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Canada. Parl. H of C. Stand-  
ing Comm.on Railways and  
Shipping Owned, Operated and  
Contr'd.by the Gov't., 1940.  
Minutes of proceedings and  
evidence.

DATE

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Canada. Parl. H of C. Standing  
Comm.on Railways and Shipping  
Owned, Operated and Contr'd.by  
the Gov't., 1940.

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SESSION 1940

HOUSE OF COMMONS

STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

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MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

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THURSDAY, JUNE 27, 1940

THURSDAY, JULY 4, 1940

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WITNESSES:

- Mr. S. J. Hungerford, President, Canadian National Railways.
- Mr. T. H. Cooper, Comptroller, Canadian National Railways.
- Mr. W. M. Armstrong, Assistant Chief of Research and Development, Canadian National Railways.
- Mr. O. A. Matthews, Auditor, George Touche & Co.
- Mr. D. B. Colyer, Vice-President, Trans-Canada Air Lines.
- Mr. W. F. English, Assistant to Vice-President, Trans Canada Air Lines.

MEMBERS OF THE COMMITTEE

J. P. HOWDEN, *Chairman*

*Messieurs:*

|                             |                                |
|-----------------------------|--------------------------------|
| Bercovitch                  | Howe                           |
| Black ( <i>Cumberland</i> ) | Jackman                        |
| Bradette                    | Lapointe ( <i>Lotbinière</i> ) |
| Donnelly                    | Lockhart                       |
| Dubuc                       | MacInnis                       |
| Emmerson                    | McCulloch                      |
| Ferland                     | Maybank                        |
| Gray                        | Parent                         |
| Hansell                     | Ross ( <i>Middlesex East</i> ) |
| Hanson ( <i>Skeena</i> )    | Sanderson                      |
| Harris ( <i>Danforth</i> )  | Sissons—23.                    |
| Howden                      |                                |

J. P. DOYLE,  
*Clerk of the Committee.*

## ORDERS OF REFERENCE

HOUSE OF COMMONS,

THURSDAY, June 20, 1940.

*Resolved*,—That Standing Order 63 of the House of Commons, relating to the appointment of standing committees of the House, be amended by adding to the standing committees of the House for the present session a standing committee on railways and shipping owned, operated and controlled by the Government, to which will be referred accounts and estimates and bills relating thereto of the Canadian National Railways, The Canadian National (West Indies) Steamships, and Trans-Canada Air Lines for the present session, for consideration and report to the House; provided however that nothing in the resolution shall be construed to curtail in any way the full right of discussion in Committee of Supply; and that the said committee consist of: Messrs. Bercovitch, Black (Cumberland), Bradette, Diefenbaker, Donnelly, Dubuc, Ferland, Gray, Hansell, Hanson (Skeena), Harris (Danforth), Hill, Howden, Howe, Lapointe (Lotbiniere), Lockhart, MacInnis, McCulloch, Maybank, Parent, Ross (Middlesex East), Sanderson, Sissons.

Attest.

ARTHUR BEAUCHESNE,  
*Clerk of the House.*

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THURSDAY, June 27, 1940.

*Ordered*,—That the Standing Committee on Railways and Shipping owned, operated and controlled by the Government, be empowered to examine and inquire into all such matters and things as may be referred to them by the House; and to report from time to time their observations and opinions thereon, with power to send for persons, papers and records.

Attest.

ARTHUR BEAUCHESNE,  
*Clerk of the House.*

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THURSDAY, June 20, 1940.

*Ordered*,—That the Estimates on Railways and Shipping included in the Main Estimates for 1940-41 tabled in the House on May 23, 1940, be referred to the said Committee.

Attest.

ARTHUR BEAUCHESNE,  
*Clerk of the House.*

THURSDAY, June 27, 1940.

*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 empowered to sit while the House is sitting.

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

Attest.

ARTHUR BEAUCHESNE,  
*Clerk of the House.*

FRIDAY, June 28, 1940.

*Ordered*,—That the Annual Budget of the Canadian National Railways and Canadian National Steamships, Tabled to-day, and the Annual Report laid on the Table of the House, on May 17, 1940, be referred to the said Committee, together with the following Votes:—

|  |              |
|--|--------------|
| 445—Maritime Freight Rates Act, Canadian National Railways, Eastern Lines.. . . . .      | \$ 2,000,000 |
| 446—Maritime Freight Rates Act, Railways other than Canadian National Railways.. . . . . | 800,000      |
| 458—Canadian National (West Indies) Steamships, Limited, Capital advanced.. . . . .      | 21,000       |
| 459—Canadian National Railway Company.. . . . .  | 15,000,000   |
| 460—Prince Edward Island Car Ferry and Terminals.. . . . .                               | 327,000      |

Attest.

ARTHUR BEAUCHESNE,  
*Clerk of the House.*

FRIDAY, July 5, 1940.

*Ordered*,—That the name of Mr. Emmerson be substituted for that of Mr. Hill on the said Committee.

*Ordered*,—That the name of Mr. Jackman be substituted for that of Mr. Diefenbaker on the said Committee.

Attest.

ARTHUR BEAUCHESNE,  
*Clerk of the House.*

## REPORTS TO THE HOUSE

JUNE 27th, 1940.

The Standing 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 empowered to sit while the House is sitting.
3. That the quorum of the Committee be reduced from 12 members to 8 members.

All of which is respectfully submitted.

J. P. HOWDEN,  
*Chairman.*

## MINUTES OF PROCEEDINGS

THURSDAY, June 27, 1940.

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

*Members present were:* Messrs. Black (*Cumberland*), Bradette, Donnelly, Ferland, Hansell, Hanson (*Skeena*), Howden, Lockhart, MacInnis, McCulloch, Parent, Ross (*Middlesex East*) and Sanderson (13).

Nominations for Chairman having been requested, Mr. Ross (*Middlesex East*) moved, seconded by Mr. Ferland, that Mr. Howden be elected Chairman. There being no other nominations, Mr. Howden was unanimously elected. He took the Chair and thanked the Committee for the honour conferred upon him.

Mr. Hanson (*Skeena*) moved, seconded by Mr. McCulloch,—

That the Committee ask leave 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—Carried.

Mr. Ferland moved, seconded by Mr. Hanson (*Skeena*),—

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

Mr. Bradette moved, seconded by Mr. Donnelly,—

That the quorum be reduced from 12 members to 8 members.—Carried.

On motion of Mr. Lockhart the Committee adjourned at 11.40 a.m. to meet again at the call of the Chair.

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THURSDAY, July 4, 1940.

The Standing Committee on Railways and Shipping met this day at 11.00 o'clock a.m. Mr. Howden, the Chairman, presided.

*Members present were:* Messrs. Bercovitch, Black (*Cumberland*), Donnelly, Ferland, Gray, Hansell, Hanson (*Skeena*), Howden, Lapointe (*Lotbinière*), MacInnis, McCulloch, Ross (*Middlesex East*), Sanderson, and Sissons—(14).

*In attendance were:*—

Mr. S. J. Hungerford, President, Canadian National System;

Mr. R. C. Vaughan, Vice-President, Canadian National Railway System;

Mr. T. H. Cooper, Comptroller;

Mr. W. M. Armstrong, Ass't Chief of Research and Development;

Col. V. I. Smart, Deputy Minister of Transport;

Mr. A. V. Franklin, Railway Auditor, Department of Transport;

Mr. O. A. Matthews, representing George A. Touche & Co., Auditors;

Mr. D. B. Colyer, Vice-President, Trans-Canada Air Lines;

Mr. W. F. English, Ass't to the Vice President, Trans-Canada Air Lines; and

Mr. C. P. Edwards, Chief of Air Service, Department of Transport.

The Committee took under consideration the reports of the Canadian National Railway System, the Canadian National (West Indies) Steamships, Ltd., the Trans-Canada Air-Lines, the report of George A. Touche & Co., Auditors and the Canadian National Railways securities Trust.

On motion of Mr. Donnelly the Committee adjourned at 12.50 p.m. to meet again at 4.00 p.m. this day.

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The Committee met again at 4.00 p.m. Mr. Howden, the Chairman, presided.

*Members present were:* Messrs. Bereovitch, Black (*Cumberland*), Donnelly, Ferland, Hansell, Hanson (*Skeena*), Howden, Lapointe (*Lotbinière*), Lockhart, McCulloch, Ross (*Middlesex East*), Sanderson and Sissons.—(13).

The Committee continued consideration of the above mentioned reports.

At the request of Mr. Hansell, the officials in attendance were introduced to the Committee.

On motion of Mr. Ross (*Middlesex East*), the Committee adjourned at 5.50 p.m. to meet again at 8.00 p.m. this day.

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The Committee met at 8.00 p.m. Mr. Howden, the Chairman presided.

*Members present were:* Messrs. Bereovitch, Black (*Cumberland*), Donnelly, Ferland, Gray, Harris (*Danforth*), Howden, Howe, Lapointe (*Lotbinière*), Lockhart, McCulloch, Maybank, Ross (*Middlesex East*), Sanderson, and Sissons.—(15).

The Committee continued consideration of the above mentioned reports.

On motion of Mr. Harris,—

*Ordered:* That officials of the Post Office Department be in attendance at the next meeting to give information respecting air-mail contracts.

Mr. Lockhart moved:

That the administrative costs and the salaries of officials and employees of the Trans-Canada Air Lines be given to members of this Committee *in camera*.  
—Carried on division.

The Committee therefore went into *camera*.

On motion of Mr. Gray, the Committee adjourned at 10.05 p.m. to meet again on Tuesday, July 9th, at 11.00 a.m.

J. P. DOYLE,  
Clerk of the Committee.



# MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 277,

July 4, 1940.

The Standing Committee on Railways and Shipping met at 11 a.m. The Chairman, Mr. J. P. Howden, presided.

The CHAIRMAN: Gentlemen, the purpose of this committee, as I understand it, is briefly to consider the budget of the government-owned railways, shipping and airways. A good many of the former members of the committee have passed away with changes in the house, but there are enough of them left to carry on pretty well. Owing to the nature of the session and one thing and another I do believe it is desirable, without unduly abbreviating anything, to get through with the work as rapidly as possible.

I understand that there has been a regular, shall I say, sequence to the business at former sittings of the committee. It has been the habit in the past to consider first of all the annual report of the Canadian National Railways system. The committee is in your hands. If this agrees with the wishes of the committee we shall proceed along these lines, and we shall follow the report as one of the officers of the company reads it for us.

Mr. Armstrong will read the report.

Mr. ARMSTRONG:

## CANADIAN NATIONAL RAILWAYS

MONTREAL, 19th March, 1940.

The Honourable C. D. HOWE,  
Minister of Transport,  
Ottawa.

SIR,—In conformity with sections 14 and 15 of The Canadian National—Canadian Pacific Act, 1936, the Board of Directors submit the following report of the operations of the Canadian National Railways for the calendar year 1939:—

### RESULT OF OPERATIONS

|  |                  |                  |                 |
|--|------------------|------------------|-----------------|
| Operating revenues . . . . .                                   | \$203,820,186 62 | \$182,241,722 93 | \$21,578,463 69 |
| Operating expenses . . . . .                                   | 182,965,768 18   | 176,175,311 78   | 6,790,456 40    |
| Net operating revenue . . . . .                                | \$ 20,854,418 44 | \$ 6,066,411 15  | \$14,788,007 29 |
| Net of other income and profit and loss requirements . . . . . | 10,219,395 11    | 9,615,459 68     | 603,935 43      |
| Net available for interest . . . . .                           | \$ 10,635,023 33 | \$ 3,549,048 53  | \$14,184,071 86 |
| Interest on funded debt held by public . . . . .               | 49,814,377 90    | 49,839,022 58    | 24,644 68       |
| Interest on Government loans . . . . .                         | 916,165 01       | 926,124 86       | 9,959 85        |
| Cash deficit . . . . .   | \$ 40,095,519 58 | \$ 54,314,195 97 | \$14,218,676 39 |

The CHAIRMAN: I may say for the benefit of the committee the reader may be interrupted at any point to consider any matter that appeals to members.

Mr. ARMSTRONG:

### *Operating Revenues*

Operating revenue totalled \$203,820,187, an increase of \$21,578,464, or 11.84 per cent over the preceding year. The total for the year was the highest of any

year since 1930. It would be a mistake to attribute all of the increase in traffic to the war: the increase was progressive throughout the year. In the first quarter the total revenue was about equal to that of 1938, after which the quarterly increases were 11·9 per cent, 14·7 per cent and 18·6 per cent. The increase on the lines of the company in the United States was 19·9 per cent and on the lines in Canada 10·5 per cent.

Revenue from the transportation of freight increased \$20,485,407, or 14·6 per cent. A statement of the tonnage handled, by commodities, appears on pages 24 and 25 of this report. Grain tonnage increased 1,437,554 tons, the 1939 wheat crop being larger than any previous crop except that of 1928. Substantial increases were also reflected in anthracite and bituminous coal, lumber, iron and steel, motor vehicles and parts, and other manufactured commodities.

Passenger revenue decreased 1·5 per cent. Mail revenue increased 1·4 per cent. Express revenue increased 13·4 per cent. Commercial telegraph revenue decreased 3·8 per cent.

#### *Operating Expenses*

Operating expenses totalled \$182,965,768, an increase of \$6,790,456, or 3·85 per cent. This is a moderate increase when viewed in relation to the increase in operating revenues of \$21,578,464. The operating ratio was 89·77 per cent, the best since 1929. Most of the increase was in maintenance and transportation expenses, and was necessitated by the increase in traffic. Expenditures for maintenance of property and equipment increased \$3,724,000, or 4·93 per cent, while transportation expenses increased \$2,679,000, or 3·11 per cent. The property and equipment have been adequately maintained. The ratio of transportation expenses to revenues was the most favourable since 1929. This operating result was attained notwithstanding an additional snow removal expense of \$357,000, a larger provision for equipment retirements of \$583,000, an increase in the pension roll of \$222,000, wage adjustments costing \$622,000, and the cost of protective services necessitated by the war amounting to \$433,000.

Mr. BERCOVITCH: Would it not be well for us to discuss this report paragraph by paragraph as it is being read, because if the gentleman is going to read the whole report, in the end we shall have nothing further to do but to adopt it?

The CHAIRMAN: I think the committee is at liberty to cut in any time they wish.

Mr. BERCOVITCH: I do not want to interrupt, but I think it would be more advantageous for the committee to discuss the report clause by clause. At the end of a clause if there is any discussion or any question to put I think we ought to adopt that as the policy of the committee. If we did that it would be much more advantageous, because as all this is read I am sure a great deal of it will be forgotten by the time ten or twelve pages have been gone over. Then, if we want to put any questions we have to go back again.

Mr. ROSS: There is not much to read if the tables are left out.

Mr. BERCOVITCH: I am merely throwing out the suggestion.

The CHAIRMAN: I think in the past the reading has proceeded right along and then questions were asked.

Mr. BERCOVITCH: Would there be any explanation for the—

The CHAIRMAN: What is the wish of the committee in this regard? Shall we proceed as we have been doing? There is a lot of ground to cover.

Mr. MACINNIS: After the official has read a paragraph, if he paused and asked if there were any questions to put to him, I think we should get along very well.

The CHAIRMAN: All right. Are there any questions so far as we have gone?

Mr. BERCOVITCH: Is there any explanation for the passenger revenue decrease? There seems to have been a decrease to a very slight extent. Is there any explanation for that? Can you give the committee any explanation for that decrease?

Mr. ARMSTRONG: The passenger revenues are approximately equal to the year before, being down 1.5 per cent; that is, about \$280,000 in about \$18,000,000. The number of passengers carried is approximately the same. The decrease being 1.4 per cent, and the passenger miles are down 1.8 per cent.

Mr. BERCOVITCH: I know these are the figures given. Have you in mind any particular reason why there should have been a decrease? I agree it is a small amount, but can you tell us why there should have been a decrease? There was an increase in all other branches, traffic and so on. Was the decrease in the passenger income due to competition?

Mr. DONNELLY: Air mail.

Mr. ARMSTRONG: There are a number of factors which affected passenger traffic. One, of course, is the private automobile—the bus did not affect it as much. To some extent, at any rate, the air lines also affected rail passenger traffic.

Mr. DONNELLY: Bus services?

Mr. ARMSTRONG: Bus services to some extent, yes. The private automobile, I would say, would be the main reason.

Mr. BERCOVITCH: It would not be due to any inferiority in equipment?

Mr. ARMSTRONG: No. The equipment in 1939 was better than it was in 1938. Our rail services would be, if anything, better. It was not due to the rail transportation services depreciating.

Mr. McCULLOCH: I would think the air lines have something to do with it.

Mr. ARMSTRONG: Air lines have had some effect.

Mr. DONNELLY: Was there any increase in the mileage that you carried per individual?

Mr. ARMSTRONG: No, almost exactly the same. Our average during 1939 was 86.3 and 86.7 in 1938, so it is practically the same, very slightly down.

Mr. BERCOVITCH: You say the operating expenses have increased by \$6,790,000. You mentioned this as a modest increase. That may be a very moderate sum—

Mr. HUNGERFORD: That has to be considered in relation to the volume of business we carry. The volume increased to the extent of \$21,000,000.

The CHAIRMAN: The explanation is given at the foot of the page.

Mr. SANDERSON: You say here that wage adjustments cost \$622,000. What is the explanation for that?

Mr. HUNGERFORD: I think that the major factor was an increase in the rate for common labour. There were some restorations of the reductions that had been in effect before. They were more or less progressive but last year caught the tail end.

Mr. GRAY: There is an increase shown in the pension roll of \$222,000. Are you insisting now that the men be retired positively on retirement age? Are there any exceptions to that?

Mr. HUNGERFORD: I did not quite get that.

Mr. GRAY: Are you insisting they retire at retirement age and no exception granted?

Mr. HUNGERFORD: That has been the rule but under war conditions there are some few exceptions.

Mr. HUNGERFORD: That has been the rule but under war conditions there are some few exceptions.

Mr. GRAY: I have been a member of this committee for some time. This is an old subject to me. For years I have tried to convince the officials that when these men reach retiring age they should be retired without any exception being made. Subject to the war is that the final rule now?

Mr. HUNGERFORD: Under war conditions I do not think we can say positively that anything is unchangeable; but it is the general rule, yes.

Mr. HANSELL: Would not that largely depend on the time that a man has been with the company? A man doesn't always receive a pension when he reaches retiring age.

Mr. DONNELLY: What is the retiring age?

Mr. HANSELL: Sixty-five.

Mr. HUNGERFORD: The retiring age is sixty-five.

Mr. HANSELL: It may so happen that a man has been working fifteen or twenty years and is not eligible for a pension.

Mr. DONNELLY: How many are in the employ of the company now over sixty-five? Have you any idea of that?

Mr. COOPER: Our employees, speaking broadly, are all retired at age sixty-five. I have in mind about six people whose service has been extended beyond the age of sixty-five. It is practically negligible.

Mr. GRAY: This brings up the further question—and I think we may as well deal with it now—as to these men who are retired on pensions, some of them on very large pensions, taking other employment. What is the policy of the company with respect to them, especially men who are retired on pensions say of \$5,000 a year, taking other employment?

Mr. HUNGERFORD: Permission has been granted in some cases.

Mr. GRAY: Why?

Mr. HUNGERFORD: Sometimes they are needed and sometimes it gives them an opportunity to earn a little something extra.

Mr. BERCOVITCHS: There really would not be any harm in that.

Mr. HUNGERFORD: They have to get permission.

Mr. BERCOVITCH: I think the amount of pension that is paid is really his own money, when you boil it all down.

Mr. GRAY: Having regard to the war effort, do you not think that men who are receiving large pensions might become dollar a year men instead of being otherwise employed?

Mr. HUNGERFORD: Well, that is a matter of opinion. I do not know. It all depends on what they are doing.

Mr. SANDERSON: You are referring to officials, are you, Mr. Gray?

Mr. GRAY: Yes. I do not mind saying who I have in mind. I have in mind Mr. W. A. Kingsland, who was general manager of the central region and who must be receiving a very large pension, and who is employed now as lobbyist or whatever you may call it for the Dufferin Construction Company.

Mr. HUNGERFORD: Mr. Kingsland last winter asked for permission to engage temporarily in work. That permission was given. Since then I understand the situation has changed quite materially and he is occupying a more responsible position, but I am informed he is carrying on work for some government agency. The property has been taken over, so I understand. Mr. Kingsland is assisting in the administration.

Mr. GRAY: What is his pension?

Mr. HUNGERFORD: I do not know that I can tell you at the moment.

Mr. COOPER: I can get that for you.

Mr. HUNGERFORD: I think it is about \$6,000.

Mr. BERCOVITCH: How long was he with the company before he was on pension?

Mr. HUNGERFORD: Again I am speaking from memory, but I think about thirty-eight years, as far as I can remember.

The CHAIRMAN: Gentlemen, I have a suggestion to make. My hearing is not very good, and I understand that Mr. Hungerford is having a little difficulty. Some of the interrogations are hardly getting across. I would ask members to speak just a little louder.

Mr. BERCOVITCH: I promise to speak louder, Mr. Chairman.

Mr. MACINNIS: Would Mr. Hungerford speak a little louder. We cannot hear him over here.

Mr. HUNGETFORD: I will try to do that.

Mr. GRAY: You say that permission is rarely granted, that it is only on special occasions that the officials who are on pension are granted the right to take other employment?

Mr. HUNGERFORD: Yes.

Mr. GRAY: Exceptional circumstances.

Mr. SMART: You understand the situation with respect to the Dufferin Construction Company, do you Mr. Gray?

Mr. GRAY: I do now, at the present moment. I did not prior to a few months ago.

Mr. SMART: The voting shares of that company belong to you know who.

Mr. GRAY: Quite.

Mr. SMART: That was sequestrated by the custodian, so that at the moment the Dufferin Construction Company common shares are in the hands of the government.

Mr. GRAY: Quite. But you cannot get around it in that way, Mr. Smart. Mr. Kingsland took employment long before there was sequestration by the government.

Mr. SMART: No. I am not speaking of Mr. Kingsland's relationship. I just wanted to know whether you understood about the Dufferin Construction Company which is performing work for us at the minute, is really in the hands of the government as an institution.

Mr. GRAY: At the present moment.

Mr. SMART: Yes, at the present moment.

Mr. DONNELLY: It does seem to me to be very unfair that a man should be getting a pension from the government at \$6,000 a year and still be employed by the government and getting a wage as well.

Mr. McCULLOCH: What was his salary before he got the pension, roughly?

Mr. SMART: \$18,000, I think.

Mr. HUNGERFORD: \$16,000 or \$17,000; somewhere thereabouts.

Mr. McCULLOCH: A man like Mr. Kingsland who had been living on a salary of \$15,000 or \$16,000, would find it pretty hard to live on \$6,000 a year.

Mr. HUNGERFORD: I gathered from my conversations with Mr. Kingsland that he was very anxious to have something to do, that time dragged a great deal on his hands. He had always been very active and he was rather unhappy at not having anything to do.

Mr. DONNELLY: There is a great opportunity for him to do work at a dollar a year like a great many others are doing at the present time in the war effort. He has a pension of \$6,000 a year.

Mr. BERCOVITCH: Was he ever asked to contribute his services towards the war? In principle, Mr. Chairman, it seems to me that a man earns his pension, and he is not placed on pension unless the government feels or has thought that he has contributed services over the period of his employment that entitle him to his pension. In other words, it would be just as if a certain amount had been deducted from his salary weekly or monthly, which had accumulated; and at the end of thirty years he would be entitled to so much money. I think that is the general principle, as far as I am concerned.

The CHAIRMAN: You think his time is his own.

Mr. BERCOVITCH: His time is his own after that. I do not know the gentleman at all. I never heard of him before today. But if he were asked to do any war work and refused to do it, I think it would come with very bad grace from him; but I doubt very much if he would. He probably would be very glad to do it.

The CHAIRMAN: Do you want to let this point pass now or do you want to reserve it?

Mr. BERCOVITCH: It really does not matter. I do not think we should waste too much time on it, unless Mr. Gray wishes to say something further.

Mr. GRAY: No, I have nothing further.

Mr. MACINNIS: Could the committee have a list of the persons receiving pensions who are otherwise engaged, particularly in government business or for the railways?

The CHAIRMAN: We will make a note of that.

Mr. HUNGERFORD: We can have that.

The CHAIRMAN: All right. I think we will proceed.

Mr. ARMSTRONG: I shall commence at the top of page five.

#### *Other Income and Profit and Loss Requirements*

The accounts in this group increased \$603,935 over 1938. The increase was due to the larger provision made in the accounts for the retirement of miscellaneous structures, sidings, etc., which have been retired from service and not replaced.

Taxes amounted to \$7,095,147 compared with \$6,946,873 in 1938. These figures are exclusive of sales tax added to the cost of material, which amounted to \$3,171,500 in 1939.

The revenues from hotel operations increased \$186,629 over 1938, and after meeting operating expenses and taxes the net operating income was \$302,363, an increase of \$76,350 over 1938.

The CHAIRMAN: Are there any questions? I take it that the increase in revenue came from the Chateau Laurier?

Mr. ARMSTRONG: Not altogether.

Mr. BERCOVITCH: They got some of my money.

Mr. HUNGERFORD: The Nova Scotian did pretty well and Jasper Park Lodge did better.

The CHAIRMAN: How about your big hotel at the coast?

Mr. HUNGERFORD: Well, that was only in service from May 25.

The CHAIRMAN: Yes. Then we shall go on to the next paragraph.

Mr. ARMSTRONG: The next is "Interest Charges".

### *Interest Charges*

The total requirements for interest on funded debt held by the public in 1939 were \$49,814,377, being \$24,645 less than in 1938.

Interest payments to the Government on temporary loans for capital purposes were \$916,165, being \$9,959 less than in 1938.

It is of interest to note that from 1932, when the present practice was adopted of financing capital requirements by issue of railway securities to the public, the capital debt of the railway (including temporary Government loans) has been increased by \$32.3 millions, an average increase during the eight year period of \$4 millions per annum. In this period the railway has made new public issues aggregating \$319 millions but has retired other public issues aggregating \$332 millions. As the result of this refinancing, which has been at lower interest rates, the fixed charges of the railway, 1939 compared with 1931, after providing for interest on the additional capital of \$32.3 millions, show a decrease of \$5,643,000.

Mr. HANSELL: Referring to paragraph one, I should like to ask what the total funded debt was.

Mr. COOPER: The amount is \$1,263,000,000. You will find the full details set out on pages 19 and 20 of the report.

The CHAIRMAN: I think you come to that lower down.

Mr. HANSELL: Do those details give us the amount of perpetual bonds? I have not looked at it yet.

Mr. COOPER: Yes; and also the interest rates.

The CHAIRMAN: Are there any further questions, gentlemen? If not, we can proceed.

Mr. DONNELLY: May we go back to the top of the page? Will we have an account of what has been done on profit and loss account with regard to each of these hotels across the country, or where they stand? Do we go into this now, or do we go into it later on?

Mr. ARMSTRONG: We have it all available. We can file a statement.

Mr. DONNELLY: Yes. I think we should have a statement of these different hotels across the country, as to where they stand.

Mr. ARMSTRONG: We have a statement as to revenues, expenses and taxes. Will that be sufficient?

Mr. DONNELLY: Yes.

Mr. HUNGERFORD: You would like that, Mr. Chairman, would you?

The CHAIRMAN: Yes.

Mr. ARMSTRONG: We can file a statement.

The CHAIRMAN: We would like a memo left on the table. You do not want that now, do you, Mr. Donnelly?

Mr. DONNELLY: No, not right now.

Mr. ARMSTRONG: We have it available. We could put it in the record.

Mr. DONNELLY: Very well.

Mr. ARMSTRONG: We have it right here.

Statement *re* hotels supplied by Mr. Armstrong is as follows:—

## HOTELS—OPERATING INCOME

|  | 1939           | 1938           | Gain or Loss |
|--|----------------|----------------|--------------|
| Account 502 revenues from hotel operations.. | \$3,331,303 03 | \$3,144,674 00 | \$186,629 03 |
| Account 534 expenses of hotel operations ..  | 2,901,439 17   | 2,784,021 04   | 117,418 13   |
| Account 535 taxes on hotel property.. . . .  | 127,500 27     | 134,639 21     | 7,138 94     |
| Net gain or loss . . . . .                   | \$ 302,363 59  | \$ 226,013 75  | \$ 76,349 84 |

## INDIVIDUAL HOTELS

| Year 1939                   | Revenues              | Expenses              | Taxes                | Net                 |
|-----------------------------|-----------------------|-----------------------|----------------------|---------------------|
| Charlottetown . . . . .     | \$ 90,490 93          | \$ 89,561 74          | \$ 3,637 48          | \$ 2,708 29         |
| Pictou Lodge . . . . .      | 17,463 02             | 16,412 30             | 212 40               | 838 32              |
| Nova Scotian . . . . .      | 340,485 02            | 294,922 96            | 11,100 50            | 34,461 56           |
| Chateau Laurier . . . . .   | 1,242,045 52          | 953,935 36            | 60,153 53            | 227,956 63          |
| Prince Arthur . . . . .     | 150,619 25            | 136,504 05            | 4,494 41             | 9,620 79            |
| Minaki Lodge . . . . .      | 49,689 33             | 45,126 47             | .....                | 4,562 86            |
| Fort Garry . . . . .        | 362,073 39            | 350,790 49            | 26,606 92            | 15,324 02           |
| Prince Edward . . . . .     | 98,746 70             | 99,891 24             | 3,273 53             | 4,418 07            |
| MacDonald . . . . .         | 403,309 59            | 379,967 87            | 14,137 56            | 9,204 16            |
| Jasper Park Lodge . . . . . | 345,111 36            | 284,921 07            | 3,060 00             | 57,130 29           |
| Bessborough . . . . .       | 231,268 92            | 249,405 62            | 823 94               | 18,960 64           |
|                             | <u>\$3,331,303 03</u> | <u>\$2,901,439 17</u> | <u>\$ 127,500 27</u> | <u>\$302,363 59</u> |
| Year 1938                   |                       |                       |                      |                     |
| Charlottetown . . . . .     | \$ 85,299 94          | \$ 85,029 82          | \$ 3,637 48          | \$ 3,367 36         |
| Pictou Lodge . . . . .      | 17,382 88             | 16,746 86             | 305 00               | 331 02              |
| Nova Scotian . . . . .      | 311,978 17            | 286,357 40            | 11,071 18            | 14,549 59           |
| Chateau Laurier . . . . .   | 1,158,537 84          | 927,958 88            | 62,285 45            | 168,293 51          |
| Prince Arthur . . . . .     | 156,618 49            | 131,712 05            | 5,504 34             | 19,402 10           |
| Minaki Lodge . . . . .      | 51,896 80             | 49,844 07             | 162 00               | 1,890 73            |
| Fort Garry . . . . .        | 346,474 81            | 338,583 13            | 26,305 18            | 18,413 50           |
| Prince Edward . . . . .     | 91,839 39             | 95,888 48             | 3,972 12             | 8,021 21            |
| MacDonald . . . . .         | 408,460 90            | 367,050 86            | 15,071 79            | 26,338 25           |
| Jasper Park Lodge . . . . . | 291,977 90            | 237,878 89            | 4,631 80             | 49,467 21           |
| Bessborough . . . . .       | 224,206 88            | 246,970 60            | 1,692 87             | 24,456 59           |
|                             | <u>\$3,144,674 00</u> | <u>\$2,784,021 04</u> | <u>\$ 134,639 21</u> | <u>\$226,013 75</u> |

The CHAIRMAN: Then shall we go ahead? I will ask Mr. Armstrong to read the next.

Mr. ARMSTRONG: The next is in regard to cash deficits.

*Cash Deficit*

The net operating revenue for the year 1939 was \$20,854,418, an improvement over the preceding year of \$14,788,007. After payment of all fixed and other charges (excepting charges to Proprietor's Equity under the provisions of *The Canadian National Railways Capital Revision Act, 1937*) the deficit for the year was \$40,095,519, an improvement of \$14,218,676 compared with 1938. Full details are given in the accounting statements accompanying this report.

The CHAIRMAN: If there are no questions on that, I will ask Mr. Armstrong to proceed.

Mr. ARMSTRONG: The next is capital expenditure accounts.

## CAPITAL EXPENDITURE ACCOUNT

The net expenditures on property investment account for the year 1939 amounted to \$9,863,847, made up as follows:—

|  |             |
|--|-------------|
| Rolling stock purchased or built.....                    | \$9,416,948 |
| Rolling stock retired.....                               | 8,471,262   |
| Betterments to freight and passenger equipment.....      | 671,381     |
| Air-conditioning passenger cars.....                     | 445,100     |
| Vancouver Hotel.....                                     | 1,629,042   |
| Senneterre—Rouyn Branch Line.....                        | 325,451     |
| Montreal Terminal Development.....                       | 2,174,590   |
| General additions and betterments, less retirements..... | 3,672,597   |
|  | <hr/>       |
|  | \$9,863,847 |

The CHAIRMAN: Are most of your passenger cars air-conditioned now?

Mr. ARMSTRONG: On all of the principal routes. All of the main line principal routes are air-conditioned at the present time.

Mr. SANDERSON: Under Vancouver Hotel, there is the figure \$1,629,042. What is that? Is that the amount of expenditure of the Canadian National Railways in that?

Mr. ARMSTRONG: That is the completion cost.

Mr. COOPER: It is the expenditure during the year 1939.

Mr. SANDERSON: Getting back to that hotel, I think we had better ask this question now. Just what are the arrangements between the two railways in connection with that hotel?

Mr. HUNGERFORD: It is a question of general operation. Would you like us to prepare a brief memorandum in answer to the question?

Mr. SANDERSON: I would be satisfied with that.

Mr. COOPER: We would prepare a synopsis of it for you.

Mr. HUNGERFORD: I think it would be more intelligible if you had it before you.

Mr. BERCOVITCH: With reference to the deficit of \$40,000,000, while I think we show a very nice improvement over the previous year, can you give us any hope that some day we will be able to operate the Canadian National Railways without a deficit?

Mr. HUNGERFORD: That is a very large question. You are asking me to read the future. It all depends on the volume of traffic; if you have a sufficient volume of traffic the railways will operate without a deficit.

The CHAIRMAN: We have had it in the past.

Mr. HUNGERFORD: Yes, we have had it in the past; in two years.

Mr. McCULLOCH: The last six months have shown an improvement over the previous six months?

Mr. HUNGERFORD: A very decided improvement?

Mr. McCULLOCH: So that the surplus you will show will be much greater if traffic keeps up for the next twelve months?

Mr. HUNGERFORD: It should be.

Mr. BERCOVITCH: Not necessarily so.

Mr. HUNGERFORD: We will come to that question in connection with the 1940 Budget, if you would like to leave it until that comes up for consideration.

The CHAIRMAN: Let us proceed.

Mr. ARMSTRONG:

The following rolling stock was purchased or built during the year: 1,950 box cars, 40 refrigerator cars (part of an order for 100), 25 cabooses, 50 box-baggage cars, 9 buffet-sleeping cars, 5 mail-express cars, 10 baggage cars, 11 snow ploughs and 8 work units.

To meet anticipated war requirements additional orders were placed for 2,765 box cars, 500 flat cars and 25 Northern type locomotives. This equipment will be delivered and accounted for in 1940.

The following rolling stock was retired during the year: 60 locomotives, 5,044 freight train cars, 27 passenger train cars and 477 work units. The loss has been accounted for as an expense of operation.

The program of air-conditioning passenger train cars was continued. All principal main line trains are now air-conditioned. The Vancouver Hotel and Senneterre-Rouyn branch line were completed during the year.

The CHAIRMAN: Are there any questions?

## FINANCE

### *Retirement of Obligations*

The following securities matured and were retired during 1939:

|                 |   |
|-----------------|---|
| \$ 9,874,062 00 | 4 per cent Grand Trunk Pacific Branch Lines Company First Mortgage Bonds due January 22, 1939.          |
| 8,029,999 99    | 4 per cent Canadian Northern Railway Company First Mortgage Debenture Stock due January 23, 1939.       |
| 2,430,000 00    | 4 per cent Grand Trunk Pacific Branch Lines Company First Mortgage Bonds due February 25, 1939.         |
| 5,586,665 64    | 4 per cent Canadian Northern Railway Company First Mortgage Debenture Stock due February 25, 1939.      |
| 7,004,997 27    | 4 per cent Duluth, Winnipeg & Pacific Railway Company First Mortgage Debenture Stock, due June 1, 1939. |
| 3,000,000 00    | 4 per cent Canadian Northern Railway Company Winnipeg Terminals Bonds due July 1, 1939.                 |

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\$ 35,925,724 90

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Provision was made for the retirement of other capital obligations, including sinking fund and equipment principal payments, amounting to \$8,162,745.72.

The retirement of these obligations was financed through temporary loans from the Government and the new issue referred to below.

The CHAIRMAN: All right, next:

Mr. ARMSTRONG:

### *New Issues*

An issue of Canadian National Railway Company Dominion Guaranteed Bonds was made, dated January 15, 1939. The proceeds therefrom were used to retire matured obligations and temporary loans from the Government. The issue comprised:—

\$15,000,000 2½ per cent Seven Year Bonds, sold at 98·625, at an annual cost of 2·47 per cent.

\$35,000,000 3 per cent Twenty Year Bonds, sold at 96·50, at an annual cost of 3·24 per cent.

An issue of \$6,500,000 Canadian National Railways 2½ per cent Equipment Trust Certificates, Series "Q," 1939, was made, dated July 1, 1939, to provide for the payment of part of the purchase of new equipment costing over \$8,700,000. The certificates, which mature serially in ten annual instalments, were sold at an average of 100·428, the annual cost being 2·46 per cent.

Mr. BERCOVITCH: So, while you have retired \$35,000,000 odd of obligations you have borrowed \$50,000,000?

Mr. ARMSTRONG: Yes.

The CHAIRMAN: That is right.

Mr. DONNELLY: It was just refinancing with the object of giving you lower interest charges?

Mr. COOPER: What is that?

Mr. DONNELLY: Does this refinancing lower your interest charges?

Mr. COOPER: Yes.

Mr. BERCOVITCH: You will not be in a much better position. You retired \$35,000,000 and you borrowed \$50,000,000, so that even with the lower interest rate it will be about the same as far as interest charges are concerned.

Mr. COOPER: There is a certain amount of overlap between the amount of the securities retired during the year and the amount of new issues during the year. That is to say, we do not necessarily refinance during any year the particular securities that have to be dealt with in that year. We note on the previous page that we spent \$10,000,000 on "capital"; so, off the bat, you have got \$35,000,000 of debt retirement; \$8,000,000 for other capital obligations—that is \$43,000,000—and you have \$10,000,000 of new capital expenditures; which makes \$53,000,000 of new money.

Mr. BERCOVITCH: Oh, yes.

Mr. COOPER: We do point out though, sir, that over the years from 1932 to date the capital debt of the railway has increased \$32,000,000, which is an average of \$4,000,000 a year. That is the rate of increase in the capital debt of the National Railways; and notwithstanding that increase in the total debt there has been a reduction in the fixed charges of some \$5,600,000, due to refinancing with interest at lower rates.

Mr. BERCOVITCH: You mean, notwithstanding borrowing this \$50,000,000 you paid \$5,000,000 less interest this year than you did in previous years?

Mr. COOPER: For 1939 as compared with 1931.

Mr. DONNELLY: With respect to the bond issues which you put out, are any of them callable?

Mr. COOPER: Yes; I do not know about the issue of 1939 whether that is callable or not; \$15,000,000 of the seven-year issue, and \$35,000,000 of the 30-year issue are not callable.

The CHAIRMAN: Are there any further questions? If not, we will proceed.

Mr. ARMSTRONG:

## GENERAL

### *Trans-Canada Air Lines*

During the year additional calls aggregating 11 per cent, or \$550,000, on the capital stock (\$5,000,000) of Trans-Canada Air Lines were met by the Canadian National Railway Company. To December 31, 1939, the amount subscribed was \$3,750,000.

Mr. MACINNIS: With reference to the cost of Trans-Canada Air Lines, is this stock not all owned by the Canadian National Railways?

Mr. HUNGERFORD: Yes.

Mr. BERCOVITCH: The bonds are guaranteed by the Canadian National.

Mr. HUNGERFORD: There are no bonds.

Mr. COOPER: Trans-Canada Air Lines is financed solely by capital stock, all of which is owned by the Canadian National Railways.

Mr. DONNELLY: Your bonds carry a greater rate of interest than Dominion of Canada bonds.

Mr. COOPER: That is quite a question.

Mr. DONNELLY: If so, why are they all guaranteed by the government?

Mr. COOPER: You do not get two issues that are made on the same date, under the same terms and with the same coupon rate; and for that reason it is not possible to make an exact comparison. I think, though, there is a shade in favour of direct government security as compared with a guaranteed security.

Mr. DONNELLY: Can you account for that?

Mr. COOPER: No, sir.

Mr. DONNELLY: It just seems to me that bonds issued by the railways and guaranteed by the government should be just as good as if the government issued them direct.

Mr. COOPER: If you were buying them you probably would prefer them more than the other.

Mr. BERCOVITCH: Why?

Mr. COOPER: To me there is no reason why you should, but speaking of public opinion generally that is so.

Mr. HANSELL: It is a psychological condition?

Mr. COOPER: Correct.

The CHAIRMAN: Let us get on.

Mr. ARMSTRONG:

### Co-operation

During the year approval was obtained from the Board of Transport Commissioners to the abandonment, in co-operation with the Canadian Pacific Railway, of the Canadian National line between Middleton and Bridgetown in Nova Scotia, and the Canadian Pacific line between Linwood and Listowel in Ontario.

Additional applications were made to the Board of Transport Commissioners requesting permission to abandon operation of the following railway line in co-operation with the Canadian Pacific Railway, and decisions of the Board are pending in each case:

| From                         | To                  | Province           | Railway           | Mileage |
|------------------------------|---------------------|--------------------|-------------------|---------|
| Joliette . . . . .           | Montfort Junction   | Quebec . . . . .   | Can. Nat. . . . . | 31.6    |
| Carbo . . . . .              | Cushing Junction    | Quebec . . . . .   | Can. Nat. . . . . | 24.6    |
| Arnprior . . . . .           | Eganville . . . . . | Ontario . . . . .  | Can. Nat. . . . . | 37.9    |
| Portage la Prairie . . . . . | Delta . . . . .     | Manitoba . . . . . | Can. Nat. . . . . | 14.5    |
| Oakland . . . . .            | Cawdor . . . . .    | Manitoba . . . . . | Can. Nat. . . . . | 11.6    |
| Muir . . . . .               | Gladstone . . . . . | Manitoba . . . . . | Can. Nat. . . . . | 10.3    |
| McGregor . . . . .           | Varcoe . . . . .    | Manitoba . . . . . | Can. Pac. . . . . | 54.4    |
| Hallboro . . . . .           | Beulah . . . . .    | Manitoba . . . . . | Can. Nat. . . . . | 75.2    |
| Hamiota . . . . .            | Miniota . . . . .   | Manitoba . . . . . | Can. Pac. . . . . | 19.8    |
| Louise . . . . .             | Deloraine . . . . . | Manitoba . . . . . | Can. Nat. . . . . | 56.7    |
| Reston . . . . .             | Wolseley . . . . .  | Man.-Sask. . . . . | Can. Pac. . . . . | 122.4   |
| Alix . . . . .               | Nevis . . . . .     | Alberta . . . . .  | Can. Nat. . . . . | 9.5     |
| Irricana . . . . .           | Beiseker . . . . .  | Alberta . . . . .  | Can. Nat. . . . . | 10.0    |
| Langdon . . . . .            | Irricana . . . . .  | Alberta . . . . .  | Can. Pac. . . . . | 22.6    |

Mr. DONNELLY: How many miles of the Canadian National Railway are involved? I have not added them up.

Mr. ARMSTRONG: Could we have that done for you and put it in later?

Mr. DONNELLY: I was just wondering how it compared; that is, how the number of miles abandoned by each of the railways compared.

Mr. COOPER: They have tried to balance as closely as possible.

The CHAIRMAN: I am inclined to wonder why they ever built that line between Portage La Prairie and Delta.

Mr. McCULLOCH: There appears to have been quite a number more miles abandoned by the Canadian National than by the Canadian Pacific.

Mr. ARMSTRONG: Yes, there is about 50 miles more recommended for abandonment by the Canadian National than by the Canadian Pacific. Of the total of 501.1 miles, 281.9 miles are Canadian National and 219.2 miles are Canadian Pacific.

Mr. HANSELL: Does the railway abandon any lines directly on their own initiative?

Mr. HUNGERFORD: Yes.

Mr. ARMSTRONG: Yes. You notice further on reference to four branch lines which were abandoned by the Canadian National Railways without reference to the Canadian Pacific Railway; what we term unprofitable branch lines.

Mr. HANSELL: I had in mind—I got the idea somewhere but I could not say where—that the matter had to go before the Board of Railway Commissioners first; is that so?

Mr. ARMSTRONG: That is correct. With respect to every one of these abandonments we must apply formally to the Board of Transport Commissioners, and we must obtain an order from them before we can abandon.

Mr. DONNELLY: How long is that line from Middleton to Bridgetown; how long has it been abandoned?

Mr. ARMSTRONG: It is thirteen miles long.

Mr. DONNELLY: Then, how about that branch from Linwood to Listowel?

Mr. ARMSTRONG: That one was a little longer, about 16 miles.

The CHAIRMAN: Any further questions? Proceed.

Mr. ARMSTRONG:

In co-operation with the Northern Alberta Railways, application was made to the Board of Transport Commissioners requesting permission to abandon operation of the following lines:

| From                 | To                   | Province          | Railway            | Mileage |
|----------------------|----------------------|-------------------|--------------------|---------|
| Trelle . . . . .     | Morinville . . . . . | Alberta . . . . . | Can. Nat. . . . .  | 12.2    |
| Carbondale . . . . . | Egremont . . . . .   | Alberta . . . . . | Nor. Alta. . . . . | 29.8    |

In each case one railway takes running rights over the tracks of the other.

#### *Vancouver Hotel*

Joint operation of the new "Hotel Vancouver" commenced on May 25, 1939. Unfortunately the tourist season for 1939 was cut short by the outbreak of the war and the business of the hotel was affected accordingly. Notwithstanding, there was a surplus from operations of \$21,978 to be paid as rental to the Canadian National Railway Company and divided with the Canadian Pacific Railway Company as provided in the joint operating agreement.

*Line Abandonments*

In continuation of the policy of abandonment of unprofitable light traffic branch lines, applications have been made to the Board of Transport Commissioners for authority to abandon the following:

| From                   | To                         | Province              | Mileage |
|------------------------|----------------------------|-----------------------|---------|
| Hawkesbury . . . . .   | Hurdman . . . . .          | Ontario . . . . .     | 55.28   |
| Bridgetown . . . . .   | Granville Centre . . . . . | Nova Scotia . . . . . | 7.63    |
| St. Remi . . . . .     | Hemmingford . . . . .      | Quebec . . . . .      | 14.29   |
| Fortierville . . . . . | St. Gregoire . . . . .     | Quebec . . . . .      | 27.25   |

Board approval has been given to the two first mentioned applications. In addition, authority was given by the Interstate Commerce Commission to abandon the Williamstown Branch, forming part of the Central Vermont Railway, 3.87 miles in length.

*Montreal Terminals*

Montreal terminals construction work was materially advanced during the year, and it is proposed actively to continue these works in accordance with the program laid out.

Mr. BERCOVITCH: Is that the program mentioned in this report?

Mr. ARMSTRONG: That is the program mentioned in the report that was tabled by the Minister of Transport in the House.

Mr. SMART: The report which was tabled; yes, we have that report here.

The CHAIRMAN: Do you want to go into that now, or shall we just let it go at that for the present?

Mr. HANSELL: Before we go further, in the matter of these lines being abandoned does the trucking business play any important part in your decision to abandon any of these lines?

Mr. ARMSTRONG: Trucking accounts in very large measure for a lot of the lines becoming unremunerative. The Board of Transport Commissioners take into consideration, in making their decision, what service is performed by the trucks so that people will not be left high and dry when a line is abandoned.

Mr. HANSELL: I notice most of these lines are not very long distances, most of them are considerably under 100 miles.

Mr. ARMSTRONG: Take the Hawkesbury-Hurdman line, that is a very good example. It is from Ottawa to Hawkesbury, 55 miles, and is paralleled practically throughout its length by a main highway.

The CHAIRMAN: And a railway line on the other side of the river.

Mr. SMART: One right along side of it.

Mr. RUTHERFORD: Two other railways on this side of the river and one on the north side.

The CHAIRMAN: Any further questions?

Mr. ARMSTRONG:

*"Royal Visit to Canada"*

The Canadian National system had the honour of conveying Their Majesties, King George VI and Queen Elizabeth, over 4,251 miles of its lines during the Royal Tour last summer. Their Majesties were also passengers on the ss. *Prince Robert* from Victoria to Vancouver. The Canadian National played a prominent part in the preparation and handling of the Royal train.

At the close of the memorable visit, His Majesty expressed his appreciation of the uniform excellence of the railway service on his long journey through Canada, and his message was communicated to the officers and employees in the various departments of the system.

*“War Conditions*

The outbreak of war greatly added to the ordinary activities of the Railway in the year 1939, and the Company has been called upon to provide greatly augmented transport services. In addition, it has contributed in numerous ways to the national war effort, and the services of a number of officers and employees have been loaned to the Dominion Government for specialized war work. From the outbreak of the war to the end of the year some 430 employees enlisted for military service, and suitable arrangements have been made for the preservation of their employee and pension status.”

The CHAIRMAN: What arrangements have you made with those people? Do they get their salary while they are away?

Mr. ARMSTRONG: Their pension rights are preserved and their seniority is preserved, but there is no salary paid.

Mr. BERCOVITCH: And their position is preserved if they return?

Mr. ARMSTRONG: Their position is preserved if they return.

The CHAIRMAN: A great deal of trouble was caused after the last war because of guarantees that were made to employees who served as soldiers in the great war.

Mr. HUNGERFORD: We had a great many complications following the great war due to the fact that different managements of the Canadian National pursued different policies in respect to the employees. We have made a determined effort this time to make such arrangements as will avoid those complications and discrepancies which occurred before. We think we have accomplished that.

Mr. ROSS: In what manner is the position of a man who goes overseas preserved?

The CHAIRMAN: His position is maintained in the service.

Mr. ARMSTRONG: He is really on leave of absence from his position.

Mr. ROSS: But when he returns his position will be filled.

Mr. ARMSTRONG: If he returns, his seniority can be exercised for that position, assuming that he is capable of carrying on in that position.

Mr. DONNELLY: While he is over there, he is considered just the same as though he were in the service.

Mr. ARMSTRONG: He is on leave of absence without pay.

Mr. ROSS: What happens in the case of an employee who has seniority rights and fills the position of a man who goes overseas when this man from overseas returns?

Mr. ARMSTRONG: He will have to step down.

Mr. ROSS: There will be a general stepping down right through the service?

Mr. ARMSTRONG: It will probably mean stepping down right through the various departments.

Mr. ROSS: That has been arranged in that way?

Mr. ARMSTRONG: It has been arranged that way.

Mr. ROSS: That is the understanding?

Mr. ARMSTRONG: In the case of certain groups of employees there are seniority lists, and he would take his place at the top and, as we say, “bump” right down.

Mr. BERCOVITCH: He knows that when he goes into the service; he knows he is filling someone else’s shoes.

Mr. HUNGERFORD: Through vacancies occurring in the group, a man coming back may be entitled to a superior position.

Mr. ROSS: That is what I wanted to be sure about.

Mr. HUNGERFORD: On the other hand, he may be pushed down to some lower position, though his seniority is maintained.

The CHAIRMAN: He maintains his seniority?

Mr. HUNGERFORD: Quite.

Mr. ARMSTRONG: As if he had not been absent.

Mr. MACINNIS: Have new employees been taken on to fill most of these positions?

Mr. HUNGERFORD: In general we have called back laid-off employees to fill these positions.

The CHAIRMAN: Proceed, Mr. Armstrong.

Mr. ARMSTRONG:

*"Outlook for 1940*

The outlook for 1940 is for a substantial increase in traffic and for a corresponding improvement in the financial results. Canada's participation in the war will bring greatly increasing demands upon the Canadian National Railways for transportation services, but the Directors are confident of the railway's ability to meet every need which may arise and that the officers and employees may be relied upon to perform their duties with a keen sense of responsibility, no matter how exacting conditions may become.

For the Board of Directors,

S. J. HUNGERFORD,  
*Chairman."*

The CHAIRMAN: Are there any further questions before we proceed to the balance sheet?

Mr. COOPER: I should like to make a correction. Mr. Donnelly asked me whether the issue of 1939 was callable. I said it was not. A part of it, that is, the seven-year issue, is not, but the twenty-year issue is callable.

Mr. DONNELLY: When?

Mr. COOPER: It is callable in whole or in part at par, January 15, 1954, or on any interest date thereafter upon sixty days' notice.

Mr. DONNELLY: You have other callable bonds, have you not?

Mr. COOPER: Oh, yes.

Mr. DONNELLY: Some of these bonds carry very high interest rates; it is too bad that some of them are not callable.

Mr. HUNGERFORD: Quite a lot of them are callable.

Mr. COOPER: That would be very largely a matter of government policy. As far as the railway is concerned, we could not get exchange for sterling or United States funds today. That is a matter for the government finance department to act on.

The CHAIRMAN: Shall we proceed with the balance sheet? If not, shall we proceed with the Profit and Loss Account? What about the Consolidated Income Account?

You were asking for the expenses of the hotels, Dr. Donnelly.

Mr. McCULLOCH: Are there many Canadian National cars with equipment in the United States under rental?

Mr. ARMSTRONG: There is a natural interchange between railways in the United States and Canada. Our cars cross the border freely, and their cars naturally cross the border, under loan.

Mr. McCULLOCH: But what about the proportion?

Mr. ARMSTRONG: It is fairly well maintained.

Mr. HUNGERFORD: The box car balance fluctuates from time to time, but, at the present time, it is fairly well in balance.

Mr. ARMSTRONG: The net balance is against us, as you will notice. That is because of what are known as private line refrigerator cars which bring in fruit, vegetables and such commodities from the United States. Actually on ordinary box cars, flat cars and coal cars, there is just about an even break. On account of the very heavy movement of fruit, etc., there is a large payment made to the American owners which accounts for the net debit.

The CHAIRMAN: Gentlemen, are you through with the Consolidated Income Account? If you do not wish to investigate it further, shall we go on to the operating revenues?

Mr. BERCOVITCH: Supposing, Mr. Chairman, we were to go over all these various figures ourselves and then if any of us have questions to put we might put them at the next sitting.

The CHAIRMAN: Very well.

Mr. BERCOVITCH: If you read all these items it will take a great deal of time and we will probably be no wiser than we are at this moment. A question or two might suggest itself to some of us, and in that way we could ask permission to put such questions as occur to members of the committee at the next sitting.

The CHAIRMAN: Is it your suggestion that we pass through the report along these lines?

Mr. BERCOVITCH: Yes.

The CHAIRMAN: All the way through.

Mr. BERCOVITCH: All the way through.

The CHAIRMAN: Does the committee at large agree with that suggestion?

Mr. HANSELL: Before we pass this matter of debt, I should like to ask a question. Perhaps the question is not a fair question to ask these gentlemen. I asked the government some time ago what the total national debt was. At that time I got the figure of somewhere over three billion dollars. Is the debt of the railway included in that figure?

Mr. ARMSTRONG: It is not included.

Mr. HANSELL: So that when we got the figure for the total national debt that was not the correct figure.

Mr. BERCOVITCH: I do not know that it is not the correct figure.

Mr. CHAIRMAN: It is embraced in the national debt somewhere.

Mr. BERCOVITCH: The Canadian National Railway, as I take it, is a contingent liability of the government. It is no more than that. When the government gave you the figure of three billion dollars, that would be accurate. The Canadian National Railway is a contingent liability which the government may or may never be called upon to pay.

Mr. DONNELLY: In connection with transportation expenses shown on page 16, would it be possible for you to give the committee the number of employees who are receiving \$1,000 per year or less; also the number receiving between \$1,000 and \$2,000; the number of employees receiving between \$2,000 and \$3,000; the number between \$3,000 and \$4,000, and \$4,000 and \$5,000, right up? I also think we should have the number of employees in the larger brackets.

The CHAIRMAN: Would you like a note made of your interrogation, Mr. Donnelly?

Mr. DONNELLY: Yes.

Mr. ARMSTRONG: We have, roughly, 90,000 employees. It would mean examining the record of practically each one to determine what he received for the entire year. What we could do is this. We have group figures. Take a group such as roadmasters, general foremen, supervisors, inspectors and assistants. There are 226 employees in that group, with a total compensation of \$603,000, the average rate being so much. Would that be satisfactory?

Mr. DONNELLY: I think the committee should know how many men there are in the employ of the Canadian National receiving less than \$1,000 a year.

Mr. ARMSTRONG: Some receiving less than \$1,000 per year may be working at the rate of \$8, \$10 or \$12 per day. For a certain year they may be getting less than \$1,000, but they may be working, so far as the railway is concerned, at a rate of \$10 per day.

Mr. McCULLOCH: But not working steadily?

Mr. ARMSTRONG: But not working steadily. And one man may work a month, another man may work two months, while another may work three months.

Mr. BERCOVITCH: It really would not give you very much, Mr. Donnelly.

Mr. DONNELLY: It would give us some idea of the salaries of these different men.

Mr. ARMSTRONG: Mr. Cooper tells me we give the income tax people the earnings of each employee over \$1,000. By deduction we could get the number who are earning less than \$1,000.

Mr. McCULLOCH: It will have to be put down to \$750 now.

Mr. COOPER: They may have to go down to \$600.

Mr. ARMSTRONG: Would that be of any service, Mr. Donnelly.

Mr. DONNELLY: Yes, I think that would be of service; it would give us some idea. I think we should have the figures for those in the upper brackets, too; say the figures of those getting over \$5,000—between \$5,000 and \$6,000, between \$6,000 and \$7,000 and between \$7,000 and 8,000.

Mr. ARMSTRONG: The only way it could be furnished would be to examine the earnings of each man throughout the year and then classify them. There are over eighty thousand of them.

Mr. DONNELLY: There is a feeling throughout the country that the railway is top-heavy with well-paid employees.

Mr. ARMSTRONG: If we furnished it by groups, the number of employees in each of these groups, such as executive, general officers, general superintendents, district officers and assistants, would that be satisfactory? This is in accordance with the Dominion Bureau of Statistics. There are 246 with total earnings of over \$1,000,000. The next group is that of division superintendents, etc. Could we furnish that to you?

Mr. DONNELLY: That would be all right.

Mr. ARMSTRONG: The average salaries could be taken out.

Mr. ROSS: That would not satisfy your people.

Mr. DONNELLY: I am talking not only of my people but the general public.

Mr. ROSS: That is what I mean.

Mr. DONNELLY: We are looking for something.

Mr. HUNGERFORD: I am quite prepared to say, Mr. Donnelly, that the implication is wrong.

Mr. DONNELLY: Then it would be to your advantage to let us know so that we can refute their arguments.

Mr. HUNGERFORD: This organization has been worked down and down until we have found that when the extra load came we did not have men enough in the supervisory positions in many departments to take care of the situation.

Mr. BERCOVITCH: What is your total number of employees?

Mr. HUNGERFORD: About 80,000. It fluctuates from time to time. In the summer time we take on a lot of labourers and others for track maintenance work and things of that kind, and that boosts the number, and they are laid off when the work is completed. Also the number fluctuates with the volume of traffic.

The CHAIRMAN: I think we will call these headings and pass them. The last heading I think, that we mentioned was "Operating Revenues." We will pass "Operating Revenues" and the "Summary of Operating Expenses." We next come to "Maintenance of Way and Structures Expenses." If there are no questions we will pass that for the time being.

Mr. BERCOVITCH: Always under reserve.

The CHAIRMAN: You can come back to it. We now come to "Maintenance of Equipment Expenses," at page 15.

Mr. BERCOVITCH: I see you have an item there of \$272,000 for injuries to persons. Is that injury to persons while riding on the train or accidents generally that occur to your employees in the yards?

Mr. ARMSTRONG: Those are for employees; payments for workmen's compensation, etc.

The CHAIRMAN: The next heading is "Traffic Expenses." We shall pass that. The next heading is "Transportation Expenses."

Mr. DONNELLY: Where do you get your coal to Fort William and west of Winnipeg?

Mr. HUNGERFORD: We get it practically all from Alberta. We use it east of Winnipeg to a certain extent.

Mr. DONNELLY: Where is your dividing line?

Mr. HUNGERFORD: At the present time the dividing line is about Atikokan.

Mr. HANSELL: Do the railways have their own mines at all?

Mr. HUNGERFORD: We have not with the exception of one mine down in Ohio that was bought by the Grand Trunk company many years ago. We have not any mines in Canada.

Mr. DONNELLY: You use some American coal?

Mr. HUNGERFORD: Some.

Mr. DONNELLY: What part of the lines would use American coal?

Mr. HUNGERFORD: Western Ontario up to Fort William and beyond; Atikokan is the dividing point.

Mr. DONNELLY: In eastern Canada you use Nova Scotia coal?

Mr. ARMSTRONG: Maritime coal.

Mr. HANSELL: Would it be too much to ask you to make a note of that and give us the approximate amount of coal ordered from the different parts of the country including American coal?

Mr. HUNGERFORD: You would want it divided into Maritime provinces in one group and United States coal, etc.?

Mr. HANSELL: Yes.

Mr. HUNGERFORD: And then Alberta west and so forth.

Mr. HANSELL: I am particularly interested in the tonnage.

Mr. HUNGERFORD: I think perhaps the figures are here.

Mr. HANSELL: If it is not too much trouble you could give us the tonnage and price. I am not particularly interested in the price because prices vary here and there.

The CHAIRMAN: Is there any other query in regard to that?

Mr. DONNELLY: You buy your coal where you can get it cheapest; is that correct?

Mr. ARMSTRONG: That is correct.

Mr. DONNELLY: Whether American or Canadian.

Mr. BERCOVITCH: The important point in that connection is the use of American funds just now.

Mr. DONNELLY: But that will reduce the amount they use because it is more expensive.

Mr. HANSELL: I understand some times where it appears to be cheapest it may not be found to be cheaper when they start to operate. I read a very good article in the company's magazine a year or so ago on that, where certain types of coal were found to be cheaper, and where the company had to be extremely careful in the type of coal they burn in their engines. I thought it was a very good article because of the time and skill that was put into arriving at the proper kind of coal to be used in the engines. So it does not always necessarily follow that you buy where it is cheapest. It may not be the cheapest in the long run.

Mr. DONNELLY: I would gather from your remarks that when you are hauling Alberta coal down to eastern Canada for domestic use you are using eastern Canada coal or American coal to haul it down.

Mr. ARMSTRONG: To some extent in Ontario, yes.

Mr. HUNGERFORD: American coal comes in by water very largely. That makes it considerably cheaper to use. The Canadian coal we use in Ontario and Quebec and more particularly in Ontario is only made possible by government subvention, because generally speaking the American coal can be laid down in this territory for much less money than Canadian coal.

Mr. DONNELLY: At the present time with the price of American coal up 10 or 11 per cent by reason of the fact that that amount has to be paid for American funds, it should lessen the amount of American coal you will be using.

Mr. HUNGERFORD: As a matter of fact we use Canadian coal wherever we can justify it at all.

Mr. ROSS: Now take the item "train fuel." What proportion of that would be oil; what percentage?

Mr. ARMSTRONG: Oil is only used west of Jasper on the line to Prince Rupert and on the line to Vancouver and on Vancouver Island to some extent. British Columbia coal is used on at least one or two engine divisions east of Vancouver for certain trains.

Mr. ROSS: You have an item here of \$14,000,000. What percentage of that—

Mr. ARMSTRONG: The percentage of dollars? I misunderstood your question.

Mr. ROSS: What percentage of that—

Mr. DONNELLY: Where are your lubricants bought, in the United States?

Mr. ARMSTRONG: Largely in Canada.

Mr. HUNGERFORD: For Canadian lines they are all bought in Canada.

The CHAIRMAN: Are you still waiting for an answer, Mr. Ross?

Mr. ROSS: Yes, for the percentage of oil in that \$14,000,000 item.

Mr. ARMSTRONG: I have that question, sir. I shall look it up and give you an answer as quickly as possible.

The CHAIRMAN: We now come to "Miscellaneous Operating Expenses."

Mr. DONNELLY: With regard to your dining cars, are they run at a profit or loss?

Mr. HUNGERFORD: At a loss. That is a common experience.

Mr. ROSS: It is a very excellent service, too.

Mr. McCULLOCH: If they would only put one on the Ocean Limited leaving Montreal at night.

Mr. DONNELLY: I see you have grain elevators. What grain elevators are these?

Mr. HUNGERFORD: We have them scattered around different places. We have one down at Saint John and we have some up in Georgian bay, different places.

The CHAIRMAN: We now come to "General Expenses."

Mr. ROSS: Under the heading of "Miscellaneous Operating Expenses" I see the item "Other Miscellaneous Operations." Does that item apply to any one particular branch or is it spread all over?

Mr. HUNGERFORD: These items are grouped in this heading under the requirements of the standard accounting system.

Mr. DONNELLY: Is your grain elevator at Saint John full of grain at the present time?

Mr. HUNGERFORD: Generally speaking they are, yes, practically everything filled up.

Mr. DONNELLY: At the present time is it run at a profit or at a loss?

Mr. HUNGERFORD: Well, the operation of the elevators themselves vary from time to time. Of course, the objective is to get the haulage of the grain. That is the important factor in the picture.

Mr. DONNELLY: Do you make a special agreement with our wheat carriers for storage charges? Have you a special arrangement with the wheat board for storage charges?

Mr. HUNGERFORD: As I recall it we are subject to the approval of the tariff of the wheat board.

Mr. DONNELLY: I understand that. I know, of course, that the wheat board charges one cent storage charge. They fix that maximum of one cent a month. I am led to believe the grain board fixes that charge of one-thirtieth of a cent a day. I understand also the wheat board when it is in charge of these things and when wheat is handed over they make special arrangements with the companies to store this wheat at a much lower rate. For example, the internal storage elevators at Moose Jaw, Regina and Saskatoon, carry it at one-sixtieth of a cent a day, and often some of it is carried at less. Now, I wondered if you had a special arrangement with them as well for storage facilities or do you—

Mr. HUNGERFORD: I do not think I can answer that, doctor, at the moment. I will look it up for you.

The CHAIRMAN: Do you want that now?

Mr. DONNELLY: Yes. These charges are set not by the government at all; these charges are set entirely by the Board of Grain Commissioners, and this Board of Grain Commissioners sets the maximum charge that can be made, but when wheat is handed over from the private elevator or from the private grain companies the wheat board makes special provision with the terminal elevators for a reduced rate to store their grain. I was wondering whether any special arrangements were made by you for the same purpose.

Mr. HUNGERFORD: There may be, but we will have to look it up. We have no storage provisions in the ordinary sense.

Mr. DONNELLY: Your terminal elevator at Saint John would be a terminal elevator?

Mr. HUNGERFORD: To that extent it would be, but it is a very small elevator. The other elevators are at Georgian bay. They are used for transferring from boat to rail.

Mr. DONNELLY: I understand the charges that were made were made when the elevators were half full or quarter full. Now they are full to the roof practically the year round, and the charges must be less now than they were before.

Mr. HUNGERFORD: We will look it up for you, sir.

Mr. ARMSTRONG: We have an answer to the fuel oil question. The total expense for train fuel was about \$14,500,000. The expenditure for fuel oil is about \$1,250,000, which is less than 10 per cent—probably 8 per cent.

The CHAIRMAN: We now come to "General Expenses," and "Property Investment Account."

Mr. DONNELLY: Under the item of "General Expenses" I notice "Pensions." Is the pension paid so much by the individual, so much by the company, and so much by the government?

Mr. DONNELLY: The contribution to pensions all comes from the two?

Mr. COOPER: The railway or the employees as far as our pensions are concerned, yes. Down on the I.C.R. there is an arrangement where the minimum pension was raised from \$20 to \$30, and the government provided that proportion of the pension by a special vote. But generally speaking the pensions are paid at the expense of the railway with a certain proportion contributed by the employees out of funds contributed by the employees.

Mr. BERCOVITCH: What is the percentage contributed by the employees?

Mr. COOPER: It varies. We have three funds. In the Grand Trunk super-annuation fund they contribute 2½ per cent; in the I.C.R. fund they contribute 1½ per cent; and in the main pension fund the rate of contribution is optional with the employees. They can go from 1 to 10 per cent and the company will match them from 1 up to 5 per cent.

Mr. MACINNIS: What did you say the company's contribution would be in the main fund? Was it 1 to 5 per cent?

Mr. COOPER: In the main Canadian National Railway fund the employees may contribute 1 to 10 per cent of their salary, and the company will match their employee's contribution up to 5 per cent.

Mr. HUNGERFORD: It is optional with the employee. One individual may contribute 1 per cent of his salary; another one may contribute 2 per cent and another one 3 per cent and so on. But the company will match his contribution, whatever it may be, up to the maximum of 5 per cent of his wages.

Mr. BERCOVITCH: Is that put on a twenty year basis or a thirty year basis or what?

Mr. COOPER: What do you mean by that, Mr. Bercovitch?

Mr. BERCOVITCH: I mean, would a man be entitled to his pension after twenty years or after thirty years?

Mr. COOPER: A man must enter the service before age forty-five, and he retires at sixty-five; they are the two limits. But, of course, a man may be in the service forty years. I should add, perhaps, that the main pension fund has only been on a contributory basis since January 1, 1935. Prior to that all the expense of the pension was at the expense of the company. I mean, I do not want you to think that some of the employees have been contributing for forty years.

Mr. DONNELLY: Are your pensions on an actuarial basis?

Mr. COOPER: Yes.

Mr. DONNELLY: You have your actuaries, and your fund is sound, is it?

Mr. COOPER: All the funds of the pension fund are invested in Dominion securities or Dominion guaranteed securities.

Mr. SANDERSON: Employees are not always retired at sixty-five, are they?

Mr. COOPER: Almost invariably. We answered that question. To my knowledge, there are about six supervisory officers whose services have been extended beyond the age of sixty-five.

Mr. SANDERSON: Does that not apply to the train men, we will say?

Mr. COOPER: They retire at age sixty-five.

Mr. SANDERSON: Always?

Mr. COOPER: Invariably, provided we know their ages. We have some difficulty in getting birth certificates and that sort of thing. But if we know a man is sixty-five, he retires at that time. It is automatic. It is not optional.

Mr. McCULLOCH: I suppose you have a lot of letters from railway men asking to have another year?

Mr. McCULLOCH: Oh, thousands of them. There is a situation arising there at the present time. There is a great demand for mechanics, in particular for iron working mechanics. It may be that, if the shortage becomes very pronounced, we will have to continue employees or possibly recall some of the pensioners in that particular group; but that demand does not extend to other groups and probably will not be very important in respect to mechanics.

Mr. HANSELL: In the case of labourers, I do not see why they should not have an extension. Many of them have not been earning sufficient to put very much away. The result is that at the age of sixty-five a good many of them are liable to be placed on public relief rolls and one thing and another.

Mr. HUNGERFORD: Well, that is the basis that was adopted at the inauguration of the pension fund, and it is largely a matter of agreement with the employees themselves.

Mr. HANSELL: Of course, I have particular reference to those who have not been in the service for twenty years, say. They get no pension, I understand; or do they?

Mr. McCULLOCH: They will not be taken into the service if they are over forty-five.

Mr. HANSELL: Oh, there have been some.

Mr. HUNGERFORD: Very seldom.

Mr. McCULLOCH: Not very many.

Mr. COOPER: Under the old rules, the age limit of entry into the service was fifty and the retirement age was sixty-five. In every case of people being retired today, it is under the old rules. The new rule of age forty-five only went into effect in January, 1935; we have not come to any of those people yet, and we will not come to them for another fifteen years. So that today a man could have entered the service prior to age fifty and still have a pension.

Mr. HANSELL: Is that so with labourers as well?

Mr. COOPER: Yes; is they have fifteen years service they get a pension.

Mr. HANSELL: What happens if they should die before they reach the retirement age? Are their widows the beneficiaries?

Mr. COOPER: Not at all, except when they have been contributors to the fund; in which event they would get their contribution with interest.

Mr. HANSELL: They would not lose what they had put into it?

Mr. COOPER: No, sir; in no case.

Mr. MACINNIS: Is the pension system compulsory?

Mr. COOPER: No, it is optional; that is, the contribution is optional. In the event that they are not contributors, there is a basic pension granted at the expense of the company of \$25 a month.

Mr. HUNGERFORD: If they have been in the service for a sufficient length of time.

The CHAIRMAN: The next is property investment account.

Mr. McCULLOCH: Are these concerns which treat the ties—do the creosoting—owned by the railway or are they all private concerns?

Mr. HUNGERFORD: They are all private concerns. They do the work under contract for us.

The CHAIRMAN: What do you salvage from disused branch lines and sidings? Do you just salvage the steel?

Mr. ARMSTRONG: The steel is all, except possibly the bridges—that is the steel bridges. They may be of some use for scrap or in some cases for other branch lines.

Mr. HUNGERFORD: We salvage everything that is salvageable.

Mr. SISSONS: Where were the new lines constructed?

Mr. COOPER: That is the completion of the Senneterre-Rouyn branch line.

Mr. BERCOVITCH: Is that in operation now?

Mr. COOPER: Yes, sir.

The CHAIRMAN: If you are all through on that section, the next is transactions during the year 1939 affecting proprietor's equity.

Mr. BERCOVITCH: Carried.

The CHAIRMAN: The next is funded debt—principal and interest.

Mr. BERCOVITCH: Have you any idea as to the total amount of United States funds that the government would have to pay in this \$41,000,000 for interest?

Mr. COOPER: About \$22,000,000.

Mr. BERCOVITCH: That is a lot of money.

Mr. COOPER: Yes, sir.

Mr. DONNELLY: Is there no possibility of these perpetual bonds being transferred or changed into time bonds?

Mr. COOPER: I think that is a question which Dr. Clark would have to answer.

Mr. BERCOVITCH: There would not be any possibility without the consent of the holders or special legislation.

Mr. COOPER: That debenture stock is nearly all sterling stocks, and it is quite impossible for the Canadian National Railways or any other company in Canada to obtain sterling exchange for the purpose of retiring sterling stocks. It is entirely in the hands of the government.

Mr. BERCOVITCH: That is the only way it could be done. The railway company could not do it themselves.

Mr. HUNGERFORD: That has been given a great deal of consideration, and there has been a great deal of discussion.

Mr. BERCOVITCH: It would be a question of repudiation if they adopted legislation.

Mr. DONNELLY: It would not be repudiation if you come along and offer a man his money.

Mr. BERCOVITCH: If he is willing to take it, it will not be repudiation.

Mr. DONNELLY: If you offer a man his money, it would not be repudiation.

Mr. BERCOVITCH: No, but you have to have his consent. It would be impossible if you did not have his consent, unless you passed special legislation, which would mean repudiation.

The CHAIRMAN: They have not been ready to take their money, so far.

Mr. BERCOVITCH: No.

Mr. McCULLOCH: You say a great many of these are in sterling?

Mr. COOPER: Some is in United States, some is in sterling and some in Canadian; some two ways and some three ways.

Mr. McCULLOCH: The ones that have them in sterling are getting 5 per cent. They would have a much lower rate on sterling. They would be getting about 7 per cent for their money or 6 per cent.

Mr. COOPER: It is sterling security and they receive 5 pounds in sterling.

Mr. ROSS: The larger proportion is in sterling of the G.T.R.?

Mr. COOPER: No, I think the larger proportion is in dollar securities.

Mr. ROSS: In which?

Mr. COOPER: Are you speaking of the one item, perpetuals?

Mr. ROSS: Yes.

Mr. COOPER: Those debenture stocks—the first five—are almost entirely held in Great Britain and are sterling, yes.

Mr. ROSS: Yes. That is what I thought.

The CHAIRMAN: Shall we go on to the next item, gentlemen—transactions during the year 1939 affecting proprietor's equity?

Mr. BERCOVITCH: We passed that.

The CHAIRMAN: Oh, yes, that is right. The next is Dominion of Canada—Loans.

### DOMINION OF CANADA—LOANS

(Treated as Assets in Public Accounts of Canada)

|  | Principal<br>Outstanding<br>at Dec. 31, 1939 | Interest<br>Accrued<br>1939 |
|--|--|-----------------------------|
| 3½% Advances, Financing and Guarantee Act, 1938 . . . . .  | \$ 1,717,008 90                              | \$ 75,035 45                |
| 3½% Advances, Financing and Guarantee Act, 1939 . . . . .  | 12,203,902 98                                | 227,553 09                  |
| 3½% Advances, Branch Line Construction Act, 1936 . . . . . | 532,873 24                                   | 18,795 97                   |
| 3½% Advances, Trans-Canada Air Lines Act, 1937 . . . . .   | 550,000 00                                   | 15,615 76                   |
| 3% Purchase of Railway Equipment (Repayable 1938-1950)     | 5,688,903 87                                 | 175,192 38                  |
| 2% Advances, Refunding Act, 1938 . . . . .                 | 24,689,392 53                                | 380,471 57                  |
| Interest on Advances refunded in 1939 . . . . .            | .....  | 23,500 79                   |
|  | <u>\$45,382,081 52</u>                       | <u>\$ 916,165 01</u>        |

### INVESTMENTS IN AFFILIATED COMPANIES

| COMPANY  | Amount<br>Outstanding | Amount Owned by<br>Can. Nat. System | Book Value   |
|--|-----------------------|-------------------------------------|--------------|
| Stocks:  |                       |                                     |              |
| Atlantic and St. Lawrence Rail Road<br>Company . . . . .   | \$ 5,480,700 00       | \$ 224 33                           | \$ 176 53    |
| The Belt Railway Company of Chicago<br>Canadian Government Merchant Marine,<br>Limited . . . . . | 3,120,000 00          | 240,000 00                          | 240,000 00   |
| Central Vermont Transportation Com-<br>pany . . . . .  | 300 00                | 300 00                              | 300 00       |
| Chicago & Western Indiana Railroad<br>Company . . . . .  | 200,000 00            | 50,000 00                           | 20,000 00    |
| The Detroit & Toledo Shore Line Rail-<br>road Company . . . . .                                  | 5,000,000 00          | 1,000,000 00                        | 1,000,000 00 |
| Detroit Terminal Railroad Company..  | 3,000,000 00          | 1,500,000 00                        | 2,142,000 00 |
|  | 2,000,000 00          | 1,000,000 00                        | 1,000,000 00 |



Canadian National Railway Company is \$4,710,000. The Canadian National Railway Company takes up currently in its income account one-half of the annual deficit of Northern Alberta Railways Company.

**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 July 1, 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 December 31, 1939, 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 March 1, 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 4½ per cent Series "D" Sinking Fund Bonds due 1962 and the amount outstanding at December 31, 1939, is \$22,044,000.

**C.N.R. PENSION PLANS:**

Reserves are not set up against pensions presently being paid or conditionally accruing under the 1935 contractual plan and prior non-contractual plans. Actual pension payments made at the expense of the Railway are charged currently to operating expenses.

Pension contracts in force under the 1935 contractual plan number 3,151, the average annual pension is \$488, the total annual pensions being \$1,538,691 representing a capital sum of approximately \$13,350,000. The portion of this sum contributed by retired employees is carried in the accounts as a deferred liability.

Mr. SMART: The first paragraph of this section answers Mr. Bereovitch.

Mr. BERCOVITCH: Yes, it does.

The CHAIRMAN: If there are no questions we will proceed to page 22. Schedule of Companies Comprising the Canadian National Railway System.

Mr. HUNGERFORD: I may say, for the information of the committee, that we have been carrying on a campaign to reduce the number of companies as far as we could. There are many complications in the way but we have been able to eliminate a certain number of companies, and that is the policy.

The CHAIRMAN: Do you wish to ask any questions?

Mr. ROSS: In the report of 1938 the number of companies were 99, and now I see that there are 102 in the 1939 report; where does the reduction come in? There is a difference of 3, an increase rather than a reduction.

Mr. HUNGERFORD: There have been some of them eliminated anyway, that is sure.

The CHAIRMAN: On page 24—

Mr. ROSS: Could we have a list of the reductions?

Mr. COOPER: We will give you a list.

Mr. ROSS: And a list of the increases as well.

Mr. BERCOVITCH: While you are at it perhaps you might give us an idea of the Industrial Land Company.

Mr. COOPER: That is a holding company for non-railway lands.

Mr. BERCOVITCH: Did you say, non-railway land?

Mr. COOPER: Surplus lands, which were excluded from the general mortgage of the Grand Trunk Western, were put in this holding company and disposed of as opportunity presented itself.

Mr. BERCOVITCH: Is it a Canadian company?

Mr. COOPER: No, it is an American corporation, incorporated in the State of Michigan.

Mr. HUNGERFORD: I may say it is a wholly owned company.

Mr. BERCOVITCH: I see.

The CHAIRMAN: Are there any other questions?

Mr. BERCOVITCH: Have any of these lands held by this company been sold or disposed of?

Mr. COOPER: I would say no; the company tried hard to get rid of some of these lands—on account of taxes, obviously—but the market conditions were not good for the disposal of this type of property.

Mr. BERCOVITCH: You have not purchased any new lands though?

Mr. COOPER: I would not say so, and I would not say positively not; but certainly they did not amount to anything.

The CHAIRMAN: On page 24: Statement of Revenue Tonnage by Commodities for Years 1939-1938:

Mr. DONNELLY: Would it be possible for you to figure out for us the cost of moving a ton mile of wheat this year as compared to what the cost was in 1926; say, the labour used in the moving of a ton mile of wheat as compared to labour employed in 1926?

Mr. HUNGERFORD: That is a bit involved.

The CHAIRMAN: How about the whole cost?

Mr. ARMSTRONG: It is a rather involved question.

Mr. DONNELLY: You see, your engines today are so much larger, and your steel is so much heavier. I would like to find out what the saving has been to the country by increasing your trainloads as to size; or what saving of labour there has been in that way, let us say, as compared to the conditions which obtained in 1926?

Mr. BERCOVITCH: Why 1926?

Mr. DONNELLY: I just took that because it is generally used as a base year for purposes of comparison.

Mr. BERCOVITCH: I see.

Mr. ARMSTRONG: We can give you the increase in size of the average train, for example; but to turn that into dollars and cents becomes a rather complicated problem.

Mr. HUNGERFORD: One has to make so many assumptions.

Mr. ARMSTRONG: Of course, no increase has been made in the size of trains operated on branch lines. We have our lighter locomotives on these lines. It is only on the main lines that you get any saving due to heavier locomotives; and, as you say, better rails. That is only on the main lines, to take it and relate it to the total cost, involves quite a problem; to do that you would have to make a considerable number of assumptions and it would be very highly theoretical.

Mr. DONNELLY: My idea is this: we have increased the size of our trains, we have increased the weight of steel used in rails, and we also have increases in wages. Has that increase in wages eaten up the advantages obtained in the size of our trains or in the weight of rail used?

Mr. ARMSTRONG: I think the only measure you can get of that is the general improvement of the railway as a whole. There is another factor also which comes in which would complicate it, and that is the increase in efficiency of the railway itself over that period from 1926 on. It is difficult to allocate to any one of these factors its value,—what effect it has on the whole situation.

Mr. BERCOVITCH: You would know the cost of moving freight from one point to another per ton mile; you would know that, wouldn't you?

Mr. ARMSTRONG: Railway costs are rather difficult to get at when you come to a unit basis. For instance, you can analyse the operations of one branch line and ascertain whether you are making money or losing money. When you get into average costs you get into a very complicated problem which requires a considerable number of assumptions, and certainly it is altogether very difficult.

Mr. BERCOVITCH: And not likely to be accurate.

Mr. ARMSTRONG: And not likely to be accurate; and very difficult except to compare one period to another. Would this satisfy you? We did make a comparison here in a very rough manner between 1939 and 1930.

Mr. DONNELLY: Yes, that is all right.

Mr. ARMSTRONG: This is for the system as a whole. In these two years the traffic handled was approximately equal when measured in physical volume, but the revenue was less in 1939 because of the reduction in rates. In that period, as between 1930 and 1939, with the same volume of business—there was nearly \$50,000,000 less in revenues—we had a reduction of only about a million dollars in our net revenue. What I am endeavouring to show is the measure of improvement between 1930 and 1939. And now, that is brought about by many things: heavier power, heavier rails, improved efficiency of operation—and improvements that have been made, capital improvements. It is very difficult to segregate the better performance to show how much of it was due to increase in the size of cars, increase in size of rail, improvement in efficiency, etc. Does that help you at all?

Mr. DONNELLY: Well, not very much. - How much have your wages increased in these times?

Mr. ARMSTRONG: Wages?

Mr. DONNELLY: Yes.

Mr. ARMSTRONG: From 1926?

Mr. DONNELLY: From 1930.

Mr. ARMSTRONG: From 1930—there would be practically no difference between 1930 and 1939 in the average rate of wages because the deductions went into effect in 1931 and continued right up until 1938, part of 1938.

Mr. MACINNIS: What would be the difference in the aggregate wages?

Mr. ARMSTRONG: In the aggregate wages, that is total compensation, we show the total pay roll of 1930 as being \$161,000,000 and in 1939 the comparable pay roll was \$123,000,000. In other words, the physical volume of traffic was approximately equal (the revenue was considerably less), but the pay roll was reduced from \$161,000,000 to \$123,000,000.

The CHAIRMAN: There is a memorandum here showing a comparison of the cash deficit in 1939 as compared with 1931. There are some interesting figures in it. Do you wish to hear that read?

Mr. BERCOVITCH: Anything that is interesting I am sure we should have read, I am sure it would please the committee.

The CHAIRMAN: I will ask Mr. Cooper to read it.

Mr. COOPER: This is a comparison of cash deficits in 1939 as compared with 1931.

“The gross revenues of the system in 1939 amounting to \$203 millions are approximately even with those of 1931 when they were \$200 millions. However, the cash deficit for 1939 was \$40,095,000, as compared with \$60,968, in 1931, an improvement of \$20,873,000.

“The improvement is even greater than indicated if it is remembered we handled 2,474 million more revenue ton miles; that salary and time deductions in effect in 1931 amounted to \$1,877,000; that we doubled the provision for equipment retirements thereby adding \$3,325,000 to our operating costs; that the pension roll increased by \$1,741,000; and that we provided \$1,114,000 for debt discount whereas debt discount was not provided for in the cash deficit of 1931.”

That is to say, all of these amounts I have given are additional to the improvement of \$20,000,000. On the other hand, to be quite frank, in the same period our fixed charges were reduced to \$5,600,000 due to the refunding at lower interest rates.

Mr. BERCOVITCH: That is all very interesting. I think it is well to have it on the record.

The CHAIRMAN: Shall the committee rise at one o'clock? It is not quite one o'clock yet, but before we do rise let us decide if we are going to sit this afternoon again, because there is a lot of work to be gone through and it is desirable to finish it as soon as possible. What is the wish of the committee?

Mr. McCULLOCH: Inasmuch as the officials of the C.N.R. are here, I do not think we should keep them any longer than is necessary.

Mr. DONNELLY: I suggest we meet at 4 o'clock.

Mr. MACINNIS: I do not think I can be here, Mr. Chairman, but I do not object to the committee sitting.

The CHAIRMAN: Then we shall meet at 4 o'clock this afternoon.

(At 12.50 the committee adjourned to meet at 4 p.m.)

#### AFTERNOON SESSION

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

The CHAIRMAN: Order, gentlemen. We have a quorum and we had better get along. I think we were considering “Revenue Tonnage by Commodities” on page 25. If you have fully considered that reading why we will pass on. Are there any questions?

Page 26 deals with "Details of Railway Equipment."

Mr. McCULLOCH: On page 25 there is the question of ties. Lumber prices have gone up considerably but the prices of ties have remained the same. The railroad expects to buy these ties from the small dealers especially in Nova Scotia and New Brunswick at the same prices if not lower than they did two or three years ago. They just name the price and say you may take it or leave it.

Mr. VAUGHAN: All I can say to that is we are paying just as high a price in Nova Scotia as we are in any place in Canada for ties. I do not see how we can single out Nova Scotia and pay them a higher price than others. We seem to be able to get all the ties we need at the price we are paying. In some provinces we are paying considerably lower than we are paying in Nova Scotia.

Mr. BERCOVITCH: Do you buy them in the open market?

Mr. VAUGHAN: No. The way we do in connection with ties is this: we fix a price for ties that we think is fair in that district and we pay everybody in that district the same price for ties.

Mr. McCULLOCH: There are quite a number of people who get contracts for ties who are not in the lumber business at all and that has, I think, given rise to a little discontent. They buy them from the other people and make a profit of five cents apiece on them and they are not in the lumber trade.

Mr. VAUGHAN: I have not got any knowledge of any such people, Mr. McCulloch. Have you any in mind that you can give? We do aim to do business only with these people in the tie or lumber business. There is once in a while a storekeeper or someone of that kind who advances a certain amount to a farmer who goes out and cuts the ties off his farm, and we take these ties from the storekeeper. If we did not do that the farmer would not have any money at all.

Mr. McCULLOCH: The case I have in mind is not a storekeeper.

Mr. VAUGHAN: I have no knowledge of any such case myself. I should be very glad if you give it to me and I would investigate it.

Mr. ROSS: Put it on the record.

Mr. McCULLOCH: It is a small thing but it makes for a little discontent.

Mr. VAUGHAN: What we do is this. We have our local tie man down there investigate each applicant for a tie contract. Our instructions are very explicit. They are that he must not recommend anybody for a tie contract who is not in the tie or lumber business.

Mr. SANDERSON: You do not play any favorites?

Mr. VAUGHAN: No. If they creep in there must be a reason for it.

Mr. McCULLOCH: This is not a case of favouritism or anything like that.

Mr. VAUGHAN: I should like to have the name.

Mr. BERCOVITCH: The price would be necessarily higher if you buy from these people. I do not know how the farmer would benefit.

Mr. VAUGHAN: The farmer of course, usually along with other work cuts a few hardwood trees or something of that kind, and he gets supplies from the storekeeper, goes into the bush along with a son or two and they cut 500 or 1,000 such ties and he turns them in to the storekeeper in payment of his debt, and the storekeeper comes to us and asks us to take them off his hands at the price.

The CHAIRMAN: Have you any suggestions to offer, Mr. McCulloch?

Mr. McCULLOCH: No. I can understand Mr. Vaughan and it is possibly true that the small man gets supplies from the store. As far as the storekeeper is concerned in the country I think probably he is entitled to a contract.

Mr. VAUGHAN: It only happens very rarely, however, but in a very few cases it does happen.

Mr. DONNELLY: Do you creosote your ties?

Mr. VAUGHAN: We creosote about 2,000,000 ties a year.

Mr. DONNELLY: How much longer do you find them to last?

Mr. VAUGHAN: We have more than doubled the life of the tie.

Mr. DONNELLY: How does that compare with regard to cost?

Mr. VAUGHAN: By the time you treat a tie it costs nearly double the untreated tie. We get an average of eight years for a jack pine tie untreated; we get from eighteen to twenty years for a tie when treated.

Mr. DONNELLY: What about the labour?

Mr. VAUGHAN: We save the labour of putting in two or three more ties in the meantime.

Mr. BERCOVITCH: You do that with ties. It would be a good thing if you could do it with the individual.

The CHAIRMAN: Shall we go on to page 26, "Details of Railway Equipment"?

Mr. DONNELLY: Where are your electric and gas cars running?

The CHAIRMAN: Short branch lines?

Mr. ARMSTRONG: You mean diesel electric?

Mr. DONNELLY: Yes.

Mr. ARMSTRONG: That would be shown under unit cars in passenger equipment.

Mr. DONNELLY: You run these cars with one car behind it or two?

Mr. ARMSTRONG: Sometimes two.

Mr. HUNGERFORD: Sometimes one, sometimes two; it just depends.

Mr. DONNELLY: How many men do you have on these cars to operate them?

Mr. HUNGERFORD: That varies a little bit too. We have a man running the car and usually a conductor.

Mr. DONNELLY: Have you a brakeman?

Mr. HUNGERFORD: Sometimes we have a great deal of baggage to handle; sometimes we have two cars and a lot of express and baggage to handle; on a main line operation where you have to flag in the event of breakdown we may have a brakeman.

Mr. DONNELLY: Do you carry a baggage man in that case?

Mr. HUNGERFORD: No.

Mr. DONNELLY: No express man?

Mr. HUNGERFORD: No.

Mr. DONNELLY: What do you carry on main trains, six-car trains?

Mr. HUNGERFORD: That is in the passenger trains?

Mr. DONNELLY: Yes.

Mr. HUNGERFORD: Two men on the engine, a conductor and a baggage man and probably one brakeman under the average conditions. The rules vary a bit on different parts of the system.

Mr. DONNELLY: You carry nearly as much on the small trains as on the big ones?

Mr. HUNGERFORD: No, not quite as much.

Mr. DONNELLY: In the way of running them.

Mr. HUNGERFORD: Generally speaking we can operate these unit cars for just about half the amount of some trains performing the same service.

Mr. DONNELLY: We have this situation: a bus running on the road alongside the track has no maintenance cost, no station agent, no brakeman and no fireman, no express men and one man does the whole thing. You are not competing under fair competition at all.

Mr. BERCOVITCH: They do not have to build the road or maintain it.

Mr. DONNELLY: No.

Mr. McCULLOCH: I notice under box cars you have 3,000 cars less in 1939 than you had in 1938. I am a little interested in box cars because we manufacture them down in Pictou county. I was just wondering if you were going to bring these up to the strength of 1938 in the future.

Mr. HUNGERFORD: The cars that are destroyed are almost invariably cars of small capacity, and the cars that we purchase are those of large capacity; so that one of the new units is equivalent to more than one of the old ones, cars that are twenty to thirty-five years old. So that actually the number of units does not tell the entire story. Answering your question, it all depends on the traffic requirements. If the volume of traffic goes up we will need some more cars.

Mr. McCULLOCH: I hope the traffic goes up.

Mr. HUNGERFORD: So do I.

Mr. SANDERSON: What percentage of box cars do you make yourselves?

Mr. HUNGERFORD: What percentage do we make ourselves?

Mr. SANDERSON: Yes.

Mr. HUNGERFORD: We do not build any box cars at all.

Mr. SANDERSON: Since when?

Mr. HUNGERFORD: We have not for a great many years. Possibly you are thinking of refrigerator cars.

Mr. SANDERSON: No.

Mr. HUNGERFORD: Just box cars?

Mr. SANDERSON: Yes.

Mr. HUNGERFORD: The company has not built any box cars to my recollection. We do, from time to time, place a small order in certain of our shops for refrigerator cars or something of that kind.

Mr. SANDERSON: You just repair box cars?

Mr. HUNGERFORD: We repair them, yes; rebuild them.

Mr. DONNELLY: To revert to the question I was dealing with a moment ago, these small gas cars, have the company at all experimented or tried something that is a real competitor of these buses, a car or something of that kind operated by one man the same as the bus is operated, on the road right beside it?

Mr. HUNGERFORD: We have tried at different times a small unit, one particular kind that may be operated on both rail and road; generally speaking the result has not been very good.

Mr. ROSS: Dealing with the section having to do with locomotives, I wonder if I could get a word from the committee as to this new Marslight they are using in the States. It seems to have been a great success over there.

Mr. HUNGERFORD: I cannot answer that; I do not know what is referred to.

Mr. ROSS: It is apparently a rotating light for protecting the traffic at intersections. An automobile comes up and actually backs away from this new type of light they have on the engine.

Mr. ARMSTRONG: Is it on the engine?

Mr. ROSS: Yes. It is a sort of rotating light or a Marslight. Motorists come up and actually think the train is off the track and coming down the roadway.

Mr. HUNGERFORD: I am sorry; that is something that has escaped me.

Mr. ROSS: It is a safety factor, judging from the report I get from over there. You have no information to offer in that regard?

Mr. HUNGERFORD: No.

The CHAIRMAN: As chairman I probably should not say anything but I have always been concerned with this problem of building cars. The problem of new equipment for the railways has been brought up in this committee time and time again, particularly as to the amount of equipment that was built by the company in proportion to or the ratio that was built by your shop. I understand that less than 10 per cent of these cars are built by the company—one in twenty.

Mr. ARMSTRONG: Hardly that.

The CHAIRMAN: It seems to me, judging by the shops that we have on the road that a much larger proportion could be built. I do not know whether it is feasible or economic, but certainly the men who work for the railway company do raise the mischief about it. I must say that because I have a lot of them in my district.

Mr. HUNGERFORD: The policy of the company is to make all repairs in their own shops and not contract repairs out. On the other hand because of their superior equipment and organization for the construction of new equipment we have always found it advantageous, in the main, to contract for new equipment outside. We could build with a certain amount of difficulty and lack of efficiency a certain amount of equipment, but our plants are primarily designed, equipped and organized to do repair work and we do that entirely ourselves. It is not our policy at the present time to undertake to build new equipment in our repair shops. One is organized for one thing and the other is organized for another. But there is a lot of special equipment like refrigerator cars and the occasional snow plough and things of that kind where we generally do the work in our own shops.

The CHAIRMAN: Of course, your men claim they can build anything, engines, cars, refrigerator cars, coaches, anything at all.

Mr. HUNGERFORD: They might if they were given time and money enough.

Mr. BERCOVITCH: We probably all could.

The CHAIRMAN: I doubt it.

Mr. BERCOVITCH: Given time and money we could accomplish almost anything.

The CHAIRMAN: Are there any other questions? If not, the next heading is statistics of rail-line operation. Are there any questions on that? Then on page 28, statistics of rail-line operation—the same thing.

Mr. HUNGERFORD: That is continued.

Mr. SMART: Those are the averages.

The CHAIRMAN: The next heading is employees and their compensation; then comes distribution of the dollar.

Mr. McCULLOCH: They struck it pretty even between 1938 and 1939, so far as labour is concerned.

Mr. HUNGERFORD: There naturally would not be very much change unless there happened to be a change in the wage level.

The CHAIRMAN: Are there any questions? If not, we will proceed to operated mileage as of December 31, 1939, on page 29.

Mr. HUNGERFORD: That is simply a statement of the track mileage operated.

The CHAIRMAN: Yes. If there are no questions, we have completed the report of the Canadian National Railways.

Mr. HUNGERFORD: Mr. Chairman, there were a number of questions asked this morning that could not be answered offhand, and we undertook to provide answers. We were not able to complete the answers during the intermission between the morning session and this one, but if it is agreeable to you, we will have them finished tonight and submit them in the morning, assuming, of course, that there is going to be a meeting tomorrow. If not, we will submit them at the first subsequent meeting of the committee.

The CHAIRMAN: I suppose we might as well discuss that subject now. Is it the wish of the committee to meet to-night?

Mr. DONNELLY: There is likely to be a division of the house to-night.

The CHAIRMAN: We can very readily leave this meeting and go to a division. If the division comes after we have had an hour or so here, we can adjourn this committee until to-morrow. Are you satisfied to meet again to-night at eight o'clock?

Mr. McCULLOCH: Subject to division in the House, I suppose.

Mr. BERCOVITCH: Let us meet to-night.

The CHAIRMAN: All right. Will all those in favour of meeting to-night please signify? I guess we will meet to-night, then, at eight o'clock.

Mr. SISSONS: Is there any item here, Mr. Chairman, which shows the return the C.N.R. received, if any, from investment in the Northern Alberta Railway?

Mr. HUNGERFORD: Yes.

Mr. COOPER: Our share, which is 50 per cent of the net loss of the Northern Alberta Railway, this last year was \$638,000. The C.P.R. would have an equal amount.

Mr. SISSONS: Are returns furnished monthly by the N.A.R.?

Mr. COOPER: They are made monthly by that company to the Dominion Statistician; but I do not think they are published, except by the statistician.

Mr. SISSONS: I thought the agreement between the C.N.R. and the C.P.R. provided that the return should be made monthly to each one of the companies.

Mr. COOPER: You mean that the company would make a return to the C.N.R. and C.P.R.?

Mr. SISSONS: Yes.

Mr. COOPER: Yes. We get a monthly statement showing their earnings, expenses and all other charges.

Mr. SISSONS: And the C.N.R. take an equal part?

Mr. COOPER: We take up one-half.

Mr. SISSONS: Do they take an equal part in the management of the road?

Mr. COOPER: It is joint.

Mr. SISSONS: There seems to be an impression there that the C.P.R. is the dominant partner and the C.N.R. is really a sleeping partner. I want to get away from the impression. The C.P.R. come into that area talking as if the N.A.R. was the property of the C.P.R. rather than the joint property of the two roads. I should like to see the C.N.R. take a more aggressive public attitude towards that.

Mr. HUNGERFORD: The situation there is that there is an equal number of representatives on the board of directors. The presidency alternates year about. I think perhaps the reason that this impression which you speak of has got abroad is that the present general manager of the Northern Alberta Railways was a former C.P.R. employee. But against that we have certain employees in official capacities on the road. I do not know exactly what you refer to as to the public impression; but, as a matter of fact, the administration of the property is equal and joint.

Mr. Sissons: I just wish to be satisfied on this point. In the agreement between the C.N.R. and the C.P.R. dated January 29, 1929, the last clause provided to this effect:

"The parties agree to co-operate with fairness and candor towards each other, and to give effect to this agreement in the most liberal and reasonable manner to the intent that each of them shall receive its full and equal share of the benefits of the joint undertaking."

That rather looks as if each party was suspicious of the other when that clause was inserted. But what I wish to be satisfied of is this. Is the C.N.R. satisfied that it is receiving a fair deal and that that clause is being carried in the operation of the Northern Alberta Railway?

Mr. HUNGERFORD: Yes, I would think so.

Mr. Sissons: That is all I want.

Mr. DONNELLY: Looking at page 28, it says "ton-miles—revenue freight," referring to the \$17 million. I wonder if it would be possible to get the wage cost per unit of work done. I understand that it is customary to take the ton-mile as the unit of work, as you understand it, in railroading. Is that not right?

Mr. ARMSTRONG: That is for freight traffic.

Mr. DONNELLY: Yes; and the passenger rate you estimate at what—four or five? A passenger-mile would be equal to about four or five ton-miles, would it not?

Mr. ARMSTRONG: That is a very arbitrary formula. They have used the basis of one passenger-mile equal to three ton-miles, sometimes four. Various authorities have different opinions. Three, I think, has probably been used more. As I say that is a very arbitrary figure.

Mr. DONNELLY: Estimating it even at four, would it be possible for you to give us the wage cost per unit of work done in 1913, 1926 and 1932, in the low of the depression, and then this year, 1939.

Mr. ARMSTRONG: For what it is worth, we can give it arithmetically.

Mr. DONNELLY: That is what I want.

Mr. ARMSTRONG: As to whether you can draw any conclusion from it, I certainly would not like to say that you could.

Mr. DONNELLY: I would like you to give us that.

Mr. ARMSTRONG: We can have it done arithmetically.

Mr. DONNELLY: All right.

The CHAIRMAN: Are you through with that report? If so, we will go on to the auditor's report—report and accounts, Canadian National Railway System year ending 31st December, 1939. Do you want this read as we did before?

Mr. DONNELLY: You mean the auditor's report?

The CHAIRMAN: Yes, the letter in the beginning of the report; the preamble, if you will.

Mr. HUNGERFORD: It is rather important.

The CHAIRMAN: I think probably we ought to have it, because we do not want to slight this business.

Mr. DONNELLY: It is not a very long report.

Mr. HUNGERFORD: Would you like Mr. Armstrong to read it?

The CHAIRMAN: Yes, please.

Mr. HANSELL: I do not think we have that.

Mr. BERCOVITCH: I have not got it.

Mr. SMART: It was sent out to each member of the House with the annual report.

Mr. HUNGERFORD: May I bring Mr. Matthews of Touche & Company up to the front, Mr. Chairman?

The CHAIRMAN: Yes, certainly. Do you want him to read his own report?

Mr. HUNGERFORD: Mr. Matthews, will you come up to the front, please? May I introduce him, Mr. Chairman?

The CHAIRMAN: Yes.

Mr. HUNGERFORD: Mr. Chairman and gentlemen, this is Mr. Matthews, of George A. Touche & Company, the auditors of the Canadian National Railway System; and inasmuch as it is his report, with the consent of the chairman, I am going to ask him to read his own report to you; and I think he will be in a position to answer any questions arising therefrom.

Mr. MATTHEWS (reads):

THE HONOURABLE THE MINISTER OF TRANSPORT,  
Ottawa, Canada.

SIR,—In pursuance of Sections 13 and 15 of The Canadian National-Canadian Pacific Act, 1936, and Chapter 2, 1939, "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 31st December, 1939, and we now submit, through you, our report to Parliament.

We attach hereto the following financial statements of the National System:

- Exhibit I—Consolidated Balance Sheet at 31st December, 1939—together with audit certificate.
- Exhibit II—Dominion Government—Proprietor's Equity at 31st December, 1939.
- Exhibit III—Consolidated Profit and Loss Account—Year 1939.
- Exhibit IV—Consolidated Income Account—Year 1939.
- Exhibit V—Investments in Affiliated Companies at 31st December, 1939.
- Exhibit VI—Major Contingent Liabilities, including Pension Plans, at 31st December, 1939.

#### CONSOLIDATED BALANCE SHEET

Investments in Properties and Equipment appearing in the books of the companies as at the 1st January, 1923, were accepted by us. As against the corporate property investments brought into the National System accounts in 1923, there have been applied the reductions as authorized by The Canadian National Railways Capital Revision Act, 1937. Since 1st January, 1923, the property additions and betterments less retirements have been shown at cost. The property additions from that date include construction expenditures on certain Branch Lines, the completion of which has been suspended for some years.

Investments in Affiliated Companies, as set out in Exhibit V, are represented in the main, apart from the Trans-Canada Air Lines, by a 50 per cent or less capital stock ownership. The basis of the Balance Sheet figure is cost, or in certain instances special valuations approved by the Interstate Commerce Commission some years ago. The accounting regulations of the Commission, effective up to 31st December, 1939, do not require annual revaluation of Investments in Affiliated Companies on the basis of change in the earnings or financial position of the affiliates. It should be noted, however, that the Commission has issued an amending regulation in respect of security valuations, effective as of 1st January, 1940, which is more restrictive in scope than that previously in force.

The accounts of the National System are stated in Canadian currency—Sterling and United States currencies being converted at the par of exchange. Major Contingent Liabilities, including Pension Plans, are dealt with in Exhibit VI. In respect of Pension Plans, we would make reference to the fact

that reserves are not set up in the Balance Sheet against pensions presently being paid or conditionally accruing under the 1935 Contractual Plan and prior Non-Contractual Plans. Actual pension payments made at the expense of the railway are charged currently to Operating Expenses. In respect of the Pension Contracts already issued and in force under the 1935 Contractual Plan the railway has made a tentative estimate, which has been accepted by us, showing a capital amount approximating \$13,350,000. This capital estimate does not cover the pensions conditionally accruing under the 1935 Contractual Plan because their future payment is contingent upon the general trend of future railroad employment.

#### CONSOLIDATED PROFIT AND LOSS ACCOUNT

Depreciation Accounting is applied to Equipment owned by the United States Lines. Retirement Accounting is applied on the basis of original cost to Equipment owned by Canadian Lines and to Fixed Properties in both United States and Canada. In our report to Parliament dated 22nd March, 1935, we recommended, conditionally, the adoption of depreciation accounting for Equipment owned by Canadian Lines on the general basis of the Interstate Commerce Commission Depreciation Order No. 15,100 which became effective, in respect of Equipment only, on United States Railroads from 1st January, 1935. The conditional feature of the 1935 depreciation recommendation was the concurrent establishment of uniform accounting regulations, of a mandatory character, applicable to all Canadian railways under the statutory authority of the Dominion.

In view of the altered situation as a result of the war, particularly in respect of equipment retirements, we now unconditionally recommend the adoption of depreciation accounting for Equipment owned by Canadian Lines. During the year 1939 the National System conducted detailed depreciation studies—in which we collaborated—and prepared supporting data which would be of considerable value if the recommendation for such depreciation accounting were adopted.

We would again recommend the establishment at an early date of uniform accounting regulations, of a mandatory character, applicable to all Canadian railways under the statutory authority of the Dominion.

In respect of current maintenance policy we have received certificates from the President to the effect that the 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 1939.

#### GENERAL SCOPE OF AUDIT

The general scope of the test audit which we have made of the National System for 1939 may be outlined briefly as follows:—

- (a) Examination of major expenditure authorities which were based mainly upon recorded Resolutions of the Directors. These major expenditure authorities in turn have been established mainly by Corporate By-Laws of the Canadian National Railway Company, Statutory and Financing Acts of Parliament and Orders in Council;
- (b) Audit tests in the offices of Regions, Separately Operated Properties and System Headquarters, covering a cross-section of the major expenditures so authorized;
- (c) Examination into the adequacy of the internal audit control in general by the accounting staff of the System. In this connection we work in collaboration with the executive accounting officers at Headquarters having as a mutual 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. There is the further objective of bringing about, in due course, a simpler corporate accounting set-up within the System as one of the purposes of the Capital Revision Act, and

- (d) Audit and certification of the Consolidated Balance Sheet, Income and Profit and Loss Accounts 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 audit covered the various Balance Sheet accounting units with Income and Profit and Loss Accounts originating in the Revenue Offices, Regions, Separately Operated Properties and System Headquarters applicable to some 101 companies comprising the National System as an operating entity.

The principal points at which our audit work was carried out were:—

In Canada—Halifax, Moncton, Montreal, Ottawa, Toronto, Winnipeg and Vancouver. In addition, audit tests were made at other points according to special conditions and requirements.

In U.S.A.—St. Albans, Cleveland, Detroit, Chicago and Duluth.

In Europe—London and Paris.

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A copy of our Memorandum to the Board of Directors dealing with inactive properties, advance equipment retirements and other internal matters will be despatched to the Minister of Transport in due course.

We report to Parliament that the National System accounts have been maintained, during the year 1939, in an efficient manner and in general accordance with the present rules and regulations prescribed for steam railroads in Canada and those of the Interstate Commerce Commission for lines operated in the United States.

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#### TRANS-CANADA AIR LINES

The Trans-Canada Air Lines have 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. A separate Balance Sheet and Income Account have been certified by us at 31st December, 1939.

#### CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS, LIMITED

The accounts of the Canadian National (West Indies) Steamships, Limited, and subsidiary companies are not consolidated with those of the National System, the 100 per cent stock ownership of the parent company being vested in the Dominion. A separate Consolidated Balance Sheet together with Consolidated Income and Profit and Loss Accounts have been certified by us at 31st December, 1939.

The Self-Insurance Reserve as shown on the Consolidated Balance Sheet does not include any provision for war risks.

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In respect of both the Trans-Canada Air Lines and the Canadian National (West Indies) Steamships, Limited, the test audit which we have made for 1939 is similar in scope to that of the National System and may be outlined briefly as follows:—

- (a) Examination of major expenditure authorities embracing mainly the recorded Resolutions of the Directors, Corporate By-Laws, Statutory and Financing Acts of Parliament and Orders-in-Council;

- (b) Audit tests covering a cross-section of the major expenditures so authorized;
- (c) Examination into the adequacy of the internal audit control in general by the accounting staffs of the companies covering Cash Receipts and Expenditures, Securities Held, Material Stores, Accounts Receivable, etc., and
- (d) Audit and certification of the Balance Sheets, Income and Profit and Loss Accounts for presentation to Parliament.

Yours faithfully,

GEORGE A. TOUCHE & CO.

The CHAIRMAN: Are there any questions; do you wish to make any enquiry or interrogation so far?

Mr. BERCOVITCH: Do I understand that there has not been any depreciation accounting practised in connection with the Canadian National Railways?

Mr. MATTHEWS: The policy of the Canadian line since 1923 has been retirement accounting; that is to say, charging to operating expenses all the capital value of equipment less salvage as and when retired. On United States lines, of course, due to the fact that they operate under the mandatory instructions of the I.C.C., they have been obliged to charge depreciation on their equipment; that is, their rolling stock.

Of course, this subject of depreciation has been one of considerable study over the years in these committees, and the situation has reached a point where starting with 1935 when the Inter-State Commerce Commission finally made depreciation obligatory at more or less standard rates—that is to say, rates that have to be approved by the I.C.C.—we felt that the time had arrived for the adoption by the Canadian National on Canadian lines of that type of accounting. Now, there has been a great deal of misunderstanding in past years in respect to Canadian National accounts of this class, both inside and outside of Canada. There have been articles in New York papers in years gone by that held the Canadian National up as a horrible example as to what its result would have been had depreciation been accrued on the usual commercial basis. Unfortunately, a good number of these people have very little if any knowledge as to the actual working of the accounts of the National railways in respect to its retirement policy. The fact that depreciation as a basis of accounting was not adopted up to the end of 1939 does not mean for a moment that the accounts themselves should not give a reasonably fair presentation of operating results. Of course, in the first place, each year the accounts fairly set out that retirement was the basis, not depreciation. But under depreciation accounting the life of the property is spread over a definite number of years based upon the estimated service life, whereas under the retirement accounting basis the charge has to be absorbed at the time the property is retired; and if retirement accounting had been properly administered in past years on United States railroads the chances are that the rather drastic order 15,100 might never have been drawn; because, the fact of the matter was that the retirement policy left open to the managements of the different roads opportunity to retire as and when they saw fit, and in a good many cases according to the operating results of that year. But depreciation accounting spreads it out definitely over a given life.

Now, it might be interesting to observe at this time that depreciation accounting when adopted, and it has been adopted by the board for 1940, will mean that the difference between the old retirement basis and depreciation basis for Canadian lines' equipment will be a very small amount; and the effect is that it sets the accounts of the National railways, so far as rolling

stock is concerned, on a definite depreciation basis comparable in the main with the class 1 railroads in the United States.

Now you ask, what about fixed properties? Well, in 1928 the Interstate Commerce Commission set about to make mandatory the application of depreciation on fixed properties of railroads, but they found that was quite impracticable and ultimately rescinded that mandatory order and left it optional with the carriers. So today it can be said that with the adoption by the directors of the depreciation policy from the first of January, 1940, the National railways in a general way will be on all fours with the class 1 railroads of the United States.

Mr. BERCOVITCH: What is the system used by the C.P.R.?

Mr. MATTHEWS: Up to this time, so far as we know, it has been retirement accounting. I do not know, of course, what the policy is for 1940, but Sir Edward Beatty, in his address to the shareholders, gave some indication that they were thinking of establishing some sort of reserve. I have no means of knowing whether it is the depreciation basis or not.

But the depreciation basis recommended in this report and adopted by the railway is based upon a study of the service lives of the different units of equipment. The important thing for this committee to bear in mind, I think, is that the jump from the so-called retirement accounting to the depreciation basis makes very little difference in the absorbed charge in the operating expenses for the year 1940.

Mr. BERCOVITCH: Would it make any difference in the picture of the Canadian National Railways?

Mr. MATTHEWS: No. It makes very little difference in the net result for 1940. There would be very little difference if you continued the present retirement charges because under retirement accounting, as I say, everything has to be absorbed by operating expenses. Under the depreciation basis, the rehabilitation and modernizing of units of equipment are charges to reserve because of their renewal of life; whereas that now will become a proper charge to the reserve depreciation. So that by and large the charge to operating expense in 1940 will be very little different from what it would have been had retirement accounting been continued.

Is there any other question?

Mr. SMART: Mr. Matthews, this is what Mr. Beatty said.

Mr. MATTHEWS: This is an extract from an address of Sir Edward Beatty given at the annual meeting May 1, 1940:

"It has now become apparent that the amount of the charges for the retirement of such rolling stock as will be available for dismantling in 1940 will be less than last year. It is proposed, therefore, to supplement the retirement charges with an appropriation to rolling stock reserve. It is anticipated that the total charges for the year will be about equal to full depreciation requirements."

That is the only information we have as to the Canadian Pacific Railway.

Mr. HUNGERFORD: Mr. Chairman, I should like to confirm what has just been said. The statement made by Mr. Matthews that the Canadian National has adopted depreciation accounting for equipment is correct. It was adopted effective as of January 1, 1940, and will be in effect in the accounts for this year.

The CHAIRMAN: Shall we have any other items read, or shall we proceed with the last report under the headings?

Mr. BLACK: What is considered to be the life of a freight car? A freight car built how many years ago would be considered as obsolete today?

Mr. COOPER: Thirty-four years.

Mr. BLACK: Will a recently constructed car have a life of thirty-four years?

Mr. COOPER: Yes; it would probably exceed that. As a matter of fact, the modern car can be continued almost indefinitely; you can renew different parts of it. From time to time you can put on new trucks, new tops, new brakes, and, so long as the car is suitable for the traffic, the type of car does not become obsolete. By renewing parts I think you can renew a car and keep it in service indefinitely.

Mr. BLACK: How does that work out with respect to recently constructed locomotives?

Mr. COOPER: We assume a thirty-five year life for locomotives. In figuring depreciation charges, we have assumed for some locomotives a life of thirty-five years. For a diesel locomotive it is twenty-five years.

Mr. BLACK: Its life is a great deal longer than the life of an automobile?

Mr. COOPER: Oh, naturally.

Mr. BERCOVITCH: What is the average cost per car for maintenance?

Mr. COOPER: Maintenance costs for freight equipment last year were \$10,-857,000. The number of freight cars was 88,000.

Mr. HUNGERFORD: There is really no definite life for a piece of equipment. I have personally seen a locomotive in service that was one hundred years old. Units of equipment are generally retired because of obsolescence and owing to changed conditions, are no longer suitable for the purpose or economical to operate, and they are retired on that account. But you understand that a car or a locomotive is taken into the repair shops periodically and put through a general repair. When they come out they are substantially new; every part that is defective has been replaced, and, to all intents and purposes, the machine is as good as when it was built new. That process goes on year after year, so it is quite conceivable that at the end of thirty-five or forty years there is practically nothing of the original unit left; all of the parts have been replaced at the expense of operating expenses.

Mr. BERCOVITCH: What does it cost per car to send those cars to the repair shop?

Mr. COOPER: The average maintenance cost in 1939 was \$150 per car. We can spend up to \$1,000 on a particular unit. We did spend \$1,000 on many units of equipment last year, but the average cost is \$150.

Mr. BERCOVITCH: And the average cost per car new is how much?

Mr. COOPER: About \$3,600.

Mr. VAUGHAN: It would depend on the type of car. The figure of \$3,600 is about right for a modern steel box-car.

Mr. McCULLOCH: Or about 5 per cent a year on an average.

Mr. VAUGHAN: Yes.

The CHAIRMAN: If you have finished with that point, Mr. Matthews would like to make a further statement.

Mr. MATTHEWS: In considering service lives as a basis for normal depreciation I assume we all understand that the overhead element of obsolescence in these days of change is something which is impossible to foresee. I recall now that after the collapse of railway revenue, after 1929, the United States railways which had been on a depreciation basis for equipment found it necessary to charge to their surplus or capital accounts several hundred millions of dollars for retirement of equipment. Even though they had been on a depreciation basis, because of the precipitate change and the falling off in revenues, they found it cheaper to retire their equipment.

Mr. BERCOVITCH: Yes, but would not the income tax be a factor in the depreciation accounting as far as they are concerned? You are not in that position at all.

Mr. MATTHEWS: They would have to settle that, of course, but I want to make clear to the committee that in any estimate of service life and in any estimate of depreciation the element of obsolescence in these days of rapid economic change is one that has to be taken into account as a potential capital loss at some future time.

Mr. ROSS: On page 3 you state:

A copy of our memorandum to the board of directors dealing with inactive properties, advance equipment retirements and other internal matters will be despatched to the Minister of Transport in due course.

Is that now in his hands?

Mr. MATTHEWS: Oh yes; the date of this is last March.

The CHAIRMAN: On page 5 is the consolidated balance sheet at 31st December, 1939. Do you want to go into that or shall we pass it by?

Mr. BERCOVITCH: Yes.

Mr. MATTHEWS: They are just confirmatory statements. These are the ones that we certify out of the annual account presented.

The CHAIRMAN: At that rate, gentlemen unless you have some further questions to ask Mr. Matthews, we have completed that report.

Mr. LOCKHART: In connection with the operation of hotels, could we have itemized, first, the number of hotels in operation and any capital expenditures that are made on each with the gross earnings and operating expenses charge against each showing the net revenue from each hotel?

Mr. ARMSTRONG: That was asked for this morning.

Mr. LOCKHART: I am sorry I was not here. Is that being supplied?

Mr. ARMSTRONG: We are supplying that. You mentioned the investment too, did you?

Mr. LOCKHART: I am sorry I could not get here this morning; I had another meeting to attend.

Mr. BLACK: Where does that statement appear? Does that appear in the consolidated balance sheet?

Mr. ARMSTRONG: It appears on page 13, sir, of the Canadian National annual report.

Mr. LOCKHART: That includes salaries being paid?

Mr. ARMSTRONG: It includes everything charged to hotel operation. We were to furnish that for each individual hotel; that is, we were to furnish a breakdown of those figures by hotels.

Mr. COOPER: That was furnished.

Mr. ARMSTRONG: I find it has been handed to the reporters.

Mr. BLACK: Where does the depreciation on hotels enter in?

Mr. COOPER: We do not include depreciation on fixed properties.

Mr. BLACK: What about furnishings and equipment?

Mr. COOPER: The cost of renewing them and keeping them in first class order is an operating expense.

Mr. DONNELLY: You will give the capital invested in each hotel at the same time?

Mr. COOPER: We will add that.

The CHAIRMAN: We shall now deal with the annual report of The Canadian National Railways Securities Trust. Will you read this Mr. Cooper?

Mr. COOPER:

"Ottawa, March 20, 1940.

"The Honourable C. D. HOWE,  
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 1939.

"The initial stated value of the capital stock of the Securities Trust has been further reduced by \$2,600,442.11 during the year due to capital losses from certain duly authorized line abandonments made by the railway during 1939 in respect of which His Majesty has not made cash reimbursement to the railway.

The line abandonments in question were:—

|   | Miles | \$             |
|---|-------|----------------|
| Middle S/D—Bridgetown to Granville Centre.    | 7·63  | 90,957 48      |
| C.V. Ry.—Williamstown Branch. . . . .         | 3·87  | 120,006 25     |
| L'Original S/D—Hawkesbury to Hurdman. . . . . | 55·28 | 1,802,373 89   |
| North Lake S/D—Twin City to Mackies. . . . .  | 33·66 | 587,104 49     |
|   |       | \$2,600,442 11 |

No other business was transacted during the year.

The trustees present herewith the balance sheet of the Securities Trust as at December 31, 1939.

For the Trustees,

W. C. CLARK,  
*Chairman.*"

Mr. BERCOVITCH: Would you mind explaining in a few words just what is meant by The Canadian National Railways Securities Trust? I must confess my ignorance, because I should know it. It would enlighten me very much, indeed, if you would briefly tell me what it is.

Mr. COOPER: It is a company established under the Canadian National Capital Revision Act of 1937. To it were transferred the securities of the national railways, consisting of certain capital stocks, loans, advances, and unpaid interest which prior to that date had been held by the government of Canada directly against the national railways; and the securities trust was formed as a holding company in order to facilitate the revision of the capital structure of the Canadian National Railways. Instead of the obligations being directly from the railway and its various subsidiaries to the government it is now to the securities trust, the entire capital of which is held by the Dominion. It was an instrument for the simplification of the capital structure of the Canadian National Railways.

Mr. BERCOVITCH: Thank you very much.

Mr. BLACK: The actual capital was actual capital put up to start this trust organization?

Mr. COOPER: No, there is no cash involved in the new capital set-up. The securities trust issued its capital stock in consideration of the acquisition by it from the government of the securities and advances previously held by the government.

Mr. SMART: It is a piece of machinery.

Mr. HANSELL: It is not really a company.

Mr. COOPER: No, more a trusteeship.

Mr. HANSELL: A joint parliamentary committee would be the proper term.

Mr. SMART: It was created under the Canadian National Revision Act, Capital Revision Act.

The CHAIRMAN: Are there any further questions there? We now come to this balance sheet. Does it correspond with the other balance sheets?

Mr. SMART: It corresponds with the one that is shown on page 12, Dominion Government—Proprietor's Equity, under the profit and loss account.

Mr. HANSON: Has anything been done to reduce some of these demand notes which carry 6 per cent interest? Has anything been done this year?

Mr. COOPER: No; there was no change during the year in the holding of the trust so far as these demand notes are concerned. The notes still carry interest at 6 per cent although collection of interest, of course, is an impossibility and the accruing of interest was suspended by authority of the trustees.

Mr. HANSON: Are these demand notes held by individuals or by the government?

Mr. COOPER: Held by the securities trust against the railway.

Mr. HANSON: I mean the outstanding individuals. Are these notes held by individuals or corporations?

Mr. COOPER: The securities trust holds the demand notes against the railway company.

Mr. HANSON: It seems quite a bit of interest to be paying.

Mr. SMART: It is not paid.

Mr. HANSON: It is set out here; it is a government security.

Mr. SMART: It was accruing previously all the time. Now they have wiped it off by putting it here. There is no actual interest paid.

Mr. DONNELLY: What is meant by "cremation" certificates?

Mr. COOPER: When securities are destroyed the trustees under the deed of trust generally require production of a cremation certificate, that is evidence of cremation, certified by responsible officers of the company and the trustees.

Mr. BERCOVITCH: Proof that it is legally dead.

Mr. HANSON: We have this 6 per cent piling up?

Mr. SMART: No; we do not pile it up any more. That is just it. The railway company does not pile it up.

Mr. HANSON: You did until 1937.

Mr. SMART: That was wiped off by the creation of this company.

Mr. HANSON: You did.

Mr. ROSS: What is the amount of the initial set-up value of the capital stock?

Mr. COOPER: Five million shares issued. The original set-up value was \$270,037,000. This has been reduced to the end of 1939 to \$264,000,000.

The CHAIRMAN: Are there any other questions in connection with this balance sheet?

Mr. HANSON: What is the average interest paid, Mr. Chairman, on securities that really are interest bearing? What is the average we are paying this year?

Mr. COOPER: A fraction under 4 per cent.

Mr. HANSON: Four per cent?

Mr. COOPER: A very slight fraction under 4 per cent; practically 4 per cent.

The CHAIRMAN: We now come to the annual report of the Canadian National West Indies Steamship Limited. Who is going to read this report?

Mr. HUNGERFORD: I think Mr. Armstrong may read it. Mr. Vaughan will be prepared to answer questions.

Mr. ARMSTRONG:

## ANNUAL REPORT

MONTREAL, 19th March, 1940.

THE HONOURABLE C. D. HOWE,  
Minister of Transport,  
Ottawa.

SIR,

On behalf of the Directors, I beg to submit the Annual Report of Canadian National (West Indies) Steamships, Limited, for the year ended 31st December, 1939.

Notwithstanding the unfavourable conditions prevailing in the last four months of the year, brought about by the declaration of war, it is gratifying to be able to report a surplus after making provision for bond interest.

The comparative operating results were as follows:

|                              | 1939           | 1938           | Decrease     | Per Cent |
|------------------------------|----------------|----------------|--------------|----------|
| Operating Revenues . . . . . | \$4,642,306.28 | \$4,915,355.40 | \$273,049.12 | 5.56     |
| Operating Expenses . . . . . | 4,018,446.85   | 4,169,115.63   | 150,668.78   | 3.61     |
| Operating Profit . . . . .   | \$ 623,859.43  | \$ 746,239.77  | \$122,380.34 |          |

Operating revenues decreased \$273,049 during the year. Freight revenue decreased \$4,645; passenger revenue decreased \$215,043; and miscellaneous revenue decreased \$53,361. Freight revenue was only slightly less than in 1938, although there were five fewer completed voyages. There was an increase in export tonnage, but a larger decrease in import tonnage, including a decrease of 250,979 stems of bananas. Passenger revenue was adversely affected by the war. Miscellaneous revenue decreased as no charter was secured in 1939 for the ss. *Cornwallis*.

Operating expenses were reduced by \$150,669, largely as a result of the fewer number of voyages completed during the year. The crews are being paid a war bonus and in other respects the cost of operating under war conditions has been increased.

After payment of bond interest, but before depreciation and interest on Government advances, there was available \$153,859.43, which will be paid to the Government as interest on advances. The corresponding figure in 1938 was \$276,239.77.

The vessels of the fleet were operated during the year without serious casualty and have been maintained in a high state of efficiency.

The Directors take this opportunity of expressing their appreciation of the continued loyal and efficient services rendered by the company's officers and employees, particularly under the stress of war time conditions.

For the Directors,

L. J. HUNGERFORD,  
President.

Mr. LOCKHART: Could we have some information on the war bonus being paid these men?

Mr. VAUGHAN: They are paid 25 per cent on their wages.

Mr. HANSON: The steamships on the Pacific coast belonging to the company, are they in a separate report?

Mr. ARMSTRONG: They are included in the annual report of the Canadian National Railway system.

Mr. BLACK: Has there been an increase in freight charges applicable to this war bonus? When did it become effective?

Mr. COOPER: September 10.

Mr. BLACK: Was there an offsetting increase in freight charges?

Mr. VAUGHAN: Yes; there was an increase in the freight charges approximately 25 per cent at the same time.

Mr. HANSON: I am sorry I could not be here this morning. I should like to have some information with regard to the steamships that were sold on the Pacific coast, the *Prince Charles* and the *Prince John*. To whom were they sold and how much was received for them?

Mr. HUNGERFORD: I will answer that.

Mr. HANSON: Also if the crews on these steamships were taken care of or provided for in the transfer.

Mr. HUNGERFORD: The *Prince Charles* and the *Prince John* were engaged in the Vancouver-Queen Charlotte service, as you know. That was a highly unprofitable service. We were losing a lot of money, notwithstanding the subsidy. They were eventually sold to the Union Steamship Company who are going to make their own arrangements with the government with regard to the maintenance of the service, whatever it may be. As far as the crews are concerned, that is in the process of adjustment now. Some of them are exercising their seniority and going over on the *Prince Rupert* and the *Prince George* service. Others are going to the Union Steamship Company and there may be a residue left. However, we do not know. The matter is being dealt with in detail by the local officers at Vancouver at the present time.

Mr. HANSON: In other words they maintain their seniority.

Mr. HUNGERFORD: They can exercise their seniority in so far as our service is concerned. The Union Steamship Company have agreed to take over as many of them as wanted to go and are prepared to take service with them.

Mr. HANSON: Is it permissible to have the price paid?

Mr. HUNGERFORD: The price paid for the two ships was \$80,000.

Mr. HANSON: Each?

Mr. HUNGERFORD: No, the two.

Mr. HANSON: For the two.

Mr. HUNGERFORD: For the two of them. We had them surveyed carefully before and explored other markets. We could not find we could get any more money or as much from any other source. We had been losing somewhere in the neighbourhood of \$40,000 a year on that service.

Mr. BLACK: What did these boats cost?

Mr. HUNGERFORD: They cost rather a large sum years ago. Perhaps we can find the figures here.

Mr. SMART: How old are these things?

Mr. HUNGERFORD: One was built in 1907 and the other one in 1910.

Mr. COOPER: The *Prince Charles* cost \$287,000 and the *Prince John* \$148,000.

Mr. ARMSTRONG: The *Prince Charles* was built in 1907 and the *Prince John* in 1910.

Mr. BLACK: How many other boats were disposed of during 1939?

Mr. HUNGERFORD: We have sold to the government the *Prince Robert* and the *Prince David* for war purposes.

Mr. BLACK: The steamship company sold them?

Mr. HUNGERFORD: As a matter of fact the government practically expropriated them, just took the vessels.

Mr. ROSS: I see the capital loss on the *Prince Henry* was about \$1,000,000. Have you any information on that as well?

Mr. HUNGERFORD: The *Prince Henry* was sold in 1938 to the Clark Steamship Company. That company operated in the Gulf of St. Lawrence generally and they sometimes provided cruise service to the West Indies.

Mr. ROSS: She was on the Pacific run, on the Pacific side?

Mr. ARMSTRONG: She was built for the Pacific Coast.

Mr. SMART: She was not used there. She was on the St. Lawrence operated by the Clarke Steamship Company of Quebec. They bought her.

Mr. HUNGERFORD: The three vessels were alike—that is, the *Henry*, *Robert* and *David*. They were all built at one time, back about 1930, for Pacific coast service. Generally speaking, they were not suitable for the kind of service that was contemplated at the time, and there has been very substantial loss in connection with them.

Mr. ROSS: What was the original cost of the *Prince Henry*?

Mr. HUNGERFORD: Roughly speaking, about \$2,160,000.

Mr. BLACK: Where do you find the inventory making up those figures on page six, investment, as of 31st December, 1938, \$10,969,000.

Mr. ARMSTRONG: You are speaking now of the Canadian National West Indies Steamships?

Mr. BLACK: Yes.

Mr. SMART: Do not let us get confused. There is this Canadian National West Indies Steamship which is a corporation and they own certain boats. But the *Prince Henry* and *Prince George* and those boats belong to the railway company, not to this steamship company.

Mr. BERCOVITCH: Were the vessels mentioned in the balance sheet of the Canadian National West Indies service taken at cost?

Mr. COOPER: Yes, they are at cost. The ships themselves are shown on page ten.

Mr. SMART: Yes, page ten of the report.

Mr. DONNELLY: What do you estimate the life of one of those boats to be?

Mr. HUNGERFORD: Well, that is a debatable question.

Mr. COOPER: Twenty-five years. You are speaking of the West Indies boats?

Mr. DONNELLY: Yes.

Mr. COOPER: Twenty-five years is the estimated life that we took to establish the depreciation rate.

Mr. DONNELLY: What about this one on the west coast? She was built in 1907, you say, and sold?

Mr. COOPER: It is quite a different service, and I think you would have to take the difference in service into consideration. A boat on the Pacific coast operating in sheltered waters is quite a different proposition from that of the West Indies' ships.

Mr. BERCOVITCH: There would be less wear and tear.

Mr. COOPER: Yes. Twenty-five years is the common practice on ocean-going passenger vessels, for Cunard White Star, Furness, Withy and other companies. I made a general survey of ocean-going passenger vessels throughout the world, and I came to the conclusion that twenty-five years was the general average life for depreciation purposes.

Mr. DONNELLY: I just noticed that one of these boats you say was built in 1907, so she is getting along.

Mr. COOPER: They have been operating continuously. They are in what we would call branch line service.

Mr. HUNGERFORD: The *Prince Charles* I think is the one you refer to. It was pretty well in continuous service during that period, but it varied at different times of the year. In some parts of the year the service was less frequent. It was quite an old ship.

Mr. LOCKHART: While we are on that, I should like to ask how that compares with the age of boats operating on inland waters. What would be the average life of a boat used for passenger service, having regard to safe operation?

Mr. HUNGERFORD: We have boats on inland waters. I think we could answer that.

Mr. LOCKHART: The Canadian National Railway have. I am asking that for general information.

Mr. VAUGHAN: There are boats operating on the lakes which are fifty years old and still in good condition.

Mr. LOCKHART: You consider them okay at fifty years of age?

Mr. VAUGHAN: Yes.

Mr. COOPER: We have a vessel operating between Detroit and Windsor; I think it is sixty years old.

Mr. ROSS: I worked on the old *Huronic* thirty-two years ago. She is going yet, stronger than ever.

Mr. VAUGHAN: Those boats operate only part of the year.

Mr. HANSELL: I am a bit confused, Mr. Chairman, as to just what this company is. It was stated a little while ago that a couple of boats were sold to the government. Is this not a government institution? If it is not, what has it got to do with us?

The CHAIRMAN: I wish you gentlemen would talk a little louder. I may be failing in my faculties, but I cannot hear a good deal of what goes on myself.

Mr. ARMSTRONG: There is confusion between the two companies, as I understand it.

Mr. HANSELL: I am confused as to what this company is, and my confusion arises from the statement that the company sold to the government a couple of boats. I am under the impression that this is a government institution. If it is not, what have we got to do with it?

Mr. SMART: This company did not sell them. This company was organized to carry out a trade treaty with the West Indies. The stock of it is entirely owned by the Dominion government and it is operated really by the directors of the Canadian National for the government. Really, that is the position it is in. On page 10 you will find the boats and their names that are actually owned by this corporation.

Mr. HANSELL: Yes, I see.

Mr. SMART: In addition to that, the railway company itself had certain boats which were mostly operated or built for a movement up the coast of

British Columbia. The accounts for those are consolidated in the railway accounts. This thing is a separate thing altogether.

Mr. HANSELL: I see.

Mr. BLACK: Where do we get the detailed statement of the boats operated outside of this Canadian National West Indies steamships?

Mr. SMART: It would be in the Canadian National Railways accounts.

Mr. BLACK: It is just a consolidated statement.

Mr. SMART: Yes.

Mr. BLACK: There is no detail.

Mr. COOPER: We have only two boats left now, the *Rupert* and *George*.

Mr. BLACK: How did the amount realized on the one disposed of last year compare with the cost?

Mr. HUNGERFORD: Very much less.

Mr. BLACK: Or how did the amount realized compare with the value as represented on the inventory of the previous year?

Mr. HUNGERFORD: Very much less.

Mr. BLACK: The amount realized was very much less than the value as carried on the previous year's inventory?

Mr. HUNGERFORD: Yes.

Mr. BLACK: How much would that be?

Mr. HUNGERFORD: Have you got the figures?

Mr. COOPER: The cost of the ship was \$2,160,000; the sale price was \$500,000. You are speaking of the ship sold in 1938?

Mr. BLACK: Yes. And how is that loss in capital value accounted for?

Mr. COOPER: We divided the loss into two parts. The portion from the date it entered service to the date of the sale was a charge against operation; and we took it up as such. The portion of the loss represented by the unexpired service life—that is from the date of sale to the end of its potential useful life—was treated as a capital loss. It was a loss of capital. But that loss was not service consumed in operation. It was purely a loss of proprietor's capital and it was charged to the proprietor's equity account which, in other words, is the equity which the Dominion government has in Canadian National Railways. If the Dominion suffers a capital loss, as it did in that sale, we charge it to the proprietors through that account as distinguished from an operating deficit of the railway which, of course, is also charged to them in a different way.

Mr. BLACK: Where is that capital loss and operating loss set out in the report before us?

Mr. COOPER: The sale that we are speaking of took place in 1938, and you will have to go to the accounts of 1938 to pick it up.

Mr. BLACK: Yes.

Mr. COOPER: But it is in the accounts of 1938 as I described it.

Mr. BLACK: In this consolidated balance sheet of the Canadian National West Indies Steamships Limited there is a total investment represented by vessels of \$10,960,957.71. Then there is a deficit on the other side of \$10,671,264.89—almost the exact amount as represented by the investment value. What becomes of that deficit? How is that ultimately dealt with?

Mr. COOPER: At the present time, or for the last two or three years, the line has been showing an operating profit. But this deficit is made up of what I would term a cash deficit and a book-keeping deficit. The cash deficit amounting to some \$5,000,000—shown on the balance sheet here as \$5,059,000—was advanced by the Dominion to the Canadian National (West Indies) Steamships Limited. Of the remainder of the deficit of \$10,000,000—\$3,390,000

—represents accrued depreciation; and the remainder represents interest on advances by the government for capital and deficits, amounting to \$2,190,000. Those figures are set out in the balance sheet. The deficit of \$10,671,000 is made up of these three things: the actual cash loss in the operation of the line, \$5,059,000; interest due to the government on its advances \$2,190,000 and accrued depreciation of \$3,390,000.

The CHAIRMAN: Are there any other questions?

Mr. LOCKHART: This line is operating at a distinct loss at all times?

Mr. COOPER: I beg your pardon?

Mr. LOCKHART: This line is operating at quite a distinct loss?

Mr. COOPER: Oh, no.

Mr. LOCKHART: I could not hear but a part of what was said. I quite agree with the chairman. You can just hear part of what is said. Maybe I misunderstood. I am sorry.

Mr. COOPER: In 1939 the line had an operating profit of \$623,000.

Mr. LOCKHART: From the way it appears here I thought it was a deficit.

Mr. COOPER: Against that we must charge bond interest of \$470,000 and that produces a net profit of \$153,000.

Mr. LOCKHART: Yes?

Mr. COOPER: That is exclusive of interest and depreciation; \$153,000 is the cash profit, and that was turned over to the government.

Mr. LOCKHART: I misunderstood the previous remark.

Mr. BLACK: I do not understand the consolidated balance sheet; assets are shown at \$13,733,948.96, and liabilities, the same figure, set out there, quite as you would expect; but it does not add up.

Mr. COOPER: It does, sir; if you consider the deficit as a deduction from the other liabilities. It is a debit account in profit and loss. If it were shown on the asset side of the balance sheet—which, of course, is not correct—the addition would be a simple one.

Mr. BLACK: That is, the profit and loss deficit should really be on the asset side.

Mr. COOPER: Well, I do not think it should, because it is not an asset; and it is customary to show deficits on the liability side, it is shown in italics to indicate that it is a deduction from the other items. It is a red ink figure.

The CHAIRMAN: Are you satisfied, gentlemen? If so, we will go on to something else.

Mr. LOCKHART: We have to be satisfied, Mr. Chairman, if you are.

Mr. COOPER: Well, gentlemen, if there is anything which is not clear—

The CHAIRMAN: Well, the meeting is in the hands of the committee. I do not want to be unduly hasty.

Mr. ROSS: We can refer back to this business.

The CHAIRMAN: Yes, we can return to that account. I do not want to rush proceedings.

Mr. SMART: What is it you had in mind, Mr. Lockhart?

Mr. LOCKHART: I am going to study this thing. I am still confused in my mind, but I might ask a question at some later time. Likely I am from Missouri.

Mr. COOPER: Yes, I will be glad to answer at any time.

The CHAIRMAN: There is no need for us to go over the report under the separate headings because you have been considering all parts of it now, I dare say, so we will pass on. The next is Trans-Canada Air Lines.

Mr. LOCKHART: What is the arrangement about the time for us to meet again?

The CHAIRMAN: I thought it was agreed by the committee that 8 o'clock to-night would be the time for our next sitting.

Mr. BLACK: I think we should have a chance, if we are to deal with this clearly, to examine these accounts and then probably have some further information should we desire it.

The CHAIRMAN: Well, it is up to you. Make up your minds, that is all. Let us decide now whether we are to convene again to-night at 8 o'clock.

Mr. SMART: Well then, would you convene to-morrow morning?

The CHAIRMAN: Oh, yes, we meet again to-morrow.

Mr. SANDERSON: If memory serves me right we decided that we would meet to-night at 8 o'clock. We took a vote on it.

The CHAIRMAN: Well then, it is settled. The only thing we have to decide is whether we are going to sit to-morrow or not.

Mr. DONNELLY: I would move that we adjourn if we are to sit to-night at 8 o'clock.

Mr. BLACK: What is it proposed to take up this evening?

The CHAIRMAN: This report on Trans-Canada Air Lines.

Mr. BLACK: And what other reports are before the committee? I, of course, was not able to be here this morning.

The CHAIRMAN: Then there are some budget items here for the C.N.R. budget for 1940.

Mr. BLACK: Is that before the members of the committee in detail?

The CHAIRMAN: Yes, I think so. There is a pamphlet still to be distributed. Then we have the estimates here before us for consideration of votes Nos. 445, 446, 459 and 460. The budget of the C.N.R. for 1940 is to be distributed by representatives of the railway immediately.

Mr. BLACK: Mr. Chairman, when could we have the figures applicable to the hotels; will they be available this evening?

The CHAIRMAN: Mr. Cooper says that that information will be available to-night.

Mr. ROSS: Was it your intention to endeavour to wind up to-night?

The CHAIRMAN: I don't think we could possibly wind up to-night, it would take quite a little bit of time to-morrow.

Mr. HANSELL: Mr. Chairman, it is getting on towards 6 o'clock and we have a lot of figures and details to go over.

The CHAIRMAN: Well, the committee stands adjourned, we are only waiting for this budget of the Canadian National for 1940 to be distributed to members. As soon as you get your report you may go.

The committee adjourned at 5.45 o'clock to meet again this day at 8 o'clock, p.m.

#### NIGHT SESSION

The committee resumed at 8 o'clock p.m.

The CHAIRMAN: Order. It was decided before the dinner recess that we would proceed with the examination of the report of the Trans-Canada Air Lines when convening to-night.

Mr. HARRIS: Just before you proceed with that, have we a clear understanding that inasmuch as the budget for the coming year of the Canadian

National Railways and the Canadian National Steamship has just been tabled, we will have an opportunity of going into the matter that is contained here. I have in mind this: what is gone is gone and what is contained in the report which you passed nothing can be done about, but there is ample opportunity for—

The CHAIRMAN: Mr. Harris, it was passed with the understanding that we could revert to it and ask what questions we desired after looking through its pages to-night.

Mr. HARRIS: With that understanding—

The CHAIRMAN: It was passed with that understanding.

Mr. HARRIS: When do you propose to go on with the budget?

The CHAIRMAN: To-morrow. We shall now deal with the Trans-Canada Air Lines annual report for 1939.

Mr. HUNGERFORD: Would you like one of these gentlemen to read it?

The CHAIRMAN: Yes.

Mr. HUNGERFORD: Mr. English will read it.

Mr. ENGLISH:

## TRANS-CANADA AIR LINES

### THIRD ANNUAL REPORT

OF THE

DIRECTORS OF TRANS-CANADA AIR LINES

YEAR ENDED 31ST DECEMBER, 1939

#### *To the Shareholders:*

The Board of Directors submit herewith the Third Annual Report of Trans-Canada Air Lines, being for the year ended 31st December, 1939.

### OPERATIONS AND DEVELOPMENT

The close of the year 1939 saw the completion of what might be termed the first stage in the development of the company's operations. During the year passenger service inaugurated between Montreal, Toronto and Vancouver, between Montreal, Ottawa and Toronto, and between Lethbridge and Edmonton; mail and express service was extended to Moncton. The company's ground facilities and personnel were established to meet the requirements of a 24-hour-a-day operation and the flight training program was advanced to provide a full complement of trained personnel for the services operated and for the extensions immediately contemplated.

For ready reference the principal events of the year, and contemplated developments for 1940, are set forth below:—

#### *Principal Events of the Year*

February 1st.—Service to Calgary established.

March 1st.—Regular air mail and air express service established between Montreal, Toronto and Vancouver on night schedule.

March 1st.—Additional daily service inaugurated between Lethbridge, Calgary and Edmonton.

July 18th.—Air mail, passenger and air express service inaugurated between Montreal, Ottawa, and Toronto via Muskoka.

November 1st.—Service established between Moncton and Toronto on a daylight schedule, mail and express only being carried between Moncton and

Montreal, and passengers, mail and express between Montreal, Ottawa and Toronto. The inauguration of this service provided a second daily schedule between the three latter cities.

*Contemplated Developments, 1940*

Additional daily service between Montreal, Toronto and Vancouver, on or about April 1st.

Service between Toronto, London and Windsor, on or about July 1st.

Service between Toronto and New York, and Toronto and Buffalo.

The CHAIRMAN: Do you want to ask any questions so far as we have gone?

Mr. HARRIS: I should like to refer to the service between Toronto, London and Windsor, which is said to go into effect on or about July 1st.

Mr. COLYER: The inauguration of that service depends on when the fields at London and Windsor will be ready to start service. We are prepared to start service just as soon as the air ports at these two places are ready. We are informed the fields will be ready on or about August 1st.

Mr. McCULLOCH: You are a little ahead of Moncton.

Mr. HUNGERFORD: The passenger service has been restored now.

Mr. COLYER: The Moncton passenger service was started on the 15th of February.

The CHAIRMAN: Are there any other questions on this section of the report?

Mr. ENGLISH:

*Operating Conditions and Performance:*

Operating conditions throughout the year were on the whole quite favourable. There were no accidents involving injury to passengers or personnel.

Mr. HARRIS: We can all read this quite readily. Have you any general statement to enlarge on the contemplated developments other than these three lines?

The CHAIRMAN: We found it pretty satisfactory so far to read the introductory report.

Mr. HARRIS: Who is the witness here now? What is his official position? What is his name and what is his official position?

The CHAIRMAN: His name is Mr. English.

Mr. HARRIS: What is his official position?

Mr. HUNGERFORD: This is Mr. Colyer, vice-president of Trans-Canada and Mr. English is his assistant.

Mr. HARRIS: Assistant to the vice-president?

Mr. HUNGERFORD: Yes.

Mr. HARRIS: He is the gentleman who is reading the report now? He is the gentleman we can question?

The CHAIRMAN: If you will address the chair it will get to whoever should answer this.

Mr. HARRIS: I should like to ask one question. I have not a clear conception in my mind of how closely associated the Trans-Canada Air Lines and the Canadian National system are; I cannot see in this report the proper place to ask the following questions, namely: The purchasing of supplies for the Trans-Canada Air Lines. Is that done through the purchasing department of the Canadian National Railways or have they their own purchasing department? What is his name and what is his official position?

The CHAIRMAN: I believe it is customary to run through the report first and then put your interrogation afterwards.

Mr. HARRIS: That will be all right.

The CHAIRMAN: I believe that has been the practice.

Mr. ENGLISH:

*Operating Conditions and Performance:*

Operating conditions throughout the year were on the whole quite favourable. There were no accidents involving injury to passengers or personnel.

The following statistics demonstrate the growth and expansion of the company's operations:

*Route Miles operated*

| December 31st, 1938      |       | December 31st, 1939      |       |
|--------------------------|-------|--------------------------|-------|
| Toronto—Vancouver.....   | 2,291 | Moncton—Vancouver..      | 2,839 |
| Montreal—North Bay.....  | 307   | Ottawa—Toronto.....      | 228   |
| Lethbridge—Edmonton..... | 288   | Toronto—North Bay.....   | 187   |
| Seattle—Vancouver.....   | 122   | Lethbridge—Edmonton..... | 288   |
|                          |       | Seattle—Vancouver.....   | 122   |
|                          | <hr/> |                          | <hr/> |
|                          | 3,008 |                          | 3,664 |
|                          | <hr/> |                          | <hr/> |

*Scheduled Miles—Daily*

|   |       |                                     |       |
|---|-------|-------------------------------------|-------|
| Toronto—Vancouver (1 round trip)..                | 4,582 | Montreal—Vancouver (1 round trip).. | 4,822 |
| Montreal—North Bay—Toronto<br>(1 round trip)..... | 988   | Moncton—Toronto (1 round trip)...   | 1,532 |
| Lethbridge—Edmonton (1 round trip)                | 576   | Montreal—Toronto (1 round trip)...  | 676   |
| Vancouver—Seattle (2 round trips)..               | 488   | Toronto—North Bay (1 round trip).   | 374   |
|   |       | Lethbridge—Edmonton (2 round trips) | 1,152 |
|   |       | Seattle—Vancouver (2 round trips).. | 488   |
|   | <hr/> |                                     | <hr/> |
|   | 6,634 |                                     | 9,044 |
|   | <hr/> |                                     | <hr/> |

The CHAIRMAN: Does anybody wish to ask a question in connection with these tables before we go on?

Mr. LOCKHART: Not in connection with the tables, no.

Mr. BLACK: I should like to ask a question in regard to branch lines. As I understand it Halifax ultimately will be one of the terminals, I suppose, of this branch line operating now between Moncton and Halifax. I understand that is not referred to here. On what basis does that work?

Mr. HUNGERFORD: That service is not being operated by Trans-Canada Air Lines.

Mr. BLACK: Well, what is the connection between the two services? Are they operated one in conjunction with the other?

Mr. HUNGERFORD: They connect at the same air port at Moncton.

Mr. McCULLOCH: The same will apply to Charlottetown.

Mr. BLACK: Is that a separate company operating?

Mr. HUNGERFORD: Entirely separate.

Mr. BLACK: Is there any contract or working agreement between these companies and the Trans-Canada Air Lines?

Mr. HUNGERFORD: I am sorry; I did not get that.

The CHAIRMAN: Is there a working arrangement between these other companies and the Trans-Canada Air Lines?

Mr. HUNGERFORD: The Canadian Airways has a contract with the Post Office Department to provide services at Moncton.

Mr. BLACK: Is there any contract or agreement between Trans-Canada Air Lines and these other companies, making connection at Moncton and Halifax and between this service and Halifax and Charlottetown?

Mr. HUNGERFORD: No.

Mr. COLYER: Of course, the schedules are arranged to provide direct connection at Moncton with the planes flying to Halifax, Charlottetown and Saint John in both directions; but there is no inter-company arrangement but two separate and distinct operations. The schedules are controlled by the Post Office Department.

Mr. BLACK: Who controls and operates these other lines?

Mr. COLYER: Canadian Airways is the name of the company.

Mr. BLACK: A privately operated company. They are privately operated companies?

Mr. COLYER: Yes, sir.

Mr. DONNELLY: They control most of these feeder lines too.

Mr. COLYER: They have the feeders out of Moncton to Charlottetown, Halifax and Saint John. They also operate a feeder service from Vancouver over to Victoria, and these are the only connections they have with us. Prairie Airways and other private corporations operate from Regina up through Saskatchewan.

Mr. BERCOVITCH: Does the Canadian National and the Trans-Canada Air Lines control any of the stock of these two companies?

Mr. HUNGERFORD: No. The Canadian National Railways has a small interest in Canadian Airways of many years back.

Mr. DONNELLY: Canadian Airways have branch lines running into Edmonton?

Mr. COLYER: They have a branch line operating out of Edmonton. Trans-Canada operates from Calgary, Lethbridge and Edmonton.

Mr. DONNELLY: There is more or less a branch line from the main line from Regina, Lethbridge to Calgary, so far as the Trans-Canada is concerned.

Mr. HUNGERFORD: Yes, sir. Then, there are independent services north from Edmonton. We are not identified with them in any way.

Mr. LOCKHART: Is there rental paid for landing privileges by both Trans-Canada Air Lines and the independent companies?

Mr. COLYER: There is by Trans-Canada Air Lines and I presume—

Mr. LOCKHART: Do they pay the same landing privileges or are arrangements made independently one from the other?

Mr. COLYER: It is made independently one of the other. We make our own arrangements with the Department of Transport or the municipality, whichever controls the air port.

Mr. LOCKHART: You would not be in a position to say whether your landing privileges are paid on the same basis?

Mr. COLYER: No, I could not say definitely. I believe the Department of Transport, where it controls the air port, has a standard charge for the use of the air port. We pay that as well as the other operating companies.

Mr. SMART: It is a standard charge, Mr. Lockhart.

Mr. BLACK: What is the policy of the Trans-Canada Air Lines with respect to the Atlantic terminals. I understand they will be in Nova Scotia. I understand the terminal will be at Halifax rather than Moncton.

Mr. HUNGERFORD: There is no policy determined in regard to that that I know of. Moncton is the last place where there are facilities that are suitable for the use of planes.

Mr. BLACK: Has there been a policy or plan laid down?

Mr. SMART: Not up to the present, sir.

Mr. BLACK: Not up to the present?

Mr. SMART: No.

The CHAIRMAN: Are there any other questions?

Mr. ENGLISH:

|                 | Plane Miles Flown |          |           | Hours Flown |          |        | Percentage of Scheduled Total Performance |
|-----------------|-------------------|----------|-----------|-------------|----------|--------|---|
|                 | Revenue           | Training | Total     | Revenue     | Training | Total  |   |
| January .....   | 194,130           | 38,228   | 232,358   | 1,203       | 220      | 1,423  | 97.4                                      |
| February .....  | 175,992           | 28,125   | 204,117   | 1,114       | 161      | 1,275  | 98.1                                      |
| March .....     | 216,805           | 18,224   | 235,029   | 1,388       | 110      | 1,498  | 97.1                                      |
| April .....     | 216,003           | 30,042   | 246,045   | 1,294       | 177      | 1,471  | 99.8                                      |
| May .....       | 223,510           | 28,676   | 252,186   | 1,380       | 163      | 1,543  | 100.0                                     |
| June .....      | 217,450           | 16,660   | 234,110   | 1,383       | 98       | 1,481  | 99.8                                      |
| July .....      | 235,131           | 30,281   | 265,412   | 1,502       | 171      | 1,673  | 100.0                                     |
| August .....    | 252,043           | 52,034   | 304,077   | 1,599       | 292      | 1,891  | 99.9                                      |
| September ..... | 239,746           | 36,290   | 276,036   | 1,530       | 204      | 1,734  | 99.3                                      |
| October .....   | 245,018           | 33,442   | 278,460   | 1,554       | 195      | 1,749  | 97.4                                      |
| November .....  | 274,552           | 27,498   | 302,050   | 1,741       | 154      | 1,895  | 98.1                                      |
| December .....  | 269,710           | 25,803   | 295,513   | 1,715       | 151      | 1,866  | 91.4                                      |
| Total .....     | 2,760,090         | 365,303  | 3,125,393 | 17,403      | 2,096    | 19,499 | 98.1                                      |

|                                       | Planes Miles Flown since Inception of Operations |           |           | Hours Flown since Inception of Operations |          |        |
|---------------------------------------|--|-----------|-----------|---|----------|--------|
|                                       | Revenue  | Training  | Total     | Revenue                                   | Training | Total  |
| Sept. 1, 1937, to Dec. 31, 1937 ..... | 26,596   | 74,372    | 100,968   | 196                                       | 493      | 689    |
| Year 1938 .....                       | 1,122,179  | 826,167   | 1,948,346 | 7,266                                     | 5,285    | 12,551 |
| Year 1939 .....                       | 2,760,090  | 365,303   | 3,125,393 | 17,403                                    | 2,096    | 19,499 |
| Total .....                           | 3,908,865  | 1,265,842 | 5,174,707 | 24,865                                    | 7,874    | 32,739 |

The CHAIRMAN: Are there any questions on these tables before we proceed?

Mr. BERCOVITCH: I see you have a heading here "Revenue." What do you mean by that? Is that the actual revenue of Trans-Canada?

Mr. ENGLISH: No; it is the miles flown in revenue service. Training miles are miles flown training a pilot. There is no revenue from training miles; you might say it is a development expense. Revenue miles are miles in which revenue was received either from the Post Office Department or from passenger service.

The CHAIRMAN: Let us proceed.

Mr. ENGLISH:

#### AIR MAIL SERVICE:

Regular air mail service was established between Montreal, Toronto and Vancouver, and between Lethbridge and Edmonton, on December 1st, 1938, on a daylight schedule. On March 1st, 1939, this was changed to a night schedule providing first morning delivery in Winnipeg and Regina and afternoon delivery in Lethbridge, Calgary, Edmonton, Vancouver, and Victoria of mail picked up the previous evening in Montreal, Ottawa and Toronto; also afternoon delivery in Toronto, Ottawa and Montreal of mail picked up the previous evening in Western Canada. On the same date the service between Lethbridge and Edmonton was increased to two trips each day with a morning and evening departure from each city.

On July 18th a direct Montreal-Ottawa-Toronto schedule was established and the air mail service was extended to cover that route, and on November 1st a second daylight schedule was inaugurated with an extension on a training basis from Montreal to Moncton. At the inception of this latter schedule,

regular air mail was carried between Montreal and Toronto and ordinary first-class mail between Montreal and Moncton. On January 1st, 1940, the carriage of first-class mail was discontinued and regularly surcharged air mail only handled.

The CHAIRMAN: Are there any questions?

Mr. BLACK: Why does the Trans-Canada Air Lines operate these branch lines in the west and not operate them in the east to Charlottetown, Halifax and Saint John?

Mr. COLYER: The air port facilities that are now available at Halifax, Charlottetown and Saint John are not suitable for the use of the equipment that Trans-Canada operates at the present time.

Mr. BLACK: The same type of planes operate on the feeder routes in the west?

Mr. COLYER: Yes, sir, but the air ports of Edmonton and Calgary are suitable for use of these planes.

The CHAIRMAN: Are there any other questions? Let us proceed.

Mr. ENGLISH:

Mail (pounds) carried in the various services during the year 1939 was as follows:—

| Month               | Trans-continental | Lethbridge<br>Edmonton | Montreal<br>Toronto | Vancouver<br>Seattle | Total   |
|---------------------|-------------------|------------------------|---------------------|----------------------|---------|
| January . . . . .   | 18,082            | 152                    | 413                 | 3,097                | 21,744  |
| February . . . . .  | 17,920            | 318                    | 356                 | 3,107                | 21,701  |
| March . . . . .     | 29,204            | 641                    | 579                 | 5,465                | 35,889  |
| April . . . . .     | 27,933            | 694                    | 393                 | 5,677                | 34,697  |
| May . . . . .       | 32,292            | 623                    | 604                 | 6,872                | 40,391  |
| June . . . . .      | 30,888            | 680                    | 566                 | 6,860                | 38,994  |
| July . . . . .      | 31,329            | 675                    | 734                 | 7,518                | 40,256  |
| August . . . . .    | 33,872            | 744                    | 1,309               | 8,069                | 43,994  |
| September . . . . . | 33,831            | 712                    | 1,221               | 6,779                | 42,543  |
| October . . . . .   | 32,202            | 980                    | 1,119               | 6,157                | 40,458  |
| November . . . . .  | 32,920            | 887                    | 1,713               | 6,076                | 41,596  |
| December . . . . .  | 39,259            | 1,284                  | 2,290               | 7,803                | 50,636  |
|                     | 359,732           | 8,390                  | 11,297              | 73,480               | 452,899 |

Mr. BLACK: What do you mean by "surcharge air mail"?

Mr. ENGLISH: Six cents, a surcharge over the ordinary first-class rate.

Mr. LOCKHART: On what is the actual cost of carrying the mail based? How is the actual cost computed? You say here it is carried for six cents. Is that the actual cost? Is there a large deficit in connection with the carrying of the mail at six cents?

Mr. SMART: That is the post office revenue. The post office will have to answer that.

Mr. LOCKHART: You carry mail for six cents. When you work it out—I was looking to see if I had my figures here showing the amount that is carried and the revenue derived. Let us get that. It seems to me that there is a decided loss in carrying it at six cents.

Mr. SMART: That is post office revenue and the post office pays the Trans-Canada Air Lines on a mileage basis. The Air Lines do not get the six cents.

Mr. LOCKHART: I know that but I was working out the cost of maintaining that service and I would like to know if we are going to get the information with regard to the actual cost of maintaining a service to carry that mail.

Mr. COLYER: From estimates that we have seen, the six cents that the post office obtains, does not equal the amount of money they pay for carrying the mail.

Mr. DONNELLY: Did you sometimes carry mail for three cents?

Mr. COLYER: Before the service was regularly established, while we were still carrying on the so-called training flights we carried ordinary mail because the service was not regularly developed and it was felt it was not proper to charge a surcharge rate, with each step, as each part of the system has been developed we carried ordinary mail for a period of time.

Mr. HARRIS: Mr. Chairman, what is the air mail carriage rate now?

Mr. COLYER: Six cents an ounce for the first ounce and five cents for each additional ounce. That is what the Post Office Department charges for an air mail letter.

Mr. HARRIS: What would be the deficit for carrying mail in 1939 at that rate?

Mr. COLYER: I could not answer that question. That is the Post Office Department.

Mr. HARRIS: What I am trying to get at is the relationship between the Post Office Department and the Trans-Canada Air Lines.

Mr. DONNELLY: We should know that.

Mr. SMART: You would have to have the post office people in here to give that.

Mr. DONNELLY: You are not dependent on that mail alone.

Mr. HARRIS: We cannot discuss this thing intelligently unless we have an idea of what the Post Office Department is paying.

The CHAIRMAN: I think they have an idea of what the Post Office Department pays.

Mr. COLYER: They pay us 60 cents a mile for carrying mail.

Mr. BLACK: Irrespective of the volume of mail?

Mr. COLYER: Yes.

Mr. BLACK: The department must have made an estimate of what the revenue would be on the basis of the regular post office charges, say of six cents an ounce or six cents per letter an ounce. I would like to know what amount is paid to Trans-Canada Air Lines by the Postal Department, and its relation to the revenue that would accrue if they received the entire revenue arising out of stamps.

Mr. HUNGERFORD: We do not know about that.

The CHAIRMAN: It would probably be necessary to have an official of the post office either at this meeting or to take it up in the postal estimates in the House.

Mr. ROSS: The revenue is on page 12, line 2.

Mr. LOCKHART: Mr. Chairman, the Trans-Canada received something considerably over one and a half million dollars revenue for carrying the mail. They received \$1,632,000. That is about 70 per cent of the total revenue for the carrying of the mail. Taking the amount of mail carried, that figures out at a percentage much higher than six cents. It figures out to 20 cents an ounce, does it not? I do not think we have to have the post office here to have that calculation.

Mr. COLYER: I understand that ordinary air mail averages about 42 letters to the pound, instead of each letter weighing an ounce; it would be less than that. That is the figure that has been used, and I believe it is considered as being the average—42 air mail letters to the pound.

Mr. LOCKHART: That is all right. But the \$1,632,000 or nearly 70 per cent of the total revenue is derived by the Trans-Canada Air Lines for carrying the mail. Taking the amount of mail they carry, it runs around 20 cents an ounce as I figure it. There seems to be some discrepancy between 20 cents and six cents.

Mr. COLYER: Although I do not have accurate figures, or accurate information, I believe at the present time the amount the Post Office Department receives is less than the amount paid to Trans-Canada Air Lines for carrying the mail, but I do not know what the difference is. I believe they would be the only people who could give you accurate information.

Mr. LOCKHART: Who is making up the deficit?

Mr. HUNGERFORD: We are authorized to carry mail at specified rates and schedules and we get so much a mile for doing it. The mail revenue, of course, goes to the Post Office Department, and we know nothing about that. We are simply paid on the basis of miles flown. We are authorized by the Post Office Department.

Mr. LOCKHART: Then we cannot follow that through, Mr. Chairman.

The CHAIRMAN: Evidently, if there is a deficit in the matter, the Post Office Department shoulders it; and they must be satisfied with the deal they made or they would not go on with it, as far as I can see. I am not supposed to say anything as chairman, however.

Mr. DONNELLY: You could not make any answer out of that, between what you got and this amount that there is carried. Some might be carried to North Bay and a new bag of mail put on there and maybe put off again at Kapuskasing and another off at Winnipeg.

Mr. COLYER: No. These figures are on new mail. There is no duplication.

Mr. DONNELLY: You might have a bag of mail put off at North Bay and another paying six cents put on, carry it to Kapuskasing and put it off there.

Mr. COLYER: Yes.

Mr. DONNELLY: You would be getting 18 or 20 cents a pound on mail, carrying it across the continent.

Mr. ROSS: It seems to me this item could well wait over, because it is evident that the Post Office Department is very intimately connected with the Trans-Canada Air Service and, therefore, we should have a post office official here to fit in with this special item.

The CHAIRMAN: If the committee think it is of sufficient importance, all right. It is in their hands.

Mr. DONNELLY: Do Trans-Canada Air Lines think they have a good bargain with the Post Office Department or do they think they should be getting more for carrying the mail?

Mr. COLYER: Well, during 1939 we should have received more because we had a deficit which was made up by the Department of Transport. We did not get enough payment from the Post Office Department to meet operating expenses.

Mr. LOCKHART: It was estimated there would be a surplus next year.

Mr. COLYER: That is 1940, yes.

Mr. MAYBANK: I think in the post office estimates it is shown as being two and a quarter million spent last year, as though it were paid to the Trans-Canada Air Lines; and this only shows \$1,632,000. We have a department of government saying they have been paid a certain amount of money and an agency of the government saying that they did not get it. What is the explanation for that?

Mr. SMART: Remember, Mr. Maybank, that the Department of Transport at the present time are paying any deficit.

Mr. MAYBANK: Is paying which?

Mr. SMART: Is paying the deficit.

Mr. MAYBANK: That is what I want to get at. I want an explanation of this difference between the two sets of figures.

Mr. SMART: Yes, we pay the deficit. We paid a \$411,000 deficit last year.

Mr. MAYBANK: I see. So \$411,000 added to this will just come to about that. Is that the idea?

Mr. ENGLISH: The answer is that the Post Office Department is paying for air mail carried by a lot of other carriers than Trans-Canada.

Mr. MAYBANK: All right. What is this deficit? If that deficit is added up with this figure in front of us it does not, of course, come to two and a quarter million. It comes to a little over two million. What about the rest of the quarter million

Mr. SMART: You will see on the last page of this thing, Mr. Maybank, the income account. Look at the income account.

Mr. MAYBANK: That is what I have been looking at, and that is what I got those figures from.

Mr. SMART: \$411,000 was paid by the Department of Transport on a vote—what is the number of the vote? It was a vote last year.

Mr. MAYBANK: Yes.

Mr. SMART: One of the votes—vote 590 of the Department of Transport—paid that deficit.

Mr. MAYBANK: Even so, that is a vote of money for the Department of Transport. It has nothing to do with the two and a quarter million I mentioned, which is post office.

Mr. SMART: I do not know what the post office is.

Mr. MAYBANK: I know, but clearly the \$417,000 has got nothing to do with it, I am suggesting. I am trying to get it added up, to get the figures to come together. That is all.

Mr. ENGLISH: The situation is that on airmail service for the Post Office Department last year, Trans-Canada received \$1,600,000.

Mr. MAYBANK: They received what?

Mr. ENGLISH: \$1,632,873.

Mr. MAYBANK: Yes, that is there in the income.

Mr. ENGLISH: And other airmail operators—Canadian Airways, Prairie Airways and so on—who carried mail for the Post Office Department apparently received the difference between that and the two and a quarter million.

Mr. MAYBANK: You suggest that the difference between \$1,632,000 and the two and a quarter million is to be found in the numerous bush mail contracts they have?

Mr. ENGLISH: I think that is it.

Mr. MAYBANK: You think it goes as high as that, do you? I have seen a number of them. I do not know how many there are.

Mr. SMART: There was quite a lot of northern mail.

Mr. MAYBANK: There were quite a number of bush mail contracts, yes.

Mr. BLACK: It would appear to me that there must be a calculation on the part of this Trans-Canada Air Lines of the amount they earn for the Postal Department by providing the service.

The CHAIRMAN: That they earn for or from the Post Office Department?

Mr. BLACK: No, that they earn for them. The Postal Department pays them a subsidy of \$1,632,000; and for that they provide certain mail services to the Postal Department. There must surely be a calculation by those responsible for the management of these airways as to what they earn for the credit of the Postal Department.

Mr. SMART: You would only find that from the Post Office Department, Mr. Black.

Mr. HUNGERFORD: We have a contract with the Post Office Department.

Mr. BLACK: Do we understand that the officers do not have any information?

Mr. SMART: No.

Mr. BLACK: As to what the airways are earning?

Mr. SMART: No, not from the post office point of view.

The CHAIRMAN: As I see it, they do a job for the Post Office Department and they get paid for it.

Mr. SMART: It is exactly the same sort of thing as the railway company do. The railway company are paid so much money for the mail cars and so forth.

Mr. ENGLISH: We do not know how many letters we carry. We know we carry mail in a bag and it weighs so many pounds. We do not know how many letters are in it. It is sealed.

Mr. ROSS: You know the weight.

Mr. ENGLISH: That is all. We are paid by the weight. But what revenue the post office is paid, we do not know.

Mr. DONNELLY: Would the Post Office Department be able to tell us?

Mr. ENGLISH: They would be able to make an estimate, but that would be all.

Mr. DONNELLY: That would be all. They do not count all the letters that come in.

The CHAIRMAN: They know the number of pounds.

Mr. DONNELLY: They could make an estimate.

Mr. ENGLISH: Surely.

Mr. MAYBANK: Does this organization estimate anything in the way of income in this same way for the next year? Have we any estimate of that?

The CHAIRMAN: The budget for next year.

Mr. MAYBANK: The post office is budgeting for an expenditure which I presume will be made up partly of expenditure to bush lines and partly of expenditure to Trans-Canada Air Lines. They are budgeting for four and a half million.

Mr. SMART: No. They figure on—

Mr. ENGLISH: \$3,177,000.

Mr. MAYBANK: That is the estimate.

Mr. ENGLISH: The estimate of our revenue from the Post Office Department.

Mr. MAYBANK: The Post Office Department budget for four and a half million. It looks as though the bush mail fellows account for that difference again, as is the case with the \$1,632,000 and the two and a quarter million.

Mr. ENGLISH: Quite.

Mr. MAYBANK: I see.

The CHAIRMAN: Gentlemen, if we would read through this report and jot down questions to be presented afterwards and thresh the matter out, we would make more headway, I would think. However, that is merely a suggestion from the chair.

Mr. SMART: You could have tomorrow, if you want questions that involve post office revenues. We could have one of the post office officials come here to give you that.

The CHAIRMAN: That is an idea.

Mr. SMART: We have not got that.

The CHAIRMAN: We could have him attend the sitting tomorrow.

Mr. SMART: Yes.

The CHAIRMAN: What is your wish in this matter, gentlemen? If you are very anxious to go very deeply into it, we can do that.

Mr. MAYBANK: I think we would be well advised to have a post office representative here to straighten us out. The time has got to be spent either here or on the estimates for the Post Office Department in the House.

The CHAIRMAN: Is it the wish of the committee that we ask the post office to have an official attend this committee?

Mr. BERCOVITCH: If we have power to do that under the terms of the reference.

The CHAIRMAN: We could ask them, anyway. They would probably send us one.

Mr. BERCOVITCH: Otherwise we would have to go back to the House for power.

Mr. McCULLOCH: Have you not got that now in the charge of sixty cents a mile?

The CHAIRMAN: I do not think the committee will be satisfied with that. I think they will want to thresh the matter out.

Mr. SMART: This will come up in the post office estimates in the House, in committee of the whole.

Mr. MAYBANK: Yes, but the objection to that would be this, that you cannot tie the two together at the time.

Mr. SMART: I do not think the post office would object to coming.

Mr. MAYBANK: Why should they object?

Mr. ROSS: I think we can call them.

Mr. MAYBANK: A witness is a witness whether he comes from the post office or whether he comes from the Department of Fisheries.

The CHAIRMAN: If it is the wish of the committee, we will request the post office to send an official here to-morrow to give this information.

Mr. HARRIS: Carried.

The CHAIRMAN: Is that carried?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: If everybody is satisfied, all right.

Mr. BERCOVITCH: I dissent.

The CHAIRMAN: You dissent?

Mr. BERCOVITCH: Yes. I do not think we have the power to do that.

The CHAIRMAN: Perhaps we have not the power, but perhaps they may be courteous and kind.

Mr. ROSS: We have the inclination.

Mr. BLACK: The term was used "revenues from the bush mail service." I do not understand that term or what mail is carried.

The CHAIRMAN: Order, order. You will have to ask the member who used the term.

Mr. SMART: There are certain services running into the north, down the Mackenzie river and into the north country, all the way across. There are different services operated by private concerns not interested in Trans-Canada Air Lines. The Post Office Department have contracts with those fellows for carrying the mail through. What their revenue is we do not know, of course.

Mr. BLACK: That would apply to Halifax, Charlottetown and Saint John, would it? Would they be styled as bush services?

Mr. SMART: No, they are not. They are not called bush services. Ask Mr. Maybank.

Mr. BLACK: There was considerable resentment down there before this and if they find they are classed among the bush services, there will be more, I think.

The CHAIRMAN: I am inclined to think that the member of the committee who used that term meant the branch lines, purely and simply, north and south of the main line.

Mr. McCULLOCH: Would that be a misprint?

The CHAIRMAN: Which?

Mr. McCULLOCH: Saying bush instead of branch?

Mr. SMART: The reason it was called bush was because up in the north there they all run into that north unsettled country. Mr. Maybank takes the western name of the thing.

The CHAIRMAN: Well, gentlemen, shall we proceed?

Mr. ENGLISH: The next is passenger service.

#### PASSENGER SERVICE:

Passenger service was inaugurated between Montreal, Toronto and Vancouver and between Lethbridge and Edmonton on April 1. A direct Montreal-Ottawa-Toronto service was established July 18, and a second daily schedule between those points on November 1. The lack of complete radio coverage delayed the inauguration of passenger service to Moncton until February 15, 1940.

Passenger service was operated with a satisfactory degree of regularity, and the company's flight and ground personnel have established a reputation for discipline, efficiency, and courtesy in dealing with the public. The patronage of the service has considerably exceeded expectations, particularly on the trans-continental route. A total of 21,569 revenue passengers was carried, the average passenger journey being 559 miles.

The following table shows the percentage of passenger occupancy (passengers carried in relation to seat capacity) on the various schedules operated during the year:—

|                    | Trans-<br>continental | Lethbridge<br>Edmonton | Montreal<br>Toronto | Montreal<br>Toronto<br>(2nd Sch.) | Montreal<br>Toronto<br>North Bay | Toronto<br>North Bay | Vancouver<br>Seattle | All<br>Schedules |
|--------------------|-----------------------|------------------------|---------------------|-----------------------------------|----------------------------------|----------------------|----------------------|------------------|
| January .. . . .   | ....                  | ....                   | ....                | ....                              | ....                             | ....                 | 13.0                 | 13.0             |
| February .. . . .  | ....                  | ....                   | ....                | ....                              | ....                             | ....                 | 14.4                 | 14.4             |
| March .. . . .     | ....                  | ....                   | ....                | ....                              | ....                             | ....                 | 17.5                 | 17.5             |
| April .. . . .     | 46.0                  | 24.8                   | ....                | ....                              | 24.0                             | ....                 | 20.0                 | 44.9             |
| May .. . . .       | 56.0                  | 31.5                   | ....                | ....                              | 30.0                             | ....                 | 25.4                 | 50.4             |
| June .. . . .      | 68.5                  | 35.7                   | ....                | ....                              | 39.5                             | ....                 | 33.0                 | 63.5             |
| July .. . . .      | 81.0                  | 38.7                   | 49.5                | ....                              | 44.0                             | ....                 | 39.5                 | 66.7             |
| August .. . . .    | 82.5                  | 38.2                   | 55.5                | ....                              | 50.0                             | ....                 | 48.0                 | 65.2             |
| September .. . . . | 77.5                  | 31.7                   | 56.5                | ....                              | 50.5                             | ....                 | 30.5                 | 60.1             |
| October .. . . .   | 67.0                  | 25.5                   | 49.0                | ....                              | 42.0                             | ....                 | 25.0                 | 51.2             |
| November .. . . .  | 63.0                  | 26.7                   | 56.5                | 50.0                              | ....                             | 50.0                 | 23.7                 | 55.0             |
| December .. . . .  | 60.0                  | 28.0                   | 50.0                | 58.7                              | ....                             | 45.0                 | 22.0                 | 53.0             |
| Year .. . . .      | 69.0                  | 31.2                   | 53.5                | 54.5                              | 40.0                             | 48.0                 | 26.0                 | 56.1             |

The CHAIRMAN: Are there any questions?

Mr. HARRIS: I do not quite understand what you mean by, "any questions."

The CHAIRMAN: Is there any interrogation, or any comment, any desire for further information than that which has been elucidated so far?

Mr. HARRIS: Very considerable I would think on the whole matter. You expressed the wish, sir, that we carry on.

The CHAIRMAN: It has been the practice after going through a paragraph that if any very obvious question has presented itself to the mind of any member of the committee he should register an interrogation at the time, and if it is not entirely threshed out, at all events it can be brought up.

Mr. BLACK: The obvious question here is one of efficiency; whether it pays to carry on a service where the volume is only 26 per cent of capacity while the percentage of capacity on the transcontinental line is 69 per cent. I am not just sure as to why this Vancouver-Seattle service is carried on, whether it is justified. What obligation is there to operate this service?

Mr. COLYER: The answer to your question is I think a rather complicated one. It is anticipated that in future years, and not very many from now, that all the air lines will be in profitable operation; and when you have a connection like the one there, an international connection, a well travelled route, such as we have on the west coast from Vancouver to Seattle, that would be a profitable operation, definitely, just from the passenger business alone. We are carrying a considerable amount of mail at the present time on that particular route for the short distance we operate there. There is, I believe, in excess of 100 pounds a day that we are carrying out of Vancouver, and a corresponding amount probably from the south to the north. And incidentally the passenger business there is growing. While the average seating capacity last year was 26 per cent we are carrying more than 50 per cent more passengers this year in the corresponding months than we did last year. You see, this air service is definitely just beginning, and it is something like any other business, it has to have a period of time to develop. We feel that over a period of time, if it takes a few years to develop, we will have something that is very much worth while.

Mr. JACKMAN: What percentage of occupancy do you require before you reach the breakdown point on an air line?

Mr. COLYER: There is no definite rule of thumb that you can go by. It is determined to a certain extent by the frequency of operation, how much you use your equipment; there are many factors which enter into it.

Mr. JACKMAN: Mr. Howe, in the house one day, stated that on the transcontinental line that point had been reached. He stated that the average for American lines, speaking generally, was considerably below that; and I think he mentioned some figure as being the point where they begin to make money on air lines; there is no figure you have in mind?

Mr. COLYER: Well, it so happened, that in the month of August last year Trans-Canada Air Lines receiving 60 cents per mile from the Post Office Department, plus revenue from passengers, had a net operating profit; and we had a passenger occupancy of around 70 or 80 per cent on the transcontinental schedule.

Mr. JACKMAN: Then it would probably be 50 per cent or 60 per cent?

Mr. COLYER: When you build up your passenger occupancy to 65 per cent over the whole system you are just about loaded to capacity. You have your passenger who is making a short trip, so from Winnipeg to Regina, and he blocks out one who might want to ride from Vancouver to Montreal or from Montreal to Vancouver; so it would not be possible to fill all your seats over the entire route. When you get a 65 per cent seat occupancy on the whole trip you have some place on the road where all the seats are occupied.

Mr. JACKMAN: Then 65 per cent occupancy is about the maximum of efficiency?

Mr. COLYER: That is about as much as you can hope for.

Mr. JACKMAN: So that something less than that must be the break-even point. If 65 per cent is the maximum you can hope to obtain from people

travelling both ways then the point which would make it commercially feasible would be below that point. If that is your maximum you must be in a position to make money long before you reach that maximum?

Mr. COLYER: It depends on the frequency with which you operate your equipment, the number of schedules that you are operating directly affects the operating costs. When you operate on one schedule at a certain cost per mile if you put two schedules on your operating cost per mile goes down materially; when you put a third on it goes down more, and when you get it up to 6 or 7 your cost per mile of operation is, we will say, one-half what it was when you had one schedule on. And so you cannot have any rule of thumb. There are a lot of factors which enter into it.

Mr. DONNELLY: Have you any working agreement with American lines, like from Chicago to Winnipeg, or New York, or any of those American cities?

Mr. COLYER: Yes, we have interline agreements with a lot of American operators.

Mr. BLACK: On the basis on which you are operating or working up this service between Vancouver and Seattle, what other services are being developed to American points say like from Winnipeg to Chicago; or, services for instance from Winnipeg to Minneapolis?

Mr. COLYER: Northwest Airlines operates a service from Fargo to Winnipeg which is a direct connection with Chicago; and the Canadian Colonial Airways, the two companies, operate services between Montreal and New York.

Mr. DONNELLY: Are those Canadian companies?

Mr. COLYER: One of them, the Canadian Colonial Limited, is a Canadian company; while the Canadian Colonial Incorporated is a United States company. They have more or less a joint operation so that the ordinary passenger feels that it is just one air line. Then, the Boston and Maine operates from Boston up to Montreal, and United Airlines operates a service which parallels our own service between Seattle and Vancouver; and as is stated herein, Trans-Canada Air Lines hopes to provide a service between Toronto and New York. We have filed an application with the Civil Aeronautics Authority for permission to operate that service, but there has been no action on it as yet.

Mr. HARRIS: What service is given between Vancouver and Seattle?

Mr. COLYER: What service is given—?

Mr. HARRIS: Yes, what is the service; what service is given, what schedule?

Mr. COLYER: Trans-Canada Air Lines operate three schedules a day, and United Airlines operates two, at the present time.

Mr. HARRIS: Is that part of the reason why the average is only 26 per cent?

Mr. COLYER: Well, the time I am speaking of is the present—last year we operated 2 schedules between Seattle and Vancouver, but at present we are operating 3 schedules and we are in excess of the 26 per cent passenger capacity at the present time.

Mr. HARRIS: What is the line of demarkation between profit and loss, or deficit in operation, what percentage?

Mr. COLYER: I do not believe I could give you that.

Mr. HARRIS: Let me ask this question, Mr. Chairman: 26 per cent of occupancy will not make a paying line, there is definitely a deficit on the Vancouver-Seattle run?

Mr. COLYER: I do not believe there is when you take into consideration the volume of mail handled. So far as Trans-Canada Air Lines is concerned there is not any deficit, because our income for the operation of the service

shows a profit. There was another factor that entered into the third schedule between Seattle and Vancouver, and that was the utilization of equipment to get our plane back into Vancouver so it would be available for main line service instead of tying it up in Seattle. It would have to be tied up there 12 hours in order to operate 2 schedules. When we set out to serve the needs of the Post Office Department by putting the third schedule on we brought the plane back up to Vancouver and had it available for use on the transcontinental service as a reserve, and as a result the depreciation charge on the equipment was not wasted by the layover in Seattle.

The CHAIRMAN: All right, Mr. English.

Mr. ENGLISH:

#### AIR EXPRESS SERVICE:

Air express service, which was inaugurated between Montreal, Toronto and Vancouver on October 17th, 1938, was extended during the year 1939 to cover the Montreal-Ottawa-Toronto schedules when these were established, and to Moncton when the training schedule was inaugurated to that city on November 1st.

The amount of business handled has not been large, but it has shown a steady and consistent growth, and there is every indication that the service afforded is becoming recognized and appreciated by shippers for its convenience and dispatch.

The following table shows the volume of traffic during the year:—

|                | Number of Shipments | Weight (Pounds) |
|----------------|---------------------|-----------------|
| January.....   | 289                 | 1,339           |
| February.....  | 294                 | 1,077           |
| March.....     | 487                 | 2,076           |
| April.....     | 809                 | 3,197           |
| May.....       | 1,103               | 5,212           |
| June.....      | 1,026               | 4,378           |
| July.....      | 913                 | 3,468           |
| August.....    | 1,028               | 4,550           |
| September..... | 1,066               | 7,113           |
| October.....   | 1,447               | 3,923           |
| November.....  | 1,249               | 3,802           |
| December.....  | 1,486               | 5,684           |
| Total.....     | 10,897              | 45,819          |

Mr. BLACK: There is a special statement showing revenue accruing from that service?

Mr. ENGLISH: It is \$23,613.

Mr. BLACK: That service is possible at the present time?

Mr. COLYER: It represents a source of income to Trans-Canada Air Lines. It is an advantage to us to carry it. We have the space on the planes, and it is another service that is going to require development. This 5,000 pounds which was carried in December is nothing as compared to what should be carried in an air express service. It does not cost anything to carry it. The plane is operating. The crew are there. It is just a case of putting the express on the plane.

Mr. BLACK: How would the rates compare with train express?

Mr. COLYER: They are considerably higher. In most cases the air express rate is slightly lower than the postal rate, in other cases it is higher. Express rates are zoned, the Post Office Department rate of 6 cents an ounce covers the whole country.

Mr. DONNELLY: Has air express increased much since January 1st of this year?

Mr. COLYER: It has been growing, yes; the same as the mail service, passenger and express are showing steady growth.

Mr. ROSS: How do our air express rates compare with those of the United States?

Mr. COLYER: I think they are almost identical; you see, the Trans-Canada Act says that the Trans-Canada Air Lines charges for passengers and goods handled shall be competitive with the charges of comparable air lines in the United States. That more or less fixes our charges for passengers as well as express.

Mr. DONNELLY: Do you anticipate, Mr. Hungerford, that this express will interfere with your earnings by train express?

Mr. HUNGERFORD: I suppose to a degree it is a competitive service. That is true with respect to passengers too.

Mr. DONNELLY: And telegraph service also?

Mr. HUNGERFORD: And it affects telegraph services also; as to what extent it develops new business no one can say. It is not possible in so far as we can see to segregate that so as to determine it.

The CHAIRMAN: All right, we will proceed with Property and Equipment.

Mr. ENGLISH:

## PROPERTY AND EQUIPMENT

### FLIGHT EQUIPMENT:

As at December 31st, the flight equipment of the company consisted of:—

15 Lockheed 14H aircraft, each equipped with two Pratt & Whitney S1E2G or S1E3G Hornet engines of 850 horsepower, hydromatic full-feathering propellers, and Bendix radio.

Six of the above aircraft were acquired during the year. Five replaced in service an equal number of Lockheed 10A aircraft which, due to their limited accommodation and slower speed, were not satisfactory from a passenger point of view. The five Lockheed 10A aircraft were subsequently sold at their depreciated book value, one to the Inspection Division, Department of Civil Aviation, and four to the Department of National Defence for use of the Royal Canadian Air Force.

A program of modifications and improvements to flight equipment was undertaken by the company's forces at the Winnipeg repair base with the co-operation and assistance of the aircraft and engine manufacturers. The major projects completed were:—

Fitting of wing slots.

Substitution of improved type of propeller de-icing equipment.

Revision of heating system.

Installation of oxygen equipment for passengers and crew.

It is the endeavour of the company's technical staff to keep abreast of progress in the industry and there is a regular exchange of information and data with other operators and with the manufacturers. During the year considerable experience was gained in connection with icing problems, and the company co-operated with the manufacturer and with the National Research Council at Ottawa in tests and experiments with a view to improving present practices. Interesting developments are under way in respect of direction finding equipment and blind landing equipment, and are being carefully followed.

Mr. BLACK: There are 14 aircraft in service?

Mr. COLYER: Fifteen.

Mr. BLACK: Fifteen—6 of the aircraft were acquired during the year—5 replaced.

Mr. COLYER: There is a total of 15 aircraft; 5 of them replaced the Electras, and we had nine 14s at the beginning of last year.

Mr. DONNELLY: Have you that amount now?

Mr. COLYER: No, sir; 15 is all we have.

Mr. ROSS: Could we have a short explanation of this, "improved type of propeller de-icing equipment"?

Mr. COLYER: The original de-icing equipment for propellers consisted of a supply of alcohol and glycerine carried in the engine compartment and applied mechanically to the propeller blade in such a way that it spread over the blade, but it did not keep the ice off the propeller satisfactorily. On these new engines the propeller being geared down 3 to 2 it did not work satisfactorily so we have worked out rubber overshoes to go on the leading edge of the propeller. The overshoe has grooves of different lengths, and the liquid comes out through a pipe and passes down the grooves and passes out on to the blade at different points and it is carried down to the edge of the blade. It is much more satisfactory, but it is not 100 per cent effective even yet.

Mr. ROSS: It is an improvement?

Mr. COLYER: Yes.

Mr. BLACK: I presume there is a statement here of the cost of that equipment; that is, we have 15 of these machines in service, what is the average cost?

Mr. ENGLISH: The 15 aircraft, complete with radio equipment, cost \$2,202,000. That I might say includes spare engines. We have 10 spare engines included in that cost of \$2,202,000; a complete airplane costs between \$130,000 and \$135,000.

Mr. BLACK: Is there a spare engine for each machine?

Mr. ENGLISH: No, there are 10 spare engines for 15 machines.

Mr. BLACK: What is their average cost?

Mr. ENGLISH: The average cost—for the whole aircraft equipment is \$2,202,000, that is the total cost; the average per machine would be \$130,000 to \$135,000. Of course, the cost varies from time to time. If you bought a machine a year ago and you bought one six months later you would find that your cost had gone up.

Mr. BLACK: I suppose the more modern machine would be a better machine.

Mr. ENGLISH: There are always improvements.

#### GROUND EQUIPMENT:

The hangar at Malton Airport (Toronto), construction of which was commenced in the fall of 1938, was completed in February, 1939. A hangar of similar design was erected during the year at St. Hubert Airport (Montreal), and work was commenced in the late fall on a hangar at Moncton which it is expected will be completed early in 1940. An extension to the hangar and shop at Winnipeg was also completed during the year.

Adequate facilities were made available early in the year at the Winnipeg repair base for the maintenance and overhaul of aircraft, engines, propellers, instruments and radio equipment.

Improved passenger facilities were provided at all airports. Radio, servicing, and other equipment was installed at Calgary and Moncton.

Mr. JACKMAN: In your balance sheet you have "Less accrued depreciation \$634,241.68." I do not notice anything in the income account for depreciation. How do you build up your depreciation reserves among your assets there?

Mr. ENGLISH: They are divided under the different general accounts. They do not show up as one item; so much of the depreciation is on aircraft and so much on ground equipment.

Mr. JACKMAN: Do we get it some other place?

Mr. ENGLISH: I can give you the figures for the aircraft.

Mr. JACKMAN: I am a little more interested in percentages.

Mr. COLYER: You are interested in the period of time during which we depreciate our equipment. The aircraft are depreciated in four years—twenty-five per cent a year; the engines in four thousand hours.

Mr. JACKMAN: But you depreciate the aircraft apart from the engines in four years?

Mr. COLYER: The aircraft is four years and the engines in four thousand hours of flying.

Mr. JACKMAN: You apparently consider that more than adequate? You think that at the end of four years your fuselage, apart from the engine, is in fair condition?

Mr. COLYER: At the end of four years your aircraft, I think, will be obsolete for the transcontinental service, but it will still be a good flying aeroplane.

Mr. JACKMAN: How is it there is not some item in the income account among operating expenses for depreciation?

Mr. COLYER: It is an expense—

Mr. JACKMAN: Why is it not shown in the balance sheet itself or the depreciation account—this \$634,000?

Mr. COOPER: The depreciation expense charged to operation is included in the item shown on page 12—"Aircraft operation and maintenance." The next item is "Ground operation and maintenance,"—and that includes depreciation charges on the ground equipment.

Mr. JACKMAN: It might better read "Aircraft operation, depreciation and maintenance"? You merely leave out the word "depreciation"?

Mr. COOPER: Yes. There is some point in what you say. It definitely includes depreciation.

Mr. JACKMAN: At no place is there a complete schedule of the various depreciation percentages set out?

Mr. COOPER: But we do show on page 9 of the report what the total depreciation charged to operation is. The second paragraph on page 9 states:

"Adequate depreciation reserves have been provided in respect of all property subject to depreciation. Depreciation charged to operating expenses in 1939 totalled \$557,342 and comprised over 20 per cent of the total operating costs."

And Mr. Colyer has indicated the basis of arriving at that depreciation charge—four years for planes and four thousand hours for engines.

Mr. JACKMAN: You feel quite satisfied, from an operating point of view, that that depreciation is adequate?

Mr. COLYER: Yes.

Mr. HARRIS: Mr. Chairman, I think that schedule ought to be filed; it is not a long schedule and there would not be very much involved.

Mr. COOPER: There would be no objection to filing the statement.

Mr. HARRIS: If the air equipment is being depreciated at 25 per cent a year, we would like to know that, and if the fixed property is being depreciated at two or five per cent, we would like to know that. The word "adequate" is not sufficient for this committee, as I see it, Mr. Chairman.

Mr. COOPER: We will file the statement.

Mr. JACKMAN: I might suggest that in addition to depreciation you need obsolescence as well as maintenance.

Mr. COOPER: When we speak of depreciation we include obsolescence. That is probably a larger factor than depreciation itself.

Mr. COLYER: It might be of interest for you to know that our depreciation rate, or the rates that we use, are substantially the same as those used by transcontinental operators in the United States; quite similar.

Mr. HARRIS: I did not hear that.

Mr. COLYER: Our rates are the same as the rates of the transcontinental operators in the United States.

Mr. HARRIS: How do they compare with the privately owned companies?

Mr. COLYER: Where?

Mr. HARRIS: How do the rates compare?

Mr. COLYER: Privately owned companies where, in the United States? I am speaking of privately owned companies.

Mr. HARRIS: We have not any in Canada of any consequence. Of necessity you have to compare them with the United States.

Mr. COLYER: The ones I was speaking of in the United States are all privately owned companies.

Mr. HARRIS: Your rates are on a basis similar to theirs?

Mr. COLYER: Yes, sir.

Mr. JACKMAN: Do you not think it would be better if in the income account you set up a separate item for depreciation and obsolescence apart from maintenance, as the ordinary corporation does? I am sure the air lines in the United States must set that up separately. It gives a better understanding.

Mr. COOPER: It could be done but we have shown it in the body of the report, and, from what I recall of the United States companies, our income statement is similar—

Mr. HARRIS: Where in the body of the report?

Mr. COOPER: Page 9.

Mr. HARRIS: That has only the word "adequate".

Mr. BLACK: Mr. Chairman, I would say the proof of this is whether an adequate depreciation was set up and whether actual money was taken out of operations and set aside in a special fund, as a sinking fund, or a special fund for depreciation. Is that done?

Mr. COOPER: No, and we do not agree that that is good policy. The money which we provide out of operation for depreciation is reinvested as capital and avoids the raising of new capital. Trans-Canada has to pay 5 per cent on its capital, and we could not set money aside and invest it to produce 5 per cent.

Mr. JACKMAN: I would agree with you on that.

The CHAIRMAN: Airway facilities.

Mr. ENGLISH (reads):

#### AIRWAY FACILITIES

Landing fields and other facilities at the airports owned by municipalities or by the Department of Transport, and used by the company, were improved considerably during the year. Additional runways were constructed where required, existing runways extended, and field lighting bettered. Improvements were also made at intermediate and emergency fields maintained and operated by the Department of Transport.

Radio range facilities furnished by the Department of Transport are now in operation at all stations along the company's route from Moncton to Vancouver and at the intermediate or 100-mile landing fields. The operation of the radio ranges showed consistent improvement throughout the year and the system is now functioning with a high degree of efficiency. An improved type of range equipment was substituted in Carmi and Crescent Valley ranges in the mountain section, and a high frequency range marker installed at Maple Ridge, B.C., the approximate point at which the westbound flight commences its descent after crossing the mountains. These proved of material assistance to the company's operations. New ranges were installed at Megantic, Que., Blissville, N.B., and Moncton, N.B., on the Montreal-Moncton run; and at Sterling, Ont. (about 20 miles north of Trenton), on the direct route between Ottawa and Toronto. The first three were in operation in the late fall and the Sterling range at the end of the year. The use of the latter range reduces the mileage and flying time between Ottawa and Toronto by 48 miles and 15 minutes respectively. Ranges are under construction at London, Ont., and Windsor, Ont., to cover the prospective Toronto-Windsor service. A radio range installed by the United States authorities at Millinocket, Maine, was completed at the end of January, 1940, as a result of which there is now full radio coverage on the route between Montreal and Moncton.

The weather reporting service operated by the Meteorological Branch, Department of Transport, was extended and its staff augmented to meet the needs of the expanding service and the increased use of the airway.

Under arrangements between the Department of Transport and the municipal authorities administration buildings were constructed at the Malton and Regina airports.

Mr. BLACK: What is the total investment in radio range facilities? I do not know what your unit is, but what is the approximate unit cost between different points?

Mr. EDWARDS: The average cost is about \$50,000, and there are approximately forty across the country between Halifax and Vancouver. They run from Halifax to Victoria. The last one is in Victoria.

Mr. BLACK: Then there is about \$2,000,000 invested?

Mr. EDWARDS: Roughly \$2,000,000.

Mr. JACKMAN: I do not know whether this question is appropriate here or not, but the Signal Corps, as part of the permanent army, maintains various weather reporting bureaux. I do not know whether you call them meteorological bureaux, or not. I was wondering whether there was any co-operation between the two.

Mr. EDWARDS: The services provided by the Signal service—those few stations on the Mackenzie River—are subsidized by the Department of Transport.

Mr. JACKMAN: So there is every co-operation possible

Mr. EDWARDS: Everything.

Mr. LOCKHART: On the moneys advanced to municipal airports for improvements—I gather there was something over one million and a half—what rate of interest is charged on that investment?

Mr. EDWARDS: No interest at all.

Mr. LOCKHART: That is where we are getting some of the possible surplus.

Mr. EDWARDS: No, that has nothing to do with Trans-Canada Airways

Mr. LOCKHART: It is a gift.

Mr. EDWARDS: It is a subsidy too.

Mr. ROSS: You state in the report, "Ranges are under construction at London, Ont., and Windsor, Ont., to cover the prospective Toronto-Windsor

service." The airport I am particularly interested in is the London airport, situated in my riding. I should like to know a little about the type of equipment that will be used from Windsor to Toronto and the schedule of flights. It was stated in the report that operations would commence on the first of July, but I was told a few moments ago that they would not commence until the first of August. I should like to have a little information in connection with the type of equipment and the schedule of proposed flights between Windsor and Toronto.

Mr. COLYER: The present equipment, Lockheed 14s will be used on that service. While the schedules have not been definitely set as yet, it is expected that there will be two round trips of service per day between Toronto and Windsor, connecting, we hope, with service to Chicago, and connecting at Toronto with service to Ottawa, Montreal and possibly the Maritimes.

Mr. LOCKHART: Following up the point I mentioned a few minutes ago, the Department of Transport has a very large investment in the Airways Facilities; I think it is something nearly \$5,000,000 altogether.

Mr. EDWARDS: It is more than that.

Mr. LOCKHART: Is that money just gone with the wind?

Mr. EDWARDS: Oh, no. You could not have an air service in Canada—

Mr. LOCKHART: But nobody pays anything for it.

Mr. EDWARDS: The revenue is not very high, but everybody that uses an airport pays for the privilege of landing on it. If you were to fly from Halifax to Vancouver you would have to have a field about every one hundred miles.

Mr. LOCKHART: Is there any schedule showing where that deficit lies?

Mr. EDWARDS: In the operating expenses?

Mr. LOCKHART: Yes.

Mr. EDWARDS: When the Department of Transport estimates come up you will get that information.

Mr. ENGLISH:

### *Personnel*

Personnel at December 31, 1939, totalled 497, being an increase during the year of 165 and comprised of:—

|   |     |
|---|-----|
| Administrative officers, technical advisers and operations officers.. | 12  |
| Captains and first officers.. . . . .                                 | 54  |
| Stewardesses.. . . . .  | 28  |
| Maintenance and overhaul.. . . . .                                    | 233 |
| Communications and dispatch.. . . . .                                 | 81  |
| Station, clerical and other.. . . . .                                 | 89  |

497

The organization was developed systematically throughout the year to keep pace with expanding operations. There was no modification of the high physical and educational standards required of prospective employees, and so far no serious difficulty has been experienced in securing the desired type of personnel.

The pilot training program was carried on as expeditiously as the provision of flying equipment permitted. In all, some 2,096 hours were flown in training during the year, and 21 candidates successfully completed the training course and were assigned to duty. In order to provide for contemplated service extensions and for a small reserve of trained personnel, a number of pilots are now in training, and daylight cross-country trips are being operated in the prairie section for the advanced training and familiarization of potential captains.

On September 1, Mr. P. G. Johnson requested that he be allowed to relinquish his appointment as Vice-President in charge of Operations. The Directors, appreciating the personal reasons which prompted the request, regretfully acceded to his wishes. Mr. Johnson agreed, however, to devote a certain amount of his time to the affairs of the company, and accepted the appointment of Consultant. Mr. D. B. Colyer, formerly Chief Technical Adviser, was appointed Vice-President in charge of Operations.

Mr. LOCKHART: Does the Auditor-General's report give the details of the salaries in connection with the personnel of this department, or is it a closed corporation the same as the railways?

Mr. EDWARDS: Just the same as the railways, yes.

Mr. LOCKHART: There is no way of getting any information at all, then.

The CHAIRMAN: Yes. What is the question?

Mr. LOCKHART: I say there is no way of getting any information on comparisons with the cost of other airlines in the States, for instance.

The CHAIRMAN: If you ask for any information and it cannot be given, it will be obtained. Do I understand that you want to compare costs?

Mr. LOCKHART: The desire was to compare the administrative costs of the officers and technical men on this line. I say could the information be obtained to make that comparison?

Mr. HUNGERFORD: I do not see how we could get that information.

Mr. LOCKHART: I am not asking you. Is the information available so far as Trans-Canada airlines is concerned?

Mr. HUNGERFORD: Just what information, please?

Mr. LOCKHART: The salaries of all the different officers and technical men who operate the Trans-Canada airways.

The CHAIRMAN: As compared with other airways.

Mr. HUNGERFORD: What other airways?

Mr. LOCKHART: I am not asking for anybody else to make a comparison, but are the salaries for the Trans-Canada airways of their technical men, administrative staff, and what is paid to the stewardesses and everybody else, available so far as the Trans-Canada airways is concerned?

The CHAIRMAN: Yes.

Mr. HUNGERFORD: Yes.

Mr. LOCKHART: That is available. If not, where would we get it?

Mr. HUNGERFORD: It is available in the records of the company, but it has not been the practice to disclose officials' salaries. It has not been the practice in the past.

Mr. GRAY: Why?

Mr. HUNGERFORD: Because we are about as nearly as possible a private company, and that information would be given out to the public.

Mr. GRAY: Sir Henry Thornton's salary and everything connected with him was threshed out. Surely that is available if this committee wants it.

Mr. HUNGERFORD: Quite; this committee can order anything.

Mr. ROSS: In connection with personnel, there are a number of bright spots in the report but I think one of the brightest ones is on page 4, the last paragraph.

The CHAIRMAN: Would you mind waiting until we get to that?

Mr. ROSS: Operating conditions were on the whole quite satisfactory. There were no accidents involving injury to passengers or personnel. Now, I

think, Mr. Chairman, that the president, Mr. Hungerford, and the vice-president in charge of operations, Mr. Colyer, are certainly entitled to the deep appreciation and congratulations of this committee on this 100 per cent successful report.

Mr. HARRIS: That together with providence and fine weather.

The CHAIRMAN: Mr. Lockhart, do I understand that you want to obtain certain information?

Mr. LOCKHART: I am asking you to proceed to get the information.

The CHAIRMAN: If it is the wish of the committee that the information be procured, I suppose you should state definitely what information you want to be given.

Mr. LOCKHART: I would like to have the information myself. I do not know whether the committee feels the same as I do about it.

The CHAIRMAN: Well, will you give us an outline of what information you want?

Mr. HARRIS: It is a dangerous thing to establish a precedent. This room could be cleared in a few moments and we could have all the information we want. That principle was established when we first established this committee. I had the privilege of serving on the committee in the year 1923 or 1924 and we established that principle at that time, that the salaries of executive officers and all salaries of personnel were available to the members of this committee. In doing that we all took our own responsibility. You can go back to the record and find that is a fact.

The CHAIRMAN: Is this in the form of a motion, because if it is it will be voted on, and we will act forthwith?

Mr. LOCKHART: I will so move.

The CHAIRMAN: If this is a motion let us have a seconder and have a vote and then we will know where we are at.

Mr. LOCKHART: I will move that the administrative salaries and everything be provided for this committee, and that if it is necessary, to clear the room.

Mr. HARRIS: I second the motion.

Mr. DONNELLY: Do you want this information printed?

Mr. LOCKHART: I want it made available to the members of the committee.

Mr. DONNELLY: It is given to us in this committee.

Mr. LOCKHART: I want it to be available to the members of this committee.

Mr. DONNELLY: I mean to say that we can come in here in private and we can hold a meeting without any reporters, and the witness can tell us what is wanted, but if you want it printed in the record that is a different thing.

Mr. LOCKHART: That is immaterial to me.

Mr. DONNELLY: That is what I want to know. Do you want it printed in the report or in private—what the salaries are?

The CHAIRMAN: Do you want a written report or a verbal report?

Mr. GRAY: I think Mr. Lockhart would be satisfied with a verbal report.

Mr. LOCKHART: Yes, I will be.

The CHAIRMAN: Gentlemen, you have heard the motion; all in favour?

(Carried.)

(The committee went into camera at 9.30.)

The committee resumed in public at 9.40.

Mr. LOCKHART: It is suggested that we will have surpluses in 1940 if certain things are done and I think we are entitled to know, Mr. Chairman, the amount of load that the Canadian National Railways are carrying to develop the service.

The CHAIRMAN: That has been decided. We are getting the information now. Will you proceed, Mr. Cooper?

Mr. COOPER: Medical department \$5,000; publicity \$6,000; stores and purchasing department \$6,000; and the operating department \$4,320. (In session in camera Mr. Cooper had given the following figures in addition: accounting department \$4,800, treasury department \$600; insurance department \$300; legal department \$6,000.)

Mr. LOCKHART: What was the last?

Mr. COOPER: Operating department.

Mr. BLACK: That is for yearly periods.

Mr. COOPER: Yes. The total amount is \$33,020 per year, and I would like to make it clear that these are not official salaries.

The CHAIRMAN: They are not?

Mr. COOPER: No. It is the estimated costs to the Canadian National Railways of doing work for the Trans-Canada Airlines.

Mr. JACKMAN: Is this estimated cost of \$33,020 not in the operating expenses some place?

Mr. COOPER: Yes, it is

Mr. JACKMAN: In other words, the railways are not contributing any of this service on which you fix an arbitrary figure for months or for years, and not paid by them?

Mr. COOPER: Not at all.

Mr. JACKMAN: It will be your opinion that the Trans-Canada Air Lines are carrying themselves?

Mr. COOPER: Exactly. This charge is intended to fairly compensate the Canadian National Railways for the work which it does on behalf of the Trans-Canada.

Mr. JACKMAN: In other words, there are no charges that you can think of which are borne by the railway company of services rendered to the Trans-Canada of which a proper charge is not borne by Trans-Canada.

Mr. COOPER: Apart from the general supervision of, say, the president—we do not make a charge for the president to the extent that Mr. Hungerford has general supervision over the affairs of the Trans-Canada—there is not any charge made, but wherever there is any direct expense incurred by the Canadian National Railways it is charged up.

Mr. GRAY: Will you make this clear again: there is not any duplication of salaries or expenses by the Canadian National Railway?

Mr. HUNGERFORD: No Canadian National official gets anything extra for the work of Trans-Canada, or any other subsidiary as far as that is concerned.

Mr. JACKMAN: It is all overhead and you assess it against each department, and it all goes out in operating expenses?

Mr. COOPER: Yes.

Mr. BERCOVITCH: You would not call it compensation. The Canadian National Railway is being indemnified for services rendered to the Trans-Canada.

Mr. HUNGERFORD: That is exactly it.

Mr. HARRIS: And the secretary and the treasurer and the comptroller and the counsel do not get anything at all. And is there no charge other than those enumerated by the gentleman who has just sat down for the services of the men—Mr. Hobbs, the secretary, and the treasurer—no charge against the operation of Trans-Canada Air Lines for the services of these men?

Mr. COLYER: No, sir.

Mr. ENGLISH: The Trans-Canada does pay full freight charges at tariff rates for any rail movement, and full express charges, and full telegraph charges. There is no—

Mr. HARRIS: I am speaking about the officers who are listed on the front page. The only officer in this group who is drawing any remuneration is the vice-president in charge of operations; is that right?

The CHAIRMAN: And his assistant.

Mr. HARRIS: Mr. Chairman, I would like to say this: the directors elected by the shareholders, they receive no remuneration; those appointed by the Governor in Council in a like manner receive no remuneration; the officers, except the two cited, and the consultant, receive no remuneration. With regard to the expenses of the directors—do they get any directors' fees?

Mr. HUNGERFORD: No.

Mr. HARRIS: Do they get any expenses from the Trans-Canada?

Mr. HUNGERFORD: I do not know whether they get any expenses or not.

Mr. COOPER: I do not believe there have been any expenses on Trans-Canada.

Mr. GRAY: Do they get any from the Canadian National Railways?

Mr. COOPER: They do for our business, yes.

Mr. GRAY: It is just a matter of which account you pass, is it not?

Mr. COOPER: I do not know that any of them have done travelling for Trans-Canada, but they certainly have not charged the expenses to us.

Mr. LOCKHART: How is the office work of the Trans-Canada Air Lines operated? How is the mail sent out? Is it under the Canadian National Railways?

Mr. COLYER: We put stamps on our mail that goes to outside points, and our own inter-company mail we carry on the plane without stamps.

Mr. LOCKHART: The outside mail is all stamped just as the public do?

Mr. COLYER: Yes.

Mr. LOCKHART: Nothing is done by the Canadian National Railways?

Mr. COLYER: I am speaking for Trans-Canada. There is no franking done by Trans-Canada. We have no franking privilege.

Mr. GRAY: Do Touche & Company audit Trans-Canada? Is it a running audit?

Mr. COLYER: Yes.

Mr. GRAY: By Touche & Company?

Mr. COLYER: Yes.

Mr. JACKMAN: The board of directors of Trans-Canada are not the same in all cases as the board of the railways. Do these men serve just for the honour that is in it? Take those appointed by the Governor in Council, Messrs. Edwards, Wilson and Herring. Do they receive anything for it?

Mr. HUNGERFORD: No, sir. Just as a matter of information three of the directors are appointed by the government; the other directors are at the same time directors of the Canadian National Railways. I would like to say by

way of explanation when we were setting up this organization it became evident we were going to require the services of a purchasing department, a stores department, a legal department and so on; and it was concluded that we could co-ordinate these activities in the different departments of the railway and do the work very much cheaper than we could by setting up separate organizations of that kind in connection with Trans-Canada. That was why this arrangement was made.

Mr. McCULLOCH: And probably save two-thirds of the cost.

Mr. HUNGERFORD: I should think easily that.

The CHAIRMAN: Are you through with this part of it, gentlemen. If so we will go ahead until 11 o'clock.

Mr. HARRIS: You have only come to directors. What other administrative officers, technical officers are there in these twelve, Mr. Chairman, twelve administrative officers, technical officers and operation officers? Could we have the list of the twelve and their remuneration?

Mr. COLYER: I can give you the salaries, the names of the individuals in the organization and their salaries. The general superintendent at Winnipeg is Mr. Larsen.

The CHAIRMAN: We have decided not to report the salaries.

(At this stage of the proceedings Mr. Colyer gave the names of the officials and their salaries.)

Mr. LOCKHART: You must have been comparing notes with some of the American companies.

Mr. COLYER: Our pay scale is similar but I think it is probably less.

Mr. LOCKHART: Your general set-up is very similar.

Mr. COLYER: The statements I have given I believe cover in general all the classes of employees. We have janitors and so on.

Mr. BLACK: What constitutes the crew of an airplane?

Mr. COLYER: The crew of a plane consists of the captain, the first officer and the stewardess.

Mr. BLACK: How many crews are there for the fifteen machines?

Mr. COLYER: We have at the present time 37 captains, 43 first officers and unless one of our stewardesses has got married in the last few days, 44 of these.

Mr. JACKMAN: Is there any unionization among the personnel of the Trans-Canada?

Mr. COLYER: At the present time there is a pilot organization, they call themselves, Trans-Canada Air Lines Pilot Association, I believe. They are more of a guild than a union. I do not believe they are affiliated with any labour union, not to my knowledge.

Mr. BLACK: Not tied up with any American union?

Mr. COLYER: I do not believe they are. I could not be absolutely certain of that because it is not my business.

Mr. BLACK: You have had no trouble in that regard, no pressure to raise rates?

Mr. COLYER: No.

The CHAIRMAN: Gentlemen, I should like to have an understanding as to whether it is your wish that the salaries and the information that has been given recently shall not go in the record.

Mr. HARRIS: Only that portion that gives us the relationship between the amount of money borne or paid by the Trans-Canada lines or the Canadian National railway line on behalf of Trans-Canada.

The CHAIRMAN: Only that portion will go into the record.

Mr. HARRIS: Will go into the record.

The CHAIRMAN: The rest will be withheld.

Mr. GRAY: Have we finished with the witness?

The CHAIRMAN: I think we are about finished for to-night.

Mr. GRAY: I should like to add one thought before we adjourn. We might finish with Trans-Canada to-night.

Mr. HARRIS: We have not gone over it yet. We were to go through the whole report and then go over it item by item and ask more questions.

The CHAIRMAN: Yes, that is fine. I think we had gotten as far as "Airway Facilities."

Mr. HARRIS: On a point of order; we are more or less a secret session now, are we not?

The CHAIRMAN: We were until a minute ago.

Mr. HARRIS: Nobody has come in since. I want to make an observation before we get out of this session. You have your vice-president in charge of operations. You have his assistant, and then you have expenses. They are costing real money. Then you have a consultant. The relationship between the cost of that overhead and the amount of business we are doing, the amount of revenue we receive when we consider \$1,600,000 are handed to the Post Office Department is out of all proportion—I am glad the minister has come in as I should like to repeat that statement in the minister's presence. Mr. Chairman, you have Mr. Colyer at a salary which was stated here to-night and his assistant.

The CHAIRMAN: Yes.

Mr. HARRIS: Then you have retained a consultant. Then you look at your income account. The mail operation is a simple matter for any executive to collect. It is only \$1,632,873, because it is all re-arranged for them. It does not take much of a business executive to get that into the treasury. Then take the total revenue of the concern. They have, as I view it, \$2,300,000 less \$1,632,000. They really have to give diligent attention to the matter of \$750,000 a year revenue. They have to give diligent attention to operating a very highly technical and difficult airline system. But with everything that is involved in establishing these facilities, Mr. Chairman, I think you are out of proportion; and I cannot see why we should have to pay a consultant who is probably a resident of another country. I do not know whether he is or not; at least his major interest is not centered in Trans-Canada Air Lines, that is true. I think consideration ought to be given to keeping that personnel in some sort of fair relationship to the amount of business that they are doing, and that condition does not obtain when you use this balance sheet as it is put before us to-night.

Hon. Mr. HOWE: Mr. Chairman, since the remarks are addressed to me I should like to make an explanation. I can say this, that whether the salaries are too large or not I can say that by following the procedure we have we have been able to start an air line in perhaps the shortest time that an air line has ever been started here or in any other country. We have been able to operate it continuously since its commencement without a serious accident of any kind, without the loss of a passenger. I think there is no air line that has ever operated anywhere that has the same operating record. We maintain an efficiency of operation that is the best on the continent. I think our record is something like 98.2 per cent of schedule flights completed and the average to the south of us is about 95 per cent. The reason, I think, we have been able to do that in this country—we are not miracle men here—is that we have gone into the matter and obtained the services of the best men that were on the

continent to do that job. We have paid them what is the current rate for that type of service, and no more. We have not paid them extravagant salaries. I think the men we have there would have no difficulty whatever in selling their services at the rate that we are paying. In fact our difficulty is, I may say, in the presence of one of them, to keep them here on the job. I think we could have their resignations to-morrow with the best of good will if they had any doubt that they were not doing a job here.

As far as the financial position of the company goes I think the main thing is to keep those planes operating efficiently; and there is a tremendous amount of technical information required for that purpose. Mr. Colyer has been urging me for the last year to appoint a successor who could be trained. Frankly I have not been able to recommend to him any man that I believed could in a short time be trained as his successor. I have asked him to try and develop him from the air line itself; and I know that he is endeavouring to do that. Personally I am very sincerely hoping that we can retain the services of Mr. Colyer at the salary that we have mentioned or, if it takes a little more to keep him, I hope we can retain his services until he can have trained from the personnel of the air line a successor that can operate that air line as well as he can. Operating an air transport system is not like some other business where second best may be good enough. Second best on an air line may result in dropping a plane load of passengers in one year or something of that sort. If we can avoid that, as we have up to this time, I, at least, am not one to question the salaries that make it possible to do so.

Mr. HARRIS: Before the minister came in, perhaps it would be of interest to note that the congratulations are already embalmed on the record along with our thanks to God at the same time. So that had he been here he would not have needed to make that observation.

Mr. GRAY: Can we adjourn, Mr. Chairman?

The CHAIRMAN: Do you want to finish this affair?

Mr. GRAY: I move we adjourn. You have had three sittings to-day. Surely that is enough. You cannot finish to-night.

The CHAIRMAN: Before we go, let us understand when we shall meet again. Shall we meet to-morrow at eleven?

Mr. GREY: Tuesday.

The CHAIRMAN: Well, I do not think Tuesday meets with general favour. However, it is up to the committee. I should like to see the committee get on with its work as soon as we can and get finished with it.

Mr. GRAY: I have known this committee to sit for weeks.

The CHAIRMAN: Yes, but there is quite a difference.

Mr. GRAY: We have made wonderful progress to-day. Surely we are at least entitled to have time to read the report. I move that we meet next Tuesday at eleven.

Mr. BLACK: I second it.

The CHAIRMAN: You second the motion?

Mr. BLACK: Yes.

Mr. GRAY: Question.

The CHAIRMAN: All right, gentlemen. There is a motion that the committee adjourn until Tuesday at eleven o'clock. All in favour of the motion? Against? I declare the motion is carried.

The committee adjourned at 10.10 p.m., to meet again on Tuesday, July 9, at 11 a.m.

SESSION 1940

HOUSE OF COMMONS

# STANDING COMMITTEE

ON

# RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

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MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

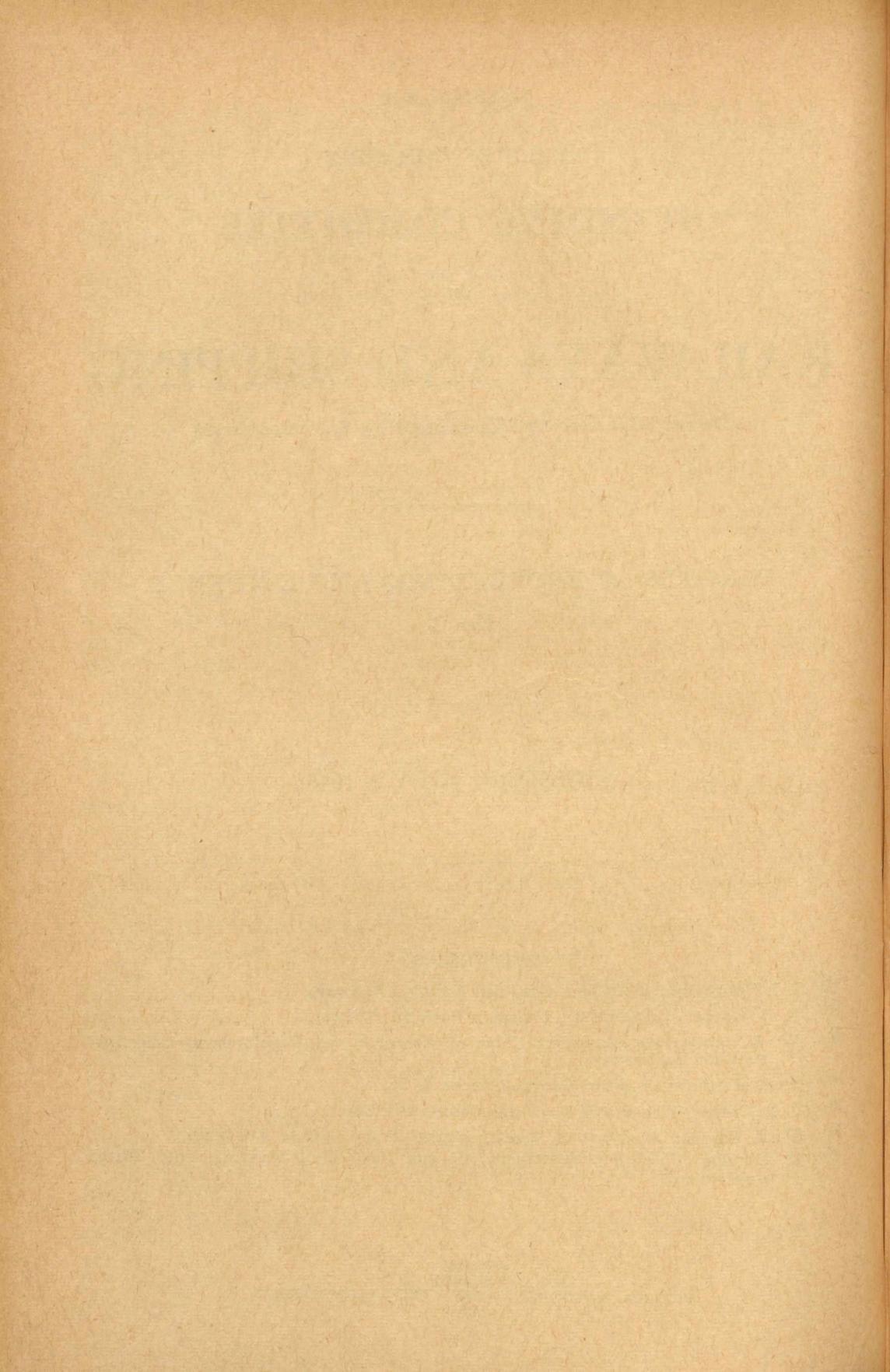
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TUESDAY, JULY 9, 1940

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WITNESSES:

- Mr. S. J. Hungerford, President, Canadian National Railways.
- Mr. T. H. Cooper, Comptroller, Canadian National Railways.
- Mr. W. M. Armstrong, Assistant Chief of Research and Development, Canadian National Railways.
- Mr. O. A. Matthews, Auditor, George Touche & Co.
- Mr. D. B. Colyer, Vice-President, Trans-Canada Air Lines.
- Mr. W. F. English, Assistant to Vice-President, Trans Canada Air Lines.
- Mr. G. Herring, Chief Superintendent, Air and Land Mail Services, Post Office Department.



## MINUTES OF PROCEEDINGS

11.00 a.m.,

July 9, 1940.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government met this day at 11.00 a.m. Mr. J. P. Howden, the Chairman, presided.

*Members present were:* Messrs. Bercovitch, Black (*Cumberland*), Donnelly, Dubuc, Emmerson, Gray, Hansell, Hanson (*Skeena*), Harris (*Danforth*), Howden, Howe, Jackman, MacInnis, McCulloch and Sissons.—15.

*In attendance were:* Mr. S. J. Hungerford, President, Canadian National Railways; Mr. R. C. Vaughan, Vice President, Canadian National Railways; Mr. T. H. Cooper, Comptroller, Canadian National Railways; Mr. W. M. Armstrong, Assistant Chief of Research and Development; Col. V. I. Smart, Deputy Minister of Transport; Mr. A. V. Franklin, Railway Auditor, Department of Transport; Mr. O. A. Matthews, representing George A. Touche & Co.; Mr. D. B. Colyer, Vice President, Trans-Canada Air Lines; Mr. W. F. English, Assistant to the Vice President, Trans-Canada Air Lines; Mr. G. Herring, Chief Superintendent, Air and Land Mail Service; Post Office Department.

Information requested at previous meetings respecting elevators, coal, pensions, hotels and revenues per traffic unit per mile, was furnished by officials of the Canadian National Railways.

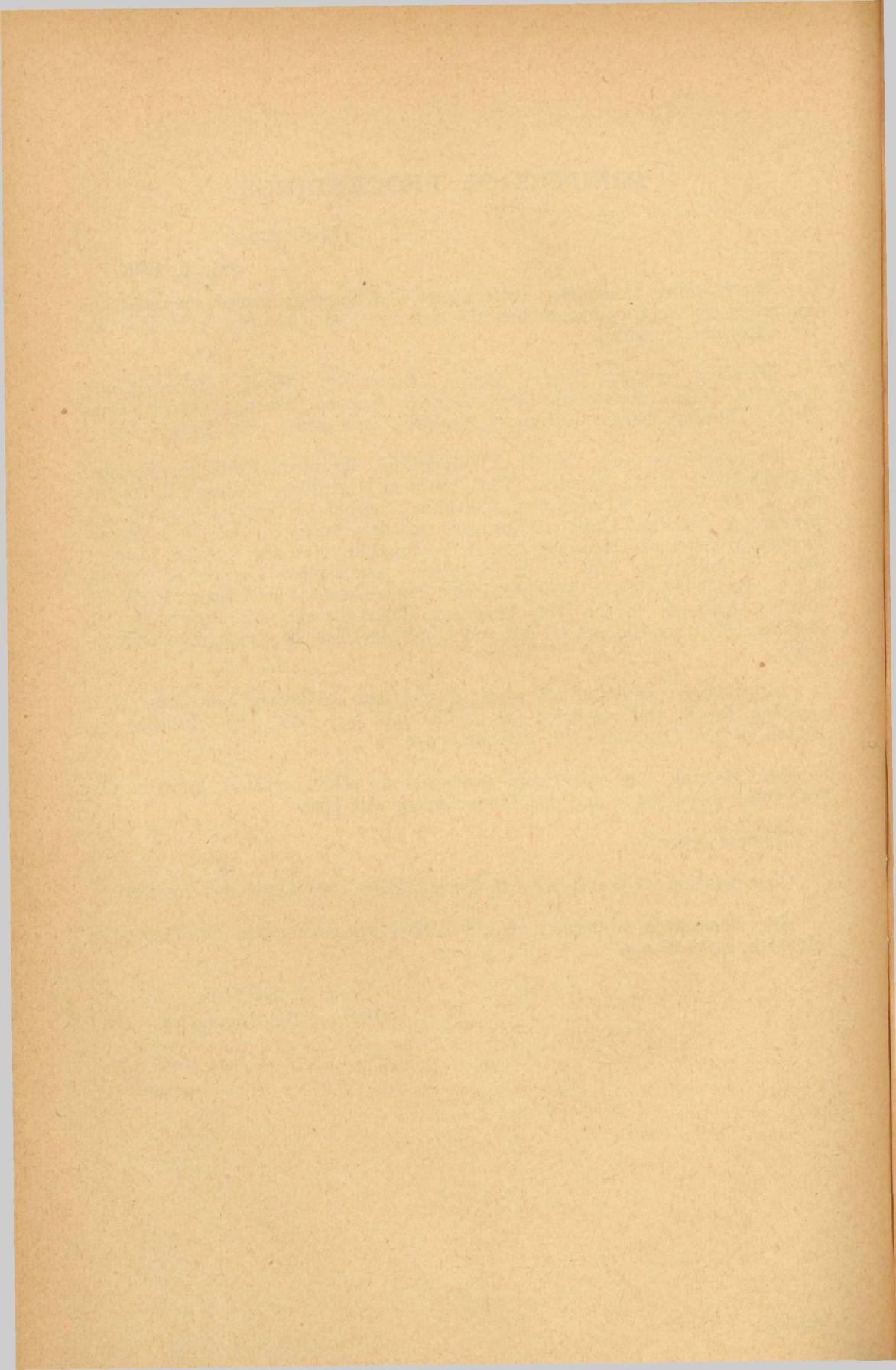
Mr. Herring was called and examined on mail contracts between the Post Office Department and the Trans-Canada Air Lines.

Witness retired.

Consideration of the Report of Trans-Canada Air Lines was resumed.

The Committee adjourned at 1.00 o'clock to meet again on Thursday, July 11th, at 11.00 a.m.

J. P. DOYLE,  
*Clerk of the Committee.*



## MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 277,

July 9, 1940.

The Standing Committee on Railways and Shipping met at 11 a.m. The Chairman, Mr. J. P. Howden, presided.

The CHAIRMAN: Order, gentlemen. I think we have a quorum, and we always have plenty to do in this committee. If it is the wish of the committee, we will proceed. There were a number of questions placed before the committee at the last sitting and the officials of the railway have replies to those inquiries. If it is the wish of the committee, we shall commence in this way. If I hear nothing to the contrary, we shall proceed along those lines.

Mr. HUNGERFORD: Is it satisfactory to have Mr. Armstrong read the questions and answers?

The CHAIRMAN: Yes. Mr. Armstrong will read the questions and the answers.

Mr. ARMSTRONG: There was a question asked by Mr. Donnelly in regard to the storage of grain in elevators operated by the C.N.R. The answer is:—

C.N. Tariff CR-200 covers storage and other charges on grain in Saint John, N.B., and Tiffin No. 2, Ont., elevators. These elevators are the only two operated by the Canadian National Railways in Canada. The tariff of rates in effect is on a parity with those of other similar elevators in Canada; is filed with, and has the approval of, the Board of Grain Commissioners, which fixes the maximum rates. All grain now in storage in these two elevators is being assessed the storage charges, as named in C.N. Tariff CR-200.

Mr. DONNELLY: Who runs the elevator at Halifax?

Mr. ARMSTRONG: That is a government elevator.

The CHAIRMAN: Is there any further need of discussion before we leave that?

Mr. DONNELLY: You take the maximum charge?

Mr. ARMSTRONG: Yes.

Mr. DONNELLY: As set by the Board of Grain Commissioners?

Mr. ARMSTRONG: Yes. There is a tariff.

Mr. DONNELLY: I know there is a tariff. The Canadian National charge is set by the Board of Grain Commissioners. Of course, you have been making a lower charge there. I was wondering if there was any agreement for a lower charge than the maximum that was set by the Board of Grain Commissioners.

Mr. ARMSTRONG: All the grain handled is under the tariff as approved by the Board of Grain Commissioners.

Then there was a question by Mr. Hansell as to the approximate amount of coal ordered from different parts of the country including American coal. The answer to that is:—

| <i>Coal received for use in Canada in 1939</i> | <i>Quantity</i> |
|--|-----------------|
| Eastern Canada . . . . .                       | 1,645,201 tons  |
| Western Canada . . . . .                       | 1,274,546 "     |
| Total Canadian . . . . .                       | 2,919,747 "     |
| U.S. . . . .                                   | 1,046,659 "     |

Mr. DONNELLY: What year is that?

Mr. ARMSTRONG: That is for the year 1939.

Mr. DONNELLY: Is that more or less than it was in 1938. How does it compare with 1938?

Mr. ARMSTRONG: Mr. Vaughan says there is a little more Canadian coal in 1939.

Mr. DONNELLY: Do you contemplate there will be more Canadian coal?

Mr. VAUGHAN: Yes, there was more Canadian coal used in 1939 than in 1938.

Mr. DONNELLY: Do you contemplate that in 1940 there will be still more Canadian coal used?

Mr. VAUGHAN: No, we do not; because we cannot get Canadian coal.

Mr. BLACK: You cannot get Canadian coal?

Mr. VAUGHAN: No.

Mr. BLACK: There are lots of mines in our province that are working only one or two days a week.

Mr. VAUGHAN: Some of them do not produce the type of coal we can use economically; and in other cases the cost of haul is too high in the territory west of Montreal where that coal is used.

Mr. HARRIS: Does the 10 per cent exchange tax not help?

Mr. VAUGHAN: It helps the Nova Scotia coal situation to some extent.

Mr. HARRIS: By 10 per cent?

Mr. VAUGHAN: Yes, by 10 per cent. But the situation is, of course, that they have a definite market for coal down there. I think, as you know, that the only company shipping coal in any quantity up the river is the Dominion Coal Company, and they have a tremendous demand for bunker coal for the paper industries. They are not able to give us the tonnage of coal up the St. Lawrence river that they have in past years.

Mr. BLACK: The smaller mines down there have been operating under very great difficulty. There has been a great deal of discontent down there because, when the whole country is supposedly busy, they are working only one or two days a week in the smaller mines in Cumberland and Pictou counties.

Mr. VAUGHAN: Yes. We take considerable coal, of course, from Pictou county. I take it the mines in the Maccan District are what you are referring to.

Mr. BLACK: Yes.

Mr. VAUGHAN: We do use only a certain amount of that coal; we can use it only in certain territory economically; and they have no facilities for transportation up to Montreal.

Mr. DONNELLY: On account of the exchange rate of 10 per cent, you should be using more western coal.

Mr. VAUGHAN: Yes. We are using western coal at the present time down as far east as a place called Savant Lake which is the first division point east of Sioux Lookout; we use eastern Canada coal as far west as Cochrane on the northern line and to Sudbury and Foleyet on the south line.

Mr. McCULLOCH: I might say, as far as the Maccan District is concerned, that Mr. Avard, general manager for the Maritime Coal, was in Montreal yesterday interviewing Mr. Vaughan. The amount of coal that has been taken from that district in the last five months has just doubled as compared with the quantity taken for the first five months in 1939, and it is Mr. Vaughan's intention to increase that as much as possible. If the same proportion of increase keeps up for the balance of the year as there has been for the last five months, it will be a great deal better for that district. That is about right, is it, Mr. Vaughan?

Mr. VAUGHAN: Yes.

Mr. BLACK: What about the price being paid? Is there an increase in the price?

Mr. VAUGHAN: There has been an increase in the price in some of the districts. There has been no increase in western Canada. In districts in eastern Canada where costs have gone up, they have been allowed some additional amount for their coal.

Mr. BLACK: What would the average per ton amount to?

Mr. VAUGHAN: About 25 cents a ton in the east. But there are some mines down there that have not asked for any increase and they have not got any increase.

Mr. HANSELL: What determines the decision to get coal at any particular point?

Mr. VAUGHAN: It is entirely determined by the cost. In arriving at the cost, the quality of the coal and the length of haul is taken into account. Of course, when we buy American coal, we stack up every cost against it—exchange, freight and everything that is involved.

Mr. JACKMAN: I do not know whether this question has arisen yet or not with respect to this new ten per cent tax; but as I see it, the Foreign Exchange Control Board will get all the exchange arising from the sale of any of our goods to the United States. Then they parcel that out to the various importers in Canada who pay the tax. When they buy that exchange, are the Canadian National Railways and the Trans-Canada Airlines entirely separate and treated as if they were individual companies and not the government itself? For instance, I suppose when the government buys something in the United States in the way of munitions, they do not have to pay the 10 per cent tax because it is paying in to itself, as it were. But the railway, when buying coal in the United States, would be subject to the 10 per cent tax, would it not?

Mr. VAUGHAN: We are treated just like a private company. We pay every charge the private company pays.

Hon. Mr. HOWE: Just to keep the record straight, I might say that the government does pay the tax on its purchase of munitions. The government itself pays that tax, as the railway and Trans-Canada do.

The CHAIRMAN: Is there any further discussion? If not, we shall proceed.

Mr. ARMSTRONG: The next question was asked by Mr. MacInnis. The question was: Could the Committee have a list of the persons receiving pensions who are otherwise engaged, particularly in government business or for the railway? The answer is:—

To answer this question would entail the work of examining over 5,000 individual files. A check of the records from January 1, 1935, to date indicates that 243 pensioners under the C.N.R. General Pension Plan were given permission to take up other employment. Of this number 209 are presently living, but it does not necessarily follow they are gainfully employed. Under the C.N.R. General Pension Plan it is estimated that the number of all pensioners who received permission to take up other employment and are now living, would not exceed 275. The large majority of those requesting permission to take employment are receiving small pensions.

The CHAIRMAN: I should like to put a question there myself. Suppose the pension of one of those individuals was not sufficient to keep him alive? Is he debarred from taking employment?

Mr. COOPER: No, sir. The pension rules provide that the receipt of a pension from the railway does not debar the pensioner from taking up other employment, provided it is not considered detrimental to the interests of the railway.

The CHAIRMAN: Thank you.

Mr. ARMSTRONG: The next question was asked by Mr. Sanderson. He requested a brief synopsis of arrangements under agreement of July 28, 1938, between Canadian National Railway Company and Canadian Pacific Railway Company with respect to "Hotel Vancouver," Vancouver, B.C. Shall we read this or just put it in the record? It is merely a digest of the agreement, showing the terms.

The CHAIRMAN: Does anybody desire to hear it read?

Mr. McCULLOCH: No, put it in the record.

The synopsis is as follows:

A Company to be incorporated under the Dominion Companies Act, to be known as "The Vancouver Hotel Company, Limited" to lease and operate the Hotel property owned by the Canadian National Railway Company at Vancouver.

The authorized Capital of the Hotel Company to be \$500,000, to be subscribed and paid for by the parties to the agreement in equal amounts.

The Hotel Company to have a Board of Directors of six persons, three of whom to be nominated by the Canadian National Railway Company and three by the Canadian Pacific Railway Company, the President and Vice President of the Hotel Company to be chosen in alternate years from the National Directors and the Pacific Directors, so that in the year in which the President is chosen from among the National Directors the Vice President shall be from among the Pacific Directors, and vice versa.

The Canadian National Railway Company to complete the hotel, ready for operation, and lease it to the Hotel Company for a term of 21 years, with a provision for renewal for a further period of 21 years on the same terms, save as to right of renewal.

The Hotel Company to pay the Canadian National during the term of the lease an annual rental equal to the net earnings of the Hotel Company from operations in the next preceding calendar year, the rental payable in respect of any such year not to exceed \$280,000.

In consideration of the Canadian Pacific undertaking to close its hotel at Vancouver and to transfer certain of its furniture and furnishings to Canadian National without charge and not to operate or become interested in the operation of any other hotel at Vancouver during the term of the lease, and further agreement to allow interest at 2 per cent per annum to the Canadian National on the amount realized from sale of the property, or agreed sale value of any unsold portion, or net salvage from portion demolished (less cost of alterations or expense in connection with the sale) and also paying to the Canadian National one-half of the interest received on any unpaid instalments under agreement of sale, the Canadian National to pay to the Canadian Pacific, as received, an amount equal to one-fourth of the rental received by it from the Hotel Company.

The cost of administration of the Canadian Pacific Hotel when closed to be borne equally by the Canadian National and the Canadian Pacific, until the property is disposed of.

If the Canadian Pacific Hotel property not sold within three years of the closing of the Hotel, the hotel building to be demolished.

The Canadian National and Canadian Pacific to each be afforded equal facilities in the Hotel for its Railway, Telegraph and other business, each paying a fair rental on the space occupied by it, and assuming all expense incidental to the equipment and operation of the space.

Mr. ARMSTRONG: The next question was by Mr. Lockhart, and was as to the amount there was invested in hotels operated by the Canadian National Railways. This statement shows the investment in each of the hotels, eleven in number. May we put it in the record?

Mr. BLACK: We had better have it read, had we not?

Mr. ARMSTRONG: All right. The answer is as follows:—

|  |               |
|--|---------------|
| Canadian National, Charlottetown, P.E.I. . . . . | \$ 860,653 30 |
| Pictou Lodge, Pictou, N.S. . . . .               | 199,456 21    |
| Nova Scotian, Halifax, N.S. . . . .              | 2,454,125 24  |
| Chateau Laurier, Ottawa, Ont. . . . .            | 8,683,773 23  |
| Prince Arthur, Port Arthur, Ont. . . . .         | 1,190,866 50  |
| Minaki Lodge, Minaki, Ont. . . . .               | 1,095,421 73  |
| Fort Garry, Winnipeg, Man. . . . .               | 2,911,906 39  |
| Prince Edward, Brandon, Man. . . . .             | 525,782 98    |
| Macdonald, Edmonton, Alta. . . . .               | 2,287,590 10  |
| Jasper Park Lodge, Jasper, Alta. . . . .         | 2,683,460 97  |
| Bessborough, Saskatoon, Sask. . . . .            | 3,567,048 87  |

Mr. JACKMAN: That is the capital cost?

Mr. ARMSTRONG: That is the capital investment as at the end of last year.

Mr. JACKMAN: That still stands on the books? That is the original capital?

Mr. HARRIS: No depreciation has been set up in this account?

Mr. JACKMAN: None of these have been written off?

Mr. ARMSTRONG: No.

Mr. HARRIS: I want to be clear on that point. There is no depreciation set up in this account. Is that right?

Mr. ARMSTRONG: That is right.

Mr. BLACK: There is no reserve fund set up analogous to the depreciation fund set up in other cases?

Mr. ARMSTRONG: No, not for the hotels.

Mr. JACKMAN: The hotels were not included in that big write-off some years ago of the assets of the C.N.R.? The hotels still stand at the original capital cost?

Mr. ARMSTRONG: That is right.

Mr. COOPER: I might say that in the capital revision to which you referred there was no writing down of the hotel property investment. Certain worthless capital stocks were written out, also government loans for deficits, and unearned interest. With respect to the depreciation of hotels, I think it should also be made clear that maintenance of hotels, renewals of the fittings and furnishings is, of course, taken care of through the operating expenses.

Mr. BLACK: Is that taken care of on a regular percentage basis per year?

Mr. COOPER: No. It is taken care of currently as the expense is incurred.

Mr. McCULLOCH: It is not charged to capital?

Mr. COOPER: No.

Mr. BLACK: Is there a certain percentage taken for each hotel for the furnishings each year, or does it vary according to the earnings of the respective hotels?

Mr. COOPER: It would depend on the condition of the furniture and fittings, if they need repair or renewal, the work is done and the expense is charged to operating expense.

Mr. BLACK: It is not put on a percentage basis at all?

Mr. COOPER: No.

Mr. JACKMAN: You are not doing anything with respect to the hotels—

Mr. COOPER: As far as the buildings themselves are concerned, no depreciation is accrued.

Mr. JACKMAN: Like the Trans-Canada they can invest their depreciation reserves in new assets all the time. But in the hotels you cannot very well do that because you cannot invest sufficient money to compensate for depreciation or possible obsolescence of new furnishings all the time. It is not physically possible, is it?

Mr. COOPER: Take an example. I do not see why we should depreciate the Chateau Laurier hotel building and not the Union station building. If you adopt the practice of depreciating all property, all fixed assets, then you would have to extend it to tracks, shops, stations, bridges and other fixed property. You could not reasonably pick out a particular building and say that building should be depreciated and the adjoining building should not.

Mr. HARRIS: But we have depreciation with Trans-Canada Air Lines.

Mr. COOPER: I think that is different. The policy of applying depreciation accounting to railroads is a matter which has been considered very extensively by the United States railways under the direction of the Inter-State Commerce Commission, and while it is mandatory to include depreciation with respect to equipment it is not mandatory, and it is not expected, that the railways of the United States should include depreciation on their fixed assets, and practically none of them is doing so; and we in Canada are on all fours with the United States railways.

Mr. HARRIS: Just a question there; we in Canada are not on all fours with the Canadian Pacific Railway Company, they have depreciation accounting set up for all their equipment.

Mr. COOPER: For their equipment; no, sir.

Mr. HARRIS: What is their depreciation set up for?

Mr. COOPER: They have depreciation accounting with respect to their steamships and hotels. Their depreciation accounting with respect to their hotel system is a matter that goes back some three years; and there were certain reasons why that was done, and in that respect the Canadian Pacific is not consistent in that it does not apply depreciating accounting to its other fixed assets.

Mr. HARRIS: The Canadian National does that?

Mr. COOPER: No, they do not.

Mr. HARRIS: The Canadian Pacific does with respect to its hotels?

Mr. COOPER: Yes; and in that respect they are different.

Mr. HARRIS: But the Canadian National does not?

Mr. COOPER: That is true.

Mr. JACKMAN: When do you arrive at the point where you do not continue to build up the cost of hotels? Take, for instance, the Chateau Laurier with its capital figure of \$8,000,000 odd; when do you stop adding to that? I understand, Mr. Chairman, the witness now to say that everything now is charged against operation account. That is to say, if they put in new furniture and new fixtures, whatever new capital they put in, the higher the cost of that hotel becomes; would not that be a charge against operating account; is that not correct?

Mr. COOPER: No, I do not say that. With respect to improvements or additions, if the cost is \$500 or more it is added to property account, that is to capital account.

Mr. HARRIS: If you renewed the beer parlour, I suppose that would be a charge to operation, or would it be a charge to capital?

Mr. COOPER: If it were a renewal, it would be charged to operating expense.

Mr. HARRIS: Mr. Chairman, I wonder if we could have the capital account, say just for the last four years, to see if we could figure out what these items amount to?

The CHAIRMAN: Do you wish that submitted now or a little later?

Mr. HARRIS: I would like to have it now.

Mr. BLACK: While he is getting that figure, I do not see any statement about the Vancouver hotel in this material.

Mr. ARMSTRONG: This statement shows the hotels operated by the Canadian National system; the Vancouver hotel is operated jointly with the Canadian Pacific Railway. This statement was made up to correspond with the revenue and expense statement which was turned in at the last meeting.

Mr. BLACK: Have you any figures with regard to the cost of the Vancouver hotel?

Mr. COOPER: The cost of the Vancouver hotel up to 1939 was \$11,607,000.

Mr. JACKMAN: Was that the total investment, or the Canadian National share?

Mr. COOPER: The Canadian National provided the building completely furnished; the Canadian Pacific have no proprietary interest in the building.

Mr. JACKMAN: Just an operating interest?

Mr. COOPER: Yes.

Mr. JACKMAN: Just in connection with that; did I understand you to say that all expenditures over \$500 were capitalized?

Mr. COOPER: No. I will put it this way; any expenditure of capital under \$500 is taken into operating expense, but all maintenance and all renewal expenses, irrespective of the amount, goes into operating expenses.

Mr. JACKMAN: I see, so the capital account is therefore growing continuously from year to year and you are not setting up any depreciation?

Mr. COOPER: Assuming the property is being added to or extended. We make retirements in the same way. Take for instance the beer parlour to which you referred, if it were discontinued we would write down the investment. We deal with retirements just as we deal with additions and extensions.

Mr. JACKMAN: I quite understand. There would likely be more additions and betterments than retirements in the ordinary course of events.

Mr. COOPER: With the hotel business growing the way it is I think that is quite natural. There is no reason why a building should be stabilized at its original cost.

Mr. JACKMAN: What I am trying to arrive at is, we are widely interested, and I want to know whether we are operating at a profit or loss; whether this is an overstatement or an understatement, as the case may be, irrespective of what the accounting practice may be in any other system. If an hotel is a wasting asset it should be depreciated, 2.5 per cent or 4 per cent, you see; whatever it might be, irrespective of the accepted standard there. That being the case, then surely we could depreciate that, not charge it in our books to operations; don't you agree with that?

Mr. COOPER: Yes, except that the practice recognized in respect to fixed assets is not to accrue depreciation thereon.

Mr. JACKMAN: Irrespective of what the practice may be, I want to find what the true loss or profit may be. We operate an hotel system, and if it is true that hotels are depreciated, certainly the hotels of United hotel system are, I think ours should be also. You will agree with me there, I think. These buildings are still hotels, even though they are part of the railway system; they depreciate. I do not see how we can get a true statement of the profit and loss account unless you take into account the fact that some parts of the capital is being dissipated every year; and you are not showing it on your books.

Mr. COOPER: I think these accounts must be read with a certain background of knowledge. The balance sheet itself declares what is done with respect to depreciation accounting.

Mr. JACKMAN: That is page 11, is it not?

Mr. COOPER: Yes, page 11: "Depreciation accounting is applied to rolling stock owned by United States lines, and retirement accounting is applied on the basis of original cost to other units of the property on the System;" and, of course, that has been changed since the first of this year; depreciation accounting is now applied to rolling stock owned both by the United States and the Canadian lines; but retirement accounting is still continued with respect to fixed assets.

Mr. JACKMAN: Yes, I am not discussing what to do in connection with your rolling stock. Obviously, with your rolling stock, depreciation goes on from day to day. You can see it in your very short term equipment trust agreement. You have got to depreciate, it is too obvious a thing not to take account of; but the less obvious depreciation that goes on just as inevitably is that in the hotels and that must be taken account of if we are to get any kind of a true statement. I mean, take the western hotels, in their case perhaps depreciation is not so large an item, but there is still a great deal of depreciation. There are a great many things which are not as good now as they were when they were built. Take the east wing of the Chateau Laurier here, the hotel with which we have just been dealing, there are parts of that hotel which are not nearly as good in the old east wing as things are which are in the new wing, and that is something which must be taken into account. Unless you are going to face a real capital write off at some given date in the future you must accrue your depreciation as a charge against your operations from year to year; am I not right there?

Mr. COOPER: Yes, I have no difference of opinion on that point.

Mr. JACKMAN: Your difficulty is that you are operating on the custom of other places; which I think you will agree with me is probably wrong, or it does not show a true picture. I do not see why we should not do it correctly. I do not see why we should follow a wrong system even if there may be a lot of precedent for it. We should get a true statement of the situation.

The CHAIRMAN: Gentlemen, I do not believe it is the function of this committee unduly to criticize control of the railway. I think we are here for the purpose of receiving their report and enquiring into the control and management of the railway, and in our final report if we have any cause to differ from the management of the railway we can bring that to the attention of the house then.

Mr. HARRIS: Mr. Chairman, on a point of order I think much of this criticism is not so much criticism as just seeking information.

The CHAIRMAN: I was inclined to think that we had gone past the point of seeking information. We are certainly here to get information, but not to dispute with members of the railway plans adopted by them in its control. I would say, if we believe improvement could be made, we should make mention of that in our report to parliament, which will be submitted forthwith. I may be wrong, but that is my attitude.

Mr. JACKMAN: I might say, Mr. Chairman, that as a new member I should be sufficiently humble about everything, and I may make a few errors in trying to find my way about; at the same time the minister is here, and this is a question of major policy, and I think we are at least entitled to an answer as to whether or not what we are talking about, what I am suggesting, is entirely irrelevant and merely endeavouring to make trouble, or whether there is something in it, and whether it should be given consideration by the Minister of Transport and by his department.

Hon. Mr. HOWE: If I might answer that, I think it is hardly fair to say that we do not give a true picture. The true picture, of course, is that in the

Canadian National Railways we do apply depreciation on rolling stock, but not on the balance of the system, on the fixed charges. Now, the theory of that is well established in railway accounting. This is the theory, that with a normally maintained railroad there is no depreciation in that renewals are made as parts wear out. For instance, as a rail wears out it is replaced by a new rail and that is charged to operating account. That does not apply, you might say, to railway stations and hotel buildings. The Canadian Pacific make it a practice to depreciate their hotels and steamships and nothing else. It is rather hard to find the logic of applying it to hotels and not applying it to railway stations and things of that sort. As a matter of fact, we do not, and that is the true position as far as the Canadian National Railway accounting goes. If we had a large surplus I would be very keen for that sort of thing, but I am opposed to setting up funds within the railway as long as that railway is operating a deficit operation. We pay the railway only sufficient cash to meet its cost of operation, we do not think it desirable to set up a depreciation fund within the system. If we were to set up depreciation we would be called upon for a larger cash requirement, and the railway presumably would have a depreciation fund within its set-up. We have not considered that that was wise.

Mr. JACKMAN: May I say to the minister, Mr. Chairman, with respect to the United States that I do not think the hotel systems of that country are bound up with the railway systems as is the case in Canada.

Hon. Mr. HOWE: I did not intend to speak of the United States; I was speaking of the Canadian Pacific Railway.

Mr. JACKMAN: Their hotels must bulk largely in their accounts too as they do in the Canadian National. I think the hotel systems of both our railways are fairly substantial items. At the same time, I admit there may be very good grounds for differentiation between our system and that typical of American railways. And in answer to your other question about the government supplying cash to meet the deficit, it is not necessary in this case. You merely set up an account to get at what your depreciation should be. It is not necessary to increase your deficit to do that, you set up a bookkeeping item which merely indicates to you what that amounts to. We do not need cash to show this item. We must show our capital asset as being depleted from year to year rather than standing on our books at a certain figure until we lose the whole thing. I think there is a real point of policy here, but I do not wish to pursue it further. Possibly some mention of this point may be desirable in the report of this committee.

Mr. HARRIS: Just one other question on this matter of depreciation: Is depreciation accounting applied on the rolling stock owned by the Canadian National Railways?

Mr. COOPER: Yes, from the 1st of January, 1940.

Mr. HARRIS: One other question on the point: I indicated a few moments ago when I asked for the capital amounts that I would like to have it shown as at the end of the last three fiscal years for one hotel. I would like to have the capital amount in the form of a statement for each one of these hotels for the last five years. When they make the computation they might put in the total figure. It is a very simple matter. They probably have it there.

Mr. COOPER: May I go back for a second to the C.P.R. situation? I think it is common knowledge that within the last three or four years they gave up operation of the Place Viger Hotel and the Hotel Vancouver. Had they been on retirement accounting I am inclined to think that the charge would have been quite as much as if they had been on depreciation accounting.

Mr. JACKMAN: They take it out of their capital assets and charge it to the operations in one year.

Mr. COOPER: Or to depreciation reserve. If they were on depreciation accounting they would write the loss off to reserve.

Mr. JACKMAN: But it is better to know from year to year where you stand. In the case of the Chateau Laurier, that hotel must be making a mint of money. Any hotel that is soundly constructed in finance at the beginning—I am not an expert on hotel accounting—and not charging more than sixty per cent—that surely must be the break-even point—when it is operating at perhaps ninety or ninety-five per cent, must be making money. When you do not adopt depreciation accounting you are really overstepping your profits from year to year, as you are not assessing the true cost of operating the hotel because in every year there are so many hundred thousands of dollars in true depreciation which should be written off and which would give you the true picture of the net profit. That is what I am trying to arrive at.

Hon. Mr. HOWE: These accounts are merged. I doubt if the railway ever gave to other than the committee a statement of the individual receipts and expenses of each hotel; it is part of the system. I can see your point. You would suggest having all accounts within the account to show that depreciation had accrued in hotels to such an extent. However, it would only be an account; it would not represent money, I hope, because we would not like to put up the amount that is required to depreciate the hotels as a deficit.

Mr. JACKMAN: I do not see how we are going to know whether the hotels of the railway are making or losing money.

Hon. Mr. HOWE: By and large the test of that is the maintenance of your system. If the maintenance is at a standard, presumably your assets by and large have not wasted. You can take out one item and say that is not true of this item, but over a far-flung system representing over two billion dollars it works out fairly well. These items are not large in the bulk.

Mr. JACKMAN: I would not deign to tell one of our Canadian engineers how depreciation works even for a railway system.

Mr. HARRIS: We are only interested in seeing the debits and credits on property charged. We cannot hide behind the skirts of an auditor, Mr. Chairman.

Hon. Mr. HOWE: I think it is a question of what to do. If this committee votes to recommend to the management that we charge depreciation accounting on hotels, we will be glad to set up an account in that way. But I doubt if it will solve the railway problem particularly.

Mr. BLACK: Where is the statement of the results of the operation of each of these hotels? I have not seen it, or even a summary. I have not had a chance to study these reports.

Hon. Mr. HOWE: I do not think they are ever made public.

Mr. ARMSTRONG: There was a statement put in the record at the first meeting of the committee showing the results of the operation of each hotel.

Mr. HARRIS: Does that statement give the capital expenditure?

Mr. ARMSTRONG: No; just the revenues and expenses.

Mr. HARRIS: Our anxiety is, and I think the minister is cognizant of what is concerned, the steady building up of our capital investment in railways from year to year. That is what is worrying the Canadian people. I ask the simple question. Would that statement, to which our friend refers, show the capital expenditure in all the hotels for the year 1939 or, in other words, the increment to the capital that is invested in hotel properties? Would it show that?

Mr. ARMSTRONG: We would be very glad to give a statement showing that, but none that is before the committee shows it.

Mr. HARRIS: It shows the gross earnings.

Mr. ARMSTRONG: Yes.

Mr. BLACK: There was a statement submitted at the first meeting. When do we get the minutes of our deliberations?

Mr. McCULLOGH: This morning.

Mr. HARRIS: Does that show the expenditures and net earnings for each hotel, Mr. Chairman?

Mr. ARMSTRONG: Yes.

Mr. HARRIS: The only thing that is missing is the capital expenditure. This answers the other four questions, Mr. Chairman. The capital expenditure is not here, and there is no objection to receiving that, Mr. Chairman.

The CHAIRMAN: Next part, gentlemen.

Mr. ARMSTRONG: I think that covers all the questions that were asked by the committee, Mr. Chairman.

Dr. Donnelly asked for an analysis of the traffic units per man hour. We suggested that we could furnish such a calculation, but as to whether it would really mean anything or not would be a question. We have done it on two bases. One is on the basis of equating the passenger miles to revenue ton miles—three passenger miles per revenue ton mile; also, as Dr. Donnelly suggested, on the basis of four passenger miles per revenue ton mile.

The CHAIRMAN: Do you wish to put that on the record?

Mr. ARMSTRONG: Yes.

## CANADIAN NATIONAL RAILWAYS

(ALL INCLUSIVE SYSTEM)

### TRAFFIC UNITS PER MAN HOUR

| Year           | (1)    | (Index) | (2)    | (Index) |
|----------------|--------|---------|--------|---------|
| 1923.. . . . . | 98·23  | 100·0   | 104·43 | 100·0   |
| 1924.. . . . . | 96·82  | 98·6    | 103·11 | 98·7    |
| 1925.. . . . . | 102·49 | 104·3   | 108·89 | 104·3   |
| 1926.. . . . . | 105·43 | 107·3   | 111·87 | 107·1   |
| 1927.. . . . . | 106·09 | 108·0   | 112·67 | 107·9   |
| 1928.. . . . . | 113·74 | 115·8   | 120·08 | 115·0   |
| 1929.. . . . . | 101·26 | 103·1   | 107·28 | 102·7   |
| 1930.. . . . . | 96·41  | 98·1    | 102·10 | 97·8    |
| 1931.. . . . . | 92·33  | 94·0    | 96·98  | 92·9    |
| 1932.. . . . . | 95·45  | 97·2    | 99·85  | 95·6    |
| 1933.. . . . . | 92·19  | 93·9    | 96·72  | 92·6    |
| 1934.. . . . . | 96·71  | 98·5    | 101·34 | 97·0    |
| 1935.. . . . . | 101·03 | 102·9   | 105·94 | 101·4   |
| 1936.. . . . . | 104·26 | 106·1   | 102·26 | 104·6   |
| 1937.. . . . . | 106·96 | 108·9   | 112·62 | 107·8   |
| 1938.. . . . . | 109·26 | 111·2   | 114·94 | 110·1   |
| 1939.. . . . . | 119·86 | 122·0   | 125·18 | 119·9   |

(1) (Total Passenger Miles x 3 plus total revenue ton miles) ÷ Estimated Operating Man Hours.

(2) (Total Passenger Miles x 4 plus total revenue ton miles) ÷ Estimated Operating Man Hours.

Mr. DONNELLY: I should also like to have added to that the total capital invested per units of work done, and I should like to have it for other railroads as well.

Mr. ARMSTRONG: I have made a note of that.

The CHAIRMAN: Gentlemen, when we adjourned on Friday night we were discussing the Trans-Canada air lines, and we were more particularly engaged in a discussion of the all mails and the tariffs. A request was made that the Post Office Department have one of their officials appear before this Committee in this connection. Mr. Herring is here this morning to answer the committee, and if it is the wish of the committee we might ask him to make a statement in connection with the matter. What is your wish?

Mr. HARRIS: Before he makes the statement might I make one suggestion; that while he is making the statement he elaborate on the air mail cost to the Post Office Department. As I have the figure for 1939-40, it is \$2,250,000, and the estimate for the year 1940-41, I think, is about double that. I wonder when he is on his feet making the statement if he will include the reasons why that is increased so substantially.

Mr. HERRING: In reading over the minutes of the last meeting some reference was made to the sum of \$2,000,000, and there seemed to be some doubt as to a discrepancy between the amount that was actually paid to the Trans-Canada Air Lines and the total vote. Our vote last year was approximately two and one quarter million dollars. The amount that was actually paid to the Trans-Canada Air Lines amounted to approximately one million and three quarters. The difference is made up by payments which we have made to twenty-eight out-lying air mail services.

In regard to the present estimates, here is a further increase of approximately two million dollars. That can be explained by the normal development of the Trans-Canada Airlines. I can give you the program in detail, if you wish, for the coming year.

Mr. BLACK: I should like Mr. Herring to repeat those figures.

Mr. HERRING: The amount paid during the fiscal year 1939-40 to the Trans-Canada Air Lines amounted to \$1,754,454.80. You will understand that the records of the Trans-Canada Air Lines are based on the calendar year. Ours are based on the fiscal year, so there may be a discrepancy there.

Mr. HARRIS: There is more than that. What about the bush lines?

Mr. HERRING: Pardon?

Mr. HARRIS: There is more than the fiscal year accounting for the difference between \$2,250,000 and \$1,754,000.

Mr. HERRING: That is correct.

Mr. HARRIS: The balance is for bush lines.

Mr. HERRING: Exactly. During the same period we paid \$551,447. Those two amounts total \$2,325,902. We actually exceeded our appropriation for air mail transportation last year, but we got the balance from land mail services, so the vote was for one sum.

Mr. BLACK: Air mail subsidies, is it, and land mail service?

Hon. Mr. HOWE: Services.

Mr. HARRIS: On what authority do they take money from the land mail service and apply it to the air mail service?

Mr. HERRING: That could be done by the approval of the treasury board. It is one sum, and the particulars give the break-up. I do not think it was ever intended that we should rigidly adhere to the exact amount for each item. But to make any charge we must receive the approval of the treasury board.

Mr. DONNELLY: Have you any way of estimating how nearly the revenue you receive pays for the services of carrying this mail?

Mr. HERRING: It is almost impossible. For your information, we have made checks from time to time of the number of letters in a pound of air mail, and the figures vary all the way from forty or forty-two to sixty per pound.

For purposes of calculation our figures are based on an average of fifty to the pound. The air mail postage is six cents for the first ounce and five cents for each succeeding ounce. The ordinary rate for postage is three cents for the first ounce and two cents for each additional ounce. Therefore, there is a definite increase in revenue arising from air transportation of three cents per unit on the basis of fifty letters to the pound, which gives us a definite net revenue for air conveyancing of \$1.50. On the top of that the conveyance of first-class matter is undoubtedly the most profitable—probably the only profitable—operation we have, and in consulting our administrative officers it was considered to be fair to take at least one cent out of the three cents as profit which could also be reasonably attributed to air transportation. That would give us a revenue of four cents per letter multiplied by fifty which would give us a revenue of \$2 a pound, which could be charged against air transportation.

During the year 1939-1940 there was carried by the Trans-Canada Air Lines the matter of 740,000 pounds, and the gross amount of postage was approximately \$1,963,000. That does not give the proper picture at all because that shows the whole six cents. Now we cannot attribute the whole six cents to air mail transportation. If we were to cut that in half we would be much closer to the truth. But as nearly as we can figure it last year's operations by the Trans-Canada Air Lines showed us a loss of approximately \$425,000. And event that is not true because in the transportation of mail from Moncton through to Vancouver there is some duplication which cannot possibly be avoided, and there is no machinery that we can create which would enable us to eliminate a double counting on certain poundage. I should like to make that quite clear, because I am not in a position to give you any exact figures to show you the true picture. I will say this, however, that if the volume that they are carrying now were doubled I am quite satisfied in my own mind that it would be a self-supporting proposition; that the amount of money that we would get for air mail transportation would be sufficient to cover the expenditure arising from it.

Mr. DONNELLY: You do anticipate that it may be?

Mr. HERRING: Yes; the records show that there is a very definite increase in the volume. We rise suddenly and we have a slack period where the public become hypnotized and do not do any business. Then it moves up again. We never move back. Just to crystallize that, in the year the Trans-Canada Air Lines commenced operations, commencing in the year 1937-1938 they carried 39,000 pounds. In the year 1938-39 they carried 454,000 pounds, and then last year they carried 740,000 pounds, and there is every indication it will keep on moving up. I am offering my own personal opinion that in the next five years the carriage of mail should not cost us anything because the amount of revenue that the Trans-Canada Air Lines will get from other sources will be sufficient to defray the most of the cost to the Post Office Department for the conveyance of mail. Of course, I am an optimist. People may not agree with me.

Mr. POULIOT: Mr. Chairman and gentlemen, as our friend Mr. Maybank cannot be here to-day may I be allowed to ask a few questions when you are through with this matter?

The CHAIRMAN: What is the wish of the committee? Mr. Pouliot intimated beforehand that he wished to ask some questions at this sitting.

Mr. GRAY: I move Mr. Pouliot be heard.

Hon. Mr. HOWE: Are your questions on Trans-Canada?

Mr. POULIOT: I will tell you what it is. It is air mail with regard to the T.C.A. only.

Hon. Mr. HOWE: That is fair.

Mr. HARRIS: I was wondering if the questioner would wait until we receive a statement.

Mr. POULIOT: Surely; that is what I suggested.

Mr. HARRIS: We are not through with the statement from the present witness, as I understand it.

The CHAIRMAN: It is your committee.

Mr. HARRIS: I asked a specific question as to the distribution of this \$4,460,651 which is being asked for this year for mail services whereas last year the amount was \$2,250,835. I am asking now about the \$4,400,000 odd. I asked that before the witness took the stand.

Mr. HERRING: The Trans-Canada Air Lines is in process of development. During the present year the frequency of Trans-Canada service from Montreal to Vancouver has been increased from one round trip per day to two round trips per day.

#### EXAMINATION OF MR. HERRING

*By Mr. Harris:*

Q. Did that go into effect on April 1?—A. April 1, yes.

Q. They are actually in operation?—A. Actually in operation. They put the service in operation on their own volition until such time as the question of payment was determined. Now that has already been determined. There is additional service between Montreal, Ottawa and Toronto, and we have to make a full year's provision for the Moncton-Montreal service. During the last fiscal year it was only on for two or three months. Possibly on the first of next month there will be a service between Toronto, London and Windsor, and we hope there will be a service between Toronto and Buffalo and Toronto and New York although the last two cases are still undetermined. It requires some reciprocal understanding with the United States. The amount of money that the Trans-Canada Air Lines will get for that 100 per cent performance amounts to \$3,610,726.80. That is an increase from last year to the Trans-Canada Air Lines of \$1,856,000. In addition to that there is one extra round trip between Vancouver and Seattle. The difference between last year's appropriation and this year's appropriation will go to the outlying services which are mostly paid on a poundage basis, an increase there which, with the volume, is going up steadily.

*By Mr. Donnelly:*

Q. In other words, you mean to tell the committee you are practically doubling the service of Trans-Canada Air Lines?—A. Yes.

*By Mr. Harris:*

Q. If we double the service, have any lines been discontinued or any services been discontinued?—A. None whatever. Actually the records show that the services that we are going to put on this year are going to prove inadequate.

Q. Just one other question. Has there been any substantial change in the rates?—A. Change in the rates? The contracts in effect now involve volume at the rate of 60 cents per mile. On the 31st of December next the initial period expires, and the rate which will be determined for next year will be based on the difference between the expenditures and the revenues. If the T.C.A. have a loss that rate of 60 cents will increase; but according to the records we have—they now know practically six months of the year—we look forward very confidently to a very substantial reduction from the 60-cent rate.

The CHAIRMAN: Any further interrogations?

*By Mr. Pouliot:*

Q. Thank you, Mr. Chairman and gentlemen. I have just a few questions to ask. In the first place, Mr. Herring, will you kindly look up the last page of the T.C.A. report and tell me if on the second line of the Operating Revenue there is the figure of \$1,632,873 for mail. If that is divided by the mail carried by pounds according to the statistical data, 523,906 pounds, we have an average of \$3.10 which was paid for air mail.

Mr. BERCOVITCH: Per pound.

Mr. POULIOT: Per pound.

Mr. JACKMAN: Twenty-two and a half ounces.

The WITNESS: The operating revenue is \$1,632,000, and the mail carried in pounds amounted to 523,000. The amount of mail carried on Trans-Canada Air Lines does not affect their revenue at all.

*By Mr. Pouliot:*

Q. I know that. I did not ask you for a lecture. I asked you to answer my question.—A. I cannot very well give it.

Q. It is \$3.10, the average price?—A. Approximately, yes.

Q. Now cast your eye a little lower down in the column headed "Operating Revenue" and you will see the figure \$23,613.01. That amount was paid for express. The total weight of express in pounds was 45,819 pounds. If you divide the money received for express by T.C.A. by the amount of pounds carried you have an average of 51½ cents for carrying express?—A. Yes.

Q. Therefore what is paid for air mail is six times the amount paid for express?—A. That is right.

Q. Is there any sortage of mail on the plane?—A. No.

Q. They are just carrying bags?—A. Yes.

Q. Therefore the service rendered by T.C.A. on mail is exactly the same as the service rendered for express?—A. Yes.

Q. Carrying bags or parcels?—A. Yes.

Q. It costs six times more?—A. That is correct.

Q. Well, now, would it be possible to table a copy of the contract between the Post Office Department and the T.C.A.?—A. Quite possible.

Q. You will do that. Is it the pleasure of the members of the committee to have that contract published or just shown to the members? I leave it to you gentlemen to decide.

Hon. Mr. HOWE: The contract is a public document, I believe, is it not?

Mr. HERRING: Yes.

Mr. BERCOVITCH: Is it a long document?

The WITNESS: Fairly long, yes.

Mr. BERCOVITCH: Perhaps it might be deposited.

Hon. Mr. HOWE: There is no trouble about tabling it.

Mr. BERCOVITCH: We can look at it and save the expense of printing it.

Mr. HERRING: Mr. Chairman, the contracts with Trans-Canada Air Lines involve payment of 60 cents per mile; there is also involved the requirement by the Trans-Canada Air Lines to carry all mail offered up to 1,200 pounds capacity; and it does not make any difference to us in the actual expenditure of money whether they carry ten pounds a trip or twelve hundred pounds a trip.

Mr. POULIOT: I know all that. The committee was kind enough to allow me to ask some questions and I will proceed in order and if you have some observations to make after I am through you can make them if it is the wish of the committee. Would it be possible to have a copy of the departmental reports and memoranda of the Post Office Department recommending the approval of the contract? Would it be possible to table them?

Hon. Mr. HOWE: The contract was made on the basis of the legislation passed in the House of Commons. I do not think there would be any memoranda recommending it.

Mr. POULIOT: Yes, sir; but the rate was not specified in the legislation passed in the house and what I wanted to know was some information with regard to the recommendation to the officials of the Post Office Department for the approval of the 60 cents for mail or 59 cents and a fraction. There is nothing in the legislation about that. That has been done by Order in Council. I should like to have the memoranda to the Post Office Department recommending the acceptance of the 60 cents for mail.

Hon. Mr. HOWE: Is there such a document?

Mr. HERRING: No.

Hon. Mr. HOWE: Mr. Herring says there is no such document.

*By Mr. Pouliot:*

Q. Who made the original draft of the contract between the Post Office Department and the T.C.A.?—A. I did.

Q. You did?—A. Yes.

Hon. Mr. HOWE: The terms were settled between myself and the postmaster general of the day and I presume Mr. Herring was only carrying out the instructions on the draft.

Mr. POULIOT: I know.

*By Mr. Pouliot:*

Q. Was that contract dictated to you by the postmaster general or did you draft it yourself?—A. I drafted it after the details were settled by the government.

Q. Yes, I know. But who recommended to the government the acceptance of that contract from the point of view of the Post Office Department, Mr. Herring? You have been superintendent of the air mail service for many years?—A. Yes.

Q. Since 1928?—A. Yes.

Q. The time that you were just carrying a few bags down the St. Lawrence?—A. That is correct.

Q. Therefore you are qualified as an expert in the Post Office Department, an expert in air mail business.

*By Mr. Donnelly:*

Q. I presume you consulted the United States records, what they were doing?—A. No.

Hon. Mr. HOWE: I think the method that was followed with regard to the legislation was this. According to the legislation T.C.A. was actually to carry the mail at cost. We obtained an estimate from experts in Trans-Canada Air Lines as to what the cost would be and we arrived at a figure; but we did not expect then to make in the first year's operation the showing that we thought they might reach in the second or third year of operation. As a matter of fact they have reached it the second year of operation, exceeded it, bettered it. The 60 cents was arrived at on the basis of the revenue of the new creation, and it was an arbitrary figure. It disappeared from the contract for this year and the automatic provision of the legislation applies. The cost of carrying mail in future will be the cost as determined by the operation in the previous year.

*By Mr. Pouliot:*

Q. I understand it perfectly well; but the Post Office Department did not come to this conclusion of signing the contract unless it was recommended by the

officials of the department, and I would like to know who in the Post Office Department has recommended the acceptance of 60 cents per mile?—A. Mr. Pouliot, there was nobody—no official in the Post Office Department had anything to do with the determination of the 60 cent rate.

Q. I did not say that. That was not my question. It is not the fixing of the amount that I am speaking about. It is the acceptance of the amount by the Post Office Department. It is an altogether different thing?—A. That was determined by the Governor General in Council—

Q. That is not the question at all. You understand me. I would like you to answer me as you understand me. The amount was set at 60 cents per mile and the contract was 60 cents per mile. It was signed by two parties, the T.C.A. and the Post Office Department, was it not?—A. Yes.

Q. I did not ask you who advised the T.C.A. to sign it or to make it; who advised the Post Office Department to accept it?—A. That is something I could not answer. The postmaster general could have.

Q. The postmaster general on the advice of somebody—a technician of some kind—and I would like to know who suggested to the postmaster general the acceptance of a flat rate, stipulating it in the contract? That is what I want to know. It is most important?—A. I cannot answer your question.

Hon. Mr. HOWE: Some ministers act without advice.

The CHAIRMAN: Is it not possible they had no option in the matter and were forced to accept that rate?

Mr. POULIOT: No, Mr. Chairman, with all due consideration and respect, I submit that the postmaster general acted on the advice of his experts, and I presume that Mr. Herring is one of those experts; and I want him to tell me what happened there and how it happened that the postmaster general was induced or encouraged to accept that rate as a fair rate.

The CHAIRMAN: In plain terms your question is: who recommended to the postmaster general the acceptance of the agreed rate of 60 cents?

Mr. POULIOT: Exactly.

Mr. HERRING: I cannot give you the answer in so many words. Certainly I was—I took part in some of the discussions, and the most interesting discussion, I think, was as to the equipment that should be used. Now, they are all mail service standard—

Mr. POULIOT: That does not answer me. I asked you about that 60 cents.

The CHAIRMAN: I suggest you allow Mr. Herring to make his statement.

Mr. POULIOT: Very well.

Mr. HERRING: The question was discussed as to what type of machine should be used for flying the mail. From Post Office Department standards exclusively the small plane carrying nothing but mail would have answered the mail service purposes, and that would have involved a very much lower cost of operation than a large plane such as we are using now.

*By Mr. Pouliot:*

Q. Mr. Herring, what is the difference providing the mail is carried from A to B in a small plane or a big plane—what difference does it make?

Mr. BERCOVITCH: Allow the witness to answer. Let him make his answer and when his answer is complete we will see if it is satisfactory or not.

Mr. POULIOT: Very well.

Mr. HERRING: As far as mail service is concerned, we can use, as I say, a small machine with capacity for nothing but mail—no wonderful furnishings or anything else—and this machine could be bought from \$35,000 to \$50,000 per unit, but with the knowledge we had and knowing the number of miles

involved in flying—I am speaking from memory now—I think they mentioned something like 40 or 50 cents per mile at the time as a requirement of the Trans-Canada—

Mr. HARRIS: I thought you said 30.

Mr. HERRING: Anything from 35 to 50, but it is definitely less than 60 cents. The Trans-Canada bill makes it obligatory on the Trans-Canada Air Lines to supply equipment which will meet the requirements not only of mail conveyance but also passenger and express traffic which leads up to the determination of the rate.

*By Mr. Pouliot:*

Q. You have nothing to do with that?—A. The equipment determined upon cost over \$130,000 per unit, and on that basis the 60-cent rate was certainly not excessive.

Q. Is that what you said to the postmaster general before the contract was signed?—A. I do not recollect having said it, but I would not deny it.

Q. It was laid before you at that time?—A. Absolutely.

Q. And you had the opportunity to meet the postmaster general before the contract was signed?—A. Yes.

Hon. Mr. HOWE: What type of plane would you suggest would cost \$40,000 or \$50,000 and would be sufficient to carry the mail?

Mr. POULIOT: I do not understand. Mr. Herring did not make it clear to me. The operation of the rate for carrying mail, just because the planes were larger and were used for faster service also—I do not see what difference it would make in the rate for carrying mail.

Hon. Mr. HOWE: It make this difference: with the type of planes we have they have a long range, are able to maintain a regular schedule and have also high speed. The plane you buy for \$40,000 or \$50,000 would neither have the range of the present planes or be able to make the schedule of the present planes regardless of whether they could carry passengers or not.

Mr. POULIOT: Now, you are entering into the domain of the technologists and neither Mr. Herring nor myself are experts.

And now, would it be possible to have a detailed list of all the T.C.A. small services showing (1) the distance; (2) payments by the Post Office Department to the T.C.A., cost to T.C.A.; (3) actual returns to the Post Office Department. I would like to have a calculation showing each particular service of the T.C.A.: first, the distance; second, the cost; third, the return for each service; I would like to have also the frequency. I leave it to you, if it is the pleasure of the committee, to get that information. I think it would be very valuable to the members. If actual records are not available, what are the estimated revenues. What was the estimated revenue in each case for each service?

Hon. Mr. HOWE: I think, Mr. Pouliot, you will see the difficulty of getting the revenue of a particular service. A letter is, for example, mailed in Seattle and goes through Moncton, and it pays only 6 cents, whereas another letter is mailed from Seattle and goes to Vancouver and it pays the 6 cents as well. How could you divide the over-all cost?

Mr. POULIOT: There is something surprising. It astounded me very much. It is that there is a contention among officials of the Post Office Department that there have been surpluses in the air mail service since 1932—

Mr. HERRING: No.

Mr. POULIOT: And what I heard from Mr. Herring surprised me very much. Mr. Herring says no; but I will show him something that will surprise him very much.

*By Mr. Pouliot:*

Q. Mr. Herring, did you prepare this list?—A. Yes.

Q. Now, I shall read you the list and I will ask you to answer me. From 1927 up to 1928 there were deficits—from 1927-28 to 1931-32 there were deficits—but in 1932-33—I read two columns—and in the first column there was the cost and in the second column the estimated postage collected—1932-33 cost \$200,856.55 and the estimated postals collected were \$291,522.71, which meant that in that year 1932 there was a surplus of approximately \$90,000, not a deficit.

Hon. Mr. HOWE: But the postage collected is not the revenue, there are other services performed for that postage, there is the service of distribution and so on. Mr. Herring was saying he would only credit us with 4 cents of air mail as against 6 cents collected.

Mr. POULIOT: The estimate of the postal collected is something fantastic. There are surpluses between cost and estimated postage collected each year since 1932-33, is that not so?

Mr. HERRING: Yes.

*By Mr. Pouliot:*

Q. And that was for the information of the high ups in the Post Office Department?—A. Does that refer to Trans-Canada Air Lines?

Q. It refers to all; it is for the air mail service, but I do not think that the service is paying more than the T.C.A.—but it is not the time to make subtle distinctions.—A. You have fallen into a popular error. Let me give you a concrete case. Take a service from Edmonton going up to the Mackenzie river, and we pay the contractor \$100,000 a year, and the estimated postage collected is \$200,000 a year. There would be some reason for your remark if we could assume that the whole mail that was offered for conveyance on that line originated at Edmonton and that it was just carried up. All those figures, that mail that is tabulated there comes from all over the country; it travels part of the way by train, part by car, and any other conditions we have, and they all must contribute to the cost; it must bear its share of the overhead.

Q. I agree with you entirely, to your great surprise, and it is because I agree with you on that that I am very much surprised there is a surplus in the estimation of postage collected.—A. We do not use the word surplus.

Q. Oh, no, no, you do not use the word surplus, but you show the figures and the figures speak for themselves, and each figure is higher than the other. I do not want the members to be bored by this argument, but, on the other hand, I have the figures and there is a surplus for last year of \$490,000.—A. Yes, of postage collected.

Q. That requires a few dozens of pencils to make the calculation?—A. No, it is not very difficult.

Hon. Mr. HOWE: There is quite a difference between express and mail. With express you are charged the rate from one point to another and you haul from that point to another; with mail you can put on a 6-cent stamp and you can carry a letter to any town or village in Canada regardless of whether it is on that air mail route and it will be delivered. The 6-cent letter calls for a number of services that the express does not call for.

*By Mr. Pouliot:*

Q. It may be so. I agree with Mr. Herring entirely on what he says, but what I find very strange is how that estimation was made. Mr. Herring gave some explanation some time ago and my mind is not satisfied yet.—A. You wish to know how we arrive at the estimated postage?

Q. Yes.—A. This is the method we apply. On those outlying routes we take our 100 pounds of mail and we break it up into so much first, second, third and fourth classes, in weights. We know the postage rates for each class. I do not pretend it is 100 per cent accurate, but if it is, 55 per cent of the total are newspapers at 2 cents a pound, and 10 per cent will be first class matter, and the balance will be other kinds. It is simply a matter of determining the average revenue of postage paid.

Q. Was that calculation made by the air mail branch of the Post Office?—A. It was made by our field bases on instruction.

Q. How many are there—field officers?—A. We have a district collector located at different points.

Q. Do they get reports from the postmaster on the weight?—A. No, not from the postmaster.

Q. How can they calculate it if they do not receive a report from the postmaster concerned?—A. Take this Mackenzie river service. 99 per cent of the mail goes through the Edmonton post office. We are not worried about what happens to the other 1 per cent. They can get perfectly good figures from the terminal office.

Q. You are satisfied with that. You have no yearly, monthly or weekly report from the postmasters on the line?—A. Not as far as weights are concerned, because the bills are made up at the terminal office.

Q. Referring to page 6 of the T.C.A. report, what was the P.O. revenue from the P.O. expenditure for the Montreal, Ottawa, Toronto, air mail schedule since July 18th, 1939?—A. I could not give you that at the moment.

Q. Would you please send this to the clerk of the committee, if it is the pleasure of the members of the committee? Would you also give an answer to the same question for the second daylight schedule with an extension on a training basis from Montreal to Moncton from November 1st, 1939, to January 1st, 1940.—A. I can get that.

Q. Thank you. I should also like an answer to the same question for the same service from January 1st, 1940, to July 1st, 1940?—A. Well, I would not be able to give you July. I can give it to the end of May.

Q. Yes. Give me what you can. Thank you. Why was the carriage of first-class mail discontinued and regularly surcharged air mail only handled on those services?—A. During the experimental period—that is really when the pilots were becoming familiar with the routes—and where there was a possibility of general disruption, we arranged to have any first-class mail available carried by air, but we took particular care that that would not be delayed. The service was not sufficiently regular, in our opinion, to justify imposing the air mail rate on the public; but just as soon as the pilots became sufficiently familiar with the operation, the regular air mail service was put into effect.

Q. How did the Post Office Department figure out the T.C.A. air mail estimates for 1940; I mean, for the calendar year 1940?—A. The calendar year? We do not pretend to. We do not work on the calendar year.

Q. Oh. How did the Post Office Department figure out the estimates for this year, 1940-41?—A. We know what the programme is. The programme is determined in consultation with the Post Office Department and the Department of Transport.

Q. Yes?—A. We know the number of miles involved and we multiply by 60 cents.

Q. And do you represent the Post Office Department at those sittings?—A. As a rule, yes.

Q. You figure up the estimates, together, do you? Do the representatives of the T.C.A. and the P.O. officials meet together and prepare the estimates?—A. No.

First of all, the discussion is as to the intensity of the service, and that question is completely settled before we touch the estimates. The T.C.A. have nothing to do with our estimates at all. We look after those ourselves.

Q. They prepare their own estimates and you prepare yours?—A. They have got to convince us that there is justification for any increased service.

Q. May I say at that point that the thing I do not understand is this. If my memory serves me right, at the last sitting someone from the T.C.A. said to the committee that the air mail estimates for this year were \$1,900,000. Is that right? I heard that there were some estimates of the probable revenue of the T.C.A.

Mr. COLYER: Probable revenue?

Mr. POULIOT: \$1,960,000, I think. I have not the book here.

Mr. COLYER: \$3,100,000, I believe is the figure.

Mr. HERRING: \$3,600,000.

Mr. COLYER: For our calendar year it is \$3,100,000.

Mr. POULIOT: \$3,600,000?

Mr. COLYER: \$3,100,000.

Mr. POULIOT: Yes, thank you.

*By Mr. Pouliot:*

Q. There was an estimate that the bush contracts will be \$1,200,000 or \$1,300,000.—A. Well, it is the difference. Yes, about that. That is about right.

Q. Now, Mr. Herring, would it be possible to have a list of the reasons for such an increase?—A. Very simple.

Q. Showing what were the increases, and showing the expenditure and the probable revenue on each one of them?—A. I could give you the revenue. I could give you an estimate of the postal charges.

Q. Yes?—A. For last year.

Q. Yes?—A. But I could not pretend to do it for this year.

Q. You cannot do that for next year?—A. No. It is only a guess.

Q. Or for this current year?—A. I can show you the poundage for last year, the expenditure for last year and the amount we have ear-marked for this year.

Q. Yes. Does the Post Office Department make a profit on any one of the air lines?—A. Well, if you will allow me to explain that, I should like to put it this way. An outlying district suddenly comes into being. For instance, suppose a gold mine is found and a community grows up. We have got to supply that community with postal service. As a rule, nineteen times out of twenty, there are no surface means of transportation. We consequently send it in by air. We do not make money on it. We do not make a profit on it. At least, that is my own claim. But if something suddenly happened which caused the removal of the air service and its replacement by surface means, it would cost the department two, three, four, five or six times as much, on account of the difficulties of surface transportation.

Q. Who proves to the Post Office Department that an increase in frequency or an extension of a service is necessary?—A. That is determined by the records. We know the amount of mail that goes up there. We know the revenues of the offices served.

Q. Well, when there is a new service, there is no mail to begin with?—A. No. A new service such as I am speaking of is very much a casual proposition. The frequency is more on the if, as and when basis. The operator carries it in generally at a nominal rate, because he is going in there commercially and we use him for carrying the mail.

Q. And in fact during recent years you have discontinued about sixteen services?—A. I would not know the number. I do not recall the number. I do not think it is sixteen.

Q. Not sixty, but sixteen.—A. No. I doubt that too. But if we have withdrawn a service—I have one in mind, the one to Chibougaman—

Q. I will show you the list.—A. I am not arguing the point. I do not remember.

Q. It is possible, is it not?—A. Yes.

Q. That is all right. I am satisfied with that answer and it saves a lot of time. Would it be possible to have a tabulation or a list showing what extensions and increases in frequency have been established with the T.C.A. (1) since January 1, 1940; (2) are to be established with the T.C.A. or are contemplated until December 31, 1940, the end of the present T.C.A. year; and then coming to your estimates for this Dominion fiscal year, (3) are to be established or are contemplated with the T.C.A. until March 31, 1941. I mean the services that are being talked about between the T.C.A. and the Post Office Department but which are not put into operation this year but are to be put into operation at the end of the fiscal year, of this year, and before the end of the fiscal year of the Post Office Department.

Mr. HERRING: It is very easy to answer that; the answer is, no.

The CHAIRMAN: It seems to me that Mr. Pouliot is usurping the functions of this committee. If it is the will and the wish of the committee that this examination proceed, well and good; but it is using up a lot of our time. I put it up to the committee.

Mr. GRAY: As the one responsible for the motion, I want to ask Mr. Pouliot if he intends to be very long.

Mr. POULIOT: I am very grateful to this committee. I have no words with which to express my gratefulness. I have one more question.

Mr. GRAY: One more question then.

Mr. POULIOT: I have just one more question, and I am most grateful to the committee. Would it be possible to have a copy of all the Post Office Department's reports or memoranda recommending extensions or increases in frequency of air services such as I have just mentioned?

Hon. Mr. HOWE: I do suggest that the Post Office Department are not examined by this committee. Has that really any bearing on the work of the committee?

Mr. POULIOT: As you like it.

Hon. Mr. HOWE: Isn't the place to get that when the Post Office Department's estimates are up in the house?

Mr. POULIOT: Yes. But do you wish to shut off the answer to my other question?

Hon. Mr. HOWE: Not at all.

Mr. POULIOT: I will not insist on an answer to my question. However, there was one final question I would like to ask Mr. Herring. Now, Mr. Herring, will you please tell the committee if it is to your knowledge that the estimates of the Post Office branch have been reduced this year?

Mr. HERRING: That it is to my knowledge that the estimates have been reduced—of my branch?

Mr. POULIOT: I mean, the Post Office Branch; there are two main branches in the department, there is the Postmaster's branch—

Mr. HERRING: I do not understand; do you mean, how is it operating?

Mr. MACINNIS: I am not sure that we should allow questions which relate to another department. The Postmaster General might object to information being given in this way; not that I can see any objection to it. I think Mr. Pouliot has had sufficient experience and knows that very well.

Mr. POULIOT: Very well, Mr. Chairman.

The CHAIRMAN: I think it is the general decision of the committee that we should proceed with our reference.

Mr. BLACK: There is one main figure, it is probably on the record, but I cannot find it here—there is one main figure I would like to have; that is, the amount paid by the government to the department—I mean, really, the subsidy which enables the service to operate. If the service were trebled and received two-thirds of the total earnings of a rate of 4 cents per letter, what would be the difference between that earning and the amount that is paid by the government as a subsidy from the postal department?

The CHAIRMAN: We will have to wait until our witness is back on the stand again.

Hon. Mr. HOWE: The figure we gave was \$400,000 last year. I think that question was answered. I think the figure was somewhere around \$400,000 for last year. Of course, the mail is building up. We started this only a year ago, and we expect that very shortly we will have a profit for the Post Office on the 4 cent basis, and as well a profit that will permit the Trans-Canada to lower the postal rate of 60 cents. You see, the two are working together.

The CHAIRMAN: Do you wish to proffer that question to Mr. Herring again, or are you through with it?

Mr. BLACK: I might—just a minute.

Hon. Mr. HOWE: We will get it from Mr. Herring. I think, Mr. Herring, you gave a figure. Assuming 4 cents per letter cost to T.C.A. how much is the balance between the amount paid to T.C.A. and the amount of revenue paid from the sale of postage stamps at a rate of 4 cents per postage stamp; you gave us that figure, and I think you said it was somewhere around \$400,000?

Mr. HERRING: On a basis of 4 cents a letter, and on a basis also of 50 cents—

Mr. BLACK: I am sorry, I cannot hear the witness at all.

Mr. HERRING: We estimated a deficit during the last fiscal year of \$410,952. That is to say, that was the loss throughout. That is, taking for ourselves the 2 cents as cost of handling ordinary mail we still lost approximately \$410,000.

Mr. BLACK: That 60 cents is not made up on the basis of 4 cents a letter in earnings by the postal service; that is an arbitrary figure?

Mr. HERRING: It is more or less arbitrary. The ordinary rate of postage is 3 cents, air mail postage is 6 cents so there can be no possible argument that at least we get 3 cents profit.

Mr. BLACK: Credit air service with 4 cents, or two-thirds of the total postal service cost two-thirds of the total postal earnings, then what subsidy is paid directly or indirectly to the Post Office Department to enable the service to operate? The hon. the minister stated \$400,000 odd. I would like to have that figure, if I may; that is the figure which interests me most.

Hon. Mr. HOWE: He just gave it again as \$410,000. Of course, that is allowing the Post Office for its other services 2 cents per letter, which may be too much. I fancy Mr. Herring would not argue with the committee that it is not. The Post Office assumes 2 cents per letter for performing its other services. After all, there are no rail charges in this, and we have to offset the amount of the rail charge which is an item in the usual service. On the basis on which the Post Office Department have figured it, after allowing the 4 cents per letter carried, there was still a deficit of \$410,000. I think that is a fair statement.

Mr. HARRIS: The witness was kind enough to suggest in answer to a previous question that the cost might be 35 at one stage while at another stage it might be 50 and at another stage something else. He said, my answer is as good as his. If I were occupying his position I would think perhaps I could give a better answer than that; at any rate, there should be some means of obtaining a better

answer than that. Here you have a system which gets 59.5 per cent of its revenue from the carrying of air mail. One thing that is patent on its surface is, the operation of this system is not costing 50 per cent for the carrying out of the air mail service, that is true; and the net result is that this 60 cents per flight mile is really more or less a subsidy which goes to help carry on the very important and necessary service. The witness has not got beyond 50 cents yet; he said from 35 cents to 50 cents was the lowest figure he would take. However, let us take 50 cents, putting it at the maximum; with 2,760,000 miles flown it shows \$276,000 net subsidy at 10 cents per mile, an amount which is handed over as a subsidy by the Post Office Department to this service. If you take the mean of the two figures, taking 35 cents and 50 cents, and cutting that down as low as 40 cents, then there is \$532,000 that last year was handed out by the Post Office Department to the T.C.A. for the operation of that service. If that statement is substantially correct there is a question I would like to ask the witness.

Mr. HERRING: My diffidence about quoting the exact figure for you is I think excusable and, may I say, explainable. You have different types of planes which you can use, one of these costs \$35,000 and another we will say costs \$50,000.

Mr. HARRIS: That is beside the point, you are trying to get around it. Look at the statement, gentlemen; surely, there must be some idea between 35 and 50; the record says 60, so we can say from 35 to 60; what is the 10 cents for?

Mr. HERRING: The point is this, there is a diversified traffic; it is one thing to finance a mail service, and it is another to finance an express service or a passenger service with that mail service. Of course, if it were exclusively a mail service you could get it down in detail; but where the other services are included the cost is increased.

Hon. Mr. HOWE: The difference is in the cost of the equipment. There is no plane which you could buy today for \$35,000 with which you could supply the service required. You could not buy a plane for \$40,000 or \$50,000 that would carry your mail and give you the fast service that we have today from Halifax to Vancouver. You could get a plane which would do the service, yes; but it would take 2, or 3 days where the planes we now use cover the distance in one. You are talking about something which is entirely hypothetical. I know of no planes cheaper than those we are at present using in our trans-continental service which are as suitable for the work. Furthermore, you are building up postal revenue which in a year or two may enable us to reduce the cost of carrying mail. As Mr. Herring said, in five year's time the volume of revenue may be such as to reduce the cost of your service very substantially; indeed, it might pay the entire cost of operating the Trans-Canada. How can you reconcile that with the statement that you could buy \$35,000 or \$40,000 planes and build up a mail service for less?

Mr. HARRIS: I appreciate these difficulties, looking at the situation broadly. Perhaps the minister would make this admission or this deposition, that you are actually receiving a substantial subsidy—you might as well call it a subsidy—due to the fact that you are carrying the mails. In other words, if you were not in the mail, passenger and express business you would have a tremendous deficit. Seventy per cent of your income comes from mail services.

Hon. Mr. HOWE: That is true, but are we not performing a service? If there was no mail to carry we would not have the service.

Mr. HARRIS: But seventy per cent of the income is from the mail service.

Hon. Mr. HOWE: You are discussing the first nine months during which we carried passengers. We only carried passengers for the first nine months of the year you are discussing, and you are going to see a very different picture th<sup>is</sup>

year. As the years go on, the operating cost will be paid more and more by passengers and less and less by mail. You are discussing a partial year as far as the carriage of passengers goes.

I do not like the word "subsidy." You pay for a service.

Mr. HARRIS: I am looking for a better word.

Hon. Mr. HOWE: It is not a subsidy, it is payment for a service.

When they started air mail service in the United States the average cost of carrying the mail was \$2.00 per mile. They have reduced that cost. As the passenger business was built up, they reduced it. I presume the average cost today of carrying mail in the United States is thirty cents. I would not be surprised next year if we did not get the cost down to fifty cents per mile.

Mr. HARRIS: At that point, there is no provision in the Post Office estimates for that suggested ten cents; in other words, the Post Office Department is not getting the advantage of that ten cents, because your estimates call for \$4,450,000.

Hon. Mr. HOWE: They do not get it this year because we have not reduced our costs down to that point. Any reduction we make this year in operating costs will be applied to reducing the cost of carrying the mail in 1941.

Mr. HARRIS: Unless the volume of mail is doubled, the figure for the cost of carrying mail is a figure which is going to be away out in your estimates.

Hon. Mr. HOWE: Oh, no. As far as 1940 is concerned, the price for carrying mail is set at sixty cents per mile. The number of services has been decided upon and agreed to, and there is no change in 1940. In 1941 there will be a different rate for carrying mail, depending on the results of 1940. The number of services that will then be operated will be a matter for decision when the time comes.

Mr. HARRIS: Then, Mr. Chairman, I will make this concluding observation. I do not think the minister has a better word than "subsidy". There is going to be a substantial sum of money in the sixty cent rate paid over for the year 1940 to the T.C.A., and it is going to approach, as I feel it—although there is no estimate, which is one thing I criticize, and as the years go on I hope they will put their estimate in—seventy per cent of their revenue.

Hon. Mr. HOWE: I think you are wrong in several counts. I do not think it is going to be seventy per cent of the revenue, and whether it is a subsidy or not depends on the poundage of mail you carry. It is building up, and I do not think anybody can predict what it will be in future.

Mr. HARRIS: It is going to jump from about \$2,000,000 to \$4,000,000. You are going to get that \$4,000,000 into the treasury of the T.C.A. It is going to help make a nice looking balance sheet.

Hon. Mr. HOWE: They are getting a good many stamps in the form of postage and they expect that they are going to get more stamps. They show only the expenditures; the revenues have not come into the picture. The revenue goes into the Consolidated Revenue Fund. There are two sides to that picture.

Mr. HARRIS: We have a witness here from the Post Office Department, and the statement was made on the records of parliament that the Post Office Department does not make any money; in fact, it is intimated that they have lost money on the sixty cent per mile basis for the carriage of mail. Did you lose money on the sixty cent per mile basis for the carriage of mail?

Mr. HERRING: Yes. That is determined by the limited volume of mail that has so far been offered.

Mr. HARRIS: I am sorry; I cannot hear a word of what you are saying.

Mr. HERRING: The loss is determined by the limited quantity of air mail that has so far been offered. But that sixty cent rate would still apply if the volume of mail offered were doubled.

Mr. HARRIS: In your opinion, there is a substantial loss?

Mr. HERRING: At the moment, yes.

The CHAIRMAN: Is the committee through with the witness? If there are no further questions, I wish to thank you, Mr. Herring, very cordially for your appearance and the information you have given.

Shall we try to finish the Trans-Canada Air Lines before lunch?

Mr. HARRIS: We cannot possibly finish. You promised that you would go through the whole sheet and then you would go over it clause by clause and you asked us not to ask questions on the individual clauses, even though later you did ask if there were any questions.

The CHAIRMAN: We decided that we would go on with this and that there would be latitude for revised interrogation after we were through. It was being read by Mr. English, I believe.

Mr. ENGLISH:

### FINANCIAL

The paid in capital of the company, which has all been raised by the issue of capital stock, is now \$3,750,000, an increase during the year of \$550,000. Of the funds thus obtained \$3,699,889 has been invested in aircraft, buildings and ground equipment. No portion of the capital has been utilized for organization, training or development expense. The balance sheet of the company at 31st December, 1939, is appended hereto.

The income account for the year, after providing for all operating costs, including depreciation and interest on invested capital, shows a deficit of \$411,656, which is somewhat under the amount of \$488,941 appropriated by Parliament. Details of the revenue and expenditure accounts are given in the accompanying schedules. The operating expenses include, in addition to the operating costs of revenue producing services, all expense incurred during the year in connection with the development of new services and the training of personnel.

Adequate depreciation reserves have been provided in respect of all property subject to depreciation. Depreciation charged to operating expenses in 1939 totalled \$557,342, and comprised over 20 per cent of the total operating costs. Full insurance coverage is carried with outside underwriters for passenger, public, and employer's liability. Provision is also made by self-insurance or with outside underwriters for loss or damage to aircraft and other company-owned property.

Mr. JACKMAN: I should like you to turn to the first part of the statement you have just read under the heading "Financial." There you say, "Of the funds thus obtained \$3,699,899 has been invested in aircraft, buildings and ground equipment. No portion of the capital has been utilized for organization, training or development expense." The assumption is that these three items have been charged against operating; is that it?

Hon. Mr. HOWE: That is right.

Mr. JACKMAN: You also say, "Full insurance coverage is carried with outside underwriters for passenger, public, and employer's liability." I suppose that is the new form of insurance, is it? The railway is concerned only with its own operation. This is a special kind of insurance inherent in airplane operation and the Trans-Canada Air Lines or the railway or the government do not see fit to carry this sort of insurance themselves. I presume you do not carry insurance.

Hon. Mr. HOWE: In the railway the risk is spread very widely. The railway has insurance in part but with outside insurance people we have special risks. For instance, the principals are insured outside. Trans-Canada is too small an operation to average the cost so it was thought wiser to insure them with outside underwriters.

Mr. JACKMAN: I suppose the field of insurance for your passengers is the main thing, public liability. I suppose there is enough experience in connection with all passenger air travel in the United States to know about where you stand. The rates are pretty definite. The experience of insurance companies is now well known, and they know just what should be charged. How long would you consider it advisable to carry insurance with outside underwriters rather than assuming it ourselves or the government and thus saving the cost which naturally goes to private companies.

Hon. Mr. HOWE: I would think we would have to have a very much larger fleet of planes before we would be justified in doing that. The crash of one plane would wipe out a very large share of the assets of the company if it happened to-day.

Mr. JACKMAN: I was looking on it from the standpoint of a private company, Trans-Canada Air Lines, which is an entity in itself. But inasmuch as it is a government-owned enterprise do you not think that it might be advisable to consider carrying that and eliminating insurance entirely. If we carried it we would save the money which the insurance companies must make out of it.

Hon. Mr. HOWE: It was gone into very thoroughly. It seemed to us that the rates that were offering were reasonable rates spread over all the industry in North America. We thought it was wise to carry everything except crash insurance with public underwriters. As a matter of fact, with regard to crash insurance we have set up our own risks in the company. If they actually crash a plane we have sums to cover that, or at least we have been accumulating funds. It is a matter of opinion. I think anyone in this chair might form a different opinion but that is the opinion I arrived at from the advice of the officers.

Mr. McCULLOCH: Carry on.

Mr. ENGLISH: There was a question asked at the last meeting in regard to the basis of estimating depreciation rates. There is a return here. Do you want it read?

Mr. HARRIS: Put it in the record.

Mr. ENGLISH:

## TRANS-CANADA AIR LINES

### BASIS OF DEPRECIATION RATES

|  | Estimated<br>Service<br>Life |
|--|------------------------------|
| Aircraft . . . . .                                 | 4 Yrs.                       |
| Aircraft Engines . . . . .                         | 4000 Hrs.                    |
| Aircraft Communication Equipment . . . . .         | 5 Yrs.                       |
| Miscellaneous Flying Equipment . . . . .           | 5 "                          |
| Ground Communication Equipment . . . . .           | 5 "                          |
| Hangar Equipment . . . . .                         | 10 "                         |
| Shop Equipment . . . . .                           | 10 "                         |
| Motor Vehicles—Delivery Trucks . . . . .           | 5 "                          |
| Motor Vehicles—Tractors & Tank Trucks . . . . .    | 10 "                         |
| Fuel Storage & Distribution Equipment . . . . .    | 10 "                         |
| Furniture, Fixtures and Office Equipment . . . . . | 10 "                         |
| Airport Lighting Equipment . . . . .               | 20 "                         |
| Miscellaneous Ground Equipment . . . . .           | 10 "                         |
| Hangars . . . . .                                  | Maximum 50 "                 |

(Dependent on lease of site)

## GENERAL

*War Conditions*

The company is performing an important function in the Dominion's war effort and war-time economy. The value of a fully-equipped national airway, with adequate means of communication and with facilities for servicing both military and civilian aircraft, has already been demonstrated.

Under the provisions of an Order in Council passed shortly after the outbreak of hostilities, trained employees may only join the armed forces with the permission of the company. A number of employees have been granted such permission, with leave of absence for the duration of the war.

It is not anticipated that the company's operations will be adversely affected by the Commonwealth Air Training Plan, which will come into full operation during 1940. Indications are that it will be possible to arrive at an understanding in regard to the use of airports and airway facilities which will be mutually satisfactory.

Measures have been taken to protect the company's property against sabotage.

*Second Transcontinental Schedule*

Consideration has been given to increasing the transcontinental schedule to two trips daily each way between Montreal, Toronto and Vancouver. Sufficient trained personnel will be available by the spring of 1940, and it now appears reasonably certain that the additional service will commence on or about April 1st.

*Service Extensions*

Present indications are that the airway facilities now under construction between Toronto and Windsor, including the terminal field at Windsor, the intermediate field at London, and the radio ranges at both points, will be completed in the late spring or early summer of 1940. Accordingly, it is planned to inaugurate a double-daily schedule between Toronto and Windsor with a stop at London, on or about July 1st.

It is further proposed to operate services between Toronto and New York and between Toronto and Buffalo. The company has obtained the necessary Canadian licences, and its applications for the required United States licences are now before the Civil Aeronautics Authority at Washington.

*Trans-Atlantic Flights*

Imperial Airways Limited operated eight round-trip Trans-Atlantic flights from Southampton to New York, via Foynes, Botwood and Montreal, during the months of August and September. The flying boats "Cabot" and "Caribou," the largest type of equipment yet used in this service, were employed, and all trips were successfully completed. A considerable volume of mail and express traffic developed, but no passengers were carried. Information received indicates that the service is to be resumed in the spring of 1940.

Mr. EMMERSON: How does it stand now, that last sentence?

Hon. Mr. HOWE: We have word the service will be inaugurated the beginning of next week.

Mr. ENGLISH:

*Outlook for 1940*

The progress achieved during the year in the development of the company's services is considered satisfactory. The prospects for 1940 appear favourable. Passenger traffic has been well maintained during the winter, and there is every

indication that it will materially increase in the spring, particularly if a second transcontinental schedule is available. The company's operating budget for 1940, which is based on the assumption that a second transcontinental schedule will be operated in the spring, and that services will be extended to Windsor, New York and Buffalo during the summer, contemplates that there will be a profit for the year, after depreciation and interest.

The change from a training and pioneering stage to a full-time scheduled operation presented problems which were exacting and at times difficult, and the Directors desire to acknowledge the loyal and efficient service of the company's personnel.

The cordial relations established with the officers and field staffs of the Department of Transport and the Post Office Department continued throughout the year, and acknowledgment is again made of the assistance and co-operation received.

For the Directors,

S. J. HUNGERFORD,  
President.

Montreal, 19th, March, 1940.

The CHAIRMAN: Gentlemen, I think we should rise now. It is 1 o'clock. Shall we convene at four? What is your wish?

Mr. HARRIS: There are some very important resolutions in the house this afternoon, Mr. Chairman.

The CHAIRMAN: Well, it is up to the committee. We cannot possibly conclude to-day, more particularly since our minister will be away this afternoon and there is a good deal of consideration to be given to airways, I presume.

Mr. HARRIS: What is the minister's wish? That is the important thing.

The CHAIRMAN: So far as the consideration of the T.C.A. is concerned we would like it held over until he returns on Thursday, and I think probably we might quite readily agree to that arrangement.

Mr. GRAY: Surely.

Hon. Mr. HOWE: There is no reason why you should not go on with the railway. I have to leave for New York this afternoon.

Mr. GRAY: Could not we go on with something to-morrow?

The CHAIRMAN: We have only the budget and a reconsideration of the railway.

Mr. GRAY: Would it suit the officials better to come back?

Mr. HUNGERFORD: We would like to get through.

Mr. GRAY: Can we carry on to-morrow?

The CHAIRMAN: They will have to wait until Thursday.

Mr. GRAY: Why not come back to-morrow?

The CHAIRMAN: That is all right.

Mr. HARRIS: To-morrow is our caucus day.

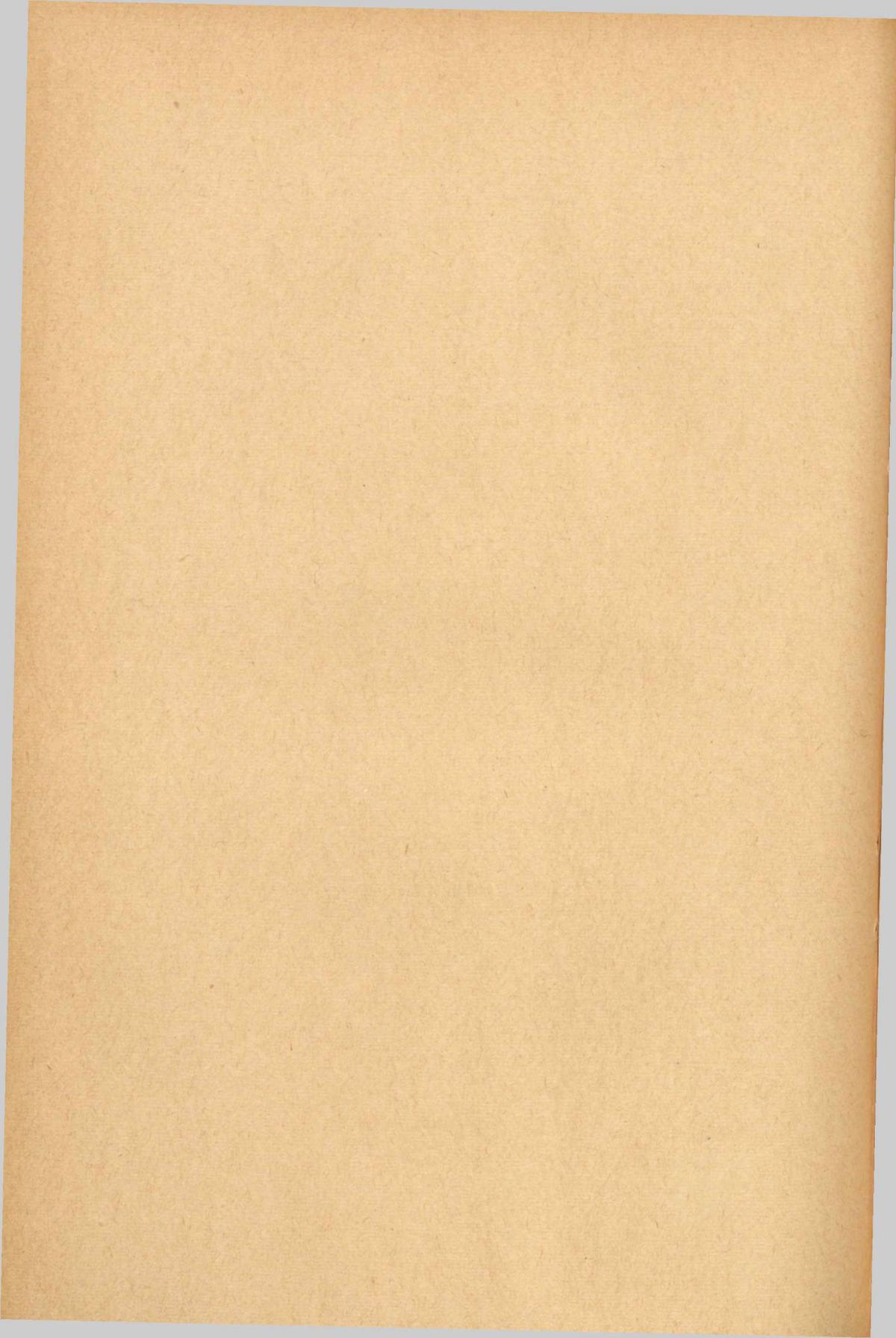
Mr. McCULLOCH: Why not meet this afternoon?

The CHAIRMAN: We shall hold everything until Thursday.

The committee adjourned at 1 o'clock to meet on Thursday, July 11, at 11 o'clock.







SESSION 1940  
HOUSE OF COMMONS

## STANDING COMMITTEE

ON

# RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

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MINUTES OF PROCEEDINGS AND EVIDENCE

No. 3

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TUESDAY, JULY 16, 1940

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### WITNESSES:

- Mr. S. J. Hungerford, President, Canadian National Railways.
- Mr. R. C. Vaughan, Vice-President, Canadian National Railways.
- Mr. T. H. Cooper, Comptroller, Canadian National Railways.
- Mr. W. M. Armstrong, Assistant Chief of Research and Development, Canadian National Railways.
- Mr. O. A. Matthews, Auditor, George Touche & Co.
- Mr. D. B. Colyer, Vice-President, Trans-Canada Air Lines.
- Mr. W. F. English, Assistant to Vice-President, Trans-Canada Air Lines.



REPORTS TO THE HOUSE

July 18, 1940

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

SECOND REPORT

Your Committee has considered the following Items of the Estimates referred to the Committee on June 28, and approves of same viz:

|   |              |
|---|--------------|
| 445—Maritime Freight Rates Act, Canadian National Railways,<br>Eastern Lines .....      | \$ 2,000,000 |
| 446—Maritime Freight Rates Act, Railways other than Canadian<br>National Railways ..... | 800,000      |
| 458—Canadian National (West Indies) Steamships Limited,<br>capital advanced .....       | 21,000       |
| 459—Canadian National Railway Company.....  | 15,000,000   |
| 460—Prince Edward Island Car Ferry and Terminals.....                                   | 327,000      |

All of which is respectfully submitted.

J. P. HOWDEN,  
*Chairman.*



## MINUTES OF PROCEEDINGS

11.00 a.m.,

July 16, 1940.

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

*Members present were:* Messrs. Black (*Cumberland*), Bradette, Donnelly, Emmerson, Ferland, Hanson (*Skeena*), Harris (*Danforth*), Howden, Howe, Jackman, Lockhart, MacInnis, McCulloch, Sanderson, and Sissons.—15.

*In attendance were:* The Hon. P. J. A. Cardin, Minister of Public Works and Transport; Mr. S. J. Hungerford, President, Canadian National Railways; Mr. R. C. Vaughan, Vice-President, Canadian National Railways; Mr. T. H. Cooper, Comptroller, Mr. W. M. Armstrong, Assistant Chief of Research and Development; Col. V. I. Smart, Deputy Minister of Transport; Mr. A. V. Franklin, Railway Auditor, Department of Transport; Mr. O. A. Matthews, representing George A. Touche & Co., Auditors; Mr. D. B. Colyer, Vice-President, Trans-Canada Air Lines; and Mr. W. F. English, Assistant to the Vice-President, Trans-Canada Air Lines.

A statement showing the capital account of each of the Canadian National Railways hotels for the last five years was ordered to be inserted in the minutes of evidence.

The report of the Trans-Canada Air Lines was further considered.

The Budget of the Trans-Canada Air Lines for 1940 was ordered to be filed with the Committee.

On motion of Mr. Harris it was

*Ordered,*—That in future reports of the Trans-Canada Air Lines should show the number of non-revenue passengers.

On motion of Mr. Hanson, seconded by Mr. McCulloch, the report of the Trans-Canada Air Lines was adopted on division.

Moved by Mr. McCulloch, seconded by Mr. MacInnis, that the Committee meet again at 4.00 p.m. this day.—Carried.

Moved by Mr. Harris, seconded by Mr. MacInnis, that the Budget of the Canadian National Railways and the Canadian National (West Indies) Steamships, Limited, be now considered. The motion carried and the said Budget was taken under consideration.

On motion of Mr. Sanderson the Committee adjourned.

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4.00 p.m.

The Committee met again at 4.00 p.m. Mr. J. P. Howden, the Chairman, presided.

*Members present were:* Messrs. Black (*Cumberland*), Bradette, Donnelly, Emmerson, Ferland, Hanson (*Skeena*), Harris (*Danforth*), Howden, Howe, Jackman, MacInnis, McCulloch, Sanderson, and Sissons.—14.

The Committee resumed consideration of the Budget of the Canadian National Railways. During discussion of the item of \$20,000,000, net income deficit, Mr. Harris moved, seconded by Mr. Black,—

That the management, in co-operation with the Minister of Transport, in giving consideration to the views of this Committee, be asked to reduce the estimate referred to by the order to a lower figure in view of six months' experience.

This motion was negatived on the following division: *Yeas*: Messrs. Black (*Cumberland*), Harris, and Jackman (3). *Nays*: Messrs. Bradette, Donnelly, Emmerson, Ferland, Hanson (*Skeena*), McCulloch, Sanderson, and Sissons (8).

On motion of Mr. McCulloch the Committee adjourned to meet again at 8.00 p.m. this night.

The Committee met again at 8.00 o'clock p.m. Mr. J. P. Howden, the Chairman, presided.

*Members present were*: Messrs. Black (*Cumberland*), Bradette, Donnelly, Emmerson, Ferland, Hansell, Hanson (*Skeena*), Harris (*Danforth*), Howden, Howe, Jackman, MacInnis, McCulloch, Sanderson, and Sissons.—15.

The Committee resumed consideration of the Budget of the Canadian National Railways and the Canadian National (West Indies) Steamships, Limited.

On motion of Mr. Hanson, seconded by Mr. McCulloch, the said Budget was adopted on division.

On motion of Mr. Emmerson, seconded by Mr. McCulloch, the following Reports were adopted on division:—

George A. Touche and Company;  
Canadian National Railways;  
Canadian National (West Indies) Steamships, Limited; and the  
Canadian National Securities Trust.

The following items of the Estimates were approved:—

|   |              |
|---|--------------|
| 445—Maritime Freight Rates Act, Canadian National Railways Eastern Lines.....       | \$ 2,000,000 |
| 446—Maritime Freight Rates Act, Railways other than Canadian National Railways..... | 800,000      |
| 458—Canadian National (West Indies) Steamships, Limited, capital advanced.....      | 21,000       |
| 459—Canadian National Railway Company.....  | 15,000,000   |
| 460—Prince Edward Island Car Ferry and Terminals.....                               | 327,000      |

The Chairman, on behalf of the Committee, thanked the officials in attendance for their courteous treatment of the members of the Committee. Mr. Black expressed appreciation of the work of the officials, particularly Mr. Hungerford, and the Board of the Canadian National Railways. He also expressed his appreciation of the knowledge, ability and courtesy of the retiring Minister of Transport (The Honourable Mr. Howe).

On motion of Mr. Hanson, the Committee adjourned at 9.15 p.m. to meet again at the call of the Chair.

J. P. DOYLE,  
*Clerk of the Committee.*

## MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 277,

July 16, 1940.

The Standing Committee on Railways and Shipping met at 11 a.m. The Chairman, Mr. J. P. Howden, presided.

The CHAIRMAN: Order. Gentlemen, when the committee arose we were considering Trans-Canada Air Lines. As they are of special interest to the hon. Mr. Howe and as he has made a request that they be not proceeded with until he is able to be present in the committee, and as he has not yet arrived this morning, I suggest that we go on with something else.

Mr. HARRIS: Mr. Chairman, before you do that, was there not some information to be tabled the first thing this morning. I understood that someone was going to bring in a report showing the capital account for each of the hotels for the last five years and showing how the capital account had progressed from year to year; or, what were the amounts of capital invested in each hotel.

The CHAIRMAN: If the committee wants we can go ahead with that.

Mr. HARRIS: I do not want to interfere with your routine, but I thought that this information should be tabled as the first order of business.

The CHAIRMAN: Very well, if that is the desire of the committee.

Mr. HARRIS: Are there enough copies of this report for all the members?

Mr. ARMSTRONG: No, sir. There is one copy for you, and we have a copy here for the record.

The CHAIRMAN: Do you wish to have this report read, Mr. Harris?

Mr. HARRIS: I am in the hands of the committee, Mr. Chairman. I expect that the only way we can get it on the record is to have it read and that would be wasting a lot of time. Perhaps it could be filed and later incorporated into the record?

The CHAIRMAN: Yes, I think it can be taken as read.

INVESTMENT IN HOTELS OPERATED BY CANADIAN NATIONAL RAILWAYS  
JANUARY 1, 1935, TO DECEMBER 31, 1939

| Name of hotel                           | Location | Investment at<br>Jan. 1, 1935 | Net annual capital expenditures |                 |             |               |               | Investment at<br>Dec. 31, 1939 |
|---|----------|-------------------------------|---------------------------------|-----------------|-------------|---------------|---------------|--------------------------------|
|   |          |                               | 1935                            | 1936            | 1937        | 1938          | 1939          |                                |
| Canadian National—Charlottetown, P.E.I. |          | \$ 854,171 78                 | \$ 1,061 58                     | \$ 235 00       | \$ 1,240 38 | \$ 870 71     | \$ 3,073 85   | \$ 860,653 30                  |
| Pictou Lodge—Pictou, N.S.               |          | 199,344 56                    | 559 17                          | ....            | 447 52      | ....          | ....          | 199,456 21                     |
| Nova Scotian—Halifax, N.S.              |          | 2,442,553 09                  | <i>1,359 50</i>                 | 985 15          | 5,566 76    | 718 80        | 5,660 94      | 2,454,125 24                   |
| Chateau Laurier—Ottawa, Ont.            |          | 8,653,158 25                  | <i>7,038 61</i>                 | 17,557 40       | 6,155 62    | 3,475 02      | 10,465 55     | 8,683,773 23                   |
| Prince Arthur—Port Arthur, Ont.         |          | 1,180,516 01                  | 1,844 80                        | 1,340 58        | 1,803 59    | 560 54        | 4,800 98      | 1,190,866 50                   |
| Minaki Lodge—Minaki, Ont.               |          | 1,088,496 46                  | 635 26                          | <i>1,006 65</i> | 1,709 30    | 4,244 87      | 1,342 49      | 1,095,421 73                   |
| Fort Garry—Winnipeg, Man.               |          | 2,892,056 91                  | 1,869 39                        | 7,677 75        | 2,663 45    | 2,667 08      | 4,971 81      | 2,911,906 39                   |
| Prince Edward—Brandon, Man.             |          | 518,954 64                    | <i>586 54</i>                   | 499 99          | 3,738 85    | 3,016 16      | 159 88        | 525,782 98                     |
| Macdonald—Edmonton, Alta.               |          | 2,228,376 33                  | 18,524 52                       | 14,274 04       | 3,728 45    | 7,064 02      | 15,622 74     | 2,287,590 10                   |
| Jasper Park Lodge—Jasper, Alta.         |          | 2,589,508 11                  | 8,782 63                        | 6,070 85        | 22,708 46   | 33,355 27     | 23,035 65     | 2,683,460 97                   |
| Bessborough—Saskatoon, Sask.            |          | 3,076,953 56                  | <i>*454,586 43</i>              | 21,852 38       | 14,191 69   | <i>124 44</i> | <i>410 75</i> | 3,567,048 87                   |
| Total                                   |          | \$25,724,089 70               | \$478,879 13                    | \$69,486 49     | \$63,059 03 | \$55,848 03   | \$68,723 14   | \$26,460,085 52                |

Figures in italics represent net retirements.

\*Operation commenced December 10, 1935.

Mr. HARRIS: I notice when looking at the report that while we asked that the total amounts be inserted they do not appear on the face of the report.

Mr. ARMSTRONG: We will have the totals put on before it is entered in the record.

Mr. HUNGERFORD: We can do that, or, if you like, we can furnish additional copies for each member of the committee later.

The CHAIRMAN: I think it will be all right to have it inserted in the record.

And now the hon. Mr. Howe is here. He is a very busy man, so perhaps we should proceed with the report on the airways. In the absence of any other suggestions we will continue from where we left off last day. We have got down as far as the end of the signed report. Where do we go from there; to the balance sheet? The next item will be consideration of the balance sheet. Is it the wish of the committee that this balance sheet should be read, or shall we merely scrutinize it in passing?

Mr. BLACK: There are \$5,000,000 of adjustments, and of this \$3,750,000 has been placed to the credit of the Trans-Canada Air Lines in cash; is that correct?

Hon. Mr. HOWE: Yes, in cash.

Mr. BLACK: How is that money provided; by the Canadian National Railways, or by the government?

Mr. HUNGERFORD: The Canadian National Railways puts up the money and then subscribes for the stock of Trans-Canada Air Lines.

Mr. BLACK: When the Canadian National Railways have a deficit where do they get the money from?

Hon. Mr. HOWE: They get it from the Capital Appropriations Bill, from parliament. An amount is voted to the railways for capital services each year. The money is subscribed by the government but through the Canadian National Railways.

Mr. BLACK: The appropriations by parliament come under two headings; the appropriation for capital expenditures, and the appropriation to pay these deficits; is that correct?

Hon. Mr. HOWE: That is right.

Mr. BLACK: What was the total appropriation for capital expenditure last year? I presume that is set out in the financial statement of the Canadian National Railways?

Mr. HUNGERFORD: Mr. Cooper can give you the figure for last year.

Mr. COOPER: The capital requirements of the Canadian National Railways under the 1939 budget were \$4,279,776.68; in addition, \$8,162,745 was required for the retirement of capital debt.

Mr. BLACK: That would be under three headings then; one would be an appropriation to meet maturing debts and another appropriation would be for capital expenditures, and a third would be to cover the deficit.

Hon. Mr. HOWE: I might say there are two headings there. The one, capital appropriation, is merely a loan by the government. It is a suspense account. The government advances money from time to time as required to pay maturing indebtedness or to meet capital expenditures; but later that money is returned to the government by the railway through the sale of railway securities. The Canadian National Railway issues its own securities, of course, so that the capital expenditure does not involve a vote of parliament; it is simply an authorization by parliament, a temporary financing in the meantime between the time the money is required and the time the railway issues its own securities.

Mr. JACKMAN: Are you referring to the equipment trust certificates?

Hon. Mr. HOWE: No, capital expenditures direct.

Mr. JACKMAN: In other words, the railway simply issues its own bonds to the government.

Hon. Mr. HOWE: No, not to the government, to the public.

Mr. JACKMAN: That is, in the form of guaranteed bonds.

Hon. Mr. HOWE: Railway bonds, sold to the public; guaranteed, yes. So, there are two types of capital financing by the government: one is the deficit, which is definitely paid up and is a definite transaction; the deficit is not capitalized; any capital expenditure is capitalized, funded by the Canadian National Railway, and the money repaid to the government.

Mr. BLACK: So that a provision is made for this capital expenditure. I presume there are items designating what services, what purposes, they have been appropriated for?

Hon. Mr. HOWE: That is in the railway budget, yes.

Mr. BLACK: How much was that? Where is that statement for 1939 in the Canadian National Railways' auditors' report?

Mr. COOPER: On page 5 we show the capital expenditure during the year amounting to \$9,863,847; and on page 6 we show the retirement of other capital obligations amounting to \$8,162,745.

Mr. BLACK: Where do we find the entry in which this capital expenditure on Trans-Canada Air Lines appears?

Hon. Mr. HOWE: That would be partly of 1938, of course. Page 20, at the bottom of the page of the annual report of the Canadian National Railways, shows \$550,000 of a loan for the account of Trans-Canada Air Lines. That is money loaned to the Trans-Canada Air Lines during the year 1939. The balance was loaned in earlier years, I presume.

Mr. BLACK: I do not yet understand, Mr. Chairman, how this money is made available. If I understand, the Minister the Railway is given authority to make this expenditure for this purpose out of capital monies provided; how?

Hon. Mr. HOWE: Shall I read from the Trans-Canada Air Lines Act?

#### ISSUE OF SECURITIES BY CANADIAN NATIONAL RAILWAY COMPANY

12. (1) Subject to the provisions of this Act, the Canadian National Railway Company may issue notes, obligations, bonds and other securities (hereinafter in this section called "securities") not exceeding the sum of five million dollars for the purpose of acquiring the capital stock of the Corporation, and the Governor in Council may authorize the guarantee of the principal and interest of such securities on behalf of His Majesty.

(2) The Governor in Council may, subject to the provisions of this Act, approve or decide,—

(a) the kind of securities to be issued and guaranteed, and the form and terms thereof;

(b) the form and manner of the guarantee or guarantees;

(c) the time, manner and amount of the issue or issues;

(d) the terms and conditions of any sale, pledge or other disposition of the securities;

(e) the securing, if deemed desirable by the Governor in Council, of the securities by mortgage, deed of trust or other instrument, and the form and terms of any such instrument and the trustee or trustees thereof.

(3) The guarantee or guarantees may be signed on behalf of His Majesty by the Minister of Finance or by such other person as the Governor in Council may from time to time designate, and such signature shall be conclusive evidence for all purposes of the validity of such guarantee and that the provisions of this Act have been complied with.

(4) To enable the Canadian National Railway Company to proceed forthwith to acquire the capital stock of the Corporation, the Governor in Council, pending the issue, sale, pledge or other disposition of the aforesaid securities, may authorize advances to be made to the said Company from the Consolidated Revenue Fund, such advances to be reimbursed to His Majesty by the said Company from the proceeds of the sale, pledge or other disposition of such securities.

That is from the Trans-Canada Air Lines Act.

The CHAIRMAN: If you are through with that report we will proceed to page 12, Income Account.

Mr. HARRIS: Just before you proceed to page 12, now that the minister is here, the auditors for the Canadian National Railway system are the same auditors as for the Trans-Canada Air Lines. The auditors, according to their extra statement with this document here, "Report on Accounts", made a very limited audit, but among other things they intimated that they have made a report in the form of a memorandum to the board of directors dealing with operative and technical equipment retirement and other internal methods, and this was dispatched to the Minister of Transport. Under the heading of other internal matters, or any other heading that applies, are there any observations in the memorandum that have to do with Trans-Canada Air Lines? Perhaps the minister would be good enough to tell us. We have not the advantage of that memorandum before us.

Hon. Mr. HOWE: I am informed by my deputy that there is nothing in that memorandum relating to Trans-Canada Air Lines.

Mr. HARRIS: I just wanted to be clear on that as we go along.

The CHAIRMAN: On page 12, is there any comment?

Mr. HARRIS: Mr. Chairman, I must admit that this increase in revenue anticipated for this year is based on the 60 cents per flight mile from the \$1,632,-875 of last year up to the estimate which we find in our estimates. I think the figure was \$4,400,000 odd. The minister's deposition at the last meeting was that we had indicated that the percentage relationship of the total income account which last year was 69.5 per cent of all revenue received by the T.C.A. came from the Post Office Department. That condition would not obtain for the year that we are in. Could the minister give us an idea of how much revenue he anticipates will come from the \$4,400,000 of the Post Office Department's estimate and the relationship that will have to the total income for this coming year?

Hon. Mr. HOWE: The total revenue from mail for this year we estimate at \$3,177,000; but, as a matter of fact, that will run less than that because we have not opened new services as soon as the budget anticipated. The budget was made up, of course, at the end of last year.

Mr. HARRIS: Is that based on 60 cents?

Hon. Mr. HOWE: Yes, that is on 60 cents. It will be less than \$3,177,000, perhaps less than \$3,000,000; and at the present rate the earnings from passenger traffic should be about \$1,800,000.

Mr. HARRIS: I just do not understand that last passenger reference, Mr. Chairman.

Hon. Mr. HOWE: Earnings from passengers for the current year should run about \$1,800,000.

Mr. HARRIS: Earnings from passengers?

Hon. Mr. HOWE: The actual earnings from passenger traffic.

Mr. HARRIS: From passenger traffic. Oh! Mr. Chairman, of the \$3,177,000 how much of that will be a loss to the Post Office Department. Just to make myself more clear; the minister was going to find a better word than the one I used, I called it "differential" subsidy from the Post Office Department to the T.C.A.; but I am not complaining about it, I am not criticizing that subsidy; but the point, Mr. Chairman, is we want to know how much of the Post Office Department money is being used to assist, or, as I say, to subsidize the T.C.A.; is there any way of determining that?

Hon. Mr. HOWE: You heard from Mr. Herring of the difficulty of determining what is payable to the T.C.A. The Post Office Department are willing to authorize 4 cents out of every 6 cent stamp as being payable to the T.C.A. keeping the other 2 cents for themselves for pick up and distribution services.

Mr. HARRIS: I appreciate that.

Hon. Mr. HOWE: If 4 cents is the correct figure—of course, there again we cannot tell if it is, or the extent to which this new service is going to swell the volume of stamps sold; but the amount which we discussed when the budget was brought down in the finance meeting was about \$800,000.

Mr. HARRIS: Well then, Mr. Chairman, the deficit of the Post Office Department was set at from 35 cents to 50 cents, but at no time did they admit the 60 cents which is the rate which applies, and which is the contract as I understand it between the T.C.A. and the Post Office Department—now, is there any way of getting closer to the actual figure than that? He said that my guess was as good as his is because the gentleman who made the deposition is charged with the responsibility and I am not. I did not appreciate that kind of an answer and I do not appreciate it yet. I am not through with the question. We ought to get somewhere nearer than a guess of 35 cents to 50 cents when the actual contract is 60 cents.

Hon. Mr. HOWE: Mr. Herring in that statement referred to a theoretical plane exactly large enough to carry the mail and nothing more. He said he thought he could supply that for somewhere between 35 cents and 50 cents. But the fact of the matter is that there is no such plane built that would maintain the present schedule but would be only large enough to carry the mail. I think it is very bad practice to theorize about a plane that does not exist. As a matter of fact, the rate of 60 cents a mile was struck as a rate that might possibly be achieved in the first year or two of operation. As a matter of fact we did not reach it last year. We expect to better it this year. Next year whatever we better it by this year will apply to reducing the rate, and we will very shortly get the actual rate at which this service will be able to carry the mail. We expect it to be a declining rate as years go by, and as the passenger traffic becomes a larger factor in revenue.

Mr. HARRIS: In the meantime the contract at 60 cents does not expire until the end of this year?

Hon. Mr. HOWE: That is right.

Mr. HARRIS: So, Mr. Chairman, I think the minister will agree that out of the total revenue for the calendar year 1940 there would be about \$800,000 from the Post Office Department which would be over and above the actual cost of the carrying of the mail, for the provision of a mail service.

Hon. Mr. HOWE: On the other hand we expect to make a profit out of the Trans-Canada of somewhere between \$300,000 and \$500,000; so the net loss will not be so large.

Mr. HARRIS: Well, in answer to my enquiry as to what portion of income will be received from mail, what percentage, about; it will be well over 50 per cent, Mr. Chairman, will it not?

Hon. Mr. HOWE: Yes.

Mr. HARRIS: Would it approach last year's figure of 69·5 per cent?

Hon. Mr. HOWE: I do not think so. That was temporary.

Mr. HARRIS: I am not criticizing. I know all the difficulty that we have in budgeting for a year; but this is only an historical account of what happened for the 12 months ended the 31st of December, 1939. There is no budget along side of it.

Mr. BLACK: There must be a budget for the current year, is there not?

Hon. Mr. HOWE: I have the budget in front of me. It is drawn up, as I say, with certain premises in mind; that is, we anticipated opening certain services at certain dates, and we have not got to that. Therefore, the budget is a bit out of date now.

Our passenger business is very much better than we anticipated in the budget. For what it is worth, I have the budget that we received last December and on which we based our operations for this year. I would be glad to place it before the committee, on the understanding that it is rather out of date now, due to the fact that certain services have not been opened as yet. As a matter of fact, we opened the Windsor-Montreal service yesterday for mail only, I believe.

The CHAIRMAN: Is it the wish of the committee that the budget be placed before the committee?

Mr. BLACK: I think it should be put on the record, Mr. Chairman, with a notation as to changes in the situation at the present time as they apply to the respective estimates.

The CHAIRMAN: It is understood that it will require some preparation, but, if it is the wish of the committee, the budget will be submitted.

Hon. Mr. HOWE: I will be glad to have this brought up to date and filed with the committee.

The CHAIRMAN: Is there any further comment with respect to this report?

Mr. BRADETTE: In connection with the item "Passenger Service," as this is subsidized by the federal treasury, I should like to know if the Trans-Canada Air Lines are doing all they can to get as much passenger traffic as possible. The reason I ask that question is that in northern Ontario we have been told time and time again that there was no space in some of the aeroplanes for passengers going westwards. I know it has happened several times. We were told on several occasions, not officially but through the newspapers, local and general, that they were going to have feeder lines. I mention this fact for the reason that we have no connection between the east and west from Cochrane to Winnipeg on account of the closing of a section of the transcontinental railway. The people who go westward by rail have to go via North Bay, a roundabout way, which creates a throwback of about six hundred miles, and the people have been inclined to travel very extensively, or would be, by aeroplane, if they could get the service.

We have an emergency field at Porquis Junction, and they have been landing there for the last two years on account of a bad situation in Kapuskasing. It is almost impossible for the people from Kirkland Lake and the Rouyn section of northern Quebec to use Trans-Canada Air Lines at the present time. I should like to know if it is true that on several occasions they could not stop in northern Ontario, in my section, for passengers?

Hon. Mr. HOWE: Of course, the line is crowded to capacity. The difficulty you have of getting a seat in northern Ontario is not much worse than we have in getting a seat in Ottawa.

Mr. BRADETTE: But in Ottawa you can go directly to Winnipeg and we cannot do that from our section of the country; we have to swing back about six hundred miles to go west by rail.

Hon. Mr. HOWE: But, as you know, our services have been greatly curtailed by the war. If it had not been for the war I think we would have had more equipment and I think we would have been considering feeder lines to pick up passengers in between. As things are now we have not allowed any further capital expenditures to be made on the line this year, and we are not in a position to encourage additional services.

Mr. BRADETTE: As it is now you are really overloaded?

Hon. Mr. HOWE: Yes.

Mr. BRADETTE: You have not got the space to handle more traffic?

Hon. Mr. HOWE: We have not the equipment to do it.

Mr. MACINNIS: Who has the authority to establish passenger and express rates?

Hon. Mr. HOWE: They are set on a competitive basis. The six cents a mile basis is standard all over the continent. Our rate for the service from Montreal to Vancouver is competitive with the charges from New York to Seattle. It is just a competitive rate; that is what the Act calls for—competitive with other services.

Mr. MACINNIS: Does the transport commission authorize the rate?

Hon. Mr. HOWE: Yes, they are approved by the Board of Transport Commissioners.

The CHAIRMAN: Gentlemen, we have considered a number of reports. We might adopt these reports, if we are through with them. We have gone over the report covering the Canadian National Railway system.

Mr. BLACK: I should like to ask the minister a question, Mr. Chairman, in regard to the new service to which he has referred, between Montreal and Windsor. Is the same type of machine authorized on that service as on the regular transcontinental route?

Hon. Mr. HOWE: Yes; we have only one type of plane.

Mr. BLACK: I should like to ask the minister why Nova Scotia is discriminated against and have not the advantage of a service at least similar to the one that is being put into effect between Montreal and Windsor.

Hon. Mr. HOWE: The reason is that we cannot take these planes into the type of airports you have along the Atlantic seaboard.

Mr. BLACK: What about the field at Stanley; it is only a short distance out of Halifax, not much farther than the distance from some of these airports to centres of population in New York or Montreal.

Hon. Mr. HOWE: Would you suggest making the terminus of the Trans-Canada Air Lines at Stanley?

Mr. BLACK: I would say, rather than ignore Nova Scotia,—it is a temporary expedient,—they should use Stanley field rather than go on with the service they are now getting. There is some feeling in Nova Scotia that they have been discriminated against. I do not wish to be unreasonable, but I think the minister gave an undertaking that the Atlantic terminus would be at Halifax or Dartmouth. I do not want to be too impatient, but I do not want to feel that they are being overlooked and slighted.

Hon. Mr. HOWE: The Dartmouth field is used exclusively for coast defence. We had arranged a radio beam to work with the Dartmouth field, and we were always prepared to use that field for passenger service. We were told at the outbreak of war that that field was required exclusively for the defence of the east coast. The same applies to Sydney; the same applies to Yarmouth. In

time of war, we do not wish to intrude on that. As a matter of fact, the two-engine Beechcraft planes used down there are very comfortable passenger planes, just as good for that service as the Trans-Canada planes.

Mr. BLACK: I assume the field at Dartmouth will always be controlled as a military field, will it?

Hon. Mr. HOWE: We had arranged before the war to use it for Trans-Canada as well. Naturally, that arrangement was superseded when war broke out. In peace time I have no reason to think we should not use the Dartmouth field.

Mr. BLACK: The city of Halifax has expended more than \$200,000 on their air field. It was one of the first cities in Canada which made such a large expenditure for such a purpose.

Hon. Mr. HOWE: You cannot remove geographical conditions. It happens to be tucked away behind Citadel Hill, surrounded by tall buildings and by houses, and you just can't land there; that is all. I tried it once and got the fright of my life.

Mr. BLACK: That is unfortunate. On the other hand, they located the field after having it approved by the only authority that was in existence at that time.

Hon. Mr. HOWE: It is unfortunate but we cannot change it now, as I see it.

Mr. BLACK: Is it possible to use Stanley field? It is only about twenty-five or thirty miles out of Halifax.

Hon. Mr. HOWE: If you want to take the responsibility for it, I would say it is possible, but I do not think it would please the people of Halifax. They have a very comfortable service from the city of Halifax to the end of the Trans-Canada; I think they would resent any change for the worse there.

Mr. BLACK: The minister thinks that Halifax and Nova Scotia should be satisfied with the present service?

Hon. Mr. HOWE: For the moment, yes.

Mr. BLACK: With the expectation or understanding that the Atlantic terminus will eventually be in Nova Scotia?

Hon. Mr. HOWE: I should say with the hope.

Mr. HARRIS: In connection with page 12, could we have the non-revenue passengers that were carried? You will notice that under "Statistical Data" you have a memorandum of the revenue passengers carried—21,569. How many non-revenue passengers were carried?

Hon. Mr. HOWE: We did last year as a matter of advertising—

Mr. HARRIS: Excepting the initial period. I except that.

Hon. Mr. HOWE: The only non-revenue passengers that can travel are employees of the line travelling on business over the line when there is a vacant seat. If there is a revenue passenger offering, the non-revenue passenger cannot ride.

Mr. HARRIS: Have you the figures, Mr. Chairman, for the non-revenue passengers carried?

Mr. COLYER: We do not have them here.

Mr. HARRIS: Could we have them in future reports, Mr. Chairman?

The CHAIRMAN: I do not think it was considered. If you demand anything in the way of a report, we will obtain it.

Mr. HARRIS: If you have the number of revenue passengers carried under statistical data, surely we could have the number of non-revenue passengers carried. Let me put it to you this way, Mr. Chairman: One of the features of our whole railway system that bears down very heavily on it and to which great

expense attaches is the carrying of deadheads. You and I ride free; in my judgment we have no right to ride free; we should pay our way. We are not the only ones; there are thousands and thousands of people in Canada riding free on our railroads. Pensioners and widows of former railway men all ride on passes—all by agreement, I quite admit. In future statements of the Trans-Canada Air Lines I move, if necessary, that the reports reveal the number of non-revenue passengers and the miles flown.

The CHAIRMAN: In subsequent statements?

Mr. HARRIS: Yes.

The CHAIRMAN: You will not require it for this inquiry?

Mr. HARRIS: I am asking for it but it does not seem to be available. This is perhaps the initial period, 1939. I am not worrying about the members of parliament; I have made my deposition. No matter what they travel on they should pay the full fare, the same as any other citizen. I am speaking of what has crept into the railway system.

The CHAIRMAN: The minister has indicated that the only non-revenue passengers are employees of the airways travelling on business.

Mr. HARRIS: That can be set up. But there are others.

Mr. COLYER: I can provide the complete information on that.

The CHAIRMAN: Mr. Colyer offers to give the information now, if you would like to have it.

Mr. HARRIS: It would be just as well to have it on the record.

Mr. BRADETTE: Are you including the taking away of passes of members of parliament?

Mr. HARRIS: I have made myself abundantly clear as far as these dead-heads are concerned. I think we can dismiss the matter and get on with the business. I would not ask that it be read into the record, just put it in.

The CHAIRMAN: Does Mr. Harris desire to have this information filed, or does he wish it for subsequent reports?

Mr. HARRIS: For this report.

The CHAIRMAN: Now.

Mr. HARRIS: Yes.

Mr. COLYER: The pass regulations governing Trans-Canada Air Lines are approved by the Board of Transport Commissioners. They permit the issuance of passes to certain individuals of the company. All these passes I am speaking of are for seats that are not reserved or sold to paying passengers—company employees travelling on business of the company; Department of Transport airways employees travelling on business of the airways in connection with radio ranges, airports, etc.; Post Office Department officials travelling on business of the airmail service. Each company employee of Trans-Canada Air Lines is given one annual pass for himself over the line, plus one pass for a dependent member of his family.

I believe that covers all the passes that are authorized by the Board of Transport Commissioners, except for short courtesy flights around the airport in connection with the development of the passenger business.

The CHAIRMAN: It might be as well to clarify the request for the next report, as to whether it is a statement of the advantage that has been taken of passes, or whether it is just such a statement as we have had at the present time, that is, to whom the courtesy is extended.

Mr. HARRIS: The present statement is just a statement of policy or a statement of what is laid down by the transport commission. That does not give us the information. In your report you have shown the number of revenue passengers carried. Let us have the number of non-revenue passengers carried, and

if the administration of the Trans-Canada Air Lines wants to sub-divide that into two items, one the operation of the business itself and the other complimentary business, that would be all right. I would be quite happy to see it sub-divided. I certainly do not want to interfere with the business of operating the Trans-Canada Air Lines.

Mr. COLYER: I can submit a complete report.

Mr. HARRIS: When you do, give the number of deputy ministers who ride free on the line as well, whether they are on official trips or some other sort of trips.

The CHAIRMAN: Are you through with this report?

Mr. JACKMAN: Do I understand that the rates for passengers are fixed by statute, or are they left to the management?

Hon. Mr. HOWE: They are left to the management subject to the ruling of the Board of Transport Commissioners. They are under the jurisdiction of the Board of Transport Commissioners, but they are fixed on a competitive basis with parallel lines in the south.

Mr. JACKMAN: Also, I suppose, on a competitive basis with the railways?

Hon. Mr. HOWE: No.

Mr. JACKMAN: It does not cost very much more, I understand, to come from Toronto to Ottawa by air line than it does by railway.

Hon. Mr. HOWE: Well, you add on the extras. The basic rate on the railway is three cents a mile; the basic airline rate is six cents. On the air line there is no birth to buy and no meals to buy, or anything of that kind.

Mr. JACKMAN: If it were thought that the passenger rate might be boosted, is there any difficulty at all in increasing the rates quickly, or does the management have to go before the Board of Transport Commissioners?

Hon. Mr. HOWE: It would have to go before the Board of Transport Commissioners and give thirty days' notice.

Mr. JACKMAN: It seems to me that there are many people who travel from Toronto to Ottawa and elsewhere who could just as easily travel by the railway, that is, people whose time is not so valuable. Of course, you may want that business in order to increase the percentage of occupancy. On the other hand, you may want to release some of your planes for other purposes or not to expand the air service on account of military demands for planes. It seems to me the rates are very cheap and consequently are attracting many people who could comfortably travel by railway service.

Hon. Mr. HOWE: Our rates are competitive with other rates charged. I do not think we could put ourselves in the position where our railway rates and boat rates were not pretty well competitive with those in the south.

Mr. JACKMAN: Of course, while they are competitive with rates to the south, the American Air Lines are in most cases, excepting the transcontinental, competitive because they do not compete between the same points.

Hon. Mr. HOWE: That is true on the shorter runs.

Mr. JACKMAN: Do you not think in many cases the rates could be increased without any substantial loss in desired traffic?

Mr. COLYER: We are competitive with the lines in the States. We bring passengers from New York going out to the west coast; we bring passengers from the west coast who are going to New York, and there is a certain amount of competition in connection with the business there. You will find that our rates on the average are slightly higher than the rates in the States, generally speaking. Our rate is six cents. Some of the lines in the United States have cut that. We do have cases where the air passenger fare between two points is equal to the railroad fare. For example, from Lethbridge to Vancouver, where the railroad

takes a long way around to get there, our charge is about seven cents per mile because we do not undercut the rail charge in any instance. We arbitrarily raised the fare there to more than the six cent rate between those particular points.

The fare from Edmonton to Winnipeg is very substantially higher than the rail fare, because the railway line follows a more or less diagonal line, and we go straight south to Lethbridge and make a right angle going into Winnipeg.

I am afraid that if the Trans-Canada fares were materially raised it would reflect directly on our revenue.

Mr. MACINNIS: Would it be possible to get the percentage of revenue passengers who are on government business and whose fares have been paid by the government?

Mr. COLYER: I know quite a few instances. I think we could where they travel on government warrants. Where they go and buy a ticket with cash, we have no indication that they are travelling on government business; but there is a substantial amount of government business over the line that is paid for by the government.

Mr. JACKMAN: I do not suppose you try to attract American travellers over our lines?

Mr. COLYER: We certainly do.

Mr. JACKMAN: I mean, where they originate in the United States.

Mr. COLYER: We try to get them from Seattle. That is the only place where we have any traffic organization in the United States. We try to get them to use Trans-Canada Air Lines coming east to Toronto, Ottawa, Montreal or even to Winnipeg.

Mr. JACKMAN: That is where they have a Canadian destination.

Mr. COLYER: It is against the law, theoretically, for us to carry a passenger from one point in the United States to another point in the United States. We do not operate that way at the present time, but we may eventually. There have been cases when passengers have flown from Seattle to Montreal who were going to New York city, using the Canadian colonial from Montreal down to New York.

Mr. JACKMAN: The difficulty in getting American funds now might possibly allow you to increase your rate, so far as competition with the United States is concerned.

Mr. LOCKHART: Mr. Chairman, in concluding this matter of passes given to large groups of people on the Trans-Canada Air Lines, are we to understand that at the next meeting or at future sittings of this committee we will have a better break-down along the lines suggested by Mr. Harris, indicating the approximate number and to whom these passes are issued? We will get that at future deliberations? It will be officials of the air line who will have that information so that they can give it to us.

The CHAIRMAN: We have been assured of a full report.

Mr. LOCKHART: That is to be understood?

Mr. COLYER: It will be exact information.

Mr. LOCKHART: Although the general public are jittery in so many ways these days, they feel that the issuing of passes is growing into the same proportions on this new system as it has grown in the railway system. I suggest that we have this information for the use of future meetings.

Mr. JACKMAN: Before leaving the whole matter, Mr. Chairman, the item of accounts receivable in the balance sheet, of \$451,466.54, is a rather large item. I was wondering how it arose generally.

Hon. Mr. HOWE: I think that arose through tickets—interchange.

Mr. COOPER: There were two main items. We sold five 10-A aircraft to the War Supply Board, and part of the sales consideration is outstanding at the end of the year. The Post Office Department is the other large debtor. The War Supply Board were owing \$228,000, and the Post Office Department were owing \$158,000 at the end of the year. Those two items substantially represent the total of accounts receivable.

Mr. JACKMAN: Most of it has nothing to do with the ordinary commercial operations of the line.

Mr. COOPER: The Post Office Department represents mail pay.

Mr. BRADETTE: In that item, excess baggage 21,000 lbs., is that an extra charge for that extra poundage?

Mr. COLYER: Yes, an extra charge by the rate that is approved by the Board of Transport Commissioners.

Mr. HANSON: Is that so much per mile or so much per pound? How is that arrived at?

Mr. COLYER: I believe it is 1 per cent of the ticket fare between the two points concerned, per pound of excess.

The CHAIRMAN: Now have we finished with this report?

Mr. BLACK: Now, Mr. Chairman, the second largest expense is ground operation and maintenanc, \$636,000 odd. I would like to have a little more information as to what ownership or responsibility comes under the Trans-Canada Air Lines with respect to airports. I understand that most of the airports are built from another fund, another department of government and are used by Trans-Canada Air Lines, and the question arising is whether that is correct and as to what rentals are paid, if any, and what maintenance expenditures are defrayed by Trans-Canada, if any.

Hon. Mr. HOWE: Generally, the Trans-Canada pays landing fees for all the fields they use. If they use a government field they pay the government so much, I believe it is \$100 a flight.

Mr. COLYER: \$100 for the first schedule and \$50 for each additional schedule.

Hon. Mr. HOWE: Yes.

Mr. COLYER: That is per month.

Hon. Mr. HOWE: And in addition to that, of course, the Trans-Canada operate their own hangars, their own terminal facilities, they have their over-haul crews at the principal stopping places with their main over-haul at Winnipeg, the services for running their own line, and they pay rental for any hangars they use that they have not built themselves.

Mr. HANSON: Did we have a reply about the excess baggage?

Mr. COLYER: I said 1 per cent of the one-way passenger fare. It is one-half of 1 per cent per pound of excess baggage. Two hundred pounds excess baggage would equal a full fare ticket.

Mr. JACKMAN: If the revenue to be received from passengers will total \$1,800,000 this year as against \$643,000 in the year 1939, that would be the place, I suppose, where most of that profit would come from that you are estimating for the total operation of the line—there would be a big profit, I take it, in the increase in estimating revenue from passengers \$1,800,000 against \$643,000 last year.

Hon. Mr. HOWE: Of course, we are flying more miles.

Mr. JACKMAN: The cost of operation.

Hon. Mr. HOWE: The cost of ground operation will not be up nearly in proportion to the extra miles flown. The first flight takes almost as much ground service as the second, third and fourth flights.

Mr. JACKMAN: There will be a substantial amount of profit in that increased revenue from passengers.

Hon. Mr. HOWE: We hope so. It is hard to say whether the profit comes from passengers or from mail.

Mr. BRADETTE: Do you expect to get increased revenue with increased equipment?

Hon. Mr. HOWE: Oh, yes, we are keeping our equipment longer in the air. We have the same number of planes as last year but we are flying them more hours per plane.

Mr. BLACK: How many Trans-Canada Air Line ports are used by the T.C.A., and who has the ownership of those airports—the Dominion government?

Hon. Mr. HOWE: In Moncton we own the airport. In Montreal we own the airport—

Mr. BLACK: Is it the Canadian National Railway or the Dominion government?

Hon. Mr. HOWE: The Dominion government. In Moncton we own it, in Montreal we own it, in Ottawa we own the airport, at North Bay we own the airport. At Toronto the city owns the airport, at Winnipeg the city owns the airport, at Regina the city owns the airport, at Lethbridge the city owns the airport, at Edmonton the city owns the airport, and at Vancouver the city owns the airport

Mr. JACKMAN: I asked the minister for the amendments to the Trans-Canada Air Lines Act of 1937 in order that any surpluses which accrue this year will not be used as part of the basis for figuring the air mail contract for next year. You wish to extend the initial term of 1937, aimed to end in 1940 rather than in 1937; is that simply to fortify the reserves of the Trans-Canada system or—

Hon. Mr. HOWE: No, you misunderstand the purpose of the amendment. Without the amendment, the rate for this year, the mail rate for this year, would have been the rate determined last year which was considerably higher than 60 cents. As I say, we did not carry passengers at all prior to last year and we did not have a full year to base it on so the result is that without the amendment the rates for mail which we could have claimed quite legitimately would have been about 70 cents a mile; but we passed that amendment because we did not think it was fair to assess the cost of carrying mail on the results of last year, not having a full passenger year to base it on; but the rates this year, under the amendment—the rates established in 1940 will definitely determine the mail rate of 1941.

Mr. JACKMAN: If there is a surplus in 1940, half of that surplus will be used to reduce the rates to the business?

Hon. Mr. HOWE: That is correct.

Mr. JACKMAN: The purpose of that amendment was not to allow the Trans-Canada to keep additional funds?

Hon. Mr. HOWE: Oh, no, to prevent them accumulating additional funds.

Mr. JACKMAN: It is an unusual item, I think, in government statements to have that capital stock subscription unpaid carried forward. It is \$1,250,000 which the Trans-Canada can call up in the way of unpaid subscriptions, I presume, from the Canadian National Railways.

Hon. Mr. HOWE: Yes. If they require additional capital expansion; but it is generally understood for this year there will be no material capital expansion.

Mr. JACKMAN: I suppose there is a liability in the C.N.R. account somewhere for that.

Hon. Mr. HOWE: No, the C.N.R. have not drawn down the money; the money is in the treasury of the government.

Mr. JACKMAN: You cannot have it as an asset on the T.C.A. books without having a corresponding liability in some other books—it must be in the C.N.R. some place.

Hon. Mr. HOWE: It is not an asset; it is a power to create an asset.

Mr. SMART: \$3,699,000 is the asset; capital asset \$3,065,000. It is offset by \$5,000,000 less \$1,250,000.

Mr. JACKMAN: Yes, I see how you total it. It is really a contingent asset.

Mr. COOPER: I think what you have reference to is covered by the note on page 21 of the railway report "Major Contingent Liabilities" the first item "Trans-Canada Air Lines".

Mr. JACKMAN: Yes, I see. It is a footnote, and not taken into the account.

Mr. COOPER: The contingent liability will be taken up whenever an additional call on the stock is made, but the call has not yet been made, and there is no present liability. There is a contingent liability, and that is recorded.

Mr. JACKMAN: Is not that rather unusual in the accounting of government-owned enterprises?

Mr. COOPER: I do not think so. Our investment in Trans-Canada to-day is three and three-quarter million dollars. We show that as an asset.

Mr. JACKMAN: I understand. As it applies here it seems unusual, although there is no particular importance attached to it. It is rather unusual looking at it. It happens in other accounts of some of your subsidiary companies? Perhaps you have no set of circumstances the same as this?

Mr. COOPER: We have the Northern Alberta Railways where the situation is the same.

Mr. JACKMAN: On capital account?

Mr. COOPER: Yes, sir.

Mr. McCULLOCH: Can you give any idea to the committee when the air mail will be carrying mail from Moncton to Halifax, and from New Glasgow to Sydney?

Hon. Mr. HOWE: That is a matter of airports chiefly. As I say, we always expected and were planning to use the Dartmouth airport and the Sydney airport. We are not able to do that now. It is exceedingly expensive to build an airport in the Sydney area, and I think the only alternative is to wait until the military needs permit us to use that airport.

Mr. McCULLOCH: The Sydney airport is under construction.

Hon. Mr. HOWE: It is practically finished, but it is a national defence airport, of course.

Mr. HARRIS: In the case of a machine cracking up, or in the case of the loss of a costly piece of equipment, is that immediately absorbed in the current business of the year, or is it just charged to the depreciation account? For example, I think you had a machine smashed up in Regina last year entailing heavy capital loss; is that written off the current year's business? Say there was 20 per cent written off immediately the machine was put into service, 80 per cent is lost out of your capital account. Is that absorbed in the current year's business, or is it the policy of the T.C.A. to charge that against the sum total of depreciation reserves?

Mr. COOPER: When the accident at Regina happened, we wrote off the complete investment. To the extent depreciation had been accrued, that portion

was charged to depreciation reserve. Also we had set up a crash reserve, and we charged as much as was available in the reserve. The balance was charged off as operating expense, so that the complete loss was accounted for by charges to operation to the date of the accident, either as depreciation, crash insurance, or as direct operating expense.

Mr. HARRIS: That is the policy?

Hon. Mr. HOWE: It was not thought wise to carry that crash reserve as a deficit account. In other words, we took all the money there was in the crash reserve and we charged the balance to the operation in the air.

Mr. HARRIS: Is that figure there? I do not want to delay the committee. You can put it on the record.

The CHAIRMAN: Are we through with this report gentlemen? If so, would it be in order to move its adoption?

Mr. HARRIS: Mr. Chairman, the adoption of the report, as far as I am concerned, will be moved on division, and if you want the reasons I shall be glad to recite them now. The first reason is that the company's budget for 1940 was not tabled until to-day. We have only had the annual report before us right through. We have that budget now. It was not down in time for us to give any serious consideration to it, and for that first reason I should like a recorded division; secondly, as an observation, they contemplated there would be a profit for the year after depreciation, and the thought runs in my mind, a profit to whom? Who will get a profit? The enterprise is owned in the final analysis by the Canadian people; it is a branch of the Canadian service, for lack of a better word, and I am not complaining about the system; but it receives moneys or subsidies from another branch, namely the Post Office Department, which helps to keep its business on a profit basis. To say it is contemplated that there will be a profit for the year is not a fair statement to make to the Canadian people inasmuch as that profit is coming from another department of government. For that reason I purpose, as far as I am concerned personally, that the record go on division.

Mr. HANSON: I move the adoption of the report.

Mr. HARRIS: My third reason is that I am not satisfied with the clause under personnel. The information was given in camera and I do not purpose to pursue the matter. I refer to the cost of consultants.

The CHAIRMAN: It has been moved by Mr. Hanson, seconded by Mr. McCulloch that this report be adopted. In my opinion the motion is carried.

Now, we have dealt with the annual report of the Canadian National Railways system, with the report of the Canadian National (West Indies) Steamships Limited, and with the auditors report and the Canadian National Railways Securities Trust, and we have allowed ample time, I think, to reconsider any points up to the present, and if the committee is through with those reports, it will be in order to adopt them.

Mr. HARRIS: Mr. Chairman, we have not considered the budget for the year 1940.

The CHAIRMAN: No, that is still open.

Mr. HARRIS: What is your purpose now? We are in the hands of the chair. Is it your purpose to put a motion on this?

The CHAIRMAN: If you would prefer to consider this budget before adopting the reports that have gone on it is up to the committee to decide.

Mr. HARRIS: It is up to the chairman to say.

The CHAIRMAN: Well, I put it up to you; and if you wish to make a motion with regard to the division of these reports, well and good; and if not, we will proceed with some other matter.

Mr. HARRIS: If we must have a motion, I move that we consider the budget of the Canadian National Railways and the Canadian National Steamships for the year 1940.

Mr. MACINNIS: I will second that motion.

Motion agreed to.

The CHAIRMAN: Will one of the officials kindly read this budget?

Mr. HUNGERFORD: I will ask Mr. Armstrong to read that.

Mr. ARMSTRONG: This is the budget of the Canadian National Railways and the Canadian National Steamships for the year 1940. It is as follows:

CANADIAN NATIONAL RAILWAYS AND CANADIAN NATIONAL STEAMSHIPS  
BUDGET FOR YEAR 1940

SUMMARY

| Canadian National Railways—All-inclusive system                                    | Reference | Amount       | Total        |
|--|-----------|--------------|--------------|
| Net Income Deficit   | page      |              |              |
| Canadian National Railways.. . . . .   | 2         | \$20,000,000 | \$20,000,000 |
| Capital Expenditures   |           |              |              |
| Additions and betterments, less retirements.. . . . .                              | 3         | 4,649,000    |              |
| New equipment purchases.. . . . .  | 3         | 1,665,000    |              |
| Acquisition of securities.. . . . .  | 4         | 590,000      |              |
| Retirement of Maturing Capital Obligations<br>Including sinking fund and equipment |           |              |              |
| Principal payments.. . . . .   | 5         | 8,200,000    |              |
|  |           | <hr/>        | 15,104,000   |
| Total budget.. . . . .   |           |              | \$35,104,000 |

NOTE.—Net income deficit of \$20,000,000 includes \$1,396,400 for contribution to deficit of I.C.R. and P.E.I. Provident Fund, and \$100,000 for contribution to Grand Trunk Railway of Canada Superannuation and Provident Fund Association.

Budget requirement does not include new equipment purchased under 1939 orders placed by the War Supply Board, amounting to \$14,909,144, on which first repayment installment will be made in 1941.

Statutory Authorizations

|  |           |
|--|-----------|
| Trans-Canada Air Lines, authorized under Chapter 43, year 1937.. . . . . | 1,250,000 |
|--|-----------|

Canadian National Steamships

|   |   |         |
|---|---|---------|
| Canadian National (West Indies) Steamships, Limited<br>Net income available towards payment of interest on advances by Government of Canada.. . . . . | 6 | 225,000 |
|---|---|---------|

|   |   |        |
|---|---|--------|
| Capital Expenditures<br>Additions and betterments.. . . . . | 6 | 21,000 |
|---|---|--------|

CANADIAN NATIONAL RAILWAYS (ALL-INCLUSIVE SYSTEM)  
BUDGET FOR YEAR 1940

|   | Amount               | Total requirements  |
|---|----------------------|---------------------|
| Net Income Deficit  |                      |                     |
| Operating revenues, excluding 20 per cent contribution, M.F.R. Act.         | \$247,450,000        |                     |
| Contribution from Government under Maritime Freight Rates Act (20 per cent) | 2,150,000            |                     |
| Government share of Operating Account P.E.I. Car Ferry and Terminals        | 400,000              |                     |
| <b>Total Operating Revenues</b>   | <b>\$250,000,000</b> |                     |
| Operating Expenses  | 207,000,000          |                     |
| <b>Net Revenue from Railway Operation</b>                                   | <b>\$ 43,000,000</b> |                     |
| Taxes   | 6,270,000            |                     |
| Other Income Debits or Credits—Net Debit                                    | 1,046,000            |                     |
| <b>Net Income before Fixed Charges</b>                                      | <b>\$ 35,684,000</b> |                     |
| <b>Fixed Charges—</b>   |                      |                     |
| Interest due Public on Long Term Debt                                       | \$ 50,186,000        |                     |
| Interest on Dominion Government Loans for Capital and Refunding             | 1,357,000            |                     |
| Other Fixed Charges   | 2,758,000            |                     |
| <b>Income Requirements</b>  | <b>\$ 18,617,000</b> |                     |
| Profit and Loss Items—Net Debit   | 1,383,000            |                     |
| <b>Estimated Net Cash Requirement on Deficit Account</b>                    | <b>\$ 20,000,000</b> | <b>\$20,000,000</b> |

NOTE.—The 1940 Estimated Net Cash Requirement on Deficit Account of \$20,000,000 includes \$1,396,400 for Contribution to Deficit of I.C.R. and P.E.I. Provident Fund, and \$100,000 for Contribution to Grand Trunk Railway of Canada Superannuation and Provident Fund Association.

The CHAIRMAN: Do you wish to ask any questions on the material which has been presented up to this point?

Mr. HARRIS: Yes. With regard to that item for new equipment, \$14,909,000; that will undoubtedly retire old equipment immediately it goes into service; is that right—a good deal of it?

Hon. Mr. HOWE: That was outside of the requirement. At the outbreak of the war we surveyed the situation on both railways. We did not want the railways to interfere with the war programme from time to time by ordering new equipment. We asked them to look over the situation and advise us how much additional equipment they would require to handle new business arising out of the war. We received estimates for about \$15,000,000 from the Canadian National Railway and \$10,000,000 from the Canadian Pacific Railway. The government decided to get that business out of the way, that it would purchase the equipment on government order and lease it to both railways on an equipment retirement plan so as to build up a plan very similar to—it is exactly the same as—that which was carried out by the Bennett government in 1932, with respect to the purchase of engines, locomotives and rails. Items of equipment of that kind were purchased by the government and the railways were given time to pay for it over a period of years, I think the period was fifteen years.

Mr. HARRIS: Did you say, retired?

Hon. Mr. HOWE: Retired over a period of fifteen years; principal and interest retired over a period of fifteen years.

Mr. HARRIS: That is to say, this new equipment of \$15,000,000 will be retired starting in 1941, interest and principal, over a period of fifteen years?

Hon. Mr. HOWE: That is correct.

Mr. HARRIS: And it will not replace the capital set-up of the system as it presently stands, will not replace any equipment which is being retired?

Hon. Mr. HOWE: No, this is additional equipment; new.

Mr. HARRIS: Yes. I understand it is additional, but this additional equipment will not replace any equipment which is presently capitalized and is ready for retirement?

Hon. Mr. HOWE: That is quite correct.

Mr. JACKMAN: The retirement plan does not come into operation until 1941. I suppose there is an accrual charge for this new stock?

Hon. Mr. HOWE: I think none of it is delivered until well on in 1940 so that payment in 1941 will be after the first year of service.

Mr. JACKMAN: But are you charging current operations as the new equipment is being used? You are building up your fund to make your fifteenth part of the total payment—whatever the plan is—you are not using this rolling stock equipment which is new equipment without some charge being made for it to the railway system?

Hon. Mr. HOWE: I presume all accrued charges will be included in the statement, that the portion which is accrued out of the first year's payment will be charged against this year.

Mr. JACKMAN: As soon as you start using the equipment?

Hon. Mr. HOWE: Yes.

Mr. SMART: It is on a rental purchase basis.

Mr. JACKMAN: I realize your first payment under the plan though will not take place until 1940 when you will have been using the cars perhaps for a year.

Hon. Mr. HOWE: But, of course, you include all the accrued charges at the end of the year; the accrued equipment charges as well as the accrued interest.

Mr. BLACK: What is the percentage of interest charged?

Hon. Mr. HOWE: I am told that the Finance department have not given us a final ruling on that point yet. The practice is to charge one-half of one per cent more than it costs the federal government to borrow money on equivalent terms. It will be  $3\frac{1}{2}$  per cent or  $3\frac{3}{4}$  per cent, or something like that.

Mr. MACINNIS: What is the amount of the equipment leased to the C.P.R.?

Hon. Mr. HOWE: About \$10,000,000.

Mr. HARRIS: Have you a break-down of the \$207,000,000 operating expenses?

Mr. ARMSTRONG: No, sir, there is no break-down here of the \$207,000,000.

Mr. HARRIS: I notice six separate items. It should be a simple matter to have that information supplied.

Mr. ARMSTRONG: That can be broken down for you if you so desire. We will have a statement prepared for you.

Mr. BRADETTE: Mr. Chairman, I cannot hear the witness.

Mr. ARMSTRONG: I said, that can be broken down and we will have a statement prepared if you wish.

The CHAIRMAN: All right.

Mr. HARRIS: Perhaps the witness could tell us this: What is the major item in this connection? How much is of a temporary nature that will last only while the war is on? I appreciate that you will be handling more traffic, but I am very disappointed that this budget does not reveal a condition like that in 1928. You have a net deficit estimated here of \$20,000,000 while at the same time you have a very substantial increase in traffic. There is no reason to my mind why we should not approach much more closely to a balanced budget, taking into consideration the fact that we have lifted out of capital account all this investment, interest charges and a good deal of capital charges; I think the total

figure is a billion some odd, so I say that we ought to strive in this year of grace 1940 to balance this budget. Instead of that we find an estimate coming in for, I think, only \$5,000,000 less than this year; is that right?

Mr. ARMSTRONG: No, it is about \$20,000,000 less.

Mr. HARRIS: Your increase of traffic indicates an increase in revenue of over 20 per cent, and 20 per cent of a quarter-billion is \$50,000,000.

Mr. HUNGERFORD: This is an estimate of the gross revenue for this year, and it amounts to \$250,000,000. In 1928 there was well over \$300,000,000.

Mr. HARRIS: Quite. I think the revenue this year ought to approach \$300,000,000 if I may make the observation. We have done everything possible. In the budget brought down recently everything tends to help the situation. The 10 per cent extra charge on coal coming into Canada ought to give you very considerable revenue. Then, you have the prospect of a great wheat crop and there is a tremendous movement of heavy materials; metals such as zinc, iron, nickel and so on. I think that this budget was brought down early before you had the experience of the last six months. I think that a management of outstanding men such as we have running this railroad, Mr. Chairman, instead of just giving us an historical recital of what has happened, instead of sitting back there and attending to their business of running this railroad on a day to day basis ought to give us something better. We do not get in Canada any policy for the future. They do not attempt to settle the problem of what they are going to do with this institution in the days to come. We have an example of it right here in this committee. You, Mr. Chairman, permit this budget to be brought down. Everybody in the committee knows that this budget was prepared some time ago. We want to look further than that. This is not a new situation. The men who have been charged with the responsibility of conducting the affairs of the Canadian National Railway from its inception practically have been coming to this innocuous committee from time to time, giving us a recital of what has happened, with the effect that their appearance before this committee has resulted in almost every case in what one might term a fishing expedition. We do not like being put into that position of having to fish around to try and find out what is happening. That is not the purpose, as I view it, of this committee. We are forced to do that, however; as a committee we have to sit here and look over an historical recital of what has transpired for the year ending December 31st, 1939. When you put a question to a witness you have the feeling that you are going on some sort of a fishing expedition. We are here, as I view it, to examine the policies adopted, and to try to get this budget balanced. We look for leadership from the expensive men whom we have hired to run this railroad. There is an absence of that in this report. There is nothing in this budget to indicate that they are moving in any new direction such as that which is running through my mind. Next year when the T.C.A. budget comes down we will still be doing the same thing. There is nothing in this material which affords us any hope as to how we are to get out of our present difficulties, nor is there anything in this budget which gives us even the slightest hope, because you move along from an operating charge of \$176,000,000 or \$182,000,000, until now it is \$207,000,000. To my mind it is going to be very hard to retract from that position. Now, with respect to this 207,000,000, I would like to know how much of that in the breakdown is definitely due to conditions under which we are now working. At the same time, I would like to have some statement of policy as to what the management have in mind for the future. I would like to have a statement from the railway management as to what the operating charges were in 1928 as compared to the operating revenue for that year.

Mr. ARMSTRONG: In 1928 the operating revenue was \$312,286,000, and the operating expense was \$256,247,000, giving a net revenue from railway operation of \$56,039,000.

Mr. HARRIS: If we maintain our present rate of activity throughout the current year in my estimation you will have a revenue of \$300,000,000, but some day this war is going to stop and we are going to have a restoration period; then, what foresight on the part of the administration is being put into effect or is being kept in front of them so that they can recede from this \$207,000,000 position back to something more in comparison with revenues which might come in when the war has stopped. Everybody present here knows that there will be such a change coming some day just as well as they do.

Mr. HUNGERFORD: That is a matter which has to be adjusted from time to time in the light of circumstances which exist.

Mr. HARRIS: After the events, or before?

Mr. HUNGERFORD: To a certain extent before. As traffic drops, of course, every effort is made to reduce expenses, but traffic is a variable factor to a very large extent; that is obvious.

Mr. HARRIS: There is very little of policy in any of this work that comes before this committee. I hope that at some future time we will be able to get a little more definite information as to future policy.

Mr. HUNGERFORD: These reports are reports which we are required to file under the provisions of the Railway Act.

Mr. HARRIS: I understand that.

The CHAIRMAN: Gentlemen, I think you can have any information you require if you ask for it. I do believe that the function of this committee is to acquaint itself with the management of the railway and if it is felt that there is room for improvement the committee are free to indicate in their report that such is the case. It is a very easy matter for you to get any information desired which is not before you by simply asking for it.

Mr. MACINNIS: I think, Mr. Chairman, that Mr. Harris is asking for the impossible. It would be very nice indeed if we could get the management of the Canadian National Railways here and ask them to give us a policy, or to work out a policy that will so operate that at the end of a particular period it will show a profit; but, unfortunately, that cannot be done, no matter how expensive or what the ability of the management because the profit or loss of the Canadian National Railways would depend upon the economic conditions of the Dominion of Canada, conditions which the management of the railway cannot change. It is just possible that the government may have something to do with determining the policies of the Dominion in such a way that the railway would show a profit or would make a better showing, but certainly in my opinion it is not something that the management of the railway itself can do; and if your railway management decided, or worked out a policy to meet the situation that will most likely prevail at the end of the war, that would involve serious repercussions which would be heard in parliament, and we would find out that the people who are anxious now that the management should work out a policy that would show a profit would immediately say the railway is a public institution and must work for the interests of the Canadian people regardless of profit. These are things we must face, and I do not think it is of any use to come here and ask the railway management to work out a policy; whatever the policy is will depend on conditions in this country at any particular time.

The CHAIRMAN: Before going any further I would like to know if there is any question any member of the committee would like to ask, or if there is any information any member desires that has not been supplied? I think the manager is quite prepared to supply any information at their disposal.

Mr. HARRIS: I would like to know of the operating increase, that figure \$207,000,000, how much is temporary?

Mr. ARMSTRONG: The amount of operating expenses, of course, depends upon traffic. A certain proportion of the expenses is in the nature of fixed or constant expenses which go on independently of the volume of traffic. The balance of the expenses varies directly with the operating revenue. Naturally, as operating revenues go up, the expenses will go up, and, as they go down, the expenses will go down; always, of course, bearing in mind that prices of materials and wage rates are on the same basis.

Mr. LOCKHART: What are the fixed amounts? What is the proportion of 207?

Mr. ARMSTRONG: You can only roughly estimate it, but I would say the fixed expenses are probably about one-third of the total, and, direct, about two-thirds.

Mr. HARRIS: That is \$140,000,000 is controlled?

Mr. ARMSTRONG: Controllable? I do not quite understand you.

Mr. HARRIS: The fixed amount is one-third?

Mr. ARMSTRONG: Yes. The \$140,000,000 are controllable with the traffic volume. They will vary with the traffic volume.

Mr. HARRIS: There are no interest charges at all in these operating expenses?

Mr. ARMSTRONG: No, sir.

Mr. BRADETTE: In connection with operating revenues, I should like to get a certain amount of information in connection with British Columbia lumber. Last year I was delegated by my own section of the country to appear before the transport commissioners to see if some of this business could not be brought through northern Ontario. The commissioners told me that a lot of the lumber used to go by water, and I asked if it would be possible to have some of it re-routed through my section from Winnipeg to Cochrane. I believe we have received one shipment so far, part of a train load. Why is not our own section used when it is practically idle west of Hearst?

I should also like to make this statement. Last year during the visit of Their Majesties the C.N.R. told my section of the country that Their Majesties could not come over our section because the road was in such a bad condition. We were satisfied to accept that statement because we did not want to see our Royal guests meet with any accident. A few days after the royal visit something happened on a section of the line, and one of these heavy trains was re-routed over the section of the railroad which was supposed to be in bad condition. I should like to have some explanation of this, because we feel in our section that we are absolutely stifled. We feel that the administration of the C.N.R. is not being fair to our section.

We have had one train load of B.C. fir coming over our section, and this line is absolutely unused at the present time. Why it is, I do not know.

Mr. HUNGERFORD: As a matter of fact, the volume of B.C. lumber that moved east for transshipment across the north Atlantic has been comparatively small, and the main line through Capreol is more than capable of handling the volume of traffic.

Mr. BRADETTE: There has been a congestion in that section.

Mr. HUNGERFORD: So far as the line west of Hearst is concerned, we keep it in a reasonably safe condition because we have not enough traffic on that section to warrant keeping it at a higher level. We keep it safe, but not as smooth as other lines.

Mr. MACINNIS: Has the quantity of British Columbia lumber shipped to the Atlantic coast turned out to be as large as was expected at one time? It was expected at one time that there would be a considerable quantity of lumber shipped to the Atlantic coast. That has not materialized, has it?

Mr. HUNGERFORD: It did not materialize.

Hon. Mr. HOWE: These boats are still going direct. There was a very great shortage of ocean tonnage. The collapse of Norway turned all that shipping into the hands of Britain, and I think that probably ninety per cent of all the lumber that is shipped from British Columbia to the old country goes direct through the Panama Canal by boat.

Mr. BRADETTE: In connection with the labour situation, I should like to ask the administration of the C.N.R. a question. I have in mind that a young man starts on the railroad as a trainman and he may be on a spur line for as long as twenty years, and that man is always at the beck and call of the railway. I maintain it is not fair to these men. Many of these men have started as single men, but have later got married. They are supposed to be at the beck and call of these organizations. No other industry or institution employing labour is in such a fortunate position. Something really should be done with respect to that situation. It is absolutely unfair to these young men, and I should like to see some regulation emanate from the administration of the C.N.R. and the C.P.R. to correct this situation. It is too long for them to wait, fifteen or twenty years. You must have had a lot of criticism on that score. I am wondering why the labour unions have not taken hold of that situation. They could certainly build up a case in the minds of the public. I know the administration wants to be fair to these men, but they are certainly not being fair.

Mr. HUNGERFORD: Railway men work under what is known as the seniority rule. Older men in the service have the right to such work as there is; the younger men take what is left.

Mr. BRADETTE: What is left is right, and sometimes there is practically nothing left at the end of fifteen years.

Mr. HUNGERFORD: We are working under regulations that are the result of an agreement between the labour organizations and the railway.

Mr. BRADETTE: Surely it should be possible for the management to correct the unfairness and the injustice to these men.

The CHAIRMAN: What can they do about it?

Mr. BRADETTE: It is such an unfair thing.

Mr. HUNGERFORD: These are the conditions that they want to work under.

Mr. BRADETTE: If other industries had the same latitude they would be in a happy position. The railways are being criticized by a number of their employees at the present time. It is not a healthy situation.

Mr. HANSON: The unions have made those arrangements themselves.

Mr. BRADETTE: Oh, yes, but you know what they do sometimes.

The CHAIRMAN: We have been losing one or two of the members of our committee and we will soon be losing a lot more. I should like to know about this afternoon before any more members leave.

Mr. HANSON: We have not time to get through to-day, have we, Mr. Chairman?

The CHAIRMAN: I hope so. We will certainly want to sit this afternoon if it is at all possible. Is it satisfactory to the committee to re-assemble at four o'clock?

Mr. HARRIS: I move we adjourn.

The CHAIRMAN: I am not thinking about adjourning, I am thinking about re-assembling.

Mr. McCULLOCH: I move that we meet at four o'clock this afternoon.

Mr. MacINNIS: I second the motion.

The CHAIRMAN: Now we have a motion to adjourn.

Mr. MacINNIS: Why not sit for another fifteen minutes.

The CHAIRMAN: All right.

Mr. JACKMAN: Might it not be of assistance if at future meetings we had along with the figures for the budget for the coming year the actual figures for the previous year? Perhaps being a new member I am not as familiar with the accounts as some of the members. There is an estimate of net cash deficit of \$20,000,000. Does that correspond with the \$38,239,000?

Mr. ARMSTRONG: Are you referring to the \$40,095,000 set out in the annual report?

Mr. HUNGERFORD: The figures are all given in the annual report.

Mr. ARMSTRONG: \$40,095,000, I think, is the figure.

Mr. COOPER: It is shown on page 4 of the annual report.

Mr. JACKMAN: I think it would be of assistance if we had the corresponding figure for the previous year. It would not be very much trouble for the accounting department to include these figures.

Mr. HARRIS: Are the figures for the operating revenue for the year 1940 available? I do not suppose you have them for June 30?

Mr. COOPER: Yes, we have them up to June 30.

Mr. HARRIS: What is the operating revenue to June 30?

Mr. COOPER: The actual revenue—

Mr. HARRIS: No, I do not want any other word added. The word "actual" has been added, and I object to that word. It says, "Operating revenues, excluding 20 per cent contribution, M. F. R. Act—\$247,450,000." That figure of \$247,000,000 is a comparative figure.

Mr. COOPER: I do not have that figure. I have it including the 20 per cent.

Mr. HARRIS: Could we not have that? I want to get a comparative figure. Otherwise it is of no value.

Mr. COOPER: Of the budgeted figure of \$250,000,000 we have earned to June 30 this year \$130,681,000.

Mr. HARRIS: For the operating expenses of \$207,000,000, have we a comparative figure?

Mr. COOPER: We have spent \$97,481,000. That is the position for the first six months.

Mr. HARRIS: As I understand it, that is about 21 per cent.

Mr. COOPER: The increase in revenue in the first six months of this year over last year was 29·7 per cent.

Mr. HARRIS: Roughly 30 per cent?

Mr. COOPER: Yes.

Mr. HARRIS: If that condition obtains, with the heavy movement of crops during the next six months' period, your estimate of \$250,000,000 is quite low?

Mr. COOPER: Yes.

Mr. HARRIS: Could we have a more up-to-date estimate? I will not hold the management to it at all, but if the management feels so disposed, just as a matter of information, I should like to know what they expect that is going to be.

Hon. Mr. HOWE: You are asking the management to dive in the dark. We may have a good crop this year; we probably will, but we are faced with a very

serious congestion at the terminals. The chances are that the crop movement will be very much less than last year due to the fact that we have nowhere to put the crop. This is the management's estimate.

Mr. HARRIS: Let me put the question in another way, if I may interrupt the minister, just to make time. We anticipate, according to this budget, moving up from a position of \$203,820,000 to a position of \$247,450,000.

Mr. COOPER: No, sir—\$250,000,000.

Mr. HARRIS: All right; I have not got the comparative figures for the \$250,000,000. What is the comparative figure for the last year? Where do we find it? Where do we find the comparative figure of the \$250,000,000?

Mr. COOPER: You can find it on page 4, also on page 13 of the annual report.

Mr. HARRIS: What is the figure?

Mr. COOPER: \$203,820,000.

Mr. HARRIS: Is that a comparative figure for the \$250,000,000 or \$247,000,000?

Mr. COOPER: \$250,000,000.

Mr. HARRIS: Then the increase, Mr. Chairman, has been about 24 per cent.

Mr. COOPER: The increase for the budget?

Mr. HARRIS: The budget increase.

Mr. COOPER: It is 22.6 per cent.

Mr. HARRIS: If that obtains for the period of the year we will have had an enhancement of from 22.6 per cent to 29.9 per cent, namely, 7.1 per cent in our favour. I do not know whether it is within the province of this committee, but I have a feeling it ought to be and, if we are going to be of any use, we could amend, especially in this time of war, the requirements as brought down in this budget. They ask for so many millions of dollars. We have had six months' experience which indicates that they are going to have an increase in revenue of seven per cent, or, roughly, \$15,000,000. In view of this we could almost amend this report and not vote any money this year for the Canadian National Railways; in other words, make this committee of some consequence and some use to the country during this difficult time, in cooperation with the management. I do not think they will want this requirement at all.

Mr. HUNGERFORD: The question of what the cash deficit will be this year depends entirely upon the gross. We know what the gross earnings are up to the end of June. We do not know, and I do not suppose anyone knows, what the gross earnings will be for the balance of the year.

The net cash deficit will depend upon the gross. If we get the same gross then the \$250,000,000 cash deficit will be correspondingly reduced.

Mr. HARRIS: In view of that fact, are we now asked, Mr. Chairman, as intelligent men, knowing that we have an extra revenue of seventy per cent, which amounts to \$18,500,000, to turn around and vote blindly this estimate? Could we not as a committee, together with the railway company, show our usefulness at once and amend this report so that the government of Canada would not find it necessary to provide in their estimates moneys we know are not needed?

Mr. ARMSTRONG: There has already been an amendment made. The budget supplied by the railway shows a \$20,000,000 cash deficit. The estimates actually are for only \$15,000,000.

Mr. HARRIS: Yes, I noticed that; \$15,000,000 against \$43,000,000 last year. Would you consider, Mr. Chairman, an amendment?

Mr. BRADETTE: I do not think that is within the province of the committee. After all, there are five more months to go and many things may happen. If the money is not required or needed it certainly will not be used. That is all there is to it.

The CHAIRMAN: Gentlemen, as I see this committee, the national railways and transportation lines belong to the people of Canada. The members of parliament are representatives of the people of Canada, and this committee is chosen to perform the primary investigation of inquiring into the business of railways, waterways and airways—our own business. It is competent for this committee to do anything it likes, to move any motion it likes or to make any amendment it likes, but whether it will pass the committee or not is for the committee to decide.

Mr. BRADETTE: I doubt very much if we have the right to pass that kind of an amendment.

The CHAIRMAN: Our amendment would have to be adopted by the House of Commons before it would have very much effect on the railway.

Hon. Mr. HOWE: If it is adopted it will mean the defeat of the government.

Mr. HUNGERFORD: I should like to say, if I may, that after all this is only an estimate that is laid before you. It is our guess as to what is going to occur. If we get \$250,000,000 gross—

Mr. HARRIS: Our guess, plus six months' experience—January to June 30.

Mr. HUNGERFORD: All right, but you have got to guess for six months, have you not? That six months contains many uncertain factors. The grain situation is a matter of serious concern. I can say to you that if the gross earnings turn out at the end of the year to be \$250,000,000, then the cash deficit will be as indicated here. If the gross is more, the cash deficit will be less.

Mr. BLACK: I think it is well, Mr. Chairman, following up what Mr. Harris has said, for the railway to have an objective. I assume they have an objective here. I should like to see the figures of estimated deficits for the last number of years and what the results were in order to see what variation there has been.

Mr. COOPER: I can give you the figures for last year. The estimated total revenue was \$200,000,000 and the actual was \$203,820,000.

Mr. BLACK: What was the estimated deficit last year? That would be submitted soon after the beginning of the year? When is this budget submitted to the government?

Mr. HUNGERFORD: In the early months of the year.

Mr. BLACK: What was your estimated deficit for 1939?

Mr. COOPER: The estimated deficit was \$43,750,000. The actual deficit was \$40,095,000. There was an improvement over the estimate of \$3,600,000.

Mr. BLACK: What was it for the previous year?

Mr. COOPER: I do not have that. We can get it.

Mr. HARRIS: In connection with fixed charges, the interest due the public on this long term debt, are any capital expenditures or other expenditures in this long term debt?

Mr. COOPER: Capital expenditures in 1939 were financed by government loans.

Mr. HARRIS: I am sorry, I did not hear the last two words.

Mr. COOPER: By loans from the government. So that the interest on capital money spent during 1939 is not included in the item "interest on funded debt," but in "interest on government loans."

Mr. HARRIS: Are they included in the next item, "Interest on Dominion government loans"?

Mr. COOPER: Yes.

Mr. HARRIS: How much capital money is included in the so-called Montreal terminal expenditure? Is that all being expended in the year 1940?

Mr. ARMSTRONG: Yes, sir, that is \$3,350,000.

Mr. HARRIS: Is it 1939 or 1940?

Mr. ARMSTRONG: Which page are you referring to?

Mr. HARRIS: Both.

Mr. ARMSTRONG: Are you referring to page 3 of the pamphlet?

Mr. HARRIS: Page 2 of the budget. What is the capital sum represented by the proportion of interest on the Montreal terminal expenditure?

Mr. COOPER: The amount expended last year, was \$2,174,590.

Mr. HARRIS: That is not in this budget, of course?

Mr. ARMSTRONG: It was about \$70,000 in 1938.

Mr. HARRIS: And in 1940?

Mr. ARMSTRONG: The 1940 budget amount is \$3,350,000.

Mr. HARRIS: And in that \$3,350,000 in the budget is this item of \$1,350,000 included?

Mr. ARMSTRONG: No, sir, not in total, because the amount will not be expended for the full year.

Mr. HARRIS: Quite, but the budget figures then?

Mr. ARMSTRONG: \$3,350,000 will not be expended until the end of the year.

Mr. HARRIS: Quite.

Mr. ARMSTRONG: Therefore there will not be a full year's interest on that particular amount.

Mr. HARRIS: In the interest; but the Dominion Government loan will not be paid until the end of this year?

Mr. ARMSTRONG: That is correct.

Mr. HARRIS: The same thing applies. How much of that is interest on Dominion Government loans for capital, and how much is refund?

Mr. COOPER: I could not separate the two items.

Mr. HARRIS: Perhaps you could elaborate on the set-up, the other fixed charges—that is quite a large item—\$2,758,000.

Mr. COOPER: If Mr. Harris would not mind turning to page 19 and 20 of the 1939 report—

Mr. HARRIS: A little louder, please.

Mr. COOPER: Would you please turn to pages 19 and 20 of the printed report.

Mr. HARRIS: Yes. I have the figures here, \$1,767,000; is that a comparative figure?

Mr. COOPER: The total debt is \$1,263,000,000, and the interest charges in 1939 were \$49,814,000. The corresponding figure to that in 1940 is \$50,186,000.

Mr. HARRIS: Much of this interest is payable in New York?

Mr. COOPER: Yes, quite a lot; about \$22,000,000 is payable in New York funds.

Mr. HARRIS: I just don't see the relative figure; what was the amount you said you paid in 1939?

Mr. COOPER: Of the \$50,000,000 total interest due the public, \$22,000,000 was payable in United States funds.

Mr. HARRIS: Is that refinanced, Mr. Chairman, is any principal sum due?

Mr. COOPER: In 1940?

Mr. HARRIS: Yes.

Mr. COOPER: Yes. On page 5 of the budget for 1940 you see retirements of maturing capital obligations amounting to \$8,200,000, and the particular securities included in that amount are set out.

Mr. JACKMAN: We cannot tell from the schedule which ones call for payment in New York funds.

Mr. COOPER: No.

Mr. JACKMAN: But a substantial part of that is payable in New York funds?

Mr. COOPER: Of the principal amount?

Mr. JACKMAN: Of the \$8,200,000, yes.

Mr. COOPER: Yes, a proportion is payable in New York funds. As these are retired the retirement is financed by government loans which are later repaid by an issue of Dominion guaranteed securities.

Mr. HARRIS: In New York?

Mr. COOPER: That depends on conditions. Our present financing is entirely in Canada.

Mr. HARRIS: What I am trying to get at, Mr. Chairman, is this; surely we are not freezing up more liquid money in Canada by retiring loans presently payable in New York by retiring through a method which will take more Canadian dollars for the new investment?

Mr. COOPER: I should say we are.

Mr. HARRIS: We are?

Mr. COOPER: Yes.

Mr. HARRIS: That is a very serious situation, Mr. Chairman; we are short of liquid money in Canada. If we have the opportunity under the Neutrality Act of 1939 to refinance in New York—

Hon. Mr. HOWE: I do not think we are to any extent refinancing in New York. Our general policy has been to refinance in the same market as that in which the present indebtedness is held.

Mr. HARRIS: As I understand it, we are not refinancing in the same market in this instance.

Mr. COOPER: No, we are refinancing in Canada. Our recent issues have been in Canada.

Mr. JACKMAN: Even for retiring New York payments, they have been refinanced in Canada?

Mr. COOPER: That, of course, is entirely a matter of government policy and is not controlled by the railway.

Mr. MACINNIS: I move that we adjourn, Mr. Chairman.

The CHAIRMAN: It is moved that the committee adjourn to re-assemble at four o'clock this afternoon.

(At 1.10 p.m. the committee adjourned to meet at 4 p.m.)

#### AFTERNOON SESSION

The committee resumed at 4.00 o'clock p.m.

The CHAIRMAN: Order, gentlemen; we will go ahead. I think there were some questions submitted to the chair and the answers are here. We will hear them now.

Mr. COOPER: One question asked by Mr. Harris was: "What disposition was made of investment in aircraft lost near Regina in 1938?"

Answer:

|   |                      |
|---|----------------------|
| Total cost of aircraft, complete with engine and radio .....  | \$135,561 23         |
| Depreciation accrued to date of loss, charged to depreciation reserve.....                                | \$ 5,153 16          |
| Value of salvage recovered.....   | 6,834 59             |
| Amount charged to self-insurance reserve, equal to balance available in the reserve.....                  | 87,921 30            |
| Balance of loss not provided by depreciation or insurance provisions, charged to operating expenses. .... | 35,652 18            |
|   | <u>\$135,561 23"</u> |

Mr. ARMSTRONG: Another question asked by Mr. Harris was for a breakdown of the \$207,000,000 estimated operating expenses for 1940.

| Answer:                                 | Estimated<br>1940    | Actual<br>1939       |
|---|----------------------|----------------------|
| Maintenance of Way & Structures.....    | \$ 38,650,000        | \$ 36,530,000        |
| Maintenance of Equipment..              | 48,750,000           | 42,662,000           |
| Traffic.....                            | 5,100,000            | 5,176,000            |
| Transportation.....                     | 104,250,000          | 88,841,000           |
| Miscellaneous operations....            | 1,600,000            | 1,298,000            |
| General.....                            | 9,200,000            | 8,972,000            |
| Transportation for Investment — Cr..... | 550,000              | 513,000              |
| Total.....                              | <u>\$207,000,000</u> | <u>\$182,966,000</u> |

The CHAIRMAN: Now, gentlemen, if you will turn over page 2 we will proceed with page 3.

Mr. HARRIS: We were not through with page 2.

The CHAIRMAN: All right.

Mr. HARRIS: Take interest on Dominion Government loans. The question asked was how Dominion Government loans were refinanced, and particularly those payable in New York. As I understand the deposition those payable in New York are refinanced with Canadian monies and that is transferred to American dollars. To do that it is necessary for one to go to the Foreign Exchange Control Board, I imagine, and arrange to buy with Canadian dollars enough American currency not only to pay the interest due during the year 1940, but also to pay the maturities due in 1940. The question I want to ask is: Was this matter brought to the attention of the directors of the railway, that they were freezing up Canada's position by buying American exchange; and the question is based on the general policy of trying to conserve our Canadian dollars in Canada during this time of war. I would like to know if this matter was brought to the attention of the directors of the railway company and if they as a matter of policy permitted these loans to be re-negotiated in Canadian funds which are presently payable in American funds.

Mr. HUNGERFORD: All questions in regard to new issues come before the directors.

Mr. HARRIS: Are the minutes of the board of directors available to this committee?

Mr. HUNGERFORD: I suppose anything anybody asks for is available.

Mr. HARRIS: What I am trying to get at is who would make the recommendation for this loan to be negotiated in Canadian funds.

Mr. HUNGERFORD: All matters of policy of that kind, at least all financial matters of that kind, are decided upon after consultation with the Minister of Finance.

Mr. HARRIS: Well then, would the Minister of Finance endorse the recommendation of the Canadian National Railways to secure for them the exchange through the Foreign Exchange Control Board?

Mr. HUNGERFORD: I cannot answer that question off hand. I suppose it really works out that way.

Mr. HARRIS: On these maturities that are still coming due, how are we going to find out what the policy is? Are we going to continue or to maintain this monetary shilly-shallying, as it were, to retire American obligations? The point, Mr. Chairman, is, we are freezing up our position very fast. We would like to know what the policy is.

The CHAIRMAN: Is not that rather a government matter than a railway matter?

Mr. HUNGERFORD: It really is, to a very large extent. We are under the direction of the Minister of Finance in regard to matters of that kind, as to what will be done.

Mr. HARRIS: Then, the question which I am putting to the manager is a question which I really ought to put to the Minister of Finance?

Mr. HUNGERFORD: I would think so.

Mr. HANSON: As I understand it the Minister of Finance is the one who advises with respect to the financial transactions of the Canadian National Railway; is not that the position?

Mr. HUNGERFORD: To a very large extent.

Mr. HARRIS: Who would make the recommendation to the directors?

Mr. HUNGERFORD: After consultation with the Department of Finance it would come from the vice-president in charge of finance to me, and then through me to the board of directors.

Mr. HARRIS: Are the minutes of the board of directors available to this committee?

The CHAIRMAN: I would think they would be. I should think anything having any relation to the railway management would be available to this committee.

Mr. JACKMAN: Perhaps we might just get the amounts of maturing obligations in New York which were refunded last year, and how much in New York funds and how much in Canadian funds; and how much will be falling due this year in New York funds.

Mr. COOPER: I can give you this year. If you will turn to page 5 of the budget you will see maturing obligations amount to \$8,200,000; of that \$4,094,000 is due in New York; in Canada \$3,097,000 and in London \$1,008,000.

Mr. HARRIS: I presume, Mr. Chairman, we will have to pay London maturities in cash. They want Canadian dollars. Is that right?

The CHAIRMAN: I would think so.

Mr. JACKMAN: It would be sound policy.

The CHAIRMAN: They want the equivalent of Canadian dollars anyway I would imagine.

Hon. Mr. HOWE: Of course, any very small amount such as a million dollars is very difficult to take care of by way of a refunding operation.

Mr. HARRIS: I just want to leave my premise with the minister. Quite true there is only a small amount, a total of \$8,200,000; part Canadian, part London and part American; but this is going to be a long war, there is going to be a lot more of these come due. I would like to see a policy enunciated not missing any possible opportunity to keep Canada's position liquid. Now here we are frittering away two million some odd dollars which we will not be able to get back as long as the United States stays out of this war. That is \$2,000,000 frozen up, unless your earnings take care of it; and I think as a matter of policy something ought to be done to scotch that flight of Canadian dollars to the United States to take care of these securities without forcing us to pay the American exchange.

Mr. COOPER: Are you speaking of the payment due under equipment trust obligations?

Mr. HARRIS: Quite.

Mr. COOPER: I do not know that you can refund items of that kind there.

Mr. HARRIS: Which are negotiable under the terms of the Neutrality Act of the United States, 1939.

Mr. JACKMAN: But the securities might not be negotiable, might not that be the situation? Fifteen year old equipment might not be good subject matter for a refunding loan.

Hon. Mr. HOWE: Arranging a loan for a million dollars is quite an expensive undertaking in New York, to arrange for a loan of \$20,000,000 would be much easier. It is the policy of the government, I can assure my hon. friend, to refund everything in New York that can be refunded practically.

Mr. HARRIS: Will the minister give a definite undertaking that he will see that Canadian National obligations are brought into the same high plane?

Hon. Mr. HOWE: Quite.

Mr. HARRIS: There is one other point before you pass page 2. You are asking for \$15,000,000. The order of reference definitely says:

Ordered: That the Estimates on Railways and Shipping included in the Main Estimates for 1940-41 tabled in the House on May 23, 1940, be referred to the said Committee.

That is this committee, and the item referred to, as I understand it, is vote No. 459. Now, this year we have had six months' experience before this committee reached the item. In those six months' experience we found 7.1 per cent more revenue than the budget anticipated. That amounts to somewhere in the neighbourhood of \$7,000,000 which will not be required out of this \$15,000,000. Based on this principle I am going to make the following suggestion; at least, I will be forced to dissent from the findings of this committee; and that is this: This committee—I have been on the committee for quite a number of years, as a matter of fact I was on it from its inception, and this committee developed into a place where the press can get a few headlines about what may appear to be mismanagement or something, members of the committee are put in the position of going on a fishing expedition it would appear whereas we are anxious to serve the country particularly at this time—this committee is asked now to approve of everything that is placed before it without crossing a "t" or crossing an "i". Ordinarily this is not a conspicuous effort. It shows the solidarity between the government and its government owned enterprise. They come here and lay down something and we must take it in its entirety. But here is an opportunity due to the fact that we will not require \$15,000,000, we only require \$6,000,000 to \$7,000,000 according to the estimates that are laid before us, because we have

had the experience of the six months just past. If this committee can see its way clear in co-operation with the management of the Canadian National Railways it seems reasonable that the minister and that this committee should recommend to the house a reduction in this item of \$15,000,000. It is not the first time an item has been reduced in the estimates. I have a very clear recollection in 1922 of a substantial sum, \$999,000 being taken out of the estimates after representations were made to the house. It would inspire confidence not only in that very essential thing, the management of the Canadian National Railways itself, but also in our Canadian government owned enterprises; and it would make this committee feel that for once they were able to do something on behalf of Canada, and it might add to the opinion that Canada has of the present Minister of Transport.

Hon. Mr. HOWE: May I point out to my hon. friend a few facts that he has perhaps overlooked. In the earlier part of the year we were operating with a thin traffic period.

Mr. HARRIS: Quite.

Hon. Mr. HOWE: The traffic results of last year in the spring months were disappointing in our own figures and budget in those months. The increase of \$7,000,000 which he has suggested—I do not know whether the figure is correct or not—is against a budget of \$20,000,000, and not a budget of \$15,000,000. The railways budget is \$20,000,000 and the government budget is \$15,000,000. In other words we arbitrarily took \$5,000,000 off. Now, we may have been justified already in doing that, and we may be justified in going further. But looking at the second half of the year from an operative basis we must remember that we had the second largest crop in the history of Canada in the last four months of last year, and we are comparing that period against a slow traffic period. We have also got to remember that this year while we can expect a crop we cannot expect to see the movement that we had last year. In other words, in my opinion, it will not be possible to use the equipment to capacity as we did last autumn. We have got these facts, basic facts. While I was still Minister of Transport I went into the budget position very thoroughly with Mr. Hungerford and it was his opinion and the opinion of the management, and my own after we had discussed it, that there was nothing in the present situation to justify us in the belief that we would get through with as little as \$15,000,000. As Mr. Hungerford said, we cannot look into the future accurately enough to say what should be done.

Mr. HARRIS: I am only speaking of what we have before us.

Hon. Mr. HOWE: What you have before you is a budget which calls for \$20,000,000 for the railway.

Mr. HARRIS: Since this national budget came down with 10 per cent exchange and the increase in duty on imported coal there is going to be a much greater movement of Canadian coal over the railways?

Hon. Mr. HOWE: I wouldn't count too much on any great increase in traffic of that kind; I do not see where you are going to get back a new Canadian dollar for an old one.

Mr. HARRIS: Why should we not reduce that Canadian National budget calling for a deficit of \$20,000,000, to \$15,000,000 to conform to the deficit that you have in the estimates?

Hon. Mr. HOWE: Because the Canadian National Railway budget is the budget brought by the board of directors, the management of the railway, and they believe that \$20,000,000 is the correct amount. The government believed that it was not necessary to appropriate that amount of money at this time. They believe that if the railway is right and the government is wrong it will still be possible to make an increased appropriation at the end of the year. If the government is right and the railway is wrong we won't have to pay anything more than the figure which appears in the estimates.

Mr. HARRIS: Mr. Chairman, we are losing sight of the fact that we had six months' experience. However, I do not want to waste the time of the committee; all I ask of you, Mr. Chairman, is whether or not that would be considered—a reduction of that item in this committee.

The CHAIRMAN: The only way you can get your answer is through the medium of a motion.

Mr. BLACK: I should say that the minister should support the motion made by Mr. Harris inasmuch as he in this committee represents the government. He might support the proposal to have the estimates of the Canadian National Railway reduced to conform to the government's appropriation in its estimate of \$15,000,000. Especially is that justified inasmuch as we have six months from which to judge results and they seem to indicate the wisdom of the government in providing for an appropriation of only \$15,000,000.

Hon. Mr. HOWE: I might say that contrary to statements that I hear from across the house occasionally, the government does not operate the Canadian National Railways. We own the common stock in the railway but the railway is operated by a president and a board of directors.

Mr. HARRIS: Might I put the same question then to the management?

Hon. Mr. HOWE: Certainly.

Mr. HARRIS: Would they in co-operation with the minister and this committee consider recommending a reduction in their request here for \$20,000,000 to some figure more nearly representative of conditions as they appear at the present time?

Mr. BRADETTE: I do not see the logic of that. If they have only a million dollars of a deficit does it mean they are going to waste that money somehow? It will be at the disposition of the federal treasury. Why not leave the amount as it is? Personally I feel it should be left there and if the deficit is less than twenty million dollars all the better for the country as a whole; but it will certainly show next year. The same thing applies if the figure is less. We may have something coming; we do not know. They may have a deficit of twenty-five million dollars. That will have to be paid by the federal treasury in any event.

Mr. HARRIS: I am concerned about the next six months.

Mr. HUNGERFORD: Speaking from the railway standpoint, this budget has been revised upwards once by the directorate. In the early part of the year, we arrived at a certain figure, \$235,000,000, as I recall it. Later on as the revenue increased it was revised upwards. This was the figure adopted about a month ago; it is approved by the directors. I have no authority to change it without the consent of the directors. But let me say to you that the amount of money that will be drawn down from the government in any event will be the actual deficit no matter what amount is voted. I can state to you here that for every \$2,000,000 additional gross earnings above \$250,000,000 we will reduce the cash deficit \$1,000,000 provided there is no change in material prices and wage rates. In other words, we would recover 50 per cent of whatever that excess may be over \$250,000,000. It looks as if the gross amount may be greater than \$250,000,000, but there are these unknown factors. As I said this morning, the wheat situation is a very large one. It may affect the gross earnings considerably. We cannot be sure. Again I say that it is the best guess that can be made in the light of the evidence that is available.

Mr. HARRIS: At what date?

Mr. HUNGERFORD: I do not see that anyone else can approach it from any other angle. The deficit that will be drawn down will be simply the actual deficit at the end of the year and that will be kept as low as it is possible to do.

Hon. Mr. HOWE: It is analogous to a man going to an architect to get a house built. He tells him what he wants in that house and the architect makes an estimate of cost. He may argue with the architect and get the architect to give him a lower figure, but he will have to pay for the house.

Mr. DONNELLY: What you mean is if your operating revenue is \$290,000,000 you will decrease the deficit?

Mr. HUNGERFORD: I think we would. This is a forecast of what the operating revenue is going to be.

Mr. DONNELLY: It is always contingent upon whether there is a change in the wheat policy or prices of material.

The CHAIRMAN: Well, now, gentlemen of the committee, I think we need not waste more time upon this. I do not believe that we can alter conditions as submitted to us except by general agreement, common agreement.

Mr. HARRIS: That is what I am asking for.

The CHAIRMAN: If there is no common agreement—

Mr. HARRIS: If you say that we are through.

The CHAIRMAN: If there is no common agreement the only way to test it is by means of a motion.

Mr. BLACK: If members of this committee have any responsibility we have to view that responsibility from the light of to-day, the 16th of July, with the experience of six months that have passed. The railway management and the minister have to view it from the standpoint of estimated budget. We are in a little different position; we have to view it from the standpoint of experience and I would say that we are justified, sitting in on this committee to-day, with more than six months of the year having expired and the prospect for traffic over Canada generally being good, in asking that this estimate be reduced at least to conform with the estimate submitted to parliament. I think the estimate of \$20,000,000 should be reduced to \$15,000,000.

The CHAIRMAN: Well, I think there should be a more general expression of opinion in the matter. Without that I do not see how else we can settle it.

Mr. JACKMAN: If there is any virtue in the budget whatever I think that virtue must lie in an accurate budget. If we have the benefit of six or seven months' experience and find that conditions have been better than we expected surely we might consider the worthwhileness of some revision. In other words, what is the budget for? It must be something to aim at and if you accumulated too much fat on your bones in the first six months there is undoubtedly the disposition to sail along rather easily and not cut your expenditures as closely as you might otherwise do. Otherwise, what is the purpose of having a budget at all? You want to have some idea of the course you are going to steer during the year. You find now that your revenues for the six months past have been more than you expected due to events beyond your control. I do not say that disparagingly. You have the experience of the past six months and you should surely set your course based on that. If that is not so why have a budget at all? Why have a budget at all if you do not have an accurate one?

Hon. Mr. HOWE: The whole question about a budget is first the figure in it. Now, that is a figure of gross earnings. The management of the railway would like nothing better than to get something from this committee as to what their gross earnings will be and base a budget on that. The budget of the railway is made up in this way. All the organizations composing the railway, every superintendent on the line puts in his own estimate of what the revenue is going to be and that is all collected and put into the figure which represents gross earnings, and a budget made from that. You have heard the best information of the railway as to what their earnings are going to be. Is this committee going to tell them what their earnings are going to be? If they will I am sure the directors will say, on the direction of the committee, we are going to budget on certain gross earnings.

Mr. JACKMAN: What is the purpose of the budget?

Hon. Mr. HOWE: To forecast the position of the railway, the operating position at the end of the year.

Mr. JACKMAN: And to some extent to guide the management accordingly?

Hon. Mr. HOWE: I do not think it guides the management; the management is guided by circumstances from day to day. They run the railway as economically as possible and prepare to handle the business they see in sight.

Mr. JACKMAN: In other words any change in the budget is on the increase or decrease in operating revenue. It will have very little if anything to do with the amount spent. That is, apart from the fact that we have to spend more money if we do more business. It would not curtail to any extent any expenditures from now on despite the fact that there is quite a change in the situation due to the increase in operating income for the first six months of the year.

Mr. HUNGERFORD: Oh, yes; the operating expenditures are adjusted to the flow of traffic all the time, every month. The main objective, of course, is to keep expenses as low as possible at all times. The situation is reviewed about the middle of one month for the succeeding month and the budget is made up for that month, when it comes through for approval at headquarters; so if there has been a downward trend in traffic our expenditures are immediately cut down as far as it is possible to do. It is quite true that when there is a decrease in traffic you do not have to run as many trains and there is a decrease to that extent, but it carries with it the obligation to reduce as far as possible the expenditures in every direction, maintenance of equipment and tracks and all that sort of thing; and that is under constant consideration and adjustment all the time.

The CHAIRMAN: Gentlemen, the committee at present is practically at a standstill. We cannot get any further except by way of motion, as far as I can see. That is the position of the chair anyway. If there is no motion we will proceed to something else. If there is a motion we will deal with it.

Mr. HARRIS: I will put a motion to this effect. I would move that the management in co-operation with the Minister of Transport in giving consideration to the views of this committee be asked to reduce the estimate referred to by the order to a lower figure in view of six months' experience.

Hon. Mr. HOWE: I think the motion should be that the directors be asked to consider that the gross revenues will reach a certain figure. Would you name that figure?

Mr. HARRIS: I am not competent, Mr. Chairman, to name a figure other than one based on the experience they have given us that they have a 29 per cent increase where they anticipated a 22 per cent increase. Whatever relation that difference bears to the figure for the next six month period.

Mr. DONNELLY: Do you not anticipate a great reduction in the normal revenue from the movement of wheat this year?

Mr. HUNGERFORD: I do expect some.

Mr. DONNELLY: You anticipate a reduction?

Mr. HUNGERFORD: I do.

Mr. DONNELLY: Because as I understand it there are only about a hundred million bushels of wheat in storage. Most of our wheat is going to be stored on the farms and not going to be able to move at all until sometime in May or April of next year. I do not see where you are going to get your ordinary revenue from the movement of wheat this year.

The CHAIRMAN: Let us get this motion straightened out. Have I a seconder for the motion?

Mr. BLACK: I will second it.

The CHAIRMAN: All right.

Mr. BRADETTE: We know the contents of the motion.

The CHAIRMAN: Gentlemen, we have heard the motion. All in favour raise the right hand, please.

Those against.

I declare the motion lost.

Mr. HARRIS: I move that the vote be recorded.

The CHAIRMAN: All right; let the vote be recorded. Those in favour will rise so that we may be sure of the voting.

Those in favour: Messrs. Black, Harris and Jackman.

Those against: Messrs. Bradette, Sissons, Sanderson, Emmerson, Ferland, Hanson, Donnelly, McCulloch.

The CHAIRMAN: We shall now proceed with page 3.

Mr. ARMSTRONG: Page 3 shows—

Mr. BLACK: Before we leave that may I refer to the figure of \$207,000,000 which appears here and is said to be operating expenses. What were the operating expenses for the previous year? We have it on the record, but I should like to have it now.

Mr. ARMSTRONG: \$182,966,000.

Mr. BLACK: I wonder if we can break down that difference of about \$24,000,000.

Mr. ARMSTRONG: As to where it occurs, sir?

Mr. BLACK: Yes.

Mr. ARMSTRONG: We have it on the record now, the comparison between the 1940 estimate and last year's actual.

Mr. BLACK: Now, I want to make one observation and it is contrary to some of the arguments that we have been making. My observation is that the railway in some of its purchases, especially in the Maritime provinces, have not given due consideration to the increase in the cost of production and the increase of certain basic commodities produced, at least, in the Maritime provinces. I refer to the prices paid for ties and the prices paid for coal. I do not feel that the prices paid the lumbermen in Nova Scotia, at least, have been fair, having regard to the increase in cost and the increase in the prices of other lumber products. The same thing applies to the amount paid for coal. The cost of producing coal, especially in the smaller mines, has increased very materially. There has been a very, very small margin to the operators of these mines in supplying coal to the railways, which is the back log of some of these mines. Until very recently there has been no increase in the amount paid for ties. While there has been an increase of 20 or 25 per cent in the prices paid for other lumber products there has been a negligible increase in the prices paid for ties. The same applies to coal. I should like to hear from the management their justification for paying such small prices to the basic producers of such commodities.

Mr. VAUGHAN: I think in the first place it is incumbent upon us to buy our material as cheaply as we can and operate the railway as economically as we can. Everything is more or less competitive, and as it is now the price of coal in Nova Scotia exceeds greatly the price in other provinces. As a matter of fact, some of the mines in Nova Scotia have had increases. I am not aware at the present time that there is any general dissatisfaction in the province of Nova Scotia in respect to the price paid for coal.

Mr. BLACK: What has been the recent increase? What is the price paid to-day for coal in comparison with the prices paid a year ago and when did this increase go into effect?

Mr. VAUGHAN: While I feel, of course, this committee must get all the information it desires, my position is this: we must negotiate for this coal. We have given some mines increases but have not given other mines increases. If we come out here and tell everything we are doing in that connection every operator who did not get an increase, whether justified or not, is going to ask for that increase. We have given some mines down in Nova Scotia an increase of 25 cents a ton effective as of the 1st of May. Other mines have not been given an increase; some have not asked for any—many of them have not asked for any.

Mr. BLACK: They are at your mercy.

Mr. VAUGHAN: A man can always ask for an increase if he feels that it is justified, but that does not say he will get it unless we think it is justified.

Mr. HANSON: Mr. Chairman, the same thing applies in British Columbia as far as ties are concerned. But the trouble is the number of ties cut in British Columbia is just about 25 per cent more than the market requires. Notwithstanding that the producers have kept on producing a surplus of ties every year and banking on the railway company to take them; they are still doing it. It is impossible to blame the railway company for not raising the price as long as they get that commodity at the price they are paying for it. I wish there was some way, Mr. Chairman, that this situation could be rectified. It is the producers, own fault, in my opinion. The same thing applies with regard to coal in British Columbia. They are prepared to sell it for the price that they are offered, and they are prepared to produce it. You cannot expect anybody who is in the market for a commodity to pay more than he can get the commodity for. What would we say in the railway committee, for instance, if the management went out and offered me more for my commodity than I could get from the open market? You, Mr. Chairman, or somebody else would be complaining about it. The purchasing department of the railway is trying to run their department as cheaply as possible and buy as economically as possible, the same as we are all doing.

Mr. VAUGHAN: So far as the price of ties in Nova Scotia goes I think that question came up the other day. I stated we pay the maximum price in Nova Scotia. No other province in Canada gets a higher price than Nova Scotia. It gets the maximum price for ties. In some provinces we buy ties at considerably less than the price paid for ties in Nova Scotia. Those prices were all set last August or September, which is the time we order our ties and go into the market for ties. Some of these ties are only being delivered now on those contracts.

Mr. BRADETTE: Why would you pay more for ties in Nova Scotia than anywhere else?

Mr. VAUGHAN: There, again, it is a question of supply and demand. There are certain grades of ties in the Maritime provinces that are not as plentiful as in Ontario and some other provinces.

Mr. BRADETTE: I do not think there is much criticism there, if the C.N.R. is getting its ties at the same price as is paid by other railroads. There are certain laws within the provinces to protect men who produce these ties, so the C.N.R. should be protected too on that score.

Mr. BLACK: What is the approximate increase in the amount paid for ties for 1940 delivery in comparison with the 1939 delivery?

Mr. VAUGHAN: I do not know whether I have that figure here or not. In some districts there was no increase at all. There was a small increase in Nova Scotia; I do not remember just what it was off-hand.

Mr. JACKMAN: While we are waiting, I should like to ask a simple question. Is it true that this railway has to buy certain of its supplies in certain parts of Canada at a price higher than they would pay otherwise because of political factors? I suppose that is a very simple question for a new member to ask

Mr. VAUGHAN: I can answer that very emphatically, no; we never pay any attention whatever to the political exigencies of any part of the country in respect to the purchase of our supplies, nor are we governed by political influence in any way in regard to the purchase of our supplies. We buy them wherever we can to the best advantage.

Mr. McCULLOCH: I think I can back Mr. Vaughan up in that statement because I have a great deal to do with it in my district. I have never found that politics entered into the matter at all.

Mr. JACKMAN: I am not trying to saddle anything on the present administration; I just want to know about the carrying on of a government railway. Mr. Vaughan did mention that a higher price was paid—that Nova Scotia received as high a price—

Mr. VAUGHAN: Yes, I did not say "higher price."

Mr. JACKMAN: —that Nova Scotia received as high a price as any other part of Canada for its ties. Certainly one might have drawn the inference from the price paid for coal that an effort was made to keep certain communities alive and where the effort might not have been made if it had not been purely a government-owned enterprise. I am very glad to hear from Mr. Vaughan that everything is done on a strictly businesslike basis with no influence of a political character.

The CHAIRMAN: Have you the next answer in reply to Mr. Black's question?

Mr. VAUGHAN: There was no difference between the price paid in Nova Scotia or New Brunswick between 1938 and 1939.

Mr. HARRIS: You do give consideration to those firms which give a good deal of freight to the railways as compared with firms of a fly-by-night character which do not give the railways any freight?

Mr. VAUGHAN: That would undoubtedly be so providing everything else was equal. Naturally we do everything we can to get all the business we can, and it is only reasonable that we would do business with those firms which do business with us, so long as their price and quality are satisfactory.

The CHAIRMAN: Are there any other questions in regard to page 2?

Mr. BLACK: I consider that the price paid for ties to producers in Nova Scotia is not sufficient. The price of lumber increased 20 to 25 per cent per thousand, and the producers of ties cannot possibly deliver them at a profit at the price which they are being paid. There is no justification for them conducting business on the 1939 price.

Mr. VAUGHAN: Our position, Mr. Black, is that we are able to get all the ties we need at the price we are paying.

Mr. DONNELLY: Are your prices lower than the prices paid by the C.P.R.?

Mr. VAUGHAN: Our prices are pretty much on a par with the C.P.R. In fact, we discuss the tie situation with the C.P.R. each year in respect to prices to be paid each province before we let our contracts.

Mr. DONNELLY: Practically speaking, all the ties that are needed in Nova Scotia are contracted for?

Mr. VAUGHAN: Yes.

Mr. BLACK: I would say that the producers of ties in Nova Scotia will go out of business unless they have some assurance that a fair price will be available to them.

Mr. VAUGHAN: Well, we will soon be negotiating again for our ties for next year.

Mr. BLACK: You really set the price, do you not, and it means that they must either accept or refuse the business?

Mr. VAUGHAN: That is true. We fix a price which we consider is a fair price. On the other hand, if it is more profitable for the tie producers to saw their logs into lumber, they naturally would do so rather than turn them over to us in ties.

We get various prices. It depends upon the size of tie and kind. The maximum price we pay in Nova Scotia for a hardwood tie is seventy cents. That is for the larger tie.

Mr. BRADETTE: Seventy cents f.o.b.?

Mr. VAUGHAN: Loaded on the cars, for a hardwood tie.

Mr. BLACK: What is paid for hemlock and pine ties?

Mr. VAUGHAN: That would be a number 2 hardwood tie, six by eight. The number 1 tie is seven by nine. We do not get any number 1 hardwood ties in Nova Scotia because the timber is not large enough.

Mr. BLACK: What is paid for hemlock and pine ties?

Mr. VAUGHAN: I think it was sixty-eight cents. That is for the larger tie—seven by nine. For a six by eight we pay sixty-three cents. For a smaller tie, six by six, we pay twenty-five cents.

The CHAIRMAN: I would like to suggest, gentlemen, that you are not likely going to settle this tie business here, and we are not getting very far with the work of the committee.

Mr. HARRIS: We are getting very far. I object to that. I very, very strongly object to that. This committee, Mr. Chairman, for your information, is getting along much faster and making much more progress than any committee it has been my pleasure to sit on since the year 1921.

The CHAIRMAN: I am very glad to hear that.

Mr. HARRIS: I congratulate the chair on making such progress.

Mr. HANSON: I wonder if Mr. Vaughan would give us the price paid for ties in British Columbia.

Mr. VAUGHAN: The maximum price we pay in British Columbia is fifty-two cents. We pay a lower price on Vancouver island. On the mainland, for six by eight ties we pay forty cents. For the smaller tie we would pay twenty cents.

Mr. JACKMAN: Does that not go back to my previous question? Why do you buy these Nova Scotia ties?

Mr. VAUGHAN: For this reason: We could not haul ties from other provinces into Nova Scotia; it would be too expensive.

Mr. JACKMAN: On your own railroad?

Mr. VAUGHAN: We can not have them for nothing. We figure our actual out-of-pocket expenses in arriving at the delivered cost of all the commodities we buy.

Mr. JACKMAN: One reason I addressed my previous question to you was that I understood in Fernie, British Columbia, they were paid about twenty-five cents more per ton for coal than the adjoining city. One city was about to pass out of the picture pretty well because of the business not being as profitable as formerly. In order to prevent that and to prevent the town going on relief I think probably both railways may have agreed to pay a little more per ton and thus keep the community alive. I was speaking only from general knowledge of the situation, and I should think that such a proceeding on the part of the railways would be quite justifiable. I should like to know if what one might call a political or humanitarian influence was working in such a large enterprise as this railway and perhaps the C.P.R. also.

Mr. VAUGHAN: I think the only justification we would have for keeping a mine going would be if we needed the coal in the future. We could not keep a mine going from a humanitarian standpoint. We try to be humanitarian in all our dealings, and I think we are. But we feel that where the Canadian National Railways is concerned we have got to be a bit hard-boiled. We get a lot of criticism from the gentlemen here, and we have to be able to meet that. It is fair criticism and we welcome it.

Mr. HARRIS: Constructive criticism.

Mr. VAUGHAN: In Alberta, the C.P.R. and ourselves pay the same price for coal. They are served by mines in the south; we, by mines in Northern Alberta. Some of the mines on our line are demanding an increase in price.

Mr. JACKMAN: Take the newsprint companies, they have to distribute their tonnage to various places in order to keep communities alive, and it would not be surprising or even a matter subject to criticism if the railroads did it. I should like to know if they do it.

Mr. VAUGHAN: They can adjust the selling price of their commodity based on the price of the raw materials; we cannot do that. We have to watch our purchases very carefully.

Mr. JACKMAN: I do not think the newspaper manufacturers would agree that their prices could more easily be raised than yours.

Mr. VAUGHAN: They are subject to adjustment while ours are not, or which is very seldom the case.

Mr. BLACK: The price paid by the railways for ties in Nova Scotia is less than \$17 per thousand. It is about \$16.50 for hemlock ties, and I say, Mr. Chairman, that that is too low a price. It is entirely out of line with the price paid in other parts of Canada.

Mr. BRADETTE: How much per thousand?

Mr. BLACK: About \$16.50.

Mr. VAUGHAN: There are about forty-two feet in a tie that we would pay sixty-eight or seventy cents for.

Mr. BLACK: A six by eight would represent thirty-two feet, and the price, you said, was fifty-three cents?

Mr. VAUGHAN: That is right. There are forty-two feet in the larger tie.

The CHAIRMAN: If you are through with page 2 we will go ahead with page 3.

Mr. ARMSTRONG: The estimated capital expenditures are listed under the following headings.

|  |              |
|--|--------------|
| Atlantic Region . . . . .  | \$ 2,609,559 |
| Central Region . . . . .   | 1,992,859    |
| Western Region . . . . .   | 2,525,046    |
| Grand Trunk Western Railroad Company . . . . .                         | 559,020      |
| Central Vermont Railway, Inc. . . . .                                  | 152,001      |
| Hotels . . . . .   | 80,000       |
| Montreal Terminals Development . . . . .                               | 3,350,000    |
| Prince Edward Island Car Ferry and Terminals . . . . .                 | 19,700       |
| Subsidiary Companies . . . . .   | 412,713      |
| General, including Additions and Betterments<br>to Equipment . . . . . | 2,123,502    |
|  | <hr/>        |
|  | 13,724,400   |
| Less Equipment Retirements . . . . .                                   | 9,075,400    |
|  | <hr/>        |
| On a net capital expenditure of . . . . .                              | 4,649,000    |

Mr. EMMERSON: On that Atlantic region, can you break down the capital expenditure?

Mr. ARMSTRONG: Yes; they are made up in budget form. They consist of a very great number of items, probably several hundred items.

Mr. BLACK: What are the items about, those between \$50,000 and \$100,000?

Mr. ARMSTRONG: They include improvements at Moncton . . . Would you like the items with the amounts?

Mr. BLACK: Yes; I should like to have the appropriations, say, in excess of \$100,000.

Mr. ARMSTRONG: There is an item at Moncton for a new locomotive erecting shop estimated at \$300,000.

Mr. EMMERSON: \$300,000?

Mr. ARMSTRONG: \$300,000. That is the estimated capital expenditure for 1940.

Mr. EMMERSON: That is for a locomotive erecting shop?

Mr. ARMSTRONG: Yes. That is the amount shown in the budget for 1940. That is the amount which it is estimated will be expended in 1940.

Mr. EMMERSON: That is the estimate of the building?

Mr. ARMSTRONG: That is not the complete works.

Mr. HUNGERFORD: That is a matter that is under consideration at the present time. The total estimate for this shop is \$835,000.

Mr. EMMERSON: Does that take into consideration the new heating system?

Mr. HUNGERFORD: Everything that goes with it, yes. But, owing to conditions, no more than \$300,000 will be spent this year. It is a job that will be carried over for two years.

Mr. EMMERSON: Is there an item in there for the electrical control between Moncton and Truro?

Mr. ARMSTRONG: The item is in the budget, but the question of how much of it will be expended in 1940 is now under consideration. There is an item in here for additional terminal facilities, line trackage, signalling and possibly centralized traffic control. The total item amounts to \$1,000,000.

Mr. HUNGERFORD: The situation is that at the outbreak of war we had to give consideration to increasing the carrying capacity between Moncton and Truro particularly, and a considerable amount of work was done last fall in the way of additional passing tracks and making some more or less limited yard improvements. There was not time, however, to carry on any major work. This year we are improving the yard at Moncton and enlarging it and making use of a portion of the old transcontinental yard.

Mr. BLACK: What is the estimate for that?

Mr. HUNGERFORD: We are making similar improvements at Sackville and Truro, and we are doing a certain amount of terminal work at Halifax. We are building a new engine house in the proper location at Halifax in order to facilitate business. We made a study of what is known as centralized traffic control between Moncton and Truro, but we came to the conclusion that the expenditure was too great to warrant it inasmuch as the main factor down there is the capacity of the Halifax port facilities. While the item stands in the budget as \$1,000,000, probably some of the money will be used for track facilities and things of that kind, and the major portion of it will not be spent. Under war conditions we thought it was necessary to have a contingent fund to take care of possible requirements.

Mr. BLACK: But that centralized traffic control will not be put into effect?

Mr. HUNGERFORD: That is the present decision, not to put it in this year.

The CHAIRMAN: Next?

Mr. BRADETTE: Mr. Chairman, with regard to the last item, general, including additions and betterment of equipment, could we get a brief statement of what that would be?

Mr. BLACK: I should like to finish this \$2,509,000 item. May I ask Mr. Hungerford what the policy of the railway is with respect to completing the double tracking of the Canadian National Railway from Moncton to Halifax?

Mr. HUNGERFORD: Well, that was thoroughly studied. The expense would be very, very great; and it would provide a capacity again in excess of the port facilities. Furthermore, it would take too long, and the mere fact of double tracking would interfere with the use of the single track line under heavy traffic conditions, so that was ruled out. The centralized traffic control would be cheaper and could be installed without interfering with traffic; and it would increase the capacity of the line to about double.

Again, there is no use in spending money to increase the capacity of the line between terminals when the terminal facilities will handle only a certain amount. In other words, you can only justify the spending of money to make improvements so that your terminal facilities or your line facilities will be in balance and be able to handle approximately the same amount of traffic. What we actually did last winter between Moncton and Truro was to handle substantially twice as much business as we did during any corresponding period in the Great War of 1914-18.

Mr. BLACK: Twice as much?

Mr. HUNGERFORD: Practically.

Mr. BLACK: There was some congestion was there not?

Mr. HUNGERFORD: There was a heavy load there, but we carried it successfully and there were no serious delays. Perhaps the most troublesome delay was in connection with the accumulation of wheat and flour at Halifax in the terminal. We propose this winter to hold that back, perhaps, and feed it in there as required.

Mr. EMMERSON: Will that involve the use of Saint John to a greater extent than has been the case in the past?

Mr. HUNGERFORD: Well, that remains to be seen.

Mr. EMMERSON: If you cannot handle the traffic through the port at Halifax, would that not follow?

Mr. HUNGERFORD: Well, it is a question of how much can be handled there. It depends on shipping and things beyond our control. I can say this to you, that we believe that with the facilities that we are constructing this year,—the improvements that we are putting in this year,—quite apart from the centralized traffic control which is not going in, we will be able to handle pretty nearly double what we handled last winter, if we are required to do so this winter.

Mr. BLACK: Does that refer to the Moncton-Truro section of the line?

Mr. HUNGERFORD: Yes.

Mr. BLACK: Do I understand from Mr. Hungerford that last year twice the traffic was handled between Moncton and Halifax as in the peak year of the last war, and that this year, for 1940-41, it is expected that twice the traffic can be handled that was handled in the last year, which would be four-fold of what it was in the peak year?

Mr. HUNGERFORD: That is right, except to this extent—and I referred to the line between Moncton and Truro—that a large amount of traffic that we handled between Truro and Moncton last winter was coal and steel coming from Sydney and moving into upper Canada.

Mr. BLACK: Have you figured an estimate for double track between Moncton and Halifax? You said it was a very large expenditure.

Mr. HUNGERFORD: I have not the figure in mind at the moment, no. I could not tell you.

Mr. BLACK: The railway would have an estimate of it.

Mr. HUNGERFORD: Yes, I think we have.

Hon. Mr. HOWE: About \$6,000,000, as I remember it.

Mr. SMART: It is more than that.

Hon. Mr. HOWE: The Colonel says it is \$9,000,000. I am wrong.

Mr. HUNGERFORD: The worst feature about that, as I explained before, is that the double tracking of a line under heavy traffic conditions would interfere with traffic to such an extent that we could not contemplate it under war conditions.

Mr. BLACK: As regards the line from Sydney to the mainland, I have heard it said that it is poorest line in North America, having regard to the amount of traffic it carries.

Mr. HUNGERFORD: We could say this, that it was a poorly located line in the first instance, with a great deal of curvature, an excessive amount. But the limiting factor of that line from Sydney to the south of the Strait of Canso is the carrying capacity of the ferry across the strait. We propose to make some improvements on the line between Truro and Sydney this year in the way of additional passing tracks or longer passing tracks, but only to the extent to balance the capacity of the line facilities with the capacity of the ferry to get the traffic across the strait. There would not be any object in going beyond that. It would be a waste of money.

Mr. BLACK: But the operation of the railway there is very expensive, having regard to the grades and the curvature, is it not?

Mr. HUNGERFORD: Yes.

Mr. BLACK: In relation to the traffic that it has to carry?

Mr. HUNGERFORD: The only way that you could improve that line would be to practically rebuild it—build a new railroad.

Mr. BLACK: Has a general estimate been made as to the cost?

Mr. HUNGERFORD: No.

Mr. BLACK: Of modernizing that line?

Mr. HUNGERFORD: No. It would cost more money than the volume of traffic would warrant. I am sure of that. Let me explain that the line is in good physical condition, but it is not of a good character. It has altogether too many curves and heavy grades.

Mr. BLACK: There is a large number of accidents on that line, is there not?

Mr. HUNGERFORD: I beg your pardon?

Mr. BLACK: There is a large number of accidents on that line, is there not?

Mr. HUNGERFORD: No, I would not say that.

Mr. McCULLOCH: What is your business on that line?

Mr. HUNGERFORD: I beg your pardon?

Mr. McCULLOCH: What is your increase in business on that line?

Mr. HUNGERFORD: I have not the figures here.

Mr. McCULLOCH: I understand it is much heavier than it was a year ago.

Mr. HUNGERFORD: Yes, very.

Mr. McCULLOCH: They have been breaking all records, I understand on that line.

Mr. HUNGERFORD: The ton mileage increased substantially in the month of May, as compared with May of last year. The ton mileage in May of this year was four times that of May last year.

Mr. McCULLOCH: Four times.

Mr. HUNGERFORD: Yes. But last year the traffic was not heavy. There was a heavy movement of coal last winter to upper Canada from that field.

Mr. BLACK: There is another thing I want to mention. I thought that the main justification for the Guysborough branch line was that it might be used for carrying through traffic from Cape Breton. Has any consideration been given to completing that line and making it the line for the through traffic from Cape Breton?

Mr. HUNGERFORD: The line would not serve the purpose unless it was extended to Sydney.

Mr. BLACK: Yes, extended to Mulgrave.

Mr. HUNGERFORD: It would be a large amount.

Mr. BLACK: Has consideration been given to it?

Mr. HUNGERFORD: Again you would have to multiply the facilities across the Strait of Canso to take care of it.

Mr. BLACK: I presume the railway has given consideration to that suggestion?

Mr. HUNGERFORD: Of extending the line through to Sydney?

Mr. BLACK: No, completing the Guysborough line so that it will carry the through traffic, making a modern line of it, a modern railway, to carry the traffic from Cape Breton, from Mulgrave to Stellarton.

Mr. HUNGERFORD: I do not think any consideration has been given to that recently. There is not the volume of traffic.

The CHAIRMAN: Mr. Bradette had a question.

Mr. BRADETTE: Mr. Chairman, I should like a brief explanatory statement of the last item, "general, including additions and betterment to equipment, \$2,123,502." What will that include, in a general way? Is that all equipment or what?

Mr. HUNGERFORD: Every time a locomotive or car goes through the shop, it is advisable to add something to it in the way of an improvement, and the charge is made against capital account. It is something that is a little bit better than what was on the unit before, and actually that amount is used up in a multitude of small sums, a few dollars per unit.

Mr. BRADETTE: I see no item about insurance. Does the C.N.R. system carry its own insurance for equipment of any kind?

Mr. ARMSTRONG: The C.N.R. carries its own insurance in a general insurance fund.

Mr. BRADETTE: Entirely its own fund?

Mr. ARMSTRONG: That is fire insurance.

Mr. BRADETTE: Fire, accident and destruction of property?

Mr. HUNGERFORD: Not accident insurance, no.

Mr. BRADETTE: I mean, when you have a derailment.

Mr. HUNGERFORD: That is simply charged to operating expenses.

Mr. ARMSTRONG: In effect, it carries its own insurance in paying for accidents as they occur.

The CHAIRMAN: Next point? Shall we go on to page four?

Mr. ARMSTRONG: At the bottom of page three there is a list of new equipment totalling \$1,665,000. Shall we go on to page four?

The CHAIRMAN: Yes.

Mr. EMMERSON: May I go back for a moment? There is just one item in connection with which I should like to ask. It is a small item of \$19,700 for the car ferry and terminals, on page three. Is that on the ferry, one or other of the ferries, or is it on the docks?

Mr. ARMSTRONG: It covers principally the unexpended balance from the previous year for the strengthening and crib bonding of bursting short-arm pier. The total cost was \$43,000, of which this is the balance. It is at Cape Tormentine.

Mr. HUNGERFORD: It is in connection with the piers.

The CHAIRMAN: Page four.

Mr. HARRIS: On page three, Mr. Chairman, we were going to get a little more explanation of that \$3,350,000 item. How much of that is expended so far?

Mr. ARMSTRONG: The expenditure—

Mr. HARRIS: Could you give us to the end of the first three months, March 31, and then the three months ending June 30.

Mr. ARMSTRONG: I am not sure that I can give you to the end of March. Our figures are on the calendar year basis, as you know. You want the expenditure, as I understand it, from January 1st to March 31st, 1940?

Mr. HARRIS: Yes.

Mr. ARMSTRONG: We have not that figure readily available.

Mr. HARRIS: For what period is this \$3,350,000?

Mr. ARMSTRONG: This \$3,350,000 is what we budgeted for the calendar year 1940.

Mr. HARRIS: How much of that is expended up to March 31st?

Mr. ARMSTRONG: I cannot give you up to March 31st.

Mr. HARRIS: I just want an estimate.

Mr. HUNGERFORD: We can get it.

Mr. HARRIS: There was a national event on March 26th. That is the reason I mentioned March 31st.

Mr. ARMSTRONG: We have spent for the first six months, from January 1st to June 30th, \$1,184,000.

Mr. BLACK: How much?

Mr. ARMSTRONG: \$1,184,000.

Mr. HARRIS: \$2,200,000 you purpose to spend in the next six months?

Mr. ARMSTRONG: That is the expense chargeable to the last six months.

Mr. HARRIS: Would the management consider slowing down on that, Mr. Chairman? Would the management give some consideration to slowing down on that expenditure during war time?

Mr. HUNGERFORD: No. The directors have not seen fit to do that yet.

Mr. HARRIS: That is the considered opinion of the management, Mr. Chairman, is it?

Mr. HUNGERFORD: Well, there has been no consideration given to that.

Mr. HARRIS: Would they give consideration to it, Mr. Chairman?

The CHAIRMAN: Gentlemen, if we would all speak just a little louder, it would be better. Personally, I do not like to be profane but I have a hell of a time hearing what goes on in this room.

Mr. HARRIS: Mr. Chairman, it has been deposed here that we have spent \$1,100,000 and the budget calls for \$3,350,000. We have a six months in front of us now. Inasmuch as we have spent so far this year only \$1,100,000, would

the management give consideration to the slowing down of expenditure for the balance of this calendar year or at least keep it within the confines of the first six months expenditure?

The CHAIRMAN: I should like to congratulate the speaker, anyway, because I was able to hear him on that occasion.

Mr. HUNGERFORD: We have commitments now in effect as of July 1st for \$1,865,000, for the balance of the year.

Mr. HARRIS: That means, Mr. Chairman, that we are committed for another \$1,800,000. That leaves only \$400,000 to be further committed before the end of December. I will ask this question: Will those contracts or commitments expire previous to December 31, 1940?

Mr. HUNGERFORD: No.

Mr. HARRIS: What part of the \$1,800,000 will expire in the present year?

Mr. HUNGERFORD: That is the estimated expenditure for the balance of the year.

Mr. HARRIS: For the balance of this year?

Mr. HUNGERFORD: Yes.

Mr. HARRIS: We will not spend the \$3,350,000. We will be short about \$400,000.

Mr. HUNGERFORD: I do not understand that.

Mr. ARMSTRONG: The commitments are \$1,865,000, of which approximately \$600,000 applies to carrying on contracts in the next year. There is about \$1,265,000 in those commitments which applies to the 1940 programme.

Mr. HARRIS: Then there is \$600,000,000 that is in the 1941 programme.

Mr. HUNGERFORD: \$600,000, yes.

Mr. HARRIS: And there is another \$400,000 which you are not committed to spend yet.

Mr. HUNGERFORD: That would be correct.

Mr. HARRIS: Then there is \$1,000,000 that you are not committed to spend at the moment?

Mr. ARMSTRONG: It is anticipated expenditure but not committed for.

Mr. HARRIS: In view of the general difficult situation which we are in, would the management give consideration to the avoidance of spending that money? Is it essential that it shall be committed for or contracted for or spent during this calendar year?

Mr. HUNGERFORD: Well, we can get consideration of anything, as far as that is concerned.

Mr. MACINNIS: What condition will the work be in at the end of the year; that is, towards completion? How near or how far from completion will it be?

Mr. ARMSTRONG: The estimated amount to complete is, roughly, \$6,000,000—\$5,976,000—after the commitments which we have already mentioned have been fulfilled.

Mr. HUNGERFORD: If the work was carried out, it should be available for use a year from this fall.

Mr. BRADETTE: According to the newspapers of Montreal and the province of Quebec, that work is absolutely necessary for the war activity. If that is true, I do not see why there should be any curtailment of that work of going ahead at the present time. I do not belong to Montreal or even to the province of Quebec, but Montreal is the metropolis of Canada. I remember when they tore down the old union station in Toronto. We would have been satisfied in our section to have had that station in existence for many years. But we were also satisfied to have Toronto go ahead with their union station. At the present

time we need that terminal for war activities, and I do not see for the life of me why we should jeopardize the chance of having that work completed next year. It might be the best thing they could do. That is my personal opinion on that matter.

Mr. HUNGERFORD: Well, the completion of these facilities would help the movement of freight.

Mr. BLACK: Mr. Chairman, how much has been expended by the railway on these terminals up to the beginning of 1940; how much will be expended during 1940—we have that before us—and what is the amount needed to complete this building?

Mr. ARMSTRONG: The expenditure to the end of 1939 was \$19,625,000; the expenditure in 1940 to the end of June was \$1,184,000; the commitments as of July 1st, 1940, are \$1,866,000; that is a total of \$22,675,000; and the estimated expenditure to complete is \$5,976,000, a grand total of \$28,650,000. Those thousands may not add quite properly but they are substantially correct.

Mr. BLACK: What have been the curtailments in the present plan in relation to the original plan? I understand there has been a very substantial curtailment and a reduction in the cost over what was originally proposed.

Mr. HUNGERFORD: Some features are not being gone ahead with at all. There was to be a big yard; experience has shown we can get along without that. It was intended for use in connection with the harbour—and various features of that kind.

Mr. BLACK: There has been no curtailment then as regards construction of the terminal proper.

Mr. HUNGERFORD: Only to this extent, that originally it was intended to put up a central office building which would have cost quite a lot of money and which would have accommodated the clerical staff of the railways. At that time the clerical staff in Montreal was scattered around in eighteen different buildings. However, since then, we have decided to, and have actually used a great portion of the viaduct in connection with the new terminal. We have used it now for several years for the accommodation of the clerical staff. So that the office building is not contemplated at all, excepting that it is proposed to put two stories on top of the station concourse for the accommodation of purely local Montreal staff, not the headquarters staff at all.

Mr. BLACK: Are the foundations being constructed so that they will carry a building as originally proposed, eventually?

Mr. HUNGERFORD: A building could be placed there at any time in the future. The foundation is bed rock and provision is made for putting columns down to carry any kind of a building the future may demand. Nothing is contemplated so far as the railway is concerned.

Mr. BLACK: What was the estimated cost of that building?

Mr. HUNGERFORD: We do not know what kind of a building it would be.

Mr. BLACK: You would no doubt have had a building design in your original scheme.

Mr. HUNGERFORD: There is no building contemplated. There is a space that we can leave until we want to put up a building. As a matter of fact, over the terminal there is space, ground space, amounting to about 600,000 square feet. That will be available to lease to anyone who wants to put up a building over the railway itself. That is what the New York Central did in New York in connection with their Grand Central terminal, and prior to the depression the net result was that they were getting an income in rentals from such development representing about three-quarters of a million dollars above their entire fixed charges for their own terminal facilities. We do not contemplate anything like that in Montreal, or any great development in the near future, but the possibility is there.

Mr. BLACK: The last time I was in New York I saw a great many "to rent" signs in that area.

Mr. HUNGERFORD: I think their income is probably less now; it has been during the depression undoubtedly, but nevertheless they made a lot of money.

Mr. BRADETTE: I would like to ask Mr. Hungerford, since they started that work at the terminal two years ago has there been any renewed approach from the C.P.R. to have a joint terminal there?

Mr. HUNGERFORD: Any approach from the Canadian Pacific?

Mr. BRADETTE: To have the two railways—there was something of that kind considered in the past I understand.

Mr. HUNGERFORD: There were discussions years ago in regard to it.

Mr. BRADETTE: Have there been any new discussions within the last few years?

Mr. HUNGERFORD: No. The facilities that we are building at the present time are to meet the immediate and reasonable requirements of the Canadian National Railways. They could be extended but there is no suggestion of that kind.

Mr. HARRIS: Is all the expenditure an attempt to do away with the so-called bottle-neck in respect to tonnage that is being handled around the port of Montreal; the minister referred to a bottle-neck on one occasion.

Mr. HUNGERFORD: Mr. Harris, I do not think it would be possible to give a short answer to that, there are so many different things involved. It is possible that you do not fully appreciate the fact that the institution of the Montreal terminal as now contemplated arose out of a grade-crossing elimination job. Before the war the board of railway commissioners of that time had issued an order requiring the Grand Trunk to elevate their line of railway from Bonaventure for a considerable distance, and down to Point St. Charles. With the outbreak of the Great War that work was suspended and not gone on with, and then the Grand Trunk of course gravitated into the hands of the government. At that time there was a great deal of agitation about the number of level crossings in that portion of the city. There were a great number of them and they were heavily travelled. Along about 1927 certain more or less public bodies in Montreal applied to the board of railway commissioners for an order requiring the Canadian National to abolish level crossings within the confines of the city. The board had a hearing and instructed their chief engineer to prepare a report on the whole situation and in turn the chief engineer representing and acting on behalf of the board demanded that we file a plan showing how we would eliminate or alleviate the grade-crossing situation in the city of Montreal. We had been making studies but had no intention of dealing with them at that time, and came to the definite conclusion that this was far and away the best solution of a very difficult situation; and when the board demanded that we file plans, well, that is what we did. But it started as a grade-crossing elimination project. Over and above that, however, as you probably know, the Canadian National found itself with four separate stations in the city of Montreal, terminal stations, each one at the end of a line with almost no connection between them, and the new terminal was developed to consolidate these operations into one station. The present development will bring the business of three stations into one. The fourth for the present will not be brought in, but the volume of business there represents only above five per cent of the whole and we do not feel justified in doing anything about it for the time being. In regard to the so-called bottle-neck, the separation to the extent that it will be accomplished with respect to passenger and freight business will not be a complete separa-

tion, but it will do a good deal to facilitate the free flow of freight through the Montreal terminals where there is a very heavy volume of traffic. We have a material advantage in that position.

Mr. HARRIS: What is the expenditure in 1937 and 1938; I have not the figures.

Mr. ARMSTRONG: The modified plan really started in the fall of 1938. The expenditures in 1937 and 1938 were certainly less than \$75,000, for either year.

Mr. HUNGERFORD: After the work was closed down in 1931 and settlements were made with the contractors and others there was no money spent on it until the resumption of the work in the latter part of 1938, in fact, in the beginning of 1939, excepting a small amount to settle some outstanding land claims and to make small physical improvements in connection with this space in the viaduct that was used for our clerical quarters. Incidentally, the placing of the clerical staff in this structure saved us \$185,000 a year in office rental.

Mr. BLACK: Mr. Chairman, do I understand this figure of \$22,675,000 represents only the expenditures made by the Canadian National railway or does it include other appropriations?

Mr. ARMSTRONG: That is the total cost, sir, as I should have pointed out. That includes the vote under unemployment relief.

Mr. JACKMAN: How much is that vote?

Mr. ARMSTRONG: In this figure of \$28,651,000, \$1,500,000 represents unemployment relief to date.

Mr. JACKMAN: Could one say that the \$1,500,000 is not properly chargeable to the station?

Mr. ARMSTRONG: It depends entirely upon the point of view.

Mr. JACKMAN: I suppose there was useful work done in the station and due economy was exercised; it was not just a creation of work in order to keep these men employed. There was useful work done for each dollar spent?

Mr. ARMSTRONG: It is fair to say there is a million and a half dollars worth of value for the million and a half dollars spent.

Mr. JACKMAN: To the railway?

Mr. ARMSTRONG: To the railway.

Mr. BLACK: I would like to ask, Mr. Chairman, if any application for consideration has been submitted by the Canadian Pacific Railway Company in the last three years looking to a union station in Montreal or changing the construction that has been under way so as to make it suitable for a union station in Montreal such as is at present in Toronto.

Mr. HUNGERFORD: No.

Mr. BLACK: No such proposal?

Mr. HUNGERFORD: No.

Mr. HANSON: That proposal has come up in the committee every year for some time.

Hon. Mr. HOWE: It was discussed before this committee a year ago. Mr. Hungerford says no proposal was made to the railway direct, as I understand it.

The CHAIRMAN: If the committee is through with page 3 we will proceed.

Mr. ARMSTRONG: Page 4 shows expenditures totalling \$590,000 covering the acquisition of securities. For Toronto Terminals Railway Company, the Canadian National expenditure is estimated at \$128,000. The next is Northern Alberta Railway; the C.N.R. proportion of expenditure is estimated at \$338,000. In connection with the Chicago and Western Indiana Railway Company the expenditure is \$124,000.

The CHAIRMAN: We shall turn to page 5 if there are no questions.

Mr. HARRIS: I should like to ask the management if the Toronto terminal arrangement is working out satisfactorily to the Canadian National Railways?

Mr. HUNGERFORD: The Toronto terminal, yes, on the whole.

Hon. Mr. HOWE: May I ask what that terminal cost?

Mr. HUNGERFORD: Speaking from memory I think it represented a cost to the various interested parties of a little over \$40,000,000.

Mr. JACKMAN: I suppose that would include what you might call interest during construction and interest during unused years when it laid there and no use was made of it. For seven or eight years there was nothing done with it except it was an ornament to the city. Have you included interest on interest during that period? If you have it would add very substantially to the initial cost of it. I presume that figure of \$40,000,000 would include that figure of interest.

Mr. COOPER: There was a charge to the total cost for interest during construction, but not for the full period. When they reached a point where it was considered the interest charge was sufficient the interest was discontinued—further interest was discontinued.

Mr. JACKMAN: After it was completed for a while you had to charge interest and then you stopped; is that it?

Mr. COOPER: With all big projects, I may say, it is the practice to charge interest during construction. Interest during construction is well recognized as an element of cost, and so with the Toronto Terminal. That company began to charge interest during construction but when it was seen that the completion of the terminal was more or less indefinitely postponed the matter was considered and further charges were discontinued.

Mr. JACKMAN: Really there was not much accumulation of interest during many years of vacancy.

Mr. COOPER: I always thought the charge was a pretty stiff one; that is to say, in my personal opinion I thought it was a little too much but it certainly did not go on for the full period during which the work was suspended.

Mr. HARRIS: When was the work completed?

Mr. HUNGERFORD: I think in 1929 or 1930; I am not quite sure.

Mr. HARRIS: I want to have it on the record.

Mr. JACKMAN: That cost was, of course, borne in part by the C.P.R. and perhaps some by the T. & N. O.

Mr. COOPER: It is financed jointly by the Canadian Pacific and the Canadian National Railway on a fifty per cent basis.

Mr. JACKMAN: And no part at all by the T. & N.O.?

Mr. ARMSTRONG: Not the T. & N. O. The city of Toronto actually paid somewhere in the neighbourhood of \$5,000,000 in connection with the grade separation project.

Mr. COOPER: And the cost of the project to the Terminal Company was \$26,000,000.

Mr. HUNGERFORD: There is a distinction between the Toronto terminals property and the adjoining improvement that had to be made there. The railways individually, the Canadian Pacific and the Canadian National, both had to build certain improvements extending out from the terminal area. The Toronto terminal railway company is jointly and equally owned by the Canadian Pacific. When you speak of the Toronto terminals you are only speaking of that portion of the property, and the elevation of tracks and other improvements of that kind extended away beyond the limits of the Toronto terminals railway property. The cost of these improvements outside of the terminal area were borne by the parent companies.

Hon. Mr. HOWE: I wonder, Mr. Chairman, if there would be much objection in this committee to building a Toronto terminal.

Mr. HARRIS: The minister is very anxious to get a comparison between Toronto and Montreal. We are very anxious to sit here as members of parliament representing Canada.

Hon. Mr. HOWE: With a great interest in Montreal.

Mr. JACKMAN: The \$25,000,000 was borne by the Toronto terminal company and the other \$15,000,000 was borne by some other body,—what body was it that bore the \$15,000,000?

Mr. ARMSTRONG: The city of Toronto about \$5,000,000; the Canadian Pacific Railway about \$3,000,000; the Canadian National Railway about \$5,000,000, and the grade crossing fund about \$1,000,000, the Toronto terminal railway about \$26,000,000, making a total of \$40,000,000.

Mr. HUNGERFORD: The central area, including the station or the Toronto terminal railway company, cost \$26,000,000, and the additional expenditures were made at the expense of the parent companies to connect up with it.

Mr. HARRIS: I do not want to go on record as challenging the minister in regard to more attention to Montreal; that is furthest from my mind. Had it been in Port Arthur, the same observation would have been made. It is obvious that the matter running through our minds is that there is a war on and we have to conserve our cash.

Mr. BLACK: Before we leave page 3, Mr. Chairman, there is an item dealing with "Subsidiary companies—\$412,000." The particulars of that are not on record.

Mr. ARMSTRONG: The expenditures there are for various subsidiary companies of the Canadian National Railways. For example, here there are about twelve items in connection with the Montreal and Southern Counties Railway ranging from \$500 up to about \$10,000. Then there is an expenditure in connection with the Thousand Islands Railway of about \$5,000. There are about ten items in connection with the Niagara-St. Catharines & Toronto Railway totalling \$37,000. The Oshawa Railway, four items, totalling \$9,000. The Canadian National Transportation Ltd., three items, totalling \$90,000. The Muskegon Railway & Navigation Company, two items, totalling \$10,000. Those are subsidiary companies.

Mr. BLACK: How many subsidiary companies are there?

Mr. ARMSTRONG: They are not all here.

Mr. BLACK: How many subsidiary companies are there under the Canadian National Railway management?

Mr. COOPER: The system comprises 102 companies.

Mr. BLACK: Some of these companies would be like the Grand Trunk Pacific, would they, major units in the system?

Mr. COOPER: There are four major units.

Mr. SMART: The list will be found on page 22 of the annual report, Mr. Black.

Mr. BLACK: This last item—"General, including additions and betterments to equipment, \$2,123,000"—what is represented by that as capital expenditure?

Mr. HUNGERFORD: I tried to explain that a little while ago.

Mr. BLACK: That is on the record?

Mr. HUNGERFORD: Yes; incidental improvements to cars and locomotives as they are going through for repairs.

Mr. JACKMAN: The item underneath that for new equipment purchases of \$1,665,000 is an estimate of the equipment you intend to buy in 1940, is it?

Mr. ARMSTRONG: There is a note at the bottom of page 3 in regard to that item. It excludes the \$14,900,000.

The CHAIRMAN: Are you through with page 4?

Mr. JACKMAN: I wonder if I might ask one more question about the condition of the rolling stock generally. A man in whose opinion one might have some confidence said to me about a year ago that one had only to look at the roads of both railways in Canada to know that there was need for a great deal of replacement. Would you say that if the railways, both of them—I will not confine my remarks to the Canadian National—were in a more easy financial condition, they would be purchasing more new equipment and more rolling stock than they are purchasing to-day? Is the condition of the equipment as good as the operators of the railway would like to see it?

Mr. HUNGERFORD: I think that constitutes two questions. In the first place, so far as the physical condition of existing units is concerned, happily the Canadian National is in very good condition in that respect. The standard of condition of freight cars on American railways is about seven and a half per cent in bad order. That is recognized as being about a normal proportion to be in bad order.

Mr. BLACK: Seven and a half per cent of what?

Mr. HUNGERFORD: Of the total number of units.

Mr. BLACK: Seven and a half per cent?

Mr. HUNGERFORD: I am speaking of freight cars now, Mr. Black.

Mr. BLACK: What does the figure of seven and a half per cent represent?

Mr. HUNGERFORD: Cars that are in bad order or in a defective condition. As a matter of fact, the figure for the Canadian National Railway today is about four per cent. That is an extraordinarily good figure.

Our locomotive condition is not quite as good. We have only maintained a sufficient number of locomotives in serviceable condition during the period of the depression to meet the requirements of travel. That was sound policy. With increasing traffic we require more engines in serviceable condition and we are proceeding steadily to put them in. Passenger equipment, I think, is in a normal condition.

Mr. HANSON: I do not think the committee is here for the purpose of asking such questions.

Mr. DONNELLY: Would you explain the amount of \$124,000 for the Chicago and Western Indiana Railway Company?

Mr. HARRIS: While we are looking that up, Mr. Chairman, perhaps the honourable member for Skeena would tell us why we are here.

Mr. COOPER: The Chicago and Western Indiana Railroad Company owns the terminal in Chicago into which the Grand Trunk Western, which is a subsidiary of the Canadian National, operates. The Grand Trunk Western is one of five proprietary companies, that is, the Grand Trunk Western owns one-fifth of the stock, and the five proprietary tenants are responsible for the financing of the terminal company. The terminal company under an indenture of the first of March, 1936, made an issue of bonds which are secured by a lease under which the five owner and user companies are obligated to contribute each year as rent the interest on the outstanding bonds and one fifth each of the sinking fund payments which the bonds call for. \$124,000 is the payment to be made by the Grand Trunk Western in 1940 as its share of that sinking fund payment.

The terms of the agreement are such that the Grand Trunk Western on the termination or maturity of the issue will have turned back to it bonds of the Western Indiana equal to the sinking fund payments.

Mr. DONNELLY: What year do the bonds mature?

Mr. COOPER: 1962.

Mr. DONNELLY: 1952 or 1962?

Mr. COOPER: 1962.

Mr. HARRIS: Mr. Chairman, why does the management put the liability for the \$14,909,000 odd for the new equipment into the 1941 statement rather than into this statement, when the contracts for that particular equipment were negotiated during the year 1940?

Mr. COOPER: The equipment will be delivered during 1940.

Mr. HARRIS: The contracts were entered into in the year 1940?

Mr. COOPER: 1939.

Mr. HARRIS: 1939?

Mr. COOPER: Yes.

Mr. HARRIS: The liability will appear on the books in 1941?

Mr. COOPER: 1940.

Mr. HARRIS: 1940?

Mr. COOPER: Yes.

Mr. HARRIS: The budget of 1940?

Hon. Mr. HOWE: The first payment comes due in 1941, though.

Mr. HARRIS: The first payment is due in 1941. It is not in the budget of 1940.

Mr. COOPER: No payment is due in 1940.

Mr. HARRIS: And there will be no liability set up, Mr. Chairman, in the 1940 statement?

Mr. COOPER: Yes, there will. Full liability will be set up in the 1940 statement.

Mr. HARRIS: It will be set up in the 1940 statement for contracts made in 1939?

Mr. COOPER: Yes.

Mr. HARRIS: Then there is this other question. Is this not a departure from the usual way of buying equipment or contracting for equipment?

Hon. Mr. HOWE: It was done in 1932, I think it was. The government in that year purchased a number of locomotives and a considerable tonnage of rail and leased it to the railways on the hire-purchase basis. That is the precedent for this.

Mr. HARRIS: The capital sum is going to be retired in fifteen years. Will the locomotives and the equipment itself be retired in the same time?

Mr. HUNGERFORD: Oh, no; probably in thirty-five years or forty years.

Mr. HARRIS: Then there will be a surplus in that particular transaction at the end of fifteen years. You will have the equipment still.

Mr. HUNGERFORD: You pay off the principal amount in fifteen years.

Hon. Mr. HOWE: That is the way that equipment is bought. Practically all equipment is bought under the Philadelphia plan agreement that pays off the mortgage in fifteen years.

Mr. HARRIS: Not all the equipment since the inception of the road?

Hon. Mr. HOWE: No.

Mr. HARRIS: It is a very large item. The capitalization represents equipment, some of which has been on the go for forty years.

Mr. DONNELLY: I move that we adjourn, Mr. Chairman.

The CHAIRMAN: Before we adjourn, I should like to understand whether we meet tonight or not?

Mr. BLACK: I wonder if we could be informed at the next session what special additional appropriation will be required by the Canadian National

Railway to meet the expected payment by the railway to the unemployment insurance fund? I think we should have that at a later session.

The CHAIRMAN: We can make a note of that.

Mr. McCULLOCH: I move that we meet tonight at eight o'clock.

The CHAIRMAN: I will put it to the committee. All those in favour of re-assembling at eight o'clock, kindly raise their hands? There are seven. All those against? There are three. The motion is carried, on division.

The committee adjourned at 6.05 p.m., to meet again at 8 p.m.

### EVENING SESSION

The committee resumed at 8.00 o'clock.

The CHAIRMAN: Order, gentlemen. We were considering page 4, and as we have finished with that let us turn to page 5.

Mr. ARMSTRONG: Page No. 5 is:

#### RETIREMENT OF MATURING CAPITAL OBLIGATIONS, SINKING FUND AND EQUIPMENT PRINCIPAL PAYMENTS

| Due date<br>1940 | Issue  | Amount                               |
|------------------|--|--------------------------------------|
| April 16—        | Payment under Hire-Purchase Agreement..  | \$ 517,173 07                        |
| May 1—           | Canadian National Railway Company 4½ Per Cent Equipment Trust<br>Series "J" Certificates.. | 1,000,000 00                         |
| May 1—           | Canadian National Railway Company 5 Per Cent Equipment Trust<br>Series "K" Certificates..  | 1,200,000 00                         |
| June 1—          | Canadian National Railway Company 4½ Per Cent Equipment Trust<br>Series "L" Certificates.. | 1,050,000 00                         |
| July 1—          | Canadian National Railway Company 2 Per cent 1927 Guaranteed Deben-<br>ture Stock..        | 969,056 50                           |
| July 1—          | Canadian National Railway Company 2½ Per Cent Equipment Trust<br>Series "Q" Certificates.. | 650,000 00                           |
| July 1—          | Wellington, Grey and Bruce Railway Company 7 Per Cent Bonds..                              | 5,840 00                             |
| July 1—          | New England Elevator Company 3½ Per Cent Bonds..   | 10,000 00                            |
| Aug. 1—          | Canadian National Railway Company 2½ Per Cent Equipment Trust<br>Series "O" 1937..         | 1,430,000 00                         |
| Sept. 15—        | Canadian National Railway Company 2¾ Per Cent Equipment Trust<br>Series "P" 1938..         | 500,000 00                           |
| Oct. 1—          | St. John and Quebec Railway Company, 4 Per Cent Stock..                                    | 27,279 77                            |
| Dec. 14—         | Grand Trunk Western Railroad Equipment Trust, 1929..                                       | 283,000 00                           |
| Dec. 14—         | Central Vermont Railway, Inc., Equipment Trust, 1929..                                     | 46,000 00                            |
| Dec. 31—         | Indebtedness to State of Michigan re Woodward Avenue..                                     | 427,528 54                           |
| Dec. 14—         | Central Vermont Railway, Inc., Equipment Trust, 1929..                                     | 78,000 00                            |
| 1941             |  |                                      |
| Jan. 1—          | Wellington, Grey and Bruce Railway Company 7 Per Cent Bonds..                              | 5,840 00                             |
|                  | Grand total..  | \$8,199,717 88<br>(say) 8,200,000 00 |

NOTE.—There has not been included in the above statement the semi-annual Sinking Fund Payments of \$250,000, due July 1, 1940, and January 1, 1941, for Canadian Northern Railway Company 6½ Per Cent Sinking Fund Bonds, as these amounts, in the judgment of the Management, will not be required owing to the improbability of our being able to use same in accordance with the terms of the Trust Agreement.

Mr. BLACK: We have only read part of it. What has been read?

The CHAIRMAN: Nothing has been read except what you have heard this moment.

Mr. BLACK: What page?

Mr. ARMSTRONG: Page 5, sir.

Mr. BLACK: Page 4, we did not touch that, did we?

The CHAIRMAN: Oh, yes; we were at it for quite a while.

Mr. HANSON: What are we waiting for?

The CHAIRMAN: We are considering page 5 to see if there are any questions or any comments. If not, we will pass on to page 6.

Mr. ARMSTRONG: Page 6 is the budget for the year 1940:

CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS, LIMITED  
BUDGET FOR YEAR 1940

|  | 1940<br>Estimate |
|--|------------------|
| Estimated Net Income from Operation  |                  |
| Operating Revenues. . . . .  | \$4,465,250      |
| Subsidies to be received from the West Indies Colonies, in conformity with Trade Agreement entered into with the Government of the Dominion of Canada. . . . . | 204,750          |
| Total Revenues. . . . .  | \$4,670,000      |
| Operating Expenses. . . . .  | 3,975,000        |
| Net Operating Income. . . . .  | \$ 695,000       |
| Interest Requirements on 5 Per Cent 25-Year Bonds issued in 1930, Principal Amount \$9,400,000. . . . .  | 470,000          |
| Net Income available towards Payment of Interest on Advances by Government of Canada. . . . .  | \$ 225,000       |
| Capital Expenditures   |                  |
| Additions and Betterments. . . . .   | \$ 21,000        |

The CHAIRMAN: Are there any comments or interrogations in connection with this page?

Mr. BLACK: We might compare the statement with the result of the previous year.

Mr. COOPER: Our operating revenues in 1939 were \$4,642,000 as compared with the 1940 budget of \$4,670,000.

Mr. HARRIS: I am sure the operating revenue will be more this year.

Mr. VAUGHAN: Our freight traffic is increasing but there are other factors which affect the situation.

Mr. HARRIS: They are good and busy, in other words.

Mr. VAUGHAN: In some cases our vessels have been taken off their regular routes—we are not sure what revenue we are going to get this year.

Mr. HARRIS: What revenue did you receive in the first six months' period?

Mr. COOPER: I could not give it to you down to June, but to May 31 revenues for 1939 were \$1,779,000 and in 1940 they were \$1,941,000.

Mr. VAUGHAN: I might point out there, Mr. Harris, that the passenger business has practically disappeared and a large portion of the earnings of the "Lady" ships has been from passenger traffic.

Mr. HARRIS: Really?

Mr. VAUGHAN: Oh, yes.

Mr. HARRIS: Freight is a big item?

Mr. VAUGHAN: Yes, freight always was a big item. Passenger earnings are a substantial part of the income. Of course, there are a few travelling between the islands.

Mr. HARRIS: This Monarch of Bermuda and sister ships are sweeping up the passenger traffic on the "Lady" boats. I have a recollection of coming up on one occasion when there were only nineteen passengers on board.

Mr. VAUGHAN: That may have been in an off season. Last year during the travel season the boats were pretty well filled with passengers. I would like to point out that before the Canadian National West Indies Steamships took over the operation of these boats there was a subsidy arrangement in effect between

the government and the Royal Mail Steam Packet Company. They operated with four old and slow boats a service to the eastern islands only. I think they were paid somewhere around \$350,000 a year as a subsidy which was in effect for a number of years and paid by the Department of Trade and Commerce. Then the Canada-West Indies Trade Agreement came along about 1927 and the Department of Trade and Commerce at that time called for tenders from various steamship companies to ascertain what they would perform the service for as called for under the Canada-West Indies Trade Agreement. I think they only got one tender, that of the Royal Mail Steam Packet Company who asked for a subsidy of approximately \$600,000 for the eastern service only. My recollection is that it was intimated at the time that an additional subsidy of some \$200,000 or \$250,000 would be required for the operation of the western service. I think it is safe to say that an outside steamship company would not have performed both services for a subsidy of less than \$800,000 per annum.

Mr. HARRIS: I make the general observation: There has been a steady increase in the volume of our exports. They have risen from \$76,000,000 to \$110,000,000, that represents a 40 per cent increase in our exports and a good deal of that went to the West Indies. For the six months ending June we moved up from \$3,000,000 to \$5,400,000; that is an increase of 20 per cent. This service participated in that increase. These figures in the budget are low, and it is all to the good. They are going to make more money this year than they ever made due to circumstances over which we have no control but rather due to world conditions. My observation is that the budget estimate is low; and that bears on the consolidated statement again and bears direct relationship to the \$15,000,000, or the deficit, not the \$15,000,000 deficit, but the deficit that was asked for in the estimates. It is a separate item, I understand that, but it bears on everything that is asked for in the estimates.

The CHAIRMAN: Are you ready to pass this budget, gentlemen, page 6?

Mr. JACKMAN: Mr. Chairman, it really seems almost incomprehensible in view of what Mr. Harris has said that this line should not be doing a great deal better than previously. The Canada Steamship Lines has shown a much better statement for the first six months of this year than previously. Their boats are on new courses and new business which is very well paid and showing very good profit. It seems hard to understand how ocean going boats such as these would not earn substantially more than in 1939.

Mr. McCULLOCH: There is going to be very little passenger traffic to the West Indies.

Mr. COOPER: In support of what Mr. Vaughan has said about passenger traffic I might mention that the passenger revenue for 1939 was \$547,000, and this year it is only \$140,000, a drop of \$400,000 in the first five months of the year in passenger receipts.

Mr. JACKMAN: I suppose under the trade treaty you have to maintain these boats on this particular service; you cannot use them for other purposes?

Mr. VAUGHAN: That is one of our difficulties. The Canada-West Indies Trade Agreement specifies not only the ports of call but also the frequency of the service, and the boats have to remain on that route. It is not as though they could go out on other routes and pick up other business, at the high rates prevailing. They have to remain on the routes fixed by the trade agreement.

Mr. JACKMAN: Will this traffic on which they are engaged stand a higher rate schedule?

Mr. VAUGHAN: There has been an increase of 25 per cent in freight rates, but that is nothing to compare with the increase which has taken place in trans-Atlantic rates. I feel that there is something in what Mr. Harris says.

There is a lot more export business going down to the West Indies. We are hoping, of course, that these boats will carry full cargoes. I think we are going to do a very good business between now and the end of the year. But there is the feature that our passenger business has pretty nearly disappeared.

Mr. HARRIS: That 10 per cent addition does not apply in the case of this route; I mean, that 10 per cent advantage which we have against competitive goods from American ports.

The CHAIRMAN: Is there any further debate on this item?

Mr. JACKMAN: It is another example, I should say, of where considerations outside of those of straight transportation have a very direct influence on the earnings of this company, or as part of our Canadian National system. If it were not for the fact that we have a trade treaty which has nothing at all to do with the Canadian National Railway system—they are rather properties belonging to the Dominion of Canada—if it were not for that these boats might be used in more profitable channels than they are being used in at the present time. In other words, it is not a straight business enterprise when you have not got the freedom of operation in connection with your boats that an ordinary commercial company would have; and, therefore, any losses which might accrue from this operation are more due to larger political considerations than they are to straight business considerations. I should think from the evidence that we have had that that must be reasonably clear.

Mr. SMART: You should understand, Mr. Jackman, that this steamship line is not part of the Canadian National Railways.

Mr. HUNGERFORD: It is an entirely separate organization, the stock being held by the crown.

Mr. JACKMAN: It is something like the Trans-Canada Air Lines?

Mr. SMART: It is parallel to the Trans-Canada Air Lines.

Mr. HUNGERFORD: Except that in the case of the Trans-Canada Air Lines the Canadian National does own the stock.

Mr. SMART: It is not quite the same, of course; Trans-Canada stock is owned by the Canadian National Railways and in this case the stock is owned by the crown itself. This is a separate corporation.

Mr. JACKMAN: But the point is you cannot look at it as a straight business concern because it is tied in so definitely with the trade treaty.

Mr. SMART: It is tied in with the Canada-West Indies Trade Agreement.

Mr. HUNGERFORD: It merely exists because of that treaty.

Mr. HANSON: I would like to have an explanation of this question of the long-term high interest rate bonds. Would it not be possible to refinance them at a lower rate of interest?

Mr. COOPER: They are a straight issue for twenty-five years and they are not callable.

Mr. HANSON: That amount would be lost by the government for twenty-five years?

Mr. COOPER: Yes.

Mr. HANSON: Are they government bonds?

Mr. COOPER: They are West Indies Company bonds guaranteed by the Dominion.

Mr. HANSON: And you cannot retire them until the twenty-five years are up?

Mr. COOPER: They cannot be touched unless you want to go into the market and buy them up at the market price.

Mr. HARRIS: What are they worth now?

Mr. COOPER: I could not say.

Mr. HARRIS: Payable in New York at 5 per cent they would be worth more than 110.

Mr. JACKMAN: Not in New York.

Mr. HARRIS: No, not in New York.

Mr. COOPER: We paid \$25,000 premium on the last coupons which were cashed.

The CHAIRMAN: If you are through with that page, we have completed consideration of this railway budget.

Mr. HANSON: I move the adoption of this budget.

Mr. BLACK: I asked for a statement or an estimate of what expenditure would be required to meet the unemployment insurance on the basis of the bill that is now before the house.

Mr. MACINNIS: It would be pretty hard for anyone to give that information before he has the schedules in the bill; until you find out what it is going to be.

The CHAIRMAN: The bill is not cast yet really. The railway management are not in the position to answer that question, Mr. Black.

Mr. HARRIS: Just before you put the motion. A question was asked, and it was not answered, on the statement of the auditors—this document here (indicating)—are we going to have produced a copy of the memorandum to the board of directors dealing with the inactive properties, figures of equipment retirements and other internal matters? The specific question emphasized internal management, and this was to be dispatched to the Minister of Transport in due course. That was going to be presented to the committee and we have not received it yet.

Mr. HUNGERFORD: If that was a report to the directors, I can get it. We have not got it here, Mr. Harris, but we can get it.

Mr. HARRIS: Would it be embalmed in the record of this committee, Mr. Chairman?

Mr. HUNGERFORD: I do not think so.

Mr. HANSON: By unanimous consent it could be embalmed in the record.

Mr. HUNGERFORD: I have not got it. Mr. Matthews is here; you can ask him that question.

The CHAIRMAN: Then we shall recall Mr. Matthews. Will you repeat your question, Mr. Harris?

Mr. HARRIS: The request was made some three sittings ago for a copy of the memorandum to the board of directors dealing with inactive properties, advance equipment retirement and other internal matters, which was despatched to the Minister of Transport in accordance with a deposition on page 3 of the Auditor's Report and accounts contained in this grey book.

Mr. SMART: That is a report to the board of directors of the Canadian National Railways.

The CHAIRMAN: I think this committee has a right to ask for it.

Mr. MATTHEWS: This is the report to the board of directors of the national railway system under date of the 16th of March. Reference is made to it on page 3 of our report to parliament where we refer to the copy of our memorandum to the board dealing with inactive properties and advance equipment retirement, etc., being despatched to the Minister of Transport. It is in addition to the report to parliament. We make an annual report to the board of directors to which we make reference in the report to parliament:—

“GENTLEMEN—Supplementing our report to parliament, we are submitting for the consideration of the board—”

Mr. HARRIS: If it is very long, put it in the record to save time.

The CHAIRMAN: Are you satisfied?

Mr. HARRIS: Yes.

Mr. MATTHEWS: It is about seven pages.

Mr. HARRIS: It is not very long.

The CHAIRMAN: Would you prefer to have it read?

Mr. BRADETTE: Put it in the record.

Mr. HARRIS: Would you read the section that has to do with other internal matters.

Mr. MATTHEWS: That covers all other matters excepting the inactive properties and the matter of equipment retirement. The other matters will take up most of the report. I can tell you what the subject matter was, Mr. Harris.

Mr. HARRIS: All right; carry on.

Mr. MATTHEWS: Equipment, investments in affiliated companies, insurance fund securities, land contracts receivable, and a matter of certain bonds which I would really question the advisability of making public unless the members wish to. It is a matter of policy for the committee.

Mr. BLACK: Perhaps the committee should know what that is and not have it put in the public record.

Mr. MATTHEWS: It has to do with the question of some prior lien bonds and the question of their validity at this date.

Mr. BRADETTE: On what ground?

Mr. MATTHEWS: On the ground that the question of the payment of these bonds goes back a number of years. There is some legal question about it.

The CHAIRMAN: Is it sub judice at the present time?

Mr. MATTHEWS: I would not say so.

Mr. JACKMAN: These are bonds of branch lines.

Mr. MATTHEWS: Yes.

The CHAIRMAN: Do you want this material put in the record with the exception of the latter matter to which Mr. Mathews has referred?

Mr. HARRIS: We ought to know what it is. I cannot get the significance of what the witness is saying. It strikes me that is something—correct me if I am wrong—having to do with certain bonds in which certain provinces are interested. You are probably going to assume the full responsibility for them?

Mr. MATTHEWS: I am only thinking of the public information, that is all.

Mr. HARRIS: I am sorry, I cannot hear you.

Mr. MATTHEWS: I am only thinking of the question of the public information; I am not thinking of the members of this committee. It is a matter that I would suggest, if it is to be considered, should be considered without any report being made.

Mr. HARRIS: Why?

Mr. MATTHEWS: Because, Mr. Harris, with these prior bonds, it is a question of whether they are legally payable or not.

Mr. HARRIS: Most likely they are not. Probably they are not payable. It is probably a bankrupt concern, is it, something like the old Canadian and River Coal Company where you took over the bonds when the company was bankrupt?

Mr. BRADETTE: If it is not wise to give publicity to this matter we should have no record made of it.

Mr. MATTHEWS: There is nothing in this report.

The CHAIRMAN: I should like to put this question to Mr. Matthews: Is the material in this report likely to be prejudicial or unfavourable to the business of the State if divulged? If so, we will rule it out.

Mr. MATTHEWS: No; not what is said in this report concerning these bonds, because we just barely mention the matter again to the directors referring to the fact that the position in regard to these bonds has remained unchanged during the year. Now, the directors have full knowledge of what those conditions are.

The CHAIRMAN: Under those circumstances, if it is the wish of the committee, this material will go into the record.

Mr. HARRIS: The minister is now here and perhaps Mr. Matthews could have a conversation with the minister and see what he says.

Hon. Mr. HOWE: There are difficulties about putting this in. There is certain confidential information for the directors that would be embarrassing, perhaps, to read it here, in connection with the position of certain bonds.

Mr. HARRIS: How much money is involved?

Hon. Mr. HOWE: If we published the facts about it, it may make a difference to the railway.

Mr. HARRIS: I did not hear the last sentence.

Hon. Mr. HOWE: If we published the facts about these bonds it may make a difference to the railway, I should think.

Mr. HARRIS: In what way would it make a difference to the railway, Mr. Chairman?

Hon. Mr. HOWE: If I answered that, I might as well file the report, I suppose.

Mr. HARRIS: This is not an inquisition at all.

Hon. Mr. HOWE: I suggest that this is a confidential report for the directors. There is nothing in here that would interest the committee. It contains the auditor's slant on certain securities of the railroad and the position of them which I do not think it would be wise to make public; that is all. I do not mind showing the report to my honourable friend in confidence and let him decide whether it should go in the record.

Mr. HARRIS: No, sir; I am not operating the road; I am a humble member of parliament sitting in, that is all.

Mr. HANSON: Would you say you would give it to any member of the committee?

Hon. Mr. HOWE: Quite, yes; I would be glad to show it to any member of the committee.

Mr. BLACK: I am prepared to abide by the wishes of the minister, Mr. Chairman.

The CHAIRMAN: This is your committee. I think you have a right to demand anything that you in your wisdom think you should demand. I do believe you would be well advised to take the advice of the minister in a matter of this kind. However, it is up to you; it is your committee.

Mr. BRADETTE: Can any member of the committee have access to that report?

Hon. Mr. HOWE: Yes.

Mr. BRADETTE: That should be satisfactory to the members of the committee.

The CHAIRMAN: Will that meet the wishes of the committee; that this information will be at the disposal of any member of the committee without having it go in the record. Is that agreed?

Mr. McCULLOCH: Yes.

The CHAIRMAN: I should like those who are in favour of the suggestion to signify their approval. All right. Carried.

Mr. JACKMAN: Are you going to incorporate the rest of the report in the minutes?

The CHAIRMAN: If you wish it, yes.

Mr. JACKMAN: I do not know whether that is material or not.

Hon. Mr. HOWE: I do not think you should incorporate any of this in the minutes. I think we should leave it that any member of the committee can read it over for his own information, I do not think it should go in the minutes. This was intended as a private report to the directors of the line.

Mr. BLACK: A report from whom?

Hon. Mr. HOWE: The auditors, George A. Touche & Co. It is material that George A. Touche & Co., did not think should be published; that is why they submitted it as a private report, and I think it should be treated as a private report. I can assure you there is nothing in it that is of much interest. It has a few minor items.

Mr. JACKMAN: Might I ask what the conditions are which determined the policy, on the one hand, of incorporating the Trans-Canada Air Lines into a wholly owned subsidiary of the railway company and having the Canadian National (West Indies) Steamships Limited entirely on its own feet with ownership residing in the Crown? What are the conditions which determined that one should be one thing and one the other?

Hon. Mr. HOWE: The Canadian Steamships Limited was bought as a Crown property to implement the Canadian West Indies Treaty. Those ships were bought at the time the Canadian West Indies Treaty was made. It has no relation with the Canadian National Railways. It was found convenient to have the same management as the Canadian National Railways, but otherwise it has no relation with railway. No railway money went into it, and it is not railway property.

In the matter of the Trans-Canada Air Lines it was decided that as the railway was in the transportation business and as certain officials of the railway could very usefully attend to certain transportation problems in connection with the air lines it would be wise to make the Trans-Canada Air Lines a wholly-owned subsidiary of the railway.

Mr. JACKMAN: In the consolidated revenue account it was never the intention to consolidate the accounts of the T.C.A. and the profit and loss statement? Although it is a wholly-owned subsidiary it could never be treated on a consolidated basis with its parent company?

Hon. Mr. HOWE: No, that is not the intention. It is simply a wholly-owned subsidiary of the company. It is not a railway operation; therefore the accounts could never be consolidated with the railway accounts.

Mr. JACKMAN: Were there any compelling reasons why the T.C.A. should have been started as a subsidiary of the railway company and not left on its own feet?

Hon. Mr. HOWE: It was more or less a process of evolution. When the company was first organized it was the intention that it should be owned partly by the Canadian National and partly by the Canadian Pacific. At the last moment the Canadian Pacific Railway decided not to participate, and we therefore proceeded with it as a wholly-owned subsidiary of the Canadian National. That is how it happened, at least. But I have no reason to regret that it was made a subsidiary of the Canadian National Railways; I think it has been a good thing for the Air Lines.

The CHAIRMAN: Gentlemen, we are out of order. I have a motion that we adopt this report. Have I a seconder?

Mr. McCULLOCH: I will second it.

Mr. BLACK: Before this report carries, Mr. Chairman, some of it may have been discussed in some of the sessions that were held when I unfortunately could not be present, having to attend other meetings. A statement is before the committee showing the total bonded indebtedness, direct and indirect, for which the Canadian National is responsible. I have in mind an issue of \$4,000,000 for the Halifax & Southwestern Railway, which I think matures either this year or next year, and carried in the accounts of Nova Scotia as an asset.

Mr. COOPER: They are part of the funded debt of the Canadian National system.

Mr. BLACK: Where is it set out?

Mr. COOPER: Will you please refer to page 20? You will find it the third item from the bottom—3½ per cent, first mortgage guaranteed debenture bonds of the Halifax & Southwestern Railway, maturing September 30, 1942, \$4,447,000.

Mr. BLACK: There is another issue of \$1,000,000, on page 22, item 54. I do not think that is held by the province of Nova Scotia.

Mr. COOPER: Yes, the capital stock of the Halifax & Southwestern is owned by the Canadian Northern Railway Company—\$1,000,000,—the Canadian Northern being one of the component companies of the Canadian National system.

Mr. DONNELLY: What bonds have you due this year?

Mr. COOPER: The only maturities in 1940 are those shown on page 5 of the budget.

Mr. DONNELLY: They are not in this book I have here.

Mr. COOPER: You could pick them out of there but it is rather difficult. \$8,200,000 is the total.

The CHAIRMAN: I do not think, gentlemen, that we ought to consider going back over all this again to-night. We went over it meticulously this afternoon and we spent a great deal of time on it. I do not think it is unreasonable to refer to one or two matters but I do not believe we should go over them all again. We have a motion before the chair to adopt the report.

Mr. HARRIS: Does that include them all?

The CHAIRMAN: We have considered the others; we could take them all together but if the committee would prefer it we can adopt them one at a time.

Mr. HARRIS: If adopted they will be adopted on division.

The CHAIRMAN: Then we will adopt them on division.

Mr. HARRIS: Before the motion is put I should like to state a few facts which cause the division. First, we have had six months' experience and we have the actual operation of this six months, a fact to my mind which helps to guide this committee. This has been favourable due to the sad circumstances of the war; no doubt, favourable to the extent of several millions of dollars, anywhere between five million and perhaps fifteen million dollars. But we are charged with the responsibility of recommending at least a portion of that deficit to the house as set out in the order of reference.

This committee knows from the evidence adduced and submitted here that we will require \$15,000,000 for deficit purposes on the Canadian National Railways due to the actual experience of the six months.

Mr. McCULLOCH: I thought we heard all that this afternoon.

Mr. HARRIS: Quite, and now you will hear it again.

Mr. McCULLOCH: The reporter has it down and we do not want to get it down twice.

Mr. HARRIS: I am quite satisfied to stay here and put it down again. Secondly, the foreign exchange situation is one which in the interest of Canada

we should conserve if at all possible. We should conserve every possible Canadian dollar and stop their flight by the purchase of maturities coming due in New York. That policy is not being pursued by the railway system in co-operation with the government. Thirdly there are certain expenditures which were stopped in the year 1931 and have been started again.

Mr. HANSON: What are these?

Mr. HARRIS: They refer to expenditures required to straighten out the terminal in the Montreal area. I dissent from the adoption of this report on account of the suggested budget expenditure of \$3,350,000 at this time when we need Canadian dollars for other purposes.

The CHAIRMAN: All in favour of the adoption of this report will signify by raising their right hand. Those against. I declare the motion carried.

Now, gentlemen, we have already considered in this committee the report of the auditors, George A. Touche & Company. We have considered also the annual report of the Canadian National Railway system, the annual report of the Canadian National West Indies Steamships Limited, and the Canadian National Railways Securities Trust. We have been over them all. It remains for us to adopt these reports. I should like a motion.

Mr. EMMERSON: I move that they be adopted.

Mr. McCULLOCH: I second the motion.

The CHAIRMAN: You have heard the motion; all in favour—

Mr. HARRIS: On division.

The CHAIRMAN: The reports are carried on division.

Now we have certain votes to deal with. We still have vote 445 of the budget, Maritimes Freight Rates Act, Canadian National Railways eastern lines, \$2,000,000. You will find that on page 51 of the estimates. "Vote 445, Maritimes Freight Rates Act. To hereby authorize and provide for the payment from time to time during the fiscal year of 1940-1941 to the Canadian National Railway company of the differences estimated by the Canadian National Railway company and certified by the auditors of the said company to the Minister of Transport as and when required by the said minister, accruing on account of the application of the Maritimes Freight Rates Act." Shall I go ahead?

Mr. HANSON: Dispense.

Hon. Mr. HOWE: This is purely statutory. But it must be paid under the statutes.

Mr. DONNELLY: It has nothing to do with the committee.

Hon. Mr. HOWE: It is not controllable.

Mr. HARRIS: It has nothing to do with this committee.

Mr. HANSON: We have passed them every year. The only thing I can say about the Maritime freight rates agreement is that they should apply to British Columbia as well as the Maritimes.

The CHAIRMAN: Shall the item carry?

Carried.

Mr. HARRIS: Just before the item carries, may I say the same observation obtains with respect to this item as the observation I made with regard to the Canadian National budget. Our exports in the month of June, largely through Maritime ports, moved up from \$76,000,000 to \$110,000,000.

Mr. BLACK: This is on a different basis. This is statutory and provides for certain percentage allowances on freight originating in the Maritime provinces.

Hon. Mr. HOWE: Of course, the larger the movement here the larger the payment.

Mr. BLACK: Yes; that is quite true.

Mr. HARRIS: We have no control over that.

The CHAIRMAN: Vote 445 is carried. Vote 446, Maritimes Freight Rates Act, railways other than the Canadian National, \$800,000. Shall the item carry?

Carried.

Mr. HARRIS: Statutory.

Mr. HANSON: I make the same observation with regard to this item as I made with regard to the other.

Mr. EMMERSON: Is an audit made of these different items, for instance, in connection with the C.P.R. and the C.N.R. lines?

The CHAIRMAN: We have an inquiry to you, Mr. Smart, through the chair. Will you repeat that, Mr. Emmerson?

Mr. EMMERSON: How is the amount of subsidy arrived at? Is an audit made of the railway companies' accounts of each shipment that is made and where is the audit made?

Mr. SMART: Well, that is made by the auditors.

Mr. MATTHEWS: Are you speaking of the C.N.R.?

Mr. EMMERSON: This is for other companies.

Mr. SMART: These audits are made by the Board of Transport Commissioners. They have the original rates and they have the present rates and the traffic.

Mr. EMMERSON: Is there an audit made of each manifest at the railways?

Mr. SMART: Yes; it is checked.

Hon. Mr. HOWE: Certified by the Board of Transport Commissioners.

The CHAIRMAN: We now come to vote 459, Canadian National income deficit, \$15,000,000.

Shall the item carry?

Carried.

Mr. HARRIS: I thought we were dealing only with the government-owned enterprise.

The CHAIRMAN: This is Canadian National Railways deficit. Shall the item carry?

Carried.

We now come to vote 460, Prince Edward Island car ferry and terminal, \$327,000. Shall the item carry?

Carried.

Mr. BLACK: That is the same amount as was required in the previous fiscal year.

Hon. Mr. HOWE: Yes, that is correct.

Mr. McCULLOCH: The Wood Island ferry is not in there.

Hon. Mr. HOWE: No.

Mr. BLACK: Would the operation of the Wood Island ferry affect the earnings on this ferry service?

Hon. Mr. HOWE: It is difficult to say. Of course, this ferry does not carry trucks; the Wood Island ferry will, so it may affect it. I do not think you can tell until we try it.

The CHAIRMAN: If this item is carried I think we have about completed the most of our work in connection with the committee. We still have a report to

submit; but it will take a little time to do that. To speak for myself I should like to thank the members of the committee for their co-operation and—

Hon. Mr. HOWE: There is vote 458 to be approved. You have already discussed it in the budget of the Canadian National Steamships. It is a capital vote of the Canadian National West Indies Steamships company.

The CHAIRMAN: I thought we were through. We still have vote 458, Canadian National West Indies Steamships Limited, capital advances, \$21,000.

Mr. EMMERSON: There was nothing said as to what was done with that. Is that just for improvements?

Hon. Mr. HOWE: Minor improvements on the boats. They altered some of the staterooms and made them smaller.

The CHAIRMAN: Shall the item carry?

Carried.

Now we are through, and on behalf of the members I should like to thank the officials of the Canadian National transport system for their very courteous treatment of the members of the committee.

Mr. HARRIS: Before we adjourn, may I ask if you are drafting the report to the house?

The CHAIRMAN: Yes.

Mr. HARRIS: You personally?

The CHAIRMAN: We will call the committee together and submit the report to them.

Mr. HARRIS: Who is "we"?

The CHAIRMAN: The officials and the clerk and possibly—

Mr. HARRIS: There will be no sub-committee to draft the report?

The CHAIRMAN: No, unless you wish to form one.

Mr. HARRIS: I just want to know, that is all.

The CHAIRMAN: I thought we would draft the report and submit it to the members and they could do what they liked with it.

Mr. BLACK: I want to join with you in your expression of appreciation to the officials of the Canadian National Railways in coming here and giving us all the information that we asked; and speaking for myself I want to express my high appreciation of the services that Mr. Hungerford and his board render to Canada and the great responsibility that is theirs. While we cannot entirely agree with the policies, we still have appreciation for their desire to serve Canada in the responsible position they occupy. I wish to associate with that my expression of appreciation of the capacity of the retiring Minister of Transport, and the intimate knowledge he has of the operation of the Canadian National Railways and the Trans-Canada Airways and the courtesy he extends to members of the house and members of this committee at all times.

The CHAIRMAN: I do not think I need to put any such motion. I think gentlemen you have heard it.

The committee adjourned.



SESSION 1940  
HOUSE OF COMMONS

STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

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MINUTES OF PROCEEDINGS

No. 4

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TUESDAY JULY 23, 1940

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INCLUDING

REPORT TO THE HOUSE



## MINUTES OF PROCEEDINGS

JULY 23, 1940.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government met (*in camera*) this day at 11.00 o'clock a.m. Mr. J. P. Howden, the Chairman, presided.

*Members present were:* Messrs. Black (*Cumberland*), Emmerson, Hanson (*Skeena*), Howden, Howe, Lockhart, McCulloch, Ross (*Middlesex East*), Sanderson and Sissons—10.

The Committee took under consideration a draft of its Third Report.

Mr. Hanson moved, seconded by Mr. Sanderson,—That this Report be adopted as drafted, and submitted to the House. Carried.

On motion of Mr. Ross, the Committee adjourned to meet again at the call of the Chair.

J. P. DOYLE,  
*Clerk of the Committee.*



## REPORT TO THE HOUSE

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

### THIRD REPORT

Pursuant to Order of Reference dated June 28, 1940, your Committee has considered and approved the following Reports for the year ending December 31, 1939, viz:

- Annual Report of the Canadian National Railways;
- Annual Report of the Canadian National (West Indies) Steamships, Limited;
- Annual Report of Trans-Canada Air Lines;
- Annual Report of the Canadian National Railway Securities Trust;
- Annual Report of George A. Touche and Company, Auditors for the Canadian National Railways; and the
- Budget of the Canadian National Railways (with the item "Net Income Deficit" reduced, in accordance with Estimates Item No. 459, from \$20,000,000 to \$15,000,000).

#### *Canadian National Railway System:*

Operating revenues for 1939, were \$203,820,186, this being an increase of \$21,578,463 over the previous year. This was due to the extra volume of freight handled, which increased progressively throughout the year. The express revenue showed an increase of 13.4 per cent and the mail an increase of 1.4 per cent, but the passenger and telegraph revenues showed small decreases. The operating expenses for the year increased by \$6,790,456, which in view of the increased traffic and revenue was considered satisfactory. The ratio of transportation expenses to revenues was the most favourable since 1929. The cash deficit of the Canadian National Railway for the year was \$40,095,519, an improvement over the preceding year of \$14,788,007.

Progress was reported on the construction of the Montreal Terminals which will unite three of the four separate Canadian National stations in Montreal.

The coal industry of Canada should materially benefit by the tax on imports and from the adverse rate of exchange, which will undoubtedly result in the purchase of larger quantities of Canadian coal by the Canadian National Railway.

Your Committee is of the opinion that all refunding operations should be effected with a view to conserving to the utmost Canadian exchange.

#### *Canadian National (West Indies) Steamships, Limited:*

There was a decrease of \$273,049, or 5.56 per cent in the operating revenues of this Company during the year 1939, although the operating profit was \$623,859. This was due to fewer trips being made and a smaller import tonnage. A war bonus of 25 per cent of wages was paid to the operating crews.

Operating expenses were reduced by \$150,699; also on account of fewer trips.

*Trans-Canada Air Lines:*

The operation of this Company for the year 1939 showed a deficit of \$411,656, which was paid by the Dominion Government. The operating revenue was \$2,350,473, of which \$1,632,873, or about 70 per cent, was received from the Post Office Department for the carrying of mail. Considerable criticism was expressed regarding this, as it was felt that the Trans-Canada Air Lines were being subsidized by the Post Office Department. Officials pointed out, however, that with the increased volume of mail and passenger business, which has been very marked, the cost of carrying mail will be substantially reduced.

An item of particular satisfaction was the completion of 98.1 per cent of scheduled flights, more than 3,125,000 miles, without injury to passengers or employees.

Considerable extensions have been made during the year and negotiations are in progress for further schedules.

Flying schools have been established and maintained in which are being trained the personnel for present and future requirements.

*Budget of the Canadian National Railways:*

The item of \$20,000,000, Net Income Deficit for the current year, was criticized in view of the actual experience of the first six months showing an increased revenue, which if maintained for the balance of the year, would amount to about \$15,000,000.

A copy of the Minutes of Proceedings and Evidence is annexed hereto.

All of which is respectfully submitted.

J. P. HOWDEN,  
*Chairman.*





