?

Mr. Symington: My answer is that I am disturbed if I have not got an answer to it; but I have. It is disturbing in a sense. One does not like to see these things. You cannot pay $400,000 more for wage increases and lose $400,000 in carrying mail, and you cannot spend $800,000 in training for an increased operation which will last for some years without running into times such as these. And I trust you took in, when I enlarged on the matter this morning, the losses of the American lines which have been continually thrown up to us, and which losses far, far exceed ours, under what I think are not as trying circumstances.

Mr. Jackman: I must say that I see some of these items going up—salaries and wages, passenger agents, rentals of fields, buildings, offices, $191,000 against $132,000—

Mr. Symington: If you carry 67 per cent more passengers they are bound to go up. Are you not satisfied with the explanation? I do not want you to reject the explanation out of hand.

Mr. Jackman: So many of these items: agency commissions, renting offices; passenger food services rises from $200,000 to $356,000.

Mr. Symington: Add 67 per cent onto that, and I say you are feeding 67 per cent more passengers. Also, as I explained this morning, when we got the DC-3 planes we were able to serve hot meals instead of cold ones, which pleased our passengers. There is a perfectly good answer to these services. I would say that an expansion of 35 per cent more miles flown is a reason for the reflection of the 23 per cent in ground personnel. If we carry 67 per cent more passengers than we have ever carried before then our services must inevitably go up, particularly when even then there is a great deal of capacity which is not filled.

Mr. JACKMAN: As Mr. Pouliot suggested it costs a good deal less for the Nth unit than it does for the first unit.

Mr. SYMINGTON: It costs less for the Nth unit if you fill them, but you cannot run air lines on a hand to mouth basis. We have now practically 50 per cent of our seats to fill because we have gone through the reconstruction period to the after-war period when people were demanding services and demanding seats. We had an opportunity to buy these planes and convert them and we did it. Now we have to go out and fill those planes; and that is your complete answer. If we can fill them we can make money; if we cannot fill them we will not make money. It is just as simple as that, apart from the fact that you have got to keep your eye on everything all the time to see that nobody gets reckless either in life or money; and that is what air line operation requires.

Mr. JACKMAN: It almost comes back, it seems to me, to the very important consideration as to whether we are not expanding this enterprise a little faster than the field deserves.

Mr. SYMINGTON: That may be, but you cannot expand from hand to mouth in a rapidly changing operation of this kind. You just cannot do it. You will have your good years and you will have your bad years and the bad years are the times you will have to completely change your operation as we have been forced to do after several years of war.

Right Hon. Mr. HOWE: It is a matter of government policy. It is partly our reconstruction plan to expand aviation to take care of returning airmen.

Mr. SYMINGTON: I would not accept that as a reason; though I take the responsibility for the expansion because I think the expansion was required if we were going to run air lines. You do not have to sit and take the abuse that my people did because people were put off planes or could not get seats, and we were called a one-horse line. We got a chance to buy those planes and we bought them, and we are going to fill them; and in the intervening period, as I told you last year, the financial difficulties will be greater than other years, and I think the financial difficulties this year will probably not be entirely pleasing. But we are building up a service. We served 308,000 people this year as opposed to 150,000 the year before. We are carrying people to more places all over the country and we are contributing to a new form of transport. If you think you can take a yard measure and measure out by inches a running operation like that, I say you just cannot do it. If you are not prepared and have not got the courage to provide facilities then you had better get out of business. I agree that you can overdo it; you can overdo anything. It is a matter of judgment, and your judgment may be wrong. But as far as T.C.A. is concerned, I do not think we will be very far wrong and we have not been very far wrong.

Mr. JACKMAN: Would you care to express an opinion as to the rate of expansion of the T.C.A. as compared with a typical Transcontinental line in the United States in the last year?

Mr. SYMINGTON: Oh, we have not spent—

Right Hon. Mr. HOWE: We do not pay any attention to what they do in the United States.

Mr. SYMINGTON: We are pikers compared to those lines. Look at their position: T.W.A., one line out of eighteen, lost $8,500,000; America Air Lines, supposed to be one of the most expert in the United States, lost $5,000,000 in three months.

Mr. NICHOLSON: What happened to United?

Mr. SYMINGTON: United lost money, but they are good operators. They are more conservative than the other fellows and they did not lose so much.

Mr. NICHOLSON: When you considered increasing the fares was that in line with American policy?

Mr. SYMINGTON: It was not in line with it. As a matter of fact, the two arose without any knowledge one of the other at all. In fact, the American lines and ourselves had never discussed it at all. It was perfectly obvious to me that we could not go on paying extra costs and go through the period we were at the rates we were charging. It was a great relief to me when I found before our increase came in—which was an increase of the board; it was not an increase of anybody else—that the American lines—and it was the C.A.B. that did it there—had advanced their rates 10 per cent.

Mr. NICHOLSON: Your rates per mile are now about the same?

Mr. SYMINGTON: Pretty approximately, yes. Ours may be the odd fraction higher here or there, but we still give the 10 per cent return discount that they do not. Many of them do not.

Mr. NICHOLSON: You were giving 15 per cent on your credit cards?

Mr. SYMINGTON: We were giving 15 per cent on our credit cards. That is out, and I think properly.

Mr. NICHOLSON: It has been out in the United States for some time?

Mr. SYMINGTON: Yes, it went out two or three years ago. For instance, we were giving that discount usually to large companies who had a lot of people travelling. They had to put up a deposit. Then the commercial travellers came along and they said, "Here, we cannot afford to do this. We have always had our own rates on the railways. Why should these people have a discount and we not have it?" Then somebody else comes along and say that they are a member of some organization and their people travel a good deal and why should they not have the 15 per cent discount. That was the experience in the United States, and I think it was wise to put everybody on the same basis, so that the discount was discarded.

The CHAIRMAN: Any other questions?

Mr. HAZEN: On page 8 you refer to the fact that although equipment was scarce the first steps were taken towards the provision of instrument landing systems at Canadian airports. At what airports were those instrument landing systems installed?

Mr. SYMINGTON: Work has been done at Montreal, Toronto, Winnipeg, Regina, Lethbridge and Vancouver. The I.L.S. test installation was at Dorval.

Mr. HAZEN: Has that proved satisfactory?

Mr. SYMINGTON: When you say a thing is satisfactory nothing will be satisfactory until you get absolutely blind landings. That is coming.

Mr. HAZEN: That is what I was going to ask about.

Mr. SYMINGTON: That is coming as soon as the human mind and ingenuity can master it, but the instrument landing system and the ground control approach are very great improvements over what we have had. We can come in now with a much lower ceiling perfectly safely with these approach systems. It is not a matter of being able to do it in a month or a year. I noticed the day before yesterday the United States government voted $50,000,000 for these very things we are talking about, just pure experimental work. We keep up to date on it by means of IATA which, incidentally, costs us a good deal of money because as we are here we are the people who are called on for a good deal of expert advice and assistance. They are working on it. Everybody is working on it because air transport can never be complete until you get regularity, and you cannot have regularity until you get blind landing.

Mr. HAZEN: You cannot make blind landings now?

Mr. SYMINGTON: No.

Mr. HAZEN: You are not that far advanced?

Mr. SYMINGTON: Nobody can make blind landings.

Mr. HAZEN: You can make landings when the visibility is limited?

Mr. SYMINGTON: Yes.

Mr. HAZEN: To what extent?

Mr. SYMINGTON: Taking one field as an illustration you could not come in under a thousand feet and now I think you can come in under a ceiling of 300 feet.

Mr. HAZEN: Does that mean if you can see down 300 feet you can make your landing?

Mr. SYMINGTON: Yes, with this assistance.

Mr. HAZEN: Last year did you have many accidents?

Mr. SYMINGTON: No.

Mr. HAZEN: To what extent did you suffer damage to your planes?

Mr. SYMINGTON: I have a statement on that. On February 12, at Regina, an undercarriage buckled when landing, and the damage was $7,000.

Mr. HAZEN: Where was that?

Mr. SYMINGTON: Regina. The undercarriage buckled, and that was what it cost us to fix it up. At Moncton there was a crash landing and the plane was destroyed.

Mr. JACKMAN: A training landing?

Mr. SYMINGTON: That was a training landing.

Mr. HAZEN: Did you attach any value to that plane?

Mr. SYMINGTON: $12,285. When I say value of the plane that was everything. At Moncton on October 5, the brakes failed and there was a collision with a building. There was $1,000 worth of damage. At Winnipeg a plane taxied off the runway causing $1,000 worth of damage. At Toronto on November 11 an undercarriage buckled and did $2,000 worth of damage.

Mr. HAZEN: What about injuries to passengers? Were there any injuries suffered by passengers?

Mr. SYMINGTON: No injuries to passengers.

Mr. NICHOLSON: Have you any statistics to indicate how safe it is to travel by air compared with trains, buses, and automobiles?

Mr. SYMINGTON: I have not that with me, but they are very much safer than any other form of travel today on record. The trouble is it is more or less a spectacle when anything happens, but you are safer travelling in the air than you are travelling by any other means of travel.

Mr. MUTCH: There are no statistics as to injuries as to passengers? There are practically none?

Mr. SYMINGTON: Oh no, practically none.

Mr. MUTCH: You either get there or you do not?

Mr. SYMINGTON: Yes, exactly so.

Mr. NICHOLSON: You have not comparative figures for Canada as compared with other countries?

Mr. SYMINGTON: I have always hesitated to discuss these things, perhaps being a little superstitious, but our record is certainly better than or as good as anybody else's. It was better than anybody else's up to the time of this last unfortunate accident. I have not looked at the percentage since then, but before that we were above everybody in the situation.

Mr. JACKMAN: I still have not got it very clearly in my mind as to the rate of expansion here compared with the United States.

Mr. SYMINGTON: I think our rate of expansion is a good deal less than across the line. In fact I am sure it is a great deal less and properly so. There is no credit coming to us for that. It is just that conditions are greatly different.

Mr. HAZEN: Last year when this report was being considered by the committee the Minister of Reconstruction told us that the city of Saint John was not satisfied with the reports of weather conditions at Clover Valley. He said the meteorological people were to carry on investigations. I should like to ask the minister if he can tell us if those investigations have been completed, and if a report has been received.

Right Hon. Mr. HOWE: I do not think they have been completed. I have not received a report recently. They have been carrying on further investigations there during the last several months. However, we have moved over to Penfield, which is handy to Saint John, and we expect very good business out of Saint John.

Mr. HAZEN: Is it the intention to close Blissville?

Right Hon. Mr. HOWE: Yes.

Mr. REID: The longer we deal with this report the more things we think we see in it. Otherwise I probably would not have asked this question. On page 8 you give the passenger revenue per revenue passenger as $26.41. Then when you turn to page 14 the operating revenue from passengers is given as $8,065,477. I may be wrong, but I have been multiplying 305,000 passengers by $26.41, and that gives a total of $7,986,713. I am wondering if I am correct. As I say, that question would not have been asked, but the longer we deal with the report the more things you think you see. It is a pastime of mine to do multiplication when I have nothing else to do. I like to dabble with these figures.

Mr. SYMINGTON: Perhaps your multiplication is a little wrong. I think it is a question of fractions. I will have these accounting gentlemen multiply it.

The CHAIRMAN: Are there any other questions while that answer is being prepared? We have the auditor's report. I was in hopes we could start it.

Mr. LOCKHART: How many passes were issued? That may have some bearing on Mr. Reid's question. How many free passes were issued on the line?

Mr. SYMINGTON: That is here.

Mr. LOCKHART: That might have some bearing.

Mr. SYMINGTON: I do not think that would have any bearing. I think the $26.41 multiplied by the number of paid revenue passengers should give you the figure. You see it says passenger revenue per revenue passenger was $26.41. We carried some 308,000 passengers and it ought to give that figure. At least, I should think so.

Mr. LOCKHART: How many free passes were issued?

Mr. SYMINGTON: I can get you that.

Mr. McCULLOCH: I would move that the report be adopted.

Mr. LOCKHART: Just a moment.

Mr. SYMINGTON: There were T.C.A. employees on vacation, 3,747; dependents of T.C.A. employees on vacation, 1,665; employees of the Department of Transport on business, 71; courtesy flights to press, Canadian Broadcasting Corporation, etc., 822. That is in connection with opening lines and publicity. Employees of Post Office Department on business relating to air mail service, 62; employees of other air lines, 4; dignitaries of allied governments, 10; employees of the C.N.R. on company business, 66; others consisting of deportees and immigration officers, 33; employees on educational flights, 8, or a total of 6,500 odd.

The CHAIRMAN: Gentlemen, it has been moved that the report be adopted. Have you asked all the questions you wish to ask? I do not want to be put in the position of cutting off discussion. It has been moved by Mr. McCulloch that the report be adopted.

Carried.

What about the auditor's report? We have a representative of the auditors here. That is on page 14 of the auditor's report. I do not imagine it is necessary to read it. Have you any questions on the auditor's report on the Trans-Canada Air Lines? Mr. Matthews is here if you wish to ask him any questions.

TRANS-CANADA AIR LINES

March 15, 1947.

The Right Honourable the Minister of Reconstruction and Supply,
Ottawa, Canada.

Sir:—

Acting under your authority as provided in The Trans-Canada Air Lines Act, 1937 as amended 1945, we have audited the accounts of the Trans-Canada Air Lines for the year ended December 31, 1946, and we now submit, through you, our report to Parliament.

The Air Lines has not been included as a constituent unit of the National System although 100 per cent stock ownership of the Air Lines is vested in the Canadian National Railway Company.

Supplementing our Audit Certificate appended to the accounts published by the Air Lines, we make the following comments on the Income Account, Surplus Account and Balance Sheet:—

Income Account

Mail Revenue up to March 31, 1946 is based on plane mileage flown in approved mail services and thereafter on mail pound mileage in accordance with the revised Trans-Canada Mail Contract.

The Deficit amounting to $1,115,000 for the year 1946 is summarized hereunder:—

Surplus after making provision for the general expenses of operation but before Depreciation	$ 399,000
Less: Depreciation	1,514,000
Deficit	$ 1,115,000

The Deficit in 1946 is before providing for the 3 per cent charge on the Capital furnished to the Air Lines by the National System which has been treated as a Dividend Appropriation of Surplus. In 1945 the 5 per cent charge by way of Interest was made through the Income Account. The change in procedure in 1946 arises out of the 1945 amendments to the 1937 Act.

The general expenses of operation largely consisting of wages and materials include the following items, reference to which may be of interest:—

(*a*) Personnel Training Costs arising out of the program of air service expansion in Canada and to the United States together with any training costs which may be applicable to Atlantic Overseas operations;

(*b*) Administrative Charges by Canadian National Railways;

(*c*) Rentals of Landing Fields, Hangars and other Buildings, Airport Offices, etc.;

(*d*) Pensions covering
 (i) Company's portion of accruals under the Air Lines 1943 Plan, and
 (ii) Company's portion of accruals for transferred employees remaining under the C.N.R. 1935 Plan;

(e) Insurance Premiums on risks carried both by the Insurance Fund and Outside Underwriters, and
(f) General Taxes covering principally Dominion Unemployment Insurance and Municipal Taxes.

The costs of completed Personnel Training and pro rata portions of Administrative and General Overhead applicable to the Atlantic Overseas operations are credited to Gross Revenue and charged to the "Canadian Government Trans-Atlantic Air Service".

Administrative Charges made by Canadian National Railways do not include any amount for the services of the President and Directors of the Air Lines who continue to act in such capacities without remuneration.

Rentals of Landing Fields, based broadly on the number of operating schedules, are paid to the owners and operators of the various airports used by T.C.A. in Canada and abroad. Rentals of Hangars and other Buildings, Airport Offices etc. are paid to the same agencies in those cases where the T.C.A. has not constructed such facilities.

Depreciation of Lockheed Flying Equipment is based on estimated "service year" life for air-frames and "flying hour" life for engines, propellers and hubs. Depreciation of Douglas DC-3 Flying Equipment and all Ground Facilities is based on the estimated "service year" life. In the establishment of depreciation rates for air operations the factor of obsolescence is taken into account and such rates are amended from time to time to conform, as far as practicable, to actual experience.

We have received the customary certificates from the responsible officers of the Air Lines relating to current maintenance and physical retirements of Capital Assets.

The Deficit of $1,115,000 compares with a Surplus of $263,000 in 1945 as adjusted to the current accounting basis in respect of dividends. An important factor in this change in results was the decline in mail pound mileage which is the basis of Mail Revenue from the 1st April, 1946, under the terms of the revised Trans-Canada Mail Contract, notwithstanding the increase in miles flown with revenue mail.

Surplus Account

The Surplus decreased $1,270,000 as a result of the Deficit and the Appropriation for Dividends in 1946.

Balance Sheet

Accounts Receivable and Payable of all classifications have been tested by us with the subsidiary and controlling records, cash and other transactions subsequent to the year end, departmental files and general supporting information but such Accounts have not been verified by direct communication with the individual Debtors and Creditors.

A physical inventory of Material and Supplies was taken in the main as at the 26th October, 1946, and in connection therewith we have received certificates from the responsible officers to the effect that the quantities were determined by actual count, weight or measurement or by conservative estimate where actual count, weight or measurement was impracticable. Material and Supplies at the 31st December, 1946, as represented by the ledger balances, are carried on the basis of laid down cost for new material and estimated utility or sales value for usable second-hand, obsolete and scrap materials after making reasonable pricing allowances for condition thereof.

Current Assets show a ratio of 0·8 to 1 of Current Liabilities. The Working Capital position of the Air Lines is presently maintained under conditions similar to those prevailing in privately owned enterprises financed only by way of Share Capital and Cash from Depreciation and Net Surpluses.

The Deferred Charge for Research and Development Expense is composed of engineering and other staff costs, shop work etc. held in suspense mainly in connection with the manufacture of the DC-4 "North Star" aircraft. Section 15 of the agreement dated the 11th June, 1945, between His Majesty and the Air Lines as agent-operator of the "Canadian Government Trans-Atlantic Air Service" provides, *inter alia,* that in any year in which a Surplus is earned by the Service the Air Lines is to be paid one-half thereof to be used by it as a reserve to provide funds to meet Research and Development Expense from time to time in connection with new and additional international services. No financial settlement has as yet been determined upon in respect of the aforementioned contractual provision.

The Insurance Fund is composed of Dominion of Canada securities together with Cash and sundry current assets. The year-end market value of the securities exceeded the book figure based on cost. We would again make mention of the fact that the risk coverage presently includes, *inter alia,* 100 per cent Passenger Liability and Damage to the Property of Others in respect of the twin-engine equipment. The Fund increased $405,000 during the year.

Investments in Property and Equipment are carried on the general basis of cost. During the year 1946 the Additions and Betterments less Retirements and Sales amounted to $5,619,000, the principal expenditures being for the purchase of twenty-four DC-3 aircraft.

Accrued Depreciation covers the period from the inception of operations in 1937 to 1946. The Reserve increased $1,596,000 during the year.

The Insurance Reserve, which includes the amount set aside for unadjusted loss claims at the date of the Balance Sheet, increased $405,000 during the year.

The Inventory Reserve relates to the potential loss on surplus stores based on the presently estimated service life of the Lockheed aircraft. During the year the Reserve was reduced $95,000 through concurrent credits to Accrued Depreciation as a result of the capitalizing of spare parts.

The amount of the Paid-Up Capital Stock was increased by $2,000,000 in order to finance a portion of the Capital Expenditure program in 1946.

Surplus covers the years 1940 to 1946 inclusive.

The Major Contingent Liabilities of the Air Lines are relative to any undertakings for the purchase of additional Equipment and general operating materials.

In respect of Pension Plans, it should be noted that:—

(*a*) Under the Air Lines 1943 Plan, which is maintained on an accrual basis, the joint cash contributions by the Company and employees presently in service are invested through the separately administered Pension Trust Fund, the accounts of which are not included with those of the Air Lines. The assets of the separate Pension Trust Fund amounting to $1,463,000 are in the form of Dominion of Canada securities together with Cash and sundry current assets. The year-end market value of the securities exceeded the book figure based on cost.

(*b*) The contributions by transferred employees presently in service, who have elected to remain under the C.N.R. 1935 Plan, are invested through the separately administered Pension Trust Fund under that Plan, the accruals for which the Company is liable in respect of transferred employees being paid to the Canadian National Railways.

Where foreign currencies are involved, the Balance Sheet accounts of the Air Lines are stated in Canadian Funds converted at the par of exchange.

The test audit of the Air Lines for the year 1946 was similar in scope to that of the National System previously outlined in this report.

The amounts shown throughout this Report are to the nearest thousand dollars.

Mr. JACKMAN: Mr. Symington, would it be your opinion as an operator that you should charge less depreciation, based on your experience?

Mr. SYMINGTON: No, it would not. We find on the planes we are now selling we do not get very much for them.

Mr. JACKMAN: You are on 32 per cent per year?

Mr. SYMINGTON: No, no. That is on these second-hand planes which were reconditioned, and all that sort of thing.

Mr. JACKMAN: There is a five-year life on the new ones?

Mr. SYMINGTON: Oh yes, six.

Right Hon. Mr. HOWE: The Americans are charging seven.

Mr. SYMINGTON: These North Star planes will be depreciated on a six-year basis. I do not think you will have anything better to replace them or anything better in the air until jet comes, and I doubt if that will come.

The CHAIRMAN: Any questions on the auditor's report?

Mr. JACKMAN: We might ask the auditor to direct the committee's attention to anything particular in his report. I notice he mentions the surplus account being decreased $1,270,000 as a result of the deficit and the appropriation for dividends in 1946. If he wishes to make any statement I think he should do so to the committee.

The CHAIRMAN: Do you wish to make a statement, Mr. Matthews, on what Mr. Jackman has said? Mr. Jackman, would you put your question again to Mr. Matthews?

Mr. JACKMAN: Yes. I asked Mr. Matthews if he wished to draw the attention of the committee to anything in his report. I do not know whether or not he should comment on it but I just noted the fact that the surplus decreased $1,270,000 as a result of the deficit and the appropriation for dividends in 1946. Was there anything, Mr. Matthews, you wished us to pay particular attention to?

Mr. MATTHEWS: On that particular point?

Mr. JACKMAN: Or anything at all in your report.

Mr. MATTHEWS: On that one matter nothing more than to make it clear to the committee that during the year there was a change in policy. Prior to 1946, as was explained this morning, there was interest charged in the operating expenses, but with the new post office arrangement that became unnecessary, and therefore the policy was decided upon by the T.C.A. to declare a dividend in 1946.

In making a comparison, however, between 1946 and 1945 we do point out that the deficit of $1,115,000 for 1946 compares with a surplus of $263,000 in 1945 if you eliminate the interest in 1945 as was done in 1946.

Mr. JACKMAN: Formerly the post office rate was flexible according to the results and the 5 per cent charge on capital was mandatory in the accounts?

Mr. MATTHEWS: Yes.

Mr. JACKMAN: Now it is a dividend?

Mr. MATTHEWS: Under the original T.C.A. Act of 1937 there was provision that the 5 per cent would be included in the operating expenses for interest in determining the results. With the new postal arrangement, where it was on a straight pound mileage basis, that became unnecessary, of course.

Mr. JACKMAN: Is there anything you want us to look at or any comments you have to make particularly on the insurance fund or anything else?

Mr. MATTHEWS: On the matter of the deferred charge for research and development we did think it advisable to call the attention of the committee to the fact that under the agreement of 1945 the results of the Trans-Atlantic air service have not as yet been determined, and it could be that there might be something in the way of an adjustment if there are profits shown from that service, but as the minister pointed out this morning that will depend entirely on what the results show. We do not know what they are. It could be that an adjustment could be made in the amount to be provided for research and development if any profits were shown.

Mr. JACKMAN: That would be a credit adjustment?

Mr. MATTHEWS: Right. The only other point we think important has to do with the carrying of the 100 per cent risks on the twin engine planes in the fund. Of course, we had no knowledge of the situation that developed recently, but our thought on that is that in the operations over densely populated areas like New York, for instance, we are not passing any opinion on the matter, but we do feel that the committee should understand that as to the insurance coverage on all twin engine planes, which will include the new DC–3's, the entire risk is carried in the insurance fund. In regard to the four-engine craft the company has instituted a policy of insuring with outside underwriters in excess of individual losses of three-quarters of a million dollars for each accident, or a maximum of $5,000,000. We would not presume to say that the company should cover any portion of the twin-engine planes. We merely wish to make it clear to the committee that the coverage is all assumed in the insurance fund for the twin-engine planes. From my discussions with Mr. Symington I think he feels that the company is able to stand it.

Mr. JACKMAN: As far as the twin-engine planes are concerned the company carries its own insurance risks?

Mr. MATTHEWS: That is right.

Mr. JACKMAN: And as to the four-engine planes?

Mr. MATTHEWS: Over three-quarters of a million.

Mr. JACKMAN: On a single accident. You have a policy covering that?

Mr. MATTHEWS: Yes.

Mr. SYMINGTON: That is a decision of the directors.

Mr. JACKMAN: With a limit of $5,000,000?

Mr. SYMINGTON: $5,000,000. We assume the first risk. The directors have considered this matter, and I think it is a matter for them entirely. We have, as you know, built up a fund now of $1,540,000 and that is not hay in any man's language, and we can take care of our liabilities. We hope so anyway.

The CHAIRMAN: Is that all, gentlemen? Would someone move that the auditor's report be adopted?

Mr. SYMINGTON: Mr. Chairman, with your permission, before we adjourn, this is the last time on which I will appear before you in this position. One thing the T.C.A. needs is a new president. I would like to thank you for your continued courtesies and to say to you, and through you I hope to parliament, that the T.C.A. is, I think, a real accomplishment. It has done good service to its country. It has built up through very trying times an air line which is recognized throughout the world as one of the best. It has contributed its part towards making Canada and Montreal the air headquarters of the world. It has done its part, I think, in helping to establish the airplane industry in Canada. It is a very difficult operation and a difficult country to operate in. It will have some years that are no so good, and will have years that are good. It is a body of young people who are intensely interested in their job. It is rather a unique organization. Don't destroy it, but nurture it; because I think it deserves it.

Right Hon. Mr. HOWE: Mr. Chairman, since Mr. Symington has said what he has, I want to pay tribute on behalf of the government to his part in having built the line. He took over its direction from the inception of the line and has carried it on during the most difficult part of its existence and carried it successfully through its period of great expansion. His work on Trans-Canada Air Lines has been done entirely at his own expense. He has not drawn a nickel of salary from the government or from the airline. He is recognized amongst operators throughout the world as the top man in the industry; and I think it is largely because of Mr. Symington that the operators' association known as the International Civil Air Organization located its headquarters in Montreal. He was its first president.

I think the committee would like to join with the government in tendering our sincere thanks to him for his service on behalf of Trans-Canada. It is fortunate that he is not leaving immediately, I hope; but he and I have agreed that the burden is one which perhaps should be placed on other shoulders. As you know, he has a good many irons in the fire outside of Trans-Canada. I want to say that I can only hope that after he has gone we will find someone to accept the position of president who will be able to give the fine type of high service that Mr. Symington has given in the years during which he has served as president of the line.

Mr. JACKMAN: In seconding the resolution proposed by the minister may I say that we agree that T.C.A. will miss the leadership which has been given by Mr. Symington during his term as president, and we appreciate that he is leaving that office only because he finds it no longer possible to serve in that capacity. On behalf of those who have asked so many questions of Mr. Symington, I want to say that we appreciate what you have done for T.C.A.

Mr. NICHOLSON: Mr. Chairman, to make it unanimous I would like to add my word of appreciation to Mr. Symington for the outstanding leadership which he has given to this very important field of transportation. I think that T.C.A. will always be regarded as Mr. Symington's "baby", and I am sure that in the years to come we will all realize how fortunate we have been that the T.C.A. developed under his direction.

Mr. POULIOT: Mr. Chairman, I want to say to Mr. Symington that we all appreciate the very great work that he has done in the development of the T.C.A. However, I think tribute should be paid where tribute is due; I think a great deal of credit goes to Commander Edwards and the staff of the Department of Transport; and particularly to the Right Hon. Mr. Howe, in the first place for having the foresight to undertake such a development, and in the second place for having made the choice of such an able man as Mr. Symington to give it leadership. Of both Mr. Howe and Mr. Symington I think it can be fairly said that they are truly nation-builders, and I would like to recognize in that same category those members of their staffs who have so ably given assistance to the development of this great system of transportation. I can think of nothing which has done more to the essential development of Canada as a nation than the progress that has been made in the field of aviation. Until now it has been a country isolated on all sides by vast oceans, except of course to the south, the United States, and now T.C.A. links Canada with the rest of the world. At its inception there were some of us who thought T.C.A. would not be very much of a success, but I am happy to say that we have to-day the greatest pride in the splendid development which has been achieved. It is certainly a pleasure for me to see members of all political parties here to-day join in such a friendly spirit to pay a well-deserved tribute to Mr. Howe, Mr. Symington and the personnel of T.C.A. and to the staff of the air transport branch of the department.

The CHAIRMAN: Mr. Symington, I am sure every member of the committee regrets that you are going to retire as president of the Trans-Canada Air Lines and I think they have expressed their feelings to you to-day wholeheartedly; they appreciate perhaps more than words can express your work with T.C.A. On their behalf I tender to you their deep appreciation and the hope that in any new field you may take over you will have the same success as you have had with T.C.A.

The committee adjourned at 5.45 p.m. to meet again at the call of the Chair.

APPENDIX "S"

BALANCE SHEET AT 31st DECEMBER, 1946.

ASSETS

CURRENT ASSETS:		
Cash	$ 674,454.88	
Working Fund Advances	26,456.76	
Special Deposits	1,647.55	
Accounts Receivable	1,528,760.35	
Traffic Balances Receivable	369,174.78	
Balances Receivable from Agents	73,685.54	
Material and Supplies	1,551,403.21	
Other Current Assets	140,041.54	$ 4,365,624.61
DEFERRED CHARGES:		
Prepaid Charges	$ 18,089.21	
Prepaid Group Life Insurance	13,961.69	
Research and Development Expense	413,067.43	
Other Deferred Charges	58,409.42	503,527.75
INSURANCE FUND		1,514,273.38
INVESTMENTS IN AFFILIATED COMPANIES		6,287.00
CAPITAL ASSETS:		
Property and Equipment	$12,981,186.01	
Less Accrued Depreciation	*5,444,077.20*	7,537,108.81
		$13,926,821.55

LIABILITIES

CURRENT LIABILITIES:		
Audited Accounts Payable	$1,509,826.60	
Accrued Accounts Payable	2,352,435.21	
Traffic Balances Payable	51,701.92	
Air Travel Plan Deposits	652,375.00	
Salaries and Wages	325,798.51	
Other Current Liabilities	565,349.70	$ 5,457,486.94
RESERVES:		
Insurance	$1,514,273.38	
Inventory	100,000.00	1,614,273.38
CAPITAL STOCK:		
Common Stock Authorized—Par Value $25,000,000		
Common Stock Subscribed—Par Value	$8,000,000.00	
Less Uncalled Subscriptions to Common Stock	*1,400,000.00*	6,600,000.00
SURPLUS		255,061.23
		$13,926,821.55

T. H. COOPER,
Comptroller.

CERTIFICATE OF AUDITORS

We have examined the books and records of the Trans-Canada Air Lines for the year ended the 31st December, 1946, and subject to our report to Parliament, we certify that, in our opinion, the above Balance Sheet is properly drawn up so as to exhibit a true and correct view of the affairs of the Air Lines as at the 31st December, 1946, and that the relative Income and Surplus Accounts for the year ended 31st December, 1946, are correctly stated.

15th March, 1947.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

APPENDIX "B"

INCOME ACCOUNT

	1946	1945
Operating Revenues:		
Passenger	$ 8,065,477.04	$ 5,462,939.77
Mail	3,780,508.72	4,250,939.06
Express	305,238.69	307,386.62
Excess Baggage	72,946.77	53,790.04
Incidental Services—Net	586,633.88	437,532.49
Total	$12,810,805.10	$10,512,587.98
Operating Expenses:		
Flight Operations	$ 3,500,618.71	$ 2,589,201.53
Flight Equipment Maintenance	1,445,757.05	1,459,572.02
Flight Equipment Depreciation	1,388,635.49	785,660.34
Ground Operations	3,638,415.45	2,851,379.15
Ground Facilities Maintenance	215,906.47	212,139.38
Ground Facilities Depreciation	125,776.33	118,995.41
Indirect Maintenance	843,058.45	553,032.04
Passenger Service	954,570.75	620,105.89
Traffic and Sales	921,238.31	511,576.29
Advertising and Publicity	220,758.29	64,197.83
General and Administrative	689,203.79	484,411.70
	$13,943,939.09	$10,250,271.58
Interest Income	8,899.87	29,620.64
Miscellaneous Income—Net	8,978.21	*29,164.55*
Interest on Capital Invested	—	230,000.00
Total	$13,926,061.01	$10,479,815.49
Deficit 1946—Surplus 1945	*$ 1,115,255.91*	$ 32,772.49

SURPLUS ACCOUNT

at 31st December, 1946

Balance at 1st January, 1946		$ 1,524,685.62
Net Loss in Operations, year 1946	$ 1,115,255.91	
Dividend Appropriation of Surplus	154,368.48	
Balance at 31st December, 1946	255,061.23	
	$ 1,524,685.62	$ 1,524,685.62

STATISTICAL DATA

	1946	1945
Route Mileage Operated	6,511	5,299
Plane Miles Flown—Revenue	14,162,377	10,506,075
Plane Miles Flown—Non-Revenue	1,702,293	1,040,152
Revenue Passengers Carried	305,442	183,121
Average Passenger Journey—Miles	510	579
Percentage of Passenger Occupancy	76	84
Mail Ton Miles	1,210,716	1,571,180
Express Ton Miles	380,557	400,577
Excess Baggage Ton Miles	132,935	100,110

APPENDIX "C"

		1946	1945
Flight Operations			
601	Salaries and Wages	$ 1,277,739.42	$ 898,064.16
602	Supplies and Expenses	189,369.03	133,959.90
603	Aircraft Engine Fuels	1,669,901.90	1,303,157.34
604	Aircraft Engine Oils	64,643.02	47,905.10
605	Customs and Immigration	39,872.99	15,995.16
606	Flight Equipment Insurance	191,871.73	147,292.64
607	Liability and Compensation Insurance	30,884.59	22,705.57
608	Other Flight Expenses	36,336.03	20,121.66
		$ 3,500,618.71	$ 2,589,201.53
Flight Equipment Maintenance			
611	Aircraft Repairs	$ 762,930.77	$ 708,941.02
612	Aircraft Propeller Repairs	18,480.59	30,866.34
613	Aircraft Instrument Repairs	58,163.66	58,292.99
614	Aircraft Engine Repairs	520,253.73	597,935.15
615	Aircraft Communications Equipment Repairs	60,835.02	42,519.55
616	Miscellaneous Flight Equipment Repairs	25,093.28	21,016.97
		$ 1,445,757.05	$ 1,459,572.02
Flight Equipment Depreciation			
621	Aircraft Depreciation	$ 856,986.76	$ 449,651.14
622	Aircraft Engine Depreciation	326,014.30	276,295.22
623	Aircraft Propeller Depreciation	85,116.05	36,931.70
624	Aircraft Communication Equipment Depreciation	44,911.24	22,782.28
626	Spare Parts Depreciation	75,607.14	—
		$ 1,388,635.49	$ 785,660.34
Ground Operations			
631	Salaries and Wages—Supervision	$ 392,819.16	$ 289,523.27
632	Salaries and Wages—Flight Control	113,258.50	81,888.72
633	Salaries and Wages—Communications	301,590.43	279,152.24
634	Salaries and Wages—Station Managers	133,897.66	106,332.66
635	Salaries and Wages—Passenger Agents	233,019.53	151,179.67
635	Salaries and Wages—Reservation Agents	168,026.04	143,009.91
636	Salaries and Wages—Service Employees	1,079,448.14	849,513.21
637	Travelling and Incidental Expenses	184,916.15	107,013.45
638	Office Supplies and Expenses	115,403.93	92,141.39
639	Telephone, Telegraph and Teletype	260,916.86	219,635.88
640	Light, Heat, Power and Water	81,736.34	67,986.91
641	Rents of Fields, Buildings and Offices	191,545.38	132,126.87
642	Motor Vehicle Operation	37,848.80	27,861.74
643	Buildings and Ground Equipment Insurance	8,915.02	7,906.06
644	Liability and Compensation Insurance	7,281.60	15,907.66
645	Servicing Supplies and Expenses	80,490.61	68,891.10
646	Other Expenses	134,082.97	95,709.51
647	Express Expenses	113,218.33	115,598.90
		$ 3,638,415.45	$ 2,851,379.15
Ground Facilities Maintenance			
651	Communication Equipment Repairs	$ 30,021.29	$ 51,879.44
652	Shop and Hangar Equipment Repairs	48,902.40	43,607.61
653	Motor Vehicle Repairs	41,633.83	32,466.48
654	Buildings and Improvements Repairs	72,162.59	67,998.53
655	Miscellaneous Ground Equipment Repairs	23,186.36	16,187.32
		$ 215,906.47	$ 212,139.38

APPENDIX "D"

		1946	1945
Ground Facilities Depreciation			
658	Ground Facilities Depreciation	$ 125,776.33	$ 118,995.41
Indirect Maintenance			
661	Salaries and Wages—Supervision	$ 299,799.13	$ 224,040.77
662	Travelling and Incidental Expenses	35,308.81	5,042.45
663	Office Supplies and Expenses	31,449.90	11,577.04
664	Light, Heat, Power and Water	32,921.65	27,824.13
665	Rents of Buildings and Offices	2,365.02	1,380.00
666	Shop Supplies and Expenses	224,509.96	180,735.34
667	Stores Expense	163,117.32	111,794.82
668	Stores Inventory Adjustment	39,501.99	*29,776.71*
669	Buildings, Material and Ground Equipment Insurance	5,437.16	4,916.62
670	Liability and Compensation Insurance	6,503.44	12,195.30
671	Other Expenses	2,144.07	3,302.28
		$ 843,058.45	$ 553,032.04
Passenger Service			
681	Salaries and Wages—Supervision	$ 29,461.44	$ 21,000.44
682	Salaries and Wages—Stewardesses	207,107.51	145,229.21
683	Travelling and Incidental Expenses	80,989.30	60,513.63
684	Office Supplies and Expenses	628.94	512.70
685	Passenger—Food Service	356,029.87	199,224.18
686	Passenger—Supplies and Expenses	60,694.27	36,100.29
687	Passenger—Interrupted Flight Expenses	52,783.53	53,710.78
688	Liability and Compensation Insurance	166,875.89	103,814.66
		$ 954,570.75	$ 620,105.89
Traffic and Sales			
691	Salaries and Wages—Supervision	$ 74,962.53	$ 31,798.46
692	Salaries and Wages—Representatives	87,742.52	65,053.46
693	Salaries and Wages—Other Employees	392,504.01	207,350.61
694	Travelling and Incidental Expenses	77,799.01	26,070.10
695	Office Supplies and Expenses	63,858.73	33,598.35
696	Telephone, Telegraph and Teletype	102,759.30	77,915.67
697	Rents of Offices	64,452.36	37,922.00
698	Agency Commissions	51,053.48	27,376.64
699	Liability and Compensation Insurance	734.80	787.18
700	Other Expenses	5,371.57	3,703.82
		$ 921,238.31	$ 511,576.29
Advertising and Publicity			
706	Advertising and Publicity	$ 220,758.29	$ 64,197.83
General and Administrative			
711	Salaries and Wages—Supervision	$ 291,622.99	$ 197,142.40
712	Travelling and Incidental Expenses	25,364.47	17,427.28
713	Office Supplies and Expenses	32,526.95	22,301.09
714	Telephone and Telegraph	4,595.28	4,429.40
716	Administration Charges from Affiliated Companies	50,000.00	50,000.00
717	Pensions	199,920.00	125,781.92
718	Liability and Compensation Insurance	1,347.05	1,033.42
719	Other Expenses	25,504.00	20,999.77
720	General Taxes	58,323.05	45,296.42
		$ 689,203.79	$ 484,411.70

SESSION 1947

HOUSE OF COMMONS

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS INCLUDING
THIRD REPORT TO THE HOUSE

No. 5

MONDAY, JULY 7, 1947

OTTAWA
EDMOND CLOUTIER, C.M.G., B.A., L.Ph.,
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY
1947

REPORT TO THE HOUSE

TUESDAY, July 8, 1947.

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

THIRD REPORT

Your Committee had referred to it the following matters, namely:

(*a*) Annual Report of the Canadian National Railways for the year ended December 31, 1946.

(*b*) Annual Report of the Canadian National (West Indies) Steamships, Limited, for the year ended December 31, 1946.

(*c*) Annual Report of The Canadian National Railways Securities Trust for the year ended December 31, 1946.

(*d*) Annual Report of Trans-Canada Air Lines for the year ended December 31, 1946.

(*e*) Report to Parliament of the firm of George A. Touche and Company, auditors, for the year ended December 31, 1946.

(*f*) Financial Budget of the Canadian National Railways and the Canadian National (West Indies) Steamships, Limited, for the year 1947.

Your Committee held nine meetings in the course of which the said Reports were severally examined and unanimously adopted.

The Report of the Railway System disclosed a net income deficit of $8,961,570.49. Railways traffic continued to move in heavy volume but the continual increase in operating costs brought about by increases in the rates of pay and in the price of material prevented the railway from earning its full interest charges. Net income available for the payment of interest was $35·7 millions whereas the interest due to the public and to the Government was $44·6 millions. The financial budget of the railway system for the calendar year 1947 forecasts an income deficit of $31 millions, and the net requirements on capital account to be $46,723,000, including $41,500,000 for new equipment. The budget was approved.

The report of the West Indies Steamships disclosed a new income surplus of $1,302,051.63. Also that on completion of arrangements now in hand the Company will own ten vessels with a total deadweight of 56,075 tons, comprising two reconditioned "Lady" ships, three new diesel powered cargo ships, and five modern "Park" type ships. The financial budget for the year 1947 forecasts a net income surplus of $720,000, and the net requirements on capital account to be $3,589,900. The capital budget will be financed from the Vessel Replacement Fund of the Company. The budget was approved.

Trans-Canada Air Lines reported a deficit of $1,115,256 resulting from the 1946 operations. Mr. Symington, President of T.C.A., explained at considerable length the difficulties the Air Lines had to contend with last year. Costs were higher, training and development requirements were extensive, routes and services were expanded, and new types of aircraft were adopted. He also announced his impending retirement from the presidency, which information was received by your Committee with regret.

The work of your Committee was greatly facilitated by the information and explanations furnished by Mr. R. C. Vaughan, C.M.G., Chairman of the Board of Directors and President of the Canadian National Railways System, of Mr. H. J. Symington, K.C., C.M.G., President of Trans-Canada Air Lines, and of their officers who gave evidence, and your Committee desires to express its appreciation therefor.

A copy of the minutes of proceedings and evidence taken before your Committee is appended.

All of which is respectfully submitted.

S. M. CLARK,
Chairman.

MINUTES OF PROCEEDINGS

House of Commons,

Monday, 7th July, 1947.

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

Present: Messrs. Clark, Emmerson, Harkness, Hazen, Jackman, McCulloch (*Pictou*), McLure, Reid and Warren.—9.

The Chairman tabled a statement covering Hotel Operations for a number of years, as requested by Mr. Nicholson.

It was agreed that this statement be embodied in the Minutes of Proceedings and Evidence of the Committee.

Consideration was given to the draft of the Third Report of the Committee.

On motion of Mr. Reid,

Resolved: That the Third Report as drafted be adopted;

Ordered: That the Chairman present the said Third Report to the House of Commons.

The Chairman stated that the Report would be presented on or about Tuesday, 8th July next.

The Committee adjourned *sine die.*

T. L. McEVOY,
Acting Clerk of the Committee.

ACCOUNTING DEPARTMENT—CANADIAN NATIONAL RAILWAYS

HOTELS

Net Income or *Deficit* after Expenses and Taxes

Montreal, May 15, 1947

—		Capital Cost Dec. 31, 1937	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	Capital Cost Dec. 31, 1946
Chateau Laurier	$	8,669,832.66	171,684.97	168,293.51	227,956.63	395,119.92	405,744.00	379,432.39	453,587.68	515,515.15	557,672.41	383,036.48	8,981,702.31
Room occupancy	%	....	34·5	29·9	50·1	80·8	74·5	77·2	79·1	81·4	83·6	84·0	
Prince Arthur	$	1,185,504.98	24,858.64	19,402.10	9,627.79	2,442.84	20,232.68	4,971.81	17,506.11	36,367.14	46,408.30	47,819.30	1,194,455.98
Room occupancy	%	....	62·0	51·0	41·0	64·0	48·0	52·0	59·0	69·0	78·3	84·6	
Minaki Lodge	$	1,089,834.37	817.17	1,890.73	4,562.86	5,584.05	7,388.98	21,887.31	Closed	Closed	Closed	20,286.00	1,105,188.44
Room occupancy	%	....	63·2	62·5	62·0	37·2	70·2	77·0				82·5	
Fort Garry	$	2,904,267.50	*16,520.02*	*18,413.50*	*15,324.02*	*31,105.46*	8,302.39	25,331.33	82,116.60	132,613.57	163,862.80	111,128.04	2,941,914.68
Room occupancy	%	....	47·2	48·9	40·8	50·7	62·6	60·4	71·0	80·3	89·7	89·5	
Prince Edward	$	522,604.94	*19,769.20*	*8,021.21*	*4,418.07*	2,340.13	*4,082.94*	4,689.45	24,114.67	23,458.20	26,503.00	6,878.48	538,045.17
Room occupancy	%	....	36·2	34·5	38·0	66·2	58·1	61·0	72·0	73·0	77·0	76·0	
Macdonald	$	2,264,903.34	31,601.51	26,338.25	9,204.16	*347.05*	3,825.65	77,713.86	178,625.76	147,239.27	132,381.90	101,892.01	2,298,720.95
Room occupancy	%	....	38·8	42·9	44·5	76·5	67·6	86·8	93·0	91·7	92·1	93·1	
Jasper Park Lodge	$	2,627,070.05	26,214.17	49,467.21	57,130.29	41,123.49	50,090.86	*64,544.80*	Closed	Closed	Closed	114,085.63	2,749,591.46
Room occupancy	%	....	44·9	49·3	50·7	56·4	62·9	44·5				82·3	
Bessborough	$	3,567,584.06	*19,546.95*	*24,056.59*	*18,960.64*	13,312.77	*9,750.70*	2.17	56,758.22	114,309.94	131,643.07	145,303.07	3,566,080.71
Room occupancy	%	....	15·7	20·1	23·7	40·3	33·9	42·3	54·2	63·3	71·3	79·0	
Pictou Lodge	$	199,456.21	*40.17*	331.02	838.32	*6,507.62*	170.69	*2,917.80*	Closed	Closed	Closed	1,956.89	215,577.87
Room occupancy	%	....	41·1	40·0	30·9	47·0	67·3	48·5				70·3	
Nova Scotian	$	2,447,745.50	7,493.49	14,549.59	34,461.56	84,859.14	108,786.49	128,245.14	229,567.08	223,327.58	222,448.90	139,946.71	2,491,443.83
Room occupancy	%	....	44·1	46·5	75·8	89·1	94·7	95·9	94·7	94·0	94·5	87·3	
The Charlottetown	$	856,708.74	*6,643.18*	*3,367.36*	*2,708.29*	*4,636.14*	792.61	*5,087.44*	19,381.74	23,184.44	32,343.95	29,750.02	863,682.74
Room occupancy	%	....	13·0	16·0	16·0	28·0	28·0	31·0	41·0	45·0	50·0	60·0	
Total	$	26,335,514.35	200,150.43	226,013.75	302,363.59	502,186.07	591,500.71	569,723.42	1,061,457.86	1,216,015.29	1,313,264.33	1,102,082.63	26,946,404.14

Deficits in Italics.