HOUSE OF COMMONS

Third Session—Twenty-second Parliament

1956

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

Chairman: HARRY P. CAVERS, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

FRIDAY, MARCH 16, 1956

MONDAY, MARCH 19, 1956

Trans-Canada Air Lines' Report (1955) and Budget (1956).
Auditors' Report to Parliament.

WITNESSES:

Mr. G. R. McGregor, President, Trans-Canada Air Lines; Mr. F. P. Turville, of George A. Touche and Co., Chartered Accountants.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956.

72025—1

SESSIONAL COMMITTEE

On

RAILWAYS AND SHIPPING

owned, operated and controlled by the Government

Chairman: H. P. Cavers, Esq.,

and Messrs:

Bell	Hahn	Langlois (*Gaspe*)
Byrne	Hamilton (*Notre-Dame-de-Grâce*)	Lavigne
Carter	Hamilton (*York West*)	Legare
Carrick	Hanna	McCulloch (*Pictou*)
Cavers	Harrison	Mitchell (*Sudbury*)
Churchill	Healy	Murphy (*Westmorland*)
Follwell	Johnston (*Bow River*)	Power (*Quebec South*)
Fulton	Knight	St. Laurent (*Temiscouata*)
Gillis		Weaver

Antoine Chasse,
Clerk of the Committee.

ORDERS OF REFERENCE

House of Commons

Tuesday, March 6, 1956.

Resolved,—That a Sessional Committee on Railways and Shipping owned, operated and controlled by the Government, be appointed to consider the accounts and estimates and bills relating thereto of the Canadian National Railways, the Canadian National (West Indies) Steamships, and Trans-Canada Air Lines, saving always the powers of the Committee of Supply in relation to the voting of public moneys; and that the said Committee be empowered to send for persons, papers and records and to report from time to time and that, notwithstanding Standing Order 67 in relation to the limitation of the number of members, the said Committee to consist of Messrs. Bell, Byrne, Carter, Carrick, Cavers, Churchill, Dumas, Follwell, Fulton, Gillis, Hahn, Hamilton (*Notre-Dame-de-Grâce*), Hanna, Harrison, Healy, James, Johnston (*Bow River*), Knight, Langlois (*Gaspe*), Lavigne, Legare, Macdonnell, McCulloch (*Pictou*), Murphy (*Westmorland*), St. Laurent (*Temiscouata*) and Weaver.

Wednesday, March 7, 1956.

Ordered,—That the name of Mr. Mitchell (*Sudbury*), be substituted for that of Mr. James; and

That the name of Mr. Hamilton (*York West*) be substituted for that of Mr. Macdonnell, on the said Committee.

Monday, March 12, 1956.

Ordered,—That the Annual Report of Trans-Canada Air Lines for 1955, the Auditors' Annual Report to Parliament of Trans-Canada Air Lines for the year ending December 31, 1955, tabled this day, and the Capital Budget of Trans-Canada Air Lines for the year ending December 31, 1956, tabled on Wednesday, March 7, 1956, be referred to the said Committee.

Wednesday, March 14, 1956.

Ordered,—That the annual reports for 1955 of the Canadian National Railways, the Canadian National (West Indies) Steamships Limited, and the Canadian National Railways Securities Trust, the Auditors' Report to Parliament in respect of the Canadian National Railways and Canadian National (West Indies) Steamships Limited, and the budgets for 1956 of Canadian National Railways and Canadian National (West Indies) Steamships Limited, tabled this day, be referred to the Sessional Committee on Railways and Shipping owned, operated and controlled by the government, together with the following items of estimates for 1956-57:

Vote 454 Prince Edward Island Car Ferry and Terminals deficit, 1956.

Vote 460 North Sydney-Port Aux Basques Ferry and Terminals deficit, 1956.

Vote 466 Maritime Freight Rates Act.

Vote 467 Canadian National (West Indies) Steamships Limited deficit, 1956;

and that the resolution passed by the House on January 26, 1956, referring certain estimates to the Committee of Supply, be rescinded so far as the said resolution relates to Votes 454, 460, 466 and 467.

THURSDAY, March 15, 1956.

Ordered,—That the name of Mr. Power (*Quebec South*) be substituted for that of Mr. Dumas on the said Committee.

FRIDAY, March 16, 1956.

Ordered,—That the quorum of the said Committee be set at ten members.

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

Ordered,—That the said Committee be empowered to print, from day to day, 1,000 copies in English and 250 copies in French of its minutes of proceedings and evidence, and that Standing Order 66 be suspended in relation thereto.

Attest.

LEON J. RAYMOND,
Clerk of the House.

REPORT TO THE HOUSE

FRIDAY, March 16, 1956.

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

FIRST REPORT

Your Committee recommends:

1. That its quorum be set at ten members.
2. That it be granted permission to sit while the House is sitting.
3. That it be empowered to print, from day to day, 1,000 copies in English and 250 copies in French of its minutes of proceedings and evidence, and that Standing Order 66 be suspended in relation thereto.

Respectfully submitted,

HARRY P. CAVERS,
Chairman.

Note: The said report was concurred in by the House on the same date.

MINUTES OF PROCEEDINGS

HOUSE OF COMMONS, Room 277,

FRIDAY, March 16, 1956.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government, met at 10.00 o'clock a.m.

Members present: Messrs. Bell, Byrne, Carrick, Cavers, Churchill, Fulton, Gillis, Hahn, Hamilton (*Notre-Dame-de-Grâce*), Hamilton (*York West*), Hanna, Knight, Legare, McCulloch (*Pictou*), Murphy (*Westmorland*), Power (*Quebec South*), Weaver.

The Clerk of the Committee attended to the election of the Chairman.

Mr. McCulloch (*Pictou*) moved that Mr. H. P. Cavers be nominated.

Mr. Fulton moved that nominations be closed, whereupon the Clerk declared Mr. Cavers elected Chairman.

Upon taking the chair, the chairman thanked the members for the honour again conferred upon him.

On motion of Mr. Byrne,

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

On motion of Mr. Weaver,

Resolved,—That the Committee recommend that its quorum be set at ten members.

On motion of Mr. Power (*Quebec South*),

Resolved,—That the Committee recommend to the House that it be authorized to print from day to day 1,000 copies in English and 250 copies in French of its minutes of proceedings and the evidence to be heard.

On motion of Mr. Fulton,

Ordered,—That a report, embodying the recommendation agreed to at this meeting, be made to the House forthwith.

The Chairman informed the Members that advice had reached him to the effect that the President and other officials of Trans-Canada Air Lines would be in attendance before the Committee on Monday next.

After some discussion, it was agreed that the various reports to be considered be taken as read and that questions would be asked on the various points covered in the said reports.

At 10:15 o'clock a.m., on motion of Mr. Weaver, the Committee adjourned to meet again at 10:00 o'clock a.m., Monday, March 19, 1956.

Room 277,

MONDAY, March 19, 1956.

The Committee met at 10.00 o'clock a.m. The Chairman, Mr. Harry P. Cavers, presided.

Members present: Messrs. Bell, Byrne, Cavers, Churchill, Follwell, Fulton, Gillis, Hahn, Hamilton (*Notre-Dame-de-Grâce*), Hamilton (*York West*), Hanna, Harrison, Knight, Langlois (*Gaspe*), Legare, Lavigne, Murphy (*Westmorland*), Weaver.

In attendance: Right Hon. C. D. Howe, Minister of Trade and Commerce and of Defence Production, Mr. John Dickey, Parliamentary Assistant, the following officials of Trans-Canada Air Lines: Mr. G. R. McGregor, President, Mr. W. S. Harvey, Comptroller, Mr. S. W. Sadler, Auditor of General Accounts, Mr. R. C. MacInnis, Director of Public Relations, and Mr. C. P. Edwards, Director; also, Mr. F. P. Turville, C.A., with Mr. J. D. Morison, C.A. and Mr. D. T. G. Padley, C.A., of the firm of George A. Touche & Co, Chartered Accountants, auditors.

The Committee considered the Annual Report of Trans-Canada Air Lines for the year ending December 31, 1955.

Mr. McGregor was called.

At 12.00 o'clock noon, the Committee took recess.

AFTERNOON SITTING

The Committee met at 3.30 o'clock p.m. The Chairman, Mr. Harry P. Cavers, presided.

Members present: Messrs. Bell, Byrne, Carrick, Cavers, Churchill, Follwell, Fulton, Hahn, Hamilton (*Notre-Dame-de-Grâce*), Hamilton (*York West*), Hanna, Harrison, Johnston (*Bow River*), Knight, Langlois (*Gaspe*), Lavigne, Legare, Murphy (*Westmorland*), St. Laurent (*Temiscouata*), Weaver.

In attendance: Those listed as in attendance at the morning sitting.

The Committee resumed consideration of the Annual Report of Trans-Canada Air Lines for the year ending December 31, 1955.

The witness, Mr. McGregor, answered questions asked of him at the morning sitting, and he filed with the Committee the following:

"Statements showing comparison of passenger load factors concerning North American Services 1955; also comparison of percentage of noshows to passengers booked during the years 1954 and 1955; also percentage of oversale deplanements, Air Traffic Conference Industry and Trans-Canada Air Lines, 1955."

On motion of Mr. Carrick, it was

Ordered,—That these statements appear as Appendix "A" to today's report of printed minutes of proceedings and evidence.

At 6.00 o'clock the Committee took recess.

EVENING SITTING

The Committee met at 8.15 o'clock p.m. The Chairman, Mr. Harry P. Cavers, presided.

Members present: Messrs. Bell, Byrne, Carrick, Cavers, Churchill, Follwell, Fulton, Hahn, Hamilton (*Notre-Dame-de-Grâce*), Hamilton (*York W.*), Hanna, Harrison, Knight, Langlois (*Gaspé*), Lavigne, Légaré, McCulloch (*Pictou*), Power (*Quebec South*), St-Laurent (*Témiscouata*), Weaver.

In attendance: The Hon. Geo. C. Marler, Minister of Transport, in addition to those listed as being in attendance at the morning sitting.

The Committee resumed consideration of the Annual Report of Trans-Canada Air Lines for the year ending December 31, 1955.

The witness, Mr. McGregor, answered questions asked of him during the afternoon sitting.

He also tabled a statement concerning Mexico Service 1955 appearing as Appendix "B" to today's printed minutes of proceedings and evidence; also, a statement of comparison of fares in Western Canada appearing as Appendix "C" to today's printed minutes of proceedings and evidence; also, statement re T.C.A.'s recommendations to the Department of Transport for the fiscal year 1956-57, appearing as Appendix "D" to today's minutes of proceedings and evidence; also, statement relating to Boarding Passengers in Canada in 1955, appearing as Appendix "E" to today's minutes of proceedings and evidence.

Mr. Hamilton (*York West*), seconded by Mr. Hamilton (*Notre-Dame-de-Grâce*), moved:

"THAT in connection with its consideration of Trans-Canada Air Lines' report dealing with the volume of traffic available and with the question of development, and in the light of discussion of the effects thereon of competition, the Committee should call and question witnesses from other Canadian air lines."

The Chairman ruled the said motion out of order on the ground that it was without the scope of the Order of Reference of the Committee. Whereupon Mr. Hamilton (*York West*), seconded by Mr. Hamilton (*Notre-Dame-de-Grâce*), appealed from the ruling of the Chair.

On a recorded vote, the Chairman's ruling was sustained on the following division: *YEAS:* Messrs. Byrne, Carrick, Follwell, Hanna, Harrison, Knight, Langlois (*Gaspé*), Lavigne, Légaré, McCulloch (*Pictou*), Power (*Quebec South*), St-Laurent (*Témiscouata*), and Weaver.—13. *NAYS:* Messrs. Bell, Churchill, Fulton, Hahn, Hamilton (*Notre-Dame-de-Grâce*), and Hamilton (*York West*),—6.

Mr. Hamilton (*York West*) moved, seconded by Mr. Fulton,

"THAT in connection with its consideration of that portion of Trans-Canada Air Lines' report dealing with the question of the types of aircraft available for future service, the committee should call and question witnesses from the Canadian aircraft industry."

After discussion thereon, and the question having been put on the proposed motion of Mr. Hamilton (*York West*), it was resolved in the negative on the following recorded division: *YEAS:* Messrs. Bell, Churchill, Fulton, Hamilton (*Notre-Dame-de-Grâce*), Hamilton (*York W.*),—5. *NAYS:* Messrs. Byrne, Carrick, Follwell, Hahn, Hanna, Harrison, Knight, Langlois (*Gaspé*), Lavigne, Légaré, McCullogh (*Pictou*), Power (*Quebec South*), St-Laurent (*Témiscouata*), and Weaver.—14.

The Annual Report of Trans-Canada Air Lines for the year ending December 31, 1955 was adopted.

The Committee then considered the Operating Budget and the Capital Budget of Trans-Canada Air Lines, for the year 1956, which were in turn adopted.

The Committee considered the Auditors' Report to Parliament.

Mr. Turville was called.

The said Auditors' Report was in turn adopted.

The Chairman, on behalf of the Committee, thanked the officials of Trans-Canada Air Lines and the officials of George A. Touche & Co. for their valuable contribution to the work of the Committee.

At 10.25 o'clock p.m., the Committee adjourned to sit again at 10.00 o'clock a.m. Tuesday, March 20, 1956.

Antoine Chassé,
Clerk of the Committee.

EVIDENCE

March 19, 1956
10.00 a.m.

The CHAIRMAN: Gentlemen, I think we have a quorum. I will call the meeting to order.

Before commencing with any of the proceeding of the committee I wish to express thanks to Mr. McGregor and his officials for suggesting that the members of the committee take a tour of the St. Lawrence and Great Lakes seaway project from below Iroquois up to Montreal and back to Ottawa. We had hoped that a tour of this kind might have been arranged during the time of the hearings of the proceedings of our meeting, but it has been impossible to arrange for a plane. However, I hope with the cooperation of this committee and the help of the members and executives of the T.C.A. that we will be able to take this tour later in the year and have an opportunity of seeing the seaway project from the air. We are grateful to the executive for arranging this.

We are pleased to have here today the minister, Right Hon. C. D. Howe, who is responsible for the operation of Trans-Canada Air Lines and reports to the House of Commons with regard to this enterprise.

We are also pleased to have here with us today Mr. G. R. McGregor, president of Trans-Canada Air Lines, and with him as his associates Mr. W. S. Harvey, comptroller, Mr. E. MacInnis, in charge of public relations, Mr. Turville, and other officials of the Trans-Canada Air Lines.

Having regard to the situation, at our organization meeting on Friday, it was decided that the president would not be called upon to read the report of Trans-Canada Air Lines and I am going to ask, if the committee are agreeable, that the report be taken as read and printed as part of the minutes.

We will commence at page 3 and consider any questions which might be asked.

Mr. KNIGHT: Mr. Chairman, I have not read the report and I did a little thinking about this matter of having it read. I personally, in spite of the agreement, was in favour of having the report read, but since there was a general agreement I will not press it. However, before the report of the C.N.R. comes up, which is more involved, we might give consideration in respect to that later.

The CHAIRMAN: The committee will consider the matter and I am in the hands of the committee in that respect.

Is it agreeable that the report be accepted as read?

Agreed.

MONTREAL, February 29, 1956

To The Right Honourable,
The Minister of Trade and Commerce, Ottawa.

Sir:

The Board of Directors submit the Annual Report of the Trans-Canada Air Lines system for the calendar year 1955.

The provision of a high standard of air transportation and the maintenance of a sound financial position continued to be the primary objectives of the Company.

The year proved successful in most respects. Traffic volume and transportation revenues attained new record levels, and the period was one of dependable and efficient operations. Perhaps most significant was the introduction for the second successive year of a new aircraft type that made possible the provision of a still better transportation product to the public in the form of faster schedules, more travel comfort, and a substantial increase in available accommodation. The airline was the first in North America to buy and place in service turbine-propeller aircraft.

The Company carried the heaviest passenger, cargo and mail loads in its history as it participated in the growing economic strength of Canada and, at the same time, contributed to the national development. As planned, the increase in airline capacity was even greater than the increase in volume of business.

For the year's operation, TCA recorded a financial surplus of $190,095. It was a matter of some satisfaction that this was the fifth successive year in which a surplus was realized.

At the same time, the Company was acutely aware of the narrow margin between revenues and expenses that continue to be a general problem at the present stage of development of the air transportation industry. Market expansion and operating efficiency remained basic necessities.

The Year in Brief

	1955	1954
Net Income	$ 190,095	$ 496,146
Passengers Carried	1,682,195	1,438,349
Passenger Miles Flown	969,392,395	852,475,532
Commodity Ton Miles	12,175,433	10,192,705
Mail Ton Miles	7,704,144	6,942,299
Revenue Ton Miles	116,706,465	102,305,202
Available Ton Miles	202,176,930	158,093,399
Route Mileage	23,714	24,016
Aircraft Miles Flown	36,246,607	32,327,405

Financial Review

There follows a tabulation of the 1955 operating results compared with those of 1954:

	1955	1954	Increase or (Decrease)
Operating Revenues	$77,428,254	$68,764,252	$8,664,002
Operating Expenses	76,770,922	67,731,512	9,039,410
Operating Income	$ 657,332	$ 1,032,740	$ (375,408)
Non-Operating Income — Net	528,366	257,242	271,124
	$ 1,185,698	$ 1,289,982	$ (104,284)
Interest Expense	995,603	793,836	201,767
Net Income	$ 190,095	$ 496,146	$ (306,051)

The Company's earning ability continued to grow, with gross revenues exceeding those of the previous year by 12·6%. Passenger traffic, the backbone of airline business, accounted for $61,105,243, an increase of 15%. At the same time, freight and express revenues showed strength, amounting to $3,352,493 and $1,929,598 respectively, a combined increase of 30%. Revenue from the carriage of mail totalled $8,297,605, a decrease of 1%, in spite of an 11% rise in volume. Mail revenue represented less than 11% of aggregate revenues, the lowest proportion in the Company's history.

Due in large measure to service improvements and in particular to the increased aircraft mileage flown and the expenses associated with the introduction of new aircraft, operating expenses rose by 13·3%. Other factors were the rising prices of labour and of many of the materials and supplies required for the operation of an airline. The Company's payroll totalled $34,509,686 for 1955 and this represented 45% of operating expenses.

By taking advantage of the greater traffic volume, by introducing more efficient aircraft, and by improving staff performance, it was, however, possible to reduce unit costs per available ton mile.

Indicative of the airline's growth and the long-range equipment program, capital expenditures in 1955 totalled $15,200,000 and commitments for the acquisition of aircraft during the next two years approximated $15,500,000 at December 31st. This obligation for the future is partially offset by progress payments of $4,000,000. Included in the Property and Equipment expenditures for the year was an amount of $10,200,000 as the balance of payment on thirteen Viscounts, including spares, delivered during the year, and $2,300,000 initial instalment on the purchase of additional flight equipment.

Financing of this fleet expansion required further loans from the Canadian National Railways of $10,400,000 and at year end these borrowings totalled $13,500,000.

The airline did not have a tax liability for 1955 due to the inclusion in income of items taxed in prior years.

Operations and Traffic Review

In almost every phase of its activities the Company showed steady growth as indicated in the following statistical comparisons:

	1955	1954	Per Cent Increase
Total Aircraft Miles Flown	36,246,607	32,327,405	12
Passengers Carried	1,682,195	1,438,349	17
Passenger Miles Flown ..	969,392,395	852,475,532	14
Available Seat Miles	1,380,919,409	1,179,624,399	17
Mail Ton Miles	7,704,144	6,942,299	11
Air Freight Ton Miles	9,951,059	8,345,258	19
Air Express Ton Miles ..	2,167,137	1,787,000	21
Revenue Ton Miles Flown	116,706,465	102,305,202	14
Ton Miles Available	202,176,930	158,093,399	28

Expansion of Service

The airline made available 28% more ton miles and 17% more seat miles in 1955 than in the previous year.

Six trans-continental passenger flights were scheduled daily during the months of peak traffic, four first-class and two on a tourist basis. A seventh flight operated between eastern Canada and Alberta cities. The Super Constellations provided an "express" service between Vancouver and the eastern terminals, with an intermediate stop only at Winnipeg; while other flights served a number of cities to ensure a wide availability of trans-continental air transportation. There was also a general increase in frequency of flights on the shorter inter-city routes.

On April 1st, TCA introduced Vickers Viscount aircraft of the turbine-propeller type between Montreal and Winnipeg. On April 4th, they were extended to the United States on the Toronto-New York route and by November

1st were serving fourteen cities and flying trans-continentally between Montreal and Vancouver. Passenger reaction to the new type of aircraft was enthusiastic and Viscount load factors were uniformly high throughout the year.

During the summer, TCA operated Super Constellations across the Atlantic eight times weekly, this schedule being reduced to six weekly flights in the winter months. Conversely, service to Florida, Bermuda and the Caribbean was more frequent during the latter season. In May, Super Constellation equipment was withdrawn from the southern routes and North Stars used exclusively.

The Company expanded its services along the St. Lawrence valley and in Northern Quebec and Ontario following a major route exchange negotiated with Canadian Pacific Airlines and approved by the Canadian aeronautical authorities. Under the terms of the agreement, TCA relinquished its operation between Toronto and Mexico City, receiving in return the right to operate the routes previously held by CPA to Quebec City, Saguenay, Seven Islands, Val d'Or, Rouyn/Noranda and Earlton. This permitted the inclusion of the latter communities in the national route pattern. Also service was provided between Quebec City and the Maritime provinces for the first time. The route exchange became effective on November 1st.

Following construction of a new airport at Timmins, service began to that community on April 1st, with the airline simultaneously suspending its operations to Porquis Junction. This had the effect of moving the air service closer to the larger centres of population in that area of northern Ontario.

The airline's operations were again conducted with a high degree of reliability, over 96% of all schedule mileage being completed.

Passenger Traffic

In carrying 1,682,195 passengers, an increase of 17%, the airline established a new traffic record and maintained the steady upward trend of air travel popularity. During the year, TCA transported its ten millionth passenger. There was an increase of 14% in passenger miles flown, these amounting to 969,392,395, another new Company high. In the past ten years the passenger traffic has multiplied ninefold, and more passenger miles were flown in 1955 than during the first eleven years of the Company's life. General prosperity and an aggressive merchandising programme contributed to the traffic growth.

No basic changes were made in the Company's fare structure in 1955. Since 1947 there has been an overall decrease in the average passenger fare. This has been in marked contrast to the rising consumer price index, as illustrated on page 18, and air travel can in no sense be regarded today as an expensive means of transportation. Its price has become increasingly competitive with that of surface transportation, particularly since the introduction of tourist services which, in 1955, accounted for 32% of all TCA passenger traffic. Also, in the past year the Company extended tourist fares to its southern services and applied to the Atlantic the family fare rates that have proven so popular on the North American routes.

The volume of passenger traffic on the overseas services was gratifying. TCA's North Atlantic load factor was among the highest of the twelve competing airlines, and there was a modest increase in travel to Bermuda and Caribbean points.

It continued to be the case that most routes were subject to marked seasonal fluctuations in traffic volume.

Mail Traffic

Mail also was carried in greater volume, the Company flying a total of 7,704,144 ton miles, a rise of 11%. Increased flight schedules in many instances expedited mail transportation. Since the Post Office Department pioneered the "all-up" carriage of mail in 1948, Canada has enjoyed one of the swiftest postal delivery services in the world. It is of interest that a similar large-scale air carriage of first-class mail on an experimental basis got underway in the United States during the past year.

Under the terms of the Company's domestic mail contract, which calls for lower unit payments as traffic volume increases, the airline received 3% more revenue than in 1954, but mail pay per ton mile dropped from $1·03 to 96 cents. This downward trend, as shown in the chart on page 10 has been constant since 1946 when TCA received $3·12 a mail ton mile.

Mail traffic on the North Atlantic was up 13%, but revenue down 12% due to the application of reduced rates. Mail volume on the southern services was small.

Commodity Traffic

There was a healthy increase in commodity traffic, ton miles totalling 12,175,433. The growth of air freight was vigorous, 1955 loads being 19% above those of 1954. Air express ton miles increased by 21%.

TCA provided extensive facilities for air shipment. Not only was cargo carried on the more than 150 daily scheduled flights, but the scheduled all-cargo service, which previously terminated at Winnipeg, was extended to Vancouver with the substitution of North Stars for Bristol Freighter aircraft as planned. As the converted North Stars were able to provide a better and more economical service than the Company's three Bristol Freighters, the latter were sold, together with the single DC-3 cargo liner.

The trans-continental all-cargo service was operated five nights weekly, Monday through Friday, and although loads by no means approached available carrying capacity, it was hoped that the existence of this facility would encourage more shipments by air in the future.

The movement of air cargo, both within Canada and on the overseas services, unfortunately remained strongly directional.

Even so, TCA's carriage of trans-Atlantic air freight was large, exceeding that of all other airlines serving the Montreal gateway.

There was a decrease in air freight traffic on the Caribbean service.

Property and Equipment

Thirteen new aircraft were acquired and four aircraft sold for a net increase of nine. At year end the Company's fleet consisted of: 7 Super Constellations, 14 Viscounts, 22 North Stars and 26 DC-3's. The number of installed aircraft seats rose to 2,600, representing an increase of 90% in the past five years. Few airlines in the world are today as well equipped as TCA with aircraft for the specific types of operation required. The fact that the fleet performed throughout 1955 with a high degree of efficiency can be attributed to thorough maintenance and overhaul practices and the quality of the airline's technical staff.

Particularly satisfying was the performance of the Viscounts. Normally it can be expected that a new type of aircraft will present some operating problems when first introduced to service. The Viscounts, however, produced few such difficulties and showed promise of giving reliable, popular and economic service, summer and winter, for many years. From both the operations and traffic viewpoints, they proved ideal medium-range aircraft.

Prior to commencement of scheduled Viscount service, an extensive public demonstration programme was conducted in Canada and the United States. Many thousands of persons were introduced to the new aircraft and there was widespread press, radio and television interest. Large space advertising supported this introductory programme.

Three North Stars were converted to freight carriers, each capable of carrying nine tons of goods.

A number of passenger-carrying North Stars were modified to provide increased seating accommodation for the tourist services. The conversion programme is continuing.

At Winnipeg, the Company constructed a new and commodious stores building for the efficient handling of the airline's materials and supplies.

A modern engine test house was also built at Winnipeg, incorporating the first airline-operated test cell in North America for turbine-propeller engines.

New ticket offices were opened at Calgary, Ottawa, Chicoutimi, Seven Islands, Moncton and Saint John. In a number of cities, existing offices were enlarged and renovated for the better handling of the increased passenger traffic. Telephone answering facilities were further expanded to ensure rapid reservations service.

TCA's overhaul of RCAF aircraft at Winnipeg was concluded in July, following decision of the Air Force to reassume responsibility for that work. Of the 666 employees who had been hired on a temporary basis for the defence contract work, 352 were ultimately absorbed into the airline's organization on a permanent basis.

Airport and Airway Facilities

Important improvements to Canada's airports and airways were made by the Department of Transport in 1955. Major runway extensions were either undertaken or completed at Calgary, Saskatoon, Winnipeg, the Lakehead, Windsor, London, Timmins, Toronto, Fredericton and Gander. All of these were beneficial to airline operations.

High intensity and medium intensity approach lighting was installed at a number of additional airports. Further progress was made in the installation of very high frequency radio-range facilities. A radar ground control approach unit was placed at Gander and plans formulated for a number of future installations of this type elsewhere in Canada. All of these new facilities are calculated to improve flying regularity.

New terminal buildings of modern design were constructed at Calgary, Saskatoon, Sudbury and Timmins. A sizable extension was added to the Ottawa terminal building and work began on a badly needed Montreal airport terminal to serve both domestic and international flights. Inadequate passenger and cargo handling facilities remain a problem of the first urgency at many Canadian airports, but the past year did see significant progress.

TCA and the Department of Transport continued the cooperative and constructive relationship that has marked their association since the initial planning of a trans-Canada airway.

Routes

At the close of the year, TCA was operating on 23,714 miles of air routes in Canada and to the United States, the British Isles, continental Europe, Bermuda and the Caribbean area. The airline, which began in 1937 with an initial route of 122 miles, has grown into one of the world's foremost air transport organizations, serving Canada's needs both at home and abroad. The scope of the Company's operations can be seen in the route map on pages 14 and 15.

TCA has from the outset recognized a responsibility to provide a balanced service to Canadian communities both small and large. In 1955, the Company operated to twelve cities having metropolitan populations of between 25,000 and 100,000, and fifteen cities of less than 25,000 population. Few of the continent's scheduled airlines provide service to such a high proportion of communities having a relatively small traffic potential.

Personnel

The airline's staff numbered 8,503 at year end. This was an increase of 6 per cent, comparing favourably with the 28 per cent increase in the airline's output measured in available ton miles. The TCA employee body, although consisting largely of young men and women, is experienced and able. At December 31st, 446 employees had been with the Company over fifteen years; another 1,233 had completed ten years of service; and an additional 2,010 had served the airline over five years. The level of technical and other specialized skills remained high.

The Company's extensive program of personnel development was continued, including the initial indoctrination of new staff, on-the-job training, technical instruction, and management training.

Harmonious relations continued between the Company and its organized labour groups.

Development

The continued expansion of air transportation throughout the world seems assured and particularly should this be the case in a country of increasing wealth and of the geographic immensity of Canada.

The airline will undertake further service expansion in 1956. For the most part, this will take the form of greater flight frequency, with no major route additions being contemplated at present. The delivery of more aircraft will permit a substantial increase in available accommodation for all types of traffic. The cost of the new equipment to enter service in 1956 will be $8,250,000.

During the past year, TCA extended its equipment planning even further into the future to keep step with the increasing time intervals between airline orders and manufacturers' deliveries of the new aircraft types. Detailed investigation is continuing into the technical potentialities of both the larger turbine-propeller and jet aircraft now being developed. The most skilled analysis by the Company's technical staff is called for in this time of rapid advances in power-plant design and soaring prices of flight equipment.

In this regard, the airline's experience with the Viscounts will be invaluable to it when new types of turbine-powered aircraft are added to the fleet. TCA is today one of the two North American airlines having operational familiarity with turbine-propeller equipment.

In addition to the eleven Viscounts on order as of December 31st, an order for a further eleven aircraft has now been placed. This will bring the Company's Viscount fleet to thirty-six by the spring of 1958. They will be progressively extended to more medium-range domestic routes. In addition, two more Super Constellations will be placed in service this year, strengthening both trans-continental and Atlantic services.

The financial outlook justifies some concern. The relatively high cost of air transport operations in Canada and the mounting price of both labour and equipment is giving rise to a problem of some magnitude. The airline will endeavour, as in the past, to secure maximum efficiency of both staff and equipment and to take advantage of the economies inherent in the greater traffic volume.

In aircraft, personnel, experience and planning, the Company is ready to meet the challenge and the opportunities of the future. It will strive to maintain the high operating standards that have won its good reputation.

For the accomplishments of the year, credit is due to the loyalty and performance of the men and women of TCA, and the Board of Directors take this opportunity of expressing their appreciation.

For the Directors:

(Signed) G. R. McGregor,
President.

72025—2½

BALANCE SHEET
At December 31st, 1955

ASSETS

Current Assets—		
Cash		$ 1,107,940
Working funds		46,786
Special deposits		24,013
Accounts receivable—		
Government of Canada	$ 1,541,171	
Traffic balances from other air lines	1,495,616	
Air travel plan	1,268,180	
Agents	631,644	
Other	1,289,334	
		6,225,945
Materials and supplies		7,500,155
Other current assets		174,002
		$15,078,841
Insurance Fund		6,000,000
Capital Assets—		
Property and equipment	$68,220,975	
Less: Accrued depreciation	31,513,964	
	$36,707,011	
Progress payments on purchase of aircraft	4,006,363	
		40,713,374
		$61,792,215

LIABILITIES

Current Liabilities—		
Accounts payable		$ 4,942,687
Traffic balances payable to other air lines		2,409,197
Air travel plan deposits		1,257,150
Salaries and wages		1,146,457
Prepaid transportation		2,176,862
Other current liabilities		180,797
		$12,113,150
Loans and Debenture—Canadian National Railways		
Notes payable	$13,500,000	
Debenture, 3-7/8% maturing January 1st, 1973	20,000,000	
		33,500,000
Reserves—		
Insurance	$ 6,000,000	
Overhaul	468,266	
		6,468,266
Capital Stock—		
Common stock—		
Authorized 250,000 shares par value $100 per share		
Issued 50,000 shares, fully paid		5,000,000
Surplus—		
Surplus, January 1st, 1955	$ 3,819,119	
Net income, year 1955	190,095	
Refund on prior years' Federal income tax	228,174	
Adjustment of 1954 appropriation for Insurance Reserve	473,411	
Surplus, December 31st, 1955		4,710,799
		$61,792,215

W. S. HARVEY,
Comptroller.

CERTIFICATE OF AUDITORS

We have examined the books and records of the Trans-Canada Air Lines for the year ended 31st December, 1955, and, in our opinion, proper books of account have been kept by the Air Lines.

The above balance sheet and the relative statement of income are prepared on a basis consistent with that of the preceding year, and are, in our opinion, properly drawn up so as to give a true and fair view of the state of the Air Lines' affairs at 31st December, 1955, and of the income and expense for the year according to the best of our information and the explanations given to us, and as shown by the books of the Air Lines.

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

(Signed) GEORGE A. TOUCHE & CO.
Chartered Accountants.

STATEMENT OF INCOME

Operating Revenues:	1955	1954
Passenger	$61,105,243	$53,123,868
Mail	8,297,605	8,371,344
Air Express and Freight	5,436,802	4,220,672
Excess Baggage	579,108	484,841
Charter	334,057	250,307
Incidental Services — Net	1,675,439	2,313,220
Total	$77,428,254	$68,764,252
Operating Expenses:		
Flight Operations	$16,749,503	$14,614,919
Ground Operations	12,807,609	11,008,253
Maintenance	21,656,662	19,346,433
Depreciation	4,308,467	3,883,838
Passenger Service	4,682,401	4,031,000
Sales and Reservation Service	10,191,730	8,975,232
Advertising and Publicity	2,186,660	1,830,414
General and Administrative	4,187,890	4,041,423
Total	$76,770,922	$67,731,512
Operating Income	$ 657,332	$ 1,032,740
Non-Operating Income — Net	528,366	257,242
	$ 1,185,698	$ 1,289,982
Interest Expense	995,603	793,836
Net Income	$ 190,095	$ 496,146

The CHAIRMAN: We will now come to page 3 of the report, the letter dated February 29, 1956, addressed to the Right Hon. the Minister of Trade and Commerce, Ottawa.

Mr. HAHN: Mr. McGregor, I notice we have here a reported financial surplus of $190,095. With the volume of traffic which the T.C.A. carries, how would that compare, let us say, with Canadian Pacific Air Lines or Trans-World Airlines or some of these other airlines?

Mr. McGREGOR: It is a very much smaller percentage of net on the gross business done than in the case of a large United States carrier. I cannot comment on a comparison with Canadian Pacific Air Lines; their financial reports are incorporated in the Canadian Pacific Railway report, and I do not know what their revenues are.

Mr. HAHN: Do you know of any way we could get those figures to compare with let us say an area with a similar population in Australia or some place like that?

Mr. McGREGOR: There may be information in the Air Transport Board which would permit that comparison. I do not have it.

The CHAIRMAN: Is it not due to the fact that you have a more stringent operation on the ground? I was in conversation with a person the other day and he said the reason that the net surplus was probably not as high as on privately owned lines in the United States was that Trans-Canada were much more careful on the examination and review of their engines and planes while on the ground in different ports, and much more careful and did a better job in so far as machanics were concerned than some of the larger airlines in the United States.

Mr. McGregor: I think, Mr. Chairman, all the large scheduled airlines are extremely meticulous about maintenance operations and I think the difference is largely one of volume. Such airlines as American and United are about four times the size of T.C.A. in domestic operations and gather the benefits of increased efficiency which goes with increased volume in the matter of maintenance. Another thing which has affected the 1955 reports is that there has been a heavy expense associated with introducting a new fleet of aircraft which is always an expensive matter in the training of both air and ground personnel.

Mr. Hahn: How would this profit compare with last year?

Mr. McGregor: Smaller as a percentage.

Mr. Hahn: You could not give us the proportion?

Mr. McGregor: Yes, we could work it out in a moment. The gross revenues are up some eight and a half millions over last year.

Mr. Hahn: Perhaps we should leave that until later.

Mr. Fulton: You have a comment on page 3 and you say, "As planned, the increase in airline capacity was even greater than the increase in volume of business." Was that in absolute terms or percentage terms, and how would that compare in percentage terms?

Mr. McGregor: This first page as I say is simply a synopsis of what follows on the other pages.

Mr. Fulton: What about this one on the following page? It seems to go along with that. Is that answered later?

Mr. McGregor: Yes.

Page 3 agreed to.

The Chairman: Page 4 "The Year in Brief".

Mr. Hahn: The route mileage, I see, is down 302 miles. Did we deduct some route?

Mr. McGregor: Yes. The major reason for that was the exchange with Canadian Pacific Air Lines of the Mexico route, which was a long one for a somewhat shorter route mileage with respect to Quebec, Seven Islands, Val d'Or, Rouyn and so on.

Mr. Knight: Is that southern route outside the country while what you got from C.P.A. was inside the country?

Mr. McGregor: Yes.

Mr. Follwell: Why was the change made?

Mr. McGregor: It was one of these things which seemed to meet the requirements of all concerned. Canadian Pacific Air Lines were operating a service isolated from their maintenance base in Vancouver and their aircraft had to be ferried out to their maintenance base. It tied in very closely with our operation east of Montreal to the maritimes and they also operated from Mexico to Vancouver so the Mexico-Toronto operation fitted in with their plans and the suggestion was made they might apply to the Air Transport Board to make that change. They studied it and decided it would be financially sound from their standpoint and an application was made for that route and it has been approved.

Mr. Hahn: We note you have an increase in passengers carried and in passenger miles flown and a decrease in the route mileage and that net income is down by some $306,000 as compared with 1954.

Now, as I understood the earlier part of your explanation, it was that new aircraft and so on were purchased and that entered into this picture of the breakdown in the net income. Would that not be taken care of on depreciation, and if not what proportion of it came in as new capital?

Mr. McGregor: The purchase of the new aircraft is a capitalized charge and depreciation begins when the aircraft goes into service. My reference to the additional expense was additional operating expense associated with training personnel to operate the aircraft.

The Chairman: Are there any further questions on page 4?

Mr. Hamilton (*York West*): In connection with this net income of $190,000, I see that is very close to the estimated $200,000 which you had in your operating budget for last year. On the other hand your budget for last year showed a non-operating expense net $640,000 which was a reduction in your budget. Can you explain the difference between the two?

Mr. McGregor: Yes, but I would like to go into this matter fully when we come to it if we may, Mr. Hamilton.

Mr. Hamilton (*York West*): That will be fine, Mr. Chairman.

The Chairman: I think that question could probably be answered when we come to the next page, page 5.

Mr. Hamilton (*York West*): Fine. May I continue then with questions having to do with page 3 and the next page. I understand, as an example, that Northwest Airlines makes about $3 million on a $62 million gross, or thereabouts. Now is the discrepancy between the earning of an airline company like that and Trans-Canada reflected entirely in the observation of the chairman that there is a great deal more money spent on maintenance by T.C.A.

Mr. McGregor: I don't think that is entirely so. In fact I don't know how Northwest maintenance costs compare with our own, but I think they may be of the same order. In the case of the Northwest fleet, a high proportion of the aircraft are fully depreciated. In our case, due to acquisition of 13 Viscounts in 1955 and the recent introduction of seven Super-Constellations a high proportion of our fleet is under active depreciation. I think that would be a major contributory cause, though not the only one. Our fuel costs run about 30 per cent higher than those of American operators and fuel costs, of course, represent a major item of expense to airline operation.

Mr. Hamilton (*York West*): The fuel costs are higher but how do your wage rates compare?

Mr. McGregor: They are somewhat lower.

Mr. Hamilton (*York West*): Would they compensate for the increase in fuel costs? Would your wage rates differential bring expenses about even?

Mr. McGregor: No.

Mr. Hamilton (*York West*): How far would it be from being even?

Mr. McGregor: I should think that the differential in wages would not account for more than one third of the difference in fuel costs.

Mr. Hamilton (*York West*): In previous years you have not been up against this depreciation problem—you had your DC-3's and North Stars written off, but nevertheless you did not make that much money.

Mr. McGregor: That is correct.

Mr. Hamilton (*York West*): Is there any reason for that in addition to the cost of fuel?

Mr. McGregor: We probably spend more money per ton mile on the services associated with the operation of airports. It is not a large item but our landing fees tend to be higher. It is a very difficult comparison to make because the charges vary widely with different circumstances in the United States. The cost of air field operations due to weather conditions particularly in the spring and autumn months in Canada are very much more of a factor in the operating budget than would apply over most of the United States routes, although it is true that Northwest operates over a northern route too.

Mr. HAMILTON (*York West*): As far as maintenance itself is concerned I assume that both yourselves and, for example, a company such as Northwest are bound by a fairly rigid set-up of government transport rules?

Mr. MCGREGOR: Yes but I think that in the case of T.C.A. at least, its own operating regulations for maintenance are even stiffer than are required by government authorities in other countries.

Mr. HAMILTON (*York West*): But in the ordinary course of events there is a fairly stiff minimum standard by which any company would be ruled?

Mr. MCGREGOR: Yes.

Mr. HAMILTON (*York West*): I think you said something a little earlier to the effect that Northwest would have its fleet written off, and that this might assist them in their net operating picture. Their aircraft would be as modern as those held by T.C.A., would they not?

Mr. MCGREGOR: No. So far as I know the most recent purchase of aircraft by Northwest consisted of Boeing Stratocruisers about six years ago.

Mr. HAMILTON (*York West*): How would they compare with the fleet you had, let us say, last year?

Mr. MCGREGOR: They are very much older.

Mr. HAMILTON (*York West*): Older than your last year's fleet?

Mr. MCGREGOR: As I say, we had 14 Viscounts—they are the most modern aircraft in use—and seven Super-Constellations which are among the most modern long range aircraft in use.

Mr. HAMILTON (*York West*): That is still not the majority of your fleet.

Mr. MCGREGOR: Dollar-wise it is.

Mr. HAMILTON (*York West*): But you have a larger number of older aircraft than you have modern craft?

Mr. MCGREGOR: Yes, but the capital investment per old aircraft is very much less than on the new ones.

Mr. HAMILTON (*York West*): Yes, but the Northwest fleet—and I am dealing with the type of aircraft you just mentioned—would be more modern than the old type of aircraft which you have?

Mr. MCGREGOR: About the same as the North Stars. I believe they have DC-3's and DC-4's and Stratocruisers which are contemporary with the North Star.

Mr. HAMILTON (*York West*): With regard to the number of passengers carried could you give us any general statistics of load factor.

Mr. MCGREGOR: The load factor is quoted later on—on the next page, I believe.

Mr. HAMILTON (*York West*): That applies to your commodity load factor as well?

Mr. MCGREGOR: They are both given separately.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): A few moments ago, Mr. Chairman, we were discussing comparative costs of operation in general as between Canada and the United States. I was wondering whether Mr. McGregor would like to comment on the question of Canadian taxation and its effect on the operation of his airline in the light of the situation in the United States. I ask that question because I was interested to see the company's submission to the Gordon commission when considerable importance was arraigned to this factor. Is it one of the problems which face a Canadian airline in keeping down its costs and entering into a competitive position?

Mr. McGregor: Taxation against airline operation in 1955 was $1,600,000, Mr. Hamilton. I think that is probably higher than would be borne by a scheduled operation in the United States. A good deal of that is associated with the sales tax which is applied to equipment which is used domestically in the case of T.C.A. and C.P.A. It does not apply to aircraft designated to overseas operation.

Our landing expenses are generally higher than elsewhere and I think perhaps reasonably because the operation of airfields under Canadian conditions is generally more expensive; and again the flight frequency is not as high as it would be in many of the major cities in the United States. But, as I say, $1,600,000 is a substantial amount of money particularly in regard to the net revenue.

Mr. Hamilton (*Notre-Dame-de-Grâce*): I would like to arrive at some actual basis for comparison. You mention, for example, landing fees and say they may be related to the cost of the operation of airfields. I notice that in your statement to the Gordon Commission you pointed out that United Air Lines would pay $4.65 for landing an aircraft of a weight comparable to the North Star, but that you have in Canada to pay $19.90 for landing a North Star. Would that, taken together with your earlier remarks, lead me to believe that it is more than four times as expensive to operate an airfield in Canada as it is in the United States?

Mr. McGregor: No, I don't think so, Mr. Hamilton. Nor is that example quoted in the brief placed before the Gordon Commission entirely representative of the relationship. It is difficult to compare the two sets of circumstances because the landing fees charged by type of aircraft vary widely between one airfield and another in the United States. Idlewild in New York, for instance imposes higher fees than are charged on comparable Canadian routes. At many other points the fee paid by an airline is a function of the frequency of their operation into any one field.

I can give you some representative figures of various types of aircraft and the fees charged that may illustrate that point. For instance, landing a DC-3 at Canadian points across the system operated by the Department of Transport costs $3.30. In Boston the charge is $4.10; in Cleveland it varies between $5 and $2.71 depending on the frequency of landings; in Chicago it varies between $7.37 and $2.89. So members of the committee will see that it is difficult to draw a general comparision. If we take the case of the Viscount the Canadian rate is $12; the highest American rate—excluding Idlewild—is just over $8 and goes down as low as $4 in the case of a high frequency operation. But the fee at Idlewild is $16.50. In the case of North Stars, which may be compared directly with the DC-4's in the matter of weight and which are not far off the weight of the DC-6's, the Canadian rate is $19.60 and the highest American rate—again excluding Idlewild—is $10, with the exception of San Francisco. The Canadian rate for Super-Constellations is $33.25 and the highest American rate—again excluding Odlewild—is $21 at San Francisco.

Mr. Hamilton (*Notre-Dame-de-Grâce*): So you would be quite prepared to stand by your submission to the Gordon commission in which you said that landing fees payable by Canadian airlines were among the highest in the world and, specifically, higher than in the United States?

Mr. McGregor: Yes, taking everything by and large I think it would perhaps be fair to say that something like double is the average.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Would you be hopeful that there will be some reduction in those landing fees shortly?

Mr. McGREGOR: From the standpoint of the airline's operation I would be hopeful; from the standpoint of the economics of operating airports I would be pleasantly surprised if reductions could be made.

Mr. HAHN: I was wondering, Mr. Chairman—if we are going to bring in the Royal Commission's report for discussion—whether we shall be studying it here at the same time as we consider the other reports.

The CHAIRMAN: I think the report was only brought in as an aside to the questions that was asked. I don't think we could allow a general discussion on the Gordon commission because that is dealing with another aspect of the matter.

Mr. HAHN: We are privileged to make reference to it.

The CHAIRMAN: Yes, as explanatory of some point, or of any matter that is to be discussed. But I do not think that it is the purpose of this committee to review all of the individual evidence submitted by the T.C.A. to the Gordon commission.

Mr. HAHN: You will probably find that you will have the whole report discussed.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Perhaps I should have asked Mr. McGregor the questions on my own authority; but then I would have had to dig up the information myself. Perhaps Mr. McGregor would also comment on the question of hangar space and things of that type. Are those charges comparatively high here in Canada?

Mr. McGREGOR: No. The hangar charges are comparatively low. We rent hangar accommodation in many centres. At others, such as Toronto, Montreal, Winnipeg and Vancouver, we own and maintain hangars.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Have your charges gone up in that field in recent years?

Mr. McGREGOR: They have, but they were extremely low six years ago.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): In the present year they are substantially higher than they were six years ago, may I assume that?

Mr. McGREGOR: That is correct.

The CHAIRMAN: Page 4?

Mr. HAHN: I think Mr. McGregor mentioned that the wage rate was somewhat lower.

The CHAIRMAN: We shall be coming to that subject later on.

Mr. KNIGHT: I have a question on page 5.

The CHAIRMAN: If there is a question on page 5 shall we first carry page 4?

Carried.

Now, page 5, "Financial Review"

Mr. KNIGHT: I was thinking about mail revenue which is down by one per cent and volume is up by 11 per cent.

Mr. McGREGOR: That is correct.

Mr. KNIGHT: Does that mean that you have given better contracts, from their point of view, to the post office department, and that the mail service is costing less as far as the public is concerned?

Mr. McGREGOR: The overall carriage per ton mile is discussed later on in the report.

Mr. KNIGHT: Is there any other consideration which makes that discrepancy as high as that?

Mr. McGREGOR: One major effect was the trans-Atlantic carriage rate. The domestic mail carriage contract between the post office and T.C.A. does provide, however, for a descending rate per ton mile as the volume increases.

Mr. FULTON: I do not want to anticipate something on pages 10 and 11, but I would like you to explain it. Perhaps that would obviate a further question. You say that mail also was carried in greater volume, the company flying a total of 7,704,144 ton miles, a rise of 11 per cent; and then you say the airline received three per cent more revenue than in 1954, but mail pay per ton mile dropped one per cent despite an 11 per cent rise in volume; and on page 11 you say "under the terms of the company's domestic mail contract, which calls for lower unit payments as traffic volume increases, the airline received three per cent more revenue than in 1954".

Mr. McGREGOR: Yes.

Mr. FULTON: Will you please reconcile those two things?

Mr. McGREGOR: The reference in the text on page 5 is to a system figure whereas the rate of increase on page 11 refers to the domestic operations as distinct from the system which includes the overseas services.

Mr. FULTON: I shall wait for the particulars of that until we get to page 11. Is that contract so advantageous to the post office that in effect as you carry more mail you would get less revenue?

Mr. McGREGOR: No. The contract with the post office refers specifically to domestic carriage of mail, and our "take" from the post office will increase as the volume increases, but not as readily as the volume increases. But this overall system figure of an 11 per cent increase in volume reflects the whole operation and includes the overseas, which had a sharp drop in rate in the latter part of 1954.

Mr. FULTON: You say it is entirely due to the sharp drop. Is that the subject of a contract with the post office also?

Mr. McGREGOR: No. It is an agreed international rate which the Canadian post office honours.

Mr. FOLLWELL: Does this indicate that you are carrying mail at a portion of your capacity? Does it mean that in spite of carrying more mail there is no more load on the aircraft because you had the capacity to carry it?

Mr. McGREGOR: The capacity of an aircraft can be used in a wide variety of differing proportions with respect to passengers, express, mail, or air freight.

Mr. FOLLWELL: You were not running underloaded before then?

Mr. McGREGOR: No. I think we were operating less frequently.

The CHAIRMAN: On page 5 there is an item with respect to interest expense which is considerably higher in 1955 than in 1954. Is that increase in interest expense attributable to the purchase of new aircraft?

Mr. McGREGOR: It is primarily due to larger operations. We performed about 18 per cent more ton miles of service, and a large share of that interest is associated with the maintenance required therewith.

Mr. FULTON: Interest expense?

Mr. McGREGOR: I beg your pardon. That is entirely due to the purchase of aircraft. We have moved in two years from \$11½ million on loan to \$13½ million borrowed.

Mr. KNIGHT: That increased space is not being used. I was thinking of the question of availability. There is much greater availability of space, while the use has not gone up proportionately.

Mr. McGREGOR: We say that we increased the capacity to a greater extent than we expected the traffic to increase, and actual experience has brought about exactly the conditions to which you refer.

Mr. KNIGHT: Does that mean that you have now made an expenditure which will carry you over into the future as it were, and that you have extra space available? I am thinking of the line at the top of page 7.

Mr. FULTON: I thought we were now on page 5.

Mr. KNIGHT: "The airline made available 28 per cent more ton miles and 17 per cent more seat miles in 1955 than in the previous year".

Mr. MCGREGOR: Yes. That additional accommodation would give us a greater availability of space. That was a planned condition which we hoped to achieve.

Mr. Fulton: Under the heading of non-operating income, net on page 5, you have $528,366. Otherwise you would have shown a deficit this year. Would you please tell me the main sources of this non-operating income? I do not see any particulars of it.

Mr. MCGREGOR: There are several components in it; we have the interest revenue from a $6 million insurance investment fund which is held at that figure and which would take care of any claims made against that fund. Then there are cash discounts which are credited to that account. Then there is interest income on progress payments in excess of the requirements of manufacturers. That is, advance payments which bear interest and are credited to this account. Then there is the interest income on the Canadian National Railway loan; exchange on foreign currency, transactions which are advantageous to us and which are covered by that item. Interest on the refund of company's matching pension contributions; that is where the company contributes to the pension fund a like amount to that contributed by the employee. Interest on federal income tax rebates, miscellaneous income and expenditures, a major item of which is a little over $329,000 and is the one that I already mentioned, interest from the insurance fund.

Mr. FULTON: Is that increase this year in your non-operating income something you would describe as fortuitous, or do you expect it to increase, as the amount in your insurance fund goes up?

Mr. MCGREGOR: No. The increase over 1954 might be regarded as high but I would not look for a similar increase to take place in 1956 over 1955.

Mr. FULTON: As the scope of your operations increases, will you have a larger insurance fund, and therefore earn more?

Mr. MCGREGOR: That is possible, but that would be a decision which the board would have to make, to increase the size of the fund, and there is no indication of it taking place at the moment.

Mr. FOLLWELL: What is the purpose of having that insurance fund? Is it to take care of public liability and property damage?

Mr. MCGREGOR: It is to take care of all claims against the company which are not covered by outside insurance. We have, in effect, an insurance policy against all types of claims with respect to aircraft and their contents, which carries a $2 million deductible clause, and it has been found to be a desirable arrangement. Under the worst conditions we might have successive years of losses in the aggregate amount of $2 million with respect to accidents. The fund is kept in an entirely liquid condition, and is invested in government, and government guaranteed bonds, and its purpose is to reduce the cost that would be involved if the total risk were outside.

Mr. HAHN: You mention on this same page other factors such as the rise in the price of labour. Does that include a new contract, or are there more wage earners? Just how is that made up?

Mr. MCGREGOR: Both. Our total number of employees has increased, as you will see later on in the report, and the average wage paid to each employee has also increased. The company has eight different wage agreements, and the experience in 1955 over 1954 was an increase of about 3¼ per cent.

Mr. HAHN: Can you give us a percentage rate per man hour of labour cost to the revenue per operating mile over a period of years?

Mr. McGREGOR: Yes, but I would do it in a rather different way, because the revenue mile is a function of the type of aircraft being operated, and it is not fair to say that the labour associated with operating a Super-Constellation for a mile bears any reality to the labour cost of operating a D. C. 3 for a mile. But if you would like to have a comparison in terms of available seat or ton miles, we would be glad to do it.

Mr. HAHN: Could we have it both ways?

Mr. McGREGOR: Yes. We will provide it for you after lunch.

Mr. FULTON: Would you care to enlarge on that matter of your operating expenses? The thing which appears obvious, and which must have given you concern, is that they have gone up just over $9 million while your revenue went to something under $9 million. What were the main factors in your increased operating expenses? Was it the bringing into service of new aircraft?

Mr. McGREGOR: Not entirely. In actual fact the cost per available ton mile —if we may make use of that yard-stick—went down, which is a most satisfactory condition. The main body of that increase in operating expenses was due to additional services provided, some 18 per cent more available ton miles operating in 1955 than in 1954. The discrepancy between the increase in expenses and the increase in revenue can, I think, readily be attributed to the two factors which are specifically mentioned here, a greater cost per man hour of labour provided, and the additional cost associated with the introduction of new equipment.

Mr. FULTON: Do you look for a point where it will break even, when increased service will not bring about an increase in cost, and when it will offset or be more than offset by efficiency or greater carrying capacity of the units which are used to provide that increased service, which does not appear to be the case as yet? Will there ever be a break-even situation, or favourable?

Mr. McGREGOR: I think it is perfectly reasonable to expect that there will. The reason I say that is that the efficiency of the new aircraft going into service is a marked improvement over the more long-lived aircraft that we have in being, and I think that as the number of more modern aircraft increases, we will see a greater reduction in the cost per seat mile and the cost per ton mile, in spite of such things as the rising cost of the materials we use and the labour which we hire.

Mr. FULTON: And in your estimation, their service is not keeping pace, as the Americans are; and the new units, or carrying capacities of the new units you are bringing in does not mean that you will really have to undertake a very heavy capital program in order that you may operate with fewer but more efficient aircraft?

Mr. McGREGOR: I am sure that is correct. So far, our quite substantial purchases of aircraft have done no more than meet growth, with one small exception of four aircraft that were disposed of during 1955. But the company is planning to meet the growth requirement by purchase of new aircraft, and the replacement of older aircraft, during the next five or six years.

The CHAIRMAN: Are there any other questions on page five?

Mr. HAMILTON (*York West*): The aircraft you disposed of, Mr. McGregor, were they passenger type aircraft or freight type aircraft?

Mr. McGREGOR: Freight type aircraft.

Mr. HAMILTON (*York West*): All four of them?

Mr. McGREGOR: All four of them.

Mr. HAMILTON (*York West*): So that was the only place you felt you had planes to dispose of or could afford to dispose of them?

Mr. McGREGOR: Well, really these aircraft translate themselves by a rather involved process into passenger aircraft, because they in turn were replaced by passenger aircraft that had been converted to cargo use in the form of North Stars.

Mr. HAMILTON (*York West*): Was there any other reason that you disposed of them? Were they an efficient type aircraft, or did you find that they were a little expensive to operate?

Mr. McGREGOR: In themselves I would not say they were inefficient, but it is most desirable to cut down the number of types of aircraft that an airline is operating. Three of the aircraft that we are referring to were Bristol Freighters which were, as it were orphans in the fleet, because they were the only aircraft of that type of air frame and that type of engine that we had That involves the maintenance of a separate stock of spare parts, and the maintenance of crews that are familiar with that type. It is a much more efficient operation from the standpoint of T.C.A. to be operating cargo North Stars along with passenger North Stars than to have, as I say, an orphan type.

Mr. HAMILTON (*York West*): Well, these aircraft that you disposed of, or this type, they were what you would term a short-range cargo aircraft?

Mr. McGREGOR: They were not particularly short-range. They operated on the transcontinental route. They were slower than the other aircraft in the fleet with the exception of the DC-3's.

Mr. HAMILTON (*York West*): They would not fit into the transcontinental pattern, then, the same as your North Stars?

Mr. McGREGOR: Not as satisfactorily as the North Stars.

Mr. HAMILTON (*York West*): No. When did you get these in?

Mr. McGREGOR: I can give you the exact date, Mr. Hamilton. I think we received delivery of them in December, 1953.

Mr. HAMILTON (*York West*): Those were the aircraft, then, that you acquired about the time that your competitor attempted to get in the air freight picture?

Mr. McGREGOR: They arrived about that time. They were ordered previous to that.

Mr. HAMILTON (*York West*): I see, and they are all disposed of now?

Mr. McGREGOR: Yes.

Mr. BYRNE: Mr. Chairman, I would like to ask Mr. McGregor if he feels we are losing much of our traffic to the American airlines in the transcontinental service?

Mr. McGREGOR: We are losing some. Particularly between Vancouver and what we might regard as legitimate Canadian traffic to New York.

Mr. BYRNE: Yes, and is the Northwest Airlines our chief competitor in that regard, would you say?

Mr. McGREGOR: Yes, but not the only one. Northwest is the chief competitor, I would say, because it operates to Seattle which is extremely close to Vancouver.

Mr. BYRNE: You have said that their planes are more or less obsolete or, at least, they have been written off?

Mr. McGREGOR: To a greater extent than our fleet.

Mr. BYRNE: Is it likely that they will be into the jet service in trans-continental service long before Trans-Canada reaches that stage of development. I understand that they expect to traverse the continent in about four hours. If they get into this much ahead of Trans-Canada, is it liable to be a serious matter?

Mr. McGREGOR: I think that Northwest is one of the few large American airlines that has not yet ordered jet aircraft.

Mr. BYRNE: Of course we have not ordered them?

Mr. McGREGOR: We have not ordered them either.

Mr. HAHN: Just along that line, United flies into Vancouver and Seattle, and New York, of course, and I think from the Vancouver point of view that is used more regularly than Northwest?

Mr. McGREGOR: Yes, but I am sure United does not operate a trans-continental service east from Seattle.

Mr. BYRNE: From 'Frisco, San Francisco.

Mr. HAHN: Oh, you are speaking from San Francisco, but this is from Seattle. That would be the natural route that was taken. I took it last year from Seattle; Vancouver, Seattle to New York.

Mr. McGREGOR: Yes. Were you flying United from Seattle?

Mr. HAHN: Yes, United.

Mr. McGREGOR: I see.

Mr. HAHN: There is another question in the operating expense. It is not an important one I know, but it does have some relationship. Last year we discussed to some degree the question of passes. I take it that there has been no change in policy from what we had heretofore?

Mr. McGREGOR: No.

Mr. HAHN: No.

Mr. FOLLWELL: Mr. McGregor, last year you indicated that the T.C.A. had not planned yet on getting into jet aircraft, and I think you said there were several reasons, but now the discussion has come up about jet aircraft, and you have now indicated most of the American airlines ordered jet aircraft. You have not ordered yet, but can you tell the committee what your plans are for the future, the immediate future, for instance?

The CHAIRMAN: I think that is dealt with later on in the report, if you could wait until we come to that heading.

Mr. FOLLWELL: Well, he might discuss it now and save the committee time later on.

Mr. McGREGOR: Well, a recommendation, Mr. Follwell will be made to the T.C.A. board of directors, I would think within the next five weeks with respect to the purchase of jet aircraft. I, of course, cannot say how that recommendation will be received. There will be a heavy capital expenditure involved, but I could say no more, at this time. That is the present stage of our planning; the technical studies associated with various alternatives to jet aircraft purchase that are available are nearing completion.

The CHAIRMAN: Are there any further questions on finance?

Mr. FULTON: One small question arising out of your answer earlier in connection with non-operating income. When you were reading out the headings, as I recall it, you said there was an item of interest on the loan to the C.N.R.; was I correct there? Well, how do you have an interest payment from the C.N.R. when I understand you owe them about $13 million now? How does that happen?

Mr. McGREGOR: The condition has changed rapidly, Mr. Fulton, during the period covered by this report. At the beginning of it, we, if I remember rightly, we still had some money on loan to them. At the end of it the situation had reversed very substantially. The detail of that is, we had money on loan to them at the beginning of the year, and by April 29 that had been completely drawn down; in other words, paid off by the C.N.R., and from that point on we became the borrower.

The CHAIRMAN: Mr. Knight—I am sorry.

Mr. FULTON: You do say on page 6 in the same heading, financial review, that you actually borrowed from them $10,400,000 during the year, and at the year end these borrowings totalled $13,500,000. Do you mean borrowings from the C.N.R., or total borrowings, $13,500,000?

Mr. McGREGOR: The borrowings from the C.N.R., the total borrowings from them would be $13,500,000.

Mr. FULTON: Well, then that would indicate to me that you must have started the year with a liability to them of some $3 million?

Mr. McGREGOR: That is quite correct, Mr. Fulton. This is a rather involved affair. Actually we arranged with the C.N.R., due to arrangements that they had for borrowing from the government, to borrow in excess of our actual requirements. We borrowed a lump sum of $10 million. Because we did not require that, we loaned back to the C.N.R. a portion of that $10 million, and under "other income" we credited ourselves with the interest on that, and the interest we are paying on the $10 million appears as an expense. Those two things are not netted in the non-operating revenue.

Mr. FULTON: They are not?

Mr. McGREGOR: Perhaps we can give you a summary of that by dates, if you would like to have it.

Mr. FULTON: Or, I was going to say, will this come up in connection with your budget?

Mr. McGREGOR: It could.

Mr. FULTON: Well, which would be the better time to—

Mr. McGREGOR: I think we had better give you a memorandum on it, Mr. Fulton.

Mr. FULTON: I would appreciate that.

Mr. McGREGOR: Yes.

Mr. FULTON: Because, if your insurance fund totals, as I understood you to say, some $6 million, and your borrowings as at present, or at the end of 1955 were $13,500,000 from the C.N.R., it just occurred to me now to wonder what effect that is going to have on this item, non-operating income—net. Will that be—oh, I see, interest expense will always be under that separate heading.

The CHAIRMAN: Mr. Knight.

Mr. KNIGHT: Mr. McGregor, your company's payroll is being represented as 45 per cent of the operating expenses. Does that figure remain fairly uniform over the years? I mean, how does that compare, for instance, with last year? 1954, what was it there?

Mr. McGREGOR: Yes. It is down 1 per cent from last year.

Mr. KNIGHT: Down?

Mr. McGREGOR: As a percentage of our total expenses, but it has run between 46 and 45 for three years in succession.

The CHAIRMAN: On the heading of operations and traffic review, carried?

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Just before you leave that heading, Mr. Chairman. Last year you took a physical inventory of your supplies and equipment, Mr. McGregor?

Mr. McGREGOR: We do each year, Mr. Hamilton.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Mr. McGregor, I am sorry. I do not want to differ from you, but the auditor's report in the previous year said they had not done an actual physical inventory last year, however the point is not important. I was coming to this: when you take a physical inventory, you find a discrepancy between what you had on your books and what was actually there. What was the amount of that?

Mr. McGREGOR: I can give you that in a moment, Mr. Hamilton.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Because that will affect your operating picture, of course.

Mr. McGREGOR: It was a credit, an overage in other words of $48,058.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): $28,000?

Mr. McGREGOR: $48,000.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): $48,000.

Mr. McGREGOR: Yes.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): In other words, when you actually counted up the inventory, you had $48,000-odd more than you thought you had?

Mr. McGREGOR: Than the card records showed.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Right. I am delighted. That makes me a better accountant than my roommate.

Mr. HAMILTON (*York West*): We had quite an argument about that last night.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): And that, therefore, was a direct reduction to your operating expenses for 1955?

Mr. McGREGOR: That is correct.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Therefore, over what period of time did that actually represent any accumulation?

Mr. McGREGOR: In 1955 it represented one year. We missed a year, I think it was 1953, in taking a full inventory due to changes that were being made. But the practice of the company is normally to take a physical inventory, and on some items a spot check. That is, the number of washers and so on are calculated by weight, and that type of thing. I think that that difference covered a 18-month period. The total investment is in the order of—

Mr. HAMILTON (*Notre-Dame-de-Grâce*): $7½ million?

Mr. McGREGOR: $7½ million, yes.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): So that that overage, or underage like that is a fairly normal position, I would think?

Mr. McGREGOR: Yes, it could well reverse itself in the 1956 inventory.

Mr. HAHN: Do you, at the same time depreciate your inventory at the same rate as in aircraft?

Mr. McGREGOR: It depends on the item. Major items such as spare engines, and particularly expensive units such as crank shafts, we capitalize and depreciate, but not normally consumable stores.

Mr. HAHN: Well, in the case of the Bristols that were disposed of, the full depreciation was taken on that, was it?

Mr. McGREGOR: Yes. We sold them and their parts as a package. There was a small credit representing the difference between the sale price and the book value of the four aircraft and their parts.

Mr. HAHN: At the time of the purchase, 1953, how long a period of time did you expect to keep those aircraft?

Mr. McGREGOR: We did not expect to keep them long because the plan which has now been carried out was in existence at the time. We were depreciating them on the basis of a 5-year straight line.

Mr. HAHN: Would you explain what you mean by 5-year straight line?

Mr. McGREGOR: A constant rate of write-off based on the forecast period of useful life, as distinct from a percentage rate.

Mr. HAMILTON (*York West*): Now that my room-mate has cleared up this $38,000 item for me, that is reflected not only in a reduction in operating expenses but also right down through to your net income position and the $190,000, $48,000 of which is reflected in this inventory which was picked up during the past year.

Mr. McGREGOR: Yes.

Mr. HAMILTON (*York West*): I do not know whether you answered Mr. Fulton completely, but I want to come back to the non-operating income position which apparently was quite different from what you estimated in your budget last year. Now, do I understand that you regard that as a fortuitous event this year?

Mr. McGREGOR: That it will repeat itself in being larger?

Mr. HAMILTON (*York West*): Yes. Will it repeat itself?

Mr. McGREGOR: I do not think so. At the time we made the operating budget for the year 1955 we expected the non-operating revenue would be as we showed in the budget. Various things did not happen and certain other things did happen in 1955 which improved it. I do not think we can expect that we will be lower by that proportion again in our forecast of the non-operating revenue for 1956.

Mr. HAMILTON (*York West*): Then would it be fair to say that our net income of $190,000 which is so close to the estimated net income of last year to a great extent was fortuitous as well, because we picked up $48,000 and also what appears to be a couple of hundred thousand dollars on non-operating income which may not be repeated?

Mr. McGREGOR: No, I do not think so. We did hope and expect a return on the operation of the Viscounts considerably sooner than we had them, and so our revenue was depressed by that amount about $500,000 incidentally. In other words, like most budgets, what actually happened in relation to the budget is a series of small differences which tend to offset one another.

Mr. HAMILTON (*York West*): Unless we have an improvement in the services of operating beyond this current year then with the same set of circumstances you probably will show a loss?

Mr. McGREGOR: It is not a fact with respect to our 1956 operating budget which will be submitted to the committee later on.

Mr. HAMILTON (*York West*): No, but you are expecting an improvement in the operating picture if you are going to show a profit?

Mr. McGREGOR: Yes.

Mr. HAMILTON (*York West*): I do not know whether I will have another opportunity to ask this question. In connection with your insurance fund, have you paid out all of the claims in connection with the Moose Jaw and Brampton crashes?

Mr. McGREGOR: All the claims with respect to Moose Jaw have been settled and all but one with respect to Brampton.

Mr. HAMILTON (*York West*): Is it a large claim which is outstanding?

Mr. McGregor: I do not know. It is in the hands of the underwriters.

Mr. Fulton: Did I understand in the house that the defence department undertook responsibility for the Moose Jaw crash?

Mr. McGregor: Yes.

Mr. Fulton: Your insurance fund was not hit to that amount at all?

Mr. McGregor: No.

Mr. Fulton: With respect to Brampton, did that come out of your own insurance fund?

Mr. McGregor: Yes. Out of the fund until we exceeded the $2 million deductible.

Mr. Hamilton (*York West*): The defence department assumed all the claims with respect to Moose Jaw?

Mr. McGregor: No, only passengers. We asumed the loss of the aircraft.

Mr. Hamilton (*York West*): But any claims against the company were assumed by the department of defence?

Mr. McGregor: Yes, except that the loss of the aircraft is a substantial claim against the company's finances.

Mr. Hamilton (*York West*): In connection with your increase in labour costs, you have told about the different labour agreements and the overall increases in pay which I understand were granted. Is any of the increase due to parity of working hours generally, cutting down the hours of work?

Mr. McGregor: Not in 1955.

Mr. Hamilton (*York West*): Are there any negotiations presently in progress over 1956?

Mr. McGregor: Yes.

Mr. Hamilton (*York West*): With the Pilots' Association?

Mr. McGregor: No, the Pilots' Association agreement was just recently concluded in 1956.

Mr. Hamilton (*York West*): Will there be an increase generally in the over-all labour bill because of the shorter hours of work?

Mr. McGregor: Labour generally?

Mr. Hamilton (*York West*): No, payrolls. This agreement which you have just concluded.

Mr. McGregor: I do not think that the hours of work are materially changed. I can give you the details of the agreement if you would like to have them. The costs per hour of the pilot service provided will increase.

Mr. Hamilton (*York West*): It will increase.

Mr. McGregor: Yes.

Mr. Hamilton (*York West*): Has there been a reduction, say in the over-all monthly hours put in by the pilots?

Mr. McGregor: On the average I would say not.

Mr. Hamilton (*York West*): Is there a maximum number of hours? Has there been a decrease in any given period of the maximum number of hours to be flown by pilots?

Mr. McGregor: If you interject the phrase "any given period," yes.

Mr. Hamilton (*York West*): What given period is provided?

Mr. McGregor: It refers to the number of hours operated in a matter of a day or, on one operation.

Mr. Hamilton (*York West*): Could you let us know what changes have been made in this respect over the previous year's contract?

Mr. McGregor: Well, Mr. Hamilton, I can, but it is like most of these things a rather lengthy and involved one. I have the situation that exists described in detail in a memorandum and the highlights of the agreement which has now been concluded and I could include those in the records of the committee or give it to you separately.

Mr. Hamilton (*York West*): Could you inform the committee. I think we would all be interested in this. You said it has to do with a 24-28 hour period. Could you tell us what the change has been in the maximum number of hours during that stated period which you have talked about?

Mr. McGregor: Yes, I think I could. Perhaps the easiest way for me to do it would be to take the actual conditions which might arise under the previous agreement and the ones under the new agreement and detail them specifically as differences.

Mr. Hamilton (*York West*): Could you do that in a few words?

Mr. McGregor: I think so. If you will let me run through the effect of some of these things. Under the old agreement there was a clause which said "A cycle shall not exceed 30 hours of schedule flying during any period of consecutive flight duty days." Item 4 was "A cycle shall not exceed 85 hours of schedule flying in a month." That remains the same with respect to any given cycle. I think this is the new clause which covered 4:

> (4) For the purpose of this agreement, an on-duty period shall commence one (1) hour prior to the scheduled departure of a flight, or the required reporting time, whichever is later, and shall continue until fifteen (15) minutes after the termination of the flight. Such duty period shall run continuously until broken by a rest period of eight (8) hours where sleeping accommodations are provided at or nearby the airport, or ten (10) hours in the case of a relief from duty at an airport where sleeping accommodations are not provided. In no case may an on-duty period be broken at the pilot's home base by an off-duty period of less than ten (10) hours.

And then item 5:

> A pilot on domestic operations shall not be scheduled to remain on duty in excess of fourteen (14) hours during any twenty-four (24) hour period.

That I think is the point we were referring to. The hours per month are constant between the two agreements at 85 hours, and hours per quarter are the same at 255 hours.

Mr. Hamilton (*York West*): How does this original period of ten hours at home and fourteen hours maximum compare with the previous contract?

Mr. McGregor: That was not defined in the previous contract, I believe.

Mr. Hamilton (*York West*): They were not defined at all?

Mr. McGregor: No, I think not.

Mr. Hamilton (*York West*): Now, in connection with the disposal of the cargo aircraft, were they disposed of at a profit?

Mr. McGregor: A small one, yes. That is, difference between depreciated value and the sale price.

Mr. Hamilton (*York West*): Depreciated value and sale price. Where was the difference in price, that is between depreciation price and sale price, credited?

Mr. McGregor: To the depreciation account. I can give you the amount of that.

Mr. HAMILTON (*York West*): That also would be reflected in the net position which you have here?

Mr. McGREGOR: Yes, in the amount of $10,000 on the four aircraft.

Mr. HAMILTON (*York West*): For all four? $2,500 apiece or $10,000 each?

Mr. McGREGOR: It was a package deal.

The CHAIRMAN: $10,000 on all aircraft?

Mr. McGREGOR: On the four aircraft and parts.

Mr. HAMILTON (*York West*): $10,000 recovery over and above your depreciation prices?

Mr. McGREGOR: Yes.

Mr. HAMILTON (*York West*): Are you planning to dispose of any aircraft this year?

Mr. McGREGOR: We hope to be able to during the coming winter, assuming the delivery of additional Viscounts as per orders placed, but it will not be substantial.

Mr. HAMILTON (*York West*): You believe what you have will still be required for ordinary expansion?

Mr. McGREGOR: I think our figure is about six DC-3's, possibly available for disposal.

The CHAIRMAN: Shall the heading "Financial Review" carry?

Mr. HAHN: Reverting to an earlier statement Mr. McGregor made in reply to a question asked by Mr. Hamilton in respect to the air crash at Brampton, how much was the depreciation on that aircraft in the crash at Brampton before its crash?

Mr. McGREGOR: It was very small because it had only been in our possession for something less than a year.

Mr. HAHN: Could you give the committee the figure of the actual loss on the aircraft?

Mr. McGREGOR: You could have it after lunch if that is convenient.

Mr. HAHN: Surely. Referring again to the matter of operating expenses, I notice that no expenses in connection with legal, medical or secretarial services are mentioned here. How are they borne?

Mr. McGREGOR: They are borne in two different ways. The legal, medical and secretarial services are provided by the Canadian National Railways and we make a lump sum payment to the Canadian National Railways amounting, I believe, to $50,000 in the year 1955 for that work. But if in any of these three departments they employ people specifically and entirely on T.C.A. work then those salaries are billed to T.C.A. in addition to that annual payment.

Mr. HAHN: Did that annual payment cover what was assessed to the C.N.R. with respect to the three services?

Mr. McGREGOR: You mean: does that payment relate accurately to their costs of providing these services? I frankly don't know.

Mr. HAHN: You have no way of knowing whether you are deriving an advantage from this arrangement or whether you are subsidizing C.N.R.?

Mr. McGREGOR: No. I don't even know what the officers are being paid.

Mr. HAHN: Do you have any special need for a legal, medical or secretarial service in your own right?

Mr. McGREGOR: Very much so, and the fact that the C.N.R. has a wide geographical representation of these departments means that it would be much more expensive for T.C.A. to duplicate it than to use those facilities which the C.N.R. possesses.

Mr. HAHN: In what instances would we need to have separate legal advice? You mentioned, I believe, that in certain instances we would require separate services.

Mr. MCGREGOR: I was not referring particularly to legal advice. In fact, the only time we have used outside legal advice to my recollection was at the time of the Canadian Pacific Airline hearing with respect to its application for a trans-continental cargo operation, and that does not appear in the 1955 report. I was referring specifically to cases where employees in those three departments of the C.N.R. were engaged entirely on T.C.A. work. There is, for instance, one doctor located at Dorval Airport, and one at Malton. They are employed full time and their salary and expenses are charged to T.C.A. over and above the all embracing sum of $50,000 a year which I have mentioned.

Mr. HAHN: You say you have no way of determining whether this $50,000 represents a good deal for us or a bad deal for the C.N.R.?

Mr. MCGREGOR: I don't think it is fair to assume that it must be one or the other. I think probably the $50,000 is acceptable to the C.N.R. or they would ask for more. On the other hand I am quite sure that to set up a complete T.C.A. organization to discharge similar functions would cost us more than we are paying at present.

Mr. HAHN: Thank you.

Mr. FULTON: The last sentence under the heading "Financial Review" in your report states:

> "The airline did not have tax liability for 1955 due to the inclusion in income of items taxed in prior years."

May we have a further explanation of that? I note that according to the auditors' report to the committee a refund of income tax was obtained in respect to 1952 and 1953, but that does not, for me, quite explain the situation.

Mr. MCGREGOR: Perhaps I might read a memorandum on that particular situation.

> The airline is not liable for corporate income tax in 1955 because included in income is an amount which has been taxed in prior years—prepaid transportation, $400,000. This item refers principally to the year 1954 and although a liability in the books of accounts of the airline when compiling the tax returns for that year it was included as income.

This is in accordance with the requirements of the Income Tax Act.

Mr. FULTON: And that is the only item that accounts for this situation—is that correct?

Mr. MCGREGOR: There are other minor items Mr. Fulton, but that is the principal one. As I understand it we might expect to be eligible for income tax again in 1956.

Mr. FULTON: Do you have a continuous carry-forward as it were on prepaid transportation?

Mr. MCGREGOR: Yes.

Mr. FULTON: And you are taxed in each of the years in which that is prepared?

Mr. MCGREGOR: That is correct.

Mr. FULTON: It is included in income for that year and taxed accordingly if tax liability arises?

Mr. MCGREGOR: Yes. In other words, we are always owing transportation to ticket purchasers.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): That raises an interesting point in my mind Mr. Chairman. This refers, presumably, to tickets which were purchased in 1954 and which a passenger did not use until the following year. However, that revenue was taken into account in the year 1954. Is that correct?

Mr. McGregor: I do not think that is quite correct. We don't count it as revenue until we have earned it but because we have the money the taxation authorities consider that it is taxable revenue.

Mr. Hamilton (*Notre-Dame-de-Grâce*): In other words—and I am not trying to be facetious— what you really do in the final analysis is to prepare two presentations, one for purposes of income tax and another which is the report placed before us today.

Mr. McGregor: That is correct.

Mr. Hamilton (*Notre-Dame-de-Grâce*): The one drawn up for the purposes of income tax includes this money as revenue for the year in which the money is paid in, but your statement which comes to us shows it as revenue for the year in which it is earned?

Mr. McGregor: Yes, that is correct

Mr. Hamilton (*Notre-Dame-de-Grâce*): In other words your practice when accounting to us is more in line in this case with standard commercial accounting than would be the one drawn up to meet the attitude of the income tax department which asks you to include as revenue amounts which you have not actually earned?

Mr. McGregor: That is exactly right Mr. Hamilton. Since our tickets are refundable we do not know until we have actually carried a passenger whether the income derived from the sale of the seat is going to remain in our pockets or whether it will have to be returned.

Mr. Hamilton (*Notre-Dame-de-Grâce*): Is there a substantial variation between one year and another in the size of this amount, or does it remain approximately the same?

Mr. McGregor: It varies greatly by months within a year but I think that between one December 31 and another there would not be a great deal of difference. It was $300,000 last year and $400.000 with respect to 1955.

Mr. Hamilton (*Notre-Dame-de-Grâce*): That is one of the main reasons why your income for taxation purposes would be substantially less this year?

Mr. McGregor: Yes.

Mr. Fulton: Would this include tickets sold on the instalment plan as well?

Mr. McGregor: No.

The Chairman: Shall we carry the item "Financial Review"?

Mr. Hahn: How much more does it cost to purchase air travel tickets in this way and pay for your holiday after you have had it?

Mr. McGregor: It varies a great deal between different plans but I think it is within the bracket of 12-17 per cent more than the actual cost of the tickets. It depends on the amount charged for the ticket and the number of months over which it is agreed payments will be made.

Mr. Hahn: Do we have any difficulty in collecting these payments?

Mr. McGregor: We are not participating in the scheme yet.

Mr. Hahn: The matter is handled through an agency, I understand?

The Chairman: We do not operate this at all. That is my understanding.

Mr. McGregor: No. Neither do the airlines in most cases actually put their own money to hazard. Most of these plans are arrangements by which the airlines will collect certain data with respect to the prospective passenger's finances and his agreement to pay. That data is acceptable to a bank or a finance company, and it is turned over to them.

Mr. HAHN: Is any consideration being given by T.C.A. to the introduction of a scheme of this sort?

Mr. McGREGOR: Yes, T.C.A. is considering it, and have been considering it almost constantly for two years. We rather dislike the idea because what is being done is to sell a commodity which is completely consumed, on credit. We think it verges on the unethical. A passenger returns with nothing but a sunburn and some snapshots.

Mr. FULTON: And a bill.

Mr. McGREGOR: On the other hand, this places us at a competitive disadvantage which is particularly painful in certain spots.

Mr. HAMILTON (*York West*): Mr. McGregor, you have given us several reasons why T.C.A. faces higher operating costs. Is there anything you can add to what you have already said because I am looking at the figures now—they are not the most recent figures—and I have a Capital Airlines statement before me for 1953 which indicates that on a gross of about $40 million they come in with $1,500,000. I also see that the Northwest figures show a profit of $3 million on a $62 million gross and K.L.M. $2 million net profit on a $76 million gross. I am mentioning these companies because their operations may be compared in some respects with your own. Is there any other reason which you can think of why there should be this considerable difference between the results shown by these figures and our own $190,000 profit last year?

Mr. McGREGOR: Yes, I think there are two or three things which I might mention. All airlines are growing quite rapidly and I think the budget should portray the cost of a good deal of that development. From what I understand —although of course I have no access to their books—the approach taken by many of the other carriers is quite different from our own. I am told, for instance, that the majority of airlines, particularly the large American airlines, capitalize their pilot training courses which represents something in the neighbourhood of $25,000 per individual.

That is perhaps quite an arguable arrangement. On the other hand there is no assurance that a pilot on whom $25,000 has been spent is not going to leave at the end of the month. But in the course of rapid expansion if you are absorbing all the costs which would normally be associated with such expansion, all these costs would be reflected to the detriment of the airline which is financing itself that way. The same applies in many other directions. All spare parts could be capitalized, but again we do not follow this course. We feel this policy will pay off in the long run but during periods of rapid expansion it tends to worsen our position in comparison with that of other airlines.

Mr. HAMILTON (*York West*): In connection with pilot training may I ask how many new pilots you took on for training last year?

Mr. McGREGOR: I will give you the figure in a moment if I may. I would guess that the number is in the order of 100.

The actual take-on in 1955 was about 50; the number coming into service was considerably more however—something like 100 pilots, many of whom had been taken on in 1954.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Is that what one might call a standard number each year—do you anticipate taking on approximately the same number this year?

Mr. McGREGOR: Approximately that number.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): How do you spread cost over a period? Would you say that $25,000 covers the training course only or is that the sum which it would cost the company to train a pilot until he is fully qualified and able to take over a plane himself?

Mr. McGREGOR: That is the approximate figure for the total cost of training the pilot to first officer line standard. Continued training would not be included in that figure. I may say that a large proportion of that cost is related to the operation of the aircraft used for training purposes.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): If your figure is right, then 100 new pilots would cost you $2,500,000 last year—it would run as high as that in this figure of operating expenditure.

Mr. McGREGOR: Yes, in relation to a hundred pilots.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Over two years, because there were some 40 taken on in 1955.

Mr. CARRICK: Mr. Hamilton just now touched on the question that constantly recurs—the question of efficiency of operation as between privately owned airlines and government owned airlines. Is there anything you think you could tell the committee, Mr. McGregor, which would be enlightening on that subject?

Mr. McGREGOR: Yes, I thing perhaps there is. When we are talking about the efficiency of operations purely from the dollar standpoint I think that taking into consideration the differences that exist between ourselves and the airlines with which we compare ourselves—and incidentally we do that constantly—and considering the basic differences, such as the cost of fuel, I do not believe it could be fairly stated that there is any indication of inefficiency.

As I mentioned earlier our cost per fleet ton mile of transportation provided is very satisfactory. If we are thinking about other elements of efficiency, such as the quality of the passenger service and so on, we can draw even more direct comparisons, such basic elements as deplanement of passengers who held reserved space, per thousand boarded. We have drawn comparisons and I have with me some charts which might be of interest to the committee and which would indicate errors of that kind committed by T.C.A. per thousand passengers boarded. It is very much lower than is the case with the major scheduled operators in the United States. If I may be permitted, I would like to show you one or two charts of that type. Incidentally, the airline also through an outside agency, takes every six months an analysis of its services with respect to its customers. There are three reports covering the last eighteen months done by Cockfield Brown. These are the result of a questionnaire sent to a representative cross-section of the passengers we have carried in the four or five week period prior to the carrying on of that study, so that we are sure that we are questioning people with recent experience with T.C.A.

To generalize, I think we can say that 85 per cent of the people who travel with us say that we are all right; that of the remaining 15 per cent, about 2 per cent have no opinion, while the other 13 per cent have varying degrees of complaints including ground transportation and the overall elements of the operation. These are charts showing the T.C.A. compared with United Air Lines, Trans World Airlines, and U.S. air lines on two basic elements of passenger service.

The CHAIRMAN: You might pass these charts around among the members.

Mr. CARRICK: Might they not be made part of the record?

The CHAIRMAN: I think it would be rather difficult to make them part of the record. This is a special type of chart and it might be rather difficult.

Mr. McGREGOR: Corresponding figures could be drawn off.

Mr. CARRICK: I think that would be useful information on this point.

Mr. BELL: How about that figure of scheduled mileage completed, of 96 per cent. How does it compare?

Mr. McGREGOR: I think it is probably about of the same order as that of American scheduled carriers, and if it is—and we can check that point—I think it speaks well for us, because in general we are operating under rougher weather conditions than they are.

The CHAIRMAN: Now may we carry the item "financial review".

Carried.

We now go to page 6 "Operations and traffic review", which extends through pages 7, 8 and to the top of page 9.

Mr. FULTON: Perhaps here you might enlarge on the comparison referred to earlier, that is the percentage of increase in your accommodation as compared with the percentage of increase in the use of that accommodation, particularly with respect to passenger and freight?

Mr. McGREGOR: Yes; as you will see in the table at the bottom half of page 6, the passenger miles flown, that is the revenue passengers accommodated, increases by 14 per cent; the seat miles capacity made available, increased by 17 per cent; that is the third and fourth line of that table. Does that cover your point?

Mr. FULTON: That is the only comparison which is valid because otherwise, with the passenger mileage increased by 17 per cent, how would that compare with your available seat miles?

Mr. McGREGOR: I think that passenger miles is the only valid comparison, because a large increase in passengers on the short routes influences the percentage of increase without producing the same increase in the actual volume of transportation.

Mr. FULTON: Would that be subject to some modification in view of the emphasis you are placing on the Viscount service which, while not exactly a short one, is distinct from the trans-continental by a long way?

Mr. McGREGOR: I think that is not quite true because during the latter part of 1955, the Viscounts operated on the trans-continental service.

Mr. FULTON: Providing also inter-city service?

Mr. McGREGOR: That is correct. I think one of the major factors is that large increase between Vancouver and Victoria, which is a very short DC3 operation but which has a very large number of passengers, and with a large number of flights in the summer season, some 17 flights a day between those two points.

Mr. KNIGHT: The ideal condition would be to bring up your amount of use compared with availability, or is it your intention to keep about that amount of availability ahead of actual use?

Mr. McGREGOR: We would like to keep the overall load factor at about the level of 1955, because if you attempt to bring the load factor on an over-all average basis too close to capacity there are many occasions such as peak days in the season, when the market demand is not being satisfactorily met.

Mr. KHIGHT: But it would produce a better balance sheet, would it not?

Mr. McGREGOR: Yes, it would produce a better balance sheet if that were the only consideration.

Mr. HAMILTON (*York West*): Can you give me the load factor for last year?

Mr. McGREGOR: It is referred to later on.

The CHAIRMAN: Yes, it is.

Mr. McGREGOR: I have it now; it is 72·3 per cent.

Mr. HAMILTON (*York West*): And what was it for the previous year?

Mr. McGREGOR: We would have to get last year's annual report. It will not take a minute.

Mr. HAMILTON (*York West*): Perhaps I might check that myself!

Mr. McGREGOR: I am sorry. My information was wrong. The load factor for 1955 is 70 per cent, while for 1954 it was 72·3 per cent.

Mr. HAMILTON (*York West*): You say that for 1955 it is 70 per cent and for 1954 it was 72·3 per cent?

Mr. McGREGOR: Yes.

Mr. HAMILTON (*York West*): Can you break that down at all for me into major segments and so on, or routes? What would be your load factor between Toronto and Ottawa? Have you got that?

Mr. McGREGOR: It could be obtained. I have this breakdown by months, if that is any help to you.

Mr. HAMILTON (*York West*): You have got the whole Canadian picture broken down by months, but you have not got segments of the run broken down. Can you give me that?

Mr. McGREGOR: Yes. It would be quite a task, because the Ottawa leg is part of a through operation Montreal to Toronto, and the number of seats varies by months, so we could not simply take the total number of passengers travelling over that leg; we would have to calculate the load factor based on the changing capacity as additional flights are operated; but it can be done.

Mr. HAMILTON (*York West*): I think it would be of very much interest to us if we could check the overall average load factor and have it related to the various sections of your run, because as you yourself said just a minute or two ago, peak load periods, and things like that, are influencing factors. But might I ask you this; is there any indication that on some parts of your run there are peak load periods greater than the capacity of your flights?

Mr. McGREGOR: Oh, yes. I would say on infrequent occasions that applied to every leg of the service and I do not think it could be otherwise. If the airline was equipped and was provided with personnel so as to meet such peaks as for instance before labour day, weekends, and the Grey Cup finals, the cost would be out of all proportion to the revenue.

The CHAIRMAN: It would not provide a fair average picture.

Mr. McGREGOR: No. This is the average picture.

Mr. HAMILTON (*York West*): Does the peak load period we are speaking about, and which you say over-taxes your capacity, take place more often than on the eve of national holidays, which are perhaps a week-end proposition, or are there certain days in the week when it is liable to take place?

Mr. McGREGOR: There are about three different fluctuations; the main seasonal fluctuation in which the loads during the period of the 1st June to September 30th are very substantially higher than during the winter months; then those months of June and September have a tendency to "peak" as compared with July and August; and then on certain days of the week particularly week-ends there is a super-imposed peak; but that is met to the best of our economic and physical ability by the operation of extra sections.

Mr. HAMILTON (*York West*): Now then, we have three periods which you probably refer to as peak periods; some are seasonal and vary from June to August or September; national holiday peak periods, and little peak periods during each week; and you say that you can handle some of them by means of additional flights?

Mr. McGregor: Yes. The majority of that load I would say we handle by additional flights.

Mr. Hamilton (*York West*): Have you the capacity to handle it regularly, or is there a peak period in that three months time which overtaxes you?

Mr. McGregor: The latter is correct.

Mr. Hamilton (*York West*): You have said that it would not be economically sound for any airline to build up to the point where it was handling that peak load; you would not be able to operate economically on such a basis, but has there been any consideration given to calling anybody else in to assist in handling those peak periods?

Mr. McGregor: Not normally. Domestic operations do occasionally assist international operations and vice versa.

Mr. Hamilton (*York West*): But it has never been considered for a domestic line?

Mr. McGregor: Not for normal passenger traffic on an established run, no.

Mr. Hamilton (*York West*): Here is a fair question. Might it be possible that some other domestic line could fit in their equipment and personnel, and make money in handling the peak load, and in assisting?

Mr. McGregor: I would not say that it was impossible but it would seem doubtful because I think that in Canada (if we are thinking about Canadian operators) their peaks would go hand in hand with a peak of ours, and they would coincide with the peak of any other Canadian operator.

Mr. Hamilton (*York West*): When you say "any other Canadian operator" I assume that you are referring to any other scheduled Canadian operator?

Mr. McGregor: Yes.

Mr. Hamilton (*York West*): When you say "Any other Canadian operator", I assume, in your answer you are referring to any other free operator; has it been considered that, say general class four chartered operators might be able to handle that type of traffic?

Mr. McGregor: In the case of non-passenger, and occasionally in the case of passenger loads for a chartered operation, we have done exactly that.

Mr. Hamilton (*York West*): But, they do not come in on any regular basis at all on the number of passenger-per-mile basis?

Mr. McGregor: No.

Mr. Hamilton (*York West*): In those cases, do you then charter another aircraft to handle your load?

Mr. McGregor: We have done both.

Mr. Hamilton (*York West*): I see.

Mr. McGregor: We have chartered other aircraft to handle our load, and we have referred the requesting charter party to another organization that we understand is prepared to handle the charter operation.

Mr. Hamilton (*York West*): Well, now, would it be fair to say that on these peak periods you have mentioned, that would be the first appearance of the place where another operator might be able to be fitted in? I am not asking you to commit yourself to say that it is the place, I am saying it would be the first place that that would appear possible.

Mr. McGregor: I do not think that that would be a necessarily correct inference, Mr. Hamilton. I would say that the first place, if you are referring to this question of competition, the first place that competition would be indicated as being financially feasible, is where the frequency begins to reach the point which we have talked about before, in which both operators, would be operating at a frequency which would permit economical use of the ground crew facilities involved. We have talked in the past about that factor, and it seems to be a case of something in the order of six or seven frequencies, depending on the type of load involved.

Mr. HAMILTON (*York West*): Six or seven frequencies, what do you mean by that?

Mr. McGREGOR: Flights per carrier.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Per day?

Mr. McGREGOR: Per day.

Mr. HAMILTON (*York West*): Are you talking about any specific points, or do you mean the whole national picture?

Mr. McGREGOR: I am just using that as a generality. That seems to be the rule that meets the situation, for instance on the Montreal-Toronto, Montreal-New York, and Toronto-New York routes, both carriers are operating an average frequency of about that.

Mr. HAMILTON (*York West*): So that then we would expect to build up to that between any other points before any carrier could come in on an economical basis?

Mr. McGREGOR: That is our opinion, Mr. Hamilton.

Mr. HAMILTON (*York West*): That means that any additional flights, say over six will constitute a peak load period to a great extent that you may not be able to handle, is that it?

Mr. McGREGOR: I would not think so. There is no reason why a carrier should not be able to meet the demand for additional frequencies as they occur, providing he has ordered equipment in sufficient time.

Mr. HAMILTON (*York West*): Well, does your thinking go along this line, then, that you build up this one licensed carrier right through to the point where this one carrier is built up to ten or twelve flights and then cut him back to six and let somebody else in, or how do you arrive at this?

Mr. McGREGOR: Well, I am entirely without experience on the line of your question, because, so far as I can make out, the tendency has been, in the United States, rather to do the reverse. Where licensed carriers have operated parallel routes the trend has been toward the consolidation of these routes and the amalgamation of companies, so I must say I have no experience on which to base an answer.

Mr. HAMILTON (*York West*): Now, have we got any routes within Canada where we have greater flight frequencies, or as great, say, flight frequencies as six a day?

Mr. McGREGOR: Yes.

Mr. HAMILTON (*York West*): What are the points involved?

Mr. McGREGOR: Vancouver, Victoria, Montreal, Toronto, and in the summertime; this coming summer, Montreal-Ottawa, and if we take all the services including those stopping at intermediate points, Toronto-Winnipeg.

Mr. HAMILTON (*York West*): So, those will be the segments of your route where you will be going six flights or over?

Mr. McGREGOR: That is correct, in the summertime. The frequency of at least two of those routes will probably drop below that figure in the winter.

Mr. HAMILTON (*York West*): Can you give us an estimate of your load, say, between Toronto and Montreal?

Mr. McGREGOR: I would think it would run very close to the company's average load factor, because on the routes that have greater traffic, we fly greater frequencies. Our effort is not to have wide discrepancies of load factor between routes.

Mr. HAMILTON (*York West*): In other words, the national average then, is pretty well the average of all segments?

Mr. McGREGOR: With the exception of the two New York services which I mentioned, which are running higher than that, because the average load factor of Viscounts is particularly high.

Mr. HAMILTON (*York West*): Has T.C.A. given any thought to any further changes in routes as were accomplished with the C.P.A. exchange?

Mr. McGREGOR: Not at the present time, of that type.

Mr. HAMILTON (*York West*): No routes within Canada which might be advantageously exchanged at all.

Mr. McGREGOR: We are continually investigating possibilities of any exchange that might be required. Quite recently an independent company approached T.C.A. with respect to certain operations in the maritimes, incidentally, with the intention, apparently, of giving up competition.

Mr. CARRICK: If Mr. Hamilton is through. I think that the charts which have been shown to us by Mr. McGregor on the percentage of over-sale displacements 1955, and the percentage of "no shows" for passengers for 1954 and 1955, and the other chart on the "North American passenger load factor, 1955', would be very valuable information, if Mr. McGregor can give it to us in figures. I think it should be on the record. It shows the very good standard of T.C.A.

The CHAIRMAN: Would you be able to do that?

Mr. McGREGOR: No difficulty at all.

The CHAIRMAN: Mr. McGregor can probably give it to us now, and it will be on the record, but I think it would be very difficult to reproduce these charts on the record, but we might have the figures which deal with it.

Mr. McGREGOR: Yes. We can, in other words, read the charts into figure form and present them in tabular form, if that is satisfactory.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Mr. Chairman, since we are referring to the charts again, might I just ask Mr. McGregor this, in connection with the very good record of "no shows"; in other words, the reduction of "no shows". Is that directly related to your "Indian", of a couple of years ago, a deliberate campaign which you put on, "Indian Chief no show"? I ask that for a particular reason. Is that at least partially responsible for that?

Mr. McGREGOR: That is partially responsible. We had very good response, and we think the figures reflect a direct effect of the campaign. Another primary factor, of course, is the continued requirement of the very much disputed re-confirmation procedure which was abandoned by some American airlines with shocking effect on their "no show" factor.

Mr. HAHN: Mr. Chairman, I notice that in this "operations and traffic review" we have available ton miles, available passenger miles; is the mail ton miles that are available included in the available ton miles?

Mr. McGREGOR: No, Mr. Hahn. In both cases, "available" means that either seat or ton mile transportation is there for sale, regardless of how it is occupied; that is, whether mail is put into it eventually as revenue ton miles of transportation or cargo or passengers.

Mr. HAHN: What I was asking that for specifically was this, that my understanding is, at certain times, quite regularly in fact, the mail is left, not being picked up by planes, because there is no space available out of Vancouver; however, these available ton miles, 28 per cent, in no way reflects —this is an overall percentage in each particular point, this is an over-all thing rather than a particular point of availability?

Mr. McGregor: This is an over-all figure, it is true. On the other hand, there is very little mail left behind, because the Post Office states its requirement with respect to the amount of mail that it wishes to have moved on various flights, and that space is reserved for the Post Office requirement. Now, in the event of the mail load, for one reason or another exceeding that stated requirement and at the same time the other load on the aircraft, passengers and cargo being at permissible maximum, we cannot accommodate on one particular flight more than the commitment to the Post Office. That may occur. But it is a very unusual situation. In fact, I think there were about nine such cases in a three months period that we reviewed.

Mr. Knight: In other words, you would always have to fulfill the commitment, and over that they would have to take their chances on handling the load?

Mr. Hahn: That raises another question. How many times did they have a greater amount of mail than that you were committed to handle actually?

Mr. McGregor: There were certain comments made over the Christmas period about the carriage of mail. At that time we did a detailed analysis, and I believe, if my memory serves me correctly, there were about 16 or 17 cases in which the mail did exceed the commitment. There may have been more cases than that, had the Post Office taken no recognition of their commitment. In other words, if they had said, there is to be 1,200 pounds carried on this DC-3 flight we know by agreement, but we are still going to present them with 1,400 pounds. They do not do that. They recognize and adhere very closely to the terms of the agreement in existence. I think there were something like 16 or 17 cases, of which in only nine could we not meet the excess over the commitment which had been requested.

Mr. Hahn: Do they ever, before the flight takes off, and if they have a greater amount of mail than the commitment calls for, do they usually make the practice of calling the airport to discover whether or not there is space available in the ton miles that you have available, ordinarily?

Mr. McGregor: I do not think that is the normal practice because it is a matter of more than an hour as a rule to get the mail from the downtown post office to the airport. Very many times they say, we have more mail than is called for on the commitment, are you prepared to carry it; in the vast majority of those cases we are in a position to say, yes, and do.

Mr. Hahn: You do not feel it desirable that you can carry actually more mail than what you are carrying at this time?

Mr. McGregor: Yes.

Mr. Hahn: This is a paying part of the service?

Mr. McGregor: Very much.

Mr. Hahn: Therefore, possibly our commitment should be increased; that is, the Post Office Department commitment should be increased, if there is more mail available?

Mr. McGregor: Yes, that is reviewed from time to time. For instance, in December of last year for the first time we exceeded the maximum provided for in the contract of, I think 700,000 ton miles. We exceeded that by 60,000 ton miles in December with, of course, the exceptional Christmas greeting card load.

Mr. Hahn: Yes, and was that localized at all, or is it over-all?

Mr. McGregor: The figure is over-all?

Mr. HAHN: Well, were they particularly localized?

Mr. MCGREGOR: The peak?

Mr. HAHN: Yes.

Mr. MCGREGOR: I would not be prepared to say, Mr. Hahn. I have no doubt it was higher between the major cities such as Montreal and Toronto.

Mr. HAHN: I ask that question because I had raised the question earlier; someone referred to your report; some place in the report to the Gordon commission. I believe mention was made of the fact that if we had more cargo from the west and the east that we would be able to show a greater profit. Well, if there is more mail available in those points, then, if it were localized there particularly—

Mr. MCGREGOR: Well, in that point that you mention, I have referred specifically to air cargo, which is very strongly directional in its movement over any route, with the westbound load far exceeding the eastbound load. I don't think the same directional imbalance is true of mail as is true of commodity movement and cargo.

Mr. HAHN: Then, you do feel there are times, possibly, when mail is either redirected because they have more than sufficient to fill their commitment, and at the same time don't take it out on speculation that there would be no space available?

Mr. MCGREGOR: I think that is right, yes.

Mr. HAHN: And if you were given that mail your expenses would be increased, of course?

Mr. MCGREGOR: Yes, and our revenues would be increased.

Mr. KNIGHT: Of course the post office has no special claim on any room available after their commitment has been filled?

Mr. MCGREGOR: No special claim.

Mr. KNIGHT: They are on a competitive basis with other express.

The CHAIRMAN: Shall the item "Operations and Traffic Review" carry?

An Hon. MEMBER: No.

The CHAIRMAN: We will carry on with this item at 3.30. I might say that if members of the committee wish to leave their documents here the room will be locked.

The committee adjourned until 3.30.

AFTERNOON SESSION

3.30 p.m.

The CHAIRMAN: Now gentlemen, I think we have a quorum. Before we go on with questions, there were some questions put to Mr. McGregor this morning and he has been able to provide the answers. If it is your wish we will have those answers now and I will ask him to do that before there are any further questions put to him.

Mr. MCGREGOR: Mr. Chairman, the first question is one placed by Mr. Hahn asking for the comparison of our net operating revenues with respect to our gross revenues for both 1954 and 1955. I shall read the 1955 figures first and the corresponding 1954 figures afterwards as follows: Operating revenues $77,428,000, $68,764,000. Net income $190,000, $496,000. Per cent net income of operating revenues ·245 per cent, ·721 per cent. Operating income $657,000, $1,032,000. Per cent operating income of operating revenues ·849 per cent, 1·502 per cent.

Then, there was a question asked by Mr. Fulton. He asked for the details of a rather confusing situation with respect to loans to and from Canadian National Railways which is clarified as follows: As at December 31, 1954—borrowed from Canadian National Railways, September 2 to December 29, 1954, in accordance with financial commitments $10 million. Reloaned to Canadian National Railways, December 30, 1954, cash surplus to requirements due to delayed deliveries of Viscount aircraft $6,900,000. Net loans from Canadian National Railways at December 31, 1954, $3,100,000. It explains why there was some revenue from money loaned to the C.N.R. while we were in a net borrowing position. In the year 1955—recalled above temporary loan to C.N.R. during period January 27 to April 29, 1955, $6,900,000. New borrowings from C.N.R., during period May 13 to August 2, 1955, $3,500,000.

A question was asked by Mr. Hahn as to the degree of depreciation of the North Star which was lost in the accident in 1954 not very far from Malton at Brampton. Depreciation on that Super Constellation, registration CF-TCG, $82,802 against an original book value of just under $2 million.

Mr. KNIGHT: Might you add what the book value is of the plane lost at Moose Jaw which was paid by the company?

Mr. MCGREGOR: It had been depreciated to its residual value of $30,000.

There was a question asked by Mr. Carrick as to the results of the charts circulated this morning in tabular form. Perhaps Mr. Carrick would not wish me to read that as it is going into the record. They have been read directly from the charts.

A question was asked by Mr. Hahn with respect to the payroll expense and the relating of that to miles, and the transportation job performed by the company. Total payroll expense in 1955, $34,509,686. The corresponding figure for 1954, $30,791,557. Available seat miles, 1,380,919,419 in 1955, and 1,179,624,399 in 1954. Available ton miles, 202,176,930 in 1955 and 158,093,399 in 1954. Payroll expense per available seat mile, 1955, 2.50 cents; 1954, 2.61 cents. Payroll expense per available ton mile, 1955, 17.06 cents, and 1954, 19.48 cents. It shows the decreasing labour cost per seat mile and per available ton mile which was referred to.

The CHAIRMAN: Now, we will return to the item Operations and Traffic Review, which will be found on page 6 of the report.

Mr. FULTON: The table at the bottom of page 6, Mr. McGregor, shows that the differential between available seat miles and the passenger miles flown has widened in 1955 as against 1954.

Mr. MCGREGOR: Yes.

Mr. FULTON: Working out in round figures to $411 million difference in 1955 and $327 million difference in 1954. Now, on page 3 of the report in the covering letter to the minister you say, "As planned, the increase in airline capacity was even greater than the increase in volume of business." Would you enlarge on that and say why that plan was made and what the significance of it is.

Mr. MCGREGOR: I would be glad to. As I explained this morning the degree to which the airline can be filled without adversely affecting the quality of service obviously has a desirable limit. Each flight could be flown at an 85 per cent load factor quite comfortably as far as the travelling public is concerned, but if we were to think of an over-all load factor on an area basis it cannot exceed 70 per cent by very much without meaning that many flights are booked to capacity and in some cases seats are not available for the people who want to travel. The plan to reduce the load factor by increased rate of growth of seat miles was in an effort to improve the quality of service and availablity of seats.

Mr. FULTON: Would that have any bearing on your anticipating an increase in demand, keeping up with the present demand by meeting an increase in demand?

Mr. McGREGOR: Yes, sir.

Mr. FULTON: You have now got slightly ahead on a basis of these figures. The fact that you have that difference means you have got slightly ahead. Do you think you have got ahead of the currently available demand or as far ahead as you want to be?

Mr. McGREGOR: I think we are as far ahead—70 per cent which is the operating load factor for 1955 is as low as we can allow the load factor to go from a financial standpoint at this stage. As more efficient aircraft go into service I think we can achieve the situation which exists in the United States where their load factor is lower than 70 per cent with a subsequent improvement in the quality of service.

Mr. FULTON: How many more Viscounts do your plans call for coming into service this year as against 1955?

The CHAIRMAN: That is dealt with later on.

Mr. McGREGOR: We have already had one of the 1956 deliveries of Viscounts and we expect three more.

Mr. FULTON: A total of four over 1955?

Mr. McGREGOR: And in addition two Super Constellations.

Mr. FULTON: Six very substantial aircraft. How far ahead in your thinking do you project this taking care of the increasing demand for air transportation?

Mr. McGREGOR: We have ordered aircraft on the basis of the next three years, that is with deliveries scheduled for the spring of 1958. Our planning goes considerably further than that.

Mr. FULTON: You have ordered aircraft of what types?

Mr. McGREGOR: Viscounts only.

Mr. FULTON: How many more of them?

Mr. McGREGOR: The total ordered fleet is 36 and we now have 15, so there are 21 additional aircraft which will be delivered during the winter of 1956-57 and some during the winter of 1957-58.

Mr. FULTON: You then say on page 7 "Six transcontinental passenger flights were scheduled daily during the months of peak traffic...". Do you anticipate operating more than six transcontinental flights?

Mr. McGREGOR: Yes, by 1958.

Mr. FULTON: This is a very general question: What is your experience with respect to the demand between travelling public for accommodation in Viscount aircraft as against Constellation aircraft on domestic transcontinental routes? The Viscount now does the transcontinental but with more stops?

Mr. McGREGOR: Yes. The load factors by types of aircraft show a preference for the Viscount. That does not necessarily mean that people say very definitely they would much prefer to travel on the more frequently stopped Viscount than on the less frequently stopped Super Constellation on the transcontinental route. The load factor on the Viscount is 80 per cent and in the mid-70's on the Super Constellation.

Mr. FULTON: What is the difference in the total elapsed time between Toronto and Vancouver between one as against the other?

Mr. McGregor: It is somewhat in favour of the Super Constellation due to the fact that it makes one stop between Toronto and Vancouver and the speed of the Viscount is not greatly in excess of the Super Constellation.

Mr. Fulton: Do you recall what the total time is?

Mr. McGregor: I think we have a time-table here. Would you like to have the times?

Mr. Fulton: Have you the difference in times?

Mr. McGregor: The Viscount leaves at 8.20 in the morning and arrives at 6.10 in the evening; 9 hours and 50 minutes clock time which is 12 hours and 50 minutes total elapsed time. The Super Constellation time is 10 hours.

Mr. Fulton: There is really a difference of nearly 3 hours in the total elapsed time?

Mr. McGregor: Yes.

Mr. Fulton: Does that difference in time on the basis of your experience with passenger demand more than offset the difference in the load factor? What I am getting at is I am wondering really whether it could be suggested that there should be a concentration on the Viscount, which is extremely popular and apparently more in demand, and even get more of them and keep the Constellations on the overseas service where the long distance operational performance is necessary.

Mr. McGregor: The additional Super Constellations that are on order are primarily intended to increase our overseas operations. We are planning a ten frequency per week trans-Atlantic operation this coming summer as well as putting the transcontinental flights up to two frequencies by Constellations.

Mr. Fulton: Has the operating cost of the Viscount been worked out after taking into account fuel and food? Is the operating cost per mile potentially lower than that of the Constellation?

Mr. McGregor: At the present time it is substantially lower but we do not believe we shall have an accurate figure on the continuing operating cost of Viscount until the engines have been through their second or third overhaul when we shall know what the normal consumption of replacement parts is. At the present time replacement parts are not going into the engine in the quantity we would expect later on.

Mr. Fulton: But you anticipate that the cost per mile will still be satisfactory?

Mr. McGregor: I think it will still be lower than that of any piston engined aircraft.

Mr. Fulton: Are these new Constellations destined for overseas service?

Mr. McGregor: Yes, I think it is correct to say so. Actually the fleet of nine aircraft that will then exist will be assigned to these two requirements—the trans-Atlantic service on one hand and the transcontinental service on the other, so they will accomplish ten weekly flights on the Atlantic route and two daily flights on the transcontinental route.

Mr. Bell: You made a statement this morning, Mr. McGregor, which contained a passing reference to the fact that you might consider trading maritime routes. I have been considering this and feel somewhat of a mixed reaction to it. I realize you may only be negotiating and that you may not wish to say too much about the matter, but I think any such move should be given very serious consideration because although there might be increased services arising out of such a transfer, together with other advantages, it might also be that the economy of the maritimes, considering its geography and its population, would suffer from a general lack of government attention from the Department of Transport or from the fact that T.C.A. would not be there in future.

Mr. McGregor: I was misunderstood this morning. I did not speak of any trading of maritime routes. I was asked whether we had under consideration any other deals similar to the C.P.A.-T.C.A. arrangement and I said: No, but we continuously study proposals that come to our attention, and the reference in connection with the maritimes came up, I think, very shortly after this—a statement of mine that we had had a letter from a maritime company suggesting that they might consider the abandonment of a competitive service.

Mr. Murphy (*Westmorland*): That they might, or that you might?

Mr. McGregor: That they might.

Mr. Carrick: Would we not need a motion, Mr. Chairman, that the three charts which Mr. McGregor gave us should be inserted in the record?

The Chairman: We are going to deal with that matter. Are you prepared to move, Mr. Carrick?

Mr. Carrick: Yes, that we add these as appendices.

The Chairman: Motion carried. (See Appendix "A".)

Are there any other questions on "Operation and Traffic Revenue"? Shall that item carry?

Mr. Hamilton (*York West*): Was the inference made by the maritime company that they would be interested in some type of trade in connection with this possible abandonment of the route?

Mr. McGregor: No, Mr. Hamilton. Frankly, the letter said: would you please tell us what your plans are because this is not very profitable for us and we think that if your plans do not indicate some improvement from our standpoint we may request permission to abandon a certain route.

Mr. Hamilton (*York West*): Do I understand that we are going through this page by page?

The Chairman: I was going to deal next with the heading. I think that by following this order we make it clear to anyone reading the report. The next item would be on "Passenger Traffic", page 9.

Mr. Hamilton (*York West*): We will be skipping "Expansion of Services" at the top of page 7.

The Chairman: We would deal with the "Expansion of Services" on page 7—

Mr. Hamilton (*York West*): As long as we are going to deal with this item I am content. I have only about two more questions to ask.

The Chairman: Very well, "Expansion of Services".

Mr. Hamilton (*York West*): In connection with these load factors, have you taken into account the problem of space-weight ratios in so far as your availability is concerned? When I say that I mean this: that you might have a load factor of 70 per cent, but that could conceivably mean that even so you do not have more room for additional passengers because of express or, possibly, freight that you might be carrying. Is that possible?

Mr. McGregor: It is possible in connection with DC-3's operating on some of their longer routes.

Mr. Hamilton (*York West*): In other words there might be a case where you would have, from the passenger standpoint, a load factor that is running only at 70 per cent but where it would be impossible to get any more passengers aboard?

Mr. McGregor: Yes, but when we say that the seat is available for sale, we mean that it is in fact available for sale; it is not necessarily the number of flight miles multiplied by the total number of installed seats in the aircraft.

Mr. HAMILTON (*York West*): I understand that, and I am just speaking about the load factor figure that we would use. In that connection, are you still continuing to carry express and mail on your regular passenger flights?

Mr. McGREGOR: Yes.

Mr. HAMILTON (*York West*): Are you still carrying air freight on regular passenger flights?

Mr. McGREGOR: Yes.

Mr. HAMILTON (*York West*): So that those three items do have an additional bearing on your load factor?

Mr. McGREGOR: In the section under "Weight Load Factor" that is described specifically.

Mr. HARRISON: I think you said your passenger tariff varies up to a cent per mile per passenger. Would you tell us what this amounts to for the different services which you have?

Mr. McGREGOR: Yes. It varies inversely with the length of the route as a general rule, though there are exceptions. The over-all average is a fraction over six cents per mile.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Mr. Chairman, Mr. McGregor made some interesting and helpful comments on the question of mails carried, and one question which I would like to ask him is—

The CHAIRMAN: Mr. Hamilton, I think there is another item with regard to "Mail Traffic" and I wonder if your question would properly come at page ten under that heading? If there are no further questions on the "Expansion of Services"—

Mr. HAMILTON (*Notre-Dame-de-Grâce*): This question, as it happens, does relate to the particular paragraph we have under review which deals with "Air Traffic Revenue". You had a substantial increase—proportionately much greater in air freight and air express as against general mail express.

Mr. McGREGOR: Yes.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Is that merely because more mail has not been offering?

Mr. McGREGOR: That means that the growth of mail load which we were offered did not keep pace with the growth in express and freight traffic available to us. There was no limitation on capacity.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Just so that I do not get cut out later I may say that I have certain comparisons to make between your freight, express and mail traffic. I will make these under the "Mail" section, Mr. Chairman.

The CHAIRMAN: Are there any further questions on the "Expansion of Services"?

Mr. BYRNE: I would like to ask Mr. McGregor if T.C.A. has given consideration to undertaking the route proposed by Pacific Western Airlines of last fall?

Mr. McGREGOR: As I understand that application it was for services over routes which are entirely served at the present time. I think their application dealt with a type of service rather than with any routes not presently served.

Mr. BYRNE: The type of service?

Mr. McGREGOR: Yes. As I understand it, it was referred to as a 'bus service' and it assumed that there would be no reservation system, among other things. There may have been one or two points in the application that are not directly on the route now; I don't know.

Mr. BYRNE: A flight from Lethbridge to Regina—T.C.A. has a flight to Calgary and then to Regina—or do they have a direct flight?

Mr. MCGREGOR: No, we do operate Calgary-Lethbridge-Regina. I would have to check.

Mr. BYRNE: In any case it would not cost any more to fly to Regina by way of Calgary under T.C.A.?

Mr. MCGREGOR: No.

The CHAIRMAN: Shall the item "Expansion of Services" carry?

Mr. HAMILTON (*York West*): I wonder if Mr. McGregor would explain to me again the theory that he had about the number of flights required in any one day before he felt that two airlines could carry on business on an economical basis? I think he said that six flights per day between points for each operator would be required.

Mr. MCGREGOR: That is basically correct, Mr. Hamilton. What I said was that we felt that is a fairly general rule of thumb to indicate the minimum number of flights to enable an operator to make economic use of the ground crews. The flight frequencies are naturally spread in time over a 24 hour period—reasonably far apart—which means that if a service is going to operate efficiently three shifts will be required to provide ground service for those flights. If the number of flights falls below six it might mean that one shift would have no aircraft to service; another would have one, or occasionally, two if a flight was running ahead of schedule. That is a very inefficient use of the considerable number of personnel required to provide the aircraft with the necessary ground service.

Mr. HAMILTON (*York West*): If you had your six flights, it would be no concern of yours if somebody else operated additional flights?

Mr. MCGREGOR: No, providing our six flights remained well filled.

Mr. HAMILTON: (*York West*): What I mean to say is this: if an additional operator came in at a time when you had eight flights and took two away, that would affect you, I suppose; but if the other operator was licensed for one or two additional flights that would not affect your basic six. Would that be right?

Mr. MCGREGOR: I think that is a fair premise. I also think it might be appropriate to say at this point that so far I don't think any Canadian license has been granted with a frequency restriction on it. That is a plan that is followed in other countries, but it does not seem correct on the face of it.

Mr. HAMILTON (*York West*): I can easily understand your feeling that it might be possible to carry on without affecting your operations if it were licensed on that basis.

Mr. MCGREGOR: Conceivably.

Mr. HAMILTON: (*York West*): According to your build-up here you will be running eight flights a day during the summer will you not?

Mr. MCGREGOR: No, it is six. There are two Super Constellation flights, three Viscounts, first class, and two tourist North Stars, I am sorry that is seven.

Mr. HAMILTON: (*York West*): So we have already passed the minimum of six flights.

Mr. MCGREGOR: In the summertime.

Mr. HAMILTON (*York West*): What about the winter time?

Mr. MCGREGOR: I am afraid it will be cut down by one as it usually is.

Mr. HAMILTON (*York West*): I see. Has the frequency of your flights shown a steady build-up over the last several years?

Mr. McGregor: If you take a period of years there has been a gradual increase, but the addition of one flight is a pretty big step to take and the result is that we usually make an increase of one flight with respect to either winter or summer operations on an average, I suppose, of every two years.

Mr. Hamilton (*York West*): On your trans-Atlantic services—and, Mr. Chairman, this still comes under this heading Expansion of Services—you operate at a profit, I take it?

Mr. McGregor: Yes.

Mr. Hamilton (*York West*): You do not have anything like the same frequency of services there; it is not required on that type of run, is it?

Mr. McGregor: No. We get nearly half as much again per passenger mile on the Atlantic route, but there is strong competition as compared with the domestic operation.

Mr. Hamilton (*York West*): What competition do you face there?

Mr. McGregor: Out of Montreal B.O.A.C.; Air France; and K.L.M.

Mr. Hamilton (*York West*): Has there been any indication that S.A.S. are going to apply to come in there too?

Mr. McGregor: I believe there has been a rumour but I have not heard of any formal application.

Mr. Hamilton (*York West*): You still operate at a profit with three foreign competitors?

Mr. McGregor: Yes.

Mr. Hamilton (*York West*): And that is done with a flight frequency of about eight a week?

Mr. McGregor: Eight last summer.

Mr. Hamilton (*York West*): How many flights do these other people operate?

Mr. McGregor: I believe B.O.A.C. have the same number as we do, but the other two carriers have a fewer number.

Mr. Hamilton (*York West*): A fewer number; do you know how many?

Mr. McGregor: I believe that Air France has three a week, and K.L.M. perhaps has four, but I could check those figures for you.

Mr. Hamilton (*York West*): You do not have the benefits from your overseas service that you get out of your domestic flights although you have a higher tariff return?

Mr. McGregor: That is right.

Mr. Hamilton (*York West*): With the change that you made with C.P.A. here, trading a domestic for a foreign service, how many passengers were you taking out of Toronto, let us say, in good months like January and February of last year?

Mr. McGregor: I have the figures for the year. For the Montreal and Toronto group, southbound we had available for travel to Mexico 1,168 seats and we carried 553 passengers, with a load factor of 47 per cent. Northbound we had available seats to the total of 1,188, and we carried 592 passengers for a load factor of 49·9 per cent, and with an over-all load factor of 48·6. I should draw your attention to the fact that that service started in January of that year.

Mr. Hamilton (*York West*): That was the opening month. How long did you carry it on?

Mr. McGregor: Until November 1st of last year.

Mr. HAMILTON (*York West*): November 1st. Have you got the figures for your last month's service?

Mr. McGREGOR: No. These are the year's figures or rather for ten months.

Mr. HAMILTON (*York West*): Have you got them broken down to months at all?

Mr. McGREGOR: I could get those figures but I have not got them here.

Mr. HAMILTON (*York West*): Would you get them for me?

Mr. McGREGOR: Yes.

Mr. HAMILTON (*York West*): Have you any idea of the load factor which C.P.A. has, Toronto to Montreal, according to its two months statement of operation?

Mr. McGREGOR: No.

Mr. HAMILTON (*York West*): You have no idea?

Mr. McGREGOR: They have been operating going on six months.

Mr. HAMILTON (*York West*): Since last November.

Mr. McGREGOR: The first of November, yes.

Mr. HAMILTON (*York West*): And you have no idea about their figures?

Mr. McGREGOR: No.

Mr. HAMILTON (*York West*): I assume they could be obtained from the A.T.B. people.

Mr. McGREGOR: I am sure they can.

Mr. HAMILTON (*York West*): I think we can get into tourist traffic later, but it does come under passenger traffic.

Mr. HAHN: On expansion of service, what is being done with respect to trans-Polar flights?

Mr. McGREGOR: By T.C.A.?

Mr. HAHN: Yes.

Mr. McGREGOR: Nothing!

Mr. HAHN: You have no intentions at all in that field?

Mr. McGREGOR: No.

Mr. HAHN: Have you any objection to others entering the field on the basis of charges comparable with the rate of tariffs—that is compared with your trans-Atlantic tariffs?

Mr. McGREGOR: No. We did not raise any objection when C.P.A. applied for the so-called trans-Polar route; it is not "very" trans-Polar, and we had no objection.

Mr. HAHN: You say you had no objection. Would you have any objection to traffic being taken on at Winnipeg for Scandinavian lines?

Mr. McGREGOR: Yes we have.

Mr. HAHN: What is the basis of your objection?

Mr. McGREGOR: That it deprives us of traffic which originates in the middle of Canada.

Mr. HAHN: What percentage of paid traffic would go under European tours?

Mr. McGREGOR: From points, let us say, Winnipeg and the west, or Winnipeg itself?

Mr. HAHN: Let us say Winnipeg and the west?

Mr. McGREGOR: I would have to guess at that at the moment. It would be substantial but I can get the actual figures.

Mr. HAHN: Would you?

Mr. McGREGOR: Yes. We may have them here. Oh no, I think we will have to look them up for you.

Mr. HAHN: You raised no objection to C.P.A.'s reduction of fares compared with the American lines on the trans-Polar route?

Mr. McGREGOR: The fare situation really is not in our hands. International fares are all agreed to by the International Air Transport organization.

Mr. HAHN: C.P.A. has made an application which was turned down by the Air Transport Board of Canada and objection was raised by T.C.A. that competition by C.P.A. was losing traffic by reason of the fact that they could board trans-Polar at Seattle at $18 less than T.C.A. could offer them out of Vancouver.

Mr. McGREGOR: To where?

Mr. HAHN: On trans-Polar flights.

Mr. McGREGOR: But destined to where?

Mr. HAHN: To Copenhagen.

Mr. McGREGOR: I am getting a little outside my own knowledge at this point, but C.P.A. services terminate at Amsterdam, and the S.A.S. in Copenhagen and Stockholm. I do not think that the Canadian Air Transport Board would adopt such an attitude with respect to international fares, it having been agreed to by the governments involved that the international rates will be agreed to in traffic conferences of the International Air Transport Association.

Mr. HAHN: T.C.A. made no objection. That is the important point.

Mr. McGREGOR: To the rates being established?

Mr. HAHN: Either to that, or the fares and rates.

Mr. McGREGOR: I am quite sure that we would ask for an equalization of fares in an I.A.T.A. traffic conference.

The CHAIRMAN: Shall the item "expansion of service" carry?

Mr. HAMILTON (*York West*): Dealing with the last question asked by Mr. Hahn, I asked this question last year of Mr. McGregor:

> Mr. HAMILTON (*York West*): Looking into next year's revenue picture do you feel that the remaining 25 per cent will be affected materially by the licensing of the so-called trans-polar route from Vancouver?
>
> Mr. McGREGOR: We have made an attempt to estimate that. From the whole of the west coast area which we serve including Seattle, Vancouver and Victoria, our trans-Atlantic business last year was $400 thousand in gross revenue. What proportion of that traffic and what might be regarded as normal growth that will be diverted to the Canadian Pacific Air Lines remains to be seen. I doubt if it would be half of it because I don't think the route will be as popular and it does not terminate in a big terminal such as London.

Could you tell us what the amount of your gross revenue was out of that area within the past year on trans-Atlantic service?

Mr. McGREGOR: Yes, we could get that but I have not got it here. I can tell you what the total revenue from all the companies operating trans-North Atlantic routes was: C.P.A. in 1955, had 8 per cent of it.

Mr. HAMILTON (*York West*): You say 8 per cent? Can you give us any idea whether your gross from the same type of survey which you must have made here, dropped any from last year?

Mr. McGREGOR: No, but I can get it. Would a representative month do?

Mr. HAMILTON (*York West*): Well, I am trying to compare it against the $400 thousand proposed revenue.

Mr. MCGREGOR: I see. If I may compare December 1955 with December 1954, these are the percentages: first of all, tourist. I can give you the total for tourist class passengers; T.C.A.'s traffic as a percentage of the total decreased by 7.7 per cent, while C.P.A. had 6.6 per cent as against zero in the previous year.

Mr. HAMILTON (*York West*): Does that relate entirely to the traffic conditions in the area west of Winnipeg, or is that your over-all trans-Atlantic picture?

Mr. MCGREGOR: It is our over-all trans-Atlantic picture but there again C.P.A.'s is only from the west, and it goes from zero.

Mr. HAMILTON (*York West*): There is no indication from those figures as to whether the loss of 7.7 per cent took place in your potential west of Winnipeg, or just took place right across the board?

Mr. MCGREGOR: That is correct.

Mr. HAMILTON (*York West*): Do you know the loss with respect to this other outfit here, Air France?

Mr. MCGREGOR: Yes.

Mr. HAMILTON (*York West*): With all these nice pictures, they might have got part of it!

The CHAIRMAN: Shall the item "expansion of service" carry?

Mr. MCGREGOR: I could give you their percentage, if it would help.

The CHAIRMAN: Carried.

The next item is "passenger traffic" on page 9.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): In connection with passenger traffic there is a relationship; there is mention there of the company's aggressive merchandizing program which contributed to traffic growth. I remember Mr. McGregor saying that last year, and I think we both agreed on the progressive merchandizing done and its major effect on the growth of the company; at that time, last year, you indicated that a great deal of the bulk of your advertising expenditure was made in Canada.

Mr. MCGREGOR: Yes.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): And does that condition still continue in about the same proportion?

Mr. MCGREGOR: Yes. Well, as a matter of fact the proportion of our advertising which will be spent in 1956 in the United States will be less than was the case in 1955 because of the introduction of the Viscounts, and because of the special program which was put on in connection with them.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): In that connection, have you the names of the agencies which you are using in the United States?

Mr. MCGREGOR: Cockfield Brown at the present time.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Do you expect to continue to utilize that agency in the United States?

Mr. MCGREGOR: That is under active study at the present time, in the belief that perhaps an American agency with its greater representation geographically in the United States might be preferable.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): That would be your only basis for switching to an agency in the United States, because of its greater representation geographically?

Mr. MCGREGOR: Yes.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): What then would happen to your Canadian account?

Mr. McGREGOR: Nothing.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): You would leave it with Cockfield Brown?

Mr. McGREGOR: Yes.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): May I place myself on record to indicate that I am very strongly opposed to the principle of an agency of the Canadian government utilizing an American advertising agency even for a segment of their account in the United States. We are going to be discussing the Canadian National Railways estimates subsequently, and they are also engaged in this. Let me say that to my mind it is a most unsatisfactory process. But I shall not push it any more except to express my personal hope, Mr. McGregor, that you would go very, very slowly indeed before you did something which, not only in the eyes of a business man, but in the eyes of many expert advertising men, is not necessarily the wisest course to follow, and I do not mean that as a reffection on an American advertising agency itself.

Mr. McGREGOR: Yes, I think we should look into it most carefully.

The CHAIRMAN: Any further questions on passenger traffic?

Mr. CHURCHILL: This morning a passing reference was made to the old final confirmation, and we discussed it at some length last year. I do not want to spend too much time on it now, but how is that system—well, it is reconfirmation.

Mr. McGREGOR: Yes.

Mr. CHURCHILL: How is that working, Mr. McGregor?

Mr. McGREGOR: It is working as it always has, Mr. Churchill. A certain amount of difficulty arising from people forgetting to do so, which was aggravated by the fact that several American carriers, after adopting the reconfirmation procedure abandoned it. I think it is probably a fair guess they will reinstitute it in the light of their experience with the "no show" factor—

Mr. CHURCHILL: On a six-hour basis?

Mr. McGREGOR: Yes, but, that created confusion. There was certain publicity given to the fact that it had been abandoned by certain airlines, and it was presumed by a number of people that it had been abandoned by all airlines. As a matter of fact about half the carriers in the States abandoned it, and about half retained it. We retained it, as we had it from, oh, eight or nine years back.

Mr. CHURCHILL: I was a bit puzzled a month ago; I went from here to Toronto by plane, and at Toronto I decided that I would buy tickets for myself and my wife from Winnipeg to — or, I got a ticket from here to Winnipeg, I should say, and at Toronto, while waiting I decided I would purchase tickets from Winnipeg to Victoria, which I did. I phoned my wife to meet me in Winnipeg, and we would continue on. I was on flight four. When I got to Toronto I was informed over the loud-speaker that I was wanted at the desk. When I got there I was told my flight had not been confirmed and that there was no passage for me from Winnipeg to Victoria. Six hours had not elapsed. I was on board a T.C.A. plane. I had no means of communication, to my knowledge with Winnipeg. High blood pressure resulted. But very courteously, a gentleman in charge discovered there were three vacancies on the plane going to Vancouver and permitted me to go on board. I then asked if I could be sure of getting from Vancouver to Victoria. I was told it had not been confirmed. Once again I was air borne and had no chance of confirming. So I just wondered, is that normal, or was I just an unfortunate passenger?

Mr. McGREGOR: Well, I do not know when you purchased your ticket.

Mr. CHURCHILL: At 2.30 in Toronto, and the plane left at 3.

Mr. McGREGOR: I see. Mr. Churchill, under those circumstances, that request, when it was confirmed to you in Toronto, as I expect it was, should have been marked, "No reconfirmation required", and if that was not done it was an oversight.

Mr. CHURCHILL: Well, what would be your view? Is there a teletype system from Toronto to Winnipeg?

Mr. McGREGOR: Yes. As we said last year, the reconfirmation requirement exists where the ticket is not purchased at the point where the travel is to commence. It is not necessary, and you did not reconfirm when you left here —at least I presume you did not. If you did it was not necessary; but it was necessary on the other. Where it was physically impossible for the reasons that you have mentioned, then the reservation should have had a teletype communication; and with respect to the reservation, it should have had "No reconfirmation required". That should have been done with respect to the Vancouver-Victoria portion, also.

Mr. CHURCHILL: Other than that it was a good flight.

Mr. McGREGOR: Good!

The CHAIRMAN: Any further questions on passenger traffic?

Mr. HAMILTON (*York West*): Mr. Chairman, in connection with this paragraph, I see a reference to the introduction of tourist services—

The CHAIRMAN: That is right.

Mr. HAMILTON (*York West*):—which, in 1955 accounted for 32 per cent of all T.C.A. passenger traffic. Has there been any extension of the services since we met last year?

Mr. McGREGOR: Yes. Tourist service was applied to the southern Caribbean operations throughout, in 1955. That is the only major extension. There were additional tourist flights put on certain routes.

Mr. HAMILTON (*York West*): Additional flights, domestic fllights?

Mr. McGREGOR: Yes.

Mr. HAMILTON: (*York West*): Right, and have you any plans for further extensions of that kind?

Mr. McGREGOR: Not in 1956, Mr. Hamilton.

Mr. HAMILTON (*York West*): Well, now assume, then, that that same pattern still applies—that is, you have got tourist flights on your major hops, and you do not have them on your short hops where you are using DC-3's?

Mr. McGREGOR: That is correct.

Mr. HAMILTON (*York West*): Well, now, last year I think you did refer to plans along that line. Have they changed any?

Mr. McGREGOR: Yes, in one instance. There was consideration being given at this time last year to the operation of two types of equipment on the two major trans-border services, one of which would permit the operation of tourist services. These have been abandoned as being not very practical.

Mr. HAMILTON (*York West*): Is that the only one you had in mind? I asked you last year this question, "How long do you think it will be before we can expect to have a tourist type of service on the shorter hops?", and your answer; "It will depend on the route and the traffic volume; I would say a year or a year and a half." Was that the only one you had in contemplation at that time?

Mr. McGREGOR: Yes.

Mr. HAMILTON (*York West*): Now you have abandoned that?

Mr. McGregor: Yes.

Mr. Hamilton (*York West*): And there is no prospect of tourist services on the hops such as Ottawa-Toronto, Montreal-Ottawa, places like that?

Mr. McGregor: There is tourist service between Ottawa and Toronto.

Mr. Hamilton (*York West*): There is tourist service?

Mr. McGregor: Yes, there is the North Star tourist service.

Mr. Hamilton (*York West*): That is what I wanted to find out about. Since last year you have introduced tourist service between Ottawa and Toronto?

Mr. McGregor: Yes, I believe so.

Mr. Hamilton (*York West*): I see.

Mr. McGregor: At least, I believe it exists today, but I am not sure it did last year, Mr. Hamilton.

Mr. Hamilton (*York West*): Well, I think the North Star is an extra flight as I understand it, so it is probably new this year. Is that in prospect anywhere else? The reason I asked that was that previously you had a tourist rate, say from Vancouver to Toronto, or Edmonton to Toronto, and then you had to buy first class from there on; does that condition still exist?

Mr. McGregor: On the few routes you mentioned where only DC-3 service exists, and for instance, it exists at the present time east of Montreal with respect to the new Quebec service.. We hope to be able to do something about tourist service between Montreal and Quebec in due course.

Mr. Hamilton (*York West*): Well, now, is that because you are flying DC-3's there?

Mr. McGregor: Partiallly DC-3's and partially North Stars.

Mr. Hamilton (*York West*): Well, now, is there really any justification, say, for charging the first class rate between Ottawa and Toronto where you fly one-passenger Viscount and the next passenger DC-3? There is really no comparison between that equipment, is there?

Mr. McGregor: Well, rightly or wrongly, Mr. Hamilton,—the industry's attitude toward tourists as compared with first class has not been associated with the type of equipment, but with the density of seating in the aircraft cabin. If one is sitting with his knees against the seat ahead—there is what we call the 36-inch space between seats; and in the case of large aircraft, there is five abreast seating. That is regarded as a tourist operation, regardless of the type of aircraft. Now, I am quoting the industry attitude; I am not attempting to defend it.

Mr. Hamilton (*York West*): So there is no attention paid to the difference in speed in which you might go one day to Toronto from Ottawa in the Viscount, and the next day have to go in a DC-3?

Mr. McGregor: That is correct.

Mr. Hamilton (*York West*): Paying the same fare?

Mr. McGregor: The same fare. At certain times carriers have applied surcharges on new and faster equipment. Those have usually been dropped after the novelty has worn off.

Mr. Hamilton (*York West*): Now, is the DC-3 used as tourist aircraft; is it not used as tourist aircraft anywhere?

Mr. McGregor: Not by us.

Mr. Hamilton (*York West*): Pardon?

Mr. McGregor: Not by us.

Mr. Hamilton (*York West*): No, but by any other airlines?

Mr. McGREGOR: I believe there are four abreast DC-3's. I would not be sure whether they are charging tourist fares or not. I think they should be.

Mr. HAMILTON (*York West*): So that any change in these tourist patterns would be dependent upon the placement of the DC-3 and not by any down grading of the DC-3.

The CHAIRMAN: Mr. Follwell, have you a question?

Mr. FOLLWELL: Mr. Chairman, I think it might come under this heading. It was just a suggestion by way of probably improving the accommodation for the passengers. Recently I came up from New York. I think the plane left at 8.35 in the morning, and that flight does not serve breakfast, but the flight out of Montreal going to New York leaves at 8.20 and they serve breakfast. Now, you find this; I found it, that if you are in a hotel down town in New York, you have to get up at 6.30, and then you have to get a taxi over to the air terminal, and you have to be there an hour and a half ahead, which puts you there at 7.25. You have got out to the airport, and by the time you get on the plane you have not had a chance to get breakfast. I was not particularly concerned, but on that same flight there were several people asked if they were going to have breakfast. Now, I do not know whether it might be an improvement in the service, and probably might be more acceptable to travellers if—

Mr. McGREGOR: Well, I think it is a very good suggestion, Mr. Follwell; but the fact is we do have fairly fixed rules with respect to meals related to hours of departure, and 8.30, I think, is the cut-off on breakfast. But, quite frankly, serving meals on Viscount flights from New York into Montreal and Toronto is rather difficult because of the short flight time. To serve 40 meals in a matter of 100 minutes on that run is extremely difficult.

Mr. FOLLWELL: What I was wondering about is that I think it is 8.20 you go out of Montreal to New York, and they serve breakfast on that, but you say you have a cut-off period there.

Mr. McGREGOR: Yes.

Mr. FOLLWELL: However I think there were quite a number of passengers including myself who did not know you had a cut-off period.

Mr. McGREGOR: Well, the meal service is marked on the time-table; but, it is too discriminatory, if 15 minutes cost you a breakfast.

Mr. FOLLWELL: Well five—five minutes.

Mr. KNIGHT: Are there any of these—for instance these two tourist planes, so described on page 7, is there any mixed accommodation on planes? Is there still that little place behind where it used to be characterized as first class service, whereas at the front it was tourist?

Mr. McGREGOR: Only on North Atlantic operations.

Mr. FOLLWELL: Just across the sea. On the North Atlantic plane, what proportion or amount would be given over to that first class section, the section behind there?

Mr. McGREGOR: Well, the seating is 52 tourist and nine first class.

The CHAIRMAN: Shall the item "passenger traffic" carry?

Mr. HAHN: Just before going on, Mr. Chairman, the fact that we have made tourist traffic available to the public, do you feel that it has effected an increase in our over-all traffic?

Mr. McGREGOR: On some routes I do. On the transcontinental route I am inclined to think that it has brought about some new traffic due to the lower fare. But for the most part, I think we are getting other people into tourist aircraft that would have originally preferred to travel in first class aircraft. In some other cases the timing of tourist flights is more convenient to the specific requirement of the traveller.

Mr. HAHN: Can I interpret your remarks to mean, then, that possibly you might be considering the deletion of one tourist flight and putting on another Viscount, let us say, for trancontinental service?

Mr. McGREGOR: No, we are not contemplating that, because it is necessary for us to operate at least two tourist North Stars across the country if we are to make tourist services available on two major routes, through Edmonton and through Calgary. So there would be no intention of reducing that. But we will put on additional first class services.

Mr. HAHN: And your tourist, then you expect your tourist trade may fall off?

Mr. McGREGOR: The percentage of the total would drop.

Mr. FULTON: Mr. McGregor, you gave a statement in your annual report on page 9, "General prosperity and an aggressive merchandising program contributed to the traffic growth". In your submission to the Gordon Commission you said at page 9, "The nature of aviation is such that a large proportion of the business of the airlines is self-generating and would not exist in any form if it were not for the speed and other characteristics of the transportation medium involved". We have had some questioning or discussion on competition previously and I thought that was interesting and might be related to that other discussion. In other words, I take it what you are saying in a sense in both those two passages is, provided you have the aggressive merchandising program then to some extent—not to an unlimited one—the provision of safe, attractive, convenient service does create its own demand.

Mr. McGREGOR: I think that is correct. What I had in mind when I said sometimes traffic was self-generating had reference to the type of case where a man, for instance, went from Montreal to Toronto to sign some documents and flew back in a flight leaving Malton in half an hour. Had he been required to travel by train he would not have done it; he would have sent the documents by mail. I think the speed of available transportation does produce some travel which would not have occurred by any other means.

Mr. FULTON: Speed and availability perhaps?

Mr. McGREGOR: Yes.

Mr. FULTON: Then, would it not be possible that the existence of competition, while initially it would produce perhaps some reduction in your own traffic below the point you would desire, might very quickly build up the demand for the accommodation to the point where the extra availability of air transportation filled up both the competitors and the original service?

Mr. McGREGOR: No, Mr. Fulton, my feeling is that the normal advantages of competition are seriously restricted with respect to air transportation and two or three other things such as telephony because it is not a matter where price can be open to complete competition. The price of air transportation is a regulated affair and would apply equally to any number of carriers on a given route. After that perhaps the remaining argument is that the quality of service might improve. My own feeling is that, as the ability to make an honest dollar out of the business decreased the effect would be for the quality of service to deteriorate.

Mr. FULTON: I might agree with you, and I do not suggest you carry the plan I was advancing to the extreme without considering other factors, but what about trying it on a regional basis? Is there a possibility in the heavily populated areas where—admitting it is on a limited basis there—in the case of the instance which you gave us, you might find another similar requirement for the use of aircraft in that the man possibly would not have gone if he had had to wait 24 hours for a flight?

Mr. McGREGOR: I think that is perhaps quite right. Perhaps you would like to hear some figures of the competitive routes. There is a fair amount of air competition in Canada. We have referred to the American New York routes which are competitive, and there are some others. There is Northwest and T.C.A. between Edmonton and New York; C.P.A. and T.C.A. between Regina and Edmonton. There is competition again in the maritimes over routes to which we have referred, the one involving Moncton, Fredericton and Saint John. There is a substantial amount of local traffic on many of these routes. We made the statement in the document to which you referred a moment ago that about 85 per cent of T.C.A.'s route pattern was either under direct competition or a condition closely approaching that. Canadian Pacific Air Lines operate between Regina and Edmonton, so do we, and between Vancouver and Calgary; Pacific Western Air Lines, between Vancouver and Victoria; Quebecair, between Quebec and Seven Islands; Maritime Central, between Moncton and Saint John and between Moncton and Goose Bay; Colonial Airlines, between Ottawa and New York; American Airlines, between Toronto and New York, between Toronto and Cleveland via Buffalo, and between Toronto and Chicago; U.A.L., between Vancouver and Seattle; and Northwest Airlines, between Edmonton and Toronto.

Mr. FULTON: Your experience in those routes has not been too disastrous?

Mr. McGREROR: No.

Mr. FULTON: You said that N.W.A. operates between Vancouver and Victoria. Could that be described as truly competitive? It is a charter service only, is it not?

Mr. McGREGOR: They have a licence to operate a schedule service I believe.

Mr. FULTON: I did not know that. When did they get it?

Mr. McGREGOR: I think last August.

Mr. FULTON: Do you know if they do operate a schedule?

Mr. McGREGOR: I cannot answer that definitely.

Mr. KNIGHT: Just for the record, could you tell me on which routes in Canada the T.C.A. has no competition?

Mr. McGREGOR: Yes, but that is a large order.

Mr. KNIGHT: I do not mean that you give it in detail.

Mr. McGREGOR: Toronto-Ottawa-Montreal is a good example of no competition. Everything else west of Montreal, except the short legs such as between Regina and Winnipeg, Saskatoon and Winnipeg, Saskatoon and Edmonton, and so on, are to some degree eligible for competition, usually involving a change in carriers.

Mr. FULTON: On the other hand your through routes, while there is some competition below the border, Vancouver to Toronto, Vancouver to Montreal, are not really competitive in the sense you have described these other routes as competitive.

Mr. McGREGOR: That is correct. They are inconveniently competitive.

Mr. HAMILTON (*York West*): In Canada, you have mentioned Calgary to Vancouver requires several stops by C.P.A.

Mr. McGREGOR: Two, I think.

Mr. HAMILTON (*York West*): Compulsory stops?

Mr. McGREGOR: Yes.

Mr. HAMILTON (*York West*): You would call that a milk run?

Mr. McGregor: I do not know I would call it that, but by the same token the stops produce traffic I assume or they would not make them.

Mr. Hamilton (*York West*): And west, referring to northwest of Toronto from Edmonton, is competitive and that still requires the use of T.C.A. to Chicago, does it not?

Mr. McGregor: No, Edmonton to New York.

Mr. Hamilton (*York West*): That still requires transportation by T.C.A. to Chicago?

Mr. McGregor: We assume Buffalo to be the changeover point.

Mr. Hamilton (*York West*): Again it is not straight competition along that route?

Mr. McGregor: No, as I say, somewhat inconvenient.

Mr. Hamilton (*York West*): I have your schedule dated January 1, 1956. I do not see any tourist service between Ottawa and Toronto. Are you sure that that just is not an extra flight?

Mr. McGregor: I hope I am right in what I said—I am sorry. The tourist North Star does not stop at Ottawa.

Mr. Hamilton (*York West*): The odd time I understand it does stop. Is it a tourist flight when it does stop here? I understand you have operated North Stars as extra flights. Are they named as tourist flights when they do go through here?

Mr. McGregor: No.

Mr. Hamilton (*York West*): You, therefore, have no tourist rate between Ottawa and Toronto or Ottawa and Montreal?

Mr. McGregor: No.

Mr. Fulton: Referring back to the analysis you gave me in connection with competition is it not a fact in many of those lines, such as Vancouver-Calgary, the charter or permit would not have been issued except on the terms that that line must make those intermediate stops; in other words, that it could not be a competitive through service with your own?

Mr. McGregor: I must not try to put myself in the position of the Air Transport Board but I think you are probably right in that assumption.

Mr. Hamilton (*York West*): You did refer to a decrease in the overseas service and an increase in C.P.A.'s service—a percentage increase and percentage drop. However, you say the volume of traffic on the overseas service was gratifying. Does that mean your gross revenue is still increasing notwithstanding the loss of the share of the market?

Mr. McGregor: That is correct. The total of passengers went up.

Mr. Hamilton (*York West*): And you are competing in that case against 12 companies?

Mr. McGregor: If we consider the New York gateway as being eligible, which it is.

Mr. Hamilton (*York West*): Under this heading, how many free trips were granted last year?

Mr. McGregor: Again the type of passes classified as what we call the non-contingent pass were 1,650, and the contingent passes were 33,069 a total of 34,663. You again divide that between company business, company employees and others.

Mr. Hamilton (*York West*): That is a considerable drop from last year when it was over 50,000?

Mr. McGREGOR: I do not think so. What happened last year was in the way we answered the question. We answered it in the form of legs of transportation. If anything I think the passes are slightly up this year.

Mr. HAMILTON (*York West*): How many of these passes were granted for publicity and purposes of that kind?

Mr. McGREGOR: In the case of non-contingent 680 and in the case of contingent passes 944, or a total of 1,624.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Mr. Chairman, before we leave this section, we have been talking about competition as between airlines, and I am wondering if the introduction of the new transcontinental services on the railways has had any appreciable effect on your own traffic?

Mr. McGREGOR: We thought we detected it. Our rate of growth on the services paralleled by those two trains was lower than on other routes.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Did you notice a particularly significant variation in the traffic between Montreal and Ottawa?

Mr. McGREGOR: No. That always surprises me by its air volume.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): It surprises me too. The reason I asked that is I have one-half of an air ticket left over from the time of the introduction of the new train service. I have never had occasion to use it because the train service is so good.

Mr. KNIGHT: While we have been on the subject of competition, it seems to be the belief on the part of some of my friends that the creation of a new line in competition with Trans-Canada would result in greater efficiency. I would like to ask you, Mr. McGregor, do you think we have in this country sufficient population to stand a new line of that sort, or at least a sufficient percentage of those people who would be wanting to travel by air where you would have competition of that sort and would it actually increase the efficiency?

Mr. McGREGOR: Mr. Knight, again at the risk of being prejudiced I would say on this matter of increased efficiency that we are not capable as a company of operating in two different ways on two different routes. We are strongly competitive on the New York route. We operate under the same regulations with the same aircraft and the same crews and we are successful in those operations but we do not behave more efficiently with respect to the Toronto-New York operation than we do in respect of the Toronto-Winnipeg operation. We are giving the best service we know how.

Mr. KNIGHT: After all, competition just for the sake of having competition is not what we are after, is it? I would say, if I can make a statement or express a belief, that you will have an immediate expansion of facilities which would be terrifically costly in view of our present population, and the population does not increase very fast. It seems to me you would have to have an increase in fares to keep the thing going and that you would certainly lose a lot of business; that your coverage would not increase proportionately and that the other people would be placed in the same fix. Is it your opinion, as it is mine, that in those circumstances you would have a lessening of services or an increase in the rate people would have to pay for such services?

Mr. McGREGOR: I personally think both would happen.

Mr. KNIGHT: There is the other question, too, regarding outlying areas. Now I think that without a nationally owned air service a lot of people would be out of luck in the face of tough competition between a couple of commercially owned lines. Is that your opinion, Mr. McGregor, as it is mine?

Mr. McGREGOR: You are quite right, Mr. Knight. There are services to many points which are boarding between three and eight passengers a day.

It would be impossible, I think, for an airline to extend services of this kind and at the same time have to share its main line revenue.

Mr. KNIGHT: I do not want to go into detail, but I think there should be some expression at least of that belief in this committee.

Mr. FULTON: If the thing which Mr. Knight envisages in his last question were to happen would not somebody have to go out of business?

Mr. KNIGHT: Then we would cease to have competition.

Mr. FULTON: Is not that the only way of proving which is the most efficient operation?

Mr. MCGREGOR: An expensive experiment.

Mr. HAMILTON (*York West*): I wonder if Mr. McGregor would tell us what are the outlying areas being served by T.C.A.

Mr. MCGREGOR: Kapuskasing is an outlying point. Goose Bay, perhaps, could be called outlying. But I think Mr. Knight was probably referring to small communities such as Swift Current, Medicine Hat, Brampton, Yorktown and so on, even though they could not, perhaps, be called outlying in a strictly geographical sense.

Mr. HAMILTON (*York West*): Would you be glad to give up your services to some of these places if somebody else agreed to take them on?

Mr. MCGREGOR: We might be.

Mr. CARRICK: I wonder if Mr. McGregor would explain in a little more detail what he meant by non-contingent passes and contingent passes?

Mr. MCGREGOR: The holder of a non-contingent pass has the right to reserve a passage. The holder of a contingent pass may travel only if a seat is available and no one else is there to fill it.

Mr. CARRICK: So the holder of a contingent pass would occupy a place only if there was a seat which would otherwise be empty?

Mr. MCGREGOR: Correct.

Mr. HAHN: Returning again to the question of competition, would you feel, Mr. McGregor, since the T.C.A. is a common carrier across Canada, that it would be to the advantage of the T.C.A. to dispossess itself of all the outlying routes including such lines as those to Medicine Hat and Lethbridge?

Mr. MCGREGOR: I think it would be a possible financial advantage but I don't think T.C.A. has any right to be allowed to operate only the profitable or more "creamy" routes.

Mr. HAHN: If you were to have the more "creamy" routes could you not cut down the cost of travel on the Trans-Canada run? Actually, if you make the proper train connections, it is possible to get from Moose Jaw to Medicine Hat just about as quickly as by plane, taking into consideration the time spent in travelling to and from the airports.

Mr. MCGREGOR: If our operation were confined to mainline high density routes I think it would be correct to assume we could reduce the fares on these routes.

Mr. HAHN: You would not be in a position to state by how much?

Mr. MCGREGOR: No, I cannot do that. However, there are some interesting comparisons that could be drawn with the rates charged by American carriers who are operating at about one half per cent a passenger mile less than we are; and they are not operating in any city with less than a population of 25,000.

Mr. KNIGHT: Don't you think Mr. McGregor, that there are other things involved in the running of a public transportation system besides merely the profit end of it?

Mr. McGREGOR: I do sir.

Mr. KNIGHT: And that particularly in the case of a government-owned proposition there is an obligation to give service to people who could not receive it otherwise? Certainly, in my opinion, they would not receive it in certain districts I know. I am talking now about airlines under a competitive system, and the same thing is true in the case of the railroads. I suppose that is the reason why we have a conglomeration of non-paying ventures gathered up and thrown into the lap of the public in the form of the Canadian National Railways. This system will, I am glad to say, attempt to carry out its obligation to give service to the public and that is my chief concern with a transportation system of any kind, whether it is a railroad system or an air system or a pipe line system. So far as I am concerned they are common carriers in the service of the public and as such they should serve the public irrespective of whether they are always "in the red" or always "in the black". I take it you will agree with me with regard to the airline operation, Mr. McGregor?

The CHAIRMAN: I think that is rather a matter of policy...

Mr. FULTON: The application of that concept with regard to the operations of T.C.A. leads me to ask this question, Mr. McGregor: whether you are now under any obligation or compulsion, or feel, yourselves, that you should operate routes which you would rather give up? In other words, is there any direct application within your present situation to the views that Mr. Knight has put forward?

Mr. McGREGOR: Outside the country I think that has already been implemented in the form of our giving up the Mexico service which attracted very few Canadians and was not a particularly profitable operation for us; and we are glad to give it up in exchange for service to Canadian points.

Mr. FULTON: In connection with service to Canadian points are there any which you would regard as unproductive on a commercial basis? I would like to ask you also about points which may not be productive today and which you do not feel you could build up to a stage where they will ever be productive from a strictly commercial viewpoint.

Mr. McGREGOR: This is a rapidly growing country...I would like to say first of all that there are points served at present by T.C.A. where the revenue does not in our opinion equal the cost related to the provision of services, but I would not like to say that this condition will continue forever. I doubt it.

Mr. FULTON: So that all the "pioneering" you may be doing—and I am using that word generally—you expect to pay off in the measureable future?

Mr. McGREGOR: I would certainly hope so.

Mr. HARRISON: As I understand it, Mr. McGregor, domestic rates are approved by the Air Transport Board?

Mr. McGREGOR: They are subject to their approval.

Mr. HARRISON: And your overseas rates are more or less approved by an agreement between the companies or some association?

Mr. McGREGOR: That is correct.

Mr. HARRISON: You have not run foul of Mr. Garson on that account?

Mr. McGREGOR: No, but I understand that our friends south of the border are in the process of enquiring into the activities of the International Air Transport Association from the cartel standpoint.

Mr. HARRISON: It would seem then that increased competition would not have any beneficial results as far as the consumer of air transport is concerned. It might have an adverse effect.

Mr. McGREGOR: It could have.

Mr. HAMILTON (*York West*): You did not infer that the Air Transport Board set your rates?

Mr. McGREGOR: No. I said they approve them.

Mr. HAMILTON (*York West*): They are not the controlling body in that respect?

Mr. McGREGOR: To the extent that they could disapprove the rate.

Mr. HAMILTON (*York West*): Going back to Mr. Harrison's question, your answer does not infer that if another airline came into the picture they could not fix a rate less than yours—there is no inference that they could not fix a rate less than yours if they were licensed?

Mr. McGREGOR: They would apply for the approval of the tariff. If it was lower than that of T.C.A. it might, or it might not, be approved. I do not know.

Mr. HAMILTON (*York West*): They certainly could apply for a lower rate. If they did would there be any particular reason why it should not be granted?

Mr. McGREGOR: Their problem is this—and again I am talking on behalf of the Transport Board which I should not do: they maintain an economic branch and they consider in each case, I believe, whether an economic rate is being put forward, or whether it is a rate put forward for purposes other than normal business interests. I think that after investigation and after convincing itself that a particular rate was not an economic rate, they would disapprove it.

Mr. HAMILTON (*York West*): In a situation of that kind if a carrier felt sure that he could make money they would not, do you suppose, consider it an uneconomic rate?

Mr. McGREGOR: I should think not.

Mr. HAMILTON (*York West*): Such an operator might conceivably be able to carry people at less than your tariff. It is possible that that might happen?

Mr. McGREGOR: They must know more about the business than we do.

Mr. HAMILTON (*York West*): We won't make any comment on that at all. Have you ever had a reduction in tariff which has not been approved by the Air Transport Board?

Mr. McGREGOR: I cannot remember a case.

Mr. HAMILTON (*York West*): I can remember one case where they held up a reduction in your air freight rates—

Mr. McGREGOR: It was eventually approved.

Mr. CARRICK: Perhaps I may offer this information, Mr. Chairman, in connection with the Combines Investigation Act. I know the theory is that where you have a Board of Transport Commissioners the public interest is protected; and the Combines Investigation Act applies only to goods, wares and merchandise. The probability is that it would not apply to this type of operation anyway.

Mr. HARRISON: I was thinking more in terms of external operations.

Mr. HAHN: I believe you mentioned, Mr. McGregor, that T.C.A. had a comparable rate to that charged by the C.P.A. out of Vancouver. How does the rate compare with the T.C.A. rate?

Mr. McGREGOR: The through rate is the same, I believe.

Mr. HAHN: What is the difference in your rate—let us say the through rate as a common carrier across Canada on the run from Winnipeg to Yorktown?

Mr. McGREGOR: I would have to look that up, Mr. Hahn.

Mr. HAHN: Is there much of an increase or is there a decrease on the short run?

Mr. McGREGOR: As I mentioned this morning the basic principle underlying the rate setting—and over the years it tends to get somewhat involved—is that the shorter the run the higher the rate per mile. Again, the underlying theory is that a great deal of the work in connection with placing a passenger aboard an aircraft is the same whether he is going 50 miles or 500 miles. The ticketing, the making of reservations, and the actual arrangements by means of which he is boarded on the plane are the same in each case.

Mr. HAHN: If private enterprise, let us say, were to be in competition with yourselves in some places and if you only have three quarters of your possible passengers and up to eight flights it would appear to be indicated from that that you actually would not require aircraft of the same size as you are using today. Is that premise wrong?

Mr. McGREGOR: The theory is not wrong but there are very few aircraft smaller than the DC-3 in commercal scheduled airline services.

Mr. HAHN: Is that where this great passenger availability arises on the T.C.A. operations in connection with the shorter runs rather than the longer ones?

Mr. McGREGOR: No, I don't think so because these shorter runs we spoke of carrying both short-haul traffic and through traffic to some degree. I would say that in such operations as Kapuskasing it contributes more to the unused seats than do the main line runs on which it is much easier to engineer the capacity to a comfortable margin over the traffic demand.

Mr. HAHN: In those smaller places you mentioned competition with the super-continental trains. How would the number of passengers that you carry now compare with, let us say, the line between Regina and Medicine Hat? What would it carry before the super-transcontinental service?

Mr. McGREGOR: Slightly up. I do not know of a route on which there was a passenger decrease in 1955 over 1954.

Mr. HAHN: I see in your submission to the Gordon commission, in one of the appendices, that rail traffic was down two thirds while your traffic was up ten-fold, with double the number of passengers carried; yet air went down to what it was three or four years ago. Does that indicate that the over-all—that both of you are losing passengers in effect to automobiles and bus transportation?

Mr. McGREGOR: No. I think the period of years involved in the comparison you mentioned was based on the tail end of the war when all passenger traffic was greatly augmented. I think you will find that that comparison involved the period 1946 to 1955. I think that is what it was.

The CHAIRMAN: Shall the item now carry?

Mr. BELL: I would like to ask Mr. McGregor a question about passes. We mentioned it last year and I do not want to embarrass him personally; but would he anticipate any serious change in operations and in revenue if non-contingent passes were made available to two or three hundred members of parliament contingently; I mean the ones that are not available all the time but just when space is available?

Mr. McGREGOR: I do not think that the effect upon T.C.A.'s revenue would be anything like as bad as the effect on its good relations with parliament, because contingent travel is very unsatisfactory fare, particularly during the traffic peaks when our own employees are travelling on passes, and—to use a trade expression—are "bumped" at virtually every stop.

Mr. FULTON: You do not think we would like it?

Mr. McGregor: I am sure you would not.

Mr. Harrison: I would like to pursue the effect of possible competition. Couldn't there be some parliamentary good will between the airlines and the Air Transport Board, as in the case of the railways and the Board of Transport Commissioners?

Mr. McGregor: Yes.

Mr. Harrison: We have two railways, but that has not had any effect on the price of travel. Would it not be reasonable to assume that if you had more competition in the airlines, the same situation would ensue, and there would be reduction?

Mr. McGregor: After all, we cannot get away from the basic laws of economics.

The Chairman: Shall the item carry?

Mr. Hamilton (*York West*): I did not hear the question, but with respect to trans-Canada freight rates, your application was made to reduce the freight rates, almost at the identical time that C.P.A. applied to reduce theirs?

Mr. McGregor: No, before.

Mr. Hamilton (*York West*): How much before?

Mr. McGregor: If I recollect correctly, it was two or three months before, but they had already come down steadily in previous years.

Mr. Hamilton (*York West*): But not as much as this particular decrease.

Mr. McGregor: I think so.

Mr. Hamilton (*York West*): Have you those figures with you?

Mr. McGregor: Yes, and I think they are in the Gordon commission brief.

The Chairman: Shall the item "passenger traffic" carry.

Carried.

We shall now deal with "Mail Traffic" on page 10. Are there any questions in connection with mail traffic?

Mr. Hamilton (*Notre-Dame-de-Grâce*): This morning in connection with a discussion on that subject Mr. McGregor indicated that it was a profitable item of operation. I forget his exact words. Actually mail traffic even at the present rates—domestic mail traffic—would probably be your most profitable single factor of operation. Would it not be?

Mr. McGregor: Yes. In returns per weight-unit-mile, that is correct. The effect of carrying mail has other features which tend to deteriorate it as a desirable commodity. I am not suggesting for a minute that we would like to be deprived of the privilege of flying the country's mail; but we do have to warp schedules from time to time to meet the requirements of the post office. Nevertheless mail, represented in terms of return per air mile as compared with other forms of transportation, is profitable.

Mr. Hamilton (*Notre-Dame-de-Grâce*): Even per ton mile of passengers?

Mr. McGregor: Yes.

Mr. Hamilton (*Notre-Dame-de-Grâce*): As a matter of fact, it is right to say that in comparison with passenger traffic, mail is highly profitable because you do not have to feed mail, you do not have to seat it comfortably, and you do not have to give it stewardess services.

Mr. McGregor: No, but we do have to take off on flights at a time when very few passengers want to get on board, in order to meet the requirements of the post office.

Mr. Hamilton (*Notre-Dame-de-Grâce*): In connection with that discussion, do you for your own internal administrative purposes make any attempt to break down your three major types of operation, passenger, mail, freight and express in order to show the result from each type of operation?

Mr. McGregor: Only as we are now operating aircraft that are entirely confined to non-live payloads. It is extremely difficult to do it otherwise with any hope of being accurate, when all three types of loads are being carried on one flight.

Mr. Hamilton (*Notre-Dame-de-Grâce*): Do you know within an estimate the contribution towards your net profit of each of these factors?

Mr. McGregor: No, we have an indication, but no more than that.

Mr. Hamilton (*Notre-Dame-de-Grâce*): Is there any way in which you could give us that indication, anything in the way of a figure?

Mr. McGregor: Well, our most profitable business is the passenger business.

Mr. Hamilton (*Notre-Dame-de-Grâce*): Because of its large volume, which is approxiamtely seven and one half times that of your mail business?

Mr. McGregor: Yes.

Mr. Hamilton (*Notre-Dame-de-Grâce*): It is most profitable in terms of dollars?

Mr. McGregor: Yes.

Mr. Hamilton (*Notre-Dame-de-Grâce*): But not in percentage of profits?

Mr. McGregor: Relating it with the cost involved?

Mr. Hamilton (*Notre-Dame-de-Grâce*): Yes.

Mr. McGregor: We think not, but we are extremely doubtful on that point, because it is extremely difficult to assess the ton mile cost on mail transportation that is made available.

Mr. Hamilton (*Notre-Dame-de-Grâce*): According to a quick classification of my own here, it shows that you are drawing approximately six and one-third cents per passenger mile at the moment, and somewhere from 45 cents per ton mile on combined air freight and air express, and some 96 cents for mail.

Mr. McGregor: Yes.

Mr. Hamilton (*Notre-Dame-de-Grâce*): If you take that six and one-third cents per passenger mile and convert it into tonnage, taking people at around 200 pounds which is about your figure for this purpose, is it not?

Mr. McGregor: That is right.

Mr. Hamilton (*Notre-Dame-de-Grâce*): You have a revenue of 45 cents from air freight and air expressage; 63 cents from passengers, and 96 cents from mail.

Mr. McGregor: Yes.

Mr. Hamilton (*Notre-Dame-de-Grâce*): Mail contracts, even if the number is going down, are still a very substantial item.

Mr. McGregor: Yes.

Mr. Hamilton (*Notre-Dame-de-Grâce*): I have one other question regarding mail transportation. Has there been any difference in your ability to handle air mail to a greater degree with the introduction of the Viscounts?

Mr. McGregor: Yes.

Mr. Hamilton (*Notre-Dame-de-Grâce*): How and why?

Mr. McGregor: The residual payload capacity of the Viscount is less than that of other aircraft in weight payload due to its design, and that is why it would not have been possible to have carried mail satisfactorily, for instance, on the transcontinental route, had it not been for the previous introduction of both the Super Constellation and the all cargo service, that is previous to the introduction of the Viscounts on first class service on that route.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): The only other point I would like to clear up in connection with mail service is this; earlier this morning you said, as I remember it, that there had been nine occasions, over a three month period, when it had not been possible to carry all the mail which offered. In the general picture over the year, can you give the committee an indication of how much mail has been refused due to lack of capacity to carry it, either the number of occasions or the amount?

Mr. MCGREGOR: In those three months we investigated nine occasions which occurred in December. That is the only time, the only month of the year, when the mail volume has seriously threatened our capacity. I doubt very much whether there was any other occasion in the remainder of that year.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Has there been any approach from the post office for you to increase your capacity to carry mail, so they could put more "all up".

Mr. MCGREGOR: There has been an approach with respect to the Viscounts and that has been raised from 600 to 800 pounds per flight. But there has been no request to increase commitments. Mostly it would be with respect to other types of aircraft. There have been several requests for us to modify further our schedules to meet conditions. For example, it has been found difficult to collect the Toronto air mail and have it out to Malton airport before one o'clock in the morning; and at the same time the post office naturally desire to get that mail into Vancouver in time for the morning delivery. The two things do not fit hand in hand.

Mr. FULTON: Move Toronto closer to Vancouver. That is the answer to it.

The CHAIRMAN: Are there any more questions with regard to mail traffic? Shall the item carry?

Carried.

"Commodity traffic on page 11"

Mr. HAHN: I have a copy of an editorial from the Winnipeg *Free Press* which was sent to me respecting your refusal to pick up a cargo of insecticide. I wonder if Mr. McGregor is familiar with the incident and would comment on it.

Mr. MCGREGOR: Yes, I am familiar with it. Perhaps the proper thing to say is that the inference in the editorial—if it is the one I think you are referring to—is not correct. We did not refuse to pick it up. I do not know what the reason was for the statement. However the shipping company involved wrote to T.C.A. and said that the company had satisfactorily met their requirements. They did not know why the mis-statements were made.

Mr. FULTON: That seems to dispose of that!

Mr. HAHN: Your statement is in reply, and it says this is not an isolated instance. Have you had knowledge of similar instances which have been drawn to your attention along that line?

Mr. MCGREGOR: We have been offered cargo which we could not handle because of its extreme size, weight, bulk and so on. But in every case where it was possible for it to be flown in another aircraft to our knowledge, we have offered either to negotiate for a charter or to turn the potential customer over to the operator of that aircraft.

Mr. HAHN: You are comparing that with insecticides?

Mr. MCGREGOR: Has it started in again?

Mr. HAHN: According to this article.

Mr. McGregor: That was last year.

Mr. Hahn: It says that the fact that T.C.A. is now flying insecticides to Winnipeg can only be accounted for by the special competition supplied for the occasion by American Air Lines.

Mr. McGregor: We arranged with an American air line to fly it.

Mr. Hahn: You arranged for it?

Mr. McGregor: Yes.

Mr. Hahn: I have another question in respect to express. It is a localized thing in the New Westminster area, more particularly. Why is there a charge of 45 cents extra to pick up the express and take it to Vancouver, and then it is replaced on a Pacific stage bus, and it costs you another 35 cents to get it into New Westminster while, heretofore it was the custom to take your express directly to New Westminster. Why was that change brought about?

Mr. McGregor: That is a difficult one for me to answer, Mr. Hahn, because the C.N.R. express service handle the distribution of our air express shipments from the airport. They pick it up initially at the point of departure and take it to the airport, and take it, in turn from the airport destination to its final destination. I frankly did not know there had been a change in the ground transportation charges with respect to New Westminster.

Mr. Hahn: Well, not only does that happen, but if it—it must be in the express office, Vancouver, before 1.30. I see our representative here, the parliamentary assistant from the C.N.R., I believe, and you might note this too. Where we find it cannot be shipped by Pacific stage line, it goes over by C.N.R., a matter of 13 miles and arrives in New Westminster 8.30 at night. In other words, it takes eight hours or more to come from the airport to New Westminster which is 13 miles away. The suggestion has been made that another express company, which takes a contract, delivers daily from the airport and is ready to carry it; that suggestion has been made and has been turned down quite regularly. I do not know the channels through which these people operate, but that is an interesting thing.

Mr. McGregor: I would be very glad to look into it if I may.

Mr. Hahn: Would you do that?

Mr. Fulton: On the sale of the three Bristol freighters, Mr. McGregor, to whom were they sold?

Mr. McGregor: To the Central Northern Airways, Winnipeg.

Mr. Fulton: What about the price? I do not attach great importance to it, if you would rather not reveal it.

Mr. McGregor: No, I do not think so. We covered it this morning, I think. It was a million—

The Chairman: $810,000.

Mr. McGregor: $825,000, for four aircraft, the three Bristols, and related spare parts and a DC-3 freighter.

Mr. Fulton: I did not hear that this morning. Is that reflected in your accounts anywhere, in the accounts before us here?

Mr. McGregor: Yes.

Mr. Fulton: Where?

Mr. McGregor: We mentioned that this morning. That was approximately $10,000 more than the book value of the aircraft.

The Chairman: Shall "Commodity traffic" be carried?

Mr. Hamilton (*York West*): On that subject, is your freight service now paying its way, Mr. McGregor?

Mr. McGregor: I would say not.

Mr. HAMILTON (*York West*): Even on the basis of the totally written off North Stars now, or is this the first year you have been able to check it against that?

Mr. McGREGOR: This is the first year that we have any period of time involved with the operation of North Stars on that service, but, as I think was mentioned elsewhere, the detriment to the economics of that operation is the directional effect, which is very marked.

Mr. HAMILTON (*York West*): How much did you pay for conversion? I assume these aircraft are now converted to air freight use, probably by strengthening the floors and enlarging the doors.

Mr. McGREGOR: Closing the windows, and so on.

Mr. HAMILTON (*York West*): How much was that?

Mr. McGREGOR: $38,000.

Mr. HAMILTON (*York West*): Each?

Mr. McGREGOR: No, all three aircraft.

Mr. HAMILTON (*York West*): $38,000 for the three?

Mr. McGREGOR: Yes.

Mr. HAMILTON (*York West*): How big a door does that give you?

Mr. McGREGOR: That is the same size door. That is the passenger door, in other words.

Mr. HAMILTON (*York West*): No change in that?

Mr. McGREGOR: No change in that.

Mr. HAMILTON (*York West*): Well, is that not unduly restrictive for freight?

Mr. McGREGOR: It is not unduly restrictive. It does as I mentioned before restrict certain very long and very bulky forms of shipment.

Mr. HAMILTON (*York West*): Well now, this conversion which you spoke about last year—that is the conversion which included the door change was not completely carried out?

Mr. McGREGOR: No, because of the pressurization. After a study it was found that it was better to retain pressurization for a great deal of cargo, particularly the live type such as turkey poults, chicks and so on, than to put in the large door. One, extremely expensive modification to the structure of the aircraft, maintaining some degree of pressurization, or, alternatively, abandonment of pressurization.

Mr. HAMILTON (*York West*): And how much of a saving was that in the over-all year, your previous estimate of the changeover cost?

Mr. McGREGOR: We estimated $75,000—for three, that is rather $25,000 each.

Mr. HAMILTON (*York West*): $25,000 each?

Mr. McGREGOR: An airplane.

Mr. HAMILTON (*York West*): Now, can you tell us if you have had to turn down traffic because of the restriction on the size of the door?

Mr. McGREGOR: I do not think I can, Mr. Hamilton—we would not necessarily know that a shipment had been offered that had to be turned down by a field representative because of its size.

Mr. HAMILTON (*York West*): Have you got any indication of the frequency which you have called in, let us say, a charter carrier to assist you?

Mr. McGREGOR: Yes, we have the records, that is right. It is not a frequent occurence.

Mr. HAMILTON (*York West*): It is not a frequent occurrence?

Mr. McGREGOR: No.

Mr. HAMILTON (*York West*): Have you had to call back any of the Bristol aircraft, as an example?

Mr. McGREGOR: No.

Mr. HAMILTON (*York West*): You have never had to do that?

Mr. McGREGOR: No. They only have been off our hands, to be perfectly frank, since December.

The CHAIRMAN: Is the item "Commodity traffic" carried?

Carried.

The CHAIRMAN: "Property and equipment", page 12.

Mr. HAHN: Before we proceed with that there is the "Revenue passenger miles".

The CHAIRMAN: "Revenue passenger miles and available seat miles", are there any questions on this chart here that appears—

Mr. HAHN: I note very considerable change in 1946 in the seat availability to the 70 per cent, or the seat use, rather, compared with today. The proportion is gradually getting larger. Why is the availability getting larger?

Mr. McGREGOR: We are striving to do that by the operation of additional aircraft for the reasons that I mentioned. In our opinion, when approaching the figure of 75 per cent as the over-all annual load factor, we are failing to an unsatisfactory degree to meet the demands of the peak periods.

Mr. HAHN: Well, then, would that be one of the reasons why important flights from United Air Lines have been such that it would indicate that every seat is usually used, and sometimes someone gets to the door and has to be turned back; how would those privately operated airlines compare? Have you any figures at all you can compare it with?

Mr. McGREGOR: Yes. The over-all load factor of four major American airlines is lower than ours.

Mr. HAHN: The load factor is lower?

Mr. McGREGOR: Yes.

Mr. HAHN: Could I have the record of those figures, please?

Mr. McGREGOR: Yes. The revenue passenger load factor for T.C.A. 70·2, for American Airlines 68·3, for United, 67·3, for T.W.A., that is Trans World Airlines, 65·0, Eastern 61·1.

Mr. HAHN: That is fine.

Mr. McGREGOR: Northwest, 59·9, Capitol, 58·6 and Braniff, 62·3.

Mr. HAHN: That is sufficient, then, Mr. McGregor. Why would they keep their load factor down so low? Is it done on purpose, or is that just a cut-back on service?

Mr. McGREGOR: No, I think it is done. It is a thing that is fairly readily contemplated. If your load factors are dropping below a point that you consider satisfactory, the frequency is dropped off, and if the volume remains the same the load factor automatically goes up.

Mr. HAHN: Would that not mean an increase in fares?

Mr. McGREGOR: No. It depends on what the break-even point is that the airlines can operate at. If the airline can operate at a 65 per cent load factor and still shows a profit then it is to its advantage not to operate at a considerably higher load factor, because of that deterioration in the service that I spoke of.

Mr. HAHN: What would you consider the maximum and minimum load factor before you took off one of your planes, let us say?

Mr. McGREGOR: Well, that is a function of the frequency of the operation. On the one flight a day operations, no matter how low the load factor goes you practically have to leave it alone.

Mr. HAHN: Well, I am considering six planes that you suggested earlier today as being the maximum.

Mr. McGREGOR: Well, we would endeavour not to have the over-all route load factor below 65.

Mr. KNIGHT: Your Viscounts are as high as 85?

Mr. McGREGOR: Yes.

Mr. HARRISON: Mr. McGregor, on the revenue passenger mile, you likely provide service by charter to some of your aircraft, do you not?

Mr. McGREGOR: Yes, we do.

Mr. HARRISON: You charge that on a per hour use of the aircraft?

Mr. McGREGOR: Yes. There is a chartered tariff for various types of aircraft.

Mr. HARRISON: Could you indicate about what that is for the various types of aircraft, or approximately?

Mr. McGREGOR: Yes, we can get you the actual charter tariff. Assuming a full aeroplane, I think it works out per passenger about 10 per cent less than the regular fare.

The CHAIRMAN: Shall this item carry?

Mr. HAMILTON (*York West*): On this load factor here, I assume that all of these companies that you have listed have more seats available than for their traffic, is that right?

Mr. McGREGOR: Oh, yes.

Mr. HAMILTON (*York West*): You have gone down this list, and each one as it goes down indicates more seats available, is that right?

Mr. McGREGOR: Other than the one I think I did not read before, Braniff.

Mr. HAMILTON (*York West*): Pardon?

Mr. McGREGOR: Other than the one I did not quite get to, it was Braniff, I think.

Mr. HAMILTON (*York West*): Well, when you say Northwest with a load factor 59·9 as against T.C.A., 70·2, it would mean that they would have a great many more seats available?

Mr. McGREGOR: Unused seats.

Mr. HAMILTON (*York West*): For sale, unused seats, or seats for sale, whichever way you want to call it?

Mr. McGREGOR: Yes.

Mr. HAMILTON (*York West*): Right, and they must still be operating above their break-even point, even at that figure they can show a profit of, say, two or three million on their over-all operation?

Mr. McGREGOR: Yes.

Mr. HAMILTON (*York West*): And have those seats available?

Mr. McGREGOR: Yes.

Mr. HAMILTON (*York West*): Right.

The CHAIRMAN: Mr. Fulton, have you a question?

Mr. FULTON: No, I was seeing the next one.

The CHAIRMAN: Shall that item carry?

Carried.

The CHAIRMAN: "Property and equipment". Shall that item carry?

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Mr. McGregor, have you any idea of the cost, the total cost of the introductory program for the Viscounts? As I understand it there would be two major factors in there; one would be the business of working out the bugs, and the second would be introducing them to the travelling public, which is also referred to in this section?

Mr. McGREGOR: And the training of personnel.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): And the training of personnel, and I was wondering if you would have any idea what the total cost of that would be?

Mr. McGREGOR: I have not.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Would it be a significant factor in this year's operation?

Mr. McGREGOR: Yes, I would say so, and it would also have an effect in 1954.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): But, primarily probably in 1955, would it, or would it be primarily in 1954?

Mr. McGREGOR: I would think perhaps a little less in 1954. The total training charge, which we cannot associate entirely with the Viscount, in 1955 is approximately $400,000.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): In 1955?

Mr. McGREGOR: Yes.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): That is an item we would not expect to find again next year?

Mr. McGREGOR :I am afraid we will, because the increase in 1956 in aircraft miles operated will again be comparable, and the take in of pilots will be only slightly less.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Yes.

Mr. McGREGOR: And the maintenance job will go up.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): I am just looking hopefully, you see, to the operating statement. I hoped that some of these things would not occur next year, or this year, and we might show an even better picture.

Mr. McGREGOR: We are looking equally hopeful, Mr. Hamilton. Later on the operating budget for 1956 will be tabled and will show a more satisfactory situation.

Mr. HAHN: At the bottom of page 13 I see a statement that "T.C.A.'s overhaul of R.C.A.F. aircraft at Winnipeg was concluded in July . . ." What is the revenue you received from that source as compared with the cost of operation?

Mr. McGREGOR: It was profitable. The net profit we showed was $196,000 in round figures.

Mr. HAHN: That is a little better than our net profit on the operation of T.C.A.

Mr. McGREGOR: Yes.

Mr. HAHN: One could almost say, thanks to the R.C.A.F., we can show a net profit this year.

Mr. McGREGOR: That is perhaps correct, but I would hope we would be able to do it again for other reasons.

Mr. HAHN: You have taken on additional staff for this purpose?

Mr. McGREGOR: Yes, on a temporary basis.

Mr. FULTON: I would like to ask Mr. McGregor about his replacement program. At the beginning of this paragraph you show 14 Viscounts and 22 North Stars among your present aircraft strength.

Mr. McGREGOR: As of December 31.

Mr. FULTON: As at that time you were still to get 22 Viscounts, bringing the total up to 36.

Mr. McGREGOR: Yes.

Mr. FULTON: Is it your intention to use those just to replace the 22 North Stars?

Mr. McGREGOR: No.

Mr. FULTON: Of the 22 North Stars, three were in freight service at that time, were they not?

Mr. McGREGOR: Yes.

Mr. FULTON: That would be 19 passenger planes for which you will have 22 Viscounts—I am sorry I should put this in the form of a question. Will all those North Stars be retired from passenger service when you complete your deliveries of Viscounts?

Mr. McGREGOR: No.

The CHAIRMAN: What is the average life of a Viscount?

Mr. McGREGOR: We are depreciating them on a nine years' straight line basis to a residual value of $100,000.00.

An aircraft is not allowed to age physically. What determines the useful life of an aircraft is its deteriorating ability to attract the market and we like to feel that the Viscount is ahead of contemporary aircraft and will remain strongly competitive for a longer period than piston engined types.

The CHAIRMAN: So the Viscounts you have bought in the last few years would not have to be replaced for seven or eight years?

Mr. McGREGOR: I am sure it would be at least ten or eleven years.

Mr. FULTON: What I am trying to get at is the objective of the aircraft you will have when you have completed your orders. How many of the 19 now available for passenger service will be retired in 1958?

Mr. McGREGOR: I would think none of them; they would have gone to increase the number of aircraft in cargo service, to increase the number of aircraft in tourist service, and perhaps a few of them might be available for release in 1958 with these deliveries of Viscounts.

Mr. FULTON: How many of the 19 would be retired from passenger service?

Mr. McGREGOR: I would have to hazard a guess. In the case of 1958, perhaps 6.

Mr. FULTON: Leaving you with 13. So that, in effect, by 1958 you will have in addition to your passenger fleet a net addition of 30 aircraft on account of the Viscounts. That is 36 minus 6 North Stars retired and 2 Super Constellations as of the time of this report?

Mr. McGREGOR: Yes.

Mr. FULTON: Thirty-two planes in passenger service?

Mr. McGREGOR: I do not think I quite follow that. I am a little bit involved in the fact that we have 15 Viscounts now.

Mr. FULTON: I am sorry. It was 22 additional Viscounts.

Mr. McGREGOR: Over the 14.

Mr. FULTON: Yes, and you appear to be retiring 6 North Stars from passenger service by a net addition of 16 plus 2 Constellations—18?

Mr. McGREGOR: Right.

Mr. FULTON: And I have not taken into account the DC-3's.

Mr. McGREGOR: And I expressed the opinion this morning we might be able to get rid of about 6 of those. I said 1957 this morning with respect to the DC-3's.

Mr. FULTON: That would bring it down to a net addition of 12 aircraft by 1958.

Mr. LANGLOIS (*Gaspe*): How many DC-3's are you planning to retire in the intervening period?

Mr. McGREGOR: I believe 6. Perhaps we will get confused when we talk purely of number of aircraft, for in DC-3's we will be retiring 21 seats as against 40, and in the Super Constellation 62 seats.

Mr. FULTON: That is quite an addition to your fleet and available passenger space.

Mr. McGREGOR: Yes.

The CHAIRMAN: Shall the item "Property and Equipment" carry?

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Before you leave that item, would you expect, Mr. McGregor, around 1960 the commercial airlines might be moving into rotary wing aircraft of some kind?

Mr. McGREGOR: Some have moved into rotary wing aircraft. Sabena, for instance, is operating ferrying services in Europe between the major northwest European cities. There is a service operating between the three airports in the New York area. Sabena, very truthfully, say it is an uneconomical operation, but they hope that situation will alter with the introduction of larger aircraft. 1960 is four years away and I think, under certain specialized conditions, it will be possible to operate the helicopter type of aircraft economically on some routes, but the nature of the animal is such that it does not show great promise at the present time. On the other hand military movements are accelerating development of that type.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Do we infer from that that we can look for a long time to come to larger and larger airports and longer and longer runways?

Mr. McGREGOR: I think the introduction of large full jet aircraft will probably represent a peak in the requirement of runways, and it is conceivable if we look a long way over the horizon that some sort of vertical thrust other than the rotary wing will be applied to the aircraft and perhaps shorten the runway requirements.

Mr. HAMILTON (*Notre-Dame-de-Grâce*: Do you know of any move which is afoot or any act which might be taken to alleviate the uphappiness of those who are unlucky enough to be living somewhere close to an airport? Perhaps take a city such as Montreal, for example, where aircraft now under certain wind direction conditions take off and go over an area which used to be farmland and is now largely residential and make people most unhappy, particularly at 2 o'clock in the morning.

Mr. McGREGOR: That problem has been very actively considered by designers of new aircraft and they have set themselves limits as a requirement of quieting the noise generation of full jet motors. I am not aware of anything further being done in the matter of quieting piston driven aircraft.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Do you think new approach patterns to the airports might deal with some of that?

Mr. McGREGOR: It might have the effect of restricting the nuisance to some extent; but the approach pattern is dictated very largely by the runway, length and height of surrounding terrain, and so on. I doubt very much if anything could be done.

The CHAIRMAN: I think we are getting into a discussion on the next item.

Mr. HAMILTON (*York West*): Do you expect that this lay-off of employees on the defence work will be reflected in a decrease profit for yourselves?

Mr. MCGREGOR: It will deprive us of the profit which I have mentioned with respect to the R.C.A.F. contract.

Mr. HAMILTON (*York West*): It was a profitable contract?

Mr. MCGREGOR: Yes.

The CHAIRMAN: Shall the item Property and Equipment carry?

Carried.

Mr. KNIGHT: I have always been mystified by the relationship between the Department of Transport and the airlines. Can you give us in a concise manner, as it were, a summary of the functions of the Department of Transport as it relates to airplane operations?

Mr. MCGREGOR: Yes, I think I can. The Department of Transport is responsible for the establishment of regulations involving flight safety, loading, training and the licensing of personnel both air and ground. It is responsible for the provision in the majority of Canadian cities of airport facilities, runways, lighting and buildings. It is responsible for the provision of navigational aids between airports on the airways, and for the administration of the regulations which it has established to ensure that aircraft are being flown on the airways in accordance with these regulations. That is a summary of its responsibilities.

Mr. KNIGHT: What is the *quid pro quo?* Are all these facilities and the aid which is given to airlines paid for by the airlines who are using the airports, airways, runways and so on?

Mr. MCGREGOR: I do not know what proportion of the actual cost is contributed by the charges against the airlines, but there are several charges levied. For instance, we pay one cent per gallon on fuel boarded at airports, and this goes to the Department of Transport. We pay a fee with respect to each landing, as I mentioned this morning, and we pay a rental for the premises which we occupy. Unfortunately, because I don't know the answer, I cannot say how close these contributions come to meeting the total cost.

Mr. BELL: Do you supply any information or do you give any figures to the Department of Transport that might affect their decision regarding runway extensions, new buildings at airports and so on?

Mr. MCGREGOR: Yes, we keep the Department of Transport fully advised as to our intentions with respect to operations, both as to the frequency of flights and the type of equipment we have in mind. Similarly we make recommendations as to our probable requirements with respect to navigational facilities and ground accommodation. We describe in detail the weight and what we call the "footprint" pressure of the aircraft we hope to be able to operate in the future as far in advance as possible, sometimes as far as six years ahead, and generally we believe we do everything possible to make sure that the Department of Transport is given every warning with respect to any of its facilities and the requirements that might be placed upon them.

Mr. BELL: In the case of a major decision such as a decision by the Department of Transport to build an airport—that is, to take over the entire operation —do your people play a part in those plans? Do you supply data which would affect the ultimate decision?

Mr. MCGREGOR: If consideration is being given to service to a point where no airport exists, we prepare a long-range traffic forecast of what we believe is the potential traffic from that place and that forecast is turned over to the Department of Transport with the submission that if it is satisfied, and after an airport has been provided, T.C.A. for one would be glad to give service to that point. Then a decision is made without further reference to T.C.A. as to whether the airport will go on to the list of long-range plans of the Department of Transport. It might be several years later before the project would actually appear in the estimates.

Mr. BELL: Have you any figures available which would show the potential traffic of certain areas? The point that puzzles me is that some areas are burdened as a municipality in financing or helping to finance an airport themselves, while at other points the Department of Transport operates completely on its own. Again, I understand that there are places which come into another category where airports are run by National Defence authorities and the airways are operated by various flying clubs.

In other words, while you can never draw a definite line, is the Department of Transport treating these areas with some fairness across the country with respect to the potential of a particular area with regard to its future in the air?

Mr. McGREGOR: Again I am commenting outside my field, but I would say that the various difficulties which have been referred to seem to be rather gratuitous results of the war; an R.C.A.F. training airport has been established, for example, close to a point where an airport would probably not otherwise have been created except with the help of substantial contributions by the community. Communities affected in this way are lucky with respect to these things, and to that degree a problem is created. As I understand it, if a proposal for an airport is economically sound and if the traffic potential is satisfactory and funds can be made available the department will in some cases go ahead and construct the airport. In certain cases the Department of Transport has required a municipality to do no more than provide a site. After that it has taken over the costs of construction and operation in their entirety.

Mr. BELL: Would you have any figures readily available of the passenger traffic out of the major cities which might give us some comparison?

Mr. McGREGOR: The actual traffic, yes. We would have the boarding load at any city from which we operate. Perhaps a good example of what we are talking about is a study recently carried out in connection with Sherbrooke, Quebec, which had a keen desire—and still has—for airline service. We made a study of the potential traffic which we thought would possibly develop from Sherbrooke and turned it over to Sherbrooke as well as to the Department of Transport.

Mr. BELL: I am comparing Saint John with Halifax. I understand that Saint John did not want to wait, and it made plans for a municipally-financed airport. They have very good facilities and the department of transport has been generous with different extensions there, and I know that you have a very good office there. But Halifax waited. They did not make any municipal plans themselves, and they are getting a department of transport airport with all the trimmings. We are getting along with a good airport, but it is a burden financially. I suppose we are left with what you said: that circumstances dictate those decisions. There is no way out of it now.

Mr. LANGLOIS (*Gaspe*): I think this question could more properly be answered when we discuss the estimates for the department of transport in the House of Commons. We cannot expect Mr. McGregor to speak for the Department of Transport. I can vouch for the fairness of that department.

The CHAIRMAN: Are there any other questions on airport and airway facilities?

Mr. KNIGHT: In your own field, what the Department of Transport does is important to you, is it not?

Mr. McGregor: Very!

Mr. Knight: Your own efficiency to some degree at least, and your cost of operations depend on the facilities provided for you and which are made available by the Department of Transport?

Mr. McGregor: That is quite correct, and in certain cases there is an absolute ceiling provided on the growth of the company's traffic in connection with some cities.

Mr. Knight: I know that in Saskatoon you used to transport your passengers out into the dark prairie in order to catch a plane; but now the plane comes right up to the terminal and away we go. That must save you some money and I know that it satisfies the customers.

Mr. McGregor: That is right.

Mr. Burn: I have a question related to airport and airway facilities. The first paragraph starts out:

> Important improvements to Canada's airports and airways were made by the Department of Transport in 1955.

And then the subsequent paragraph details what has been done; and in the third paragraph you say:

> New terminal buildings of modern design were constructed at Calgary, Saskatoon, Sudbury and Timmins.

Did the Department of Transport build any or all of these?

Mr. McGregor: Calgary, not Saskatoon; Sudbury, I think a little of both, and Timmins I am not sure about it. It was the city, I think.

Mr. Burn: And not the Department of Transport?

Mr. McGregor: No. We hoped that the division between paragraphs was clear there. We did not intend to imply that the Department of Transport was responsible for all the places mentioned in the third paragraph.

Mr. Fulton: I was interested in Mr. McGregor's statement earlier that the Department of Transport supplied you with such facilities as fuel and charged you for it. Is that right?

Mr. McGregor: No. They do not supply it to us but they charge one cent per gallon for every gallon of fuel we board at a Department of Transport airport over and above buying the fuel.

Mr. Fulton: You make your own terms for the supply of fuel?

Mr. McGregor: Yes.

The Chairman: Is that in lieu of rental?

Mr. McGregor: No. It is just a contribution!

Mr. Churchill: Last year the Minister of Transport indicated to me in the house that the revenue derived by the Department from air services given at airports to various airlines amounted to over $9 million. What proportion of that came from T.C.A.?

Mr. McGregor: We can give you our figures. We had landing fees—and I presume that included perhaps the rental on the property; on landing fees, T.C.A.'s contribution was $859,260. Airport assessments $265,220; airport buildings, office rentals and communication facilities $304,888; making a total payment of $1,429,368.

Mr. Churchill: May I make a correction. My figure should have been over $5 million, not $9 million.

Mr. McGregor: On that basis we contributed $1½ million of it.

Mr. Churchill: Last year there was an overlapping here between the T.C.A. and the Department of Transport which cannot be avoided. Last year I pursued this matter to some extent with regard to safety regulations and

Mr. McGregor explained that T.C.A. was putting forward suggestions and recommendations to the Department of Transport. But when I pursued the subject further with the minister later on in the summer it was a sort of circle tour and I ended up where I began.

It is not quite clear to me how far the Department of Transport carries out suggestions made by T.C.A., or what suggestions are made by T.C.A. specifically. We were talking last year about ground control approach. I notice there is some suggestion this year that you intend to place a ground control approach unit at Gander and perhaps at a number of other places in Canada. Last summer the minister said to me that T.C.A. had not expressed its preference for G.C.A. at all the major airports. I judge now that you have asked for G.C.A. at some of them. Could you let us know at what places other than Gander G.C.A. might be installed this year?

Mr. McGREGOR: I do not think I can, quite frankly. I do not know what the Department of Transport plans, where they stand with respect to the actual installation of G.C.A. G.C.A. is, frankly in my opinion, and I am not an operating expert, not essential to the safe operation of an airfied. It is desirable, particularly where the traffic volume tends to rise. G.C.A. is used in conjunction with I.L.S. which is the cockpit recording form of bad weather approach. In doing so at an airport like Idlewild which is extremely busy, a much higher rate of landing under bad weather conditions can be obtained, and it is making assurance doubly sure. But specifically I cannot answer your question.

Mr. CHURCHILL: Well, what then is the meaning of this statement in the report?

Mr. McGREGOR: Well, it means that plans are formulated, but, I think your question was, where is G.C.A. going in this year.

Mr. CHURCHILL: You have not reached the stage of decision?

Mr. McGREGOR: That, I cannot be sure of.

The CHAIRMAN: That is a matter for the Department of Transport, is it not, and not for T.C.A.?

Mr. CHURCHILL: Well, a decision obviously has been made with regard to Gander?

Mr. McGREGOR: Yes, some time ago.

Mr. CHURCHILL: Well, could you inform the committee as to what requests have been put before the Department of Transport for similar equipment at other airports?

Mr. McGREGOR: I cannot at the moment. I would not even be sure that we have specifically requested G.C.A. at any other airport. It is quite possible we have, but I can certainly get that information.

Mr. CHURCHILL: Last year Mr. Marler discussed this and said—and these are his words: "I do not think there is any important body of opinion in the aviation industry that would contend that G.C.A. had such marked superiority over I.L.S. As I said last night, commercial operators have favoured I.L.S. rather than G.C.A." Well, I do not know; from articles in the press and from talking to air force personnel, they seem to think that G.C.A. is the answer to landing problems. I was forcibly impressed by the emphasis of the Minister of Transport last year of the excessive cost of G.C.A. He made quite sure that was conveyed to me. We had an exchange of opinion in regard to that. It is expensive; but, with the growing volume of traffic, aids to navigation and airports are becoming increasingly necessary. Obviously you are doing something about it with high intensity lighting, and other means of radar control and so on. I was naturally interested to know to what extent G.C.A. was going to enter into the picture. The initial cost is heavy, the maintenance cost and cost of personnel to manage the sets is perhaps heavy; but from what I read, and see at airports, traffic control is becoming a larger problem each year, and the more means to ensure safety, the better. I was wondering if there are any other safety practices that are being put forward by T.C.A., for the action and decision by the Department of Transport in connection with airports?

Mr. McGregor: We have quite a large recommendation with respect to both high intensity and low intensity approach, lighting extensions and runway lighting as well, and that is augmented each year as various installations are made. It passes on to what we regard as airports with a lower priority than were being considered previously. That is, when a very necessary installation is made, then our recommendation for the ensuing year goes on to an airport that we considered less essential the previous year. To get down to this business of G.C.A. and I.L.S., there are preferences established; as I mentioned earlier, the ideal without regard for cost at all is both. The cost of G.C.A. is extremely high. No cost, perhaps is right to consider in the light of safety, and therefore, if I.L.S. is installed, we think, in our opinion with competent pilots that that approach, and not lowering the limits with respect to what would normally be safe, is satisfactory. There is another development afoot, in fact, it is well advanced which ties in an automatic pilot with the I.L.S. approach. That, perhaps to the extent it eliminates even further the possibility of human error, is the safest of all; but, that doesn't meet the conditions that you speak of, of the control of aircraft approaching the airport. That is simply a matter of approach down to visual limits.

Mr. Churchill: There was one other factor of air safety we discussed last year, and that was where R.C.A.F. planes were operating near civilian airports; has there been any difficulty this year with that phase of air activity?

Mr. McGregor: No, I think that the modification in the regulations that were made have been carefully observed, and so far as we can make out have greatly improved that situation.

Mr. Churchill: In connection with the Stevenson airport in Winnipeg, which has the civilian aviation on one side and the R.C.A.F. on the other, has there been any difficulty with regard to air traffic interfering with each other?

Mr. McGregor: There have been delays caused by the amount of traffic. The fact that it was military traffic rather than civilian didn't in itself contribute to the delay. Had the volume of traffic existed of one type, it would have been the same amount of delay; but it is not unusual under inferior weather conditions to have a civilian flight find itself encountering delays.

The Chairman: Shall the heading "Airport and Airway Facilities" carry?

Mr. Hamilton (*York West*): No, Mr. Chairman.

Mr. Chairman: I think probably we had better adjourn until 8.15 p.m.

EVENING SESSION

8.15 p.m.

The Chairman: Gentlemen, we have a quorum now. We will proceed with the item on page 16, Airport and Airway Facilities.

Mr. Bell: Do you remember, Mr. McGregor, I asked if you had any figures available regarding the passengers boarded in the regions, with the various major cities in Canada. I would like to have a look if you have anything at all there.

Mr. McGregor: We would be very glad to give you that. If after this session is satisfactory to you, it would be fine.

Mr. Hahn: Would it be possible to incorporate that as an appendix to the record?

The CHAIRMAN: I think so.

Mr. McGREGOR: Mr. Chairman, there were some questions asked during the afternoon session to which we have the answers.

The CHAIRMAN: Probably we should have those answered now. We will have answers to questions asked during the afternoon so we can clear up that as we go along.

Mr. McGREGOR: The question asked by Mr. Hamilton (York West) was for a schedule of trans-Atlantic flights to and from Montreal. This is for the summer of 1955—Trans-Canada Air Lines, 8; British Overseas Airways Corporation, 7; Air France, 4; Royal Dutch Airlines (KLM), 3.

Again there was a question asked by Mr. Hamilton (York West) about the Mexican service, and this is divided to reflect south-bound and north-bound by months through October 1955 and the columns are headed total receipts, passengers to Tampa, seats available to Mexico, and passengers to Mexico. There are many figures. Perhaps I may table them into the record.

There was a question asked by Mr. Hahn as to the comparison of fares in western Canada on the various routes operated by both T.C.A. and C.P.A., Winnipeg-Calgary direct, and Winnipeg-Calgary via Lethbridge and Regina, fares being identical in both cases; Edmonton-Calgary-Regina fares being higher by C.P.A. due to the extended mileage.

A question was asked by Mr. Hamilton (*York West*) in an endeavour to determine what the effect of the C.P.A. trans-Arctic operation was on T.C.A.'s boardings in the west. This we have been able to get. The boarding passengers at Vancouver and Victoria and Seattle, which I think were the three coast ports we referred to last year as being worth about $400,000, were in 1955, Vancouver trans-Atlantic passengers, 716 as compared to 1954 with 921; Victoria 118 as compared to 191; and Seattle 8 as compared to 16 the previous year. I think the effect of the competitive service is reflected there. We calculate that, using average fares, that the effect is $287,000 of the $400,000 total revenue which we estimated existed in 1954.

There is one other question. Mr. Churchill asked a question about G.C.A., and T.C.A.'s recommendations. The fact is that T.C.A. has not specifically recommended the installation of G.C.A. anywhere in Canada other than at Gander where it is now installed. We have recommended installation of surveillance radar installations at Montreal, Toronto, Winnipeg and Vancouver, and that type of equipment deals exactly with the point to which Mr. Churchill was referring, the question of keeping track of the aircraft in the air rather than at their final approach. The reason that T.C.A. has not recommended G.C.A. at other points is we believe the rapid development that is going on in the art of electronic aids to navigation is such that T.C.A.'s job can probably be done more economically by alternative equipment in the not too distant future.

The CHAIRMAN: Will someone move that these answers be appended to the evidence?

Agreed.

The CHAIRMAN: Now, are there any questions on airport and airway facilities?

Mr. HAHN: In that first paragraph I notice Calgary, Saskatoon, Manitoba and so on, but the city of Vancouver is missing. Is there no work being done there, or does that not come under your control?

Mr. McGREGOR: Yes, but I think there has been a great deal of work done on the Vancouver airport in recent years and that none is being done at the moment and that there is no great requirement for any.

Mr. HAHN: It was completed and there was nothing done last year?

Mr. McGregor: No.

Mr. Follwell: On the question of airport and airway facilities, are they maintained primarily by the Department of Transport in Canada?

Mr. McGregor: Yes.

Mr. Follwell: And you rent from them or pay landing fees?

Mr. McGregor: We pay landing fees.

Mr. Follwell: Do you have any airports of your own?

Mr. McGregor: No. There are a few maintained by municipalities and a few by one or the other of the armed services.

Mr. Follwell: And you would pay the municipalities for the use of them?

Mr. McGregor: We pay the same scale of landing fees regardless of owner.

Mr. Churchill: Have you made any comparison of airport facilities as between Canada and the United States in your survey of air services?

Mr. McGregor: Only with respect to the American airports into which we operate. I would say from the standpoint of runways, lighting and approach aids, and so on, in spite of the fact that our airports are used to a lesser degree than most of the major airports in the United States, that they compare satisfactorily. I would say that the passenger handling facilities are not on as high a scale and standard as the major airports in the United States for fairly obvious reasons, but I think a great deal of work is being done to correct that situation as rapidly as possible. Saskatoon was mentioned this afternoon as a case where a new building was put in adequate in size and very well laid-out which I think will meet the requirement for many years to come.

Mr. Hahn: Has any consideration been given to the instances where aircraft are grounded because of inclement weather and passengers are waiting for a change in weather conditions? Most of the complaints which I have are that the facilities are very poor and awkward, that there are not enough chairs for many people to sit on and that it is pretty awkward with women around and sometimes men for that matter.

Mr. McGregor: As I say, the situation is being corrected as fast as funds can be made reasonably available for new buildings. There is a very large terminal under construction at Dorval; Saskatoon went into operation as a Department of Transport matter last year, and Edmonton got in the year before; so I do not think it is true to say a year goes by without the situation being semi-permanently corrected at a major airport.

Mr. Churchill: Was there a fire at Dorval today?

Mr. McGregor: Yes, a very serious one.

Mr. Churchill: Can you give us any details?

Mr. McGregor: Just what I have by telephone. I was greeted with that when we started this morning at the first of the session. The large three-bay Royal Canadian Air Force hangar is completely destroyed along with two aircraft and our adjacent hangar, which fortunately had a brick wall, apparently stopped the fire from going the length of the hangar installation. Our hangar is damaged as to the roof and all the windows adjacent to the burning hangar are out; heat is cut off in our hangar, and other damage resulted to automobiles parked near the R.C.A.F. hangar. No aircraft of ours or any other facility, I am glad to say, is damaged.

Mr. Churchill: We have no responsibility in so far as the automobiles are concerned?

Mr. McGregor: I am sure they are the property of air force personnel.

Mr. HAMILTON (*York West*): Could I ask a few questions on safety matters? Have you had any reports from pilots or captains which you might term in the category of near misses or incidents of that type during the last year?

Mr. FOLLWELL: With flying saucers.

Mr. McGREGOR: We attempt to specify what a near miss is. The term is used very loosely particularly by an organization that attempts to measure these things in the United States. I think it is probably not far from the truth to say nowadays, for purposes of recording a near miss, it is the recording of any sighting of an aircraft where it should not apparently be; that is not a near miss. We have had no cases reported in 1955 as what might be regarded as a dangerously close approach. We have had reports where an aircraft was observed to be in what was considered to be an unauthorized position.

Mr. HAMILTON (*York West*): Is that applicable to an incident in Brampton within the last year?

Mr. McGREGOR: I do not know specifically of an incident. I only get a summary of these things.

Mr. HAMILTON (*York West*): You would get the same reports that the pilots turn in to their Pilots' Association, copies of those reports?

Mr. McGREGOR: I would expect so, although any report I would see would be an official company report.

Mr. HAMILTON (*York West*): It might be the other way round.

Mr. McGREGOR: It might.

Mr. HAMILTON (*York West*): Copies of your reports might go to their Pilots' Association?

Mr. McGREGOR: Yes.

Mr. HAMILTON (*York West*): Have there been any complaints by your captains or pilots about mixing defence aircraft and civilian aircraft in the same airport area?

Mr. McGREGOR: I have had no specific complaints. In general we would prefer to see the two functions separated.

Mr. HAMILTON (*York West*): Has that anything to do with the more recent indication of the danger from the jet stream in a fast flying jet area?

Mr. McGREGOR: No. You are referring to the break up of an aircraft allegedly encountering a jet stream?

Mr. HAMILTON (*York West*): Yes.

Mr. McGREGOR: No. I would question the unsupported opinion that the type of aircraft we operate would be susceptible to break up under those conditions.

Mr. HAMILTON (*York West*): I understand there are about three incidents of this type reported in the United States and here. Have you made any investigations?

Mr. McGREGOR: Perhaps it would be true to say that inadvertently some years ago a jet aircraft did approach close to the front of one of our North Stars and it caused turbulence which rocked the North Star but did not do anything else.

Mr. HAMILTON (*York West*): Has there never been any indication of loss of control or anything like that?

Mr. McGREGOR: No.

Mr. HAMILTON (*York West*): Then, you said that it would be more satisfactory if there was a division of military and civil uses of our airports. Now, are your pilots, or you, satisfied with the general holding patterns that you have in the airport zones or also in the airport area?

Mr. McGREGOR: If you are speaking of the pattern regulations as they exist, I believe that the answer of our flight operations people to that question would be: yes. If the question really means: would we prefer to have direct visual knowledge on the part of the tower of the position of each aircraft in the vicinity, then we would prefer to see that, and that is the reason for the request I referred to a few moments ago.

Mr. HAMILTON (*York West*): I understood that there was a proposal to slow down planes in the standard homing pattern in the airport zone. Is that as a result of any recommendation from T.C.A.?

Mr. McGREGOR: I would not be sure whether it resulted from a recommendation of ours. The desire on the part of the control people is of course to endeavour to keep all the aircraft that may be in the vicinity of the airport flying at approximately the same speed so that the hazard of overtaking is eliminated.

Mr. HAMILTON (*York West*): The recommendation of the department to slow down would be in keeping with your own views on the subject, then?

Mr. McGREGOR: Yes.

Mr. HAMILTON (*York West*): Do you think that that rule should be extended from the airport zone itself to the airport area, which I understand covers a 30 mile radius instead of a 5 mile radius?

Mr. McGREGOR: I believe the zone control varies somewhat between one airport and another, but I think any action which is taken and which tends to make easier the control of aircraft and which retains the separation that is required during the interval is a good thing.

Mr. HAMILTON (*York West*): I understand further that there is a proposal to restrict the use of air space above 9,500 feet to airline operations, or to introduce a regulation that only main airline pilots would be qualified to fly in that lane. Is that in keeping with your suggestion on this subject?

Mr. McGREGOR: I don't think it is. We made recommendations with respect to the reservation of air space along airways—we are away from the subject of airports now as I understand it—but I do not think there was a restriction to 9,500 feet.

Mr. HAMILTON (*York West*): What was your recommendation?

Mr. McGREGOR: I don't remember exactly what the altitudes were, but we suggested that main through traffic regardless of whether it was airline traffic or R.C.A.F. traffic or itinerant traffic should proceed at an altitude which would be held inviolate by other operators, particularly all those crossing over the airway.

The CHAIRMAN: Shall the item carry?

Carried.

The CHAIRMAN: The next item is "Routes" on page 17. Are there any questions on this item?

Mr. HAHN: Last year I believe, Mr. Chairman, the question was put whether Moose Jaw would be included on the routes now served by the Viscount, and if I recall correctly a suggestion was made that once Viscounts became available in any number such would be the case. I do not believe that Moose Jaw is included now in this respect. Could the committee be told when it is intended to put Viscounts on the route?

Mr. McGREGOR: No, I am afraid I could not.

Mr. HAHN: How many Viscounts do you feel you would require before you could do that?

Mr. McGREGOR: I don't think it is a function of the number of Viscounts we own.

Mr. HAHN: It seemed to hinge on that last year.

Mr. MCGREGOR: I don't think that was the sense of the answer to the question. Moose Jaw is being served by C.P.A. now. It is an extremely busy R.C.A.F. station. It has not a very high traffic potential and, frankly, I do not see the requirement.

Mr. HAHN: I was just following through what was proposed last year. Actually the proposal was made in the House to the Minister of Transport as well as being put forward in the committee and, as I understand, it was suggested it might be included. At that time, when the question was brought up, I do not believe it was suggested that load availability would rule out the proposal; I understood that it hinged on the question of the number of Viscounts, but I would have to look that up for myself.

Mr. MCGREGOR: I hope you will not find that I said it hinged on the number of Viscounts.

The CHAIRMAN: Shall the item headed Routes carry?

Carried.

The CHAIRMAN: The next item is headed Personnel. That is on page 18.

Mr. HAHN: What turnover of staff have we at points such as New York where, I understood, our wages are lower than they are in the case of similar categories of personnel employed in other offices? Are we finding it difficult to keep up trained staff?

Mr. MCGREGOR: Yes. I think we are having exactly the same difficulty as every other airline in New York; and I do not think our wages paid in New York are out of line.

Mr. HAHN: Did I understand you to say, when the question of wages was mentioned, that our wage scale was less than the American scale?

Mr. MCGREGOR: That is correct, but we do not attempt to maintain that differential in American points.

Mr. HAHN: Is it not true that we are losing some of our personnel to the American lines?

Mr. MCGREGOR: Yes, we are losing some of those who are employed in American offices.

Mr. HAHN: Does that apply to senior supervisory personnel?

Mr. MCGREGOR: No. Senior supervisory personnel we do not lose.

The CHAIRMAN: Are there any further questions on the matter of personnel? It not, shall the item carry?

Item carried.

The CHAIRMAN: The next item is on page 22—Development. Are there any questions on this item?

Mr. FULTON: We have all seen—I think it is in the press, Mr. McGregor—something with regard to your future plans for turbo-prop aircraft. Would you like to make them official so far as the committee is concerned?

Mr. MCGREGOR: Only with respect to the Viscount orders that we have dealt with earlier today, Mr. Fulton. As I say, we now have 15 in our possession. We shall be getting 3 more this spring, and an additional 18 will be bought in two successive deliveries amounting to a total of 36 by the spring of 1958.

Mr. FULTON: I may have misunderstood the position, or possibly I may have imagined it—though I do not think that is likely—but I believe I saw somewhere that you felt you might order some further sorts of turbo-prop aircraft between the time you would obtain delivery of all your Viscounts and the time you actually turned over to jets, as I understand you anticipate doing.

Mr. McGREGOR: Yes, I think there are routes operated by T.C.A. that will require a longer range aircraft than the Viscount and which do not economically suit the operation of, let us say for example, full long-range jet aircraft.

That need can, I think, be filled in two or three different ways. One would be by using one of the larger turbo-propeller aircraft now under development, or one might use a smaller foreign jet aircraft, development of which is under consideration. Members of the committee perhaps read recently of the Convair company having considered the production of what might be called by modern standards a small jet.

Mr. FULTON: Are there any turbo-propeller aircraft now under development in which you are particularly interested?

Mr. McGREGOR: We are interested in all aircraft that appear to be eligible on a superficial examination for the route requirement I spoke of and that interest either waxes or wanes depending on what we find out on a more detailed examination. The aircraft of the class I spoke of would be the Lockheed Electra or the Vickers Vanguard.

Mr. FULTON: What about the Britannia?

Mr. McGREGOR: The Britannia is a somewhat larger aircraft than we are thinking of. It is a long-range trans-Atlantic aircraft and we rather believe that that aircraft will have a period of high popularity and high traffic appeal, but we are also inclined to think that that will be short-lived with the advent of the full jet aircraft.

Those are the lines along which we are thinking at the moment.

Mr. CHURCHILL: I notice that you say T.C.A. has extended its planning "even further into the future." How far away does that future extend?

Mr. McGREGOR: By years to 1958 but as I have mentioned, the investigation of types has gone further. I would prefer, however, not to go into detail on any of the conclusions that have been arrived at until the matter has been referred to the company's board of directors.

Mr. HAMILTON (*York West*): In that connection then, Mr. McGregor, this cutting which I have from the *Globe and Mail* which states:

T.C.A. to buy four United States Jets; due in 1961

is just a rumour?

Mr. McGREGOR: It is just rumour, at this time.

Mr. CHURCHILL: And the other aircraft you were talking about—the Bristol Britannia—is that the aircraft which is being built under licence in Canada at the present time?

Mr. McGREGOR: No, the Bristol Britannia commercial aircraft is a turboprop aircraft. The aircraft that are being built under licence in Canada under the name of "Britannia" are piston-engined aircraft designed specifically for marine reconnaissance.

Mr. CHURCHILL: Is the basic plane the same except that it is piston driven?

Mr. McGREGOR: It is largely similar; it is built around the same basic wing design but there are major differences due to technical requirements. It is, of course, intended for naval use.

Mr. CHURCHILL: Would it be reasonable to expect that this type of aircraft could be modified and developed into a commercial type in the same way as was done, I understand, in the case of the North Star which was first of all an R.C.A.F. aircraft?

Mr. McGREGOR: I think that is conceivable. I have no positive information on the point but I do not think the construction licence as it now stands extends to building a commercial aircraft.

Mr. CHURCHILL: There would be an indication that the plane might be built in Canada if it were the type of plane that could be developed along the lines that I have mentioned.

Mr. McGREGOR: Yes.

Mr. CHURCHILL: You said you felt the Britannia would have considerable popularity over a limited period?

Mr. McGREGOR: That was the opinion I expressed.

Mr. CHURCHILL: Would it be fair to say that it might put us one step ahead of competition during that period?

Mr. McGREGOR: No I don't think so. For one thing the aircraft will be operated commercially by our big competitor on the North Atlantic route—B.O.A.C.

Mr. CHURCHILL: Will they be at an advantage until such time as these jets come along?

Mr. McGREGOR: That is possible if the delivery of Britannias is early enough and if the performance of the aircraft in service turns out to be what is hoped for.

Mr. CHURCHILL: How long will it be until the jet comes into commercial use?

Mr. McGREGOR: I would venture the guess that the Britannia would be at least two years ahead.

Mr. CHURCHILL: In connection with these jet aircraft have you considered the availability of the English jet products with reference to when they may become available?

Mr. McGREGOR: You mean as power plants in American air frames?

Mr. CHURCHILL: No, I mean the jet aircraft that may be available as compared with what you might be looking over with a view to purchase in the United States.

Mr. McGREGOR: I know of only one British jet aircraft in contemplation and that is the Comet 4. We have looked at that and found it somewhat short-ranged for the North Atlantic west-bound winter non-stop operation which it is our desire to put in service. I think B.O.A.C. have come to the same conclusion judging by press releases.

Mr. CHURCHILL: So you would not find it acceptable for trans-Atlantic service?

Mr. McGREGOR: For the reason I have mentioned.

Mr. CHURCHILL: Would it be acceptable for the trans-Canada service?

Mr. McGREGOR: Yes, I think it would, but again I must refer to the keen desire on the part of every airline to reduce the number of different kinds of aircraft which it operates at any one time.

Mr. HAMILTON (*York West*): So you would be looking forward to a type of aircraft which you could use for both trans-Canada and trans-Atlantic service as your next step?

Mr. McGREGOR: Yes.

Mr. HAMILTON (*York West*): I see. Now, in connection with equipment purchases, I understand that you indicated to the Gordon commission that you would have to have considerable notice of competition in order to line up your equipment purchases. Ten years was mentioned. Does that still stand as your opinion?

Mr. McGREGOR: I think so. What I was trying to say was that T.C.A. plans, like any airline, a long way ahead in the matter of equipment purchases. But to anyone ordering an aircraft these days and getting delivery, the time varies between two and four years depending on the type and the depreciation of the aircraft and it must not be shorter than seven years at the very least. For the basic conditions under which an airline is operating may be materially altered, and if it is not to be caught seriously over-equipped, and pay a heavy financial penalty, then warning in the neighbourhood of ten to eleven years would seem to be required.

Mr. HAMILTON (*York West*): Unfortunately with the Vickers Viscount, if an aircraft like the Britannia were available would it be completely out of date as soon as these jets came along in, let us say, 1961?

Mr. McGREGOR: If the fare structure remained the same, and both aircraft were giving a satisfactory account of themselves, then on the North Atlantic I think that is true.

Mr. HAMILTON (*York West*): You mean it would hold its own?

Mr. McGREGOR: No!

Mr. HAMILTON (*York West*): It would be behind?

Mr. McGREGOR: Yes.

Mr. HAMILTON (*York West*): Thank you!

The CHAIRMAN: Shall the heading "Development" carry?

Carried.

Mr. HAMILTON (*York West*): Before we carry this item, I left this to the end because I felt we wanted to be pretty well through this report, and certainly any motion we might make is no indication that we are not satisfied with Mr. McGregor's handling of the management of this company. It seems to me that we have spent a great deal of our time discussing the question of competition. Someone might say that I spent a great deal of time but I think pretty well all the members who have taken part in the questioning have, and I feel that now we probably should have the benefit of calling some outside witnesses, perhaps those who have taken part in airline development with other companies in the country, in order to get their views, as to whether competition has changed now from what it was during the early years after the creation of this company.

Therefore I would like to move, if I may:

> That in connection with its consideration of Trans-Canada Air Lines' report dealing with the volume of traffic available and with the question of development, and in the light of discussion of the effects thereon of competition, the committee should call and question witnesses from other Canadian air lines.

I move that motion which is seconded by the honourable member for Kamloops.

Right Hon. Mr. HOWE: I doubt if that comes within our terms of reference.

The CHAIRMAN: All I can say in regard to the motion which you have made is this: I think the terms of reference which were presented to us authorize us to deal with matters relating to the report. Have we got the terms of reference? Yes.

> That the Annual Report of Trans-Canada Air Lines for 1955, the Auditors' Annual Report to Parliament of Trans-Canada Air Lines for the year ending December 31, 1955, tabled this day, and the Capital

Budget of Trans-Canada Air Lines for the year ending December 31, 1956, tabled on Wednesday March 7, 1956, be referred to the said committee.

That a Sessional Committee on Railways and Shipping owned, operated and controlled by the Government, be appointed to consider the accounts and estimates and bills relating thereto of the Canadian National Railways, the Canadian National (West Indies) Steamships, and Trans-Canada Air Lines, saving always the powers of the Committee of Supply in relation to the voting of public moneys; and that the said Committee be empowered to send for persons, papers and records and to report from time to time and that, notwithstanding Standing Order 67 in relation to the limitation of the number of members . . .

It seems to me that this motion which has been made by Mr. Hamilton (York West) goes beyond the terms of reference that are given to us, and that we are now empowered to bring before this committee matters other than those within the terms of reference, or witnesses other than those that have to do with government accounts, estimates and bills relating to Trans-Canada Air Lines. I do not know what other members of the committee might say as to that, but I think this motion falls beyond the terms of reference that have been submitted to this committee and for that reason, before—but before ruling I will hear anyone else who wants to speak on this matter. It seems to me that is the position.

Mr. BURN: It seems to me that Mr. Hamilton (York West) is confusing the Royal commission report, the submission made by Mr. McGregor to the Royal commission on Canada's economic prospects, with the T.C.A. annual report for 1955. I came into this committee on the understanding that that was the matter which was before us, and that the committee was not specifically delegated to determine whether or not this company was to continue operating as T.C.A. with a franchise or whether it should submit to more competitive enterprise.

I am sure that we are away beyond the terms of reference of this committee in calling witnesses now to determine whether this company or corporation is operating as efficiently as it would if it had competition. I think we all understand that, even if this company, or if the franchise were turned over to another airline company, there must still be a measure of control by the Air Transport Board and, in all probability we would still require one company to operate, under the circumstances in Canada. Therefore I think the suggestion made is entirely beyond the terms of reference of this committee.

The CHAIRMAN: Are there any other expressions of opinion?

Mr. FULTON: I do not see that the resolution goes outside the terms of reference. It is not suggested in the motion made by Mr. Hamilton (York West) that we bring in any specific report or recommendation, but the motion as I understand it is directed towards enabling us to get a better appreciation of some of the various matters reported on in the Trans-Canada Air Lines annual report which is now before us, which certainly is within the terms of reference of this committee, and which we have been considering all day. There is a section in the report dealing with volume of traffic available and there has been considerable discussion of the effect on that volume of traffic that might be brought about by competition.

There is a section in the report dealing with development, pointing out that Trans-Canada Air Lines still has a large number of a certain type of aircraft on order, and it points out that the airline will further undertake services extending into 1956 for the most part, and they will ask for greater flight frequency. There are no major route additions being contemplated at present, and there is a reference in the report to one exchange which was made between Trans-Canada Air Lines and Canadian Pacific Air Lines, an exchange of routes which, while not exactly creating competition, does bring in the question of the relationship between Trans-Canada and other commercial airlines in the country.

It seems to me, now that we are going to have the capital budget before us, and we shall be asked to approve the capital budget which I assume contains commitments for further purchases and so on, it would help this committee in arriving at its decision on what to do with respect to that capital budget, and indeed with the report generally, to know what others in this field have to say on the question of whether or not the time is ripe, whether they would be prepared to enter into some form of competition, and as to its effects on airline passenger traffic in Canada.

We are not asking that the committee should make any alteration in Trans-Canada's annual report on the basis of what anybody else might say. But since this committee is asked to report to the House on a matter that will be coming before us, it does seem to me that it is quite sensible for the committee to hear the views of other people on a question which has taken up a large share of our discussion this afternoon. And the committee does have power to send for witnesses. There has been no limitation in the terms of reference as to the sources from which those witnesses may be derived. Therefore I think it would be helpful to the committee and to parliament generally to hear the views of some of the other people in this field.

Mr. FOLLWELL: I wonder. Probably the committee would be well off if they knew—I do not—if there are at the present time any applications before the Air Transport Board for franchises, and if Trans-Canada Air Lines are opposing them. I have not heard of any and I do not know if there are any.

Right Hon. Mr. HOWE: There are no applications.

Mr. FULTON: Of the important ones which have come before them so far, the major ones have all been turned down!

Mr. FOLLWELL: They apparently have all been settled one way or the other and there is nothing pending at the present time.

Mr. FULTON: We are not reviewing the Air Transport Board!

Mr. LANGLOIS (*Gaspé*): Mr. Chairman, may I suggest that this question of competition could well be brought before the Royal commission investigating Canada's economic prospects. We were told this morning that T.C.A. had already on file a brief with that commission, and if there are any other companies or airlines in Canada which are interested in having this question considered by the Royal commission, they are at liberty to bring in their witnesses and evidence and make their submissions to this commission. If we stop to hear witnesses in this respect I am afraid we will be duplicating the work of this Royal commission.

It has been said that this motion was brought about by the fact that there has been some discussion on the matter of competition before this committee today but I fail to see in the report of T.C.A. anything having to do with this policy of non-competition which is now in force in this country, and I wish to remind the committee that this policy does not apply only to the T.C.A.; and if some airline is interested in impressing upon the government that the government should change its policy in this regard, I think the proper way to do it would be for them to go before this Royal Commission.

The CHAIRMAN: Let me say this to the members of the committee: that I understand that representatives of Pacific Western Air Lines and Canadian Pacific Air Lines have already submitted briefs, along with Trans-Canada Air Lines, to the Gordon commission, and it was along the lines suggested in this motion that those presentations were made. That being so, we would probably get a duplication of what was said at that time. I do not know that that was the purpose of this committee to hear representations of that kind here. We are asked to consider the accounts, bills and reports of the Trans-Canada Air Lines, and not any other airline in Canada. The same thing might be said when we come to consider the report of the Canadian National Railways, that we should call for representatives of the Canadian Pacific to give evidence here. In that event we would have this committee going on for a period of probably three or four months. I do not think that was the meaning of the terms of reference when they were submitted to us.

Mr. HAHN: Mr. Chairman, it would seem to me that during the past three years, through questioning, through the cooperation of the committee members, and the executive of the Trans-Canada Air Lines itself, we have been able to arrive at certain figures, in answer to questions that were put to them. Now, I would personally like to be able to be in a position to get the similar answers from some other airline, or if you suggest, later a railroad line, for that matter to compare these things and discover for myself whether these things—our operations are as good as we might hope, or might have a right to expect, and just exactly what shortcomings we have. Charges have been made in respect to competition. I myself have fostered some of them, in fact, and up to now I have heard the one side of the story. I have yet to hear the other side. It is true, as Mr. Langlois suggests, possibly that C.P.A. and P.W.A. have not made representation to the Gordon commission; but relative to the cost factors of labour and other figures I would personally feel that I would like to be in a position to compare those particular figures. That would be the only purpose of my supporting this resolution at this time.

Mr. LANGLOIS (*Gaspé*): Mr. Chairman, I suggest, and I was commenting on what my friend Mr. Hahn just said; I suggest that if we start that with T.C.A. here, we are going to have the same thing with the C.N.R. tomorrow, with the National Steamships after that, because, if each time that an official of one of these companies expresses an opinion, if we are to call outside witnesses, outside the organization of these two companies, come up here and give contrary evidence, well, we will have to call witnesses from all over Canada whenever there will be something expressed which will not be in agreement with the thoughts of some of the members of this committee, and God only knows when the work of this committee will end. You see, the terms of reference of this committee is to investigate into the administration of this crown company, to question those in charge of this crown company on matters of administration. I do not think we have been empowered to call any witnesses to contradict any of the opinions that are voiced here by those officials, and if we go that far, if it is the intention of the committee to go that far, the only way of doing it will be to go back and ask the House of Commons to extend the powers of this committee. I do not see any other way of doing it.

Mr. FULTON: Well, now, we clearly have the power to do what is suggested in this motion. We do not have to refer back to the house for the power to call witnesses. The house has given us that power, I suggest and expect us to use it. It would be a good thing if we did.

Mr. LANGLOIS (*Gaspé*): We are not asked to call witnesses to voice their appreciation of the administration of the company, we are going to call them, according to this motion, to come here and voice their opinion on the policy of non-competition which is not covered by this report, and which is not covered by the terms of reference of the committee.

Mr. HAHN: I would not suggest it is a case of arguing policy, in my own instance, Mr. Langlois. It is rather a case of wanting to compare their operation with what we have here so that I can determine for myself whether or not our system should continue to be carried on as it is, or whether we have certain weaknesses in the way of depreciation, or it might be the method of operation. It is not a matter of policy. That is set by government, and I do not think it should be our purpose to interfere with that.

Mr. LANGLOIS (*Gaspé*): I have to disagree with you there on your interpretation of the motion. The motion before us reads in part, "In the light of the discussion and the effect thereon of competition"; that is to say, the development of the volume of traffic of the T.C.A.—to call witnesses from other Canadian airlines". It is only this matter of competition. This motion to my mind does not seek for the power to call witnesses who will be here to give us information about their own administration in order to be able to compare it with that of T.C.A.

Mr. WEAVER: Mr. Chairman, this motion is outside the terms of reference of the committee, and it is rather a fantastic one. I might recall the meeting of the committee last year when Mr. Gordon was asked if he had the C.P.R. statement, if he had the C.P.R. annual report, and, if my memory serves me correctly, he indicated that he would be only too glad to have it, he would be only toc glad to have the information having to do with the business of the C.P.R., and that this motion would attempt to get from the business of other Canadian airlines. I think the mover is thinking of it only in terms of looking at it from one side. I do not think any Canadian airlines would want to come here and have their business looked into as we are looking into T.C.A.'s. I am sure Mr. McGregor would be only too happy to have them looked into, but it is just outside, not only the terms of reference, but the period in point of time for the committee to do it, because we would be here for months. We had a Royal Commission on Transportation that sat for months doing the same thing in connection with railways. Now, this motion would have this committee doing it in connection with airlines.

The CHAIRMAN: There is just one thing I want to say in answer to the matter brought before the committee by Mr. Hahn. Mr. McGregor has said to me that he can give some information with regard to the matters he was relating to, and has here certain statements of reports that are filed with the Air Transport Board. They are the type of thing that you are asking for, and the information that you would request is filed with them, and I think that can be readily available.

Right Hon. Mr. HOWE: Those are private reports, private documents.

The CHAIRMAN: Private documents?

Right Hon. Mr. HOWE: Only with the Air Transport Board.

The CHAIRMAN: Filed with the Air Transport Board and as such are secret documents?

Right Hon. Mr. HOWE: It would be a breach of all propriety of the Air Transport Board to release any of these.

Mr. FULTON: We are not asking the Air Transport Board to release them.

The CHAIRMAN: I am thinking this, we say we want someone here to represent the different other air transport companies. We do not know that they are going to be willing to come—

Mr. FULTON: Ask them.

The CHAIRMAN:—and if they will come, to give evidence to this committee. We are able to do that with the officials of this company, because this company is operated and controlled by the government, and in the terms of reference it refers to the accounts, estimates and bills relative thereto, that is relating to the companies that are operated and controlled by the government. I think that this motion is outside the terms of reference as set out here, which has been given to us by the House of Commons. I do not know how the members feel about that.

Mr. HAMILTON (*York West*): Mr. Chairman, before you make a ruling may I speak again?

The CHAIRMAN: Certainly.

Mr. HAMILTON (*York West*): It seems to me that this committee must have had meetings a day in length or a day and a half in length ever since probably 1938 or 1939 to deal with a corporation whose gross last year was over $70 million and which estimates its gross for next year at $85 million. Now, it is obvious that all of that information that we have got, I think year after year, is the information which is set out for us here in a very able report, I may say. But there are probably none of us who can be considered other than laymen in connection with our ability to examine and look into this report. Regardless of the terms of reference, Mr. Chairman, the fact is that the items that are mentioned in the motion have been dealt with time and time again today, right from this morning on. I am quite sure that Mr. McGregor regards it as very important to his company's operation, the position which he holds in connection with the franchises on its lines. I think at the same time we are entitled to know whether it is essential that that type of protection continues, and I would strongly suggest, Mr. Chairman, that my motion is in order.

Mr. CARRICK: May I just make a submission? As I look over the resolution, the heart of it is an examination of competition and the effect of the volume of traffic available, and the effect that this would have upon competition. I think, quite obviously, if this motion were carried, and the witnesses were called, this committee would be facing the question of whether it would be desirable to have competition introduced. Well, it seems to me that that is quite outside the terms of reference which authorize the accounts, estimates and bills only, and if we do go into that, I do not know what kind of a report we can possibly bring in that would be relevant to the accounts, estimates and bills of T.C.A. It might be relevant to something quite different. I say with reference to Mr. Hamilton's submission, it is quite true that we have dealt with these matters, but I think it is customary for committees of this kind to allow latitude to members, a very wide latitude so that they can get all the information they want, but that does not mean that all the questions that have been asked are relevant to what has been dealt with. If a wide latitude were not allowed some members of the committee would be complaining that they did not have the opportunity to get the information that they wanted. Well, it is properly given that opportunity, but I think it is quite clear that this motion has no relevancy at all to the matters referred to this committee.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Mr. Chairman, Mr. Carrick's remarks, and one or two others which have been made here, indicate some doubt as to the relevancy of any information that might be obtained from these witnesses to our discussion. It would seem to me that earlier today, in effect, and I think quite properly, Mr. McGregor called witnesses from other airlines on his own behalf to prove the efficiency of his operations. I am very glad he did, because he showed us charts and graphs comparing certain aspects of American Airlines, United Air Lines and one or two others with T.C.A. Now, I do not think anyone would argue that very excellent representation made on T.C.A.'s operations was irrelevant to the discussions of this committee. I think it was very relevant.

Mr. CARRICK: I was submitting, Mr. Chairman, it was irrelevant to the terms of reference.

Mr. FULTON: We are considering the report of the T.C.A.

Mr. CARRICK: No, with regard to the accounts, estimates and bills.

Mr. FULTON: And the report—we are to consider the report of T.C.A., and these matters all arise in connection with the consideration of the report of T.C.A.

Mr. LANGLOIS (*Gaspé*): It went much further than the report.

Mr. CARRICK: What does it say?

The CHAIRMAN: The terms of reference read: "That a Sessional Committee on Railways and Shipping owned, operated and controlled by government be appointed to consider the accounts and estimates and bills relating thereto of the Canadian National Railways, the Canadian National (West Indies) Steamships, and Trans-Canada Air Lines—"

Mr. CARRICK: It does not say anything about report.

Right Hon. Mr. HOWE: A report is submitted to the house.

Mr. HAHN: There is one point I should clarify. I did not ask for any papers or report from the Air Transport Board in respect to a comparison between T.C.A., C.P.A., P.W.A., United Air Lines or any others that might be operating to a degree in Canada. I am more interested in the competitive end of this thing in so far as I find in my own lifetime that if a private enterprise man in business does not keep pace with someone else then he has a way of discovering the cause of the lost business. But here we are operating an enterprise such as T.C.A. and, as efficient as it is, if there were a competitive system set up we would have a company to compare our figures with. That is the important thing. I, for instance, asked questions in respect to the cost of labour in relation to the net worth and so on; I wanted to compare that with some operation and they didn't have anything. Mr. McGregor has been very good in that respect and given us all the information, but now it is useless unless I can compare it with something. All I can compare it with is what happened last year and the year before. It is very similar, I might say, with all the other submissions we have had. I am not being critical because our terms of reference apparently are very binding, but it is very similar to what we find the bulletins issued by the U.S.S.R.—something is up 15 or 10 per cent, but only up against what they had the year before and not in comparison with anything else. We should have something tangible that we can attach our figures to.

Mr. CARRICK: May I ask Mr. Hahn a question. Do you think if this motion were carried that its terms would let you get into the subject matter you want?

Mr. HAHN: I am satisfied if we had a group anxious to sell parliamentarians the desire or right that they have to compete with us they should have to tell us that they are going to offer us a service we could not get under T.C.A.

Mr. LANGLOIS (*Gaspé*): If these airlines are not operating over the same route as T.C.A. your comparison would be comparing two separate things. Do you know also that these other lines would be prepared to answer questions on their own administration?

Mr. HAHN: I do not know. If they were not prepared to do that then, of course, I would have to accept it that they were not too anxious to get into the business.

Mr. CARRICK: In order to get into what Mr. Hahn wants to get into he would have to have another motion.

Mr. FOLLWELL: I wonder if the mover of this motion could indicate to the committee that someone has made a representation that they desire to appear here?

Mr. HAMILTON (*York West*): I think I can say safely that other gentlemen would like to appear here.

Mr. LAVIGNE: Would the witnesses be ready to answer all questions put to them? I do not think it would be good practice. They might give you certain information that is to your advantage.

Mr. HAMILTON (*Notre-Dame-de-Grace*): I think you might say that some of us have not had outstanding success always in getting answers to all our questions even from crown corporations.

The CHAIRMAN: I do not think you can say that in this case. Mr. McGregor has been fair in endeavouring to give all the information.

Mr. HAMILTON (*Notre-Dame-de-Grace*): You should not interrupt me. I was just going to proceed to say that there had not been any difficulty of that nature whatsoever today and I think every question we put was answered by Mr. McGregor. I think every member of this committee knows there have been cases in the past which for reasons which seemed quite proper to them, executives of crown corporations chose to, shall we say, go easy on releasing certain information. So the argument today that perhaps someone who comes before this committee would not want to answer every last detail about his business merely puts these other companies in the same position as crown corporations. I do not say that it is particularly valid, nor do I think that anyone who proposes to speak for these people before they have even been asked, before we have any indication of their attitude, is in a position to really represent their feelings to this committee. It is up to us to ask them and then if in their wisdom they do not see fit to answer I think the committee would be very reasonable and understanding as some of us have been in the past.

Right Hon. Mr. HOWE: If they came here as witnesses we could ask them any question we wanted and make them answer it.

Mr. HAMILTON (*Notre-Dame-de-Grace*): We have that power but it has not too often been exercised.

Right Hon. Mr. HOWE: If they were here I would exercise that power.

Mr. HAMILTON (*Notre-Dame-de-Grace*): I would say that it seems to me that the effect of your suggestion, Mr. Chairman, that it is improper to call these people before the committee—

The CHAIRMAN: I am not saying it is improper at all. I just say I think we do not have the power.

Mr. HAMILTON (*Notre-Dame-de-Grace*): Mr. Carrick's observation is to make us into an audit committee rather than truly a committee which is examining the operations of these particular enterprises, because unless we can compare this business operation not only with itself—which is the job of an auditor to ascertain whether the facts are correct or not—and also unless we have the opportunity to compare it with other operations of a similar nature it seems to me we are driven back into the position where we are looking at a lot of figures and trying to ascertain their correctness and nothing else.

Mr. LANGLOIS (*Gaspe*): That is the very point we are trying to make. Where are we going to get the power to question these other lines which have nothing whatsoever to do with the government or the crown company we are investigating? That is exactly the point we are trying to make.

Mr. FULTON: Some question was raised as to whether the motion was strictly within the terms of reference of the committee and Mr. Carrick said it was not, because all we had before us was the accounts, estimates and bills of Trans-Canada Air Lines and Canadian National Railways, etc. I think that is a misunderstanding because I see in addition to the motion adopted by the house, when the committee was set up on March 12, the Minister of Trade and Commerce made this motion which the house adopted that the annual report of the Trans-Canada Air Lines for 1955, the auditor's annual report to parliament of Trans-Canada Air Lines for the year ending December 31, 1955, and the budget of Trans-Canada Air Lines be referred to the Sessional Committee on Railways and Shipping. We had referred to us by the house the report of Trans-Canada Air Lines and a motion in exactly the same form was made and confirmed and adopted so that the house referred to us the annual report of the Canadian National Railways, and that has been the pattern followed every year since I have been a member of the committee. So the committee had before it for consideration a report of Trans-Canada Air Lines which was referred to us by the house and the house having referred it to us we are quite able to consider it and therefore we called and heard Mr. McGregor as a witness as we should and surely we are entitled to—when points having an impact outside Trans-Canada Air Lines itself are referred to in the report and discussed by the committee in its consideration of the report—to call other witnesses if the committee should feel it wise or that their comments would be helpful. We are empowered by the house to call witnesses and we have called Mr. McGregor, and surely we are entitled to call other witnesses. If they do not want to come then the way to handle that is to adopt the motion then and these people could be approached unofficially to see if they wanted to come and if they indicate that they do not, the committee could decide that they did not want to hear them, but I think the committee would find that they would want to and the committee has a power as a committee of parliament to compel their attendance. I think if we want to hear from them we are entitled to compel them to attend. I do not think we would need to adopt any compulsion; I think they would be very glad to come and give us an opinion to help us consider and understand the Trans-Canada Air Lines report which is within our terms of reference.

Right hon. Mr. HOWE: It is one thing to call them to give their opinion on the Trans-Canada report, but the motion before the committee goes outside that and asks them to comment on the matter of government policy as to whether there should be competition on the T.C.A. routes.

Mr. FULTON: That could be very easily taken care of by a small amendment adding the two words inter alia, then you could ask them anything you liked. I personally would be willing to suggest such an amendment if Mr. Hamilton would agree.

Mr. CARRICK: May I ask the Chairman what he read first to the meeting in outlining the terms of reference?

The CHAIRMAN: I read first the appointment of the committee, that is, the terms of reference that were made on March 6 when the committee was set up. To my mind that indicates terms of reference. Subsequently the report was tabled by the Right Hon. Minister of Trade and Commerce (Rt. Hon. Mr. Howe) and it was referred to the committee on a motion of the Right Hon. Minister of Trade and Commerce on March 12 of this year. So I think the report is properly before us.

My view is this: that even though the report is before us we are then to consider the reports, accounts, estimates, bills and so on relating to these various crown companies.

Mr. CARRICK: I was going to put it another way: that we are bound by the terms of reference originally laid down to examine the accounts, estimates and bills. Referring to this committee the report which contains the accounts, estimates and bills could not possibly widen the terms of reference and the reference to the report is only a document that comes before us because it contains those things that we should examine.

Mr. LANGLOIS *(Gaspe)*: And this report is to be examined within the terms of reference.

Mr. CARRICK: Certainly.

Mr. HAMILTON *(York West)*: I submit the opposite is the case. The evidence taken could be considered as being part of the report.

The CHAIRMAN: Well gentlemen, I think I must make this ruling: I must say first of all that these terms of reference which have been passed on to us by the house must be strictly construed. They provide that this committee is to be appointed and set up to consider the accounts, estimates and bills relating to the Canadian National Railways, the Canadian National (West Indies) Steamships and the Trans-Canada Air Lines. I think the report which we have been considering is properly before this committee and I want that to be definitely understood so that there will be no confusion on that point.

Even though the report is properly before us I feel that the terms of reference do not provide that we should go beyond the consideration—these are the words used—the consideration of the report, the accounts, estimates, bills and so on placed before us relating to Trans-Canada Air Lines. We are not asked to give any expression of opinion on government policy; we are not asked to give any opinion on whether competition should take place between airlines in Canada. I feel that it is not fair competition to ask C. P. Airlines, Pacific Western or T.C.A. to be balanced off against one another. We have heard today that certain air routes are allocated to one company, that certain air routes are allotted to another company and certain other air routes to yet another company. We have heard that in some instances there are two airlines competing with each other, though not in each instance, and for these reasons I feel that the motion submitted by Mr. Hamilton (York West) and seconded by Mr. Hamilton (Notre-Dame-de-Grâce) is not within the terms of reference and I must declare it out of order.

Mr. HAMILTON *(York West)*: With respect, Mr. Chairman, may I appeal your ruling?

The CHAIRMAN: Very well. Those in favour of sustaining my ruling say "yeah" contrary, "nay".

The CLERK OF THE COMMITTEE: The yeahs number 13, the nays six.

The CHAIRMAN: I declare the Chairman's ruling sustained.

Mr. HAMILTON *(York West)*: Before passing this last section and in spite of the result of the last motion I would like to submit at this time Mr. Chairman that we have dealt, under the heading Property and Equipment, and under the heading of Development with the types of aircraft in use by the company and the plans for their replacement and conditions attaching thereto.

In this respect I would like to submit again that in the course of the examination of Mr. McGregor we referred at considerable length to developments in aircraft, to the use of turbo-prop aircraft, the use of jet type aircraft and their availability, their place of manufacture, the date when they might be available for service and where they might fit into the over-all competitive picture. Submitting again, as I do, that the examination of Mr. McGregor does in fact constitute part of the report of Trans-Canada Air Lines I would like to move, seconded by the hon. member for Kamloops (Mr. Fulton) that in connection with its consideration of the portion of the Trans-Canada Air Lines' report dealing with the type of aircraft available for future service the committee should call and question witnesses from the Canadian aircraft industry.

Right Hon. Mr. HOWE: Your idea is to call the manufacturer and ask if he thinks T.C.A. should buy his aircraft?

Mr. CHURCHILL: I think we could find plenty of those, sir.

The CHAIRMAN: There is a motion before us here, a motion by Mr. Hamilton of York West seconded by Mr. Fulton of Kamloops which reads as follows:

> That in connection with its consideration of that portion of Trans-Canada Air Lines' report dealing with the question of the types of aircraft available for future service, the committee should call and question witnesses from the Canadian aircraft industry.

The question is on the motion of Mr. Hamilton. I do not know that I am going to express an opinion on it; I shall leave it to the committee to decide.

Right Hon. Mr. HOWE: That is a matter for the internal management of the company, I think.

The CHAIRMAN: If members of the committee want to consider it I will be glad to have them consider it and to receive any representations.

Mr. LANGLOIS (*Gaspe*): I suggest that if these companies have not been able to convince T.C.A. that it should buy their machines then I do not see the point in their trying to convince us.

Mr. POWER (*Quebec South*): I do not consider that we are in a position to judge it.

Mr. WEAVER: I think this is a superfluous motion. I am not in a position to tell T.C.A. it should buy any particular type of aircraft.

Mr. BYRNE: Why do you approve their report then? These are opinions on the report itself.

Mr. LANGLOIS (*Gaspe*): I think the Chairman should first ascertain how many experts on aircraft we have in this committee before we consider this matter.

Right Hon. Mr. HOWE: The report deals only with aircraft that are on order. There are no future plans mentioned in the report, and no future plans decided on.

Mr. HAHN: I am satisfied that T.C.A. is under excellent guidance in the hands of Mr. McGregor as President, and by supporting that particular resolution I would rather feel that I did not trust his good judgment. I feel that I am quite happy with the judgment he has shown, but I would like to have seen the other resolution put through, that I might have had witnesses appear.

Mr. BYRNE: It would mean that we would have to bring people from England and other parts of the world.

Mr. CARRICK: I submit that this motion is out of order too. Again the terms of reference are to examine the accounts, estimates and bills. It does not seem to me that any light is going to be thrown on them at all by calling witnesses to deal with any type of aircraft which T.C.A. might purchase.

The CHAIRMAN: Let us take a vote on it. I shall read it again, so that everyone will be clear:

> That in connection with its consideration of that portion of Trans-Canada Air Lines' report dealing with the question of the types of aircraft available for future service, the committee should call and question witnesses from the Canadian aircraft industry.

Are there any questions on this motion? All those in favour will please say "yea", and those opposed will say "nay"!

The CLERK OF THE COMMITTEE: The "yeas" number 5, and the "nays" number 14.

The CHAIRMAN: I declare the motion lost. Now, shall the item "Development" on page 22 carry?

Carried.

Shall the annual report of Trans-Canada Air Lines for the year 1955 carry?
Carried.

Mr. FULTON: So long as you are not carrying the balance sheet.

The CHAIRMAN: I think that is usually dealt with later, along with the budget or the Auditor's report.

Mr. FULTON: All right.

Mr. KNIGHT: It is perhaps unusual but I have a note here from my colleague, Mr. Gillis, who has asked me to apologize to you for his inability to be here tonight. It seems that his private member's resolution was before the house, and it has been all day. Therefore he has been unable to leave.

The CHAIRMAN: Thank you very much. The next item is the operating budget for the year 1956. Are there any questions on the operating budget for the year 1956? It reads as follows:

TRANS-CANADA AIR LINES
OPERATING BUDGET
YEAR 1956

Operating Revenue	$85,700,000
Operating Expense	84,400,000
	1,300,000
Non-Operating Expense—net	800,000
Income	500,000

The CHAIRMAN: Does the operating budget for the year 1956 carry?
Carried.

Next is the balance sheet which will be found on page 24 and 25 at the back of the Annual Report. Are there any questions on the balance sheet as of December 31, 1955?

Mr. FULTON: Yes.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Looking at the balance sheet earlier today, in commenting on the tax position, Mr. McGregor said to us that the pre-paid transportation was being added back by the tax department to the profits of a given year, although he was not actually taking it into his financial picture for that year.

Mr. MCGREGOR: That is correct.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): You stated to us, Mr. McGregor, a figure of some $400 thousand odd less than last year, and I think it was $300 thousand odd this year. I find in the balance sheet an amount of pre-paid transportation of over $2 million. What would be the explanation for that?

Mr. MCGREGFR: I think we were talking about a change in the amount of increase between one year and the next.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Then the figures that you gave me were changed in the amount?

Mr. MCGREGOR: Yes.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): That is to say, this entire amount of $2 million odd, which is shown in your balance sheet has not been taken by you into your operating statement, of course?

Mr. MCGREGOR: That is right.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): You have for tax purposes the entire amount of $2,176,802 which has been taken into your operating picture?

Mr. MCGREGOR: Yes, that is correct.

Mr. FULTON: The item of air travel plan; is that for pre-paid passage or what is it?

Mr. MCGREGOR: It appears twice under the title of air travel plan. One is a deposit made by an air travel plan holder, and the other is an account receivable by the air travel plan holder.

Mr. FULTON: Is that where a company will pay to you a deposit for its employees, travelling, on their company's business?

Mr. MCGREGOR: Yes. The holder of the air travel plan deposits $425 and maintains it at that figure, and current billings are made of the amount of transportation used. If he avails himself of it and travels, he would be billed for whatever transportation had taken place and his deposit would again rise to $425.

Mr. FULTON: These are as they were when the account was rendered, but unpaid?

Mr. MCGREGOR: That is right.

Mr. BELL: Mr. McGregor, I notice in the report that the traffic balances payable are nearly double the traffic balances receivable from the other lines. Would that mean that we would use other lines twice as much?

Mr. MCGREGOR: No, it means that at the end of the year the balance lay in that relationship that you speak of. It depends on the amount of T.C.A. mileage on a ticket sold with respect to that provided by another airline, in relation to the tickets that we sold. We have less than other airlines, because of the short haul that we are providing on travel to the southern United States, Florida and so on.

The CHAIRMAN: Is the balance sheet carried?

Carried.

The CHAIRMAN: Then, we will proceed to the statements showing the Operating Budget for the year 1956; and also the Capital Budget for the same year. They will be printed with the evidence. The operating budget has been filed. The Capital Budget is as follows:

TRANS-CANADA AIR LINES
CAPITAL BUDGET
YEAR 1956

	1955 Revotes	New Estimates	Total
Airplanes and Components			
Airplanes	$ 870,000	$ 8,189,000	$ 9,059,000
Airframe Equipment	130,000	1,087,000	1,217,000
Power Plants and Engines	26,000		26,000
Propellers			
Radio			
Misc. Flying Equipment			
Aircraft Spares	737,000	189,000	926,000
Total	$1,763,000	$ 9,465,000	$11,228,000
Ground Facilities and Components			
Ground Communication	$ 4,000	$ 37,000	$ 41,000
Hangar and Shop Equipment	432,000	257,000	689,000
Ramp Equipment	67,000	61,000	128,000
Motorized Vehicles	177,000	222,000	399,000
Office Equipment	125,000	258,000	383,000
Engineering Equipment	3,000	16,000	19,000
Storage and Distribution Equipment	3,000	10,000	13,000
Miscellaneous Equipment	118,000	307,000	425,000
Total	$ 929,000	$ 1,168,000	$ 2,097,000
Buildings	$ 20,000	$ 2,555,000	$ 2,575,000
Contingency	$	$ 300,000	$ 300,000
Grand Total	$2,712,000	$13,488,000	$16,200,000

The expenditure in respect of each of the above items may exceed the amount shown by not more than 10%, without further approval, provided the total expenditure on the said items does not exceed $16,200,000.

STATEMENT SHOWING SOURCE OF FUNDS FROM WHICH
CAPITAL EXPENDITURE IS TO BE FINANCED

Net Income	$ 500,000
Depreciation Accruals	6,100,000
Loans from CNR	9,600,000
	$16,200,000

* Included in these items are shown down payments on aircraft to be delivered in subsequent years. Approval of these items carried with it commitment for expenditures of $7,931,000 in 1957 and $8,146,000 in 1958.

Mr. HAHN: You have not finished with the statement of Income have you?

The CHAIRMAN: Not yet.

Mr. HAMILTON (*York West*): Air-frame equipment, what is that?

Mr. MCGREGOR: Aircraft as distinguished there from power plants and associated equipment.

Mr. HAMILTON (*York West*): Well, is the complete aircraft then shown in there?

Mr. MCGREGOR: No.

Mr. HAMILTON (*York West*): That is what I say: does that mean you buy complete aeroplanes without engines, as replacements?

Mr. MCGREGOR: No. Air-frame equipment is equipment installed in air-frames and includes galley equipment and post-delivery modifications, and fleet modifications to the Constellations and so on.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Mr. Chairman, is that amount shown there for office equipment about in line with your normal pattern over the last few years?

Mr. MCGREGOR: We could look up last year's figures in a minute. I think our data here will go back two years. That item of 1955, the capital budget was a revote of $97,000, estimates of $280,000, a total of $377,000 as compared with $383,000 in the 1956 Capital Budget.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Are you doing anything fancy, like some of the American airline companies, punch card accounting equipment for reservations, and that type of thing?

Mr. MCGREGOR: We have used punch card equipment for some years, but not for reservations, Mr. Hamilton, and it is rented, not purchased.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): It would not be shown here at all?

Mr. MCGREGOR: No.

Mr. CHURCHILL: Mr. Chairman, there is one question in the column "New estimates" under the heading of "Miscellaneous equipment". There is the item of $307,000. In the total, this is the second largest item of that particular group. What are some of the items under "Miscellaneous" that lumps so large?

Mr. MCGREGOR: It consists almost entirely of one very large item, which is five flight trainers. They are an evolution of the idea of the Link trainer. It provides more comprehensive training. These trainers account for $300,000 of that item, new equipment with a revote of $107,000.

Mr. HAMILTON (*York West*): That is not an item that is recurring at all?

Mr. MCGREGOR: No.

Mr. HAMILTON (*York West*): That type of trainer,—is it something that can be modified and kept up to date to simulate the latest aircraft that you would acquire?

Mr. MCGREGOR: Well, it is not a flight simulator, Mr. Hamilton, it is a universal trainer that covers approach procedures and straight instrument operation. A pilot trained on it is capable, having learned the cockpit of any aircraft, to proceed by the training provided in that flight trainer.

Mr. BELL: Mr. McGregor, can you take a minute to just tell us how these large aircraft are purchased? I notice there is a down payment. Is that price the same throughout, or do later planes perhaps come at a lower price, because production has been stepped up and one think and another?

Mr. MCGREGOR: Mr. Bell, our experience, unfortunately has been that later planes of the same type cost more, as labour cost rises. For instance, we are paying more for our more recently purchased Super Constellations than we did for our earlier ones by the substantial sum of $400,000 in the case of an aircraft costing $2,200,000. The same is true of the Viscount.

Mr. KNIGHT: The increase would be true of materials?

Mr. MCGREGOR: Well, the material cost is going up, but I think it is largely the labour costs going up on the part of the manufacturer. The first part of your question; it varies between manufacturers. It has been normal in the past in quite a few cases to charge 25 per cent of the total cost of the aircraft to be paid with the order, and the remainder on delivery. A modification of that involves paying 12½ per cent with the order, 12½ per cent a year later and, again the balance with the order. In the case of the figure suggested by the manufacturer of these new large jets, there is yet another system involved with a long succession of interim payments.

Mr. FULTON: Does the manufacturer not usually give you a firm price on, say, 36 Viscounts? Could you not get a firm price for the whole order?

Mr. MCGREGOR: If we ordered 36 at one time, yes.

Mr. FULTON: I see; but, you order them in instalments to get experience to see if they live up to expectations?

Mr. MCGREGOR: Partially, but primarily to get plane deliveries spaced to meet the need as it arises rather than have an order for 36 aeroplanes delivered consecutively and have some of them surplus to immediate requirement.

Mr. BYRNE: Supposing a situation occurred like that with the Comets, would we be penalized for the amount of our original payment?

Mr. MCGREGOR: It would depend on the terms of contract that would be agreed to between the purchaser and the manufacturer. In the case of one purchaser of the Comet, so far as I can make out he is paying the shot.

The CHAIMAN: "Budget".

Mr. FULTON: One more question. What are the main buildings contemplated in the item there, $2,555,000?

Mr. MCGREGOR: It contemplates the commencement of construction of a hangar at Dorval. Our requirement for housing of aircraft at Dorval has risen rapidly with the introduction of larger fleets.

The CHAIRMAN: "Budget for the year 1956".

Carried.

The CHAIRMAN: The next item is the statement of Income on page 26. Are there any questions about the statement of Income?

Mr. HAHN: Mr. Chairman, "Passenger Service"; there is some increase in that over the year, but the reason I mention this particular point is that, earlier, Mr. McGregor, I referred to the question of Moose Jaw, I believe, asking T.C.A. to stop there, and I made the mistake of referring to Mr. Marler as having answered the question. It should have been credited to Mr. Dickey in this particular instance, but I was not sure that I had the answer properly there. Was it the fact that Moose Jaw would not warrant it because of the population?

Mr. MCGREGOR: No, I said that they do have service there, Canadian Pacific Air Lines, and its potential was not high, and therefore I do not think additional service from T.C.A. would be needed.

Mr. FULTON: That is a north-south service, is it not?

Mr. MCGREGOR: Yes it is, and it connects with our main lines at two points.

Mr. FULTON: Yes, but T.C.A. operates east and west?

Mr. MCGREGOR: Yes, largely.

Mr. HAHN: It would not, under ordinary circumstances, with a population of about 30,000 as compared with Yorktown's 80,000 and Medicine Hat's 20,000, and so on—would not potentially have sufficient traffic to warrant it?

Mr. McGregor: Well, you are assuming, Mr. Hahn, that the other services would stop when ours commence. The C.P.A. is north-south to Saskatoon, I think, and the T.C.A. is from Winnipeg, or Regina as the case might be and on to Medicine Hat.

Mr. McGregor: I believe C.P.A. serves Regina, Moose Jaw, Saskatoon.

Mr. Hahn: Do their schedules tie in with T.C.A.?

Mr. McGregor: Quite reasonably, yes. I travelled that service last year and made good connections.

Mr. Fulton: Mr. McGregor, how do you differentiate between passenger services and sales and reservation service? How can you allocate the costs between the two services?

Mr. McGregor: I do not understand you.

Mr. Fulton: I am referring to this item Sales and Reservation and the item Passenger Service.

Mr. McGregor: The passenger service referred to there is the service the passenger is given largely en route, and that is almost entirely meal services, cabin equipment and so on.

Mr. Fulton: I would not have thought it would be meals. What about stewardesses, would they come under that or under flight operations?

Mr. McGregor: Under that item, $1,300,000 cabin attendants' salaries, approximately $1,500,000 for meals. We can get the details of that if you like.

Mr. Langlois *(Gaspe)*: Cabin equipment?

Mr. Fulton: That surely is capital cost.

Mr. McGregor: Passenger supplies account is approximately half a million dollars and the rest are small items.

Mr. Fulton: Would the salaries of the stewardesses be in that item, or the item Flight Operations?

Mr. McGregor: No. They are in this item, $1,300,000.

Mr. Fulton: Thank you.

The Chairman: Shall the item Statement of Income carry?

Mr. Hamilton *(Notre-Dame-de-Grâce)*: Could Mr. McGregor tell us about the item of Incidental Services and what incidental services would be largely?

Mr. McGregor: Yes.

Mr. Hamilton *(Notre-Dame-de-Grâce)*: I presume it would not have anything to do with stewardesses.

Mr. McGregor: No. Their services are not incidental. Examples of Incidental Services are:—Aeronautical Radio Incorporated which is a communication service which we patronize, services rendered to Air France, the same for American Airlines and British Overseas Airways, and the department of defence contract we speak of, and Royal Dutch Airlines. We all, when operating comparatively in frequently into a point, ask the local airline to service the aircraft and cabins charges are made for these services.

Mr. Hamilton *(Notre-Dame-de-Grâce)*: Why did that drop a third this year over last year?

Mr. McGregor: Due to the cancellation of the defence contract in July.

Mr. Hahn: Mr. Chairman, I would like to ask Mr. McGregor a question about express and freight. Earlier today you said that freight did not pay. The air express does pay its way?

Mr. McGREGOR: I spoke using the general term, "freight," but both express and freight tend to be directional. The freight is even more directional than the air express. There is some percentage of interchange on that. Our westbound commodity load is, I think, about 85 per cent. Similarly on the transborder services our northbound traffic is about 90 per cent of the total. In other words the aircraft are going out from the eastern centres well loaded and returning exceedingly lightly loaded. On the transborder services air freight is 91·8 per cent northbound and air express is 92 per cent northbound of the total, and on the trans-Canada continental service air freight is 69 per cent westbound and air express is 74 per cent westbound. On the Atlantic services air express is 70 per cent westbound. There is no express on the trans-Atlantic service, it is all air freight, and that is 70 per cent westbound.

Mr. FOLLWELL: By cutting your rates from west to east would you pick up any more business and would it be of value to you?

Mr. McGREGOR: I doubt it. It would be rather hard to justify a directional rate. The type of commodity which is justified in moving by air does not seem to be produced in the western part of Canada to any degree. The same is not true in the States where they have large manufacturing plants on the west coast.

Mr. FOLLWELL: Do you carry any fruit from the west coast?

Mr. McGREGOR: In certain periods of the year we carry a little fruit, but the main eastbound carriage is cut flowers in the spring.

The CHAIRMAN: Shall the item Statement of Income carry?

Mr. FULTON: I have one question which relates back to the operating budget, but I would like to relate it to the statement of income for 1955. As compared with 1955 you anticipate an increase in operating revenues of some $9 million and an increase in operating expenditure of some $12 million—

Mr. McGREGOR: I don't think so. Operating expenditures are calculated for 1956 at $84,400,000.

Mr. FULTON: Yes, and in 1955—I beg your pardon I have somehow got onto the wrong column. It must be getting late.

The CHAIRMAN: Shall the item Statement of Income carry?

Item carried.

The CHAIRMAN: We have just to deal with the auditors' report if it is the wish of the committee that we should deal with it tonight.

We have Mr. Turville with us together with his associates in the firm of George A. Touche & Co. and if it is your wish we could deal with this matter, I think.

I know that the committee would want me to express our thanks to you, Mr. McGregor, and to Mr. Harvey and the other members of T.C.A. who have accompanied you here today—to thank you for the time you have put at our disposal in attending the committee and for the effort you have put forward in answering questions. They would like me to express our appreciation of the fact that you have been so willing to be of assistance and to give freely of your time in providing information to the committee. On behalf of the committee I wish to thank you and your associates for the attention you have given at these sittings.

Hon. MEMBERS: Hear, hear.

The CHAIRMAN: Mr. Turville, we have before us the auditors' report to parliament for the year ended 31 December 1955 relating to Trans-Canada Air Lines. Is it the desire of the committee that this should be taken as read and printed? Is there a mover for that motion?

Mr. Hahn moves, seconded by Mr. Byrne that the report be taken as read and printed.

GEORGE A. TOUCHE & CO.
Chartered Accountants
Coristine Building
410 St. Nicholas Street
Montreal 1

25th FEBRUARY, 1956.

TRANS-CANADA AIRLINES

The Right Honourable the Minister of Trade and Commerce,
Ottawa, Canada.

Sir,

We have audited the accounts of the Trans-Canada Air Lines for the year ended 31st December, 1955, under authority of the Trans-Canada Air Lines Act, as amended and we now report, through you, to Parliament.

Our examination of the accounts was made in accordance with generally accepted auditing standards, and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. In this connection we worked in collaboration with the executive accounting officers having as a common objective the securing of maximum internal protection to the Air Lines in the control of cash receipts and expenditures, securities held, material stores and accounts receivable of all types. The Air Lines are further protected by fidelity bond insurance with outside underwriters.

Our audit of the accounts included the verification of the balance sheet and the statement of income and certification thereof.

STATEMENT OF INCOME

Depreciation

Provision for depreciation on capital assets was made during the year on the following bases:

(a) Flight equipment in service—

Super Constellation—over a period of seven years from date of being put into service.

Viscount—over a period of nine years from date of being put into service.

Bristol—over a period of five years from date of being put into service. The three aircraft comprising this fleet were sold in the latter part of December, 1955.

North Star—having been fully depreciated in 1954, no provision is required.

DC3—having been fully depreciated in 1951, no provision is required.

(b) Ground facilities—estimated useful life, the period depending upon the type of asset.

We have received certificates from a responsible officer to the effect that all flight equipment and ground facilities have been maintained in a proper state of repair and in an efficient operating condition during the year, that such physical retirements as should have been made during the year, as a result of wear and tear and obsolescence have been made, and that notification of all such retirements has been given to the Accounting Department.

Non-Operating Income—Net

This account is principally comprised of earnings from the Insurance Fund, and discounts earned on purchases.

Interest Expense

Interest Expense covers interest on the Canadian National Railway Company's investment in the long term debenture, together with interest on notes payable to the railways.

BALANCE SHEET

Current Assets

Accounts receivable and payable of all classifications have been tested by us with the subsidiary and controlling records, cash and other transactions subsequent to the year end, departmental files and general supporting information, but such accounts have not been verified by direct communication with the individual debtors and creditors.

A physical inventory of material and supplies was taken in 1955. We have received a certificate from the responsible officers to the effect:—

(a) That the quantities were determined by actual count, weight or measurement or by a conservative estimate where such actual basis was impracticable, and

(b) That the inventory pricing was based on latest invoice price for new materials, and that proper allowance for condition has been made in pricing usable second-hand, obsolete and scrap material.

Ledger values were brought into agreement with the physical inventory by a credit to operating expenses.

Insurance Fund

The Insurance Fund consists of securities of the Government of Canada, Canadian National Railways (Guaranteed by the Government of Canada), and securities issued or guaranteed by Provincial Governments, together with cash and sundry current assets. The year-end market value of these securities was 3.25% less than cost.

Capital Assets

Property and equipment is carried on the basis of cost less accrued depreciation. Major capital expenditures during the year comprised the final payments on thirteen Viscount aircraft and associated spare parts, the final payments on the stores building and engine test house at Winnipeg and progress payments on ten further Viscount and two Super-Constellation aircraft. Three Bristol freighters, the DC3 cargo aircraft and the hangar at Moncton were sold during the year.

Overhaul Reserve

This reserve has been reduced during the year by $369,000 principally accounted for by charges covering the cost of spar cap modification and major overhauls to North Star aircraft.

Surplus

Final assessments in respect of Federal Income Taxes for the years 1952 and 1953 have been received, and the refund of $228,000 arising therefrom has been credited to Surplus. The corporation is not liable to Federal Income Tax for 1955.

An amount of $473,000 has been credited to Surplus resulting from the settlement of claims against underwriters relating to aircraft accidents in 1954.

Where foreign currencies are involved, the balance sheet accounts of the Air Lines are converted generally as follows:

(a) United States Currency—at the dollar par of exchange.

(b) Sterling Currency—at the rate of $2.80 to the pound.

Dollar amounts stated in this report are to the nearest thousand.

Yours faithfully,

(signed) GEORGE A. TOUCHE & CO.

The CHAIRMAN: Are there any questions on the auditor's report?

Mr. FOLLWELL: With regard to the depreciation provided for on capital assets, I see on the first page of the report that a Super Constellation is written off over a period of seven years from the date of being put into service; a Viscount over a period of nine years, and a Bristol over a period of five years.

I was wondering if you write off an equal percentage every year or whether you allow a larger percentage for the first year?

Mr. F. P. TURVILLE: No, each plane as it is put into service is depreciated from the date it comes into service. If a plane goes into service on April 5, for example,—the depreciation charge would commence on that date and be continued at the same rate on a "straight line" basis.

Mr. FOLLWELL: On an average depreciation?

Mr. TURVILLE: Yes.

Mr. FULTON: Mr. Turville, are there any changes in the report this year as compared with last year—any matters that you wish to bring to our attention in connection with your findings?

Mr. TURVILLE: Well, this year we have reported on the fact that a physical inventory was taken, while last year we reported that a physical inventory was not taken and the book records were accepted.

Mr. HAHN: Does the report show the company to be in a more advantageous position this year than last year?

Mr. TURVILLE: A very slight advantage. I think the overage which developed from the taking of the physical inventory, amounted to about $48,000 on an inventory of $7½ million. So it was a very small percentage, and it indicates that the control of stock is satisfactory; that the company's control of its inventory is sound.

Mr. HAHN: I agree.

Mr. FULTON: Last year you reported in connection with the insurance fund, that of the year end the market value was slightly in excess of cost, whereas this year you say that at the year end the market value was 3·25 per cent less than cost. Is a change of that magnitude to be expected?

Mr. TURVILLE: Yes, it is because the market prices of government bonds and Canadian National Railway bonds have gone down. Some were at a premium but now there is a slight discount.

Mr. FULTON: Should we take it from your comment that any particular importance should be attached to it?

Mr. TURVILLE: The reason we comment as Auditors on a matter of that sort, is that in the setting up of a balance sheet, you should, as far as possible, value the assets at the amount which could be realized at the date of the balance sheet. On these assets you would lose 3·25 per cent if you had to realize on them, but naturally you do not, because they are in the fund and so it is not of any significance.

Mr. FULTON: Although it is not of any significance, it should be noted.

Mr. TURVILLE: That is right.

Mr. FULTON: It would only become significant if you had to realize on them?

Mr. TURVILLE: Yes.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): You are presenting your inventory on the latest invoice price for new materials.

Mr. TURVILLE: Yes, for new materials.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): And that is consistent. You did that also last year. In a time of rising prices with a rising market, that would tend to give you a slight appreciation in your inventory each year which would be carried direct as a net profit.

Mr. TURVILLE: Yes, it would do so. If the inventory increased very largely in quantity, it would have that effect; but that is a principle which has been adopted not only by Trans-Canada Airlines but by Canadian National Railways consistently.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Would you say that that practice is followed fairly consistently by other firms?

Mr. TURVILLE: The usual practice of course is cost or market whichever is the lower.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): So actually while it is quite a respectable system of valuing an inventory, it is not the usual system of valuing an inventory?

Mr. TURVILLE: No.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): And it does tend to give you a somewhat higher valuation for your inventory than you would realize if it were done at cost or market, whichever was the lower?

Mr. TURVILLE: It does not have any material effect on the earnings of the company unless there is a substantial increase in the volume at the end of the year.

Mr. HAMILTON (*York West*): In connection with your depreciation, this depreciation which is set out here is what you use for the operation of the company and I assume there is a difference in calculating the tax return?

Mr. TURVILLE: Yes. The tax rates are different. The airline uses the straight line method for their accounts, but for tax purposes they can claim the amounts provided under the Income Tax Act.

Mr. HAMILTON (*York West*): What rate are you taking for tax purposes?

Mr. TURVILLE: As far as tax is concerned, the question of depreciation does not arise in this particular year.

Mr. HAMILTON (*York West*): In other words, this year you do not need to take it at all. You are seeking credit from other years.

Mr. TURVILLE: That is right.

Mr. HAMILTON (*York West*): Do you know what rate you were taking previously on these aircraft?

Mr. TURVILLE: What do you mean, Mr. Hamilton?

Mr. HAMILTON (*York West*): For tax purposes, what were you taking?

Mr. TURVILLE: The government rate is 40 per cent on aircraft.

Mr. HAMILTON (*York West*): You were taking the full limit when you needed it?

Mr. TURVILLE: Yes, but we have not had to do that this year.

Mr. HAMILTON (*York West*): From the operation standpoint, where do you get this period? Is this a recommendation of the company on the basis of seven to nine for five years for aircraft?

Mr. TURVILLE: That is perhaps a question which should be put to Mr. McGregor, but it is experience which has been gained in the use of these planes, and it is regularly adopted in the United States.

Mr. HAMILTON (*York West*): Well, that is what I wanted to know. Did you take these amounts, the figures taken on this type of aircraft?

Mr. TURVILLE: Well, we cannot have the experience on the Viscounts yet, as they have only recently gone into service.

Mr. HAMILTON (*York West*): None of them have been depreciated yet?

Mr. TURVILLE: Yes, they have been depreciated from the date of coming into service.

Mr. HAMILTON (*York West*): And going on, I think Mr. Fulton made reference to the insurance fund; is the company in this position, that apparently it is able to get funds as it wishes? Maybe Mr. McGregor has to talk to Mr. Gordon, about this. Is there any particular advantage in holding an insurance fund while you are borrowing, from, let us say, your parent company? I mean, do we gain any advantage? Does the return of the interest on the insurance fund, is it greater than the interest we have to pay for the money borrowed?

Mr. TURVILLE: It is, quite considerably.

Mr. HAMILTON (*York West*): It is?

Mr. TURVILLE: Yes.

Mr. HAMILTON (*York West*): What rate did the money come from the C.N.R., do you know?

Mr. TURVILLE: Yes, I do.

Mr. MCGREGOR: If I might interject; I was referring to the point raised by Mr. Hamilton about the need for an insurance fund. T.C.A. as an international operator, must either show that it has a liquid fund to other governments in whose country it operates, or that it is fully insured, so that regardless of any insurance rate question, it would be necessary for us to either carry an all-risk policy at great expense, or have this liquid fund.

Mr. HAMILTON (*York West*): I am aware of that, but I would think it would be possible, even through the International Air Agreement for T.C.A. to be backed by the guarantee, say of the C.N.R. to fulfil this requirement. Maybe it would not; but what I am asking is: do we get more from the fund in interest than we pay out for the loan we are receiving?

Mr. TURVILLE: Yes.

The CHAIRMAN: Are there any other questions on the auditor's report?

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Mr. Turville, would you comment on this question of taxation policy—Mr. McGregor was good enough to point it out to us earlier in the day—which requires the corporation, T.C.A., to take into their current year's operations prepaid transportation rather than carrying it forward as they do in their own books?

Mr. TURVILLE: Yes. Now, you see, I think you got the explanation before, Mr. Hamilton, that the company does take into revenue only the prepaid transportation which has been used up by some purchaser of a ticket, while the income tax division treats that as being earned as soon as the cash is received.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Well, as I said, I got the explanation from Mr. McGregor.

Mr. TURVILLE: Yes.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): But, is that the normal policy on the part of the Income Tax department to force you to carry prepaid items of that sort, to force you to pay tax on prepaid items of that sort?

Mr. TURVILLE: Yes, as a reserve, really.

Mr. FOLLWELL: Mr. Chairman, under "Overall reserve", there is one item here called "spar Modification". I just wondered if somebody would tell us what that is.

Mr. TURVILLE: I have asked what it is, but I would rather have it explained by Mr. McGregor.

Mr. McGREGOR: The spar is the main structural member in the Link and the cap thereof, while it sounds rather innocuous, is also a major integral part of the spar. And the major modification to that which is involved in this case is quite an extensive repair to the wing.

Mr. FOLLWELL: What do you have to do with it?

Mr. McGREGOR: You have to take the wing skin off and replace parts of the spar cap in accordance with the manufacturer's requirements.

Mr. BELL: That is a new reserve, an overhaul reserve?

Mr. TURVILLE: No.

Mr. BELL: This is the first year we have had a major overhauling?

Mr. McGREGOR: The reserve has been in operation for some time; and this is the second year to my knowledge in which a reduction has been made from it with respect to a piece of work of this type.

Mr. BELL: Well, there was not any overhaul reserve shown last year?

Mr. TURVILLE: Oh, yes, there was on the balance sheet.

Mr. HAHN: Would you consider it good business in the case of one government organization or body, rather one crown company receiving an income from another crown company? What I am thinking of in respect of this is the matter of T.C.A.'s overhaul service of these aircraft at Winnipeg, some $190,000 profit shown on that which is approximately the amount T.C.A. earned or made a profit of last year.

Mr. TURVILLE: Yes.

Mr. HAHN: Without that we would have shown no profit and if you hadn't had this inventory made you would have had a deficit. Is that good business to have one crown company paying another?

Mr. TURVILLE: It is good for the Trans-Canada Air Lines to have this revenue. I think you asked the question some time back about incidental expenses. The main reason for the drop from $2,313,000 in 1954 to $1,675,000 in 1955 is through the decrease in the amount received from the Department of Defence Production. So it follows, as far as T.C.A. was concerned that by the loss of the contract, it has reduced the profits they otherwise would have had. If they had had the same amount of work for the Department of Defence Production in 1955 as in 1954 they would have shown a very much larger profit than this.

Mr. HAHN: But, in the over-all picture, it is in effect one company subsidizing another.

Mr. TURVILLE: We are dealing with the Trans-Canada Air Lines.

Mr. HAHN: I realize that but I am interested in both.

The CHAIRMAN: Shall the auditor's report carry?

Agreed to.

The CHAIRMAN: We will sit tomorrow morning at 10 o'clock in room 118. The Canadian National Railways people are here and will be ready at 10 o'clock tomorrow morning. I know the committee would want me to thank Mr. Turville and his associates for the very comprehensive auditor's report which they presented. Thank you.

The committee adjourned.

APPENDIX "A"

COMPARISON OF PASSENGER LOAD FACTORS NORTH AMERICAN SERVICES 1955

	Percentage			
	American Airlines	Trans-World Airlines	United Air Lines	Trans-Canada Air Lines
January	67·0	60·2	63·8	66·4
February	63·7	54·6	60·3	63·4
March	65·6	55·8	62·3	65·9
April	69·9	63·9	66·2	69·6
May	66·2	65·8	66·0	71·6
June	73·2	73·8	75·2	76·2
July	69·2	69·5	72·2	71·7
August	67·9	68·7	73·6	72·9
September	70·2	69·3	73·0	75·3
October	68·4	66·7	69·7	71·1
November	67·0	60·2	58·4	66·9

N.B.—Figures extracted from graph charts reviewed by Committee
The above in reply to a request from Mr. Carrick.

COMPARISON OF PERCENTAGE OF NOSHOWS TO PASSENGERS BOOKED‡—YEARS 1954 AND 1955

	Percentage			
Period	Trans-Canada Air Lines	American Air Lines	United Air Lines	Air Traffic Conference*
1954—July - September	3·7	10·0	10·1	8·4
October - December	3·6	11·7	14·8	9·6
1955—January - March	3·5	9·9	13·7	8·0
April - June	3·9	10·8	12·6	9·3
July - September	4·3	11·0	17·6	11·2
October - December	4·6	12·7	17·9	12·0

‡—Percent of passengers booked

*—Air Traffic Conference Industry Average figures extracted from graph charts reviewed by Committee.

Air Traffic Conference Definition of a Noshow

Reserved seat not occupied at flight departure time by passenger for whom it was reserved and was not result of misconnection.

The above in reply to a request from Mr. Carrick.

PERCENTAGE OF OVERSALE DEPLANEMENTS ‡

Air Traffic Conference Industry & Trans-Canada Air Lines

Year 1955	Percentage	
Period	Trans-Canada Air Lines	Air Traffic Conference*
January-March	·05	·06
April-June	·04	·11
July-September	·04	·17
October-December	·04	·09

‡—Percent of passengers carried.

*—Air Traffic Conference Industry average figures extracted from graph charts reviewed by Committee.

Air Traffic Conference Definition of an Oversale Deplanement

Condition which occurs when a passenger who has a valid ticket or of whom the airline has a positive reservations record is not accommodated at flight departure in the reserved space.

The above in reply to a request from Mr. Carrick.

APPENDIX "B"

TRANS-CANADA AIR LINES

Mexico Service—1955

SOUTHBOUND	Total Seats	Passengers -Tampa	Seats-Mexico	Passengers -Mexico
January	228	112	116	82
February	182	87	95	90
March	183	94	89	74
April	228	128	100	27
May	183	53	130	33
June	181	31	150	36
July	229	76	153	59
August	181	64	117	57
September	183	71	112	37
October	227	121	106	58
Total	2,005	837	1,168	553

NORTHBOUND	Total Seats	Passengers -Tampa	Seats-Mexico	Passengers -Mexico
January	228	104	124	76
February	182	102	80	63
March	183	74	109	96
April	182	101	81	63
May	217	122	95	65
June	180	56	124	25
July	183	50	133	16
August	228	107	121	78
September	185	35	150	74
October	229	58	171	36
Total	1,997	809	1,188	592

The above in reply to a question by Mr. Hamilton (York-West).

APPENDIX "C"

COMPARISON OF FARES IN WESTERN CANADA

Winnipeg-Calgary direct, $54.35 one way.
Winnipeg-Calgary via Regina and Lethbridge, $97.85 return.
Vancouver-Calgary, TCA, $39.95 one way. CPA, $71.90 return.
Edmonton-Calgary-Regina, TCA, $35.00 one way; $63.00 return.
Edmonton-Saskatoon-Regina, CPA, $30.50 one way; $54.90 return.

The above in reply to a question by Mr. Hahn.

APPENDIX "D"

Statement re T.C.A.'s recommendations to the Department of Transport for the fiscal year 1956-57

There were no recommendations to the Department of Transport by T.C.A. for specific installations; however the Airline did indicate that it would support a programme for surveillance radar installations at major points, i.e. Montreal, Toronto, Winnipeg, Vancouver. T.C.A. would be willing to assist informally with respect to the selection for equipment locations and priority of installation. The surveillance radar equipment T.C.A. had in mind was primarily for air traffic control purposes.

The reason T.C.A. did not make any specific recommendations for this 1956-57 period was because of the technological developments in that field and it was the Airline's opinion that we should ensure that the equipment which is installed would be sufficiently versatile so as to be adaptable to any type of aircraft that might be put into service in the immediate future.

With respect to the installations in Canada, the G.C.A. unit at Gander is fully installed and will be in operation as soon as the training programme for Department of Transport personnel is completed. The R.C.A.F. at Winnipeg are installing a G.C.A. unit which is near completion.

APPENDIX "E"

TRANS-CANADA AIR LINES

Boarding Passengers in Canada
Year 1955

Labrador	
Goose Bay	1,695
Newfoundland	
St. John's	22,736
Gander	10,612
Stephenville	12,029
Nova Scotia	
Sydney	18,159
Halifax	52,440
Yarmouth	5,358
New Brunswick	
Moncton	18,295
Fredericton	6,521
Saint John	14,927
Quebec	
Seven Islands	1,215
Saguenay	808
Quebec City	4,381
Montreal	228,780
Val d'Or	539
Rouyn-Noranda	505
Ontario	
Ottawa	60,409
Toronto	315,522
London	18,031
Windsor	30,933
Muskoka	680
Earlton	202
North Bay	7,636
Sudbury	8,405
Timmins	3,498
Porquis Junction	497
Kapuskasing	2,304
Fort William	14,850
Manitoba	
Winnipeg	66,210
Brandon	1,600
Saskatchewan	
Yorkton	1,880
Regina	25,167
Swift Current	1,456
Saskatoon	13,213
Alberta	
Medicine Hat	1,489
Lethbridge	10,096
Calgary	71,046
Edmonton	64,372
British Columbia	
Vancouver	169,807
Victoria	130,277

The above in reply to a question by Mr. Bell.

HOUSE OF COMMONS

Third Session—Twenty-second Parliament
1956

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

Chairman: HARRY P. CAVERS, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

TUESDAY, MARCH 20, 1956
WEDNESDAY, MARCH 21, 1956
THURSDAY, MARCH 22, 1956
MONDAY, MARCH 26, 1956

Canadian National Railways Annual Report (1955); Income Accounts and Budget (1956).
Canadian National (West Indies) Steamship Lines, Limited (1955); Capital and Operating Budgets (1956).
Canadian National Railways Securities Trust Annual Report for 1955.
Auditors' Report to Parliament respecting C.N.R. and C.N. (West Indies) Co. Ltd., for the year 1955.
Estimates for fiscal year 1956-57—Items 454, 460, 466, 467.

WITNESSES:

Mr. Donald Gordon, Mr. S. F. Dingle, Mr. R. D. Armstrong and Mr. J. A. Sauvé.

INCLUDING SECOND AND THIRD REPORTS TO THE HOUSE

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956.

72027—1

SESSIONAL COMMITTEE

on

RAILWAYS AND SHIPPING

owned, operated and controlled by the Government

Chairman: H. P. Cavers, Esq.

and Messrs.

Batten[1]
Bell
Byrne
Carrick
Cavers
Churchill
Follwell
Fulton
Gillis
Hahn
Hamilton (*Notre-Dame-de-Grace*)
Hamilton (*York West*)
Hanna
Harrison
Healy
Johnston (*Bow River*)
Knight
Langlois (*Gaspé*)
Lavigne
Legare
McCulloch (*Pictou*)
Mitchell (*Sudbury*)
Murphy (*Westmorland*)
Power (*Quebec South*)
St. Laurent (*Temiscouata*)
Weselak[2]

Clerk of the Committee: Antoine Chassé

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(1) To replace Mr. Carter on March 20th and thereafter.
(2) To replace Mr. Weaver on March 21st and thereafter.

CORRECTIONS

PAGE 93

Second paragraph, third line:

"we are *now* empowered" should read "we are *not* empowered";

Third paragraph,

Substitute "Mr. Byrne" for "Mr. Burn".

72027—1½

ORDERS OF REFERENCE

TUESDAY, March 20, 1956.

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

WEDNESDAY, March 21, 1956.

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

Attest:

LEON J. RAYMOND,
Clerk of the House.

REPORTS TO THE HOUSE

TUESDAY, March 27, 1956.

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

SECOND REPORT

Your Committee has considered the following items of the Estimates for the fiscal year ending March 31, 1957, referred to it on March 14, 1956, and recommends their approval, namely:

Vote 454 Prince Edward Island Car Ferry and Terminals deficit, 1956.

Vote 460 North Sydney-Port aux Basques Ferry and Terminals deficit, 1956.

Vote 466 Maritime Freight Rates Act.

Vote 467 Canadian National (West Indies) Steamships Limited deficit, 1956.

Respectfully submitted,

HARRY P. CAVERS,
Chairman.

TUESDAY, March 27, 1956.

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

THIRD REPORT

Pursuant to the Orders of Reference of the House of Commons of March 6th, 12th, 14th and 16th, this Committee had before it for consideration the following:

1. The Annual Report of the Trans-Canada Airlines for the calendar year 1955 and the Auditors' Report to Parliament in respect thereto.

2. The Annual Reports of the Canadian National Railways, the Canadian National (West Indies) Steamships for 1955 and the Auditors' Report to Parliament in respect thereto.

3. The Annual Report of the Canadian National Railways Securities Trust for 1955.

4. The Capital Budgets of the Canadian National Railways, the Canadian National (West Indies) Steamships Limited for the year 1956, and the operating budget and the capital budget for Trans-Canada Airlines for the calendar year 1956.

Your Committee held nine meetings, one of which was solely for the purpose of organization; during the eight remaining meetings the officials of T.C.A. and C.N.R. and the auditors were heard and the reports, budgets and certain matters related thereto were considered and evidence adduced thereon.

It was gratifying to receive a favourable annual report of the Canadian National Railways which this year revealed a surplus of $10,717,689.00. Revenue freight rose to 87·6 million tons, an increase of 10% over 1954 and accounted for 4/5 of total operating revenues or $36·2 million more than in 1954. Your Committee noted the progressive development of diesel-electric locomotives in the system's growing fleet. This will assist in further economies being made in the Canadian National Railway system. The said Annual Report was adopted.

The Annual Report of Canadian National (West Indies) Steamships Limited for 1955 discloses a net operating loss of $95,964.00 as compared with a net operating loss of $319,901.00 in 1954. The operating revenues showed an increase from $5,105,082 in 1954 to $5,946,605 in 1955 with an increase in operating expenses to $5,995,684 in 1955 but the deficit was decreased by approximately $225,000. Credit was given to Mr. J. A. Sauve, General Manager of Canadian National (West Indies) Steamships Limited, for his aggressive campaign to arouse greater freight business in the Carribean area. He is still exploring the possibility of extending the service to Haiti, Puerto Rico and other islands. The said Annual Report was adopted.

The Annual Report of Trans-Canada Airlines for 1955 discloses a net operating revenue of $1,185,689.00 and that after the payment of interest expense amounting to $995,603.00 there was a resulting surplus of $190,095.00. Your Committee noted that the introduction of the Vickers Viscount had been accorded exceptional patronage by air travellers. General prosperity and an aggressive merchandising policy contributed to traffic growth. Important improvements were made to Canada's airports and airways by the Federal Department of Transport. The operations of Canada's air transportation system seem to be carried on in an efficient and capable manner. The said Annual Report was adopted.

The Auditors' Report to Parliament with respect to the Canadian National Railways, the Canadian National (West Indies) Steamships Limited and the Trans-Canada Airlines as well as the Report of the Canadian National Securities Trust for the calendar year 1955 were severally considered and adopted.

Expressions of satisfaction were voiced in the change in format and general outline of the Budget of Canadian National Railways. The 1956 capital budget is affected by two changes in accounting. The chief change is in the manner of depreciation accounting rather than the former method of retirement accounting. The other accounting change is that in previous years the budget was set forth on a net basis whereas the 1956 budget is on a gross basis.

The Financial Budgets of the Canadian National Railways System, the Canadian National (West Indies) Steamships Limited and the Trans-Canada Airlines for the calendar year 1955 were examined and adopted.

The items of the Estimates for the year ending March 31st, 1956, being Votes 454, 460, 466 and 467 were considered and approved.

Your Committee was assisted by the evidence presented by Mr. Donald Gordon, C.M.G., LL.D.; Mr. S. F. Dingle; Mr. R. D. Armstrong; Mr. J. A. Sauve; Mr. G. R. McGregor; Mr. W. S. Harvey; Mr. Turville; and Mr. Morrison, which was readily delivered by these gentlemen in a most efficient and straightforward manner.

A copy of the minutes of proceedings and evidence adduced in respect of the matters referred is appended hereto.

Respectfully submitted,

HARRY P. CAVERS,
Chairman.

MINUTES OF PROCEEDINGS

HOUSE OF COMMONS,

TUESDAY, March 20, 1956

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government, met at 10.00 o'clock a.m. The Chairman, Mr. Harry P. Cavers, presided.

Members present: Messrs. Bell, Byrne, Carrick, Cavers, Churchill, Follwell, Fulton, Gillis, Hahn, Hamilton (*Notre-Dame-de-Grâce*), Hamilton (*York West*), Hanna, Knight, Langlois (*Gaspé*), Lavigne, Légaré, McCulloch (*Pictou*), Mitchell (*Sudbury*), Murphy (*Westmorland*), Power (*Quebec South*), St-Laurent (*Témiscouata*), and Weaver.

In attendance: The Honourable George C. Marler, minister of Transport, and Mr. F. T. Collins; Mr. Donald Gordon, C.M.G., LL.D., President, Canadian National Railways, Mr. S. F Dingle, Vice-President of Operations, Mr. R. D. Armstrong, Comptroller, Mr. W. R. Wright, Director of Public Relations, Mr. R. Sommerville, General Manager of Hotels; also, Mr. S. P. Turville, C.A., with Mr. J. D. Morison, C.A. and Mr. D. T. G. Padley, C.A., of the firm of George A. Touche & Co., Chartered Accountants, Auditors.

The Committee proceeded to the consideration of the Annual Report of the Canadian National Railways for the year ended December 31, 1955.

Mr. Donald Gordon was called. The witness was assisted by Messrs. Dingle and Armstrong.

At 12.30 o'clock p.m. the Committee took recess.

AFTERNOON SITTING

The Committee met again at 3.15 o'clock p.m. The Chairman, Mr. Harry P. Cavers, presided.

Members present: Messrs. Bell, Byrne, Carrick, Cavers, Churchill, Follwell, Fulton, Gillis, Hahn, Hamilton (*Notre-Dame-de-Grâce*), Hamilton (*York West*), Hanna, Johnston (*Bow River*), Knight, Langlois (*Gaspé*), Lavigne, Légaré, McCulloch (*Pictou*), Mitchell (*Sudbury*), Murphy (*Westmorland*), Power (*Quebec South*), St-Laurent (*Témiscouata*), and Weaver.

In attendance: (*Same as at morning sitting*).

The Committee resumed from the morning sitting the adjourned consideration of the Annual Report of the Canadian National Railways for the year ended December 31, 1955.

Mr. Gordon again was called. He was assisted by Messrs. Dingle, Armstrong, Wright, and Sommerville.

At 6.00 o'clock p.m., the Committee adjourned to meet again at 3.00 o'clock p.m. Wednesday, March 21st.

WEDNESDAY, March 21, 1956

The Committee met at 3.00 o'clock p.m. The Chairman, Mr. Harry P. Cavers, presided.

Members present: Messrs. Batten, Bell, Byrne, Carrick, Cavers, Churchill, Follwell, Fulton, Gillis, Hahn, Hamilton (*York West*), Hanna, Harrison, Healy, Johnston (*Bow River*), Knight, Langlois (*Gaspé*), Lavigne, Légaré, McCulloch (*Pictou*), Mitchell (*Sudbury*), Murphy (*Westmorland*), Power (*Quebec South*), St-Laurent (*Témiscouata*), and Weselak.

In attendance: The Hon. George C. Marler and the officials listed as in attendance on the previous day.

Due to divisions in the House of Commons, the Committee did not proceed with its work until 4.30 o'clock p.m.

The Committee resumed from the previous day the adjourned consideration of the Annual Report of Canadian National Railways for the year ended December 31, 1955.

Mr. Gordon was again called and was assisted by Mr. Dingle. The witness filed with the Committee answers to questions which were asked of him on the previous day by Mr. Knight and Mr. Hahn.

On motion of Mr. Gillis, seconded by Mr. Murphy (*Westmorland*), the said answers were ordered to be printed as Appendix "A" and Appendix "B", respectively, to this day's record of evidence.

At 6.00 o'clock p.m. the Committee adjourned to meet again at 10.00 o'clock Thursday, March 22, 1956.

THURSDAY, March 22, 1956

The Committee met at 10.00 o'clock a.m. The Chairman, Mr. Harry P. Cavers, presided.

Members present: Messrs. Batten, Bell, Byrne, Carrick, Cavers, Churchill, Fulton, Gillis, Hahn, Hamilton (*Notre-Dame-de-Grâce*), Hamilton (*York West*), Hanna, Healy, Knight, Langlois (*Gaspé*), Lavigne, Légaré, McCulloch (*Pictou*), Mitchell (*Sudbury*), Murphy (*Westmorland*), Power (*Quebec South*), St-Laurent (*Témiscouata*), and Weselak.

In attendance: The Honourable George C. Marler, and the officials mentioned as in attendance Tuesday morning, March 20th.

The Committee resumed from the previous day the adjourned consideration of the Annual Report of Canadian National Railways for the year ended December 31, 1955.

Mr. Gordon was again called to answer questions on certain aspects of the said Report; in this he was assisted by Mr. Dingle and Mr. Armstrong.

At 12.30 o'clock p.m., the Committee took recess.

AFTERNOON SITTING

The Committee met at 3.00 o'clock p.m. The Chairman, Mr. H. P. Cavers, presided.

Members present: Messrs. Bell, Byrne, Carrick, Cavers, Churchill, Fulton, Gillis, Hamilton (*Notre-Dame-de-Grâce*), Hamilton (*York West*), Hanna, Healy, Johnston (*Bow River*), Knight, Langlois (*Gaspé*), Lavigne, Légaré, McCulloch (*Pictou*), Mitchell (*Sudbury*), Murphy (*Westmorland*), Power (*Quebec South*), St-Laurent (*Témiscouata*), Weselak.

In attendance: Same as at morning sitting with the addition of Mr. J. A. Sauvé, General Manager, Canadian National (West Indies) Steamships Limited.

The Committee resumed from the morning sitting the adjourned consideration of the Annual Report of the Canadian National Railways for the year ended December 31, 1955.

Mr. Donald Gordon was again called and answered questions relating to the said Report.

On motion of Mr. Légaré, seconded by Mr. Power (*Quebec South*), the said Report was finally adopted.

The Committee then considered the Income Accounts and Capital Budget of Canadian National Railways for the year 1956. Mr. Gordon was again called and answered questions relating to the said Income Accounts and Capital Budget.

On motion of Mr. Weselak, seconded by Mr. Hamilton (*York West*), the Income Accounts and Capital Budget were adopted.

The Committee then considered the Annual Report of the Canadian National Railways Securities Trust for the year ended December 31, 1955.

On motion of Mr. Weselak, seconded by Mr. Power (*Quebec South*), the said Report was taken as read and ordered to be printed in the record.

On motion of Mr. Fulton, seconded by Mr. Hamilton (*York West*), the said Annual Report was adopted.

The Committee then considered the Annual Report of the Canadian National (West Indies) Steamships Limited for the year ended December 31, 1955.

Mr. Gordon was called and he read the report. In answering certain questions relating to the said report, the witness was assisted by Mr. J. A. Sauvé.

On motion of Mr. McCulloch (*Pictou*), seconded by Mr. Légaré, the said Annual Report was adopted.

The Committee then considered the Capital and Operating Budgets of the Canadian National (West Indies) Steamships Limited for the year 1956.

Mr. Gordon was questioned in relation thereto.

On motion of Mr. Knight, seconded by Mr. Power (*Quebec South*), the said Budgets were adopted.

The Chairman, on behalf of all members, expressed the Committee's thanks and appreciation to Messrs. Gordon, Dingle, Sauvé and other associates for their valuable contribution to the labours of the Committee.

The Committee then considered the following items of the Estimates referred to it by the House in the Order of Reference dated March 14th:

Vote No. 454—Prince Edward Island Car Ferry and Terminals deficit, 1956.

On motion of Mr. McCulloch (*Pictou*), seconded by Mr. Carrick, the said item was adopted.

Vote No. 460—North Sydney-Port Aux Basques Ferry and Terminals deficit, 1956.

Messrs. Marler and Gordon were questioned thereon and on motion of Mr. Batten, seconded by Mr. Bell, the said item was adopted.

Vote No. 466—Maritime Freight Rates Act.

On motion of Mr. Murphy (*Westmorland*), seconded by Mr. St-Laurent (*Témiscouata*), the said item was adopted.

Vote No. 467—Canadian National (West Indies) Steamships Limited deficit, 1956.

On motion of Mr. McCulloch (*Pictou*), seconded by Mr. Byrne, the said item was carried.

Ordered—That the Chairman report to the House the Committee's approval of the said Estimates (*see Second Report*).

The Committee then considered the Auditors' Report to Parliament concerning Canadian National Railway System for the year ended December 31, 1955.

Mr. Turville was called. The witness was assisted by Messrs. Morison and Pedley.

On motion of Mr. Carrick, seconded by Mr. Batten, the Auditors' Report was taken as read and ordered to be printed in the record.

On motion of Mr. Fulton, seconded by Mr. Power (*Quebec South*), the said Report was adopted.

The Committee then considered the Auditors' Report to Parliament concerning Canadian National (West Indies) Steamships, Limited, for the year ended December 31, 1955.

Mr. Turville and associates were again called.

On motion of Mr. Power (*Quebec South*), seconded by Mr. Batten, the Auditors' Report was taken as read and ordered to be printed in the record.

On motion of Mr. Power (*Quebec South*), seconded by Mr. Bell, the said Report was adopted.

The Chairman, on behalf of all members, expressed the Committee's thanks and appreciation to Mr. Turville and his associates for their valuable help.

The Chairman informed the members that he would prepare reports for their consideration at the next sitting of the Committee.

At 6.00 o'clock p.m., the Committee adjourned to meet again at 3.30 o'clock p.m. Monday, March 26, 1956.

MONDAY, March 26, 1956

The Committeee met in camera at 3.30 o'clock p.m. The Chairman, Mr. Harry P. Cavers, presided.

Members present: Messrs. Bell, Cavers, Gillis, Hahn, Hanna, Johnston (*Bow River*), Knight, Lavigne, McCulloch (*Pictou*), Power (*Quebec South*), and Weselak.

The Committee took into consideration a draft report to the House which, on motion of Mr. Power (*Quebec South*) seconded by Mr. McCulloch (*Pictou*), was unanimously adopted and ordered to be presented to the House as the Third Report of the Committee.

At 4.15 o'clock p.m., the Committee adjourned to the call of the Chair.

Antoine Chassé,
Clerk of the Committee.

EVIDENCE

TUESDAY, March 20, 1956,
10.00 A.M.

The CHAIRMAN: Gentlemen, we have a quorum. Now there are just one or two matters that I might take up before we proceed further. I am wondering this: seeing that tonight is budget night and we shall be unable to sit, and that tomorrow we shall only sit during the afternoon would it be possible for this committee to sit until 1.00 o'clock rather than until 12.00 o'clock before adjourning?

Mr. FULTON: As an agreed compromise I would suggest 12.30; there are certain things that we have to do in our offices.

The CHAIRMAN: Then I suggest we sit until 12.30 this morning and that we sit again at 3.00 o'clock this afternoon rather than at 3.30.

An Hon. MEMBER: After questions.

The CHAIRMAN: Let it be 3.00 o'clock, then.

Mr. FULTON: Make it 3.15.

Hon. GEORGE C. MARLER (*Minister of Transport*): I hope you will carry on that spirit of compromise, Mr. Fulton.

The CHAIRMAN: We will make it 12.30 and 3.15 then.

Gentlemen we are pleased to welcome here today Mr. Donald Gordon, C.M.G., LL.D., Chairman of the Board of our Directors and President of the Board of Canadian National Railways. With him are associated Mr. Dingle, Mr. Armstrong and others of his colleagues from Canadian National Railways.

Yesterday the opinion was expressed that we might waive the reading of the report but in view of the fact that there appear to be some persons who wish to go from one section to another and so on, I will ask Mr. Gordon to commence by reading the annual report.

Mr. DONALD GORDON, C.M.G., LL.D. (*President, Canadian National Railways*): I would ask members of the committee to commence on page four of the report and for the record I will read the letter of transmittal addressed to the Hon. George C. Marler, M.P., Minister of Transport:

MONTREAL,
FEBRUARY 24, 1956.

The Honourable George C. Marler, M.P.,
Minister of Transport,
Ottawa.

Dear Sir:

On behalf of the Board of Directors I submit herewith the Annual Report of Canadian National Railways for the year 1955.

The Board and the Management acknowledge with sincere appreciation the devoted service of the company's employees during the past year.

Yours truly,
(*Signed*) D. GORDON

ANNUAL REPORT 1955

REVIEW OF OPERATIONS

The Canadian National shared, to a degree, in the general upsurge of the nation's business in 1955. Operating revenues, while they did not regain the level of 1953, rose $42·4 million—a development not anticipated in view of the experience of 1954, a year which brought the largest revenue decline in the company's history.

Notwithstanding increased labour and material costs and higher pension charges, operating expenses, by contrast, were held to an increase of only $2·5 million through improved transportation performance and a reduction in scheduled maintenance outlays.

As a result, operations for the year 1955 produced a surplus of $10·7 million after the payment of fixed charges, as against the deficiency of $28·8 million in 1954. This surplus represented a dividend of slightly over 1·3% on the $815·5 million of non-cumulative 4% preferred stock held by the Government of Canada.

The following statement is a summary of the Consolidated Income Account in comparative form:

	1955	1954
Operating revenues	$683,088,794	$640,637,280
Operating expenses	629,013,125	626,465,374
Net operating revenue	$ 54,075,669	$ 14,171,906
Taxes and rents	17,365,033	13,532,419
Net railway operating income	$ 36,710,636	$ 639,487
Other income	7,011,353	3,129,679
Net income available for fixed charges	$ 43,721,989	$ 3,769,166
Fixed charges	33,004,300	32,527,264
Surplus or *Deficiency*	$ 10,717,689	*$ 28,758,098*

OPERATING REVENUES

Total operating revenues at $683·1 million were 7% above those of 1954 and $13·5 million below the peak level of 1953.

Freight

Revenue freight rose to 87·6 million tons, an increase of 10% over 1954. On the other hand, the average haul per ton dropped from 414 miles in 1954 to 407 miles in 1955. As a result, the volume of freight service performed, in terms of ton miles, went up 9% compared with the 10% rise in tonnage.

Freight revenue, which in 1955 accounted for almost four-fifths of total operating revenues, amounted to $539·0 million—$36·2 million more than in 1954. This represented an increase of 7% compared with the increase of 9% in revenue ton miles, indicating a drop in the average revenue received for moving one ton one mile. This was 1·511 cents in 1955 as opposed to 1·529 cents in 1954. The decline in the average revenue per ton mile mirrored in large measure the concentration of the 1955 traffic gains in bulk commodities which move at relatively low rates.

The movement of iron ores and concentrates was up 1·4 million tons, sand and gravel 1·3 million, and crude gypsum nearly one million tons. Mine products, in total, increased 5·3 million tons, accounting for over 63% of the 1955 gains. The tonnage of forest products rose 8%, with lumber up

19%. In the manufactures and miscellaneous group, heavy increases occurred in iron and steel products, scrap, and in automobile and parts traffic. Gains were also made in woodpulp, paper, and in petroleum and chemical products. The movement of animals and animal products showed little change while agricultural products were down 7%, the principal decrease. The most important of other scattered decreases occurred in stone and rock, coal and pulpwood.

Freight Rates

No general change in freight rates was applied for or authorized in 1955. There were, however, a number of important developments in the rate structure and its administration.

On March 1, 1955, a new scale of uniform class rates and a new Canadian Freight Classification went into effect. The revised class rate scale for Canadian territory—Levis, Diamond and west—was ordered by the Board of Transport Commissioners for Canada as a result of studies being made towards the achievement of a general equalization of Canadian freight rates. The rate adjustments incidental to the application of this revised scale had the effect of reducing 1955 freight revenue by $1·7 million.

On July 29, 1955, Parliament enacted legislation arising out of recommendations of a Royal Commission appointed in 1954 to inquire into the application and effect of agreed charges published by the railways under Part IV of the Transport Act. This legislation modified procedural requirements, affording carriers increased freedom to negotiate agreed charges.

The special reduced rates which went into effect in September of 1954 between Montreal and Toronto were broadened and extended in 1955: to Hamilton on January 17th; to London on July 25th; and on December 19th from Toronto to Windsor—all areas of particularly intensive motor truck competition for high-rated rail traffic. These measures, which include "trailer-on-flat-car" service as well as special rates in box cars, have yielded encouraging results and are only a few of the many rate and tariff changes made in 1955 to meet the challenge of the highway carrier.

Passenger

There were fewer passengers in 1955 than in the previous year. The number of intercity passengers was up slightly, despite a reduction in immigrant and military travel, but this was more than offset by a drop in the number of commuters, largely the outcome of modifications to suburban service authorized during the year. The increase in patronage of intercity passenger trains was in part a sign of generally more buoyant business conditions. It was also in part a measure of the company's endeavours to stimulate rail travel—new standards of passenger accommodation and meal service, faster intercity and transcontinental train schedules, all-inclusive package tours and incentive fares for midweek excursions and family trips.

The total number of passengers handled during 1955 was 16·8 million, of which 44% were carried in commuter service. This compared with 17·9 million in the previous year, a decrease of 6%. Since the decrease occurred in short-haul commuter traffic the decline in terms of revenue passenger miles was much smaller, only one-half of 1%.

Passenger revenues were $43·9 million, slightly above the 1954 level, indicating a small rise in the average revenue per passenger mile—the result of increases in commuter fares and the drop in commuter miles. The average revenue per commuter mile was 1·954 cents in 1955, and the average per mile for all passengers 3·001 cents compared to 2·973 cents in the previous year.

Commuter fares and service

Commuter fares were increased during the year as a result of an application for a 100% increase filed with the Board of Transport Commissioners for

Canada on May 13, 1954. In August of that year, the Board authorized the increase in the Toronto area: 50% on September 30, 1954; and two permissive increases of 25% to follow at intervals of not less than six months—the first of which was applied on March 31, 1955. In February of 1955 an initial increase of 50% for all other commutation areas in Canada was authorized. This was put into effect on March 25th.

In November of 1954, the Canadian National applied to the Board for permission to withdraw from the suburban service west of Montreal. Early in 1955, the company received authority to abandon service west of Dorval and to modify the Montreal-Dorval schedule, effective April 24th.

Express

The volume of express traffic was up slightly over 3% in 1955 from the previous year. There was no significant change in the quality of the traffic, and the increase in volume together with an increase in certain package charges on June 20, 1955 raised express revenue by $1·6 million or 4% to a total of $37·9 million. This compared with $38·3 million in the peak year of 1953.

Communications

Revenues earned by the Communications Department again established new records in 1955 as higher message revenue and a further growth in non-transmission services raised gross operating revenue to $18·5 million, an increase of $1·4 million or 8% over 1954. An increase of 2% in the number of revenue messages handled, and a full year's impact of the increase international rates between Canada and the United States introduced in August of 1954, combined to raise message revenue 6% over the preceding year. A total of 12·5 million revenue messages were sent over CNT lines in 1955. Non-transmission revenues were up almost 11%, reflecting the continued expansion of private wire and related services.

OPERATING EXPENSES

In comparison with the 7% increase in operating revenues, railway operating expenses were up only one-half of 1%. There was a rise, during the year, in the cost of doing business in terms of labour and material prices. Higher wage rates and changed working conditions contributed $5·5 million to the year's costs. Railway material prices, after a period of relative stability, again displayed upward tendencies, contributing a further $1·1 million to 1955 costs and creating the prospect of a much greater impact in the coming year.

Notwithstanding these factors, and the effect of higher pension charges, operating expenses, at $629·0 million, were held to an incerase of $2·5 million over 1954 through improved transportation performance and lower maintenance outlays. This rise was the net result of increases aggregating $13·3 million in transportation, traffic, general and miscellaneous expenses, and a decrease of $10·8 million in roadway and equipment maintenance expenses.

Transportation expenses, which cover all station, yard and train costs connected with the handling and movement of traffic, were up $3.1 million to a total of $305·4 million. This represented an advance of only 1% in contrast to the 9% increase in the volume of freight traffic handled, and marked the achievement of another record in operating efficiency. Gross ton miles per freight train hour rose 2·3 per cent from the previous peak of 1954—evidence of the benefits of continued modernization, particularly the application of diesel motive power. Since the inauguration of the initial dieselization programme in 1952, gross ton miles per freight train hour have risen over 21 per cent.

Maintenance of equipment expenses, the cost of repairing locomotives, freight and passenger cars, shop machinery and other equipment, totalled $128·6 million, down $6·1 million or 5 per cent from 1954. The $6·1 million reduction was accounted for by a decrease of $9·9 million in actual maintenance outlays offset in part by an increase of $3·8 million in depreciation arising out of additions to equipment inventory. The decrease in actual maintenance outlays was attributable to a number of factors, principally: the replacement of steam locomotives with diesels, lower repair costs on new passenger equipment, and a deferral of freight car repairs during the early months of the year.

Expenditures for maintenance of way and structures were down $4·7 million to $124·7 million, a drop of 4 per cent. The reduction was the net product of decreases totalling $10·5 million and increases of $5·8 million—$4·1 million in road property retirements and $1·7 million in snow removal costs. The decreases were largely incidental to a sharp cutback in the rail-laying programme. New-rail replacements were down from 869 miles in 1954 to 562 miles in 1955, and the mileage of part-worn rail laid in place of older rail was down to 215 miles from 268 in the previous year.

The reductions in maintenance expenses were in large measure the outcome of a management policy formulated at the close of 1954 to reduce the 1955 maintenance programmes to the minimum level consistent with the implications of traffic trends then prevailing, bearing in mind the need to avoid punitive deferred maintenance. The relatively high level of maintenance in 1954 made it possible to accomplish a greater reduction in 1955 than would otherwise have been the case. By the same token, the reduction will to some extent be reflected in future maintenance requirements to provide the standard of equipment and track necessary for the safe and efficient handling of competitively scheduled trains.

Other operating expenses, which include traffic, miscellaneous and general expenses, totalled $70·3 million, up $10·2 million from the previous year. The increase was attributable mainly to a non-recurrent increment of $9·7 million in pension charges, which raised general expenses to a total of $51·0 million.

Labour

Payrolls, which in 1955 took 55 cents of each Canadian National revenue dollar, totalled $375·6 million—$797,939 more than in 1954. The average number of employees during 1955 was 116,583 compared with 118,949 in the previous year.

Separate agreements, pending at the end of 1954, were concluded with the Order of Railroad Telegraphers, the Brotherhood of Locomotive Firemen and Enginemen, and with the Brotherhood of Locomotive Engineers, resulting in additional holidays and vacations for the telegraphers and new vacation provisions and union dues arrangements with the firemen and engineers.

The agreement with the Brotherhood of Railroad Trainmen was amended to include a union dues arrangement and was extended for a further year.

An agreement was concluded with the non-operating employees on the United States lines, based on the recommendations of a Presidential Emergency Board.

Early in November, the associated non-operating railway unions presented Canadian railways with requests for an eighteen per cent wage increase, three more paid statutory holidays and an additional eight cents per hour to meet the cost of a health and welfare plan. For non-operating employees alone these requests would cost the Canadian National $65 million a year; if applied to all Canadian National Railway employees the cost would be $94 million annually. Following a series of negotiating meetings, the unions applied to the Minister of Labour for a Board of Conciliation. A railway proposal that settlement be expedited by acceptance of the Board's recommendations as final and binding was not accepted by the employees' joint negotiating committee. The Board was appointed and hearings commenced late in January, 1956.

Taxes, Rents, Other Income, and Fixed Charges

Taxes and rents rose from $13·5 million in 1954 to $17·4 million in 1955. The rise was due mainly to an increase of $3·8 million in rental of freight cars incidental to the improvement in traffic volume.

Other income increased $3·9 million to $7·0 million in 1955. Among the items contributing to the increase were a larger income from separately operated properties and a book credit arising from the sale, in August, of a grain elevator following the expiry of a lease which had been running since 1910.

Fixed charges, at $33·0 million, were not significantly different from 1954. In addition to interest charges of $31·7 million, this item includes rents for leased roads and amortization of discount on funded debt.

Hotel Operations

The net income of Canadian National Hotels, Limited totalled $1·7 million after depreciation. This was before provision for return on investment and represented an increase of $84,491 over 1954. Operating revenues for the seven year-round hotels and Jasper Park Lodge increased slightly while there were modest reductions in operating expenses for the same hotels. The number of guests accommodated totalled 659,672, about five thousand more than in 1954.

PROPERTY AND SERVICE IMPROVEMENTS

In 1955, as in other recent years, substantial capital expenditures were made to improve the railway's equipment and facilities in order to provide better service at lower cost. Much of this investment is based not merely on considerations of immediate return but also on the management's duty to provide a sound foundation for growth. The full benefits of expenditures made under this broader criterion will be realized only over a period of years extending far into the future.

Motive Power

The most dramatic of the many changes being made is the application of diesel power, which is bringing a completely new appearance to the railway. Despite an interruption of deliveries during the latter part of the year, a record number of diesel-electric locomotives were added to the system's growing fleet in 1955, producing further economies in both yard and road operations. A total of 168 units, including 28 passenger diesels, were delivered, bringing to 783 the number in service at year-end.

The acquisition of these new units heralded the closing phase of the five-year dieselization programme announced in 1951, an initial programme designed to yield the maximum return on investment during the early stages of dieselization through the selective application of diesel power to certain switching operations and particular freight and passenger services. What has been achieved can be seen from the fact that in 1955 some 51% of freight service was diesel-powered, and diesel locomotives accounted for 62% of yard switching hours and 26% of passenger train miles.

Units are now on order for the scheduled completion of this programme in 1956 and also to complete dieselization in Newfoundland and on the system's New England lines. Present plans for 1956 also include conversion to diesel power of the Central Vermont Railway, the Duluth, Winnipeg and Pacific Railway, and the Chicago Division of the Grand Trunk Western Railroad. These projects are forerunners of the second major dieselization programme, now in the final planning stage, for progressive territorial dieselization of the system. This will permit further economies through the elimination of duplicate repair and servicing facilities.

Freight and Passenger Equipment

Expenditures on new freight and passenger equipment during 1955 were substantially lower than in the preceding year. The reduction reflected in part a sharp drop in freight car acquisitions as planned additions to equipment inventory were tailored to suit existing traffic patterns. It reflected also the unusually large outlays for passenger equipment in 1954, when a total of 391 new units were placed in service.

Freight equipment acquisitions totalled 853 units: 407 box cars, 300 refrigerator cars, 110 flats, 30 ore cars and 6 'Airslide' cars, a new type of covered steel hopper previously in service under a leasing arrangement.

With the encouraging improvement in traffic which developed during the year, freight car repair work was accelerated. The percentage of freight cars awaiting repair was reduced from 6·5 per cent during the early months of the year to 3·9 per cent, so that by the end of the year some 3,000 additional cars had been made available to Canadian National shippers. The improved traffic conditions are also reflected in the volume of new equipment scheduled for delivery in the coming year. At the end of December there were 4,593 freight cars of various kinds on order.

New passenger train equipment delivered during 1955 totalled 60 units: 6 passenger-carrying cars, 20 baggage cars and 30 express refrigerator cars, as well as 4 Budd Rail Diesel Cars.

Road Property

The modernization of freight and passenger car repair facilities was advanced during the year with the purchase of more new shop machinery. The continued improvement of production tools, coupled with the railway's growing inventory of new rolling stock, has made it possible to close a number of intermediate inspection and repair facilities and to consolidate major shops.

The expanding role of the diesel locomotive was reflected in a further expansion of repair and servicing facilities for this new source of motive power. Construction was begun in 1955 on a new diesel shop in Vancouver which is expected to be in service early in 1956, and new diesel fuelling facilities were set up at several strategic points across the system.

Work continued under the company's plan for progressive modernization of its yards and terminals. The year 1955 saw the completion of work begun in 1954 on yard facilities needed for increased ore traffic at Atikokan, Ontario. A new classification yard was put into service at Garneau, Quebec. The east section of the new yard at Joffre was also completed late in the year, and construction proceeded on the balance of this project and on similar major undertakings at Sarnia, Ontario and Edmundston, New Brunswick. In Montreal, further land purchases were negotiated for the proposed Cote de Liesse hump yard. Planning had reached a final stage by year end and it is expected that a start will be made in 1956.

As these and other projects were advanced, plans were being readied for more new yards and extensions to reduce terminal handling time of through and local traffic and to minimize switching at intermediate points by facilitating the marshalling of freight cars. This will mean better service and lower costs.

The installation of signals in the mountain territory went ahead in 1955 as work began between Blue River and Kamloops Junction in British Columbia. When this 138-mile section is completed in 1956, there will be an automatic block signal system in operation all the way from Jasper, Alberta, to Hope, a distance of 437 miles. This installation is designed to permit its ready incorporation into a system of Centralized Traffic Control as developments warrant.

A further investment was made during the year in new machinery for use by track maintenance forces—multiple ballast tampers, automatic spike pullers and drivers, tie adzing machines, power wrenches and a wide variety of other power tools—which help give the railway more for its maintenance dollars.

Communications

The improvement and expansion of plant was continued in 1955 in response to the steady growth in the demand for communications facilities. Substantial additions were made to carrier channel mileage for telephone and telegraph. Telephone channel mileage increased 9 per cent over the previous year and telegraph mileage by 14 per cent. Early in the year, automatic switching centres, the first of their type in North America, were installed in Montreal and Toronto to service Trans-Canada Air Lines. The facsimile method of transmission was expanded with "Intrafax" installations to service TCA at seven major centres across Canada. Projects on Canadian and American defence communications are also underway at several points.

The most notable expansion in 1955 was in the field of television transmission. Jointly with the Canadian Pacific, Canadian National Telegraphs established the CBC's French-language television network between Montreal and Quebec, and planning and construction were initiated for microwave TV relay to Wingham, Ontario, and to Rimouski, Jonquiere and Sherbrooke in Quebec. In the field of sound program transmission, the CBC network was extended to a number of low-power relay transmitters in remote areas.

New Construction

In addition to these and many other improvements—indicative of the company's continued efforts to adapt itself to the changing transportation needs of a growing economy—the 1955 capital expenditure programme also covered the completion of two branch lines, accelerated construction work on a third, and further progress on the new hotel in Montreal.

The main foundations of The Queen Elizabeth were laid during 1955 and by year end the steel skeleton of the structure was clearly visible on the Montreal skyline. The general contract was awarded on December 23rd.

The line from Terrace to Kitimat in British Columbia, serving the new aluminum smelter, was completed and opened in January.

Also completed in 1955 was the 27-mile Canadian National line from Hillsport to Lake Manitouwadge which will contribute to the development of rich mineral resources in this part of Northern Ontario.

Good progress was made during the year on the construction of the 158-mile line from Beattyville to Chibougamau started in 1954. At the close of 1955 the right-of-way had been cleared, grading almost half completed, and 38 miles of rail laid. It was announced during the year that this line would be extended through Chibougamau to St. Felicien, linking for the first time Quebec's new mining area with the industrial region of Lake St. John. The decision to complete the whole line at this time was based on an intensive study made in co-operation with the federal government and local groups which led to the conclusion that national interest as well as the normal development of the area would best be served by having the whole branch line proceeded with at once. In light of this, the federal government decided to pay a share of the cost of the project and Parliament subsequently approved a construction subsidy at the rate of $25,000 per mile. Work began at once on this section and by the end of the year 85% of the clearing had been done on the 66-mile portion between St. Felicien and Lake Chigoubiche, and the location survey was well under way on the remaining 70 miles to Cache Lake at the Chibougamau end.

Emphasizing Canadian National participation in economic development was the construction during 1955 of 494 industrial sidings, spurs and track extensions totalling 103 miles in all, making available to more industries the benefits of direct carload freight service.

Lines Retired

During the year the Board of Transport Commissioners for Canada authorized the abandonment of eight sections of railway line totalling 146 miles in length. Other applications are pending and more will be made as research provides documentation of chronic disparities between revenues and out-of-pocket expenses in areas where alternative transportation facilities are available.

Changes in Property Investment

The net additions to property investment totalled $48·1 million. This compared with $147·5 million in the preceding year, reflecting mainly the sharp drop in equipment outlays, which totalled only $17·5 million in 1955 as against $113·2 million in 1954.

Service Improvements

West and east from Montreal, new trains and schedules brought higher standards of comfort and speed to Canadian rail travel. The highlight of 1955 was the introduction, on April 24th, of the Super Continental between Montreal, Toronto and the Pacific coast. Under diesel power, the "Super", together with the Ocean Limited and the Scotian, cut over sixteen hours off transcontinental train time from Halifax to Vancouver on a schedule designed for the convenience of major centres along this four thousand mile route.

The four diesel "railiners" delivered during 1955 replaced steam trains between Lyster and Richmond, between Quebec City and Chicoutimi, and between Calgary and Edmonton. This brought to seven the number of such cars now in use to provide better service at lower cost to the railway.

The "trailer-on-flat-car" service was extended to include London and Windsor with the addition of six new trailers. This expedited merchandise service, introduced experimentally in 1952, has proved to be sufficiently successful to warrant continuation and expansion, and studies are being made to determine where it can be profitably expanded further. At the end of 1955, there were 50 trailers and 25 carrier flat cars in service.

Interurban trucking operations were instituted on twelve routes in 1955, essentially in substitution for train service. This type of operation, while limited in scope, effects operating economies and at the same time improves service to the public.

OTHER TRANSPORTATION DEVELOPMENTS

The 14-mile main line diversion for the re-routing of railway traffic over the new Canso Causeway was completed during 1955 and Cape Breton Island was linked directly with the mainland by rail for the first time when CNR trains began operating over the causeway in May.

The Motor Vessel "William Carson" commenced a limited service between Nova Scotia and Newfoundland in August, 1955. This modern icebreaking ferry, operated by the Canadian National on behalf of the federal government, is plying temporarily between North Sydney and Argentia pending completion of work at Port-aux-Basques by the Department of Public Works.

Just before the close of the year the Canadian National took delivery of the "Bluenose", to be operated for the federal government between Yarmouth, Nova Scotia, and Bar Harbor, Maine. The new ferry made its first run early in January of 1956.

The St. Lawrence Seaway Project

Coordination of Canadian National facilities and the St. Lawrence Seaway moved ahead in 1955 as work progressed on this project. In the spring, on the basis of plans and specifications supplied by the railway, the Hydro-Electric Power Commission of Ontario started construction of the 40-mile main line diversion between Cornwall and Cardinal and by year end had completed three-quarters of the roadbed.

A general agreement was reached with the St. Lawrence Seaway Authority in respect of the coordination of rail traffic over Victoria Bridge with a projected lock in the navigation channel at that point. The agreement provides for alternative routes around the lock for rail as well as for highway traffic. This coordination has been a matter of serious concern to the railway and the complex scheme evolved is a measure of the importance attached to the maintaining of an uninterrupted flow of rail traffic over this very vital link. Authority was granted during the year for the eventual abandonment of the operations of the Montreal and Southern Countries Railway Company, and work began on June 19th on the construction of a second highway, on the bridge's downstream bracket where the electric lines were located. A temporary shuttle service is being operated to connect with M&SC trains in St. Lambert pending completion of the highway.

RESEARCH AND TRAINING

The year 1955 witnessed intensified efforts, through broad scale research and employee training, to make the best use of material and human resources.

Research

The company's traffic research activities were enlarged and specialized studies of office management practices extended, particularly in the field of filing and records control and the mechanization of stenographic and clerical functions. The analysis of special traffic movements was continued to aid in setting and evaluating rates and fares.

On the technical side of rail operations, a new doubledeck automobile transporter car was designed, and twenty-five of these are on order for delivery in 1956. A prototype of a unique, high-capacity pulpwood car is now being built in Canadian National shops. A device was developed for performance evaluation of various types of freight car trucks under actual road conditions. Tests were conducted on "end-to-end" radio communication on transcontinental freight trains. Further important gains were made in quality control of the endless variety of items consumed by the railway.

Experiment and research contributed not only to improved tools but also to better methods. The year 1955 was the first full year of operation of a new "minimax" stock control system which has already permitted a substantial reduction in inventory investment. An improved method of processing payrolls was introduced at the beginning of 1956 as a result of studies directed at the use of electronic data processing equipment. This system, now partially operative, will not only produce economies in itself but will also provide a means of training personnel and simplifying the application of larger electronic computers. A new system of direct cost control at divisional level was installed during the year, after having been developed and tested in the field.

Employee Training

The new equipment and methods which have been introduced into railroading in recent years have given added significance to personnel management and particularly to employee training. 1955 was a year of progress in this respect. A long range programme for training maintenance of way foremen was launched in the Western Region. A four-year programme for technical training in signals was initiated with the entry into service of two novel instruction cars equipped for practical training in signal installation and maintenance. Diesel training for both maintenance and operating employees was stepped up. Over two thousand men have gone through the basic diesel maintenance course to advanced instruction on individual makes of locomotives. A training project in freight claims investigation was installed and existing programmes in the Accounting Department were broadened. The training of freight and passenger sales staffs was continued.

In addition to the Staff Training Course for officers, there are now eleven major employee training programmes under way. All such programmes involving scheduled employees are carried on with the full co-operation of trade union officers.

In the broader field of personnel management, good results were achieved in applying new employment techniques and in the application of job evaluation and performance appraisal methods to managerial and supervisory personnel—these are all further illustrations of the management's efforts to deal more effectively with the human resources which are the company's greatest asset.

GENERAL

Corporate Reorganization

Further progress was made during the year in the rationalization of the system's corporate structure. An Act was passed in Parliament to consolidate some twenty-five statutes relating to Canadian National Railways. Approval was obtained from the Interstate Commerce Commission for the merger of the Muskegon Railway and Navigation Company into the Grand Trunk Western Railroad Company and a study was undertaken to determine the feasibility of further reducing the number of the company's subsidiaries in the United States. The charters of two land companies were surrendered. The retirement of outstanding perpetual debentures was practically completed, opening the way to the elimination, through amalgamation, or seventeen system companies.

Uniform Railway Accounting

The Board of Transport Commissioners for Canada has ordered the adoption of a prescribed form of uniform accounts by Canadian National Railways and the Canadian Pacific Railway Company, effective Janury 1, 1956. The principal change insofar as the Canadian National is concerned will be the application of depreciation accounting to all physical property. Under the company's current practice this method of accounting has been utilized only in respect of railway equipment and hotels, with replacement accounting applied to the track structure, and retirement accounting to other roadway property. The depreciation rates, which are subject to the approval of the Board, will be applied to original cost.

The application of these principles and the depreciation rates which the Canadian National proposes to adopt for 1956 will alter the distribution of charges within the accounts, but their application in 1955 would have had no material effect on the year's net operating results. Nor, insofar as can be determined at this time, will the effect on the 1956 results be significant.

Co-operation under the Canadian National-Canadian Pacific Act, 1933

Efforts were made during the year in discussions between the two railways to deal with possible modifications of the passenger train pooling arrangements which have been in force since 1933. The questions which arise are highly complex, however, and require such exhaustive studies of passenger patterns and other traffic considerations that progress towards any possible revision has been very slow. Nevertheless, the responsibility resting on both railways to bring the pooling arrangements into conformity with present-day conditions is not being lost sight of, and efforts will be continued to reach agreement on joint recommendations.

AT YEAR END

The financial results of the last two years illustrate vividly the extent to which earnings in any one year may vary from the long term average under the influence of abrupt changes in the level of traffic, or in prices and wages. Against the background of a breakeven position in 1952 and 1953, Canadian National earnings have varied, in this short period, from a deficiency of \$28·8 million to a surplus of \$10·7 million—a range of nearly \$40 million.

The surplus of 1955, like the deficiency of the previous year, was influenced by the decisions of management in regard to expenditures on maintenance, which in the short run can be adjusted, to some degree, to traffic levels and earnings. Over the long run, however, maintenance outlays must average out at a level which will avoid the accumulation of arrears and provide a standard of equipment and track suitable to prospective requirements for heavier volumes of traffic and faster train operation. Consequently, the financial results of any one year should not be taken as a measure of Canadian National achievement, and this is as true of the surplus of 1955 as it was of the deficiency of 1954.

Looking to the future, the manegement's belief in the ability of the property to pay its way, on the average of good years and bad, rests on the premise of a reasonable relationship between wages and material prices on one hand and rates charged to the public on the other. Clearly, there are circumstances in which this premise can be violated, bearing in mind particularly that payroll costs account for an unusually high proportion (nearly 60%) of total operating expenses, and that the ability to raise rates is conditioned by, among other things, the forces of competition.

In addition, and apart from any changes in wages and material prices, the railway faces a difficult period of adjusting its facilities and traditional freight rate structure to the realities of a strongly competitive transportation market.

CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 1955

ASSETS

Current Assets		
Cash on hand and on deposit	$ 26,414,985	
Temporary cash investments	30,597,670	
Accounts receivable	63,385,198	
Material and supplies	76,006,729	
Other current assets	1,187,265	$ 197,591,847
Pension Fund		128,000,000
Insurance Fund		15,000,000
Investments in Affiliated Companies not Consolidated		79,819,560
Property Investment		
Road	1,662,585,105	
Equipment	1,016,283,067	
Other physical properties	78,422,696	
	2,757,290,868	
Less recorded depreciation	248,160,824	2,509,130,044
Other Assets and Deferred Charges		
Other investments	1,716,477	
Prepayments	3,397,307	
Unamortized discount on long term debt	6,298,218	
Other deferred charges	20,751,686	32,163,688
		$2,961,705,139

LIABILITIES

Current Liabilities		
Accounts payable	$ 72,309,771	
Accrued charges	12,179,764	
Other current liabilities	2,604,104	
Dividend payable to Government of Canada	10,717,689	
		$ 97,811,328
Provision for Pensions		128,000,000
Provision for Insurance		15,000,000
Other Liabilities and Deferred credits		28,671,324
Long Term Debt		
Funded debt	896,364,091	
Government of Canada loans and debentures	199,444,622	1,095,808,713
SHAREHOLDERS' EQUITY		
Government of Canada		
6,000,000 shares of no par value capital stock of Canadian National Railway Company	396,518,135	
815,470,209 shares of 4% preferred stock of Canadian National Railway Company	815,470,209	
Capital investment of Government of Canada in the Canadian Government Railways	379,914,280	
	1,591,902,624	
Capital Stock of Subsidiary Companies Owned by Public	4,511,150	1,596,413,774
		$2,961,705,139

The notes appearing on page 4 are an integral part of this Balance Sheet.

R. D. ARMSTRONG,
Comptroller.

CERTIFICATE OF AUDITORS

We have examined the books and records of the companies comprising the Canadian National Railway System for the year ended 31st December, 1955, and, in our opinion, proper books of account have been kept by the System.

In our opinion the above consolidated balance sheet, supplemented by the notes relating thereto appearing on page 4, and the relative consolidated income account are properly drawn up so as to give a true and fair view of the state of the System's affairs at 31st December, 1955, and of the consolidated income and expense for the year according to the best of our information and the explanations given to us, and as shown by the books of the System. They are prepared on a basis consistent with that of the previous year.

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

Dated at Montreal,
1st March, 1956.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

NOTES TO CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 1955

The total investment in fixed properties and equipment brought into the System accounts at January 1, 1923, was as recorded in the books of the several corporations and the Canadian Government Railways. Subsequent additions have been at cost.

The capital stock of the Canadian National Railway Company (other than the four percent preferred stock) and the capital investment of Her Majesty in the Canadian Government Railways are included in the net debt of Canada and are disclosed in the historical record of government assistance to railways as shown in the Public Accounts of Canada.

On Canadian Lines, replacement accounting for track and retirement accounting for other fixed properties was continued. Depreciation accounting for equipment has been applied from January 1, 1940, and for hotel properties from January 1, 1954.

On United States Lines replacement accounting for track and depreciation accounting for other fixed properties and equipment was continued.

MAJOR CONTINGENT LIABILITIES

CHICAGO & WESTERN INDIANA RAILROAD COMPANY
Assumed by Grand Trunk Western Railroad Company pursuant to joint supplemental lease dated May 1, 1952, between Grand Trunk Western Railroad Company and four 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 the other tenant companies. The bonds are First Collateral Trust Mortgage 4⅜% Sinking Fund Bonds Series "A" due May 1, 1982, and the amount outstanding at December 31, 1955, is $60,355,000.00.

THE DETROIT & TOLEDO SHORE LINE RAILROAD COMPANY
Assumed by Grand Trunk Western Railroad Company as joint and several guarantor of principal, interest and sinking fund payments of $3,000,000 First Mortgage 3¼%—30 Year Series "A" Bonds due December 1, 1982.

THE TOLEDO TERMINAL RAILROAD COMPANY
Assumed by Grand Trunk Western Railroad Company in respect of $6,000,000 First Mortgage 4½%—50 Year Gold Bonds due 1957. The guarantee is as to interest only and is several and not joint. Grand Trunk Western's proportion is 9·68%.

C.N.R. PENSION PLANS
Reserves have been set up for pensions in force under the 1935 plan, but not for pensions granted under the prior non-contributory plan or for increased benefits granted effective July 1, 1952, to employees who were contributors under the 1935 plan and retired on pension prior to January 1, 1952.
Reserves have not been set up for pensions conditionally accruing to employees now in service.

CONSOLIDATED INCOME ACCOUNT

	1955	1954
RAILWAY OPERATING REVENUES		
Freight	$539,028,448	$502,830,806
Passenger	43,930,042	43,757,015
Mail	8,648,501	8,699,860
Express department	37,931,486	36,359,693
Communications department	18,475,493	17,084,985
All other	35,074,824	31,904,921
Total operating revenues	$683,088,794	$640,637,280
RAILWAY OPERATING EXPENSES		
Maintenance of way and structures	$124,727,238	$129,414,444
Maintenance of equipment	128,599,558	134,664,281
Traffic	12,483,417	12,347,309
Transportation	305,424,559	302,373,764
Miscellaneous operations	6,754,938	6,420,154
General	51,023,415	41,245,422
Total operating expenses	$629,013,125	$626,465,374
NET OPERATING REVENUE	$ 54,075,669	$ 14,171,906
TAXES AND RENTS		
Railway tax accruals	$ 14,112,541	$ 13,716,269
Equipment rents—Net debit or *credit*	3,115,959	*542,067*
Joint facility rents—Net debit	136,533	358,217
Total taxes and rents	$ 17,365,033	$ 13,532,419
NET RAILWAY OPERATING INCOME	$ 36,710,636	$ 639,487

Other Income		
Income from lease of road	$ 47,324	$ 47,207
Miscellaneous rent income	1,510,255	1,416,481
Income from non-transportation property	376,220	320,216
Results of separately operated properties	1,178,358	*112,206*
Hotel income	1,669,533	1,585,042
Dividend income	404,117	353,217
Interest income	2,532,722	1,827,485
Miscellaneous income	734,740	2,325,461
Total other income	$ 8,453,269	$ 7,762,903
Deductions from Income		
Miscellaneous rents	$ 685,367	$ 702,659
Miscellaneous income charges	999,583	124,910
Profit and loss—Net *credit* or debit	*243,034*	3,805,655
Total deductions from income	$ 1,441,916	$ 4,633,224
NET INCOME AVAILABLE FOR FIXED CHARGES	$ 43,721,989	$ 3,769,166
Fixed Charges		
Rent for leased roads	$ 477,032	$ 477,731
Interest on funded debt—Public	30,653,112	25,833,306
Interest on government loans	651,180	5,376,087
Interest on unfunded debt	363,867	280,577
Amortization of discount on funded debt	859,109	559,563
Total fixed charges	$ 33,004,300	$ 32,527,264
SURPLUS OR DEFICIT	$ 10,717,689	$ *28,758,098*

OPERATING REVENUES

	1955	1954
Principal Accounts		
Freight	$529,573,106	$493,896,952
Payments under M.F.R.A.	9,455,342	8,933,854
Total Freight	$539,028,448	$502,830,806
Passenger	43,930,042	43,757,015
Mail	8,648,501	8,699,860
Express department	37,931,486	36,359,693
Communications department	18,475,493	17,084,985
All Other		
Baggage	138,256	137,952
Sleeping car	4,328,905	4,375,396
Parlor and chair car	409,182	397,642
Railway Express Agency	926,913	648,884
Other passenger-train	17,936	15,246
Milk	451,710	456,220
Switching	6,150,067	5,552,361
Water transfers	2,100,078	1,805,686
Dining and buffet	3,895,150	3,848,904
Restaurants	365,107	351,901
Station, train and boat privileges	396,190	415,380
Parcel room	56,549	61,595
Storage—Freight	259,168	332,347
Storage—Baggage	43,318	47,273
Demurrage	2,380,507	1,755,705
Telegraph commissions (U.S.)	14,889	13,071
Grain elevator	843,637	876,242
Rents of buildings and other properties	1,473,492	1,373,338
Miscellaneous	9,985,289	8,676,577
Joint facility—Cr	1,002,857	934,412
Joint facility—*Dr*	*164,376*	*171,211*
Total All Other	$ 35,074,824	$ 31,904,921

OPERATING EXPENSES

	1955	1954
MAINTENANCE OF WAY AND STRUCTURES		
Superintendence	$ 9,476,957	$ 9,476,223
Roadway maintenance	11,415,613	12,100,353
Tunnels and subways	193,547	156,762
Bridges, trestles and culverts	4,575,625	5,027,638
Ties	11,159,870	11,617,197
Rails	7,094,904	10,258,273
Other track material	7,441,428	10,434,623
Ballast	2,024,650	2,006,979
Track laying and surfacing	29,019,333	31,326,192
Fences, snowsheds and signs	1,282,919	1,575,720
Station and office buildings	5,458,558	5,099,100
Roadway buildings	676,246	691,426
Water stations	835,413	920,299
Fuel stations	353,746	413,520
Shops and enginehouses	3,268,795	3,510,789
Grain elevators	87,979	106,351
Storage warehouses	217	1,567
Wharves and docks	329,974	404,910
Communication systems	7,082,959	7,037,666
Signals and interlockers	2,094,089	2,317,169
Power plants	22,990	16,103
Power-transmission systems	439,071	366,174
Miscellaneous structures	22,261	15,921
Road property—Depreciation—U.S.	1,063,804	1,047,803
Road property—Retirements	6,555,673	2,414,138
Roadway machines	2,341,907	2,190,829
Dismantling retired road property	869,761	345,456
Small tools and supplies	1,782,626	1,922,594
Removing snow, ice and sand	6,039,665	4,360,169
Public improvements	748,531	811,861
Injuries to persons	996,075	816,398
Insurance	31,135	556,162
Stationery and printing	154,950	152,409
Other expenses	84,144	24,409
Right-of-way expenses	81,266	104,621
Maintaining joint facilities—Dr	1,713,942	2,118,639
Maintaining joint facilities—*Cr*	*2,093,385*	*2,332,008*
	$124,727,238	$129,414,444

	1955	1954
MAINTENANCE OF EQUIPMENT		
Superintendence	$ 3,568,967	$ 3,548,277
Shop machinery—Repairs	3,444,952	3,986,253
Power-plant machinery—Repairs	301,059	293,355
Machinery—Retirements	700,070	43,3403
Machinery—Depreciation—U.S.	88,784	88,629
Dismantling retired machinery	15,070	5,404
Steam locomotives—Repairs	21,268,826	27,866,536
Other locomotives—Repairs	10,569,632	7,623,020
Freight-train cars—Repairs	33,877,768	37,510,939
Passenger-train cars—Repairs	14,760,315	16,307,317
Floating equipment—Repairs	1,380,895	1,332,589
Work equipment—Repairs	3,611,358	4,169,211
Express dept. equipment—Repairs	674,619	564,419
Miscellaneous equipment—Repairs	128,935	135,090
Miscellaneous equipment—Retirements	89,533	44,680
Dismantling retired equipment	494,840	458,443
Equipment—Depreciation	32,244,907	28,440,642
Express dept. equipment—Depreciation	292,337	282,661
Injuries to persons	741,822	814,002
Insurance	216,259	484,870
Stationery and printing	127,712	123,439
Other expenses	213,789	331,510
Joint maintenance of equipment—Dr	216,468	206,899
Joint maintenance of equipment—*Cr*	*429,359*	*377,307*
	$128,599,558	$134,664,281

Traffic		
Superintendence	$ 4,374,374	$ 4,324,493
Outside agencies	4,790,773	4,705,365
Advertising	1,613,470	1,608,785
Traffic associations	235,182	267,503
Stationery and printing	766,010	729,956
Industrial and development	406,853	404,498
Colonization and agriculture	287,155	306,709
Other expenses	9,600	—
	$ 12,483,417	$ 12,347,309

OPERATING EXPENSES

	1955	1954
Transportation		
Superintendence	$ 7,477,535	$ 7,432,873
Dispatching trains	3,961,858	3,981,417
Station employees	42,529,485	42,339,284
Weighing, inspection and demurrage	188,571	192,216
Coal and ore wharves	171,831	76,928
Station supplies and expenses	3,274,054	3,281,393
Yardmasters and yard clerks	10,245,616	10,053,875
Yard conductors and brakemen	18,875,225	17,597,535
Yard switch and signal tenders	1,796,457	1,867,474
Yard enginemen	13,753,158	11,605,375
Yard switching fuel	5,443,783	5,341,054
Yard switching power produced	19,599	40,117
Yard switching power purchased	109,523	97,293
Water for yard locomotives	164,850	158,920
Lubricants for yard locomotives	201,086	190,706
Other supplies for yard locomotives	97,617	107,892
Enginehouse expenses—Yard	3,360,662	3,408,272
Yard supplies and expenses	394,997	382,285
Train enginemen	25,972,270	25,145,083
Train fuel	41,461,437	43,032,129
Train power produced	46,170	52,351
Train power purchased	149,245	165,010
Water for train locomotives	1,340,998	1,547,046
Lubricants for train locomotives	1,117,730	1,119,434
Other supplies for train locomotives	522,717	538,917
Enginehouse expenses—Train	11,622,368	11,905,065
Trainmen	30,557,121	29,646,678
Train supplies and expenses	19,737,030	20,495,553
Operating sleeping cars	4,583,468	4,427,595
Signal and interlocker operation	915,760	1,005,382
Crossing protection	1,390,879	1,521,285
Drawbridge operation	925,266	328,866
Communication system operation	12,541,060	12,230,741
Operating floating equipment	7,931,969	7,806,652
Express department operation	24,997,320	24,759,534
Stationery and printing	1,337,268	1,331,886
Other expenses	590,237	426,152
Insurance	44,072	569,885
Clearing wrecks	971,710	893,343
Damage to property	211,541	187,712
Damage to live stock on R/W	74,980	69,275
Loss and damage—Freight	3,162,922	3,307,647
Loss and damage—Baggage	8,513	6,560
Injuries to persons	2,008,715	2,227,724
Oper. joint yards & terminals—Dr	2,846,888	2,888,985
Oper. joint yards & terminals—*Cr*	*3,498,115*	*3,154,626*
Oper. joint tracks & facilities—Dr	578,573	556,052
Oper. joint tracks & facilities.—*Cr*	*791,460*	*819,061*
	$305,424,559	$302,373,764
Miscellaneous Operations		
Dining and buffet service	$ 5,320,297	$ 5,023,884
Restaurants	354,339	346,370
Grain elevators	284,523	249,105
Other miscellaneous operations	384,782	393,043
Oper. joint misc. facilities—Dr	410,997	407,752
	$ 6,754,938	$ 6,420,154

GENERAL		
Salaries and expenses of officers	$ 866,684	$ 833,119
Salaries and expenses of clerks	11,888,195	11,961,809
General office supplies and expenses	1,014,472	746,334
Law expenses	697,793	711,374
Relief department expenses	42,500	42,500
Pensions	35,301,679	25,560,823
Stationery and printing	503,698	563,029
Valuation expenses	12,416	12,521
Other expenses	592,840	712,730
General joint facilities—Dr.	123,094	121,127
General joint facilities—*Cr.*	*19,956*	*19,944*
	$ 51,023,415	$ 41,245,422

OPERATING EXPENSE DISTRIBUTION

	1939	1954	1955
OPERATING EXPENSES			
Total expenses—thousands	$182,965	$626,465	$629,013
Percent of total revenues	89.77	97.79	92.08
Distribution of operating expense dollar:	¢	¢	¢
Labor	61.48	59.83	59.72
Materials	29.58	27.36	25.23
Other expenses	8.94	12.81	15.05
	100.00	100.00	100.00

PROPERTY INVESTMENT ACCOUNT

Net Expenditures—1955

Property Investment at December 31, 1954			$2,709,209,619
ROAD			
New branch lines	$ 7,133,053		
Abandoned lines	*2,626,737*		
Roadway betterments	8,680,238		
Large terminals	3,926,417		
Yard tracks and sidings	2,815,170		
Buildings	2,884,653		
Highway crossing protection	205,997		
Signals	1,812,085		
Machinery—roadway and shop	848,758		
Miscellaneous	77,011		
Communications	4,561,569	$30,318,214	
EQUIPMENT			
New	34,396,712		
Retirements	*18,735,388*		
Additions and conversions	1,787,727	17,449,051	
OTHER PHYSICAL PROPERTIES			
Hotels	3,736,981		
Separately operated properties	*3,562,762*	174,219	
GOVERNMENT OF CANADA EXPENDITURE ON CANADIAN GOVERNMENT RAILWAYS		139,765	48,081,249
Property Investment at December 31, 1955			$2,757,290,868

INVESTMENTS IN AFFILIATED COMPANIES NOT CONSOLIDATED

Company	Percentage of Investment Held	Investment at Dec. 31, 1954	Transactions Year 1955 Increase or *Decrease*	Investment at Dec. 31, 1955
STOCKS				
The Belt Railway Company of Chicago....	7·69	$ 240,000		$ 240,000
Chicago & Western Indiana Railroad Company..............................	20	1,000,000		1,000,000
The Detroit & Toledo Shore Line Railroad Company..............................	50	1,500,000		1,500,000
Detroit Terminal Railroad Company......	50	1,000,000		1,000,000
Northern Alberta Railways Company.....	50	6,375,000		6,375,000
The Public Markets, Limited............	50	575,000		575,000
Railway Express Agency, Inc..............	0·6	600		600
The Shawinigan Falls Terminal Railway Company..............................	50	62,500		62,500
The Toledo Terminal Railroad Company..	9·68	387,200		387,200
The Toronto Terminals Railway Company.	50	250,000		250,000
Trans-Canada Air Lines....................	100	5,000,000		5,000,000
Vancouver Hotel Company Limited.......	50	75,000		75,000
Total Stocks..............		$16,465,300	—	$16,465,300
BONDS				
Northern Alberta Railways Co. 1st Mortgage Bonds..............................	50	$12,567,500		$12,567,500
The Toronto Terminals Railway Co. 1st Mortgage Bonds........................	50	12,655,000	$ *200,000*	12,455,000
Trans-Canada Air Lines Debenture........	100	20,000,000		20,000,000
Total Bonds................		$45,222,500	$ *200,000*	$45,022,500
ADVANCES				
The Belt Railway Company of Chicago....		$ 33,458	$ 7,221	$ 40,679
Chicago & Western Indiana Railroad Company..............................		4,288,487	329,101	4,617,588
Railway Express Agency, Inc..............		173,493		173,493
Trans-Canada Air Lines....................		3,100,000	10,400,000	13,500,000
Total Advances............		$ 7,595,438	$10,736,322	$18,331,760
Total........................		$69,283,238	$10,536,322	$79,819,560

LONG TERM DEBT AND GOVERNMENT OF CANADA LOANS AND DEBENTURES

Rate %	Maturity (See Note)	FUNDED DEBT	Currency in which Payable	Principal outstanding at Dec. 31, 1954	Transactions Year 1955 Increase or *decrease*	Principal outstanding at Dec. 31, 1955
4	Jan. 1, 1955	Canada Atlantic Bonds.............	Can-US-Stlg.	$ 9,947,934	*$ 9,947,934*	
4	Apr. 1, 1955	Grand Trunk Pacific Bonds.........	Can-US-Stlg.	8,871,444	*8,871,444*	
4¾	June 15, 1955	Canadian National 25 Year Bonds..	Can-US-Stlg.	48,496,000	*48,496,000*	
4½	Feb. 1, 1956	Canadian National 25 Year Bonds..	Can-US-Stlg.	67,368,000		$ 67,368,000
4	Sept. 1, 1956	Pembroke Southern Bonds..........	Canadian	150,000		150,000
2½	Mar. 1, 1957(a)	Newfoundland Railway Notes......	U.S.	355,995	*142,206*	213,789
4½	July 1, 1957	Canadian National 30 Year Bonds..	Can-US	64,136,000		64,136,000
3½	July 20, 1958	Canadian Northern Debenture Stock	Canadian	5,246,268	69,277	5,315,545
			Sterling	390,238	*69,277*	320,961
5	Nov. 15, 1958	Indebtedness to Province of New Brunswick........................	Canadian	380,023		380,023
3	Jan. 15, 1959(b)	Canadian National 20 Year Bonds..	Canadian	35,000,000		35,000,000
3½	May 4, 1960	Canadian Northern Alberta Debenture Stock.......................	Sterling	550,727		550,727
3½	May 19, 1961	Canadian Northern Ontario Debenture Stock.......................	Sterling	3,597,518		3,597,518
3	Jan. 1, 1962	Grand Trunk Pacific Bonds.........	Can-US-Stlg.	26,465,130		26,465,130
4	Jan. 1, 1962	Grand Trunk Pacific Bonds.........	Can-US-Stlg.	7,999,074		7,999,074
2¾	Feb. 1, 1963(c)	Canadian National 8 Year 1½ Month Bonds............................	Canadian	250,000,000		250,000,000
3	Jan. 3, 1966(d)	Canadian National 17 Year Bonds..	Canadian	35,000,000		35,000,000
2¾	Jan. 2, 1967(e)	Canadian National 20 Year Bonds..	Canadian	50,000,000		50,000,000
2⅞	Sept. 15, 1969(f)	Canadian National 20 Year Bonds..	Canadian	70,000,000		70,000,000
2⅞	Jan. 16, 1971(g)	Canadian National 21 Year Bonds..	Canadian	40,000,000		40,000,000
3¾	Feb. 1, 1974(h)	Canadian National 20 Year Bonds..	Canadian	200,000,000		200,000,000
2¾	June 15, 1975(i)	Canadian National 25 Year Bonds..	US	6,000,000		6,000,000
4½	Jan. 1, 1980	Grand Trunk Western Bonds........	Can-US-Stlg.	400,000		400,000
5	Perpetual	Debenture Stocks—Various.........	Sterling	102,112	*3,406*	98,706
4	Perpetual	Debenture Stocks—Various.........	Sterling	158,133	*84,515*	73,618
SERIAL EQUIPMENT OBLIGATIONS:						
2	Dec. 1, 1957	Trust Series "R"...................	Canadian	1,680,000	*560,000*	1,120,000
2⅝	Mar. 15, 1958	Trust Series "S"...................	Canadian	11,200,000	*2,800,000*	8,400,000
2¼	Nov. 1, 1958	Trust Series "T"...................	Canadian	8,600,000	*2,150,000*	6,450,000
2¼	Mar. 15, 1960	Trust Series "U"...................	Canadian	12,100,000	*2,200,000*	9,900,000
2¾	Jan. 15, 1961	Trust Series "V"...................	Canadian	8,775,000	*1,350,000*	7,425,000
				972,969,596	*76,605,505*	896,364,091

GOVERNMENT OF CANADA LOANS AND DEBENTURES					
CAPITAL REVISION ACT, 1952					
Jan. 1, 1972	Debenture..........................	Canadian	100,000,000		100,000,000
CANADIAN GOVERNMENT RAILWAYS					
—	Advances for working capital, 1923..	Canadian	16,771,981		16,771,981
FINANCING AND GUARANTEE ACT, 1954					
Various	Loans for Capital Expenditures......	Canadian	—	7,602,991	7,602,991
	Temporary Loans TCA............	Canadian	10,000,000	*1,500,000*	8,500,000
REFUNDING ACT, 1951					
Various	Loans for Debt Redemption........	Canadian	—	66,569,650	66,569,650
			126,771,981	72,672,641	199,444,622
	Grand Total..............................		$1,099,741,577	$ *3,932,864*	$1,095,808,713

Note:—(a) Callable at par at any time.
(b) Callable at par on or after Jan. 15, 1954.
Callable at par on or after Feb. 1, 1961.
(d) Callable at par on or after Jan. 3, 1961.
(e) Callable at par on or after Jan. 2, 1964.
(f) Callable at par on or after Sept. 15, 1964.
(g) Callable at par on or after Jan. 16, 1966.
(h) Callable at par on or after Feb. 1, 1972.
(i) Callable on or before June 14, 1954 at 102½; thereafter at varying redemption premiums.

COMPANIES COMPRISING THE CANADIAN NATIONAL RAILWAY SYSTEM

Capital Stocks Owned by Government of Canada

Company number		
1	Canadian National Railway Company (Common)	$ 396,518,135
	Canadian National Railway Company (Preferred)	815,470,209
		$1,211,988,344

Capital Stocks Owned by System or Public

	Name of Issuing Company	Controlled by company number	Capital Stock issued	Owned by Public
1	Canadian National Railway Company	see above		
2	Atlantic and St. Lawrence Railroad Company	1	$6,302,340	$ 5,840
3	Canadian National Hotels, Limited	1	28,429,150	
4	*Canadian National Railways (France)	1	1,886,114	
5	The Canadian National Railways Securities Trust	1	5 million shares	
6	Canadian National Rolling Stock Limited	1	50,000	
7	*Canadian National Transportation, Limited	1	500	
8	The Central Counties Railway Company	1	500,000	12,000
9	The Champlain and St. Lawrence Railroad Company	1	50,000	
10	International Bridge Company	1	1,500,000	
11	Manitoba Northern Railway Company	1	500,000	
12	*Montreal and Southern Counties Railway Company	1	500,000	140,600
13	The Montreal and Vermont Junction Railway Company	1	197,300	
14	*Montreal Fruit & Produce Terminal Company, Limited	1	500	
15	*The Montreal Stock Yards Company	1	350,000	
16	*The Montreal Warehousing Company	1	236,000	7,100
17	*National Terminals of Canada, Limited	1	2,500	
18	*The Oshawa Railway Company	1	40,000	
19	The Pembroke Southern Railway Company	1	107,800	
20	Prince George, Limited	1	10,000	
21	Prince Rupert, Limited	1	10,000	
22	St. Clair Tunnel Company	1	700,000	
23	The Stanstead, Shefford and Chambly Railroad Company	1	608,333	
24	*The Thousand Islands Railway Company	1	60,000	
25	The United States and Canada Rail Road Company	1	219,400	425
26	Vermont and Province Line Railroad Company	1	200,000	
27	The Canadian Northern Railway Company	1	18,000,000	
28	Canadian National Express Company	36	1,000,000	
29	*Canadian National Realties, Limited	27	40,000	
30	Canadian National Telegraph Company	27	525,900	
31	Canadian National Transfer Company	36	500,000	
32	The Canadian Northern Alberta Railway Company	27	3,000,000	
33	Canadian Northern Consolidated Railways	27	35,306,600	
34	The Canadian Northern Ontario Railway Company	27	10,000,000	
35	The Canadian Northern Quebec Railway Company	27	9,550,000	3,849,200
36	The Canadian Northern Railway Express Company, Limited	27	1,000,000	
37	Canadian Northern Steamships, Limited	27	2,000,000	
38	Canadian Northern System Terminals (Limited)	27	2,000,000	
39	The Dalhousie Navigation Company, Limited	27	50,000	
40	The Great North Western Telegraph Company of Canada	30	373,625	6,825
41	The Lake Superior Terminals Company Limited	27	500,000	
42	The Minnesota and Manitoba Railroad Company	27	400,000	
43	The Minnesota and Ontario Bridge Company	27	100,000	
44	Mount Royal Tunnel and Terminal Company, Limited	27	5,000,000	
45	*The Niagara, St. Catharines and Toronto Railway Company	27	925,000	
46	The Niagara, St. Catharines and Toronto Navigation Company (Limited)	45	100,000	
47	The Quebec and Lake St. John Railway Company	27	4,508,300	489,160
	Carried forward			$4,511,150

COMPANIES COMPRISING THE CANADIAN NATIONAL RAILWAY SYSTEM (Continued)

Capital Stocks Owned by System or Public

Company number		Controlled by company number	Capital Stock issued	Owned by Public
	Brought forward			$4,511,150
48	The Grand Trunk Pacific Railway Company........	1	24,940,200	
49	*Canadian National Steamship Company, Limited...	48	15,000	
50	The Grand Trunk Pacific Branch Lines Company...	48	200,000	
51	The Grand Trunk Pacific Development Company, Limited..	48	3,000,000	
52	The Grand Trunk Pacific Saskatchewan Railway Company..	48	20,000	
53	*Grand Trunk Pacific Terminal Elevator Company, (Limited)..	48	501,009	
54	Central Vermont Railway, Inc......................	1	10,000,000	
55	*The Centmont Corporation..........................	54	176,400	
56	*Central Vermont Transit Corporation...............	54	5,000	
57	Central Vermont Transportation Company..........	54–55	200,000	
58	Duluth, Winnipeg and Pacific Railway Company....	27	3,100,000	
59	Duluth, Rainy Lake & Winnipeg Railway Company	58	2,000,000	
60	Duluth, Winnipeg and Pacific Railroad Company...	58	100,000	
61	Grand Trunk Western Railroad Company (Common)	1	20,000,000	
61	Grand Trunk Western Railroad Company (Preferred)..	1	25,000,000	
62	*Consolidated Land Corporation.....................	61	64,000	
63	Grand Trunk-Milwaukee Car Ferry Company.......	61	200,000	
64	*Industrial Land Company...........................	61	1,000	
				$4,511,150

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

In addition to the shares of the Canadian National Railway Company the Government of Canada has also invested $379,914,280 in Canadian Government Railways. The Canadian Government Railways property is entrusted to the Canadian National Railway Company as part of the System.

SOURCE AND APPLICATION OF FUNDS FOR THE YEAR 1955

Source of Funds

Surplus..		$10,717,689
Increase in Government of Canada equity		
4% preferred stock..	$20,369,678	
Canadian Government Railways..............................	139,765	20,509,443
Increase in depreciation reserve..........................		17,972,536
Decrease in working capital...............................		22,192,586
Other...		1,739,548
		$73,131,802

Application of Funds

Dividend payable to Government of Canada..................		$10,717,689
Net reduction in long term debt, loans and debentures:		
Decrease in funded debt..................................	$76,605,505	
Increase in Government of Canada loans and debentures..........	72,672,641	3,932,864
Increase in property investment...........................		48,081,240
Advances to Trans-Canada Air Lines........................		10,400,000
		$73,131,802

EQUIPMENT PLACED IN SERVICE DURING 1955

Diesel-Electric Locomotives
- 20 1600 HP road-passenger
- 8 1750 HP road-passenger
- 9 1000 HP road-switching
- 16 1200 HP road-switching
- 41 1600 HP road-switching
- 33 1750 HP road-switching
- 1 2400 HP road-switching passenger
- 37 1000 HP switching
- 3 1200 HP switching

Freight Equipment
- 407 50-ton box cars
- 110 70-ton flat cars
- 30 80-ton ore cars
- 5 50-ton airslide covered hopper cars
- 1 70-ton airslide covered hopper car
- 300 50-ton refrigerator cars

Passenger Equipment
- 4 unit cars—diesel railiners
- 5 coach cars
- 20 baggage cars
- 30 express refrigerator cars
- 1 sleeping car

Work Equipment
- 1 Burro crane—12-ton
- 3 diesel locomotive cranes—30-ton
- 1 Jordan spreader
- 1 snow plow
- 1 work flat car
- 39 miscellaneous units built from salvage in railway shops
- 2 work cars—second hand

INVENTORY OF RAILWAY EQUIPMENT

	On hand Jan. 1, 1955	Placed in service	Retired	Converted — Added	Converted — Retired	On hand Dec. 31, 1955	*Orders out-standing Dec. 31, 1955*
Locomotives							
Steam—Road	1,698		176			1,522	
Steam—Switching	435		62			373	
Electric	33					33	
Diesel—Electric—							
Road—Freight	175					175	
Road—Passenger	24	28				52	
Road—Switching	143	99				242	147
Road—Switching passenger	7	1				8	5
Switching	266	40				306	31
Total	2,781	168	238			2,711	183
Freight Equipment							
Box cars	79,449	407	2,464		192	77,200	3,368
Flat cars	6,300	110	92		27	6,291	100
Stock cars	2,930		54			2,876	
Hopper cars	6,268	6	150			6,124	200
Gondola cars	11,838		72			11,766	300
Ore cars	1,358	30				1,388	400
Ballast cars	2,217		27			2,190	
Tank cars	25					25	
Refrigerator cars	4,589	300	16		18	4,855	225
Caboose cars	1,827		43			1,784	
Other cars in freight service	1		1				
Total	116,802	853	2,919		237	114,499	4,593
Passenger Equipment							
Coach cars	1,153	5	50	11	1	1,118	
Combination cars	236		7	7	3	233	
Dining cars	105		1			104	
Colonist cars	118		11		8	99	
Parlor cars	77					77	
Cafe cars	19					19	
Sleeping cars	473	1	2		12	460	
Tourist cars	40				3	37	
Baggage and express cars	1,345	50	25	3	3	1,370	
Postal cars	56			1		57	
Unit cars	44	4	1			47	
Other cars in passenger service	83		3			80	
Total	3,749	60	100	22	30	3,701	
Work Equipment							
Units in work service	9,168	48	300	245		9,161	5
Floating Equipment							
Car ferries	8					8	
Barges	6					6	
Steamers	14		1			13	
Tugs	5					5	
Work	3		1			2	

STATISTICS OF RAIL-LINE OPERATIONS

	1955	1954
TRAIN-MILES		
Freight service	43,128,824	41,691,390
Passenger service	23,559,606	24,315,627
Work service	2,036,573	2,013,601
Total train-miles	68,725,003	68,020,618
LOCOMOTIVE-MILES		
Freight service	45,212,159	43,623,338
Passenger service	23,418,612	24,338,373
Train switching—Freight	3,569,167	3,536,589
—Passenger	114,310	138,841
Yard switching—Freight	17,234,617	16,208,330
—Passenger	1,791,016	1,809,561
Work service	2,081,240	2,064,215
Total locomotive-miles	93,421,121	91,719,247
CAR-MILES		
Freight service:		
Loaded freight cars	1,267,764,373	1,183,332,445
Empty freight cars	623,226,168	585,879,454
Passenger coach and combination cars	5,315,029	5,549,200
Other cars	11,003,436	10,434,065
Caboose cars	43,340,952	41,398,352
	1,950,649,958	1,826,593,516
Passenger service:		
Loaded freight cars	662,094	654,957
Empty freight cars	105,029	94,264
Passenger coach and combination cars	52,947,710	55,971,199
Sleeping, parlor and observation cars	57,100,362	54,891,732
Dining cars	9,010,964	8,715,465
Motor unit cars	1,264,116	1,047,101
Other cars (baggage and express cars, etc)	87,441,875	86,798,297
	208,532,150	208,173,015
Work service	4,058,029	4,295,991
Total car-miles	2,163,240,137	2,039,062,522
AVERAGE MILEAGE OF ROAD OPERATED	24,231·19	24,155·51
FREIGHT TRAFFIC		
Tons carried—Revenue freight	87,606,859	79,338,230
Ton-miles—Revenue freight	35,677,183,245	32,881,706,496
Freight revenue	$539,028,448	$502,830,806
Revenue per ton	$6·15281	$6·33781
Revenue per ton-mile	$0·01511	$0·01529
Average haul	407·24	414·45
Ton-miles—Revenue freight per mile of road	1,466,853	1,356,505
Ton-miles—All freight per mile of road	1,544,752	1,443,839
Gross ton-miles of cars, contents and cabooses	83,490,960,359	77,789,741,728
Net ton-miles of freight (revenue and non-revenue)	37,431,169,271	34,876,664,284
Train-hours in freight road service	2,458,225	2,345,495
Gross ton-miles per freight train hour	33,597	32,841
Average speed of freight trains	17·5	17·8
Average gross load—Freight trains (tons)	1,915	1,848
Steam locomotive miles per serviceable day (excluding stored)	115	114
Diesel unit miles per serviceable day (excluding stored)	269	284
PASSENGER TRAFFIC		
Passengers carried	16,811,280	17,858,916
Passenger-miles	1,463,653,329	1,471,708,931
Passenger revenue	$43,930,042	$43,757,015
Revenue per passenger	$2·61313	$2·45015
Average passenger journey	87·06	82·41
Revenue per passenger mile	$0·03001	$0·02973
Passenger-miles per mile of road	60,404	60,926
Percent on time arrival principal passenger trains	68·5	69·2
Steam locomotive miles per serviceable day (excluding stored)	194	216
Diesel unit miles per serviceable day (excluding stored)	535	236
NET RAILWAY OPERATING INCOME		
Gross revenue per mile of road	$ 28,190	$ 26,521
Gross railway operating charges per mile of road	$ 26,675	$ 26,495
Net railway operating income per mile of road	$ 1,515	$ 26

REVENUE TONNAGE BY COMMODITIES

	Year 1955	Increase or *Decrease*
	Tons	%
Agricultural Product		
Wheat	5,081,634	*7·14*
Corn	513,440	*4·47*
Oats	846,961	*37·69*
Barley	1,448,849	*15·99*
Rye	104,060	*33·07*
Flaxseed	224,826	91·97
Grain, N.O.S.	139,665	30·35
Flour, wheat	868,619	*8·53*
Cereal food preparations	297,290	14·69
Mill products, N.O.S.	2,130,675	3·94
Hay and straw	49,724	*33·68*
Cotton: raw, linters, noils and regins	91,524	25·60
Apples, fresh or fresh frozen	54,519	*7·19*
Citrus fruits	150,384	*10·70*
Fruits, fresh or fresh frozen, N.O.S.	199,507	*5·15*
Potatoes	376,407	*·37*
Vegetables, fresh or fresh frozen, N.O.S.	286,289	*2·44*
Sugar beets	142,961	*22·51*
Agricultural products, N.O.S.	777,267	7·42
Total Agricultural Products	13,784,601	*7·47*
Animals and Animal Products		
Cattle and calves	176,472	*12·73*
Hogs	121,273	9·35
Animals, N.O.S. and live poultry	33,093	·89
Dressed meats, fresh, frozen, or cured, also dressed poultry	186,443	*15·41*
Packing house products (edible), N.O.S.	106,816	73·60
Butter, cheese and eggs	63,461	7·51
Wool	18,737	14·64
Hides	59,671	13·58
Fish	72,248	1·45
Animal products, N.O.S.	131,340	10·02
Total Animals and Animal Products	969,554	2·45
Mine Products		
Anthracite coal	1,579,835	*5·20*
Bituminous coal	9,964,968	*1·59*
Coke	882,514	24·52
Iron ore and concentrates	2,788,031	107·68
Copper ore and concentrates	311,045	17·38
Copper-nickel (nickel) ore and concentrates	581,932	16·85
Bauxite (aluminum) ore and concentrates	476,423	*7·32*
Ores and concentrates, N.O.S.	2,530,710	11·83
Common sand and gravel	3,721,246	51·36
Stone and rock (broken, crushed, ground or riprap)	2,558,261	*19·74*
Block stone (finished or rough)	67,999	*14·56*
Asbestos, not further processed than milled	430,091	4·97
Gypsum, crude	1,219,511	328·15
Petroleum, crude	594,054	14·96
Asphalt	427,062	16·61
Salt	611,956	7·66
Mine products, N.O.S.	4,506,457	64·13
Total Mine Products	33,252,095	18·75

	Year 1955	Increase or *Decrease*
	Tons	%
Forest Products		
Logs, piling, poles, posts and ties	952,253	11·24
Cordwood and fuelwood	64,796	*19·76*
Pulpwood	4,348,733	*2·90*
Lumber, timber, lath, shingles; box, crate or cooperage stock	4,855,914	18·62
Plywood, veneers and built-up wood	340,351	32·24
Forest products, N.O.S.	206,504	13·70
Total Forest Products	10,768,551	8·25

Abbreviation—N.O.S.: Not otherwise specified.

MANUFACTURES AND MISCELLANEOUS		
Gasoline	2,356,778	8·46
Fuel oil (incl. bunker and diesel oil)	1,694,989	2·19
Petroleum and coal products, N.O.S.	748,384	2·36
Rubber: natural or synthetic	117,139	19·53
Iron and steel: bloom, ingot or pig	630,480	83·04
Iron and steel: bar, pipe, sheet or structural	1,292,082	17·24
Iron and steel: castings and forgings	26,131	37·89
Rails and fastenings	44,184	·39
Scrap and waste metal	1,272,731	38·69
Aluminum: bar, ingot, etc	361,290	17·56
Matte	167,819	·01
Copper: bar, ingot, etc	286,899	17·50
Nickel: bar, ingot, etc	25,757	34·42
Metals and alloys, N.O.S.	171,476	36·13
Agricultural implements, farm tractors and parts	164,471	4·10
Automobiles and parts: freight or passenger	2,549,361	40·59
Machines, machinery and parts N.O.S. (Excl. business and home)	325,289	10·20
Fertilizers, N.O.S.	879,501	12·34
Chemicals and acids, N.O.S.	1,096,390	14·93
Cement	1,324,238	5·92
Brick, building tile and artificial stone	362,702	16·04
Lime and plaster	494,682	9·43
Sewer pipe and drain tile (not metal)	55,379	3·41
Woodpulp	1,543,846	14·81
Newsprint paper	2,286,730	4·56
Printing and wrapping paper	355,132	7·07
Paper and paper articles, N.O.S. (Excl. building, roofing, or scrap paper)	187,547	6·50
Paperboard, pulpboard and wallboard	903,665	12·63
Building paper, prepared roofing and insulating materials, N.O.S.	199,320	13·28
Furniture and parts: home, office or store	69,813	6·76
Sugar	256,181	·27
Beverages	395,540	2·42
Food products, N.O.S., in containers	698,514	·96
Sulphur: natural or synthetic	115,791	31·37
Glass, glassware and earthenware	112,550	5·03
Scrap and waste paper and rags	253,482	7·42
Manufactures and miscellaneous, N.O.S.	3,691,893	11·78
TOTAL MANUFACTURES AND MISCELLANEOUS	27,518,156	13·42
All less than carload freight	1,313,902	2·35
GRAND TOTAL	87,606,859	10·42

Abbreviation—N.O.S.: Not otherwise specified.

OPERATED MILEAGE AT DECEMBER 31, 1955

	Owned	Leased	Trackage rights	Total
First main track in Canada	22,128·64	190·31	194·22	22,513·17
First main track in United States	1,460·02	181·87	122·87	1,764·76
Total first main track	23,588·66	372·18	317·09	24,277·93
Other main track	1,249·23	9·31	82·97	1,341·51
Spurs, sidings and yard tracks	6,536·42	126·04	1,472·92	8,135·38
Total all tracks	31,374·31	507·53	1,872·98	33,754·82

CANADIAN NATIONAL RAILWAYS

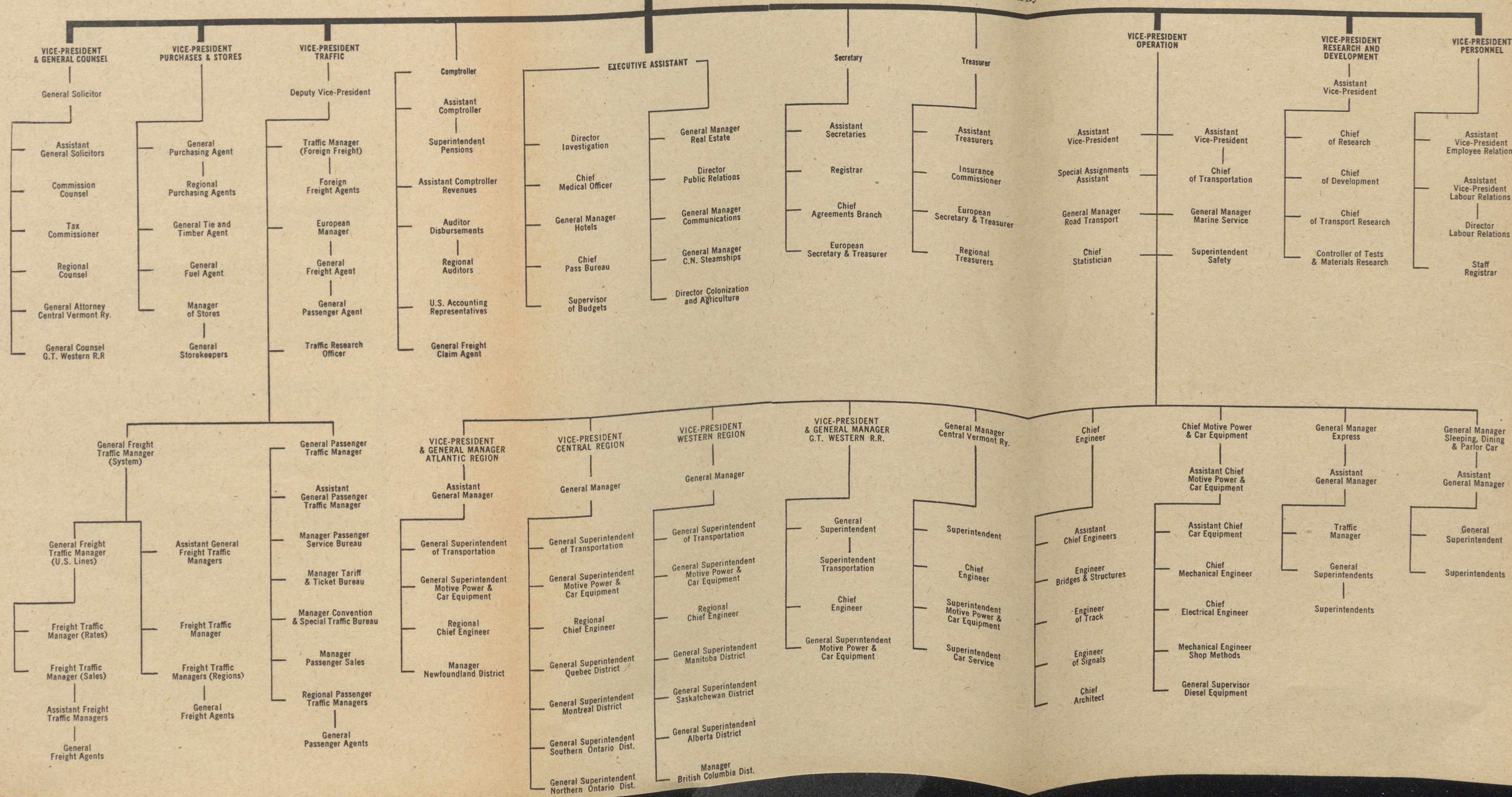
SYSTEM ORGANIZATION

This chart illustrates the scope of the complex organization required to manage the CNR—to direct the varied services of one of the world's largest transportation systems, built around a rail core of 24,278 miles of first main track.

It is designed to show only the general organization structure and does not include all of the important supervisory positions—for example those of the divisional Superintendents in the Operation Department—through which management necessarily functions.

BOARD OF DIRECTORS

PRESIDENT



A 25-YEAR SYNOPTICAL HISTORY OF THE CANADIAN NATIONAL RAILWAYS

Year	Operating Revenues	Operating Expenses	Net Operating Revenue	Taxes Rents and Other Income	Available for Fixed Charges and Dividends	Fixed Charges	Surplus or *Deficit*	Freight Revenue Ton Miles	Freight Revenue per Ton Mile	Revenue Passenger Miles	Revenue per Passenger Mile	Average Hourly Earnings per Employee (*)
	(Thousands)	(Thousands)	(Thousands)	(Thousands)	(Thousands)	(Thousands)	(Thousands)	(Millions)	c	(Millions)	c	$
1931	$200,505	$199,313	$ 1,192	$ *3,028*	$ *1,836*	$ 59,132	$ *60,968*	14,610	1·020	866	2·679	·649
1932	161,104	155,208	5,896	*7,047*	*1,151*	59,690	*60,841*	12,818	·942	686	2·515	·612
1933	148,520	142,813	5,707	*5,755*	*48*	58,907	*58,955*	11,550	·972	665	2·261	·582
1934	164,902	151,936	12,966	*3,152*	9,814	58,222	*48,408*	12,950	·974	723	2·259	·559
1935	173,184	158,926	14,258	*4,787*	9,471	56,893	*47,422*	13,509	·990	770	2·162	·583
1936	186,611	171,478	15,133	*6,264*	8,869	52,172	*43,303*	14,814	·982	831	2·048	·582
1937	198,397	180,789	17,608	*6,684*	10,924	53,270	*42,346*	15,165	1,014	953	1·987	·605
1938	182,242	176,175	6,067	*6,929*	*862*	53,452	*54,314*	14,505	·964	892	2·030	·647
1939	203,820	182,966	20,854	*7,461*	13,393	53,488	*40,095*	17,084	·938	875	2·035	·646
1940	247,527	202,520	45,007	*8,667*	36,340	53,305	*16,965*	21,532	·904	1,125	1·929	·643
1941	304,377	237,769	66,608	*9,430*	57,178	53,162	4,016	27,200	·881	1,762	1·810	·675
1942	375,655	288,999	86,656	*9,923*	76,733	51,670	25,063	31,729	·909	2,708	1·784	·721
1943	440,616	324,476	116,140	*28,311*	87,829	52,190	35,639	36,327	·894	3,619	1·848	·734
1944	441,147	362,547	78,600	*5,099*	73,501	50,474	23,027	36,016	·893	3,697	1·888	·846
1945	433,773	355,294	78,479	*4,713*	73,766	49,010	24,756	34,600	·915	3,338	1·953	·831
1946	400,586	357,237	43,349	*5,626*	37,723	46,685	*8,962*	30,812	·975	2,289	2·190	·877
1947	438,198	397,123	41,075	*11,034*	30,041	45,926	*15,885*	32,945	1·040	1,845	2·332	·905
1948	491,270	464,740	26,530	*13,721*	12,809	46,342	*33,533*	32,943	1·195	1,755	2·368	1·085
1949	500,723	478,501	22,222	*15,633*	6,589	48,632	*42,043*	30,922	1·276	1,621	2·671	1·119
1950	553,831	493,997	59,834	*15,673*	44,161	47,422	*3,261*	31,988	1·394	1,408	2·834	1·135
1951	624,834	580,150	44,684	*11,539*	33,145	48,177	*15,032*	36,435	1·369	1,611	2·947	1·320
1952	675,219	634,853	40,366	*14,809*	25,557	25,415	142	38,430	1·397	1,635	2·964	1·453
1953	696,622	659,049	37,573	*7,953*	29,620	29,376	244	36,678	1·509	1,539	2·984	1·568
1954	640,637	626,465	14,172	*10,403*	3,769	32,527	*28,758*	32,882	1·529	1,472	2·973	1·588
955	683,089	629,013	54,076	*10,354*	43,722	33,004	10,718	35,677	1·511	1,464	3·001	1·605

(*) Canadian lines only, excluding hotel and subsidiary company employees.

PRINCIPAL AMERICAN AND OVERSEAS OFFICES

In addition to over 2,200 agencies in Canada, the Canadian National maintains offices in the United States, Europe, Australia and New Zealand for the convenience of the shipping and travelling public. The following are the principal sales and service offices.

UNITED STATES

BATTLE CREEK, MICH.
D. Kantor
General Agent, Freight Dept.
G.T.W. Station

BIRMINGHAM 3, ALA.
D. L. Borst
General Agent, Freight Dept.
924-6 Brown-Marx Bldg.

BOSTON 10, MASS.
M. W. Simpson
General Agent, Freight Dept.
80 Federal Street

BOSTON 16, MASS.
C. H. Ladue
General Agent, Passenger Dept.
497 Boylston Street

BUFFALO 2, N.Y.
General Agent, Passenger Dept.
13 W. Genesee Street
C. E. Heidenburg,
General Agent, Freight Dept.
238 Main Street

CEDAR RAPIDS, IA.
E. J. Lee
Commercial Freight and Dairy Agent
103 Second Street South East

CHICAGO 3, ILL.
A. M. Nolan
General Western Passenger Agent
J. B. Thorpe
General Agent, Passenger Dept.
103 W. Adams Street
S. Emberg
General Agent, Freight Dept.
105 W. Adams Street

CINCINNATI 2, OHIO
H. J. Schneider
General Agent, Passenger Dept.
G. R. Nolan
General Agent, Freight Dept.
206 Dixie Terminal Bldg.

CLEVELAND 13, OHIO
H. W. Seale
General Agent, Freight Dept.
1310 Terminal Tower Bldg.

DETROIT 26, MICH.
E. H. R. Eastwood
General Agent, Passenger Dept.
A. G. Lees
General Agent, Freight Dept.
131 West Lafayette Blvd.

DULUTH 2, MINN.
A. F. Johnson
Division Freight Agent
418 W. Superior Street

FLINT 3, MICH.
J. W. Riley
City Passenger and Ticket Agent
1639 Mott Foundation Bldg.
E. O. Alldredge
General Agent, Freight Dept.
108 E. Kearsley Street

GRAND RAPIDS 2, MICH.
T. P. McCarthy
General Agent, Freight Dept.
201 Monroe Avenue

KANSAS CITY 6, MO.
C. F. Holt
General Agent, Passenger Dept.
J. C. P. Grantz,
General Agent, Freight Dept.

Commercial Freight and Dairy Agent
101 W. Eleventh Street

LOS ANGELES 14, CAL.
R. J. Eberhardt
General Agent, Passenger Dept.
G. O. Rundquist
General Agent, Freight Dept.
510 W. Sixth Street

MASON CITY, IA.
L. M. Taylor
Commercial Freight and Dairy Agent
First National Bank Bldg.

MEMPHIS 3, TENN.
R. H. Reilly
General Agent, Freight Dept.
130 Madison Avenue

MILWAUKEE 2, WIS.
D. A. Teskey
General Agent, Freight Dept.
A. T. Strapp
Commercial Freight and Dairy Agent
741 N. Milwaukee Street

MILWAUKEE 3, WIS.
E. G. Disque
General Agent, Passenger Dept.
231 W. Wisconsin Avenue

MINNEAPOLIS 2, MINN.
G. R. Conaway
General Agent, Passenger Dept.
1040 Rand Tower
P. M. Fye
General Agent, Freight Dept.
W. J. Murray
Commercial Freight and Dairy Agent
1500 Rand Tower

NEW HAVEN 10, CONN.
W. A. Kennedy
General Agent, Freight Dept.
39 Church Street

NEW ORLEANS 12, LA.
W. L. Scott
General Agent, Freight Dept.
210 Baronne Street

NEW YORK 7, N.Y.
R. G. Holden
General Agent, Freight Dept.
233 Broadway

NEW YORK 20, N.Y.
L. H. Brooks
General Agent, Passenger Dept.
630 Fifth Avenue

NIAGARA FALLS, N.Y.
Maloney & O'Connor
Agents, Passenger Department
18 W. Falls Street

OMAHA 2, NEB.
R. A. Larsen
General Agent, Freight Dept.
E. M. Bergeson
Commercial Freight and Dairy Agent
1319 Farnam Street

PHILADELPHIA 7, PA.
F. S. Benoliel
General Agent, Passenger Dept.
F. J. Foley
General Agent, Freight Dept.
J. A. Dougherty
Commercial Freight and Dairy Agent
Philadelphia National Bank Bldg.
Broad and Chestnut Streets

PITTSBURGH 22, PA.
A. F. Knauer
General Agent, Passenger Dept.
R. J. MacDonald
General Agent, Freight Dept.
355 Fifth Avenue

PORTLAND 3, ME.
H. R. Perry
Travelling Passenger Agent
J. C. Burns
Division Freight Agent
G.T.R. Station
15 India Street

PORTLAND 5, ORE.
H. T. Doherty
General Agent, Freight Dept.
905 Terminal Sales Bldg.

ST. ALBANS, VT.
W. J. Regan
General Passenger Agent
J. W. Edwards
Assistant General Freight Agent
C.V. Railway Station

ST. LOUIS 2, MO.
W. E. Rudolph
General Agent, Passenger Dept.
W. G. Fielding
General Agent, Freight Dept.
314 N. Broadway

ST. PAUL 1, MINN.
G. E. Daggett
Freight Traffic Representative
W-2672 First National Bank Bldg.

SAGINAW 2, MICH.
P. B. Clark
General Agent, Freight Dept.
203 Eddy Bldg.

SAN FRANCISCO 4, CAL.
C. W. Nelson
General Agent, Freight Dept.
681 Market Street

SAN FRANCISCO 8, CAL.
W. H. Happ
General Agent, Passenger Dept.
210 Post Street

SEATTLE 1, WASH.
J. H. Bell
General Agent, Passenger Dept.
A. R. Menning
General Agent, Freight Dept.
214 Vance Bldg.
Third Avenue and Union Street

SOUTH BEND 21, IND.
J. M. Veevaete
General Agent, Freight Dept.
326 West South St.

TOLEDO 4, OHIO
E. A. Russell
General Agent, Freight Dept.
245 Summit Street

TULSA 3, OKLA.
P. F. Jett
Travelling Freight Agent
321 S. Boston Avenue

VIRGINIA, MINN.
W. F. W. Glatz,
Ticket Agent
D.W.&P. Station

WASHINGTON 5, D.C.
C. D. Weldon
General Agent, Passenger Dept.
H. A. Hart
Special Representative,
Freight Department
922 Fifteenth Street N.W.

EUROPE

ANTWERP, BELGIUM
W. M. J. L. Rademakers
General Agent
9 Koolkaai (Quai aux Charbons)

COPENHAGEN, DENMARK
L. H. de la Cour
Scandinavian Representative
Bredgade 4

GLASGOW C2, SCOTLAND
J. R. Bennett
District Traffic Agent
9 Bothwell Street

LIVERPOOL, ENGLAND
H. V. O. Hughes
District Passenger Agent
J. Matthews
District Freight Agent
Cunard Bldg., Water Street

LONDON, S.W.1, ENGLAND
C. G. Thearle
District Passenger Agent
J. K. Buchan
General Agent, Express
A. R. Milne
European Commissioner of
Colonization
T. A. Hooker
Industrial Agent
17-19 Cockspur Street

LONDON, E.C.2, ENGLAND
S. C. Shipman
District Freight and
City Passenger Agent
Orient House
42/45 New Broad Street

PARIS, FRANCE
A. Thubet
General Agent
1 Rue Scribe

AUSTRALIA AND NEW ZEALAND

MELBOURNE, AUSTRALIA
W. Edney
General Agent
360 Collins Street

SYDNEY, AUSTRALIA
D. R. Crawford
Australian Traffic Manager
19 Bridge Street

WELLINGTON, NEW ZEALAND
C. R. H. Boggs
New Zealand Traffic Manager
Featherston and Brandon Streets

Mr. GORDON: I would like now, Mr. Chairman, to make a few comments in respect to the statistical pages. A number of changes have been made in the statistical pages for the year ending December 31st, 1955, with the object of making the statements more comprehensible. The changes are as follows: the balance sheet which appears on pages 2 and 3 of the green pages has been set forth in a format which compares very closely with that utilized by most major industrial organizations, that is to say, in general the assets are presented in order of liquidity. That is current assets are listed first and property investment is well down the list, while liabilities are set forth in progression from the most current, ranging to long term debt. Items of like nature have been consolidated and a number of headings or captions have been substantially reduced so that the balance sheet is in a much more simplified form.

Then, on page 5 you will find the income account. The rearrangement we have made there is something along this line: those expenses which have the character of fixed charges of a financial nature have been extracted from the body of the statement and assembled under fixed charges, whereas in other years the caption "fixed charges" was used. Again we have endeavoured to put the same kind of things together so that you can see them readily.

There is a new table on page 11. All the other statistics are most interesting and represent a degree of disclosure of the activities of the railway which I have always felt was unique.

On page 11 there is a new table which is of interest to those who are interested in the financial side of our operations. A statement is set forth for the purpose of identifying the sources for which funds were obtained out of our own earnings and so forth, and they are arranged in classifications as to how these funds were expended.

On pages 30 and 31 of the report itself you will find a new form of chart which gives the picture of the system's organization. I said at the top of that page that this chart is designed to show only the general organizational structure and does not include all of the important supervisory positions—for example, those of the divisional superintendent in the operation department—through which management necessarily functions. I have tried there to show in a form that will be easily followed, the type of organization which is required to manage the Canadian National Railways.

Thank you, Mr. Chairman.

The CHAIRMAN: Thank you, Mr. Gordon, for a very comprehensive report which has been read to the committee.

Now, I think I will commence by calling the various headings. If there are any questions we will be glad to hear them asked and I am sure Mr. Gordon will be glad to answer them.

The first item is "Review of Operations" on page 5.

Mr. CHURCHILL: Mr. Chairman, before we start in on the details of the report, I notice last year Mr. Gordon at this stage of our committee gave a comparison with class I railways in the United States and of the C.P.R. in Canada in order that we would have some basis for our judgment with respect to the operation of the C.N.R. Would you care, Mr. Gordon, to do that at this stage?

Mr. GORDON: Well, of course it is difficult to know just what headings would be of particular interest to you.

Mr. CHURCHILL: You were dealing last year with the question of revenue and showed the situation, with respect to these other railways and things of that nature.

Mr. GORDON: The Canadian National, as I said in my report, showed an increase in revenue, total operating revenue, of 6·6 per cent over the previous year. Canadian Pacific showed an increase of 6·1 per cent, and all United States class 1 railways showed an increase of 7·8 per cent. There is a comment I should make in order to make the position clear, that is that the United States class 1 railways showed a very great decline as between the year 1953 and the year 1954, so that the swing back showing a higher rise is from a lower base than in the Canadian railways.

Mr. HAHN: Was the first figure 6·6 for the Canadian National?

Mr. GORDON: Canadian Pacific showed 6·1 per cent increase and the Canadian National 6·6 per cent increase in revenue. On the expense side the figures show a much greater contrast. On the expense side the American railways, United States Class 1 railways showed an increase in expenses of 3·5 per cent. The Canadian Pacific Railways showed 2 per cent, and the Canadian National only ·4 per cent. We have to remember the comment that is applicable, and that is that they have cut to a greater extent as between the previous year that we are comparing these figures with; but nevertheless the actual results for the year show that there is a substantially higher increase in expenditures on both class 1 railways in the United States and in the C.P.R. than on the Canadian National.

Mr. CHURCHILL: What would you give us as a reason for that? In American magazines and so on I notice that they seem to be engaged in an extensive improvement program of their railways.

Mr. GORDON: Let me put it this way: in 1953, the year when rail revenue fell catastrophically, both the C.P.R. and the United States Class 1 railways commenced to cut their maintenance charges very materially in the period of falling traffic, and in the C.N.R. we decided not to cut the program which we had in hand at that time. We felt the programs we had were essential and that if we cut them at the time that traffic was falling we would run into an uneconomic situation. The result of that decision, as against the substantial fallen revenue, caused the deficit in our 1954 operations of $28 million as referred to in the report. When we came to 1955, the Canadian National got the advantage of that situation because it did not have to overtake the degree of deferred maintenance which the other railways we are discussing did. Our 1954 decision, which produced a deficit, has a real meaning in respect of our apparent success in 1955. That is what I had in mind when, in the second last paragraph of my report, I said that we could not take one year and isolate it to determine the results of a service as large as the C.N.R.

Mr. FULTON: You are dealing there entirely with operating expenses and revenue and not with over-all expenses and revenue?

Mr. GORDON: That is right. The end result, of course, is we get down to the net operating, which is what I am talking about. The other items are the amount of fixed charges which give the over-all surplus or deficit as the case may be.

Mr. HAMILTON (*York West*): Are special items, such as replacement of track, expense items or are they capital items?

Mr. GORDON: The expense items are all maintenance expenses charged to operating expenses and not capital expenditures.

Mr. HAMILTON (*York West*): Suppose you have a program such as replacing track, is that treated as an operating expense?

Mr. GORDON: In the figures for 1955, what might be called the regular replacement program, is charged to operating expense, yes.

Mr. HAMILTON (*York West*): So the degree of replacement of that kind in the other railways of course would affect the percentage of improvement in their position?

Mr. GORDON: That is right.

Mr. HAMILTON (*York West*): Have you any idea as to how extensive those programs were as compared to your own?

Mr. GORDON: I could not give you that in detail. There are no figures published for the C.P.R. or for the United States lines yet. It is too early to give you those figures; but, it is true that any railway management can show a very quick improvement in results over a short term by deciding on the degree of maintenance that it will undertake. That is why you will find that spectacular results are often very misleading. You can get new management to come into a railway which will show immediate results which look spectacular, and that has been done as you know, but it cannot stand up over the long run because maintenance must take place or you get into trouble.

Mr. HAMILTON (*York West*): Has your own program with replacement of tracks been cut?

Mr. GORDON: I would say it was substantially cut in 1955 over what might have been done, not wholly as a result of management policy, but also having in mind shortage of supplies. But we did get the benefit of the fact that we spent much more in 1954 than other railways were doing, and that meant we had less to overtake. Mr. Armstrong reminds me that in 1954 our actual rail laying program was the highest mileage we have had in the history of the railway. That apparently was done in the face of a substantial decline in traffic, but over quite a period of years there has been a shortage of steel. 1954, and the latter part of 1953, was the first time in years we got our hands on enough rail to satisfy us. It was circumstances of that kind which enabled us to go ahead with the program.

Mr. HAMILTON (*York West*): Is that rail purchased in Canada?

Mr. GORDON: Yes, it is purchased in Canada with the exception of the lines we operate in the United States.

Mr. BELL: Why was it that we were able to take advantage of the improvement expenses earlier than the other railways? You have mentioned that there were quite a few advantages in the fact that we began our improvement program a year or two earlier than other railways.

Mr. GORDON: I cannot tell you I am right as to what motivated the policy of other railways, but looking at the evidence it seems evident that they decided—they were not all the same—taking them as a group, they decided to start reducing their expenditures on maintenance programs and they were probably in a better position to do it than we were. We had our program set up. We could have cut that program. But, with our programs set up, we thought it was better policy to let them carry on and we did get the benefit of it in later years. Labour is a very important cost in the laying of rail.

Mr. FULTON: You told us last year, that you felt in 1954, that you were perhaps a little further behind with your maintenance than some of the other railways and were reaching a point where you felt it would not be proper to go behind, and you were to some extent compelled to go ahead.

Mr. GORDON: I think I recall saying last year, among other things, that on the Canadian National Railways, back in the war years, Canadian National had cooperated very fully in respect to the steel shortage, to the extent that a lot of the track had to be laid with light rail. That light rail, in order to conserve steel, was laid in places where the heavy war traffic just used it right up. We had much more maintenance to catch up on than had, I think, our friends in the C.P.R. and most of the large United States railways. Is that generally what I said last year?

Mr. ARMSTRONG: Yes.

Mr. GORDON: Good.

Mr. HAHN: Since Mr. Gordon says that the rails are considered as an operating expense, then we take no depreciation on that in any way?

Mr. GORDON: Up to the end of 1955. Mr. Armstrong advises me, but I am in the hands of the committee, that we would be better to await the actual detail until we get into the budget, and it will cover other items at the same time.

Mr. HAHN: That will be satisfactory.

Mr. CARRICK: May I ask a question in reference to the line of questions Mr. Gordon has been answering just now. Mr. Gordon answered questions put to him on comparative figures of the C.P.R. and first class United States railways; and I am wondering, Mr. Gordon, since we are here to investigate the estimates and bills of the Canadian National Railways, whether the comparisons which you give us really tell us very much. If you want to get a really accurate picture comparing the revenue and expenses of the C.N.R. with the C.P.R. and with other first class railways in the United States, would it not be necessary for us to go into the accounts of the C.P.R. and other United States railways just about in the same detail that we are obliged to go into your accounts?

Mr. GORDON: Yes. There are some comparisons, however, which I can give you, but I cannot go behind the figures and tell you the motivations of the C.P.R. They do some things differently and the uniform accounting does not necessarily mean that the figures are on a strictly comparable basis. Certainly if you were to try to make anything in the form of a precise comparison between the C.N.R. and the C.P.R. you would be getting into a colossal job, I can tell you that.

Mr. BELL: I think Mr. Carrick has had to make a transformation overnight. Yesterday he did not want to go into any of the competitive companies with respect to T.C.A. and now he is interested in it.

Mr. CARRICK: There is no transformation. It is quite consistent. I am just trying to ascertain from an expert witness here whether these figures he has given us now really mean anything. I think I am quite consistent because his answer indicated if he wanted to get into an analysis of the accounts of the C.P.R. and other railways in the United States that it would be a job beyond the competence of this committee.

Mr. GORDON: What I think you can quite properly get is a comparison of the results of a business. In other words, you can see as a result of C.P.R. operations that they have earned so much money and paid so much dividends. There are all sorts of qualifications in respect to the methods and practices followed, so that comparisons are not necessarily valid; but if you were a shareholder in both companies you would examine the end results. For example, our operation of a railway as such is different from the C.P.R.'s and such things as our degree of dieselization may be different in that we may be more dieselized than they, or vice versa. There are all sorts of other differences. There is the extent to which maintenance has been kept up. Some railways in the United States have a policy in regard to maintenance which may be much more rigid than our own, or less rigid. It will change with differing opinions of management. It will change with the proxy fights by shareholders or various people who want to get their hands on railways. You would have to get into such things as the relative age and condition of rolling stock, and if you are going to go into that it would be a tremendous job and really could not be done, in my opinion, by this committee.

Mr. FULTON: What we started with was a comparison of operating results and it has not turned out too bad for the C.N.R. so I do not know what Mr. Carrick is afraid of.

Mr. HAMILTON (*York West*): Mr. Chairman, I think we should say, too, that quite different to the situation last night Mr. Gordon apparently has come prepared to a certain extent to give information on a comparative basis. He has today, at any rate, and I think it would be very foolish if we did not as we go along get the benefit of any information.

The CHAIRMAN: Shall the item "Review of Operations" carry?

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Mr. Chairman, before we pass that, I have two points, the major one being, have you made any estimate, Mr. Gordon, what the result might have been under the old financial set-up of the railway? In other words, back in 1952 you went through quite a major change, and I was wondering if we had kept on what our results would have been this year?

Mr. GORDON: The simple answer to that, Mr. Hamilton, is while we could get into a lot more detail, the C.N.R. has benefitted to the extent of the interest charges on the interest-bearing debt which was converted into equity stock, and generally speaking that is a figure of around $25 million of interest charges that have been relieved so far as the C.N.R. is concerned; that may vary half a million one way or the other.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): I have just one other question, and it is obvious that the discrepancy in any basis of comparison in 1954 versus 1955 is based on a divergence in the way you handled it in 1954. In 1954 you kept yourself up, and some of the other railways did not do so much. Would we have a more interesting comparison taking 1953 against 1955? There we would expect to find a fairly constant pattern I would think.

Mr. GORDON: I do not think you can call it a constant pattern, no, because 1953 was by no means normal—I do not know what a normal year in the railway is; there certainly has not been one since I have been there. It really gets to the point that you would have to analyze all the managerial reasons for different types of decisions and then take the degree of maintenance. It is a factor that has to be studied in relation to the question we are discussing.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): I must say I was not interested in the maintenance as such; I was just interested in it in this way, that for example in 1955 you showed increased operating expenses of one per cent as against 3·3 per cent for the United States class 1 railways.

Mr. GORDON: You have in mind 1953 as against 1952?

Mr. HAMILTON (*Notre-Dame-de-Grâce*): 1953 as against 1955 for the class 1 United States railways and C.P.R.

Mr. GORDON: We cannot give you that for the last month of 1955. The only comparison I have covers eleven months. I have here a table which shows in the eleven months period 1955 versus 1953 that the total maintenance of the C.P.R. decreased by 15·1 and in the class 1 railways in the United States which we are talking about the total maintenance of 1955 against 1953 decreased 11·1 per cent, and on the Canadian National Railways the comparison is a decrease of 9·8 per cent.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Thank you very much.

The CHAIRMAN: Shall "Review of operations" carry?

Carried.

"Operating Revenues", and the first sub-heading is that of "Freight".

Mr. HAHN: What means of long distance hauling was responsible for this change which was caused by means of long distance hauling?

Mr. GORDON: You mean the drop in the average revenue?

Mr. HAHN: Yes.

Mr. GORDON: No. That is due to the mix of traffic. We hauled more relatively low revenue traffic in the form of such things as grain, mine products, and things of that kind and a heavy volume of other products which would get a low rate per ton mile, and the mix of traffic was such that by hauling more of that kind of traffic our average earning received for the movement of one ton for one mile declined. So the figure fell. We received 1·511 cents in 1955 for hauling one ton one mile as compared with 1·529 cents in 1954.

Mr. HAHN: As a result the volume of freight service performed in terms of ton miles went up 9 per cent compared with the 10 per cent rise in tonnage.

Mr. GORDON: Yes. It means that we have heavier tonnage, a larger volume of tonnage, but not as profitable tonnage as we had in the previous year.

Mr. HAHN: Is part of that due to the piggy-back service?

Mr. GORDON: No. On the average our average haul per ton dropped from 414 miles in 1954 to 407 miles in 1955.

Mr. HAHN: Later on in sub-section 7 you say that freight revenue, which in 1955 accounted for almost four-fifths of total operating revenues, amounted to $539·0 million—$36·2 million more than in 1954.

Mr. GORDON: Yes.

Mr. HAHN: How does that compare over the past several years, let us say, with the tonnage over a ten years period. Has there been a decrease or an increase ?

Mr. GORDON: It would be relatively about the same. About four-fifths of our traffic is fairly constant. That is where we get the bulk of our traffic. The rest of it consists of passenger, express, telegraph and things of that kind, but the bulk of our revenue comes out of freight.

Mr. HAHN: Your passenger revenue has not remained constant.

Mr. GORDON: No.

Mr. HAHN: Would this not have increased it?

Mr. GORDON: It is so small relative to the total that it does not make an awful lot of difference in the percentage. All our other activities are wrapped together; but the great bulk of our business is, as I said before, in freight.

The CHAIRMAN: Shall the heading "Freight" carry?

Mr. FULTON: In paragraph 8 I notice that Mr. Gordon records an increase in freight traffic in carrying automobiles and parts. As I recall it in previous years that was an area in which you suffered a decline and you said you would take steps to deal with it. To what do you ascribe that result?

Mr. GORDON: I think that the most obvious improvements would arise out of agreed charges—the arrangements we make for carrying automobiles to western Canada in particular.

Mr. FULTON: Is it in the long haul of automobiles particularly that this improvement is being noted?

Mr. GORDON: Yes. There has been general improvement in business with the automobile companies, but so far as the railway is concerned, the agreed charges, which cover long hauls from eastern to western Canada—that is where we get the most advantage from the standpoint of our earnings.

Mr. FULTON: You got a decrease in pulp wood freight. As the pulp and paper industry is thriving, why would you show a decrease? Are they themselves going into other forms of transportation?

Mr. GORDON: The statistical table on page 14 shows a decrease in pulp wood and you will see that a relatively small decrease is shown; in regard to a specific decline in pulp wood, I cannot pinpoint it other than that is what we were asked to carry. It sometimes depends on the situation as to the break-up in the spring, as to how much of stream-driven logs are able to get down stream in a given period. So is the whole business of inventory accumulation which is a question of judgment in relation to markets, which would also be a factor. It is a relatively small decrease, however, and it represents no fundamental change in the use of the railway so far as we know.

Mr. FULTON: That is satisfactory. You point out that it is a 2·9 per cent decrease which is not so terrible.

Mr. GORDON: Yes.

Mr. FOLLWELL: Have you found that agreed charges are profitable, and if so are you actively endeavouring to secure more of them?

Mr. Gordon: Yes. We are not permitted to make an agreed charge without first satisfying the Board of Transport Commissioners that the rate is compensatory; that is, it has to be a profitable rate, and we have to satisfy the Board that it is a compensatory rate before they will agree to an agreed charge. We have to go before the Board of Transport Commissioners in order to have each one approved.

Mr. HAHN: Compensatory to that division, or to the overall operation?

Mr. GORDON: Compensatory to the railway.

Mr. HAHN: Compensatory to the railway itself in the overall picture?

Mr. GORDON: That is right. We are not allowed to use an agreed charge to cut a rate to a point which is designed only to put a competitor out of business. We have to show that we have a profitable rate in case we are challenged. Anybody can take it up before the Board and challenge us, and if they do then we have to satisfy the board that it is a compensatory rate.

Mr. HAHN: Following along the line of Mr. Fulton's question, what effect has the cross-country transportation business had on that industry?

Mr. GORDON: You mean on the automobile industry?

Mr. HAHN: No, on the transportation companies which used to truck cars across the nation?

Mr. GORDON: We have increased our business, and it must be at the expense of somebody else, I assume. The overall business has gone up too. There was a situation where the practice was to employ students who would drive the cars from eastern to western Canada, and that kind of competition was hurting the railway. However I believe that our agreed charge has pretty well stopped that kind of thing and it is no longer profitable for individuals to do it.

Mr. HAHN: You would not say that it had pretty well stopped other competition as well?

Mr. GORDON: No, I would not say so. It depends on the circumstances.

Mr. HAHN: You have no idea how many operators were in operation on the cross-country transportation of automobiles alone, and how many of those have gone out of business?

Mr. GORDON: There are no statistics of that kind available so far as I know; there is no requirement that such traffic report as we have to do. There is no reporting system for truckers.

Mr. HAHN: I happen to live on the trans-Canada highway on the Pacific coast, and those transports used to go by my door and I used to see as many as ten go by in one day, but I have not seen any in weeks now.

Mr. GORDON: The weather may have had something to do with it.

Mr. BELL: Can Mr. Gordon tell us what agreed charges were assigned to the Maritimes last year, from July on, after the commission's recommendations were put into effect?

Mr. GORDON: So far as I am aware we have some 105 agreed charges in effect as of March 1956, and according to my statement we have no agreed charges in effect between points in the Maritime provinces, New Brunswick, Nova Scotia and Prince Edward Island. However, there are a few in effect between the Maritimes and other provinces of Canada, as well as some in Newfoundland. There are five agreed charges in effect between the Maritime provinces to points in other provinces of Canada, yes. It is not too bad a proportion. We have got only 105 in operation right now but there are others under discussion and we hope to extend them.

Mr. BELL: Do those agreed charges which exist between the Maritimes and other parts of Canada—do they include agreements in the automobile field?

Mr. GORDON: I do not know. I am sorry, but I do not have immediately at hand a record of the agreed charges. However, such information is available because it is a matter of public record with the Board of Transport Commissioners, and I could furnish samples for you if you care to leave it with me.

Mr. BELL: Thank you.

Mr. POWER (*Quebec South*): Are those charges both for rail as well as for water competition?

Mr. GORDON: Yes, both. Under the agreed charges any person may work out a similar arrangement to be made under the same conditions.

Mr. BYRNE: Have you any way of showing what proportion of the western traffic represents wheat? Has it been broken down?

Mr. GORDON: You mean in revenue?

Mr. BYRNE: Yes, or in percentage of your traffic, both revenue and percentage of traffic.

Mr. GORDON: I do not think I have that, no. The picture shown on the statistical table on page 14 shows a breakdown of the tonnage, that is the revenue tonnage by commodities, but I do not think I have the dollar figures. I am sorry, I cannot give you the dollar figure at the moment. But the tonnage figure shows the relative importance overall; in other words, it shows 13,784,601 tons of agricultural products out of a grand total of 87,606,859 tons.

Mr. BYRNE: What I am interested in is the actual returns from the grain, as a percentage of the freight traffic.

Mr. GORDON: Well, I have not got that. Just one moment and I will see what I have got. I am not sure.

Mr. WEAVER: If it is less than 6 per cent of the total tonnage, then it is not likely that you will find enough to make up a large deficit.

Mr. GORDON: I can give it to you approximately. I have a table which I shall read for you which might answer your question. We did not break it down into individual items. The total agricultural products I referred to is 15·7 of our total tonnage, and 14·1 of our total revenue; under animal products it is 1·1 of our tonnage; that is a percentage, and 3·5 per cent of our revenue. Under mine products it is 38·0 per cent of the tonnage, and 13·4 per cent of our revenue. Under forest products we have 12·3 per cent under tonnage and 13·8 of our revenue. Manufacturers and miscellaneous is 31·4 of our tonnage and 48·5 of our revenue. And less carload merchandise shows 1·5 of our tonnage and 6·7 of our revenue. Those figures should total up to 100 per cent. I have not got it individually analysed.

The CHAIRMAN: Shall the heading "freight" carry?

Mr. CHURCHILL: I wonder if Mr. Gordon could give us the tonnage on the movement of wheat for the preceeding three years. This just shows an increase or decrease on a percentage basis.

Mr. GORDON: Former reports would show that, yes. Have you got the reports for the past two years there? 1955 you have before you; and in 1954 it was 5,472,322 tons; while in 1953 the report shows 8,994,388 tons. These are the tonnage figures, that is what you want?

Mr. CHURCHILL: If the movement of wheat this past year equalled the movement in 1953, then your revenue would have been increased.

Mr. Gordon: The dollar revenue, but not necessarily the net. The gross revenue would have increased, yes.

Mr. HAHN: What was the cost of operation on the hauling of wheat and how does it compare to the revenue derived? What is the percentage?

Mr. GORDON: What was the question again please?

Mr. HAHN: The cost of operation as compared with the revenue derived from wheat; that is, the cost of operating those trains which haul grain.

Mr. GORDON: On that point I would have to make a whole series of qualifications because our out-of-pocket costs at any given point are so variable that I cannot pinpoint them. In order to get them, we have to take a particular point of time and study them at that time.

But with that qualification I can say to you that the last study that we made indicates that the revenue per ton mile figures on grain moving under the Crowsnest Pass rates, which is what I think you are interested in, was ·526 cents per ton mile, and that our revenue on this traffic ran around about ·50 cents. But I must ask you not to take that figure as being a precise one because at any given point of time it will be different; it would vary depending on the degree of our dieselization at any given point of time; it would have a bearing on the volume at any given point. And it is also based on an assumption which is false in this case, that any cost study that we are able to make, must of necessity start with the assumption that all the branch lines which are now in existence would have been in existence in any event, whether the wheat was there or not. So we start with our overhead.

If we were not handling wheat it is obvious that we would not have anything like the network of branch lines which we have; so by taking that as a starting point it means that it greatly understates the actual out-of-pocket expenses of the railway. Do you follow my point?

Mr. HAHN: Yes. I was just wondering if it would not be possible, as a possible help in this matter, if during a certain period, let us say a year, a period of crop figures could not be received from the Canadian National Railways themselves to indicate the cost ratio between what we have and what we would normally have with those lines which are dependent completely on the sale of grain?

Mr. GORDON: There could be a cost examination and study undertaken on the out of pocket costs in respect to all grain moving under the Crowsnest pass rates. But if that study were undertaken it should be made in relation to a particular point of time. It should not be based on what happened four or five years ago or around that time; you should start with a given premise and you will get a cost at that time and you will get all sorts of disagreement on the methods at arriving at that cost; but an examination of this cost could be undertaken.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): In answer to a question asked by Mr. Churchill I understood Mr. Gordon to indicate that even with a change in the position of the wheat farmers out west with more shipments of wheat— I think he said that the dollar volume might not necessarily influence the net.

That disturbed me quite a little bit because it seemed to be inconsistent in the light of some things which Mr. Gordon said to us last year. I would draw to his attention that last year when we were discussing the position of the road, Mr. Gordon quite properly placed heavy emphasis on the drop in wheat shipments as being largely responsible for the drop in their net profit position.

I think he devoted practically a page of the evidence to pointing out that if those shipments came up, then the profit position, and his net, would increase very substantially. I shall not read it all; but he made a comparison, for example between a manufacturing plant which might be working 15 per cent of capacity and which would show a very substantial loss; but if it worked at 90 per cent of capacity it would show a very substantial profit, and there was much along the same line. This led me to believe—and I do believe—that any improvement in the position of the western wheat farmer would mean a very substantial improvement of the railroad. And I would like to remind Mr. Gordon that he referred to the fertilizing effect on the wheat farmer.

Mr. GORDON: Quite.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): And that not only wheat movement but other things as well moved.

Mr. GORDON: I think we are talking about two different things. On the one hand we are talking about the specific movement of a bushel of wheat with our cost; and if you took a narrow point and examined the actual cost of moving a bushel of wheat in relation to the revenue earned on it, you would come out with a figure which would not necessarily show that we were making money on the movement of wheat; but I would also point out that we are all set up for business. Our tracks are there and our handling facilities are there, and the more that they are used, the more we will get as some return on our overhead.

The other important thing I was trying to say was this: I have not looked up what I said last year, but my intention was to emphasize that with a large wheat crop, the railways were bound to be prosperous because a large wheat crop would put cash into the community and would fertilize the whole movement of traffic throughout Canada, particularly to western Canada, because when cash sales of wheat fall off, then not only the railways but all the products going through from east to west fall off and traffic drops very materially. We then find ourselves in a position of a very uneconomic movement because we have to haul empty cars from eastern to western Canada to bring back grain or whatever is available; and if we have a completely empty movement one way, it obviously is uneconomical. But if we can use those cars and get better than one-way traffic then the railway would show better results in the net.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): That was my point. There was a drop of 39·2 per cent in wheat in 1954 and a drop of 7·14 per cent in 1955, and if they total something like 43 per cent, it would mean that if the position is reversed, probably there would be a very substantial improvement in the net position of your line.

Mr. GORDON: Well, as an amateur mathematician I shall not let you add two percentages together and come up with the same result.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): May I say that I did not add 39 per cent and 7 per cent. I realize that they would come out to 46 per cent. I applied the 7 per cent to the 39 per cent, and that is why I came out with 43 per cent which is the correct figure.

Mr. HANNA: Last year I asked a question on the one-and-one-third rule as it applied to the west. I would like to bring up the same question again under freight rates.

The CHAIRMAN: Are we under freight rates yet? Shall "Freight" carry first? Are there any more questions under "Freight"?

Mr. GILLIS: I would like to ask this question which has to do with the movement of freight. There was a statement made in the house yesterday afternoon to the effect that while you had stepped up delivery of freight east from Sydney, coal and steel, as far as Truro, that there appeared to be a bottle-neck at Truro, where it was held up from distribution to the rest of the province, and further west, and that the yards at Truro were piled up with cars of freight, steel and coal. I wonder if Mr. Gordon could tell me if that statement is correct, if there is a bottle-neck at Truro which the report tells of, with freight there from Cape Breton being held up from distribution to its proper destination.

Mr. GORDON: I shall check my memory. In the first place, there are two bottle-necks. One possible thing is the result of storms. We have had a very bad year, and our performance has suffered accordingly. We have had probably the worst operating year in the Maritimes in the memory of our oldest employee. In the second place, Truro is a bottle-neck physically, and one which we are trying to remedy. We have plans in hand in order to remove that condition. It is not the best railway line, and that stems back for many years as you probably know. But we have the matter under examination and we hope to improve it.

Mr. GILLIS: Thank you.

Mr. MURPHY (*Westmorland*): In relation to the same subject matter which Mr. Gillis brought up, is that condition of the freight cars in Truro the result of locomotive power in the Atlantic division, or the result of too much dieselization effected too rapidly in the Atlantic division?

Mr. GORDON: The result of too much dieselization? No!

Mr. MURPHY (*Westmorland*): I understand, perhaps incorrectly, that steam engines give better performance in that type of weather than do diesel engines.

Mr. GORDON: I could not agree to that, no. We have suffered from shortages in power this winter, and part of the reason has been the extreme snow conditions. We have had to take locomotives on snow-ploughing work to a much greater extent than I can recall. Our snow-miles this year have been terrific both in the east as well as in the west, and all over the system we have suffered from a shortage of power due in part to that condition and because we did not get delivery of the diesels which we thought we would, in November, by reason of the strike at General Motors. Those two conditions have made our power situation very tight indeed and we have gone even to the expediency of renting locomotives. We got some in from the United States railways.

Mr. MURPHY (*Westmorland*): What kind, steam?

Mr. GORDON: Steam, yes, the rented ones would be steam.

Mr. FOLLWELL: May I ask whom you rented them from?

Mr. GORDON: Do they want us to give that information?

Mr. FOLLWELL: It does not matter, I do not care.

Mr. GORDON: I do not know if they would like that information given or not. Those from whom we rented may have some reason to object; I do not know.

Mr. BYRNE: In paragraph 8 you say:

> "Mine products in total increased 5·3 million tons, accounting for over 63 per cent of the 1955 gains."

Have you any idea what percentage of that is coal?

Mr. GORDON: You see it again on the statistical review, page 14, to which I call your attention; and it sets out all the information that we have about the breakdown of our tonnage. Anthracite coal declined 5·20 per cent, bituminous coal declined 1·59 per cent, and coke went up. There is the actual comparison in those figures. Does that answer the question?

Mr. BYRNE: Yes.

The CHAIRMAN: Shall the heading "Freight" carry?

Mr. HAMILTON (*York West*): Mr. Gordon, will the recent authority given by the board to the carriage of automobiles by ship to the head of the lakes have any effect on your over-all picture here, especially in the light of the fact that you have indicated you are going ahead with these special automobile cars?

Mr. GORDON: That is the Wilcan case.

Mr. HAMILTON (*York West*): Yes.

Mr. GORDON: That ruling has just been made and I called for a special examination of it. I am not in a position where I would know definitely what it will imply. I will know next year. I do not know at the moment how much of a competitive factor it will be.

Mr. HAMILTON (*York West*): And you do not know whether it is the intention physically to drive those cars from the head of the lakes?

Mr. GORDON: I do not know what the plan is. It looks like a dangerous development to the railways, I will admit. I am concerned about it, but I cannot forecast what the ultimate result will be at this time.

Mr. HAMILTON (*York West*): What do you mean by dangerous?

Mr. GORDON: That it may destroy the benefit of certain agreed charges to the railway.

Mr. HAMILTON (*York West*): Is there any indication of further applications of that kind?

Mr. GORDON: Not that I am aware of, but that is another part of my concern, that the door has been opened and that there might be other attempts of that kind. I think it is a damaging development to our traffic obviously.

Mr. HAMILTON (*York West*): I assume they will still expect you to do the job in the winter time?

Mr. GORDON: I would think so.

Mr. HAMILTON (*York West*): I think you referred to this under "Freight Rates" but it should come under "Freight". Have you extensive plans for the piggy-back trailer on flat-car service?

Mr. GORDON: That word "piggy-back" I think is sometimes misunderstood. The piggy-back development as such has not been introduced in Canada, that is we do not carry other people's trucks as they do in the U.S. We carry our own trailers on flat-cars, and it is the trailer-on-flat-car service which we have in Canada and that will be extended as business is offered. We are planning this year in our budgeting for more trailers being bought and we intend to apply that in the light of the demand as it comes along.

Mr. HAMILTON (*York West*): Your system is that you do the actual pickup and delivery; you have the tractor part of the program as well as the trailer part?

Mr. GORDON: Yes. We send our tractor out with the trailer and bring it to the loading platform and put it on the flat-car and send it to Toronto where we have another tractor pick it up and deliver it to the address of the consignee.

Mr. HAMILTON (*York West*): Is there any consideration, in cooperation with the trucking companies to handle their trucks in that way?

Mr. GORDON: We have given a lot of thought to it and we are against it.

The CHAIRMAN: This seems to be under "Freight".

Mr. HAMILTON (*York West*): Mr. Chairman, I read paragraph 12 and it deals with rates which I assume would be charged in this category of service, but surely no matter what it is, it is in connection with the carriage of freight.

The CHAIRMAN: I think we will have to have some orderly discussion.

Mr. FOLLWELL: Mr. Chairman, I suggest we talk about the two headings together and then we will close that.

The CHAIRMAN: We will try to deal with both at the same time and pass them both.

Mr. GORDON: If you want me to complete this point, I will, when I say we are against it but I do not want you to think that is a dog-in-the-manger attitude. There are good reasons for our attitude. It is perfectly obvious that operators of trucks would only use the service offered by the railway if it meant reducing their cost. If it reduces their cost they become more competitive with the railway, and so what we are doing with our trailer-on-flat-car service is providing a competitive service which will attract traffic to the railway. That does not mean we will refuse to handle a trailer for a trucking company, but at a standard rate. When we transport our own trailers we are working for ourselves and not for somebody else. We would not refuse anything on the railway. We are a common carrier and anybody can get a rate for anything from us, subject only to conditions of safety.

Mr. HAMILTON (*York West*): They might require specially constructed cars.

Mr. GORDON: They cannot just drive a great big truck up to the railway if we do not have the facilities. But, generally speaking, if a highway transporter wants us to take his goods we will take them.

Mr. FOLLWELL: There is nothing to preclude you from entering into an agreed charge with a trucker for that, if the business was profitable.

Mr. GORDON: I do not see any reason why we should not, but that is a quite technical matter of tariff. Offhand, I do not know any reason why there should not be an agreed charge.

Mr. FOLLWELL: The American authorities are into the piggy-back carrier service pretty heavily.

Mr. GORDON: Only some of them. There is a very great difference of opinion on the wisdom or otherwise of going into piggy-back service and it depends on the territory where the particular railway operates.

Mr. HAMILTON (*York West*): If the volume could be proven to exist and did come in in large volume you could give a better rate under an agreed charge than in the ordinary course of business.

Mr. GORDON: If the conditions of the agreed charge were met; the railways however would rather handle their own trailer-on-flat-car service than handle it for their competitors, and my answer is we would prefer to do it ourselves.

Mr. HAMILTON (*York West*): There is a difference in what a truck handles on the shorter type of run through Southern Ontario, but it gets into wide ramifications when you have the large-scale bulk transportation with a terrific load on the highways, and it could be part of the solution if we could move this truck traffic that way on the trailer-on-flat-car service.

Mr. GORDON: Yes. There has never been any doubt in my mind that for the movement of large traffic the railway is the best form of transportation. We have very often said that. Our difficulty with competition has always been that the trucker skims off the high-rated traffic and we carry the low-rated traffic. That is our main difference. I do not argue for a moment that we want to put the highway operator out of business. We do not want to do that; but we want the highway operator to stick to his own type of heavy-volume long-distance loads.

Mr. HAHN: That would rather depend on the type of equipment he has.

Mr. GORDON: No. There comes a point of diminishing return in the transport of any tiype of commodity, and there are some kinds of things which trucks are better suited to do; but in the long run, in the long-haul heavy type of commodity, the railway stands ahead.

Mr. HAHN: I think of the potato vans I see coming past my area from southern California and Oregon and so on. They seem to be suitable, and the fruit companies also.

Mr. GORDON: We still move a lot of potatoes.

Mr. HAHN: I realize that.

Mr. GORDON: I admit there may be particular circumstances with particular kinds of deliveries where the truck can do some of it on a more convenient basis, but on the large volume movement my answer is no.

Mr. HAHN: I would not disagree with you, and I am rather inclined to agree that we have a railway and its purpose is the transportation business; but I cannot see why one should deny the same right to transport somebody else's truck on that railway after he makes application.

Mr. GORDON: We will transport his truck if he makes application, and quote him a rate; he won't like the rate I can tell you.

Mr. HAHN: But the rate will not be compensatory with the rate you are charging on the same service.

Mr. GORDON: It would be much more compensatory for the railway.

Hon. Mr. MARLER: Though not for the trucker.

Mr. HAHN: You have no idea what effect it has had on the trucking industry where you have instituted this service?

Mr. GORDON: Yes. Mostly between Montreal and Toronto our record indicates we are getting business back into the railways, at the expense of the truckers; but the truckers had stolen it from us in the first instance.

Mr. HAHN: In this piggy-back service you would define it as being service whereby it is different from the trailer-on-flat-car service. It is the piggy-back service which is being applied apparently in the United States?

Mr. GORDON: On some railways.

Mr. HAHN: Where they will allow truckers to do just what we have been saying here for the most part?

Mr. GORDON: There are some railways where they are prepared to take trucks on flats in the United States, and that is called the pigy-back service.

Mr. HAHN: And how do their rates compare to what you charge?

Mr. GORDON: We have not charged anything yet; we have not had any offers. It would be under the classified rate and I would say off-hand obviously the rate in the United States for the piggy-back service would be much lower than what we would be prepared to quote, or else they would not be doing it.

Mr. HANNA: The Alberta price bureau has collected some comparable statistics from freight rates in central Canada to Edmonton and Vancouver. They have listed a number of them here. I will give one example. For instance, steel bars from Hamilton to Vancouver are charged $1.30 per hundredweight; steel bars from Hamilton to Edmonton, 600 miles shorter, $3.23 per hundredweight. Would Mr. Gordon comment on that situation because Edmonton generally considers it is the grossest form of discrimination. I realize probably there is another side to the story.

Mr. GORDON: You are opening up a very complicated question in relation to the whole structure of freight rates. I am speaking now off-hand because I have learned from experience that I cannot discuss freight rates intelligently unless I have an expert with me on the particular point. But I will be able to do it in general. The rate to Vancouver is obviously a combination of a water rate as well as an agreed charge.

Mr. HANNA: Yes. This statement does say these rates to Vancouver are agreed charges.

Mr. GORDON: Yes, water-compelled.

Mr. HANNA: Presumably.

Mr. GORDON: In other words, they are based, I would imagine, on rates which would be applicable to the transport of the iron bars down the St. Lawrence, around to the Panama Canal and up to Vancouver.

Mr. HANNA: Would it be fair to ask if Mr. Gordon would make a comment on this at a later session of this committee. The situation is causing a great deal of concern in Alberta and is perennial at the present time.

Mr. GORDON: That matter, of course, has appeared before Royal Commissions. The Turgeon commission examined it and there have been expert witnesses on both sides. If you want me to make a prepared statement I will try to do it, but I would not like to be drawn into a discussion on this very technical matter because it gets to the heart of the freight rate structure in this country.

Mr. BYRNE: Does that 1 and ⅓ rule apply to iron bars?

Mr. GORDON: I could not answer that; I do not know.

Mr. BYRNE: I thought it applied to everything this 1 and ⅓ rule.

Mr. GORDON: The effect is the same on all goods.

Mr. BYRNE: How could the rate possibly be 3·25?

Mr. GORDON: That is why I say I am not equipped to answer it. I am not giving you these figures. I do not know whether they are right or not, and I would want to examine them first.

Hon. Mr. MARLER: The answer is that the 1 and ⅓ rule does not apply to agreed charges.

Mr. FULTON: You are having a hearing before the board very shortly, Mr. Gordon, on an application for an increased rate on lumber from western Canada to the east?

Mr. GORDON: Yes. That arose out of the increase in the rate in the United States. The point at issue there is that we had a general understanding or so we thought, that any over-all freight increase that might be granted at any one time in Canada would not be applicable to lumber moving from the west to eastern Canada. But instead of that the comparable rates in the United States from the coast to eastern markets would apply. That has been the situation, when there was an increase granted in the United States, we proceeded to make that ruling applicable and ran into protest at once in the west where they are trying to have it both ways, so we think.

Mr. FULTON: Has it ever been accepted that rates in the United States should govern the rates in Canada?

Mr. GORDON: We thought we had an agreement, more or less, that instead of making the general increase granted in Canada applicable to these lumber shipments—and we haven't—that we would tie them in with the United States rate. The consequence is now we have not increased lumber rates to the extent that other freight rates in Canada have been increased. Now we are going to determine before the Board of Transport what criterion will apply. If they do not want the United States criterion we will take the Canadian criterion.

Mr. FULTON: By "criterion" what do you mean?

Mr. GORDON: The applicable rate. If there is an over-all freight rate increase granted in Canada, should we make that automatically effective on lumber? That is the question.

Mr. FULTON: Would you mind explaining that again, please.

Mr. GORDON: In general it is that when increases in Canadian freight rates took place in connection with all other shipments from the west coast we did not make them applicable to this lumber. We said at that time, or thought we had, that by agreement with the lumber operators in British Columbia the rate on lumber if it came from British Columbia to eastern markets would, generally speaking, rise or fall with the competitive rates in the United States because of the markets being reached being roughly the same. Now, that has been the case and we did not apply the Canadian increase. Recently however the United States railways had an increase in lumber rates and we said, "Now you go up to the same extent even if other Canadian rates do not go up; your rates are going up"; We thought they were bound by the rates given in the United States, which are on a competitive basis but they have objected to that. Lumber rates in Canada have not raised comparatively to other freight rates in Canada and because we thought we were tied down to this agreement on American rates we have not increased them but now that American rates are going up we think they should rise accordingly.

There are a lot of competitive rates that do not increase when we get permission for an over-all freight rate increase. From a competitive standpoint reaching from the lumber mills into the markets which are in the United States, we said we would try to use a competitive rate on the understanding that the competition they were subjected to was United States competition and the increase in the United States would be applicable to them.

Mr. FULTON: Will you still have to show to the board the necessity for the increase from your economic standpoint?

Mr. GORDON: That is a matter of legal opinion. I would say not, because I think we are governed by the right to make the general increase anyway.

Mr. FULTON: In other words, you say you have a preliminary agreement on it?

Mr. GORDON: Yes.

Mr. FULTON: When is the hearing to be held?

Hon. Mr. MARLER: I think it is the 20th of March.

Mr. GORDON: It is a current matter, that is all I can say.

Mr. FOLLWELL: I was going to suggest that the two items be carried and that we take passenger and commodity fares together.

The CHAIRMAN: Shall freight and freight rates carry?

Mr. BELL: May I ask a question with reference to paragraph 10. It says here, "As a result of studies being made towards the achievement of a general equalization of Canadian freight rates...", do I understand by that that the Board of Transport Commissioners has a particular study regarding equalization, or is that a continuing matter?

Mr. GORDON: It is always before them. The general idea was that as a matter of policy it was determined that the commodity rates, so-called, would be made uniform in all parts of Canada, and the board has had under examination ways and means of accomplishing that. They have brought a series of rulings into effect, and if they find their effort to achieve uniformity is not working out, I assume they will rehear the cases and make further adjustments.

The CHAIRMAN: Shall the item carry?

Carried.

It is suggested that we deal with commuter fares and service and passenger fares and service. Is that agreed?

Mr. FULTON: Mr. Gordon, would you say you are satisfied with the results of the new trans-continental service and whether it has come up to your expectation?

Mr. GORDON: Yes, generally speaking. The word "satisfied" is perhaps a little too strong, but we have seen a very definite, rather spotty, improvement—but nevertheless an improvement. We answered a question the other day. Mr. Minister, will you give me advice on protocol. There is an answer to a question which we have given you, but you have not yet answered it in the house. Is it all right for me to answer it?

The CHAIRMAN: I think perhaps not.

Hon. Mr. MARLER: I think, if Mr. Hamilton does not mind, I certainly do not mind. It is a question asked by Mr. Hamilton of Notre-Dame-de-Grâce.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): I think it is perfectly agreeable.

Mr. GORDON: The question was:

EXTRACT FROM HOUSE OF COMMONS HANSARD OF MARCH 20, 1956, PAGE 2355

CANADIAN NATIONAL RAILWAYS—PASSENGER TRAFFIC AND REVENUE

Question No. 251—Mr. Hamilton (*Notre-Dame-de-Grâce*):

For only those tickets which cover travel over at least some portion of the main trans-continental system of the Canadian National Railways, and for each of the three months May, June and July, 1955, what percentage change was recorded over the same months in the preceding year (*a*) in passengers: (*b*) in passenger revenue?

Answer by: Mr. Marler:

The Canadian National Railways advise as follows:

(*a*) May, 1955, ·02 per cent increase; June, 1955, 34 per cent increase; July, 1955, 10·5 per cent increase.

(*b*) May, 1955, no change; June, 1955, 24 per cent increase; July, 1955, 12·80 per cent increase.

Mr. FULTON: That is as against the corresponding month or before?

Mr. GORDON: Compared with 1954. I can go on from that and give more information that was asked by saying that in August the tickets went up 18·3, the revenue went up 14; and in September the tickets 11·7 and the revenue 13. October tickets 21·3, the revenue 19·3; in November 40·4 in tickets, and revenue 33·2. In December 26·1 in tickets and 29·8 in revenue. You see, there has been a range between 15 and 25 per cent increase.

Mr. FULTON: We had figures yesterday in respect to load factors. Have you those figures?

Mr. GORDON: No. We just simply put cars on and off depending on the demand as we marshal the train. Generally speaking it runs about 12 cars.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): May I ask one question. The first figure quoted was an increase in tickets of ·02 which is less than 1 per cent.

Mr. GORDON: Nothing at all. It had just started then.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): I thought it was 2 per cent.

Mr. GORDON: No. ·02 practically no revenue change.

Mr. FULTON: Would you say that those results were about what you had expected, or were they better than you had hoped for or worse?

Mr. GORDON: Personally I expected more. My traffic officers said they are not too bad. I always expect more than they deliver to me.

Mr. HAHN: In those figures I notice there is a marked increase after the holiday season, more particularly in October and November. Would it be more the reason of climatic conditions in the continent this year than the fact that we have a faster service? I would like to feel it was the service.

Mr. GORDON: There are always special considerations arising in any analysis of traffic; there is a thing called the Grey cup having to do with football which has increased it. If that happens to be in Vancouver you get the haul; if it happens to be in Montreal or Toronto we won't get the volume haul. You cannot prophesy future reasons or motivation of travel.

Mr. HAHN: What you are suggesting is that possibly we should subsidize the Grey cup game being held in a certain place?

Mr. GORDON: Some of us may want it subsidized for the benefit of the railway.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Is not the Grey cup, seriously, a great factor in the railway traffic?

Mr. GORDON: We ran as many as five special trains to the Grey Cup, through to Vancouver, and that is real business.

Mr. BELL: It would not matter where the Grey Cup was held, you would still have the same traffic; there would be traffic eastwards, if it was held in the east?

Mr. GORDON: You would not get as many people coming from Vancouver to Montreal as you would get from Montreal going to Vancouver.

Mr. FOLLWELL: They are not as wealthy in the west!

Mr. FULTON: I am interested in the percentage of revenue increase and I appreciate the fact that it covers only the main line portions. I note that in your table on page 5 it is only a fraction of a per cent of the gross revenue increase as against last year.

Mr. GORDON: That is right, and you have put your finger on a point which needs an explanation. You cannot just judge by revenue figures, because we have abandoned a number of passenger lines which reduced the number of passenger miles and the passenger revenue. But that passenger revenue was losing business to us, and wherever we got a successful abandonment, it was based on the fact that it was a heavy losing service, and that the actual dollars coming into the picture represented a loss rather than a gain.

Mr. FULTON: They were pretty overall figures; it must have been if there was a loss of revenue and one offset the increase of revenue with the other.

Mr. GORDON: That is right. The gross figure goes down on both sides.

Mr. FULTON: 44 per cent; and in the same paragraph 14, 44 per cent of your capacity was carried in commuter service.

Mr. FOLLWELL: Are there any restrictions on passes for the Super-Continental?

Mr. GORDON: Yes, but not to members of parliament.

Mr. FOLLWELL: Just to their wives?

Mr. GORDON: No, I think whenever we get a specific application we deal with it. We do not make it an open matter but we do not think that anyone has found it difficult to get a pass when he made a reasonable request.

Mr. FULTON: In paragraph 14 on page 7 you say,

> The total number of passengers handled during 1955 was 16·8 million, of which 44 per cent were carried in commuter service. This compared with 17·9 million in the previous year, a decrease of 6 per cent. Since the decrease occurred in short-haul commuter traffic the decline in terms of revenue passenger miles was much smaller, only one half of one per cent.

This seems to me to mean that with this effect on gross passenger revenue, the decline from commuter traffic would have been only small.

Mr. GORDON: No. You are comparing two different things. Revenue passenger miles means the actual distance travelled in commuter service, and that is usually only six or eight miles, while the mileage travelled, relatively, does not show nearly as big a decrease when we abandon a commuter service. This would be the dollars involved by that decrease.

Mr. FULTON: Revenue passenger miles—surely that means that you carry one paying passenger for one mile, does it not?

Mr. GORDON: One paying passenger.

Mr. FULTON: That is not the seating capacity, it is the actual passengers carried?

Mr. GORDON: That is right, and that is what we refer to here. That decline in terms of the revenue passenger miles is relatively much smaller than the decrease in dollars involved; the decrease in the number of passengers involved is rather large.

Hon. Mr. MARLER: In other words, you are carrying a large number of people normally over a very short distance and you cite your commuter service, and the number of passengers compared to the number of passenger miles does not make much of a difference percentagewise.

The CHAIRMAN: And the fares are small too, so the fares are appreciably lower.

Mr. HAHN: How many non-revenue passenger miles did you have last year?

Mr. GORDON: You mean mileage travelled by pass holders?

Mr. HAHN: Yes.

Mr. GORDON: We have not got that information.

Mr. HAHN: Yes.

Mr. GORDON: We do not have that information. We do not keep a record of it. It would just make us feel bad if we kept it.

Mr. HAMILTON (*York West*): Does the percentage of increase, let us say, show the extra trains put on for special events, which are run as second or third sections of those trains? Are they included in the figures given to Mr. Hamilton of Notre-Dame-de-Grâce?

Mr. GORDON: That applies to the Super-Continental only.

Mr. HAMILTON (*York West*): That applies to the single train, or does it apply to extra sections?

Mr. GORDON: No, it applies only to the Super-Continental itself. The Super-Continental service is what I am talking about. If the Super-Continental traffic was so heavy that we had a second section of it, it would be in those figures.

Mr. HAMILTON (*York West*): If you had five sections going to Vancouver for the Grey Cup, it would be included in them?

Mr. GORDON: No, no!

Hon. Mr. MARLER: It would depend whether they were regarded as specials, or as second sections of the Super-Continental.

Mr. HAMILTON (*York West*): Were any of those trains regarded as sections of the Super-Continental train, or were they just special trains?

Mr. GORDON: You mean whether there are special movements included in the trans-continental figures that I am talking about? Well, perhaps I have got the wrong analysis, but let me start again.

This table which I gave you is the total trans-continental service and in the report which I have before me here I find this comment made by our traffic officers: that this analysis covers 65 of our principal ticket offices from May to December, and that the Super-Continental was introduced with the spring change of timetable on April 24th, 1955, and that is regarded as being responsible for the main part of this increase.

Mr. HAMILTON (*York West*): What you have done is to lump together both your trans-continental trains in arriving at both those figures?

Mr. GORDON: Comparing it with the previous year, yes.

Mr. HAMILTON (*York West*): As I understand it, there always were two trains.

Mr. GORDON: Yes.

Mr. HAMILTON (*York West*): But they ran at different times.

Mr. GORDON: Yes.

Mr. HAMILTON (*York West*): And when the new train came in, it came at an entirely different time in your schedule.

Mr. GORDON: One was a speed train and the other was a work train.

Mr. HAMILTON (*York West*): And the traffic is lumped together to give us this percentage increase?

Mr. GORDON: That is right.

Mr. HAMILTON (*York West*): And that also includes special traffic which might have gone to special events?

Mr. GORDON: That is right, but in both years, of course. We mentioned the Grey Cup specifically in 1955, but there were other movements in 1954, too, and we took the two years in that total trans-continental traffic.

Mr. HAMILTON (*York West*): There are no figures to tie down the monthly increase in the three train services as against the old service?

Mr. GORDON: No, I have not got that figure.

Mr. FULTON: What has been the result from your rail-liners. Have they shown you a satisfactory increase in passenger traffic?

Mr. GORDON: Well, your question is whether or not we regard the rail-liners as a satisfactory instrument where we put them in, and whether they give us better results from the standpoint of savings?

Mr. FULTON: Yes, and with respect to passenger movement as well; have they shown an increase in the number of passengers?

Mr. GORDON: No, I cannot tell you about any specific increase in passenger movement. There has been no large increase in passengers, but the main benefits we get from the rail-liners is a saving in cost and better service to the public at a lower cost to us, which we hope will show some effect in due course. The rail-liner has not been in long enough for me to say that it is attracting more passengers. But it does substantially reduce the cost. We figure that with our investment in these rail-liners we are getting returns in the form of savings in the operation running all the way up to 30 per cent.

Mr. FULTON: And if you can couple that with an increase in the actual number of passengers?

Mr. GORDON: Then we will have something!

Mr. FULTON: Yes, you really will have something. I shall defer my questions now until a later section.

Mr. GORDON: That would apply to selected areas of course.

Mr. CHURCHILL: In paragraph 13 you mentioned four or five methods of stimulating rail travel, and in connection with the changes which you have made in your service on the Continental and on the Super-Continental and so on, and in view of the fact that the Canadian Pacific Railway has undertaken a similar change in passenger traffic, and on the first class lines and in the United States, can you give the committee any information as to the success of other rail lines in getting increased passenger traffic?

Mr. GORDON: Success is a relative word of course. It is a tough battle all the way through. It is pretty hard to see out of the result in the last two or three years, when these efforts have been intensified—it is pretty hard to see that there is going to be a benefit which is commensurate with the capital expenditure involved, but I do not think that the effort has run long enough for us to be positive about it. My opinion is that the passenger service, as such, is a losing game, and that it will continue to be a losing game and that the best that the railways can hope to do is to try to reduce the loss. I do not myself see that we are ever going to get it on a basis which will be a profitable operation. It is part of the price we pay for doing business.

Mr. CHURCHILL: I appreciate that, and you pointed that out to us last year, but nevertheless in changed conditions in passenger traffic you might be able to hold your own. And as a comment on people travelling on trains, train travelling is better now than it was a few years ago and there are many people who for various reasons prefer to take the train rather than to use their automobiles. Congested conditions on the highway would be one factor influencing their decision. But how does the Canadian National Railways compare with other first class lines on the North American continent? Are we satisfied with the standard of equipment now in use for passenger traffic?

Mr. GORDON: I think that by and large both the Canadian Pacific as well as the Canadian National railways gives a standard of passenger service which is infinitely better than that found in the United States railways with the single exception of the main lines. With some of the main lines in the United States that have very specially featured trains you get a standard of service which is as good or perhaps a little better; but in trans-continental passenger service, the Canadian railways have a standard which is much better than you will find on the average in the United States.

Mr. CHURCHILL: You have not gone in for the modern type of passenger coach, the dome-car at all?

Mr. GORDON: No.

Mr. CHURCHILL: Are you considering it?

Mr. GORDON: It may be that we will consider it in relation to specific portions of our line, such as the Rocky Mountains in particular; but I question your statement when you refer to "modern car". It is a type of car not necessarily the only modern car; it is a type of car now being used in an endeavour to attract passenger traffic, but we do not think it is any more modern than the cars we have available for our own passengers.

Mr. CHURCHILL: It is certainly different in appearance. It is domed, and it is different in construction.

Mr. GORDON: Yes.

Mr. CHURCHILL: It is lighter in weight and it has a different suspension system.

Mr. GORDON: I do not think that it is lighter in weight. The difference is that it is a stainless steel car, but I do not think that the difference in weight is noticeable.

Mr. CHURCHILL: I travelled on both the Canadian Pacific and the Canadian National, and I would say there was a difference in comfort with a stainless steel car, and I attribute it to a difference in the suspension system.

Mr. GORDON: It depends on which car you compared it with. I happen to know that in tests that car is no more comfortable than our new type of passenger coach.

I think it depends on where you ride in it, on what particular portion of the line you are on, and what frame of mind you are in when you are in it.

Mr. CHURCHILL: I have travelled from coast to coast in the last five months on both the Canadian Pacific as well as the Canadian National railways, and I am thinking of the Canadian Pacific's Dominion, and I am not deficient in some knowledge of railway service, and I would say that there was a difference in travelling in this newer type of coach.

Mr. GORDON: There are several things to be kept in mind; the dome-car to start with, is a specialized car, and it must have a specialized train. They are not interchangeable with order types of equipment. We speak of keeping ourselves flexible and we are doing a better job—that is in the opinion of management, and we are not necessarily right, but neither is the Canadian Pacific railway necessarily right. The word "competition" does not consist of just doing what the other fellow does. It does not have to be that.

Mr. CHURCHILL: You want to do it better.

Mr. GORDON: We want something different and we want something better if we can get it. I have had a lot of letters with comments in respect to the dome-cars. There are lots of people who prefer our service to that of the Canadan Pacific Railway and that is why we have competition as we do. We believe that the expenditure of money which we put into our passenger business is bringing over-all a better average service to the Canadian traveller than they would get elsewhere with special cars, in particular trains, that can only be adapted to particular performance.

Mr. FULTON: There was one statement made which does not seem to me to be correct. You said that dome-cars are not interchangeable, and that they call for a specialized train. The Canadian Pacific railway run dome-cars with the Dominion, the bulk of which is composed of the ordinary older type of passenger car.

Mr. GORDON: I mean that in going to stainless steel and the dome-car the great difficulty so far as sales appeal is concerned is to keep the whole thing as one unit. It does not look very good when it is mixed up, but it does look pretty smart if it is all together as a unit. From a sales appeal point of view that is what they aim at. We have not done that and as a result our coaches and equipment are readily interchangeable and we do not have to worry about that feature.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): What is the situation with respect to the equipment on the Super-Continental? Is it all new equipment, or is a percentage of it old equipment which has been repainted with certain outward changes?

Mr. GORDON: It is all new or modernized, and a large percentage of it is new. We have tried to hold that train to a basis that it is our top-notch equipment, and when I say modernized, I mean that the car has gone through our shops, and the layman would not know the difference between it and a new car. Maybe there is a little difference in the appearance of it, but certainly not in regard to the riding qualities, and so forth.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): But there is a difference in the height and in some of the outside dimensions?

Mr. GORDON: There might be some difference, but the big percentage is new. We did not want absolutely to restrict ourselves to new equipment to this service because we wanted the rest of Canada to see some of it too.

Mr. HAMILTON (*York West*): I have ridden on both, and I have found the accommodation pretty much the same, with the bedrooms and the flexible roomettes; but I noticed one difference, that the Canadian Pacific Railway apparently specialized in giving something pretty fancy in the way of a lounge. And I did hear it said that there was a difference in the coupling as well as in the springing. I would not know whether there was a difference in the road bed or not, but I wondered if there was a difference in the coupling system of the new cars, and in the springing?

Mr. GORDON: I shall have to ask Mr. Dingle, our operating Vice President to comment.

Mr. S. F. DINGLE (Vice President of Operations): There are differences in the couplings mostly because of different manufacture. As to sleepers, one is manufactured by Budd and one by Pullman. But as to the springing and the new four-wheel trucks, they are almost identical.

Mr. GORDON: You will always get differences of opinion because obviously a manufacturer will want to sell his equipment; and if a traveller, let us say, has travelled on the Canadian National Railways with their equipment he will do a sales job that is pretty good. The fact that there are several manufacturers in the business means that you will always get stories about equipment peculiarities, that it is better on one side than on the other, and so it goes!

Mr. HAMILTON (*York West*): As far as the service is concerned, I thought that it was excellent.

The CHAIRMAN: Shall "Commuter fares and service" carry?

AFTERNOON SESSION

MARCH 20, 1956.
3.15 P.M.

The CHAIRMAN: Gentlemen I think we have a quorum. We shall come to order and proceed with questions on passengers and commuter fares and services.

Mr. CHURCHILL: Mr. Chairman we have been discussing passenger service on the trans-continental lines since the noon hour, and I would like to add a word or two now with regard to passenger service and accommodation on branch lines of the C.N.R. I may say that I feel compelled to make reference to something that happened last year because I don't want a repetition of it this year. If I may be permitted to digress for just a moment I would recall that last year I made what I considered to be a suggestion in a cooperative manner with regard to the handling of baggage in the Ottawa station, and I was at great pains to point out that I made no complaint against the employees there. In fact I was trying to assist them because I thought they were being unnecessarily overworked. Mr. Gordon thanked me for what I call helpful criticism and I assumed that that would be the end of the matter. Something, I felt, might be done about it. But before long, I received a letter from some department of the C.N.R. saying that my criticism had been drawn to their attention and that the employees in the department concerned were all of long standing and had always given efficient service and adding that this was the first time anybody had ever complained.

That was just the opposite of what I wished to happen. I explained the situation and in the course of time I asked that the matter should be dropped. Incidentally I notice that the change I had in mind has in fact taken place in Ottawa station. But my point is this: I was making no criticism of the employees of the C.N.R. It was a criticism or, I would say, a constructive suggestion made for the benefit of the management. And what I have to say with regard to the branch line service for passengers—we might as well use the same word and I will call it a criticism— will be a criticism of the management of the C.N.R. and I want it to be definitely understood that it is not a criticism of employees; because I think that railroading is a rough and at times a dangerous business. In below-zero weather in Canada during the winter the men face an arduous task. I have nothing but regard for the personnel who serve on our train system, and I may add that I see no difference in service as between C.N. and C.P.

I want to refer, as an example of what I have in mind in making these remarks, to an experience I had last December on a branch line. My hope is that if that type of service extends to other parts of the country which are suffering from what I consider to be neglect, that situation will be corrected.

My example refers to the branch line service from Cranberry Portage to Lynn Lake, Manitoba, 100 miles north of Flin Flon. Some members of parliament were there last year looking at the mining development. They had gone by air. I had the experience, in December, of going into Lynn Lake by air and coming out by train. The distance is about 187 miles from Lynn Lake to the junction at Cranberry Portage. The type of accommodation provided was two passenger coaches tacked on behind a freight train. The journey is scheduled, I think, to take about 10 hours, but due to weather conditions and trouble with the engine we made a slow start and had a slow journey, again because of weather conditions. We were on the train for about 12½ hours after a three-hour wait in the station. So it was a long and trying trip. But that would not have mattered so much if the accommodation for passengers had been satisfactory.

But what did I find? Two coaches of the most ancient vintage were all the accommodation provided. I marked down the numbers of these coaches, but I have unfortunately mislaid that information. They would not be a day under 50 years of age. It is difficult to heat these old coaches; they are poorly lighted with those old fashioned lights and the temperature outside was 30 below zero. There were two cars, and certainly in the rear car in which I was travelling the temperature was quite low. I was not inconvenienced because I had on two sets of underwear, heavy woollen stockings, a heavy overcoat, a fur cap and fud-lined mitts; but of 40 people in those two coaches, men, women and children, nobody was comfortable enough to remove anything other than mitts. That is not the type of accommodation that is provided on any of our other railway lines. When I got on the main line train from Flin Flon I was, as a matter of fact, uncomfortably warm.

Flin Flon people told me that years ago the same conditions applied in their area, until they protested and got better service. The point I am making is this: Lynn Lake has a population of about 1,400 people. The only travel facilities available are by air or by train. There is no road. Why should they not be given much better passenger accommodation than is now offered to them? It is bound to be a slow trip but the accommodation could certainly be improved and in the winter time I think this improvement is essential. Why should the oldest coaches in service in Canada be diverted to that particular branch line? Is that course being followed with regard to the other branch lines?

Let me point out also that the arrangement for meals was of a somewhat different standard than applies elsewhere on the C.N.R., and again I am finding no fault with the man in charge, who is a news agent and waiter combined. He did everything possible in the circumstances; but there were only the most inadequate facilities, and the type of coach in which he served the meals was the old fashioned type which I believe used to be called colonists. Facilities for cooking, washing up and all the rest of it were meager. But he did his best in the circumstances, and was quite efficient and cooperative.

It surprised me that a place like Lynn Lake, which is a great revenue producer for the railway and which is a modern town where people are living under modern conditions, has to put up with this type of railway travel and I think some improvement could be made. Surely something in the way of a more modern type of coach could be provided for these people. And again may I suggest that, although traffic is not at the moment heavy passengerwise, on that line, some additional arrangements could be made for the people who live there.

My feeling is that we are gaining greatly from resource development in our north country; the people who are working in those areas of mining development are first-class citizens, not second-class citizens; and by virtue of the fact that they are living in isolated communities they deserve rather more considerate treatment than some of us who are living in or near the larger centres of population.

May I ask Mr. Gordon whether the situation to which I have drawn attention is known to the management and whether steps could be taken to improve the service. I would like also to ask him whether those conditions are typical of the operation of other branch line services in isolated areas.

Mr. GORDON: I think it is difficult to generalize with regard to any branch line service because the service provided is aimed at the particular needs of the community concerned. The Lynn Lake line you are speaking of is a freight line. We have only built a freight line in there, and that is a major part of our service; the passenger requirement is only a standby service. We have found that the passenger demand is all for air travel except during periods where air travel, due to weather conditions, is not satisfactory.

In other words the overall position during the year is that the demand for passenger service is very light indeed. You struck it, Mr. Churchill, at a time when it was more or less running as an emergency service, I take it. We do provide what is in the nature of a symbolic service for passengers. The coaches we provide are suitable for operation with a freight train. A freight train is not heated and the locomotive cannot provide steam through the train as it does in the case of a normal passenger train. So these coaches have to be self-contained in the matter of heating facilities; and in severe weather such as you mentioned Mr. Churchill I have no doubt there is difficulty in maintaining a comfortable temperature. In fact we are putting the clock back, in a sense, in trying to provide a service of that kind at all under those conditions.

If your question refers to whether or not the railway feels it is its duty to provide a passenger train service into an isolated community of the kind you have described, my answer is: no, and I say this because the cost would be out of all reason in relation to the available traffic.

Mr. CHURCHILL: I did not suggest you should do that.

Mr. GORDON: Having heard what you have to say I am disappointed to learn that it is as bad as you describe it. Anything that has come to my office has been along the lines that people of the community do recognize that the services provided by the railway is only intended to be in the nature of an emergency service and that they are glad to have it as a standby. They do not think of it as being a regular service in relation to passengers.

I will certainly make notes of your remarks and see whether we can improve that service; but again it becomes a question of degree. It is true we have a lot of old coaches on the C.N.R.—we still have them and it is a matter of judgment how long we are justified in keeping them to run out their lives. The tendency is to use the modern coaches on the faster services. It is usual that the older type of passenger accommodation will be found on the mixed train services because the mixed train cannot possibly be up to the standard of the regular passenger train; it is not a regular passenger service and could not be judged by that kind of standard. In fact, it is a sort of makeshift accommodation service and it does not justify the provision of accommodation up to regular standards.

Mr. CHURCHILL: I appreciate all that and I hope this is not going to end, finally, by someone writing to me and pointing out that it is not possible to provide a stainless steel dome car on the Lynn Lake run. All I am asking is that less ancient coaches should be provided on that run so that the people there will have something in the nature of reasonable accommodation on the train. I do not consider the present accommodation to be satisfactory and I have done quite a bit of travelling by train. I think it could be improved and that some other type of coach could be used.

Mr. GORDON: This is what I am attempting to say: where the need for service is so meager we meet the small demand in the form of providing a mixed train, that is a freight train. It is a freight train operation, of necessity, that gives that service and therefore you would not place a modern coach on that freight train. It would be necessary to find a coach of a vintage belonging to the days when we had stoves in the cars, otherwise there would be no way of heating them. You cannot heat modern coaches at the back of a freight train and we are therefore driven to employing these old coaches of necessity.

Mr. CHURCHILL: On this question of heating, I thought, perhaps, that coaches had changed in the course of the last fifty years.

Mr. GORDON: Yes, but they are not operating that kind of coach any more; we don't buy them any more. We are using up the old ones. I am not trying to say that we cannot improve the service; I am trying to explain the reason why fundamentally you cannot expect to see a good modern coach on this train. I will certainly make it my business to examine what you had to say and to see if we can improve the service—and I have no doubt that we could improve it.

Mr. CARRICK: Have there been any complaints from people who reside at Lynn Lake?

Mr. GORDON: Not to my recollection. I do not recall any complaints there being made.

Mr. CARRICK: That illustrates the value of having some stranger come in and draw attention to the situation.

Mr. GORDON: More than that, it shows the value of the member of parliament.

Hon. Mr. MARLER: It also lets the good people there know what they are missing.

Mr. WEAVER: I am glad to have Mr. Churchill's voice added to my own in speaking for the people in my area. I may say that I have had every co-operation from the Canadian National Railways in the past and I recognize the difficulties under which they have to work. I would point out if I may that there is a return air service by DC-3 at a reasonable rate all the way to Winnipeg, so that except in unusual circumstances the citizens can travel by air without undue expense, and there they can probably enjoy more of the amenities of civilization. But I am sure that all this will come in time.

Mr. GORDON: I would just say this, Mr. Churchill, that as Lynn Lake develops, and no doubt it will, and as the population increases to such a point as to give us any sort of idea that there will be a demand for a passenger service, we shall watch the situation, and if it reaches a volume where we might run a diesel car that could be a solution. The point is that at the present time the Lynn Lake community does not expect a passenger train service; its dependance is upon the air and they do not expect us to provide facilities. We run these coaches up there to meet an unusual situation, with regard to which operation every member of the community is fully satisfied and glad to take what he can get.

Mr. CHURCHILL: I was not asking for a regular passenger service, and I would like that to be clear.

There is another point which I might refer to now, Mr. Chairman. The people at Snow Lake, which is an isolated spot to the south of Lynn Lake, pointed out to me that they felt the charge imposed upon them for bringing out their automobiles was rather stiff. I may say that it is amazing to discover the number of automobiles in mining communities such as Lynn Lake and Snow Lake. Snow Lake is much smaller than Lynn Lake, but there are some 120 private automobiles there. The Snow Lake people tell me it costs $52.50 to bring automobiles out to a point where they can get on to the motor road. I think it costs $72 to bring a car out to Cranberry Bridge to strike the motor road, but there again I have no means of knowing whether that is an excessive charge or just the normal tariff.

But I think special consideration should be given to communities such as these up in the north country—communities engaged in mining development which has a great future in Canada and for the C.N.R.—and that it should be made easier for these people to move their automobiles in and out. If this can be done, so much the better.

Mr. GORDON: I think I can say at once with regard to that, that the charge to the residents in that area would be exactly the same as it would be anywhere else in Canada. There would be no discrimination. It is a regular tariff. I suggest that your point really boils down to this: whether or not the tariff charged for automobiles is a valid one, all things considered.

Mr. CHURCHILL: Yes—should you have some special rate for serving isolated communities such as this. Your railroad does not, perhaps, serve many communities of this type where there are no motor roads available. In most other places in Canada people are near motor roads, but here you have two thriving mining communities who must of necessity depend on either air or rail travel for their contacts with the world outside.

Mr. GORDON: It goes to the question of what is a reasonable charge and I have no doubt that the people living in those areas you refer to have to pay the "going rate" for all the other services they need. I see no reason why the railway should put in a special subsidy and lower its rate to meet their needs.

Mr. CHURCHILL: It would not necessarily be a subsidized rate.

Mr. GORDON: That is what it would be. It would either be that, or a question of a lower rate generally all over Canada.

Mr. CHURCHILL: Well, I raise this as a point about which you may not have heard from the residents of these areas—a point about which they are concerned, and I bring it to your attention.

Mr. MCCULLOCH (*Pictou*): I wonder if I may point out to Mr. Gordon that the train that leaves Ottawa at 5 o'clock gets into Montreal at 8.10. The Ocean Limited leaves at 8.30. If we go down on the 5 o'clock train we have to take our baggage upstairs and back to the Ocean Limited, and a delay of 10 minutes means that the train is missed.

If the Ocean Limited was put in the place of the Scotia train across the track we could walk from the Ottawa train to the Ocean Limited in the time available without any trouble.

Mr. GORDON: That arises from a temporary condition due to the building of the hotel. Certain of our tracks are out of commission.

Mr. MCCULLOCH (*Pictou*): This situation existed before the hotel was started.

Mr. GORDON: It is a combination of two things—we are short of tracks and also the train goes at a rush hour there. I think we shall be able to improve the position when we are able to use all the tracks. The fact that we have got to keep tracks out of commission has upset our marshalling arrangements.

Mr. MCCULLOCH (*Pictou*): If the Ocean Limited was there we could cross right over.

Mr. HAHN: Mr. Chairman, if we may go back to the question Mr. Churchill raised—and my interest in this extends only to the freight charge made to the owners of these automobiles—I would like to ask whether the same agreed charge is applicable there as is applicable across Canada?

Mr. GORDON: No it is not. There is no agreed charge at all at Lynn Lake.

Mr. HAHN: I realize that, but in effect they are subsidizing the railway—

Mr. GORDON: That is an exercise in logic which escapes me.

Mr. HAHN: You have two sets of rates in the country. The man who wants to transport a car to Lynn Lake pays more than a man who wants to transport it on a trans-continental line.

Mr. GORDON: There is a difference when you are transporting six cars and when you are transporting one.

Mr. HAHN: I will admit that.

Mr. GORDON: This business of handling new cars is a specialized service which enables us to carry out a volume operation on a basis different from the costly handling of individual vehicles. Our lines run right into the factories of these manufacturers of motor cars and we are able to make special provisions in the matter of loading and handling which simply could not be made at individual isolated points.

Mr. HAHN: On that same question of agreed charges, what is the situation with regard to any other type of product. You might have to pick up a lot of things—fruit, for instance, or any other substance. With a population of 1,400 at Lynn Lake you might take a whole carload of automobiles or other things to them during the summertime. Do they get the same rate as those who have the benefit of an agreed charge?

Mr. GORDON: An agreed charge is an arrangement whereby the railways conclude with an individual shipper or a group of shippers in the same business an agreement for a different rate for volume business and one of the specific conditions is that the shipper in question undertakes to ship not less than a stipulated percentage of his traffic by rail. We have different rates depending on the percentage and they stretch from 50 per cent to 100 per cent. Let us suppose that the shipper has guaranteed to the railway that 75 per cent of his product will go by rail no matter where it is directed. We shall work out an agreed charge with him. Any other person who is willing to meet the same conditions can get that same rate for himself with regard to shipment of that particular commodity. This is a matter for the shipper, therefore, in respect of the goods delivered and if a shipper is able to take advantage of our special rate, then competitively he is in a better position in his market.

Mr. HAHN: Does that always apply, or does it apply only where you have a centralization of population? I suppose you could never get it in an outlying area?

Mr. GORDON: That depends upon the shipper. It is the shipper we are talking about.

Mr. HAHN: He is the man I am speaking of, too.

Mr. GORDON: Let us take for instance a canner at Picton, Ontario who makes an agreement with us to handle 75 per cent of his traffic by rail. Afterwards he may ship his product to Lynn Lake, Vancouver or anywhere else at the agreed rate.

Mr. HAHN: How much traffic would you require before extending this agreed charge?

Mr. GORDON: Seventy five per cent of the traffic—to continue the example which I have already cited—no matter what the volume is. We are not making a discriminatory rate for the satisfaction of the larger shippers. Anyone who will undertake to send, say, 75 per cent of his traffic by rail and subject to the same conditions—to use the same example again—can get that rate. Then he can ship anywhere he likes in Canada. It may be Halifax, Vancouver, or anywhere depending where he sells his commodities.

Mr. HAHN: Do you have many applications from smaller centres for that, say where there is a small cannery on your line? I can not think of a place on your line.

Mr. GORDON: We have 105 agreed charges only in force now; it is a relatively small service and I do not have a list of the shippers. However, there are 105 now.

Mr. HAHN: Can you name some of the small points? Say five out of the group? Is New Westminster, for instance, one of them?

Mr. GORDON: I cannot say. All these are filed and known to everybody. They are filed with the Board of Transport Commissioners.

Mr. HAHN: We will leave that. Perhaps you will get that for me.

Mr. GORDON: Yes.

(See Appendix B)

The CHAIRMAN: Shall the item "Passenger and Commuter Service" carry?

Mr. FOLLWELL: I have a sheet torn from the *Toronto Daily Star* of Wednesday, March 14, 1956. It has to do with the city of Toronto, and they want a commuter service in Toronto. I note in the article that it says here, "They demand—the people—that their municipal leaders consider taking up the offer of Donald Gordon, C.N.R. president, of adequate commuter rail service with municipal guarantees against losses." Now I have not had any indication that you were going into a service with them, but perhaps you might tell us.

Mr. GORDON: The reference there, I take it, has to do with the evidence I gave before the Royal Commission on Canada's Economic Prospects recently, and I do not think we can do better than read the actual paragraph which appeared at that time. This reference to an offer is a little different from what I said. This is what I said:

> Extract from Submission by Mr. Gordon to Royal Commission on Canada's Economic Prospects, at Montreal, January 19, 1956:
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> The problem of the commuter service is a special case within the general category of unprofitable operations. By its very nature the benefits of such a service are highly localized. It is true that, at present, passenger service at commutation rates is provided by C.N.R. at only a few centres in Canada—namely: Halifax, Saint John, Quebec, Montreal

and Toronto. There is, however, considerable pressure for the extension of commuter service, and with the development of urban areas it can be expected that this demand will continue to grow. Our examination of this situation has pointed beyond any shadow of doubt to the conclusion that railway commuter service is inherently unprofitable at any level of fares that commuters are willing to pay. Having said this, I recognize that the trend is towards the decentralization of urban communities and the establishment of what might be called satellite residential districts within metropolitan areas. This together with the very heavy cost of providing city streets and arterial systems adequate to the needs of motor vehicle transportation, explains why there will be a continuing demand for railway commuter service. In these circumstances, and if our losses are made good by contractual arrangements at municipal level (providing for payments by those who benefit) the Canadian National is prepared to design commuter service adequate to the demand. I offer this suggestion as being consistent with the principles enunciated in this brief, and as being the only practical solution that presents itself to me, looking to the future.

That statement which, as I said was aimed at the future when making an appearance before the Royal Commission on Canada's Economic Prospects, and has been distorted very badly by certain people with the suggestion that I am asking for a subsidy from the municipalities. That is not right. I do not want subsidies. But, I am pointing out that railway commuter service is a very unprofitable operation. Therefore, if any local municipality wants to talk to the railways about expanding commuter service, then I say they must do it on the basis of paying for the benefits to their community. The whole of Canada should not be asked to pay for losses on the C.N.R. through such a benefit in one area only. If more lines are to be built for commuter service, then there should be a contribution from the area which is to receive the benefit.

Mr. FOLLWELL: Has your company been making a study of the Toronto situation?

Mr. GORDON: Yes. We know all we need to know about Toronto to know how costly it would be to embark on new commuter service. All the laymen's solutions advanced overlook one cardinal point, and that is that the railway facilities around Toronto are in almost complete saturation now. It is even a big headache to look ahead and see how we can handle the business which is already there. Our lines are almost at the point where they cannot handle the present traffic.

Mr. HAMILTON (*York West*): Toronto must be contributing quite a lot to the finances of the railway?

Mr. GORDON: Yes.

Mr. HAMILTON (*York West*): Have you looked into the various types of commuter service to see whether you can bring them into the reach of the municipality.

Mr. GORDON: Yes. We have a committee engaged in investigating the various types of light-weight commuter equipment and there are a lot of things which have happened in this field, but we are not satisfied that they have proven up yet. Certainly some of the stories which come out of the United States do not prove up under examination. That does not say there will not be light-weight commuter equipment developed.

Mr. HAMILTON (*York West*): Have you had a team over in Europe evaluating the equipment there?

Mr. GORDON: Not a team, but we have had observers and competent technical information is available and they send people over here trying to interest us in them also.

Mr. HAMILTON (*York West*): There appears to be a difference in the horsepower ratio to the actual cost and that would appear to be one way in which you can bring down the cost of this type of service.

Mr. GORDON: Yes, but there is trouble with any commuter service which applies no matter what kind of equipment is used. There is the fact that the peak load is about 2 hours in the day when the equipment is dedicated to that service for use and the rest of the time its sits idle. That means not only that a large part of the time the equipment is spent sitting idle, but in addition to that the crew would sit idle and we cannot divert crews backwards and forwards between services. There is an overhead cost in commuter service which makes it inherently unprofitable.

Mr. HAMILTON (*York West*): Is that universally true? I read a report the other day of the commuter lines into New York showing a profit last year.

Mr. GORDON: I would like to see it. Certainly it is not on the commuter service. I do not believe all I read in the papers.

Mr. HANNA: It was about a year ago that the C.N.R. introduced its dinette car service. Would Mr. Gordon care to tell us what the experience has been in the first year of that service?

Mr. GORDON: It has been very satisfactory. We found it has become popular with the travelling public and we expect to expand it. We have in our budget a request for further purchases of dinettes.

Mr. HANNA: Is the C.N.R. extending the dinette service west of Winnipeg?

Mr. GORDON: Yes. We have planned that the five new cars, which we have on order, will go into that service as soon as we have delivery. It might be interesting for me to tell you that in an analysis, between the dates April 24 and September 25, the first check we made on the popularity of the dinette car, that we found—we were comparing the dinette car service with the dining car service on the same train since we have trains where we have both services, to see what the public view would be in the period mentioned—we found that we served 95,335 meals in the dinette against 33,122 in the dining car.

Mr. HANNA: I think it has improved the dining service a great deal to the general public.

Mr. GORDON: And even more important it has substantially reduced the cost to the travelling public; that is the reason for its popularity among other things.

Mr. JOHNSTON (*Bow River*): When you speak of dinette cars do you mean restaurant cars? In the cars which you are using on the C.N.R. today they have a sort of cafeteria counter. Is that what you mean by dinette cars?

Mr. GORDON: Yes. It has a long counter and you can sit on a stool and order anything from a coke to a full-sized meal.

Mr. JOHNSTON (*Bow River*): I think on the C.P.R. they have a different type, a section of the car set off with small table and the meals are reduced in price.

Mr. GORDON: I think they have what they call a cafe service. They have dome cars, but we have dinettes.

Mr. JOHNSTON (*Bow River*): In the past I have been a little bit critical, sometimes, of the meal service on the trains, not only on the C.N.R. but also on the C.P.R. as well. In the past I have advocated just such a service as you are now giving. I think the last time I discussed that you indicated that there was an experimental car going up to Timmins I believe. That was the first one you started and you said that service was going to be extended. I think now I should say, Mr. Chairman, that since this service has been inaugurated, and I have travelled on the C.N.R. and I have participated in that service on the dinette cars, to Mr. Gordon, the president here today, that I think that is an exceptionally good service. I have always maintained that the majority of the people who travel on trains cannot afford to go into these diners and pay $3.00 or $3.50 for a meal, and many of the public who travel tourist would not carry their own meals if there was a dinette such as we are now using on these trains. I thought this was a good service when it was introduced and I am sure it is now. I want Mr. Gordon to know, while I was critical in the past, I want to commend him on that service now.

Mr. KNIGHT: I would flatter myself if I thought you might remember I was interested in that dinette service some years ago. However, I would like to ask Mr. Gordon how it is working out financially. I remember 3 or 4 years ago we used to have arguments on this business of losing money on meals and Mr. Gordon said at that time we were losing 70 or 80 cents, or whatever it was, on the meal. I asked him what the solution was, and Mr. Gordon said we have to make each department pay its own way. I then said, "What do you propose to do", and he said "I propose to put up the price in the dining car". I took great exception to that and I suggested at that time something of the type of service which they have now. I predicted at that time that the next year Mr. Gordon would come back and say "I have sold less meals and we have lost more money per meal", and that is exactly what happened. I would like to know now what the financial situation is on the dinette cars?

Mr. GORDON: On the trains where dinette cars were solely operated during 1955, 228,086 meals were served with an average revenue per meal of 86½ cents. On the dining cars which operated in the equivalent service in 1954, the previous year, 125,596 meals were served with a total meal revenue of $210,194, average revenue per meal being $1.67 as against a total meal revenue in 1955 of $197,269. So, we have pretty well cut the cost of meals to the public which, of course, means you have not as much revenue. We figure we increased the number of passengers served in the dinettes by 81 per cent. We are still at the stage of experimentation. We have done more experimenting in respect to dining car meals in the last two or three years, probably under stimulus from yourself, than has been done I suppose in the last 25 years, and we have not confined our experiments in the dinette service but have done all sorts of experiments to find out how we could get the cost per meal down and still come up with something in the form of a decent revenue. We are pretty well convinced we cannot make any money out of them. But we also believe it should be looked at in a broader perspective along with the other kinds of things we have in mind besides dinette cars, because we think it will be another attraction for those who travel by rail and will be something of a show-window service. We think it will pay off.

Mr. FULTON: Do you lose as much money on your dinettes as you used to on your dining cars?

Mr. GORDON: I do not think I can pinpoint that. I would say no. I would say that the net result in the operation of a dinette is less loss than on the dining car, considerably less, but there are all sorts of graduations of that when you compare it with the dining car service with waiters, napkins, and everything else. We have cafe service, and it all washes into the pool. I do think that the dinette service is a less costly operation, but we have to remember that the capital cost of the dinette is quite high. It is a specialized piece of equipment.

Mr. KNIGHT: I think that you would agree if you lose money on the dinette service it is better to lose money on something which gives service.

Mr. GORDON: Yes.

Mr. KNIGHT: In other words, we are now attracting to the dining car not only the people on expense accounts and so on, but are actually attracting to those cars people from the day coaches and tourist people?

Mr. GORDON: Yes.

Mr. KNIGHT: And they carry out an essential part in the service.

Mr. GORDON: That is why we started out with the dinette service, to see if we could attract the head end service into the dinette car.

Mr. KNIGHT: What are your losses on this dining service now taking it only on per meal? It used to be 70 or 80 cents.

Mr. GORDON: The average loss per meal over all cars on the service in 1955 was 58 cents.

Mr. KNIGHT: Could we have the breakdown of the net loss?

Mr. GORDON: No, I cannot give you that. All I can tell you is I have a breakdown here as to the average revenue per meal, and on the dining, cafe, and buffet cars, the average revenue per meal was $1.73 as compared to 82 or 83 cents in the dinette and sleeping grill cars and coffee shoppe—that is a different service and it was only 60 cents. The grand total figures for all dining car services were revenue of $3,895,150, expenses $5,320,297, and our loss on a net basis $1,425,147; that is for the year 1955.

Mr. KNIGHT: What is the proportion of the net to the other dining cars? It would be very low, would it not?

Mr. GORDON: Well, we served in dinette cars 337,274 meals at 83 cents' average cost per meal. That shows a total revenue of $279,456.

Mr. KNIGHT: Revenue from—

Mr. GORDON: From the dinettes.

Mr. KNIGHT: Have you the expenditure on the dinettes?

Mr. GORDON: No.

Mr. KNIGHT: I have one further question. How does the fact that you sell alcoholic beverages on those dinettes in certain provinces where it is permissible affect the picture?

Mr. GORDON: It gives us more revenue; our liquor sales are quite profitable.

Hon. Mr. MARLER: It affects the passengers a little, but not the company.

Mr. KNIGHT: Is the total improvement in respect to our dining car picture due to the fact that we are making a substantial profit on alcoholic beverages? I am not expressing at the moment my view on that.

Mr. GORDON: I did not get your point about the total improvement. Our loss has gone up over-all.

Mr. KNIGHT: All right. Then we will put it this way: What effect on the whole picture has the fact that you are selling alcoholic beverages?

Mr. GORDON: It is relatively small in total. I could probably give you a guess as to the total. The total revenue on our Canadian lines last year seems to have been $221,470, and that compares with the total revenue of the Dining Car Department of $3,895,000; it is relatively small.

Mr. KNIGHT: How long has that system been in vogue? When did you begin?

Mr. GORDON: It varies because we are only allowed to sell it in limited sections. I have four pages in front of me here of the different conditions under which we can sell alcoholic beverages. I do not think we started earlier than about four years ago. It varies, depending upon the part of the country.

Mr. FOLLWELL: Do you sell all brands? I am trying to put a word in for Corbyville.

Hon. Mr. MARLER: No advertising please.

Mr. HAHN: I have an observation about this and the other matter which came before us earlier. I am at a loss to understand how Mr. Gordon or any of his officers here can determine whether an operation pays or not. We have here an example in the case of dining cars and dinettes. We have instituted a new program. Last year we lost, I believe, 54 cents a meal and this year 58 cents a meal by institution of the new program. It is true we had more meals in the dinettes as compared to the figure for the diners, but I think we should be able to breakdown these costs so that we can determine where the loss comes in and eliminate one or the other. It seems to me, if such is the case, as in the case of the diners and dinettes, obviously the same thing applies in some of these freight rates which are a compensatory problem. I know the committee is fed up with hearing about freight rates, but I am fed up with the idea that we come here to investigate into the operations of the railway—and I am not suggesting for a minute that the officials are trying to withhold anything—I am suggesting we have not got the information we are after because it has not been broken down into these particular departments. I think that in these instances where we have instituted a new program I would like to see them in the form of a statement as to the complete revenue, cost of operating dinettes as compared to the cost of operating diners.

Mr. GORDON: I will have that for you tomorrow. What I said was I did not have it here. Of course we know our costs and what we are doing. That is our business as managers.

(Appendix B)

Mr. HAHN: That is what should have been brought forward from the questioning going on here and is what Mr. Knight was trying to get and was not getting. I am satisfied that I have achieved the object which I had set out to achieve.

Mr. GORDON: I had some figures here, but apparently they were not sufficient. You want an idea of our cost of the dinette against the revenue compared with other forms of serving dining car meals?

HAHN: Yes.

Mr. KNIGHT: I want to know whether the loss per meal is on the dinettes or on the other type.

Mr. GORDON: I can tell you in a general way right now. The loss per meal on the regular dining car is substantially higher than would appear on the dinette car notwithstanding the cutting of the prices on the dinette.

Mr. KNIGHT: Then would the lesson be that it would be better to put more of that kind of service on and less of the other?

Mr. GORDON: Yes, provided you keep in mind that the capital cost of these dinettes is very large. We have to watch where these dinettes go. It is not a matter of putting dinettes in service. It is a suitable operation in certain types of railway service.

Mr. FOLLWELL: Are you saying that a dinette car costs more than a dining car?

Mr. GORDON: Yes. It is a very highly specialized piece of equipment.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): There is one thing I am not quite clear on. Perhaps Mr. Gordon could explain it. A few minutes ago he quoted as the average revenue per meal all over his system $1.73.

The CHAIRMAN: In the dining room.

Mr. GORDON: In the dining car and buffet cars only.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): That is not dinettes?

Mr. GORDON: No. The dining cars and buffet cars produced an average revenue of $1.73 per meal. The dinette cars produced an average revenue per meal of 83 cents. And in the coffee shoppe which serves only toast and coffee and that sort of thing, the average revenue there was 60 cents per serving. The overall revenue for everything is $1.40.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Have we got a comparative figure for that $1.40 relating to the preceding year?

Mr. GORDON: Yes, the figure for 1954 was $1.70.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): In other words the introduction of the dinette has resulted in a most satisfactory average reduction to the travelling public in the price of a meal.

Mr. GORDON: That is correct.

Hon. Mr. MARLER: It is of course possible that more people are eating in dinettes than before?

Mr. GORDON: We have not concentrated our attention on dinettes only. In addition we have been doing other things, among them the introduction of the coffee shop technique late in 1954 has resulted in an increase of the number of meals served from 37,838 in 1954 to 398,078 in 1955, but the meals involved in that latter service would be very cheap—coffee, toast and that sort of thing.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Mr. Gordon comes here every year and sometimes we do not get a chance to say anything very pleasant. He has come here this year, however, with a $10 million profit and he is also giving the public a more general service in the service in the matter of meals and he is reducing the average cost to them. I would just like to say at this point that I am sure everybody will be very happy about that.

Mr. GORDON: Thank you.

Mr. FULTON: May I ask a question Mr. Gordon with regard to the attitude of the men who work in these dinettes. I have heard on several occasions that the C.P.R. crews do not like to work in that new super coffee shop car. I understand their quarters are rather crowded and they are on it for long hours as compared, I believe, with the dining car crews. Did you find the same experience with regard to your dinette cars, and if not what is the reason?

Mr. GORDON: The dinette car is a car built for its special purpose and the sleeping accommodation for the crew has been adequately taken care of. There is first class dormitory accommodation for them and our crews are very well pleased with them. It is true that while this was in the experimental stage we had some rough spots in crew handling until they got "shaken down" in the service. It requires a psychological change for the individual crew member who has to accustom himself to waiting behind a counter and doing a certain amount of work himself in the preparation of meals. I will not say we have had no trouble, but we have had no more trouble than we might have expected.

Mr. FULTON: They seem to be settling down well now?

Mr. GORDON: I may say, too, that I can pay the highest possible tribute to our employees in respect to their readiness to accommodate themselves to this new service. They have taken a very keen interest in popularizing the service among the travelling public; we have had very good cooperation in that respect from our employees.

Mr. FULTON: What arrangements do you make with regard to crew shifts? Do you take the crew off—

Mr. GORDON: Mr. Dingle will tell you what the operating arrangements are.

Mr. DINGLE: On the car between Montreal and Winnipeg the crew goes through to Winnipeg, then they have certain rest hours before going back in service to Montreal. After that they have three or four days off. Their basic hours per month are limited to 208.

Mr. FULTON: That is very much the same as the arrangements for the dining car crews.

Mr. DINGLE: That is right.

Mr. GORDON: Generally speaking the wage agreement for the dining car crews is based on the number of hours worked per month rather than on hours worked per day and the hours which they put in on any given run depend on the requirements of the service, subject always to the need to sleep and eat.

Mr. HAMILTON (*York West*): Is there a differential between the commuter rate chargeable in the Hamilton-Toronto area and that charged in Montreal. I gather that there is.

Mr. GORDON: That is a temporary situation due to the fact that increases in commuter fares which have either been granted or which are still under consideration have not yet come fully into effect.

Mr. HAMILTON (*York West*): Was the application made by the railway for an increase on the same basis—100 per cent in Montreal?

Mr. GORDON: Yes, it was just a matter of the accident of the time of hearing by the Board of Transport Commissioners and it is now being heard again with regard to the further part of the increase. I have not heard the final disposal of the case but eventually when these hearings are complete and the timing is worked out we expect the degree of increase will be the same everywhere.

Mr. HAMILTON (*York West*): At the present time there is a 25 per cent differential between Montreal and Toronto, and there will be a 50 per cent difference if there is not a corresponding increase made at the new hearing?

Mr. GORDON: That is right. We could have put the last increase in in the Toronto area but we did not put it in pending the completion of the hearing in Montreal.

Mr. HAMILTON (*York West*): What were the reasons given for the different decisions?

Mr. GORDON: Simply that the board heard the Toronto case in terms of the Toronto area and decided that the 100 per cent increase was justified. Then it heard the Montreal case and it was prepared to deal with the Montreal case on the same basis but that case was complicated by a concurrent request for the abandonment of certain service and the board said: we will grant a 50 per cent increase now and we shall review the situation with regard to the abandonment of services and deal with the whole thing when it comes up again.

Mr. HAMILTON (*York West*): It was not based in any way on differences of traffic potential, or on difference of distances?

Mr. GORDON: I cannot enter the mind of the board of transport to see what motivated their decision but there was nothing in their judgment to that effect.

Mr. HAMILTON (*York West*): You were applying for the abandonment of some routes and there was a lot of opposition?

Mr. GORDON: It related most specifically to the proposal for abandonment, though of course there is always opposition to any increase in railway fares.

Mr. HAMILTON (*York West*): You referred to the fact that the area in Toronto is at present pretty well "jammed up" so far as its use is concerned. Has any thought been given, or has any approach been made to you, about the use of any part of the right-of-way which the railway may own in the metropolitan area for the consideration of the running of commuter lines by the municipality?

Mr. GORDON: There has been no specific question of that kind raised with me. It would be quite out of the question. There is just no room, and any room that might be at our disposal the railway purchased with the handling of volume freight in mind.

Mr. HAMILTON (*York West*): Does that mean there is no room on the rights-of-way themselves, or is that answer confined to the station yard area?

Mr. GORDON: Both. The heaviest commuter area is Toronto-Oakville-Hamilton. The actual traffic passing over that line now has reached the point of saturation. We can run only a certain number of trains over the line during a given period and at the present time we are pushing trains over about as fast as safety will permit. To expand that service would mean the building of a new line. We could build a new line on our own right-of-way.

Mr. HAMILTON (*York West*): That is what I want to ask you about. There is always a clearance beyond the actual traffic in connection with your right-of-way; there is always a certain amount of room on either side of the track. Is this required for your purposes? This is a very serious problem in Toronto and if there is any opportunity at all of acquiring these rights-of-way it would be a great saving. Do you intend to use all the additional space which is available, or might there be some space free?

Mr. GORDON: Any rights-of-way that we have acquired in and about Toronto have been acquired specifically with the needs of long-term planning in mind and because they will be needed for future railway purposes. We would certainly resist giving them up. We plan railways 20 and even 30 years in advance and we know that the Toronto area is going to need every scrap of opportunity we have to build to serve the needs of that growing city.

Mr. HAMILTON (*York West*): Then these propositions which we read about are the propositions of amateurs who do not know the exact railway situation as regards rights-of-way?

Mr. GORDON: One prominent gentleman referred to my suggestions as ludicrous, and I take the opportunity of returning the compliment, and say that his suggestions are ludicrous too.

Mr. CARRICK: Does that situation with regard to the right-of-way apply only between Toronto and Hamilton or is it generally applicable?

Mr. GORDON: You are thinking of other sections out of Toronto? There may be some limited sites but I would have to get a map to pin-point them. Certainly there is nothing for which we do not foresee a use.

Mr. FULTON: In that connection you made some reference to the studies you have carried out with regard to this problem and it certainly is a growing problem in all parts of Canada. Could you give us today, or perhaps tomorrow, an outline of the picture and of the problem as it appears from your point of view as to the situation in Canada—I think you said in North America—compared with what I understand to be the situation in the United Kingdom, particularly, and possibly in other parts of Europe. Many of the larger cities there do have a satisfactory—although I do not know whether it is a profitable—commuter service and I refer particularly to the city of London where most of us who have been overseas saw the vast numbers of people who were moved in and out of the city in a very short space of time.

Mr. GORDON: I can give you a statement right away. It would not be a careful analysis but I think it would be good enough for the purpose. Here is the essential difference. The commuter passenger service in the North American continent is largely a question of the peak load and the habits of our population are so fixed that we strike this peak late in the morning and again in the early evening. If we had a situation similar to that which exists in the city of London where there is a constant going and coming of traffic all the time and if we were able to run our trains every hour on the hour every day and so make full use of all our equipment and crews, we would have a vastly different economic situation. It is however a fact that at this stage of our development in this country you will find a tremendous rush between eight and nine in the morning and another tremendous rush around five o'clock and six o'colck; in betwen those times we stand idle, we have an enormous amount of capital tied up in equipment and there is no rate which we could possibly get from our passengers that would cover this wasted equipment and crews standing idle. On the other hand if we were able to induce people to "stagger" the times of their going and coming we would have a different economic picture altogether.

Mr. FULTON: In that respect is it not true that the habits of North Americans in metropolitan areas are not so very different from the habits of people who live in or near the metropolitan areas of London. Vast quantities of people go to London each morning and are carried out again in the evening.

Mr. GORDON: They have a peak load problem too, I agree, but it is not as exclusive as ours because ours is a problem of two peak loads. They have a peak load in London too but in between times they are able to utilize their equipment and get revenue from which to pay the crews.

Mr. FULTON: May it also be on account of the fact that the lighter carriages which they use there are satisfactory both for use on the commuter services and on the longer hauls, and because the same train can be used for both services?

Mr. GORDON: That is a theory that would bear examination. The railway problem in the United Kingdom is the problem of the short haul versus the long haul. Our essential problem is the long haul and we should keep in mind that the railway was never intended to be a short haul operation. The railway is a long haul proposition, be it in freight or passengers, and we could not make money out of short hauls. That is basically true of all railroads. We have also to keep in mind that here we have a vastly greater utilization of private automobiles than they have in London. Here a woman will drive her car to go shopping; in London she would come up to town by train.

Mr. CARRICK: Would the concentration of population in London have any bearing on the question?

Mr. GORDON: Very definitely.

The CHAIRMAN: Shall the item carry?

Carried.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): I would like to ask one or two questions on advertising. Shall we take them at this point or subsequently?

The CHAIRMAN: Let us deal with them under operating expenditure.

Express is the next item on page 8. Are there any questions on Express?

Item carried.

The CHAIRMAN: Communications is the next item.

Mr. HAMILTON (*York West*): On the question of Express, is there any liaison between the railway and Trans-Canada Air Lines on the problems of express?

Mr. GORDON: We have a particularly close liaison with Trans-Canada and we do have an arrangement with them whereby we undertake local deliveries in some places.

Mr. HAMILTON (*York West*): Is there any indication at your offices that there is a Trans-Canada Express service there?

Mr. GORDON: That would depend on the sales mindedness of the person concerned. Certainly he is in a position to give the information and if he thinks of it he will tell the person asking for it. We intend to give that service.

Mr. HAMILTON (*York West*): If you are in a large centre where there is T.C.A. advertising you would obviously have the telephone number; I am thinking of the fact that you have agents in almost all localities and where someone is in a hurry for shipment cooperation from C.N.R. would certainly be most useful.

Mr. GORDON: We give full information as to what air express is available.

Mr. FULTON: How have you found the results of the telegraph system you took over in central British Columbia last year?

Mr. GORDON: It has been merged into the system now and I cannot give you an accurate appraisal of it. We appraised it at the time we took it over and we decided it would be beneficial, but to take it out of the system now for analysis would be quite an accounting problem.

The CHAIRMAN: Shall the item carry?

Carried.

The CHAIRMAN: We have reached the heading Operating Expenses. Mr. Hamilton has some questions to ask.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Last year you were good enough to tell us a little about your advertising budget and its breakdown into various headings. Perhaps you would be good enough to give us the same information this year.

Mr. GORDON: In 1955, a total of $954,812 was spent on periodical, newspaper, radio and television advertising of passenger services; of this $454,408 or 48 per cent was expended in Canada and the remaining $500,404 in the United States. We have some figures here with regard to our plans for 1956 if you would like a forecast?

Mr. HAMILTON (*Notre-Dame-de-Grâce*): I think that would be interesting.

Mr. GORDON: Plans for 1956 envisage expenditures of $1,040,000 for the same purpose: $500,000 or 48 per cent in Canada and $540,000 in the United States.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Who represents you as an advertising agency in the expenditure of these funds?

Mr. GORDON: In Canada, the Canadian Advertising Company and in the United States, McCann, Erickson.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): You moved to McCann, Erickson, about a year ago, is that correct?

Mr. GORDON: About that.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Would you like to give us some indication why you made this move? The reason I ask the question is that for some 22 years you had handling your advertising either Cockfield Brown which is the biggest Canadian agency or a combination of Cockfield Brown and Canadian Advertising Agency. We suddenly find that your company is now represented, for the expenditure of the better portion of its budget by a well known American firm and I was wondering what would prompt you to make that change?

Mr. GORDON: I would not want your analysis on the situation to be regarded as factual. The situation is that we had for a long period of years an arrangement whereby our Canadian Advertising was shared between Cockfield Brown and Canadian Advertising in Canada. Through Cockfield Brown we placed our American advertising with an American agent of Cockfield Brown—in other words we used an American firm but we put it through Cockfield Brown.

On close analysis when we got down to looking at some of those expenditures and exercised our judgment as to what we were getting out of them, we came to the conclusion that we should do better if we had one Canadian advertising firm and if we did business direct with an American advertising firm in connection with United States advertising. I want to make it clear that we used an American advertising agency only for advertising placed in the United States and that the Canadian advertising agency is for Canada only. We felt, as a matter of business judgment, that our interests were best served by having one agency for each purpose. If you ask me to say how we chose between Cockfield Brown and Canadian Advertising, I do not think you should press that point.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): I was not pressing that point, Mr. Chairman. May I say this? This is a question of judgment as to the kind of action which should be followed in a case of this kind and it does seem to me that one of the functions of this committee—as has been stated here before—is to exercise its best judgment in connection with the way in which a given business is being conducted. Having said that, may I say that in my view at least I think this action in moving to an American advertising agency for the company's advertising in the United States is open to quite considerable question. In the first instance while you pointed out that a Canadian firm had been using an American agency as their representatives I would add that the business had been passing through a Canadian agency and that they had been exercising a degree of control and supervision over that business which has now been lost.

Mr. GORDON: What kind of control?

Mr. HAMILTON (*Notre-Dame-de-Grâce*): They were in constant touch with the United States agency and they were in a position to coordinate both your Canadian campaign and the actions of the American advertising agency because they were implicated in both, and I think that is a very important consideration.

The CHAIRMAN: Would the local company get additional commission?

Mr. GORDON: They would get a share of the commission from the American agents.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): I can answer that. There would be, in some way, some revenue to the Canadian agency in connection with this business—

Mr. GORDON: But at our expense.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): No sir. That is very definitely not so.

Mr. LANGLOIS: Who is the witness here, Mr. Gordon or Mr. Hamilton?

Mr. HAMILTON (*Notre-Dame-de-Grâce*): I am sorry, perhaps I should ask that as a question. Is Mr. Gordon quite sure that he is right in saying "at our expense"?

Mr. GORDON: We foot the total bill and the division between Cockfield Brown and the American agency is made from this.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): There would be no additional cost to you of one arrangement as against another arrangement?

Mr. GORDON: Mr. Wright informs me that there would be no additional cost.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): So my statement was correct.

Furthermore there is the question of presenting a Canadian point of view in the company's advertising, and we must remember that Canadian National Railways is a Canadian corporation and Canadian owned. An advertising agency in any operation of this kind plays an important part. They help to establish and conduct and "set the tone" of the advertising in cooperation with the advertiser—

Mr. CARRICK: Mr. Chairman on a point of order—

The CHAIRMAN: I think that is a matter of judgment for the railway company, and I do not think that statement should be made. I think you should ask the witness whether so-and-so is true, because it may go abroad that such and such is the policy of the railway and that is not the policy of the railway at all. If you ask Mr. Gordon a question and he confirms or denies it, then this would get to the people of Canada.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): I will be very glad to follow that procedure. Would you say that your advertising agency plays a part in setting the tone and the method of your advertising?

Mr. GORDON: Yes, it would.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Would that mean—I am no lawyer and I am doing my best to be a lawyer although it galls me at times.

Mr. GORDON: And I will do my best to try to be a witness.

Mr. FULTON: Mr. Hamilton is improving all the time.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Since your advertising agency helps to set the tone of your advertising would it not be that, moving into direct contact with an American advertising agency without in any way having the advice or guidance or counsel of your Canadian agency in connection with that advertising, it would tend to Americanize your advertising to a limited extent?

Mr. GORDON: No. It is a matter of judgment, and our judgment is that after a careful analysis of the problem we decided that the American agent could do a better job for us in the American market than could a Canadian agency. This American agency has Canadian affiliations and is vastly aware of everything it needs to know about Canada. On the selling job which we are trying to do in the United States market, our considered opinion—and it is an opinion shared by many other organizations which have things to sell in the United States—is that the direct contact with an American agency to deal with the American mind will produce better results than trying to mastermind that from Canada. The same is equally true with respect to the Canadian situation, and I would dispute a suggestion that Americans should be hired with respect to the Canadian market. My opinion was, after guidance from people whose job it is to advise me, that this way we would get more value for our advertising dollar.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Are you aware, Mr. Gordon, that this McCann Erickson, which is your American agency, opened its office in Canada in 1952, and that was about the time, as I remember it, that they became an important factor in your advertising work? Are you aware that it might well have been that this association's contemplating your tying in with their agency caused them to come up to Canada and open a company in Canada?

Mr. GORDON: I do not think I can be a witness as to what motivated their decision to come into Canada. We do know that they had made examinations of the Canadian market for some time in advance of speaking to us and I would say although we were not the motivating force we were certainly an additional help to them in deciding to establish in the Canadian market.

Mr. HAMILTON (*York West*): Could you stand another Hamilton question. I preface this by saying there is an indication that American advertising firms are opening subsidiaries in Canada to handle the situation for their companies here. Before changing this account, was there any suggestion made to the Canadian company that they might open an American subsidiary to handle your advertising affairs in the United States in the same manner that the American companies are handling it here?

Mr. GORDON: We would not advise them how to run their business. They know the situation as well, if not better than we, and the essential point is, whether they had opened an office in the United States or not, we would still be of the opinion that dealing in the U. S. market we would get better value for the United States dollar by dealing with an American agency in touch with the American market.

Mr. HAMILTON (*York West*): I would assume that you would be hiring Canadian employees down there the same as the American agencies hire American employees up here.

Mr. GORDON: It is not that. It is a service which requires a knowledge of the market which only comes after a lifetime of experience. They have all their contacts across the United States to lead them to appreciating the market as people do in the selling business.

Mr. HAMILTON (*York West*): That does not augur very well for the success of Americans coming in here.

Mr. GORDON: It depends on the success they get. Canadians should be able to defend themselves in their own market.

Mr. CHURCHILL: How much of the C.N.R.'s business originates in the United States?

Mr. GORDON: That is something which we have often tried to breakdown, but we have to have an analytical approach to it in order to find out the answer to that question. It is a matter of trying to set up a system to tell the number of passengers and the source of traffic, and things of that kind. We have it under way but I cannot answer it at the moment.

Mr. CHURCHILL: Is there a larger percentage of advertising expense in the American field?

Mr. GORDON: Yes. The reason for that is that we are dealing in a market with a much higher gross population and moreover the cost of advertising in the United States is much higher than in canada. If you buy a spread for advertising in almost any of the American papers or periodicals you will pay five or six times as much as you would pay in Canada. Four or five times anyway.

Mr. CHURCHILL: What is your advertising in the United States? Is it passenger or freight?

Mr. GORDON: Only passenger traffic, and of course our hotels would be included in that also.

Mr. FOLLWELL: Do you not advertise for freight over your American line?

Mr. GORDON: No, not for freight.

Mr. FOLLWELL: Not even on your American line? Do you not need to?

Mr. GORDON: We have our own solicitors on the job as we do not think newspaper or periodical advertising is a proper vehicle. If you look at the back of the report you will see where we have agents all over the place and we find the direct solicitation of freight traffic yields a far better result. The traffic manager of a large organization does not read newspaper advertisements.

Mr. FOLLWELL: He does not have time.

Mr. GORDON: No.

The CHAIRMAN: Have you any other questions on "Operating Expenses"?

Mr. FULTON: Mr. Gordon, would your public relations office, sir, happen to know whether the Canadian Government Travel Bureau which advertises quite extensively in the United States retains an American or Canadian agent and do their advertising in American magazines?

Mr. GORDON: I do not think I should answer that. We know what other people are doing, but I do not think I should give evidence about them. Anyway I am not a witness for the tourist bureau.

Mr. FULTON: I am just trying to get the facts.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): There was a reference a moment ago to freight traffic and passenger representatives. Would your similar people in the United States be Canadians or people from down there?

Mr. GORDON: There is a mass of them. We have Canadians in these points too, but mostly in the United States points, and while I do not have the analysis, they would be predominantly American I think.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): But for instance if you had a major representative in New York he would be a Canadian, would he not?

Mr. GORDON: Yes. Our existing New York representative is a Canadian I believe. We made some changes the other day and I am trying to remember what the nationality of the person is. He has been in the States for 20 years so I do not know whether he is a Canadian or an Amercian. I think he was born in Canada.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): That, I think, would tie in with the attitude, if we follow the argument you use logically, that you would have your foreign representatives exclusively coming from the country in which they were working.

Mr. GORDON: Not necessarily so at all. For instance our representative in London, England, is a Canadian. The next representative may be a United Kingdom man. It depends on who the individual is. We are not tied to that. A glance at the list of solicitors, as outlined on page 32 of the report, shows the different types of salesmen. The solicitor just needs to be a good fellow and know his own business, and he can be a good man whether a Canadian or an Englishman.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Do you happen to know where the creative effort in respect to your American advertising is being done? Is it being done in the United States in the offices of McCann Erickson or in a small office with a very limited number of people as they have in Canada?

Mr. GORDON: Well, it is always difficult to pinpoint exactly where an idea originates, but by and large our experience has been that the creative work is done in the United States, and that was the case even under the former regime of Cockfield Brown, but it is also true we come up with ideas ourselves. That is a fact.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): But it is being done in the United States. Under the old arrangement would it have been funnelled back to the company through your Canadian agency, Cockfield Brown, and then back again to the United States?

Mr. GORDON: It was never done that way. As a matter of fact I must point out to you that you are leading on to a situation where you will establish reasons why we chose one versus the other, and I do not want to have this conversation create the idea, or get abroad, that we are critical of Cockfield Brown or that we regard their service as inferior to some other agency. I do not want that to go out of this room. It is not fair to them. Cockfield Brown have an outstanding Canadian agency. It becomes a matter of policy on our part, whether the American agency carries the service which we feel meets our requirements or the Canadian agency. We thought the American agency did. I do not imagine Cockfield Brown would agree with that. It has been our judgment. It is a matter the same as when you go down the street and decide to buy something at Eaton's rather than at Simpson's; it is your individual choice and when you do that you are not necessarily finding that the other fellow is not adequate, and I would deplore the idea that we made the choice necessarily in criticism of Cockfield Brown. The method we have established here satisfies us better than the previous method. We do have a direct contact with the American agency and we find that fits our needs and requirements better. There was a much more confusing situation under the old arrangement and this direct arrangement suits our requirements better and gives us, we think, a better return on our expenditure.

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

Mr. HAHN: In the statement itself there are one or two parts I would like to read and I have some questions on them. In the second column on page 8, section 21, I read: "Notwithstanding these factors, and the effect of higher pension charges, operating expenses, at $629.0 million, were held to an increase of $2·5 million over 1954 through improved transportation performance and lower maintenance outlays." I am interested particularly in the maintenance outlay, because in section 23 we find there the maintenance of equipment expenses is down $6·1 million, or 5 per cent, and in section 24 expenditures for maintenance of way and structures were down $4·7 million. What I am getting at is that $6·1 plus $4·7 is about $10·8 million which was roughly the net profit on the line. Keeping that in mind my question is this: Is this a deferred service so that we have this increase possibly coming another year such as we found the case to be last year when you stated we never actually showed a profit at all.

Mr. GORDON: It is a very good question and one that is impossible to give a precise answer to. I told you this morning that any management of a railway can make a show in a short term. The sequence of events was that in 1954 we did not cut our maintenance costs as much as others and we got the benefit of that in 1955 because that enabled us to reduce our maintenance costs in 1955. The main item in regard to rail replacements, for instance, was down from 869 miles in 1954 to 562 miles which we laid in 1955. As a matter of judgment you may ask is that too much. My answer is on the basis of my knowledge and on the advice of my operating officers, we did not cut our program below the point where we would enter into punitive deferred maintenance although we could have spent the $10 million quite easily and it would have been a practical expenditure; but not having spent it does not mean it is wrong.

Mr. HAHN: That was one of the reasons, this morning, for my asking the question in respect to accepting rail depreciation as an expense item, that is from the depreciation end of it, because if your rails have depreciated to that degree you are just actually adding profit on a line which has cost you nothing actually until it is worn out even though you have received full depreciation for it. Now, as to this fact that you have only replaced 562 miles of rail this year, I was wondering whether that was a completely depreciated line or was that all the depreciated line that would appear as book depreciation?

Mr. GORDON: No. If I followed your question, you can state it this way: Did we in 1955 do all the maintenance on our line that we would have liked to have done or would have done?

Mr. HAHN: That is right.

Mr. GORDON: The answer is no. It was not as much as we would have liked to have done, but the amount we did do maintained the property without slipping back. In other words we have not slipped back but we have not gone ahead. That is the important point. Now, to give you an example, there is always a long debate between the operating department officials and myself, representing our expenditure side of it, as to how much in the way of a maintenance program we have to do. I have attempted to get them to set down for me, if you were doing it how much would you spend? On that basis they would estimate for me that we ought to do about 1240 miles to take up the backlog of deferred maintenance. Our normal requirement runs about 660 miles, so anything over 660 miles will pick up some of the backlog. Last year we did not pick up any. This year in the budget you will find estimated 777 miles which will help to pick up the backlog. We will pick away at that each year until we do it all. In our decision we do not allow ourselves, if we can avoid it, to go backwards. Sometimes, in a bad year or when having difficulty in obtaining supplies we will only manage to maintain normal wear and tear.

Mr. HAHN: How much of the backlog do you think must be taken care of in the future?

Mr. GORDON: My operating officials think if we are going to take up all the backlog we ought to do 1240 track miles of rail laying. This year we will do 777.

Mr. HAHN: You would normally do what?

Mr. GORDON: About 660. Catching up on the backlog is conditioned not only as a matter of money but also in terms of steel and ties available and the labour. The program we have outlined here is the maximum program which in our considered judgment we think we can organize in terms of labour, steel, ties and other supplies that are likely to be available during 1956.

Mr. HAHN: Perhaps you are in a better position now to answer the question which I put earlier this morning. The backlog which you referred to then is a completely depreciated line if referred to in the old method of depreciation that was used in former years. Last year you referred to line depreciation and user depreciation I believe, did you not?

Mr. GORDON: No, that has no bearing on this situation.

Mr. HAHN: That is on rolling stock only?

Mr. GORDON: We figure that the normal requirements for new rail to put back in the property what we are taking out of it in a yearly operation is about 660 and if we do better we are improving the property, and if we do less than that we are taking something out of the property.

Mr. BYRNE: Do you find that the diesel locomotives are any more destructive on the line than the steam locomotives?

Mr. GORDON: Our general opinion is it is less destructive for the reason of the impact of the driving power on the rail line. A steam locomotive tramps down the roadway, "bang, bang," whereas the diesel locomotive is smooth running and does not give that pounding effect on the rails.

Mr. BYRNE: You may catch up more rapidly on the backlog as a result of complete dieselization?

Mr. GORDON: Our line should improve as we get more dieselization on it. There will be less wear and tear on the average.

Mr. FULTON: Have you any idea of the cost per track mile of re-laying?

Mr. GORDON: Our average price now is around $29,000 for a new rail of 132 pounds, that is to lay one mile and it covers rail fastening, labour and everything.

Mr. CHURCHILL: Are all rails used by the C.N.R. purchased in Canada?

Mr. GORDON: Except in regard to those we use for our United States line. Everything we lay in Canada is Canadian-made.

The CHAIRMAN: Shall the item carry?

Mr. BELL: Mr. Gordon, regarding overseas agencies, do you try to encourage the use of Canadian ports through instructions to your agents with respect to freight?

Mr. GORDON: We are required by law to do that very thing and we are most happy to do so. If it is not routed by the shipper we are required to take all possible steps to use Canadian ports and we do so.

Mr. BELL: Do you have any conflict with Portland in the United States in respect to that?

Mr. GORDON: No. The only time we use Portland is when the shipper routes it there.

Mr. BELL: Is there much traffic now going through Portland?

Mr. GORDON: I do not have a figure, but Mr. Dingle tells me it is quite small out of Canada.

Mr. FOLLWELL: Mr. Gordon, do you find that in cutting down your maintenance costs it resulted in any breakdowns by not taking care of the equipment properly?

Mr. GORDON: No. That would be getting into punitive maintenance which we avoid.

Mr. FOLLWELL: There seems to be a rumour abroad that you are having considerable difficulty with your diesel engines, and there was a rumour that you were having so much difficulty in not paying enough attention to the servicing that General Motors withdrew their guarantee.

Mr. GORDON: The only place where rumours travel as fast as in the railway is in the army.

Mr. FOLLWELL: Have General Motors withdrawn any of their guarantees?

Mr. GORDON: We have, of course, as with any machinery individual troubles. We have spotty difficulties of different types but there is no major breakdown as you suggest, and certainly no withdrawal of guarantees.

Mr. FOLLWELL: There was the suggestion that you were not keeping up the standard maintenance and that the company said either you do that or we will withdraw the guarantees.

Mr. GORDON: That could not be further from the truth.

The CHAIRMAN: Shall we carry items 20 to 26?

Agreed to.

The next item is the "Labour" item.

Mr. CHURCHILL: In the first paragraph, No. 27, you show a decrease in the average number of employees of about 2,400. What is the reason for that?

Mr. GORDON: In part, our lower maintenance program would effect it. In part it would be effected by more use of machinery. The mechanization of the railway is getting larger every day. The major part of it, I would say, would represent the lower amount of maintenance and rail laying we have been discussing. We laid only 562 miles in 1955 as against 869 miles the previous year, and also I should point out the drop in our maintenance of equipment.

Mr. CHURCHILL: It is larger in the maintenance staff.

Mr. GORDON: That is right, and in our shops, yes.

Mr. FULTON: In the next paragraph you refer to a labour agreement. You say that separate agreements were pending at the end of 1954 and were concluded with these various brotherhoods. I take it that they were concluded in 1955, this last year, including the one with the Brotherhood of Locomotive Engineers?

Mr. GORDON: I see what you mean, yes. They were pending at the end of 1954 and they were concluded in 1955.

Mr. FULTON: I read in the newspapers today that the Brotherhood of Enginemen had opened negotiations and presented a very substantial case.

Mr. GORDON: Yes.

Mr. FULTON: Are these yearly or two year agreements?

Mr. GORDON: One year.

Mr. FULTON: I was under the impression that most of them were for two years.

Mr. GORDON: No, no, for one year. We institute negotiations every year. In the interests of accuracy that is right. The non-operating agreement expired on January 1st, but they served notice before then. Under the agreement they are allowed to serve notice 60 days before the actual expiry. The non-operating trades served notice that their agreements are pending and they are carrying on until a new settlement is made. According to the item you mentioned they did not serve notice until a few weeks ago.

Mr. FULTON: It was the enginemen, the Brotherhood of Locomotive Engineers, as I recall it, as I saw it in the newspapers this morning.

Mr. GORDON: They are pending now. They have served notice.

Mr. FULTON: Was it recently? I thought you said it was six weeks ago; the train-men were six weeks ago and the engineers within the last few days?

Mr. S. F. DINGLE (*Vice President of Operations*): I would say two or three weeks for the enginemen and perhaps a month for the train-men.

Mr. FULTON: Are you in a position, without prejudicing the negotiations, to give us an up to date report on the situation as it would reflect upon the non-operating employees?

Mr. GORDON: The situation with the non-operating trades is that we have been through a conciliation board and that each—the union and the railway—has stated its case to that board but we have not yet received the report of the board. It is expected momentarily. And in regard to the other one you mentioned, the enginemen and firemen we are at the point of preliminary negotiations but there has been no board set up yet. We are in the stage of discussion with them to see about the possibility of a settlement without going through a conciliation board.

Mr. CHURCHILL: Mr. Byrne asked a question and I would be interested in your answer. His question was what was the meaning of the union dues arrangement? What are they?

Mr. GORDON: That is an involved thing, but it means that in respect to this wage agreement we have agreed with the certified unions, the union which has been certified for bargaining purposes, we have to recognize it by law of course, and there is a stipulation contained in their agreement that any person working in this trade, be it engineman or fireman, who has not paid dues to his particular union, is taken off the seniority list and is not called for duty until all the others who are on the seniority list and who have paid dues have been called. It is a means of exacting from anybody in the particular railway trade, dues for the particular union, which is certified for bargaining purposes.

That agreement has been challenged, and it is in the courts now. One of our enginemen named Sloan got a judgment from the Superior Court of Quebec to the effect that such an agreement is illegal and that judgment of the court is now under appeal.

Mr. CHURCHILL: Has that arrangement been in effect for some considerable time?

Mr. GORDON: No. It was only in the last agreement, when it went into effect. That was about a year ago in the last agreement, and it was one of the demands of the union and it was settled in the terms by agreeing to recognize this request in regard to union dues.

Mr. CHURCHILL: It was new to me. As a union arrangement, had it come to your notice prior to that?

Mr. GORDON: Very definitely. It was a matter we resisted. We did our best to resist it because we did not like it, but that was one of the points we settled on the basis of agreeing to their request that a person in that trade had to produce evidence that he had paid his union dues before he could be called to work on the railway.

Mr. BYRNE: Could it not be called a variation of the Rand formula?

Mr. GORDON: Yes, it could.

Mr. BYRNE: It simply applies whether they are members or not.

Mr. GORDON: It is a matter which has been violently opposed by some of the American railroads, and it is a question mark in the labour relations field. But we are in the position that under the agreement we are also required to defend the action in the court, and we have to join with the union in defending the action.

Mr. BELL: With respect to recent lay-offs, is it true that nearly all the lay-offs have been in the non-supervisory jobs, and if so, why? There are obvious reasons there, but you hear quite a bit of talk among the men that they never lay off a supervisor. Would you mind taking a minute to give the reason for that?

Mr. GORDON: In the nature of things the men who are what we called laid-off in the railway tend to be non-supervisory classes because they are of classes which are affected by traffic fluctuations. We take men on and lay men off in accordance with our need for traffic. It is quite possible that we would lay off a number of men in a shop having to do with the maintenance of equipment, but that does not mean that we would lay off a supervisor, because we only have the one supervisor in a given shop, so it would affect the men rather than the supervisor.

Mr. BELL: Is seniority a factor?

Mr. GORDON: Seniority is a factor, yes.

Mr. FULTON: There are a number of people who did not agree and whom we are glad to keep around. About ten years ago there was a dispute with the Brotherhood of Maintenance of Way employees over the action taken by the R. F. Welch contract, which had been settled.

Mr. GORDON: Yes.

Mr. FULTON: Could you enlarge on that for us?

Mr. GORDON: In terms of history it has been a bone of contention for some time between us, and when I was here last year I said that the contract which we had with Welch was to be cancelled. That statement is absolutely true. The contract which existed at that time consisted of a fundamental set of conditions which was causing trouble between us. Welch is a case in point; he was to provide the labour and we, the railway, were to provide the operating formula; so we had railway workers mixed up with contract workers and there was a contrast of conditions, pay, and hours of work, and it caused a bad situation. So we cancelled that type of contract.

Then we had under discussion with the maintenance of way representatives the question as to how wage agreement number 13 which covered the extra gangs would be applied, and we came to the conclusion that we could do the work cheaper by calling for tenders from outside contractors. That was done; but the maintenance of way union officials tried to establish the idea that they had the right to work but on that point we refused to budge. We say that they have no right to work in that sense, and that we have a clear right to go to any outside contractor to do a specific job, if we so choose. If for example we choose to employ an outside painter, it is all right, or we may use our own forces. Therefore we called for tenders, and in the event we received two tenders to do this job of work. One was from Welch, which covered western and central Canada, and one was from an outfit called Rayner in the east. We accepted the two tenders, in fact we had half a dozen responses but we granted contracts to Rayner and to Welch. We did not need the railway forces that we formerly needed so they were laid off.

The contractors who had bid successfully for the work were then in a position to hire the men, and they went to our laid off railway workers and offered them employment, and the railway workers took employment under their contract. They did not realize the reason for the difference but only noted that the conditions of work, in some cases the wages, and everything else were different, while the work itself was the same work. They did not realize they were working for the contractor and not for the railway. So confusion got worse confounded, and we had discussion after discussion. We met just recently however with the top officials of the maintenance of way employees union and we have agreed roughly along these lines; we agreed roughly, and this is the essential point: we said that if you will agree to certain changes in wage agreement number 13 which covers the conditions of work of this type of railway work for extra gangs, we will equalize certain wage rates established in that agreement—those that were different for one section of the country versus another,—and allow more flexibility of movement between areas—we will undertake this year not to call for contracts outside the railway. We will undertake to do the work with our own railway workers and they will automatically be reinstated in regard to their positions and seniority with the railway and everything else of that kind. We made a sensible bargain on both sides, and we are now on the basis that for this year we have agreed that we will not call for tenders from outside contractors and that the work will be done by the railway forces directly under our own supervisors and subject to the labor conditions in wage agreement number 13, and that each year we will meet to discuss a similar arrangement.

So long as we feel that we are getting reasonable conditions of work, and cost and, what is very important to us, more flexibility, we can get the maximum use of the very short summer season. We must crowd all the work into the good weather because we cannot do any of this work in winter time; Flexibility is always important and we now have an amicable arrangement which means that all that work this year will be done by railway labour.

Mr. FULTON: I am sure you are hoping that it works out and will be a satisfactory and permanent basis.

Mr. GORDON: We hope so. The only check we have on cost in a thing of that kind is to be able to test it against the outside market, so to speak, in respect to work of that kind.

Mr. FOLLWELL: In the light of your experience do you feel that the calling for tenders was cheaper than doing the work yourself?

Mr. GORDON: It was cheaper at that time on the basis of the analysis we made, but we now feel that we will do the work if not cheaper, at least for no more.

Mr. FULTON: I think you should have much better labour relations too in that particular field.

Mr. GORDON: This is a very important matter for our relations with labour and if you will permit me to add one more fact that I should have added I will say that this does not mean that Welch disappears from the picture. Welch is still in the picture in the sense that we have a contract with him to recruit labour for us and we pay him a rate per head for that purpose with the full agreement of the union officials. That is over and above the men we have in our own forces. If we have a shortage of labour in any area—our big problem is to get labour into isolated areas—we go to Welch, we pay him, and he also provides for the board and feeding of the men with, as I say, the full agreement of the union officials, and the men become railway workers under that agreement.

Mr. FULTON: They get the standard railway wage negotiated by the union as applicable to the area?

Mr. GORDON: Yes.

Mr. FULTON: It seems to me a very good compromise and I hope it works out satisfactorily.

Mr. GORDON: We hope so too. It took a lot of discussion.

Mr. HAHN: I am sure everyone agrees with what Mr. Fulton has said. I myself am rather concerned that our unemployment insurance adviser was not used in this instance, though I am sure that Mr. Welch would make use of that office.

With regard to this question of labour does the age factor enter into the terms of employment—not with Mr. Welch, but with the C.N.R. itself?

Mr. GORDON: Only in the matter of selection. We do not choose between a man aged 20 and a man aged 40. It depends upon the availability of man-power and on the kind of workers we need.

Mr. HAHN: You mention a man of 40. How about a man aged 50?

Mr. GORDON: It depends on what the labour supply is. We hire labour in the same way as any other employer of labour on the basis of hiring the best men we can get. We are talking now about what is really a "floating" supply of labour. This is not the regular labour force on the railway but a "floating" supply that moves on from season to season—what are known as extra gangs.

Mr. HAHN: I am talking about the eligibility of men to get a job in the C.N.R., and how that eligibility is affected by age.

Mr. GORDON: On that point I would say we have employment offices and that anyone wanting a job can contact our employment officers and state his qualifications. Our employment people will consider his qualifications in relation to the job that may be available and select the man who appears to be the best candidate.

Mr. HAHN: Is one of the questions that they would consider the age factor?

Mr. GORDON: Not precisely. I believe that in the questionnaire we give people to sign we ask what the age is, certainly.

Mr. HAHN: But it would not be deterrent to being offered a job.

Mr. GORDON: Not exactly, depending on the job.

Mr. FOLLWELL: Would you consider a man 65 years of age?

Mr. GORDON: Not normally but if I had a particular job that I could not get another man to do I would take a man on aged 90 if necessary.

Mr. POWER: How many people in the C.N.R. would be affected by this union dues arrangement?

Mr. GORDON: It applies to the Brotherhood of Railroad Trainmen and also to the Brotherhood of Locomotive Engineers.

Mr. POWER: To those who have not paid their dues?

Mr. GORDON: No. Everybody who works in this category of job, firemen or engineers, must pay union dues to this particular union. If a man does not pay those dues, whether a member of the union or not, he comes off the seniority list and is not called for duty until we have exhausted the list of men whom we could call on.

Mr. POWER: Have you had occasion to use that?

Mr. GORDON: We have and we have had a good deal of trouble about it. If they do not pay dues they are struck off seniority list until they do.

Mr. POWER: You do not deduct dues?

Mr. GORDON: No.

Mr. POWER: When do you take them off the list?

Mr. GORDON: When the union advises that they have not paid dues—up to the 10th of the month. This is quite different from the check-off principle. In the case of the check-off we deduct the dues.

Mr. HAHN: Where is the head office of the union?

Mr. GORDON: The vice president of the union is located in Canada. The president is in the United States. The assumption is that the affairs of the Canadian end of the union are in the hands of an elected vice president. Whether he takes instructions or not from the United States office I do not know.

Mr. HAHN: There is an office in Canada?

Mr. GORDON: Yes.

Mr. HAHN: What is its address?

Mr. GORDON: I have not got it right here, but it is in our files. I am told the address is the New Birks Building, Montreal.

Mr. HAHN: That is the Canadian office?

Mr. GORDON: That is the address in Canada. When we want to do business the vice president is the man we talk to—the vice president in charge of the union's affairs in Canada.

Mr. HAHN: Have you reason to believe that there is an office which supersedes that one?

Mr. GORDON: I do not think I should express opinions.

The CHAIRMAN: Shall the item "Labour" carry?

Carried.

The next item is "Taxes, Rents, Other Income and Fixed Charges."

Mr. CHURCHILL: Under this heading mention is made of the increase of \$3.8 million in the rental of freight cars. What is the total rental paid for freight cars?

Mr. GORDON: That is the net figure. We paid to freight lines \$23,356,000. We received from foreign lines \$25,185,000 and we paid to private lines \$5,538,000. The net figure is \$3,709,000 which I have put down as \$3·8. Have I made that clear?

Mr. CHURCHILL: I think it is clear. We may go back to it if it is not.

Mr. GORDON: We have cars running all the time in the United States and we collect rental from United States cars running over our lines. They in turn pay us rental. I am giving you the gross figures which means we paid out more than we took in. My net figure was \$3·8 million.

Mr. CHURCHILL: You have various categories of freight cars, I understand?

Mr. GORDON: Oh, yes.

Mr. CHURCHILL: Can you break the number down and tell us which ones are required on your lines more than others?

Mr. GORDON: Your question is not susceptible of answer in the form in which you ask it. We pay the same rate for all types of flat-cars. But we could tell you on any specific date what kind of cars we have rolling in the United States and what kind they have here.

Mr. CHURCHILL: I was wondering whether you are required to run more box-cars instead of hopper cars or refrigerator cars or other types?

Mr. GORDON: Here are up to date figures which will give you the sort of information you have in mind. As of March 14 Canadian National box-cars on United States lines totalled 12,682. United States box-cars on Canadian lines totalled 11,010. Note this number. The Canadian National open cars on United States lines—that is flats and all other kinds of cars except boxes, total 1,232. United States railroads had 8,560 on our lines, so if you take it over all the balance is usually about even. But the trend is always this: we have more box-cars in the United States than they have here and they have more open type cars in Canada than we have there.

Mr. CHURCHILL: The only reason a box-car from the United States appears on our lines is because it is coming up with a load? You are not in a position to attempt to get empty box-cars from any source?

Mr. GORDON: No. The reason our boxes tend to go to the United States is that we ship a great deal of newsprint to the United States. Under the regulations every railway is committed to return the cars of another company by the most direct route. When an American car comes into Montreal we are supposed to return it to them by the most direct route. We are not permitted to send it around to western Canada for instance. We have got to send it back, although we are allowed to use it in load. There are, however, stipulations, that we cannot keep it waiting indefinitely because we have not got a load.

Mr. LEGARE: What about the rental on land? Is that increased?

Mr. GORDON: If we are talking about ordinary rental—the income on lands and buildings—it does not come under this heading.

Hon. Mr. MARLER: This is the rent that the company pays out, not the rent that it gets back.

The CHAIRMAN: Shall the item carry?

Carried.

"Hotel Operations"

Mr. HAMILTON (*Notre-Dame-de-Grâce*): This is just a suggestion and it is intended to be helpful to Mr. Gordon. When I was travelling in the west last fall I stayed at one of the hotels which had been sold last year and I notice that in addition to the things that one might expect them to carry over, such as cutlery and dishes identified with the C.N.R. identification—you know, you are rather frightening when all those heads come together.

Mr. GORDON: You frighten me; that is what causes it.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): What I was going to say, sir, is this; You told us last year you sold the hotels, together with cutlery and everything, even the printed card which gives the times of the various services in the hotel, and that is still carried on there. That card had as the heading "C.N.R. hotel". It is a card about the size of this annual report and it carried certain information.

Mr. GORDON: I wonder if perhaps it is just a case of using up some of the stock.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): I think perhaps it is, but things like that have no value and yet tend to leave in the mind of a guest that it is a C.N.R. hotel and if any further transactions of this kind take place it might be wise to take some steps to get those out, because if you found a company which did not keep up to standards of C.N.R. service your name would be identified with it unnecessarily.

Mr. GORDON: In our first discussions with the hotels we stipulated all markings would be removed and that cutlery and dishes would not be used, but when we got down to cases we found that was impractical because it would have taken them months to replace the stock of towels and so on. We made it on the basis that they had a reasonable time to get rid of the blankets and bath towels and we stipulated they had to deface or remove the name. I am glad to have your comment and it may be that the time has arrived for us to press them in respect to this agreement.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): This item could perhaps be produced for $20 for everything that the hotel would use.

Mr. GORDON: We will have a look at it and you may be quite right that the time is here to start pressing it.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Having raised that point, may I ask if the persons who purchased the hotels are still living up to their original agreements and making their payments on time?

Mr. GORDON: Yes. Everything is all right.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): I would assume that your hotel operations this year showed a profit on their operations?

Mr. GORDON: Yes. You understand that figure there is before return on investment.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): I calculated roughly the return on the investment and that led me to believe even after your return on the investment you would have a profit.

Mr. GORDON: We made 3·6 per cent.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): In connection with your association with the Hilton organization in the United States, the new hotel, Queen Elizabeth, is beginning to be publicized, and that is why I have brought it up here. Are you finding reasonable cooperation from the Hilton organization in identifying it as a C.N.R. hotel?

Mr. GORDON: Complete cooperation. There was one advertisement that was drawn to our attention where the fact that it was a C.N.R. hotel was not mentioned and we took that up and they corrected it a once. You will find that it is purely an oversight. In all the world-wide advertising they do you will find the Queen Elizabeth is clearly mentioned as a C.N.R. hotel.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): There was a publication in the Reader's Digest which identified it as a Hilton hotel, appearing originally in an American publication. Would that be an inadvertent exception?

Mr. GORDON: It is the Reader's Digest writing staff. The Hilton people did not see a copy of that story until they read it in the Reader's Digest. As far as the Hilton organization is concerned, their cooperation in that respect has been absolute.

Mr. HAMILTON (*York West*): Mr. Gordon, could you give us any idea of the amount being spent on the Chateau here on renovations in this current program?

Hon. Mr. MARLER: Would it not be more proper to deal with that when we come to the budget where the expenditure is provided for?

Mr. GORDON: I have it here. The actual amount is $375,000 capital. The total amount is $475,000, of which $375,000 may be considered as capital, and the balance as operating expense.

Mr. HAMILTON *(York West):* How many rooms are involved?

Mr. GORDON: One hundred and twenty-two. These are all bedrooms that did not have a bath before and we are installing bath accommodation, mostly in the form of a bathtub but in some cases showers.

Mr. HAMILTON *(York West):* That is approximately $4,000 a room that is being expended?

Mr. GORDON: Yes, but that is not really attributable to the rooms themselves because we ran into a lot of structural work necessary in the old wing which we want to do concurrently with this work.

Mr. HAMILTON *(York West)*: How does that compare with new room construction costs? Have you looked into that at all?

Mr. GORDON: The two things, of course, are far from comparable and it depends on the kind of hotel. The figure mentioned here should not be considered as the cost per room because in the course of doing this we are replacing a great deal of plumbing which was in need of replacement in any event, and also structural repairs. We are satisfied it is a profitable operation for us.

Mr. HAMILTON *(York West):* Have you calculated this taking into account the increased rates on the rooms?

Mr. GORDON: Yes. It depends whether our estimate of occupancy would be accurate but I would say we would write off the cost of the work in about three and one-half to five years.

Mr. FULTON: Is the write-off period shorter for the Chateau than elsewhere?

Mr. GORDON: This is a specific job in reconstructing bedrooms and we have not got it anywhere else.

Mr. FULTON: I just wondered how you found the wear and tear on the Chateau as compared to the wear and tear in hotels elsewhere in Canada?

Mr. HAMILTON *(Notre-Dame-de-Grâce):* Have you calculated your operation loss in this figure?

Mr. GORDON: Yes.

Mr. HAMILTON *(Notre-Dame-de-Grâce):* It will make a wonderful improvement in the hotel, and certainly the over-all picture in the hotel is one of the finest you will get anywhere.

Mr. BELL: In connection with the Chateau Laurier there have been one or two statements in the past about the dirty flag.

Mr. GORDON: Really! I thought Mr. Pouliot was the only one who mentioned flags.

Mr. BELL: It is a small matter, but they have complained.

Mr. GORDON: I will refer that complaint to my dirty flag department for their attention.

Mr. FULTON: Mr. Gordon, have you in your contemplation any other sales of hotels at the present time?

The CHAIRMAN: I think probably that is a matter of policy and perhaps should not be answered.

Mr. GORDON: I do not know how to answer. We have been approached. We have nothing definitely under consideration.

Mr. FULTON: I hope we will have another committee meeting before you do.

Hon. Mr. MARLER: We are hoping we will have another committee meeting also before that.

Mr. GORDON: We got rid of the class of hotels which we did not think should belong to our chain. There is no immediate reason for thinking of any other sale.

The CHAIRMAN: Shall the item "Hotel Operations" carry?

Agreed to.

The CHAIRMAN: I think this is a good time to adjourn. The committee will sit again tomorrow at 3 o'clock in the afternoon in room 118.

The committee adjourned.

EVIDENCE

21st March, 1956
4.25 P.M.

The CHAIRMAN: Gentlemen, I think we have a quorum now. At the opening Mr. Gordon has answers to questions which were put to him yesterday, one by Mr. Knight and Mr. Hahn with regard to certain matters with which they were concerned, namely the dinette arrangement on the cars, and the dining cars; and although they are not present I shall ask Mr. Gordon to submit his answers so that we may table them as an appendix to the minutes and they will be available for Mr. Knight and Mr. Hahn tomorrow or later on today.

Mr. GILLIS: You will have to go over them again when they come.

Mr. GORDON: They wanted to see the figures showing the breakdown of revenue and expenses and the losses in the dining cars as distinct from the dinette cars. This statement gives that breakdown in detail and with your permission I shall table it, because there is not much use in my reading it into the record.

The CHAIRMAN: Is it agreed? May I have a motion.

Mr. GILLIS: I move it.

The CHAIRMAN: It has been moved. Are we agreed?

Carried. (See Appendix A)

Mr. GORDON: Mr. Bell wanted some examples of agreed charges between various points in Canada and I have had twelve representative examples picked out of types of agreed charges, and I would like to table these before you at this time.

Mr. MURPHY (*Westmorland*): I move that they be tabled as an appendix.

The CHAIRMAN: It has been moved. Are we agreed?

Agreed.

(See Appendix B).

The CHAIRMAN: Now, we come to "Property and service improvements", on page 11.

Mr. GILLIS: There are a couple of answers to a couple of questions I would like to have while we are on this subject. These two problems arise out of dieselization. The first one has to do with Newfoundland. Because of the dieselization in Newfoundland there has been a considerable amount of lay-offs and under the terms of federation with Canada, Newfoundland people assumed that in any of the services where there was displacement that similar employment would be found for them somewhere else, or in some other part of the country, in that particular service.

The CHAIRMAN: Mr. Gillis, there is just one point on this. I think you will agree that this question goes a little bit beyond the every day services of the Canadian National Railways. You have referred to the terms of union between Newfoundland and the other provinces of Canada as being related to this matter and in view of that point I think that probably the Minister of Transport should be here at the time that the question is answered. It may be that he will be along shortly because I notice several documents have been brought here for him. But I wonder if he should not be here when the answer is given or when the question is submitted to Mr. Gordon.

Mr. GILLIS: I think that is entirely up to Mr. Gordon. If he wants to wait until Mr. Marler comes, then very well, but I am satisfied with Mr. Gordon's competence to answer the question.

Mr. GORDON: I am competent to answer the question in so far as it relates to the Canadian National Railways, but I feel that the point of the question has much more than general application as it arises out of a paragraph in the terms of union, and that being the case I would like to have the comfort of the minister's presence here.

Mr. GILLIS: Very well. We will let it rest until then.

The CHAIRMAN: Is that agreed?

Mr. GILLIS: The second matter has to do with the same problem. This one is from Winnipeg and I think Mr. Gordon is already familiar with the question.

One of the machinists' unions in Winnipeg makes a suggestion which I shall now read:

> It is understood that four major points on the Canadian National Railways system are now working overtime; namely, Moncton, Montreal, Stratford and Transcona. It is understood that the reason for this overtime relates to the need for greater use of steam power than had been anticipated. In other words, it appears that diesel power has not been able to handle traffic to the extent that was expected by this time.
>
> As at May 1, 1955, all steam power was taken out of Fort Rouge and transferred to Transcona. It is believed that this was about a year before such a move was planned; and it does seem that the move has proven to be premature, as diesel power has not yet been developed to the point where it can cope with the adverse conditions of western winters.
>
> It now seems that it will be some time before steam power can be put aside completely.
>
> In the light of the above considerations at least one of the machinists' lodges, at Winnipeg, feels that consideration should be given to returning some of the work on steam power to Fort Rouge, in order that the staff which is now there might be retained, and in order that some of those who were laid off when steam power was discontinued at Fort Rouge might be rehired.
>
> If this situation were just a temporary one the union in question would not press its point. However, the union feels that work on steam power will be necessary to a considerable extent for some time, and that there is justification for returning some of this work to Fort Rouge. In fact the union feels that it would be to the best interests of all concerned if work on steam power were done at both Transcona and Fort Rouge.

Mr. GORDON: Do you mind reading again the point which says that if this were a temporary matter the union would not press it?

Mr. GILLIS: Yes. If this were a temporary matter the union in question would not press its point.

Mr. GORDON: That is the point I want to make. I can give you my word that it is purely a temporary matter, and it has arisen out of this situation: that in our program of dieselization which was marked by a concentration of the shops and the gradual reduction of the repairs to steam locomotives, we had with confidence expected delivery of diesel units by around the month of November. But because of the strike at General Motors, those units were not delivered.

Because of that delay and also because of the very severe weather conditions we found ourselves very short of power in western Canada, and because of that temporary situation we brought into service all the steam locomotives we could lay our hands on which had not been scrapped, as a temporary matter in order to meet the situation. But with the delivery of the diesel units, and with getting our program back into swing again with that delivery, there will be no need for the facilities which we have abandoned, so it was really a temporary matter.

Mr. GILLIS: And would this also apply to Moncton and to Stratford?

Mr. GORDON: It does. Our assumption was that we would get deliveries of the diesel orders from the manufacturers on the date which they promised them to us, but when we ran into acts of God, and strikes—and I bracket the two together—then the "best laid plans of mice and men 'gang aft agley'".

Mr. KNIGHT: I was interested in the statement put forward by these people that it appears to them that diesel power has not yet developed to the point where it can cope with the adverse conditions of western winters.

Mr. GORDON: There is no justification for that statement at all.

The CHAIRMAN: May we carry "Property and service improvements"? Oh, I see that the minister is now here.

Mr. GILLIS: Mr. Marler, just before you came in I was asking Mr. Gordon a question which has to do with the railroad in Newfoundland. Because of the dieselization in Newfoundland there was some unemployment created and the Newfoundland people claim that under the terms of union with Canada, section 39-1, it was understood by that agreement that if there was any displacement of services—in this case it is the railways—but I think it is applicable to the civil service as well, although in this case it is the railways—that they are entitled under the terms of that section of the agreement to similar employment at the going wage in other parts of the service, even if they were taken over by Canada. I would like to have an answer to that, as to how the government, or your department, interprets that particular section of the agreement.

Hon. Mr. MARLER: Have you got the clause there from the terms of union that was invoked?

Mr. GILLIS: It is 39-1; that is the section which they quoted in their letter which reads:

> Employees of the government of Newfoundland in the services taken over by Canada pursuant to these terms will be offered employment in these services (or in similar Canadian services under the terms and conditions from time to time governing employment in those services), but without reduction in salary or loss of pension rights acquired by reason of service in Newfoundland.

There is a schedule which follows that which sets out the proposition about the railways; I was just wondering if you could give the interpretation that the government and the railway put on that particular agreement.

Mr. GORDON: I have had a few minutes to consider this particular point. It is a point which I think has some very widespread ramifications that would have to be considered very carefully from both the railway's point of view as well as the intention of the parties. The Canadian National Railways is not a party to that agreement. It was made independently of the Canadian National Railways.

Speaking for myself, I cannot see how any interpretation means that the Canadian National Railways would be obligated to retain men in the service regardless of need. I cannot see that that would be a practical possibility. Moreover, it should not be overlooked that all our employees are covered by agreements with the unions, and in those agreements the right of seniority is a very definite part of those agreements. That interpretation applied along the lines that they seem to suggest would seem to me to cut right through the whole question of seniority and we would be in trouble in that respect. Moreover in the matter of our employment in Newfoundland we have, since federation, both increased and decreased the staff from time to time in accordance with the fluctuating needs of traffic and we have never before had it suggested to us that we were under any binding or rigid arrangement which, as I said before, would guarantee to anyone continuous employment, regardless of the needs of the service.

On the second point which was raised—and incidentally I would point out that since our announcement of the dieselization program, a number of men have seen the handwriting on the wall in regard to the need for their services and have left of their own accord to find other jobs or other forms of activity; but I want to say this in a general way about this representation: it is that dieselization of itself, as I have said many times before this committee in previous years, means that we are embarking on improved and modern railway facilities in the areas affected, which means that we simply cannot have it both ways, or rather the people of the community cannot have it both ways.

If they are going to get these improved and modern facilities, it means there must be a changeover and transition period which means adjustment and change in railway forces, and that means reduction, for instance, in specialised types of employment in motive power, and a change in the type of skills. It does not mean that it is always reduction—I mean there are some new jobs opened up by dieselization as well as old jobs which are no longer needed. A case in point is the boilermakers. Obviously we would not need boilermakers for diesel engines.

And we need more electricians than before. There is a switchover which we discussed with the union representatives, and so far we have always had a pretty amicable understanding in respect to the need for these transitional changes. I cannot hold out any hope at all in respect of the fact that there will not be a disruption of employment. And there will be some men who will not have an opportunity for the exercise of their particular skills in the railway field. But, that is the price of progress and it applies all over Canada. It is not localized in Newfoundland.

The suggestion there was that this is something having a particular impact on Newfoundland; that is not so. Indeed, it is rather a coincidence that you raise, at the very same time you mention Newfoundland, a similar problem in Winnipeg. It is the same problem there. It is a transition period. All we can do is to make that transition period in as considerate a way as possible, and that we have done. We have given our own employees every opportunity to equip themselves in the matter of new skills. The diesel locomotive engineer is usually a steam locomotive engineer who has qualified himself through courses which we have supplied. We have given the men an opportunity to acquire the new skill and thereby to stay in railway employment; but, having said that, there will be a residue of men who would have to adjust themselves to new conditions.

There is another point in respect to wage agreements. Generally as men are laid off the seniority principle applies and they can bump men on the seniority list all the way down the line. If they are willing to leave Newfoundland and come to other parts of Canada, in certain instances it is open to them to do so. It would be a complication beyond my wit to solve if it were held that the interpretation credited to that clause in Confederation were to be made applicable, How it affects others I do not know, but as it affects us it would run afoul of their own agreements.

Mr. GILLIS: I am the last one to ask you to run afoul of any agreement. I notice this correspondence is from the federation of labour in Newfoundland. Have you had any correspondence from the railway unions on that?

Mr. GORDON: That has come as a bit of surprise to me because they have not brought it before us in the way in which they have to you.

In respect to our dieselization program, Mr. Dingle, who is in charge of it as vice president of operations has had continuous detailed discussion with the labour-union leaders explaining what our program is and listening to any suggestions made which would help to make the period of transition as comfortable, or as best we can, and as considerate as we can make it. Is that right, Mr. Dingle?

Mr. DINGLE: Yes.

Mr. GORDON: And this point has never been brought to your attention?

Mr. DINGLE: No.

Mr. GILLIS: This is from the president of the Federation of Labour.

Mr. GORDON: Our union representatives have been fully informed step by step of our plan and the implications of that plan.

Mr. GILLIS: The final answer to this question has to come from the government.

Mr. GORDON: In respect to the interpretation. What it means, I cannot say. We take it that it cannot work the way the implication is, at least in the C.N.R.

Mr. KNIGHT: You used the expression "transitional period". I presume it implies that the aim and object is finally to complete dieselization.

Mr. GORDON: Yes.

Mr. KNIGHT: How long do you think it will take?

Mr. GORDON: We embarked on a program of dieselization some five years ago and under our first five year plan, which I explained to this committee, we organized our dieselization program so that we would dieselize the system on the basis of where we would get the most advantage at that time. We did not diezelize areas but services so that our manifest freight service, which gives us the best return on dieselization, was the first service to be dieselized. Then we went to way freight, passengers, switchers, and so forth. That five year plan, which includes of course all the collateral facilities which go with dieselization such as lengthening of side tracks, repair shops and so forth is a very large plan. That five year plan is on the last year this year. As from now, we have before us the next stage in the program which is the progressive dieselization of territories, and we believe that that will take about four years to accomplish. We will start gradually drawing in the outlying territories and gradually draw back the last vestige of our steam locomotive power, which will be in our Stratford Ontario shop which will be the last steam shop to go.

Mr. KNIGHT: It might give us some idea if we knew how many steam locomotives are in the service now.

Hon. Mr. MARLER: 1,895, as you will find on page 12 of the statistical statement.

Mr. KNIGHT: As compared with 783 diesels at the end of the year.

Mr. GORDON: Yes. As we dieselize we gradually and steadily reduce the number of miles we build back into steam locomotives. In getting this down on as economical a basis as possible, and so that we do not get left with a lot of steam locomotives for a number of years running, we will progressively reduce the maintenance on existing steam locomotives as we bring in diesels. We do not build back mileage into the steam locomotive. A steam locomotive can be made to last forever, if you keep building back repair parts. We have locomotives in the service now fifty years old. Our average steam locomotive age is 36 years. You can keep them alive forever by a process of cannibalism of parts. There are no steam locomotives being built in the North American continent today, with the exception that some were built for use in India. The day of the building of the steam locomotive is generally gone, so that we are using a dying unit and using it up in such a way as will not build any life into it in a wasteful way. You cannot judge by the number of steam locomotives we have on hand because what you really have to inquire into is how many miles are left in them.

Mr. HAMILTON (*York West*): Is the same length of life apparent for diesel locomotives?

Mr. GORDON: I do not know yet. I would guess that possibly it would be more economical with a diesel unit to discard it after a period. It is a different equipment altogether. With a diesel locomotive you can haul the insides out and replace them just like you can buy a new engine for a car.

Mr. KNIGHT: I have heard some C.N.R. men in Ontario say that you have been short on motive power over this past few months.

Mr. GORDON: Yes.

Mr. KNIGHT: Is that tied in with the same explanation about the strike?

Mr. GORDON: Tied into two things. The delayed delivery of diesels was most important, but added to that were very severe storm conditions and even if we had had the deliveries we would likely have been short on motive power. Our snowplow miles in Western Canada were 270,000 snowplow miles compared with an average of 30,000 snowplow miles in some years.

Mr. KNIGHT: How many units were involved that you might have had delivery of during the strike period?

Mr. GORDON: About 65, Mr. Dingle tells me. Of course, mind you, on this matter of power we also have the very sudden upsurge of traffic as well.

Mr. KNIGHT: How are those road units switchers broken down?

Mr. GORDON: 45 road and 20 yard switchers.

The CHAIRMAN: Shall the item "Motive Power" carry?

Agreed.

"Freight and Passenger Equipment".

Mr. KNIGHT: On this matter of equipment I will not start to read or quote long paragraphs from newspapers and speeches in the House of Commons, but for years there have been assertions about the matter of box-cars and we who live in the wheat country have been greatly concerned about that matter and here is an opportunity now to get your opinion on this matter and to get it on the record. We have had various assertions and contradictory assertions. We have been told many times that one of the reasons why we cannot get our wheat shipped out is that there is a definite shortage of box-cars. The next day we get a reply from someone else saying there is no shortage of box-cars.

Mr. CARRICK: On a point of order. Is this supposed to be a question?

Mr. KNIGHT: I do not know how I can avoid mentioning those things. I can keep it strictly in a matter of questioning but—

Mr. CARRICK: This is not the occasion to make political speeches.

Mr. CHURCHILL: I think you are entitled to some discussion.

Mr. FULTON: Who is the chairman?

Mr. CARRICK: I was speaking on a point of order.

Mr. KNIGHT: I am speaking to the point of order and I say I think, Mr. Chairman, I am quite in order in stating the reasons why I am asking these particular questions. I have not made any statement or expressed any opinions about the reasons for the shortage of box-cars. I said they are varied and are contradicted from time to time, and I asked Mr. Gordon to make some statement on the matter.

The CHAIRMAN: I think, strictly speaking, witnesses coming here should simply be questioned.

Mr. FULTON: Surely it is permissible to give short reasons why you are asking a question.

Mr. KNIGHT: I am simply stating the reasons why I am interested in the matter of box-cars.

The CHAIRMAN: Very well, proceed.

Mr. CHURCHILL: He should be asked to withdraw his statement that political statements are being made.

Mr. KNIGHT: Might I ask Mr. Gordon for some expression of opinion in this. First of all, is there any truth in the assertion that we have at the moment not sufficient box-cars? If we had the farmers might have moved some of this grain out and got their money a little bit quicker than they have been able to do it.

Mr. GORDON: It is a very difficult thing for me to give a yes or no answer about the question of the box-car shortage. If I may give an illustration I will answer the specific question to the best of my ability.

Mr. KNIGHT: If you get past my hon. friend here.

Mr. GORDON: I am not making political speeches. It is perfectly obvious if, giving an extreme situation, all the traffic of Canada were put in the hands of the railways in one day and we were asked to move it that would be an impossible situation. The fact of the matter is that the railways of Canada are adequately equipped with rolling stock to move the commerce of Canada over any yearly period, but there will always be occasions when there may be peak load situations, seasonal conditions, and a combination of many things which will create an apparent box-car shortage in a particular district or on particular types of traffic. That is the sort of problem we live with in the railway all the time. If we were to try to meet every foreseeable peak load we would have to multiply our inventory of rolling stock to such a position that it would be manifestly uneconomical. We have to keep that in mind and also, in the matter of moving grain, there are a number of controlled situations in the movement of grain, and the wheat board as I understand it, has absolute authority in the matter of determining what grades of wheat should be moved. The railways have nothing to do with that at all. We do what we are told. The transport controller has also a degree of authority to instruct how various movements of grain should be moved and what order of priority from here to there over the country, etc., etc., but riding along in the same degree of authority with those control authorities is the general position of the Railway Act which says the railways are not allowed to discriminate between types of shippers and must make box-cars available to each shipper with the same degree of facility and there must be no discrimination. Following that through, you will readily see that if we were to make an absolute priority in moving grain, we might for example have to shut down completely on cars for the movement of lumber in British Columbia. That would close down the mills of British Columbia and we would not have carried out the obligation to provide cars without discrimination.

Now, in point of fact we cannot guarantee it 100 per cent. We just have to do the best sort of job we can when faced with conflicting planes of authority and that brings me, therefore, to this point, that on the basis of a very careful examination which I have made personally into this situation; I have voluminous data here in the form of figures and so forth that would take hours to present. But, I can say this of my own responsibility that at no time during the current crop year, except during those periods when weather conditions made transportation impossible for anybody; there were some days our lines closed completely. I admit that, but that again, I say, except for that very temporary situation, at no time during the current crop year has the Canadian National Railways failed to overtake to the extent authorized, the capacity made available in terminal elevators for shipments forwarded out of these elevators; or, put it another way; we have moved wheat into terminal positions consistently as we have been asked in terms of numbers of cars. What has happened again and again is that when the ships come in to the loading point to get wheat, that the right grades were not there, and what held up these shipments was the lack of grades. Now, I am not competent to say where the responsibility lies in that. I do not know whether it is possible, in the involved conditions of the marketing of wheat throughout the world, I do not know whether it is possible for anybody to accurately forecast exactly the right kind of grade three months or four months from now, when ships come in to get it after it is sold. I do not know if that is possible. All I am telling you is that the C.N.R., indeed both railways in Canada, have nothing to do with the decision that says what grades will go into the terminal elevator for shipping.

Mr. KNIGHT: You have mentioned the controller, Mr. Gordon. Can you tell me to what extent the controller has exercised his power of direction with you over the last three months, or so?

Mr. GORDON: Yes.

Mr. KNIGHT: Is it a frequent matter for the controller to tell you where to send these cars?

Mr. GORDON: Well, when you realize that you are dealing with 5,000 country elevator points you will know that formality has to be reduced to a minimum, and in point of fact, while we do not have written or formal directives, the transport controller is in touch with our railway officers day by day, and sometimes hour by hour. It is a telephone connected communication where the two of them talk over the specific railway problem, and they solve it as a practical matter. Now, I cannot tell you whether this may be regarded as a directive or not, they are simply two sensible people dealing with a practical problem. Is that not the way it works, Mr. Dingle?

Mr. DINGLE: Exactly right.

Mr. KNIGHT: There is one question about the wheat pools—

The CHAIRMAN: I think, when we start getting into the wheat pools—I allowed some latitude with regard to the controller, but that deals not only with the C.N.R., but with every railway operating in the west. Here I think we are chiefly concerned with what the situation was with regard to the C.N.R. and not the controller and other railways.

Mr. KNIGHT: I shall ask Mr. Gordon, then, as the head of the C.N.R., who makes the decision nowadays as to what cars are spotted at what elevators? Let us go to a small town in western Canada, we have three rival elevators, if you like; is it within the power of the railroad to spot those cars—let us say we have three cars going into the town where there are three elevators. Who makes the decision as to which of those elevators gets those cars? As I understood it, in the old days, at least, because I remember loading my own enough over the platform, a man had the privilege of ordering from the railroad company a car. Is that still the way the thing works? Can I ask you to spot a car for me at a certain elevator, and do you do it?

Mr. GORDON: No. The wheat board has to make the decision as to what cars they want and for what area. They tell us the number of cars to put into the particular areas, and we try to carry out those instructions. It is the wheat board's responsibility.

Mr. KNIGHT: Well, then, to go back to my original line of questioning, is it your opinion that we now have sufficient box-cars now on the—what do you call it, what is the term, on the rail, to move this wheat?

Mr. GORDON: Yes, subject to a great number of qualifications, and the most important being that if we are to keep the wheat moving in any sort of reasonable continuous operation, and without absorbing too many of our inventory of cars to the prejudice of the rest of Canada, there must be a rapid unload factor of these cars. One of our great difficulties has been, and I am afraid I am getting into a matter which has been controversial, but one of our great difficulties from the railway point of view is that the record will show we are not getting a sufficiently rapid unload in various terminal points. Again, as soon as I say that I have to add this to it, that when we make a complaint to that effect we get quick action and the officers who can break that bottle-neck go to work on the bottle-neck, but the fact of the matter is that over a crop year we do constantly have complaints that the number of cars unloaded on a specified day was far too short in relation to the cars that were waiting for unloading and the cars that were in transit to that terminal point. If we do not get our cars turned around, you see what happens; it just bottlenecks and blocks everything, and we are put in the position of not only not being able to service the grain, but we cannot service other people. Now, to indicate how serious that problem is to us, we have been under the obligation by reason of our desire to service the requests for grain of moving thousands and thousands of cars from eastern Canada empty. We have moved during this crop year a total of nearly 27,000 empty box-cars into western Canada. So extreme did it get that we were taking brand new box-cars fresh out of the factory. They had never carried a load and, we sent them right to western Canada. Now, that cost us money, I do not mind telling you. It hurts our earnings terrifically. We have done that in an all out effort to meet what we have regarded as a national emergency. It is vital in the whole picture that the railways in making that effort should get complete cooperation in the matter of unloads. Subject to that sort of thing, and proper organization in the matter of routing, and so forth, I certify to you that there are enough box-cars in Canada to handle the grain crop.

Mr. KNIGHT: Well, my next question will be, then, if we have enough box-cars to move the grain, how many have you on order?

Mr. GORDON: Well, we will come to that in the budget. I can tell you, if you look at page—what is it, 12 of the statistics. We have on order as at the end of the year 3,368 box-cars waiting for delivery, and we are placing further orders in the budget, if you approve it, when we come to it this year, which will make a total of another 3,000, in the budget we are coming to.

Mr. KNIGHT: Well, there is one last question based again on these things, reports that you hear, there are assertions that sometimes these box-cars get wandering around in the United States and forget to come home.

Mr. GORDON: Yes, that is a practical railway problem that we work with day by day, but I am sure if you were here yesterday when I touched on it by giving the figures, the general situation is this as far as the Canadian National Railways is concerned, we send more box-cars into the United States than they send to us, but as against that, you see, they send more open top cars into Canada than we send to them. The over-all situation is pretty much in balance. So that when we exert pressure to get our box-cars back, we are always met with the argument, well on the over-all we are in balance, and you really have not got much of a complaint. Now, the general regulation between our railways is that any car sent in to the other fellow's territory is supposed to be routed back in the most direct way. It can be routed back under load, but it is supposed to come back to the point of origin as fast as possible. Now, that is where the railway—the trick of our railway supervision comes in and that is to constantly keep after that rule, and we have men all over the United States policing that for us.

Mr. KNIGHT: Would this type of American car that you have up here would these be cars such as would be suitable for the movement of grain?

Mr. GORDON: No, they would not. They are what they call open top cars.

Mr. KNIGHT: But these other cars you have got in the United States would be of the type?

Mr. GORDON: That is right. But, remember, we send them to the United States under load. We are moving newsprint and other products of Canada into the United States with those box-cars. It is not a matter of being diverted; if we did not use these box-cars we would not be shipping anything into the United States at all.

The CHAIRMAN: Mr. Hahn.

Mr. HAHN: Could I put a question in that connection? Are American railways permitted to use our box-cars—are American railways permitted to use C.N.R. box-cars on their own line as between two American points, say?

Mr. GORDON: Only if it is in direct route back to the point of origin.

Mr. CHURCHILL: Mr. Chairman—

Mr. GORDON: I want to emphasize the rule. I am not claiming that it is always followed, because that is a constant argument between all railroads. That is the sort of thing we fight each other about every day, but the rule is there and we try to enforce it to the best of our ability, but we are not entirely innocent ourselves.

The CHAIRMAN: Mr. Churchill.

Mr. CHURCHILL: Yes, on this question of freight equipment generally, I suppose your estimate of the total number of cars of all types required for freight bears some relation, naturally, to the tonnage that you expect to carry?

Mr. GORDON: Yes.

Mr. CHURCHILL: There was a considerable increase in tonnage between 1954 and 1955?

Mr. GORDON: Yes.

Mr. CHURCHILL: Is that reflected in the estimated increase of freight equipment?

Mr. GORDON: Yes. When we place our orders for cars, naturally we try to establish that against some yardstick, and we forecast our traffic, and kinds of traffic. That is the job of our traffic department, and on the basis of their best guess, then our operating department make a recommendation as to what amount of equipment we are going to need.

Mr. HAHN: I don't see any evidence—

Mr. GORDON: There is also another factor, if you have in mind what type of cars that are retired.

Mr. HAHN: Well, under the type of cars that are retired, your total there is about 3,000. Is that larger at the present time than you expect in the future, or is that fairly constant?

Mr. GORDON: It is. I call it normal for now, although we expect that the total may drop by reason of the fact that from our newer cars—we are going to get better service out of them, I think. There are a lot of old cars being replaced, but by and large on this property that is not an abnormal figure. That is just using up our equipment in the process of handling traffic.

The CHAIRMAN: Shall item "Freight and passenger equipment" carry?

Carried.

"Road property".

Mr. FULTON: On this "Budd Rail Diesel cars" mentioned in the last paragraph under that heading, Mr. Gordon, we had a number of discussions of that yesterday. Were you able to get any figures since then to show the results of placing those "railiners" in operation?

Mr. GORDON: I am sorry, but I am afraid I missed the question.

Mr. FULTON: You may remember that we had a brief discussion yesterday in the course of which I asked you what your experience had been with these "railiners" and you said it had been good but you did not have figures with regard to the operation before you.

Mr. GORDON: I thought I had answered all the questions.

Mr. FULTON: I may have been misunderstood.

The CHAIRMAN: I understood that there was some discussion about Pullman cars and Budd cars but I did not know that it related to this particular type of car.

Mr. GORDON: What I thought I tried to say was that in the case of the railiner we were experiencing an average of a 25 to 30 per cent saving in operation but that I was not able as yet to say what the physical increase in the number of passengers had been.

Mr. FULTON: Could you relate that to the discussion which took place yesterday on the commuter service? Is the answer to your problems the employment of this type of car on the service?

Mr. GORDON: No, the same problem is apparent. If these "railiners" were dedicated to the commuter services we would be up against the same difficulty of the peak load, and since they are expensive items of equipment we would be in no better position.

Mr. FULTON: Do you tell us in your report where you intend to put these cars in service?

Mr. GORDON: No, we have not forecast that. We have some places under study, and I am not sure that I have the information about this here. In fact, I hesitate a little about answering this question because if I mention what local areas are under consideration we will, I imagine, be pressed to get along with it.

Mr. FULTON: Perhaps I should ask you to answer that question on the basis of any decisions you have actually taken. But if you want to go further that is in order with me. I do not press it, however.

Mr. GORDON: There is a reference to the matter in paragraph 61, Mr. Fulton. I can say that we have 14 points under examination now with regard to which we are considering the wisdom or otherwise of providing that service but we cannot give a definite answer yet. The matter is being studied carefully and I would rather not mention the points we have under contemplation.

Mr. FULTON: What about the seven cars already in service? That is, counting the ones acquired during the year.

Mr. GORDON: That is right, there are seven in operation and they are in operation on the following runs:

Newcastle-Fredericton; Levis-Riviere-du-Loup; Quebec-Chicoutimi; Lyster-Richmond-Sherbrooke; and Edmonton-Calgary.

We will come to this again later in the budget. We shall be budgeting this year for the acquisition of seven more cars.

Mr. FULTON: When did you first put them in service—when did you first start using the "railiner"?

Mr. GORDON: This particular type started in service in 1954.

Mr. BELL: Is the Montreal run one of those you have under consideration?

Mr. GORDON: No.

Mr. HAMILTON (*York West*): I take it that these cars are pretty well a standard type from the stand point of weight and springing and everything else?

Mr. GORDON: Yes.

Mr. HAMILTON (*York West*): Have you experimented at all with more lightweight types? I questioned you along these lines yesterday.

Mr. GORDON: We have not yet taken in hand any of the lightweight types of car such as have frequently been mentioned in the press, one reason being that there is no unit which has actually been demonstrated to the point of satisfaction so far as we are concerned.

Mr. HAMILTON (*York West*): Have not some of the United States lines ordered such cars, possibly for experimental use?

Mr. GORDON: I must answer that question by saying that I see a lot of things in the press to that effect, but none of my friends in the railway business in the United States has confirmed to me that these innovations are in hand.

Mr. HAMILTON (*York West*): They do appear to be operating in Europe.

Mr. GORDON: Of the type that is under discussion in the United States? There is a well known Talgo train which has been talked about in the press. I saw it myself when I was in Spain a year ago, and I rode on it for some distance. It is one of those things that look wonderful, but when you start thinking in terms of Canadian conditions—ice, snow, and low temperatures—the proposition becomes less attractive. None of these difficulties is involved in the operation of the train in that country, and these are things which have to be considered.

Mr. HAMILTON (*York West*): I suppose this type of train would not be the answer to the commuter problem, because of the peak load period which you have mentioned?

Mr. GORDON: Let us take the Talgo train as a good example of what I was talking about the other day. You cannot interchange its cars; it is a train in itself—an articulated train somewhat like a caterpillar. That means that it is dedicated to one service and to one service only. If you are able—as they are able in Spain on routes out of Madrid—to use it on a heavy traffic line it has good possibilities. But we have no chance of using it in that way in Canada.

Mr. HAMILTON (*York West*): Don't they have an individual unit operating in Germany now?

Mr. GORDON: Of this Budd unit type? They have a smaller type, but I have forgotten the name of it; I have no immediate knowledge of any actual operation in Germany. I have read about a lot of projects but I have had no reports of actual operations.

Mr. HAMILTON (*York West*): If these cars can stand up to our operating conditions they may have terrific possibilities.

Mr. GORDON: I do not rule out the use of lightweight equipment at all; it presents very interesting possibilities, particularly when the "bugs" have been removed. But these trains are in the future all right. All I am saying is that at this moment we are not ready to use them.

Mr. FULTON: Do any of them offer any interesting possibilities as self-propelled freight cars for short freight hauls?

Mr. GORDON: No. The trick about freight is to handle volume and the only thing that might be possible in connection with self-propelled freight would be some long runs of express, and that would be in conjunction with passengers, and indeed these "railiners" provide some room for express as well as for passengers. For handling freight you need a tool that will move in volume.

Mr. FULTON: I was thinking about their employment on branch lines where you are not going to get a great deal of volume and where, as I understand it, the truck is at present the more economic operation.

Mr. GORDON: I don't think the railway would be on a competitive basis in running individual freight units against trucks.

The CHAIRMAN: Shall the item Safety and Passenger Equipment carry?

Carried.

The CHAIRMAN: Road Traffic. Are there any questions on Road Traffic?

Mr. HAHN: In paragraph 49 you say:

> A further investment was made during the year in new machinery for use by track maintenance forces . . .

How many men were laid off as the result of the introduction of this new machinery? Or perhaps the purpose of its introduction was not the saving of manpower?

Mr. GORDON: I could not give a satisfactory answer as to how many men were laid off. It is a pervasive result. I may say that it is part of our general policy to provide mechanization in order to give men a better chance to produce. We are providing tools of a much better character than we ever did before to our working force, but that does not necessarily mean we specifically set out in a given program involving the introduction of machinery to make a certain number of men unnecessary. It follows as a consequence rather than as part of a planned program.

Mr. HAHN: The purpose, then, of introducing this new machinery is, you would say, to provide better equipment on a replacement basis.

Mr. GORDON: To provide better equipment and to cut costs of maintenance.

Mr. HAHN: We have covered maintenance before. I will leave it at that.

Mr. FULTON: May I say that I was very glad indeed to read paragraph 48.

Hon. Mr. MARLER: Perhaps we could have the report amended so as to drop Kamloops Junction out.

Mr. FULTON: It has been read into the report.

The CHAIRMAN: I thought we complained about someone using advertising.

Mr. FULTON: I did not say a word.

Mr. GORDON: I had the answer all right, but I was hoping you would not ask the question.

Mr. LANGLOIS: Next year we shall put your picture into the report.

Mr. FULTON: I know that all those who use the trains, together with those who operate the trains will be satisfied now that that complete stretch is under automatic block signaling.

Mr. HAMILTON (*York West*): Would this be the proper place in which to ask questions dealing with front end-rear end communication?

Mr. GORDON: You are talking about radio communications on trains?

Mr. FULTON: I think you said you had an answer for me. I do not want to cut you off.

Mr. GORDON: I am very glad you did not ask the question.

Mr. FULTON: You tell me the question I should ask. Are you running into any difficulty in your schedule?

Mr. GORDON: I had in mind making a general statement along these lines: automatic block signaling, about which much has been said, is not the real answer. The ultimate answer to signaling problems is in my opinion the centralized traffic control and this is a step towards that. I am very much dissatisfied about the position of the C.N.R. with regard to signaling. I think we are way behind the times. This is under extensive study at the present time. I do not want to authorize large expenditures of money until we have a properly planned systematic program because doing this by bits and pieces is not a good idea, as we have found in practice. It will need a properly coordinated and integrated system and it would cost a tremendous amount of money, so before embarking on a program of this kind I want to have a scheme that will make sense in itself as an integrated program and our experts have been working night and day to get such a program formulated. It is a very big problem and its solution takes a lot of time and money. This automatic block then is not the final answer though it is necessary pending the introduction of the finest sort of protection which is centralized traffic control.

Mr. FULTON: But your centralized traffic control would have to be broken down by divisions or regions?

Mr. GORDON: We won't lose the work we have put in here. The salvage value is close to 100 per cent on what we do and we are getting nearer to the real answer which, as I say, is the centralized traffic control.

Mr. FULTON: Would it be correct to assume that the area in which you would be putting in centralized traffic control in the west would be largely served now by the automatic block signal system? What I mean is this: how long a stretch of track would one unit control?

Mr. GORDON: Centralized traffic control—sections of it—extends as between divisions. Generally speaking, subject to one or two minor variations we would put it in on a basis of division to division. The area we are talking about now is larger than a divisional point.

Mr. FULTON: In fact you have four divisions at the present time served by automatic block signaling equipment and ready therefore to form part of your centralized traffic control.

The CHAIRMAN: Mr. Hamilton, have you a question to ask?

Mr. HAMILTON (*York West*): Perhaps the observations made by Mr. Gordon with regard to his over-all plans cover front end-rear-end communication too.

Mr. LANGLOIS: The subject is mentioned in the paragraph headed Research.

The CHAIRMAN: We might deal with it under that heading.

Mr. HAHN: Mr. Gordon has mentioned Port Mann. There is a signal right at the north end of the New Westminster bridge. It was installed last year, but it has never been in operation to the best of my knowledge. I was wondering what the purpose of the light was?

Mr. DINGLE: You say the light is at the north end on the New Westminster side?

Mr. HAHN: Yes.

Mr. DINGLE: It is a control signal having to do with our junction with the Great Northern track at that point, and it is in use.

Mr. HAHN: It is an automatic signal and when there is another train on the track it comes into use automatically?

Mr. DINGLE: That is right.

Mr. HAHN: It never seems to show a light.

Hon. Mr. MARLER: You are there at the wrong times.

Mr. HAHN: Others have mentioned it to me.

Mr. DINGLE: We have control signals in that area. There is one at the other end of the bridge as well.

Mr. HAHN: I have never had complaints about the Port Mann side.

The CHAIRMAN: Shall "Road property" carry?

Carried.

Now "Communications".

Mr. LEGARE: When do you expect to reach Rimouski with your television transmission?

Mr. GORDON: I think I have that date here in my records but I am not sure. This is a reference to the French network is it not? My note is that the installation of the television line for the French network extension is progressing and is expected to reach Sherbrooke this year and other points early in the summer of 1957.

The CHAIRMAN: Shall "Communications" carry?

Carried.

Mr. HAMILTON (*York West*): How do you handle this transmission service for the T.C.A.? Is it done on a free basis?

Mr. GORDON: We make a tender usually against the Bell Telephone Company. It is strictly a business proposition. We only get it on a basis of price and service.

The CHAIRMAN: Now, "New construction".

Mr. FULTON: In paragraph 54, the January referred to there is January 1956, or is it 1955?

Mr. GORDON: It is January 1955.

Mr. FULTON: You have had a complete year of operation?

Mr. GORDON: Yes.

Mr. FULTON: What have the results been? I am referring to the Terrace to Kitimat branch.

Mr. GORDON: We usually do not give information as to individual traffic from individual points, and I think that would be particularly applicable here because it deals only with one shipper. We do not usually divulge information affecting the other fellow's business.

Mr. FULTON: I should have looked this up, but when we discussed the authorization to build the line there was a certain amount of traffic guaranteed, was there not?

Mr. GORDON: There would be a traffic guarantee. I do not think I can give the details of traffic carried. I said there was a traffic guarantee, an undertaking that we get a given amount of tonnage over a period of years failing which there would be compensation to the Canadian National Railways in relation to its depreciation, interest, capital cost, and so on.

Mr. FULTON: Has it been necessary for the company to make any cash payments in order to make up that guarantee, or have they given you sufficient commodities?

Mr. GORDON: That is the right question!

Mr. FULTON: Yes.

Mr. GORDON: I am able to say that the company has not had to pay over any cash, and that the traffic has more than exceeded that necessary to carry out the guarantee.

Mr. FULTON: Is there a substantial passenger service over that line?

Mr. GORDON: Yes and no. There has been some passenger service down through Prince Rupert and now through Terrace, and there is now an airplane connection with Vancouver. It is six days a week.

Mr. FULTON: Does it run along with the freight as a mixed train?

Mr. GORDON: It is a straight passenger train in that case.

Mr. FULTON: That was not part of the agreement.

Mr. GORDON: No. It had nothing to do with the freight traffic agreement.

Mr. FULTON: The volume of passenger traffic is such that you are able to operate it on a paying basis?

Mr. GORDON: I would not say "paying", but there is enough reason in the demand for service that we feel that we have got to meet it.

Mr. FULTON: That is interesting!

Mr. HAMILTON (*York West*): I understand you have added another floor to the terminal building here in Ottawa. Are there not plans under this National Capital scheme to move the terminal itself, and if that is the case does that mean that they have been postponed.

Mr. GORDON: You mean the Union Station?

Mr. HAMILTON (*York West*): Yes.

Mr. GORDON: No. That was simply a request for space that we were asked to meet from the Board of Transport Commissioners, and we have put a penthouse on the top of the Union Station building on the basis of a rental agreement which will amortize the payments over a period of years.

Mr. HAMILTON (*York West*): How many years are involved in order to effect the amortization?

Mr. GORDON: Five years.

Mr. HAMILTON (*York West*): Is it the intention that there will not be any change in the location of the station during that period?

Mr. GORDON: No, I cannot tell. It is a joint facility operated with the Canadian Pacific Railways as part of a general plan. We just go along with the Federal District Commission in any event with what they are planning, and if they decide to move the station earlier and so state it, we will meet it together. It depends on what happens. In other words, this penthouse on the Union Station would not block any other plan at all.

Mr. HAMILTON (*York West*): Did you consult them before you added the floor?

Mr. GORDON: They know of it, yes.

Mr. HAMILTON (*York West*): I know that has had to be done by other companies who had renovations or additions in contemplation.

Mr. GORDON: Yes.

Mr. HAMILTON (*York West*): They were told whether they could go ahead with them or not. There was nothing said to you about having to move before those five years would be up?

Mr. GORDON: Would you mind telling me the point of your question? Are you trying to find out whether I think the station will be moved in five years?

Mr. HAMILTON (*York West*): I would like to know. It has been mentioned to me that it should be or would be moved within that period.

Mr. GORDON: No. I do not think it will be moved in five years.

Mr. FULTON: When it is moved, is it your understanding that the Board of Transport Commissioners offices will occupy the whole building.

Mr. GORDON: I do not know what their plans would be, no. No, I do not know. If the station were moved I suppose it would be on the basis that everybody would be dispossessed, and people would have to look for other quarters. I do not know what their plan would be in that respect.

Mr. FULTON: It was not my understanding that the removal of the facilities necessitated the demolition of that building.

Mr. GORDON: Not necessarily. The building might be used for other purposes. I do not know that part of the plan. If we are asked to move, which is part of the plan, we shall do so subject to rearrangement being made under the general agreement.

Mr. HAMILTON (*York West*): You said that your opinion was it would not be moved in five years. Have you an opinion as to when it will be moved?

Mr. GORDON: No. The question of moving out of the facilities involves a major reorganization of trackage. The general concept of the plan has been pretty well agreed on, but how fast it can be proceeded with I do not know. We are not the deciding agent in it and I do not know how fast they will get along with their plans.

The CHAIRMAN: Shall the item "New Construction" carry?

Mr. HAHN: I notice that the main foundations of the Queen Elizabeth were laid. Is the name as well founded? I am wondering what the foundation is, because there is a motion on the order paper in the name of Mr. Deschatelets that, in the opinion of this house, consideration should be given to the advisability of naming the new Canadian National Railway hotel in Montreal the Chateau Maisonneuve or any other name reflecting the French character of the metropolis of Canada.

The CHAIRMAN: I do not think this is the place to discuss that resolution at all and I do not know whether Mr. Gordon knows anything about Mr. Deschatelets' motion. I do not think that is a proper question to put to Mr. Gordon at all.

Mr. HAHN: I think the question is quite proper. I wanted to know whether or not there was a possibility of the change being made.

The CHAIRMAN: That question is all right.

Mr. HAHN: Is that a ruling you are making, that the question is out of order.

The CHAIRMAN: I say, with regard to the motion brought into the house, that I think that is out of order. If you want to put a question, it is quite all right.

Mr. HAHN: I shall put the question this way then. Is the name of the hotel definitely decided on or is there a possibility of changing it to Chateau Maisonneuve?

Mr. GORDON: The name of the hotel was announced by the board of directors of the Canadian National Railways as "The Queen Elizabeth". It was also stated that it would be known in a bilingual fashion when appropriate, the French form being "Le Reine Elizabeth". There is no decision taken by the board of directors of the C.N.R. to change that name, nor is the matter under consideration.

Mr. HAHN: In respect to the station in New Westminster—

Hon. Mr. MARLER: It will not be called by the same name.

Mr. HAHN: Last year, or the year before, I raised this question in respect to the building of a new railway station, and I think at that time you said the Great Northern did indicate they were prepared to do something with it and you would be prepared to do likewise. Now I understand something is being done. Could you inform me what is being done?

Mr. GORDON: I could get more details, but the general situation is that the Great Northern have decided to build the station. I have no figures now of the cost or the size or anything else. It is well under way.

Mr. HAHN: Your railway has not been brought into the consultation at all?

Mr. GORDON: Yes, where we use it with them.

Mr. HAHN: Are you sharing any of the cost?

Mr. GORDON: We do not share any of the capital cost but in our joint facility agreement with them the interest on capital is one of the costs covered in that agreement.

Mr. HAHN: Thank you.

The CHAIRMAN: Shall the item carry?

Mr. KNIGHT: Are you building a new station at North Battleford?

Mr. GORDON: I think it is built.

Mr. KNIGHT: Is it building or is it finished?

Mr. GORDON: It is practically finished. It was officially opened in February but some work around it is not quite finished and we expect to get it finished shortly.

The CHAIRMAN: Shall the item carry?

Carried.

"Lines Retired".

Mr. BELL: May I ask if any of those eight sections of line which were abandoned were in the maritimes and if so, where?

Mr. GORDON: I might as well give all eight, Mr. Chairman, and that will answer any other possible question.

Mr. GORDON: Scotia to Falding, Ontario; Petitcodiac to Elgin, New Brunswick; Mile 3·0 Scotia Sub-Division to Pictou Landing, Nova Scotia; Hillsboro to Albert, New Brunswick; Alliston to Creemore, Ontario; Montreal and Southern Counties Railway; Iberville, Quebec, to International Boundary; St. Leonard Jct. to Nicolet, Quebec. Those are the eight lines.

Mr. BELL: Last year we went quite extensively into this, and I would like to ask Mr. Gordon if he anticipates with better railway conditions that it might not be necessary within the next few years to have as many discontinuances as in the past few years made necessary?

Mr. GORDON: I would not like to say that. Our abandonment policy, as I stated before, is based on an analysis of the branch lines, travel on them, use being made of them, cost, and what expenses would be avoided if the line were abandoned. In making that analysis we take into account all the traffic on the abandoned line that is not necessarily lost by abandonment and analyze it generally as to what the net position would be respecting the railway. Then we have to prove before the Board of Transport Commissioners that there are alternative facilities adequate to meet the needs of that community. Obviously we would not seek to abandon any railway line where we can make it earn its keep or where it gives a profit in the operation. It is only where by a chain of circumstances the line reaches the point where it is not good economically because other forms of transport have moved in and made that unnecessary.

Mr. BELL: But, you would admit, Mr. Gordon, that there would be a tendency in tough years to more actively pursue abandonment generally?

Mr. GORDON: It is not because of the result of any one year we go after it, by no means.

The CHAIRMAN: Shall the item carry?

Agreed.

"Changes in Property Investment".

Mr. FULTON: Mr. Gordon, I would like to ask a question here because there is an item on page 8 of the statistical table, the table "Property Investment Account" which gives particulars of investments totalling $48·1 million referred to in the paragraph under discussion. In the heading there "Other Physical Properties" you have hotels $3,736,981 and separately operated properties $3,562,762 which is a reduction from the pages ahead and I do not understand why. It is probably very simple. I would be grateful if you would explain why.

Mr. GORDON: The reason for this red ink figure there is that it represents those properties retired during the year, taken out of our books and written off. There is for example Montreal and Southern Counties Railway which was abandoned. Those properties which are retired are written off and disposed of and appear this year to be a red ink figure.

Mr. FULTON: Government of Canada expenditure on Canadian government railways, $139,765. What is the obligation of the government of Canada with respect to the railway? We must have let them off pretty light if that was all they spent on it.

Hon. Mr. MARLER: It would be nice if it were.

Mr. GORDON: That particular payment is a progress payment on account of the two coastal vessels that are going into Newfoundland service, and which will be delivered this year. Now, that turns up in the government account and appears in the balance sheet. To complete your question it appears in the balance sheet under the item, "Capital investment of government of Canada in the Canadian government railways". You see it under "Shareholders equity", under total $379 millions. That is where that would eventually be washed in.

Mr. FULTON: With regard to general maintenance, etcetera, of Canadian government railways, however, you are responsible for that, are you not as part of your system?

Mr. GORDON: As a matter of fact, the Canadian government railways, so far as we are concerned, is just part of our system. We treat it in exactly the same way, maintenance and otherwise.

Mr. FULTON: Are there any other type of facilities provided in connection with the Canadian government railways that the government provides as such, apart from these vessels?

Mr. GORDON: Yes, there would be. Now, I will see what that would cover. Well, perhaps this will meet your question, that over the years the government has turned over to us properties which total $396,686,000, and which shows as the equity in the balance sheet.

Mr. FULTON: Yes?

Mr. GORDON: Since we took it over the C.N.R. has itself spent a total of $31,825,000, but that appears in our own property investment account.

Mr. FULTON: Yes.

Mr. GORDON: And that makes a grand total of $428,511,000. That represents all the property that we have taken over under the heading of Canadian government railways plus what we have added ourselves since we took it over.

Mr. FULTON: And it is subject to small additions from time to time by the government as well, is it, such as that one?

Mr. GORDON: Yes, that is right, although the item that you put your finger on there is a special one in regard to those boats. If it had been what you might call normal expenditures on railway property we would have been paying that ourselves.

Mr. FULTON: Thank you.

The CHAIRMAN: Shall the item carry?

Carried.

"Service improvements" page 14.

Mr. HAMILTON (*York West*): Mr. Chairman, can Mr. Gordon tell us what the survey of the new dining car arrangements between Toronto-Montreal and Toronto-Ottawa have indicated? Are people better satisfied with that new type service you put in there?

Mr. GORDON: You are referring to the service change we made quite recently, are you not?

Mr. HAMILTON (*York West*): Yes.

Mr. GORDON: On the 15 and 16—well, it is still in the experimental stage, but on the basis of the questionnaire which we had distributed to passengers, the opinion seems to be very favourable, although there are some criticisms that we are working on, and it is still, as I say in the process of experiment. I would not say we had a complete answer yet, but it has been well received.

Mr. HAHN: Mr. Gordon, these "railiners", are they working satisfactory, at a much higher rate of profit on the line than what the other trains did, that you mentioned in paragraph 16?

Mr. GORDON: I have covered that once or twice.

Mr. HAHN: I am sorry.

Mr. GORDON: But it is on this basis, where we have installed "railiners" we are not talking about profit at all, we are talking about cutting our losses.

Mr. HAHN: I see.

Mr. GORDON: There is no profit in them but we have shown we can cut our losses by 25 to 30 per cent of the operating cost.

Mr. POWER (*Quebec South*): Mr. Gordon, have you cut any time off on the Scotian or Ocean Limited between Montreal to Levis?

The CHAIRMAN: I think you will find that, Mr. Power, in paragraph 60. It says it cuts 16 hours off the—

Mr. POWER (*Quebec South*): Well, that is between Halifax and Vancouver. I want the Levis to Montreal.

Mr. GORDON: You are talking about the Montreal—

Mr. POWER (*Quebec South*): Montreal to Levis.

Mr. GORDON: You are talking about the change that was made—when was it, about a year ago, last spring, I presume. On the over-all time between Montreal to Halifax we cut two hours and five minutes off, but we do not get hardly any of the cut between Montreal and Levis. It was on the over-all.

Mr. POWER (*Quebec South*): Because that is the easiest part of the line?

Mr. GORDON: Well—

Mr. POWER (*Quebec South*): That is why I asked the question, if you had in fact cut off—

Mr. GORDON: Nothing of any size. I cannot answer the question as to the easiest part of the line. Of course, this matter of cutting time does not only have to do really or necessarily with where it is easiest to do it. We have to watch our connections, we have to see that we get into cities and towns at reasonable hours, and that very often guides our operating performance regardless of the condition of the line.

Mr. FULTON: It is better with the new trains than it was with the old ones.

The CHAIRMAN: Are there any questions on that? The item "service improvements" carried?

Mr. HAMILTON (*York West*): No. Mr. Chairman, where have you introduced this interurban trucking system in lieu of train service?

The CHAIRMAN: Item 63.

Mr. GORDON: Here are the 12 points mentioned there. Campbellton-Dalhousie, N.B.; Moncton-Pointe du Chene, N.B.; New Glasgow-Thorburn, N.S.; Pictou-New Glasgow, N.S.; Riviere du Loup-Edmundston, N.B.; Tracadie-Bathurst, N.B.; New Glasgow-Sunny Brae, N.S.; Napanee-Forfar-Ottawa, Ont.; Port Hope-Cobourg, Ont.; Edmonton-Peers, Alta.; Regina-Weyburn, Sask.; Winnipeg-Gypsumville, Man.

All the services were inaugurated during the year 1955.

Mr. HAMILTON (*York West*): What would be the reason for the use of trucks in that particular region on the routes Napanee-Forfar; Ottawa-Port Hope and Cobourg?

Mr. GORDON: I would have to consult my file on these specific operations. I would have to look at the file to demonstrate the actual conditions, but the explanation would fall within our general policy, namely that it is included with our railway operations on the basis that it would give a service. For example, we might fill in a gap in local railway services by reason of the existing schedules.

Mr. HAMILTON (*York West*): It puzzles me particularly why you would use a truck service on the route between Port Hope and Cobourg.

Mr. GORDON: I would have to look up my file before I could give you a specific reason for that operation. In general I can say, however, that the over-the-road operations of C.N.R. buses and trucks are on a small scale and in every instance are supplementary to our basic rail services. Many of the truck operations can be looked on as extended pick up and delivery routes.

Our policy has been to employ motor vehicles in an ancillary role for carrying passengers, L.C.L. freight, mail or express in these instances where a better or more economical service can be provided than would otherwise be possible.

Against that background of policy I can answer your question in detail but, as I say, I would have to consult the file.

Hon. Mr. MARLER: The report points out that these were essential and in substitution for train services.

Mr. HAMILTON (*York West*): The only thing I can say with regard to these four or five points mentioned in Ontario, and particularly to the route Port Hope-Cobourg, is that I suppose they constitute some of your heaviest-travelled lines of railway which exist in Canada. There must be the best possible service between these points.

Mr. GORDON: It is possible that this is a coordinating service. I am not trying to speak about this particular case with certainty, but it might be that it would suit us to provide a trucking service between Port Hope and Cobourg rather than stop our trains at those points. It might be a less expensive process. We might, for example, be able to marshall our trains so as to go through all local stops and, in return, look after the local traffic by means of local delivery.

Mr. HAMILTON (*York West*): I have one or two further questions on that subject, and if I am out of order the minister as well as the chairman will probably tell me.

In the case of any changes of this kind which are entirely within one province do you (a) have to get permission from the Board of Transport Commissioners for the substitution, and/or addition, and (b) do you have to get a licence from the provincial authorities?

Mr. GORDON: Only to the extent that normal licences are required for the operation of the trucks. We take the position that since our services are co-ordinated with rail services they are really an extension of rail services and do not require a special permit.

Mr. HAMILTON (*York West*): Has that situation ever been questioned by the province of Ontario?

Mr. GORDON: Not to my recollection. No.

Mr. POWER: I was going to ask the same question about Edmonton—whether you have applied to the provincial authorities for permission for these services.

Mr. GORDON: My understanding of our legal position is that we have the right to provide the service so long as we demonstrate that it is an extension of the rail service.

Mr. HAMILTON (*York West*): Did Mr. Gordon answer my question about whether he goes before the Board of Transport Commissioners for permission to run substitute services?

Mr. GORDON: It sometimes happens that in putting forward a proposal to abandon a line we shall offer a trucking service running from one point to another to take up the need for traffic. We have done that, we have offered a trucking service on that basis, and to that extent we would appear before the board on the question whether we could put the trucking service in as a necessary service. We are free to do that.

The CHAIRMAN: Shall the item carry?

Carried.

The CHAIRMAN: Other Transportation Development. We shall deal with the three paragraphs in the left corner of page 14.

Mr. BELL: I would like to ask a question with respect to Blue nose, Mr. Chairman. I would like to ask if consideration has ever been given to the possibility of including Saint John on the run with Bar Harbour and Yarmouth?

Mr. GORDON: I do not know if consideration has ever been given to it, but as far as I know there is no intention of providing that service.

Mr. BELL: May I suggest Mr. Chairman that there would be a quite good future there for the company if it could be worked in...

Mr. GORDON: If I may interrupt that would not be a matter for Canadian National. We operate the ferry for the government and under government instructions.

Mr. BELL: Then you would never be consulted or you would never survey the matter from the railway standpoint if the subject were ever raised?

Mr. GORDON: We shall survey anything which we are asked to survey and if we thought of our own motion that there would be an interest to the railway in working a service such as you suggest it would be open to us to make suggestions and we would do so, but basically the decision is not ours. We cannot make it ourselves.

Mr. BELL: I hereby give notice that I am going to mention this matter to the Minister of Transport at some favourable time and if you are brought in to look into your end of things I suggest that there is a very good market here because we have in the past had connections with Boston and Saint John and I feel that there is quite an area which could be profitably served.

Mr. MARLER: If you continue along that line Mr. Nowlan is going to be annoyed with you.

Mr. FULTON: This is all subject to the possibility of the ship resuming service.

The CHAIRMAN: With regard to paragraph 1, the Canso Causeway railroad sea-line, have you been able to establish a quicker service there in substitution for the old ferry service?

Mr. GORDON: Mr. Dingle confirms that we have cut one and a half hours off of the time of the overall operation, and we expect to speed things up further with a little more practice and cut off probably another half an hour once the operating conditions on the line mature.

The CHAIRMAN: Shall the last item Transportation Developments carry? Just the three paragraphs?

Now we come to the St. Lawrence Seaway Project.

Mr. FULTON: I think it would be a good idea to note that it is six o'clock.

The CHAIRMAN: Six o'clock it is. Shall we meet tomorrow morning in this room at 10 o'clock.

Agreed.

The committee adjourned.

APPENDIX "A"

SESSIONAL COMMITTEE ON RAILWAYS & SHIPPING—1956

	1955	1954
DINING, CAFE AND BUFFET CARS		
Meal Revenue	$2,667,802	$3,225,758
Meal Expense	3,827,950	4,204,403
Net	$1,160,148	$ 978,645
Number of meals served	$1,537,403	1,840,211
Average revenue per meal	1·735	$ 1·753
Average expense per meal	2·490	2·285
Average loss per meal	0·755	0·532
DINETTE CARS		
Meal Revenue	$ 279,456	$ 38,921
Meal Expense	392,540	51,482
Net	$ 113,084	$ 12,561
Number of meals served	337,274	46,561
Average revenue per meal	$ 0·829	$ 0·836
Average expense per meal	1·164	1·106
Average loss per meal	0·335	0·270
SLEEPER, GRILL CARS (COFFEE SHOP)		
Meal Revenue	$ 242,373	$ 21,260
Meal Expense	301,384	34,322
Net	$ 59,011	$ 13,062
Number of meals served	398,078	37,838
Average revenue per meal	$ 0·609	$ 0·562
Average expense per meal	0·757	0·907
Average loss per meal	0·148	0·345
TOTAL ALL CARS		
Meal Revenue	$3,189,631	$3,285,939
Meal Expense	4,521,874	4,290,207
Net	$1,332,243	$1,004,268
Number of meals served	2,272,755	1,924,610
Average revenue per meal	$ 1·403	$ 1·707
Average expense per meal	1·990	2·228
Average loss per meal	0·587	0·521
OTHER—SALE OF BEVERAGES, COACH LUNCHES, CIGARETTES, ETC.		
Revenues	$ 428,894	$ 278,512
Expenses	234,337	198,364
Net	$ 194,557	$ 80,148
NEWFOUNDLAND		
Revenues	$ 276,625	$ 284,453
Expenses	319,971	322,465
Net	$ 43,346	$ 38,012

UNALLOCATED EXPENSE

Inside cleaning of cars	$ 236,034	$ 206,936
Injuries to personnel	8,081	5,912
Total	$ 244,115	$ 212,848
TOTAL REVENUES	$3,895,150	$3,848,904
TOTAL EXPENSES	5,320,297	5,023,884
NET LOSS	$1,425,147	$1,174,980

Expenses do not include cost of:

(a) Heating, air conditioning, lighting, exterior cleaning, hauling, repairs to cars.
(b) Interest and depreciation on cars.

Approximate cost of:

Dining Car	$ 220,000
Dinette	275,000
Sleeper Grill Car	225,000

APPENDIX "B"

REPRESENTATIVE EXAMPLES OF AGREED CHARGES

Between Points in Eastern Canada

COMMODITY:	Fuel Oil.
FROM:	Hochelaga, Que., Montreal, Que., Montreal East, Que., Montreal (Moreau Street), Que.
TO:	Federal, Ont., Hull, Que., Ottawa, Ont.
SHIPPER PARTIES:	Sun Oil Company, Limited.
VOLUME OF TRAFFIC GUARANTEED:	100%.

COMMODITY:	Petroleum Products.
FROM:	Clarkson's, Ont., Federal, Ont., Hamilton, Ont., Little Current, Ont., Ottawa, Ont., Parry Sound, Ont., Toronto, Ont.
TO:	Hearst, Ont., Kapuskasing, Ont., M.P. 71·8 (Kapuskasing Sub-Div.), Ont., Smooth Rock, Ont., Strickland, Ont.
SHIPPER PARTIES:	The British American Oil Company, Limited Canadian Oil Companies, Limited Imperial Oil Limited McColl-Frontenac Oil Company, Limited Shell Oil Company of Canada, Limited.
VOLUME OF TRAFFIC GUARANTEED:	100%.

COMMODITY:	Potatoes.
FROM:	Prince Edward Island Points.
TO:	Points in the Provinces of Ontario and Quebec.
SHIPPER PARTIES:	Prince Edward Island Potato Marketing Board.
VOLUME OF TRAFFIC GUARANTEED:	100%.

COMMODITY:	Gas, Petroleum, Liquefied.
FROM:	Clarkson's, Ont., Hochelaga, Que., Montreal, Que., Montreal East, Que., Montreal, Que. (Moreau Street), Sarnia, Ont.
TO:	Points in the Provinces of Ontario and Quebec.
SHIPPER PARTIES:	The British American Oil Company, Limited Canadian Oil Companies, Limited Imperial Oil Limited McColl-Frontenac Oil Company, Limited Shell Oil Company of Canada, Limited.
VOLUME OF TRAFFIC GUARANTEED:	75%.

COMMODITY:	Salt, in bulk, Carloads.
FROM:	Sarnia, Ont.
TO:	Beauharnois, Que.
SHIPPER PARTIES:	Dominion Salt Company, Limited.
VOLUME OF TRAFFIC GUARANTEED:	100%.

From Eastern to Western Canada

COMMODITY:	Paints and Varnishes, Paint and Varnish Ingredients and Materials and other commodities.
FROM:	Montreal, Que., Ottawa, Ont., Toronto, Ont.
TO:	Calgary, Alta., Edmonton, Alta., New Westminster, B.C., Port Moody, B.C., Regina, Sask., Saskatoon, Sask., Vancouver, B.C., Victoria, B.C., Winnipeg, Man.
SHIPPER PARTIES:	Benjamin Moore & Co. Limited; The Glidden Co., Limited; Northern Pigment Co., Limited; O.P.W. Paints Limited; Reichhold Chemicals (Canada) Limited; The Sherwin Williams Company of Canada, Ltd.; Tone-Craft Paint & Varnish Co. Ltd.
VOLUME OF TRAFFIC GUARANTEED:	90%.

COMMODITY:	Wire Rope and Wire Strand.
FROM:	Hamilton, Ont., Smiths Falls, Ont., Toronto, Ont.
TO:	Vancouver, B.C.
SHIPPER PARTIES:	Canada Wire & Cable Co., Limited; Donald Ropes & Wire Cloth Limited; The B. Greening Wire Co., Limited.
VOLUME OF TRAFFIC GUARANTEED:	100%

COMMODITY:	Automobiles, Freight or Passenger, and Automobile Chassis.
FROM:	Hamilton, Ont., Oshawa, Ont., Toronto, Ont., Walkerville, Ont., Windsor, Ont.
TO:	Points in the Provinces of Alberta, British Columbia, Manitoba, Ontario and Saskatchewan.
SHIPPER PARTIES:	General Motors of Canada, Limited; Studebaker-Packard of Canada, Limited.
VOLUME OF TRAFFIC GUARANTEED:	75%.

COMMODITY:	Petroleum Products and Greases.
FROM:	Clarkson's Ont., Montreal, Que., Sarnia, Ont., Toronto, Ont.
TO:	Points in the Provinces of Alberta, Manitoba, Ontario and Saskatchewan.

SHIPPER PARTIES:	The British American Oil Company Limited; Canadian Oil Companies Limited; Imperial Oil Limited; McColl-Frontenac Oil Company Limited.
VOLUME OF TRAFFIC GUARANTEED:	100%.

From Western to Eastern Canada

COMMODITY:	Hardboard, Composite Board and Doors Faced with Hardboard.
FROM:	New Westminster, B.C., Vancouver, B.C.
TO:	Points in the Provinces of New Brunswick, Newfoundland, Nova Scotia, Ontario, Prince Edward Island and Quebec.
SHIPPER PARTIES:	Canadian Forest Products Ltd.
VOLUME OF TRAFFIC GUARANTEED:	95%.

COMMODITY:	Butter.
FROM:	Stations in the Provinces of Alberta, Manitoba and Saskatchewan.
TO:	Points in the Provinces of Ontario and Quebec.
SHIPPER PARTIES:	Saskatchewan Co-operative Creamery Association Limited and numerous other dairy and creamery companies.
VOLUME OF TRAFFIC GUARANTEED:	75%.

Between Points in Western Canada

COMMODITY:	Petroleum Products.
FROM:	Moose Jaw, Sask.
TO:	Points in the Province of Manitoba.
SHIPPER PARTIES:	The British American Oil Company Limited.
VOLUME OF TRAFFIC GUARANTEED:	100%.

EVIDENCE

MARCH 22, 1956.
10.00 a.m.

The CHAIRMAN: We have a quorum, gentlemen. We have reached consideration of the St. Lawrence seaway project on page 14 of the report. Are there any questions on this topic?

Mr. LAVIGNE: I see here that the Hydro Electric Power Commission are responsible for the relocation of the rail lines. How much responsibility have they got? I understand by that that they are responsible for the relocation of the road-bed and rail track. How much further does their responsibility extend?

Mr. Donald GORDON (*President, Canadian National Railways*): You have in mind particularly the diversion north of Cornwall?

Mr. LAVIGNE: Yes.

Mr. GORDON: That matter is under discussion between Ontario Hydro and the C.N.R. at the present time, and generally speaking we are working out the details of an agreement with regard to the apportionment of costs on this basis: that they are responsible for replacing the line. We examined the whole question to determine whether or not the new line will give the C.N.R. any advantage that it did not enjoy before, in which case that will be a matter for our account. On the other hand, the disadvantages that we experience by losing our old, matured and well-established lines would also be taken into consideration. There would be an analysis of the matter on the basis of benefits and disadvantages and we shall reach an agreement as to how the cost shold be shared.

Mr. LAVIGNE: Is the relocation of stations an Ontario Hydro responsibility?

Mr. GORDON: Consideration of that would form part of the discussion. We would have to agree with the Ontario Hydro authorities on that point and it is under examination by officials now. We would contend in the first instance that any relocation of stations caused by this diversion should be paid for by the Hydro and they in turn would point out to us that they would be providing us wih new or better stations. We are trying to work out an amicable arrangement.

Mr. LAVIGNE: That is the point I wanted to bring out. It is a fact that as a result of changes due to the reconstruction, the stations would be modernized.

Mr. GORDON: We start off in the frame of mind that we were quite satisfied with the facilities we already have. Our line is an old, well matured line which has been under maintenance for many years and is well ballasted. Our stations are located where we want them, and while it is true, they are not new stations, they serve our purposes and we have no desire to move. The Hydro came along and we agreed that in the interest of the seaway development the line has to be moved. We agreed to move the line but whenever new material goes into line or station we will weigh the two things together and try to reach a settlement on the proportion of the cost that should be met by the C.N.R. Canadian National pay a portion of the cost only where it is obvious. We have received an advantage by reason of the change.

Mr. LAVIGNE: In the course of that reconstruction all level crossings would be replaced or eliminated?

Mr. GORDON: That raises another point—the question of the separation of the grades. We are trying to eliminate level crossings. In some cases that would be partly to our advantage and partly to the advantage of municipalities concerned. Several parties are involved in this and the question of level crossings will require discussion by the interested communities as well as by Hydro and ourselves.

Mr. LAVIGNE: Who would be responsible for grade crossings? I understand that the city of Cornwall had an application for a grade crossing on record for many years. Now the picture has completely changed. Who would be responsible for the grade crossings in that area?

Mr. GORDON: That would come under the jurisdiction of the Board of Transport in due course. The board would have to sit in judgment under the regular procedure which applies to any elimination of crossings and part of the expense might come from the grade crossing fund, part might be paid by the municipality interested in the question, part might be for railway account and part for Hydro. It would depend on the judgment on the Board of Transport Commissioners after they have looked into the facts of the individual case.

Mr. LAVIGNE: Is there any appeal from the judgment?

Mr. GORDON: Not usually.

Hon. Mr. MARLER: An appeal is provided for under the Railway Act, but I think appeals are rather rare.

Mr. LAVIGNE: In this particular case the people of the municipality would feel that there should be no obligation upon them to pay a portion of the cost if the construction is brought about by reason of the development.

Mr. GORDON: They would have an opportunity to express their opinions before the Board of Transport Commissioners. It would depend on the specific case. I do not know that they would have to pay a portion of the cost. However, it would be pointed out to the municipality that they were getting a benefit through the elimination of any form of intereference with their highways and streets by reason of this separation. Certainly if the municipality is able to show that they did not have a level crossing before, and therefore that any new level crossing has nothing to do with them, my own personal opinion, which I advance purely as a personal opinion, would be that they would not be required to pay any part of the cost.

Mr. LAVIGNE: In the case of farmlands that are cut up by the new railroad —where the farm becomes inaccessible from one side of the line to the other— who would have the responsibility of making that farm accessible?

Mr. GORDON: That would come under the terms of the expropriation of the land, and I would think that in the case you mentioned it would be the Hydro's responsibility to meet that condition.

Mr. LAVIGNE: That is important because there are some people who are reluctant about selling their land to the Hydro because they can get no guarantee that they will have access to the different portions of their land.

Mr. GORDON: You must remember that this whole development is being done under power of expropriation conferred on the Hydro Electric authorities for that purpose, and any property owner who finds himself damaged as the result of expropriation has a regular process, under the law, to follow, by which means he can claim in respect of such damage.

Mr. LAVIGNE: In the light of the amounts which they are offered for their property some people are being hard hit by the project.

Mr. GORDON: There will always be differences of opinion as to the degree of damage, and the question is one for the courts to decide.

Mr. LAVIGNE: There is always damage. A neighbouring property will always be worth more than one which has been affected by the development. I think that is all. I thank you for the information.

The CHAIRMAN: Are there any other questions under this heading? Shall the item carry?

Mr. HAMILTON (*Notre-Dame.de-Grâce*): Before the item carries, I wonder if Mr. Gordon would like to make a statement regarding his plans for Victoria bridge and railway traffic to St. Lambert

Mr. GORDON: As I have indicated in paragraph 68 of the report, we have reached a general agreement with the St. Lawrence seaway authority, which has for its purpose the development, or the building, of a diversionary route off the bridge, which will be so constructed and contrived as to make it possible to conduct the railway traffic and the highway traffic in such a way that no interruption will take place when the canal is in operation.

Briefly this means that there will be two lift spans in the canal and by means of this diversionary route, when one is open the other will be closed, and the traffic, both by rail and highway will flow without interruption over whichever bridge is closed. That means a "take-off" from the Victoria bridge at a point roughly less than half way, which will swing in what is known in railway parlance, as a "shoofly". It will swing off the bridge and go over a causeway type of support and then swing back on to the railway. At any given point of time, trains will be running either on the main track or will swing over to the diversionary route. The whole thing will be so interlocked with signal devices that it will be impossible for either the highway or rail traffic to use that portion of the bridge when one of the spans is up; it will be controlled automatically. I think that makes the picture clear.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): To what extent is this going to disrupt or change your present routes on the south shore with the result that, perhaps, traffic will be required to pass through residential areas?

Mr. GORDON: Looking at the picture from the Montreal side at the moment, proceeding across the bridge to St. Lambert, the end of the diversionary route as it reaches the St. Lambert shore will wing back, and lines will go through a residential area. We are now discussing with the St. Lambert authorities, what the expropriation proceedings will mean; our plans having developed to such a point as to make that possible.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Last year when you appeared before this committee, it was apparent, even at that time, to some of us, that the seaway, in conjunction with your line from Victoria bridge could result in quite severe delays to your railway traffic.

Mr. GORDON: That is correct.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): And I attempted to get at that problem last year, and to find out what plans are being made to deal with it. You will find the reference on pages 193 and 194 of last year's proceedings. In the light of what the minister said, in particular, I was left with the impression that this was not going to impose a serious delay, and that in consequence, no alternative route would be necessary. Last year the Hon. Mr. Marler made a comparison with the present Lachine canal, and pointed out, the number of ships which passed through that canal was probably greater than the number which would pass through the seaway, so that one naturally drew the inference that the delays—quite apart from any plan such as you have described—would not be unduly serious. Since then, and without any indication whatsoever of the intentions this new plan, which apparently will mean a very serious inconvenience with a fair sized segment of property in St. Lambert, is being proceeded with.

Mr. GORDON: That is perfectly true. What I tried to indicate last year was, that discussions were being actively conducted with the seaway authorities for the specific purpose of realizing our objective of keeping the delay in rail traffic to a minimum. I indicated that in respect of the highway, the question seemed to be solved, because there was an alternative route which did provide for uninterrupted movement by road. In looking at the interlocking arrangements that the seaway authorities contemplated at that time, were trying to work out an interlocking means of moving ships at specific times in relation to railroad operations, so that we could "live" with the interruption contemplated. It was always clear that there was going to be some interruption for the railway, but at that point of discussion, we were trying to believe that the amount of interruption was tolerable. However, as we proceeded with a more detailed examination, there was a clearer realization of the physical meaning of these interruptions, and we came more and more strongly to the conclusion that there was no means, in the form of the single lift span then contemplated by which we would be able to reduce the degree of interruption to a tolerable point. That became more evident, in respect of future operations, than in those of the present time; having in mind our appreciation of future traffic requirements. Thus we came gradually to the conclusion that an alternative scheme was required, and one of our engineers came up with a suggestion which I have outlined to the committee.

Maybe if we had been a little better at crystal-ball gazing—I believe that is the expression used nowadays—we might have come up earlier with this idea. The fact is, we decided on this only in the last six or seven months, after a great deal of study and examination. I don't know whether I can credit one man with the idea, but Mr. Fairweather, our vice president, Research and Development Department was probably the main person engaged on it, together with Mr. Dingle, our vice president of operations and others. They considered it, and came up with the idea that this was one way of making sure there would be no undue interruption of railway operations. As I say, we became more and more conscious of the vital need for the elimination of interruption on this vital link. It is a new development since our last meeting here, and I was not aware of it at that time, nor was anyone else.

We have placed this, as I said earlier, before the St. Lambert people as soon as we had it in a form in which it could be properly explained and described.

Our hope is, that so far as the seaway is concerned, this particular diversion will not delay the plans for its completion, and we can go ahead with this work concurrently with the work on the canal, so that the two projects will come into operation at about the same time as the seaway itself is ready.

Mr. HAMILTON (*Notre-Dame-de-Grace*): If there were to be any serious objection on the part of the property owners in the area affected by this proposed new line, what would be the attitude of the railroad?

Mr. GORDON: We would have to determine that as we have to determine everything that becomes an expropriation case. The general attitude of the railway must be; in connection with providing vital rail services, the interest of the few must give way to the interest of the community. But, in so doing, we attempt to recognize completely the extent to which the interest of the few are damaged by expropriation action. The parties concerned will have the opportunity to explain the degree of their damage, and we shall make settlements as rapidly as possible.

Mr. HAMILTON (*Notre-Dame-de-Grace*): You refer to "the few". I would point out that the construction of a railway line through a residential area has two effects. The first is on the immediate territory which is traversed by the line where there is a complete elimination of property. Then, if a property happens to be on the location of the line, or if it is immediately adjacent to the line—say a few yards away—there is immediately an extremely sharp drop in the value of that property. The second effect is, for a fair distance on either side of the line, property values tend to decrease. I don't suppose there is a railway line in any part of Canada where for several blocks on either side there is....

Mr. GORDON: That is not necessarily so. I think you are really arguing the case for damages for people who are affected by the building of a line. The matter could be looked at in another way. It might well be that the elimination of a residential district by reason of railway access would provide industrial land which would be even more valuable than residential land. This could quite conceivably happen. We have known instances in the past where a person who had some property devoted to residential purposes has been able to sell it to an industrial concern, say a manufacturer and the property owner does it at a handsome profit. It remains to be seen in this case whether that will happen. It would all be taken into account in measuring the quantum of depreciation in value which would be assessed by the court. If it could be demonstrated that the owner of the property has such an opportunity, as I have referred to, that would be measured in the balance. It often happens, when claims of substantial damages are advanced, that Canadian National take over the land themselves and hold it for industrial purposes. Later—maybe years later—we find that we are doing all right. A very interesting example of that situation occurred in Montreal, with the building of the Mount Royal tunnel. At the time that tunnel was built there was so many claims by property owners for damages, that the then Canadian Northern Railways took over properties on what is now McGill College Avenue, and today we are doing very nicely, thank you.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): But the railway will try to reach some understanding, and show an appreciation of the difficulties that are going to arise?

Mr. GORDON: Very definitely. Our object is to make a fair and amicable settlement with these people, bearing fully in mind the inconvenience caused, as well as the physical damage. It is a case, for the community concerned to face up to what seems to me to be inevitable, and then to make their adjustment in as good a spirit as possible.

Mr. HAMILTON (*Notre-Dame-de-Grace*): How long would you say this plan had been under discussion before the municipality concerned was advised, and it became public knowledge?

Mr. GORDON: This particular thing we are talking about has not been under practical discussion for more than about five months, four or five months, or perhaps a little more than that. It is hard to say just when, but it certainly, or definitely has been within the last five months that we have had detailed plans of a character which would lend themselves to a physical diversion.

Mr. HAMILTON (*Notre-Dame-de-Grace*): It has been only within the last three weeks or so that it has become public knowledge?

Mr. GORDON: Yes, and another factor is that it has been only within very recent months that we were able to reach an agreement with the St. Lawrence Seaway authority as to whether this proposal of ours would be feasible. The essential part of it means a second lift span as part of the program, and that made quite a difference to the seaway authorities so we have only reached agreement on the other phases of it in the course of the last two months. So at the first opportunity we felt we were able to talk to the St. Lambert people, we talked to them.

Mr. HAMILTON (*Notre-Dame-de-Grace*): You discounted the possibility of a tunnel under the seaway?

Mr. GORDON: That was examined years ago and has been looked at again and again; but our opinion from a railway point of view is that both from the standpoint of cost as well as the physical operation of the railway, such a tunnel is impracticable.

Hon. Mr. MARLER: Might I say a few words on that point? I do not believe that the members of the committee and perhaps even the public are fully aware of the magnitude of this particular problem. A great many people believe that it would be a simple matter to build a tunnel under the river at Montreal in order to provide both for railway operations as well as for highway operations.

I would like to tell the members of the committee that two broad plans were considered by the seaway authorities in connection with those facilities. Both plans contemplated that there would be three tracks for railway purposes and that there would be two tubes for highway purposes. The two tunnel project depended upon whether or not the province of Quebec would develop power at this time in this part of the river or not. If they had done so, I am told it would have been possible to have built the tunnel which would then have been relatively short; I mean, it merely meant a tunnel 4½ miles in length, including both the tunnel itself and the two open cut approaches. That would have been possible because it would not have been necessary to go down so deep, and with hydro-electric development that project would have cost somewhere around $90 million to $100 million.

Unfortunately the province of Quebec decided not to proceed with the development of power, so that made it necessary to consider another tunnel project. And when that was examined it was found that the length for it would have to be 7½ miles instead of 4½ miles, and that extra length posed a difficulty in fitting it in with existing facilities. So it was not thought worth while even to estimate the cost of a project which would involve a tunnel 7½ miles long.

I would like to say a word about another possibility which was considered, that was to build a high-level bridge which would accomodate both rail and highway traffic. In order to cross the seaway channel it is necessary that a bridge should pass over that channel at a height of 120 feet. The arithmeticians present will realize that with a one per cent grade to attain a height of 120 feet, you need an approach of 12,000 feet in length, which would have meant that the total length of the high-level bridge with a one percent grade would have been twice 12,000 feet or a total of 24,000 feet, plus the width of the seaway channel.

The only difficulty about the arithmetic is that a one per cent grade is not suitable for railway purposes, and for railway purposes the grade which the railway wished to have was one of ·67 per cent, that is sixty-seven-hundreds of one per cent. That would have meant that the approach would have been 18,000 feet to allow for traffic, and twice 18,000 is 36,000, so we get to the point where such a high-level bridge would have to be something like 7½ miles in length, and the cost of it was considered to be a little over $90 million, with annual cost of maintenance and upkeep which would have been exceptionally heavy.

I shall not speak for the railway itself, but I do not believe anybody seriously felt it would be possible to build such an extensive as well expensive facility in order to deal with highway and rail traffic. And I am sure that members of the committee will realize from the arithmetic that the basic consideration was the basic need to get rail traffic across the river, and that while a grade of perhaps three per cent or four per cent would be acceptable for highway purposes, it would be out of the question for rail purposes, and that would get you into the position where it would be necessary to deal with the problem in the way that Mr. Gordon has explained.

I myself think that the idea of having lift bridges at each end of the St. Lambert Lock on the seaway is the most practical if not the most aesthetic way of dealing with the problem of getting both highway and rail traffic across the river at that point.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Could Mr. Gordon tell us what the super-grades are on the line, let us say, in the Rockies at the present time?

Mr. GORDON: Perhaps Mr. Dingle could tell you that. But if I remember my early education, an engineer once said that any grade over one per cent was not a railway. I will not tell you what he called it. In Newfoundland we do have grades, I believe, of two per cent, and I have been told that some people say we have not got a railway in Newfoundland.

Mr. DINGLE: In the Rocky Mountains it is about seven-tenths of one per cent. However that is for a special condition and for a relatively short distance.

Mr. GORDON: But for conditions approaching a large terminal as in Montreal, with congestions of traffic in an area like Montreal, as the minister has said, anything over ·6 in our opinion would impose impracticable operating conditions.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Would you happen to have the figures for the grades on the Canadian Pacific Railway coming into Montreal West, off hand?

Mr. GORDON: No, I have not got them available.

The CHAIRMAN: Shall "St. Lawrence Seaway project" carry?

Mr. HEALY: What are the major changes which will be made on the Montreal side of the Victoria Bridge?

Mr. GORDON: They will not be affected from the railway point of view, apart from some rearrangement of tracks once we get the route in. We are just converting the street car tracks on the Victoria Bridge for highway traffic and the buses which will replace the service formerly given by the Montreal and Southern Counties Railway. But apart from some rearrangement of the road approaches in order to improve the access for buses, there are no real changes involved on the Montreal side.

Mr. HEALY: There is a cemetery there in which many seamen are buried. Will that affect the cemetery?

Mr. GORDON: There is nothing before us at all at the moment which contemplates any disturbance there.

Hon. Mr. MARLER: It is not the policy of the Canadian National Railways to disturb Irishmen either living or dead!

Mr. HEALY: At one time the city built a tunnel there and they took up a lot of the bodies. I have received many letters asking if they were going to disturb that big stone.

Mr. GORDON: Plans do change, and I would not like to make commitments for all time. But there is nothing in the plans before us at the present time, nor do I know of anything contemplated which would make any disturbance along the lines you suggest.

Mr. BELL: May I ask a question? You anticipate further difficulties in the way of competition having to do with the seaway in view of the fact that the Americans are providing subsidies for their ships now.

Mr. GORDON: I wrote a memorandum on that point ten days ago to my traffic officers asking that very question and I am waiting for an answer. I do not know the answer at the moment.

Mr. BELL: It could be a very serious complication.

Mr. GORDON: I just read the report. You must have read the same report, and I am not sure that the report is given accurately. However I have the matter very much in the swim for investigation but I do not know the answer at the moment.

Hon. Mr. MARLER: Mr. Bell will probably realize that the purpose of the United States subsidy is to bring down the cost of American operated shipping to a level which is comparable to that of foreign operators in the same traffic.

Mr. BELL: I appreciate that but it could be a serious complication in the way of competition to the railway.

Hon. M. MARLER: I do not want to interrupt the member, Mr. Chairman, but there are no American lines operating in this particular service at the present time. As I understand it, it is to a great extent going to carriers of goods by water, but the subsidy does not do much more than to change the flag of the vessel.

Mr. FULTON: Might it not mean that you would have more water carriers operating at a low rate, and with more available, the cheaper would be the transportation than you would have without the American subsidy.

Hon. Mr. MARLER: This is for overseas traffic not for domestic traffic. The United States subsidy is proposed in respect to traffic from American Great Lakes ports to ports of western Europe, not for domestic shippers.

Mr. BELL: May I say this; I appreciate what the minister has said but the suggestion I am trying to make is that it will change the competitive position which is tied in with our own position on the Great Lakes. It is being considered now and I realize that we should not get into that study. But the future of the railways with respect to the St. Lawrence Seaway should be under active consideration because it could definitely change the picture of our own shipping, and thus affect the railways.

Mr. GORDON: We do not think so at the moment, but I am, having it carefully studied in order to make sure that we are not overlooking anything. The point of your question is that you want to be assured that we are not overlooking anything.

The CHAIRMAN: Does "St. Lawrence Seaway project" carry?

Carried.

"Research and training", and the first sub-heading is "Research".

Mr. KNIGHT: I suppose we could drag this in under research. Has there been any research done in regard to the matter of the prevention of accidents at level crossings, such as the use of new gadgets, signals, lights, or that sort of thing in different parts of the country?

Mr. GORDON: We have a very intensive study going on all the time through our safety department in regard to the causes of accidents, not only on the railway but at level crossings, and we have before us from time to time a great many suggestions and proposals for mechanical gadgets which will improve the situation. A lot of them are not at all practical when we sort them out, but it is a matter to which we are alive at all times.

Mr. KNIGHT: Might we have some statistics on level crossing accidents? How has the situation compared, for example, this last year over previous years? Has there been any improvement or has the situation become worse?

Hon. Mr. MARLER: If Mr. Knight would care to look at the annual report of the Board of Transport Commissioners which was tabled the other day, he will find therein statistics for last year, and he will find them in earlier reports, and he will find a very complete series of figures on railway grade crossing accidents which come before the Board.

Mr. KNIGHT: Thank you. If I can find that material there is no need to put it on the record here but it is something which is of concern to everybody.

The CHAIRMAN: Are there any more questions under "research".

Mr. HAHN: In paragraph 70 you say that specialized studies of office management practices, extended particularly in the field of filing and record control. In your research on this subject do you employ experts from the point of view of checking on office management, or do you do it within your own organization?

Mr. GORDON: We have a small technical staff of our own which has this matter under very active study, and we also employ outside consultants in regard to specific operations of that program from time to time.

Mr. HAHN: Could you tell us off hand how your filing compares with that of some of the American rail lines which have had to change their filing, following an investigation by the Lahey Company in New York?

Mr. GORDON: I am not familiar with that particular investigation. The subject of filing covers many, many facets, and many different types of things. I am not sure what you have in mind.

Mr. HAHN: As I understand it, I believe some of the rail lines in the United States had as many of 65,000 items per employee—that is, not the overall staff, but the clerical staff—in a year, and they have cut it down through investigation to 25,000.

Mr. GORDON: Yes, it is just a matter of names that I do not remember. Mr. Armstrong reminds me of the name of these people. We did employ a firm of consultants who are associated with the people you mention to make a similar kind of survey for us, and based upon that survey we are in the process now of adjusting our filing system in order to bring it up to date along exactly the same lines.

Mr. HAHN: I think they are subsidiary to that, are they not?

Mr. GORDON: I do not know. I understand they are associates, and that they have available to them all the information in regard to this system.

Mr. HAHN: They have made extensive recommendations.

Mr. GORDON: What they really did for us was this; we did not feel that we could afford a very large and exhaustive study such as was made for the American railways that you mentioned; but for us they made an audit of all existing practices and directed our attention as to the areas wherein they felt improvement could be made, and they gave us an outline of the type of thing. Then our own technical staff, which is on the job all the time, took those recommendations in hand and is now implementing them. We felt we should cut down the cost, and we think that we are getting just as good a job.

Mr. HAHN: Are you now turning a lot of your office work to machines? I see you have computers.

Mr. GORDON: Yes. We have made very extensive improvements with machines. We have got into the field of electronics in the matter of statistical records, and we have had a very large program, over the last two years, since Mr. Armstrong took over the position of comptroller. He brought to the railway very extensive experience in that field and we are getting the benefit of that experience now.

Mr. HAHN: Are you experiencing any difficulty in getting a skilled staff to operate it?

Mr. GORDON: We have been pretty well training our own staff. We have had to bring in a few key men, although not many, from the standpoint of a practical program. Generally speaking we have been able to find people within our own staff, whom we can train for the new work. It has meant a certain disturbance in the staff itself with regard to positions and ratings, but it has worked out very well.

Mr. HAHN: They are being integrated and on a pay as you learn plan?

Mr. GORDON: That is right, and we keep their union representatives informed as to our plans and we get them together and have discussions concerning the program. We are getting along very amicably.

Mr. HAHN: Has it had any material effect on the number of clerical employees you have used?

Mr. GORDON: Yes and no. There have been employees whose work has changed, but the trend has been towards promotion rather than otherwise. We have this opportunity for them, and a great number are familiarizing themselves with it and are naturally delighted with it. We do not have the same difficulty as we have in our dieselization program, for instance.

Mr. HAHN: Thank you very much.

Mr. HAMILTON (*York West*): I wonder if Mr. Gordon would indicate to us whether the appointment of Dr. Solandt means a new phase for the company in the research setup which it has.

Mr. GORDON: I would not say that it means a new phase. I would say that it would perhaps mean an intensification of the sort of thing we already have had in the Research and Development department under the very able and competent direction of Mr. S. W. Fairweather who is now our Vice-President in charge of that department.

We have not got a large research organization, but we do have a very selective one, and our research branch covers, generally speaking, three different phases of our work. There is the technical side which concentrates upon and examines what may be called the operating tools of the railway, and that would include diesels, the design of rolling stock, new designs for cars, automobile carriers, the pulp wood cars I mentioned, and mechanical improvements in the handling of traffic. That technical research is going on all the time not only by experiments of our own but by watching what is being done elsewhere in the world.

Then in this department we have concentrated also our economic analyses where we test out the value of various types of operations and get the costing records in regard to them. Whether or not it is good economy for instance to select steel wheels rather than iron wheels, and things of that kind, the kind of costing which goes into the establishment of freight rates and so on, and the very large area of economic research to our work.

And then last but not least we have in that department a sort of advisory staff dealing with such particular subjects as capital expenditures and operating budgets. In other words, Mr. Dingle as our Vive-President in charge of Operations has as his duty the bringing forward of proposals for the expenditure of capital moneys and the improvement of our facilities for handling traffic, and as we receive his recommendations we put them through the wringer in our research department to make sure that they stand up from the point of view of economic advantage. In that advisory capacity the research and development department functions very efficiently.

Then there is the development side of the work which has to do with providing information to industry in regard to where a new plant may be located or new businesses may be brought in. We give industry a great deal of help in that respect in the form of the economics and geography of the country, and where it is best to locate a plant, such things as the labour analysis of a particular market, the kind of water that may be there, whether or not industrial power is available for large units and so on; in short, we give a complete analysis, always of course with the very objective point of view that the best place for anybody to locate is on the Canadian National Railway lines! That has been our objective, and when we are dealing with the public, we provide them with that sort of advice. We also provide manufacturing and statistical data, and we enter into discussion with local planning authorities and towns in various areas and so on. That is a very interesting part of our work that has been going on for many years.

Dr. Solandt, so far as I know, will perhaps intensify various parts of the work where this program has special demands to be met, but it does not mean that it is a new development in that respect.

Mr. HAMILTON (*York West*): Is he assigned to anyone of these three categories, or is he just in the overall picture?

Mr. GORDON: Not at the present time. Right now he is a student.

The CHAIRMAN: Shall the item "Research" carry?

Mr. HAMILTON (*York West*): Mr. Gordon said previously that he might give an indication at this point of how the company evaluated the end to end radio communication setup at the present time.

Mr. GORDON: Would you like me to give a short statement of what we are doing with regard to radio communications?

Mr. HAMILTON (*York West*): Yes.

Mr. GORDON: We have had this general problem of a radio communication system under survey for some years. Our present installations are in our yards. We have put in an installation in our Turcot yard which is one of our largest yards in Montreal, and it has been in force since June 1953. It is a two-way radio installed on the diesel switch engine and operates through the yard offices. Our report is that it is functioning very satisfactorily. Then at Oakville we have radio equipment installed on switch engines which serve, particularly, the Ford Motor plant; that is a rather special application of the switching movement and it has to be very carefully co-ordinated with the shipper himself. From what we have been told, it is a very advantageous procedure. In the Mimico yard, which is one of our larger yards we have a system of inter-communication consisting of wired talk-back speakers, which was competed during 1955. We have under immediate consideration installations to go into the new Edmonton yards which will give us a full scale installation there. To give an example of the sort of thing we have in mind, we estimate that the installation will cost us $49,900 in order to instal 19 mobile units in the Edmonton yards, and we estimate an overall saving directly observable of about $21,000 a year from that investment.

In the Bathurst yard in Toronto we have done engineering work preparatory to the installation of equipment in the base station and mobile sets in three yard switchers in that yard as well as in the Don yard in Toronto.

We have had some experiments going on in installations in one of our yards in the United States but we ran into labour difficulty in that respect. I understand that the matter is not yet sorted out and the system is not being used. We hope to have some settlement of that dispute in the near future. We have also had during the year a radio test train operating between Montreal and Vancouver, and this test has demonstrated the practical operating features of the radio; but difficulties were encountered while going through tunnels. Our progress has not yet really reached the point at which we can be satisfied that the equipment is economically justified. They are sufficiently encouraging, however, for me to be able to tell you the tests are continuing. Tests have also been under way dealing with such specialized needs as the possible value of express trucks equipped with radio in much the same way as taxi cabs are equipped nowadays. The experiment has not been too satisfactory from the point of view of cost but we are working with the Bell Telephone Company and carrying on further research. All I can say in summary is that the question of using radio talk-back sets is under active consideration to determine how it would fit into our operations in the light of possible savings and economic advantages to us.

The CHAIRMAN: Shall the item carry?

Item carried.

The CHAIRMAN: Employee Training.

Mr. CHURCHILL: I notice that at the end of the last paragraph under employee training you very properly mention "the human resources" and say that they are "the company's greatest asset." That is nice compliment to the people who actually run the railroad, but you do not give any indication in the tables of how many employees there are or how they are distributed by various categories. With particular reference to the synoptical history on page 15 it would be helpful if a final column were added showing the number of employees through the years so that we would know what changes have been brought about in the number of employees in relation to the work done by the railroad. Are such figures available now?

Mr. GORDON: We do show the numbers in our annual report—paragraph 27 of the report under the heading Labour shows the average number of employees during the year. We have introduced a new chart this year which you will find at the end of the report on pages 30 and 31. This is an experiment and I hope to improve on it in future reports, but I put it in so that members of the committee may get some grasp of the kind of organization that goes into this huge management problem. It may well be, Mr. Churchill, and I will take it under advisement, that we might publish some analysis with regard to types and numbers of employees such as you have in mind. It is our desire to give a full picture of the situation and this is the first effort along these lines that we have made.

Mr. CHURCHILL: I think that would be helpful, because each year there is discussion with regard to the number of employees and lay-offs and changes which are made as the result of differing requirements.

Mr. GORDON: You mean changing skills and things of that kind? I will keep your suggestion in mind and perhaps we can do something which will bring out the picture clearly.

Mr. HAHN: Does the figure to which you refer with regard to labour include the staff employed in hotels? I have found no section in the report devoted to hotel operations as such.

The CHAIRMAN: Yes there is. We dealt with it yesterday.

Mr. HAHN: I wonder if hotel labour is included in the last total that was mentioned?

Mr. GORDON: I think we keep the record of hotel employees separately; they come under a different category of wage agreement. There is a reference under paragraph 35 to hotel operations and I can give you the number of employees, but it is not shown there.

Mr. HAHN: It is not important. I was just wondering how it was correlated.

Mr. MURPHY (*Westmorland*): Under this heading Employee Training the report says that over 2,000 men have gone through the basic diesel maintenance course. I would like to ask Mr. Gordon what is the number or the percentage of those men who have taken this diesel maintenance course and who have come from the Atlantic division. The purpose of my question is to find out whether or not as much maintenance work will be done on diesels in the Atlantic region as elsewhere and whether the employees are being prepared for this work.

Mr. GORDON: I have the figure here. In the diesel education program training course to which I have referred, out of 2,000 employees who have gone through, 502 are recorded against the Atlantic region, 833 against the Central region, and 685 against the Western region.

The CHAIRMAN: Shall the item headed Employee Training carry?

Carried.

The CHAIRMAN: Corporate Reorganization.

Mr. FULTON: Mr. Gordon have you any means of measuring the savings in time and administrative cost which you would expect to achieve as a result of the corporate reorganization?

Mr. GORDON: No, I am afraid that is too difficult to evaluate. I have had the same thing in mind but it is still too much in a state of flux, so I cannot really tell you. It is hard to say because the savings are not immediately obvious. As we draw this corporate structure together we cut out a certain amount of bookkeeping, inter-company entries and so forth but I do not claim that this corporate reorganization results in major savings. It is simply a matter of tidier housekeeping.

Mr. FULTON: Perhaps you expect the saving to appear in the form of increased efficiency.

Mr. GORDON: That is right, but to pin-point with any degree of accuracy is too difficult.

The CHAIRMAN: Item carried. Uniform Railway Accounting.

Mr. FULTON: There are two questions here. I wonder if Mr. Gordon has any means of estimating the administrative cost of implementing this system? This does, I understand, represent quite a major overhaul of the accounting system.

Mr. GORDON: I do not think it is possible to establish a cost figure. This is just a change in the method of making our entries, it is not noticeable in the over-all picture of our bookkeeping.

Mr. FULTON: Then with respect to the last paragraph under that heading in which you have the statement:

> Nor, in so far as can be determined at this time, will the effect on the 1956 results be significant.

am I correct in understanding that the change in accounting is in large part connected with the method of depreciation accounting?

Mr. GORDON: That is right, and I would add this, too, that when we come to the budget in the course of the next 10 minutes I have prepared a statement, that I would like to put into the hands of members of the committee, which deals specifically with these accounting changes and perhaps you would find it more convenient, Mr. Fulton, to await this prepared statement.

Hon. Mr. MARLER: It is reflected more particularly in the Capital Budget and perhaps that would be a more appropriate time to deal with this subject.

Mr. FULTON: That will be quite agreeable. All I wanted was to ask some question in relation to what I understand represents a considerable change in the accounting of depreciation.

The CHAIRMAN: Shall the item carry?

Carried.

The CHAIRMAN: Co-operation Under the Canadian National—Canadian Pacific Act.

Mr. POWER: I would like to ask a question Mr. Chairman. Mr. Gordon, would you say that this co-operation as required under the act has been of benefit to the Canadian National system?

Mr. GORDON: That is another of those questions which are difficult to answer precisely. I think that a saving in cost in specific operations—and a substantial saving—can fairly be said to have resulted. There is, however, an uncertain factor, a factor which it is difficult properly to assess, as to whether the running of pool trains, for example, has not affected the morale of the operation on both sides, not only of C.N.R. but of C.P.R.

Mr. POWER (*Quebec South*): I was thinking particularly in terms of those who come from the Quebec region and who travel up and down almost every week-end. People who do that type of travel usually buy a ticket on the C.P.R., and that must affect the railway seriously.

Mr. GORDON: That is the sort of thing I have in mind. The great problem for me is that when I analyse the results of the pool operation which went into force at the end of 1932 or 1933, from a purely economic standpoint and from the standpoint of accounting figures it could be said—and demonstrably the case—that there have been substantial savings to both railways in operating expenditures. But that has been, on the other hand, at the expense of operating conditions where both the C.N.R. and the C.P.R. are losing their individual identity. That is a consequence the effects of which are hard to measure and I am somewhat troubled about it. Certainly, as I have said in the report, the whole question of these pooling arrangements has been under active discussion. It is a very complicated problem and requires statistical analysis with regard not only to the passenger situation but to baggage, express connections and so forth. It is a slow business to unscramble an omelette.

Mr. POWER: Of course in 1932 passenger traffic fell off to such an extent that it was considered advisable on economic grounds to cut competition between, say, Quebec and Montreal but I would say now from my own observation that that pool train is usually pretty well packed; in fact it is hard to get accommodation.

Mr. GORDON: If it became a question of looking at the matter from the standpoint of providing an individual service by each railway, then the matter of expenditure arises; Quebec would have to be approached by C.N.R. over another line and the net result would be very costly. However, there remains a big question mark with regard to our joint operations: whether it is really justifiable in terms of modern conditions and having regard to the growth of Canada to perpetuate a system which, after all, stems from depression psychology, and whether it is in the interest of either Canada or the railway companies to prolong it. However, we are under a statutory obligation at the moment to carry out these pooling operations. When we have completed our studies and the two railways feel something should be done about it it will be our duty to make representations to the minister.

Mr. HAMILTON (*York West*): Would it take too long to indicate the regions in which pooling arrangements exist?

Mr. GORDON: The three areas are Montreal-Quebec, Montreal-Toronto, Toronto-Ottawa.

Mr. HAMILTON (*York West*): Would you care to comment on the view which is often expressed that you are pooling on runs where you could make your best showing? These are probably the best runs anywhere in the country.

Mr. GORDON: I think that is true by definition because these pools were put into the most heavily travelled areas. That is the reason why the major savings were made possible.

Mr. HAMILTON (*York West*): Looking at the question from the competitive standpoint, you have the trackage and the equipment available to you, but you are by statute forced to take part in this pooling arrangement in curcumstances where you would be on the best competitive basis.

Mr. GORDON: That is one point of view. I find it difficult to keep myself purely objective on this topic, as I should be under the statute, and I don't want to be drawn into expressing biased opinions on the matter until this analysis to which I have referred has been properly placed before the government.

The point of view that you have expressed is one held by a number of people. I am not prepared to say I hold it yet because I am trying to be a judge.

Mr. HAMILTON (*York West*): Would it be fair to say you would not be worried about a competitive position developing in the areas you have mentioned?

Mr. GORDON: I would say at once, and I am sure our friendly competitor would say this too, that neither one of us is afraid of competition in the areas you mention.

Mr. POWER: You were saying a short while ago that the two railways were studying the question of these pooled operations. Would you, as a result of your own study, consider making recommendations to the minister independent of the C.P.R.?

Mr. GORDON: That would be possible. We are under a statutory duty to report here what we feel about pooling operations.

Mr. HAHN: I have heard it said quite often that these pool trains are of considerable value to the C.P.R. but of less value to Canadian National because of the fact that Canadian National cars are used on them. Is there a basic formula in connection with the provision of cars, locomotives etc. as it affects revenue?

Mr. GORDON: Yes, that forms part of the pool formula. We get full credit for cars put into the pool on a basis of mileage and usage on both sides; it is part of a very complex accounting process which is involved. I would not like to leave the impression here that there is justification for the statement that is frequently made that the pooling arrangement is operating to the disadvantage of the C.N.R. I don't think our analyses can prove that from a directly money-saving point of view.

Mr. HAHN: Would it involve a great deal of effort to get us a breakdown of the division so that we could see how the thing is done and study it for ourselves?

Mr. GORDON: I do not think I could give a commitment to do that because I am not the only person involved in this pool—C.P.R. might have views on the subject and they are not as forthcoming in divulging the statistics of their business as we are required to be.

Mr. HAHN: You might consider approaching them to find out what their views are.

Mr. GORDON: Please don't ask me to make a commitment which I may not be able to carry out. As I have said, this matter is actively under discussion and I think that next year we shall jointly have to say something about it and make a report of some kind as an indication of what is happening.

Mr. HAHN: I wish you would press for action of that kind because I have heard the charge repeated so often in the west that it becomes rather embarrassing.

Mr. GORDON: I must insist on having this definitely on the record that I am not accusing or suggesting in any way that C.P.R. is getting an advantage over the C.N.R. I know the story you have mentioned has often been said, but I am not prepared to prove it. I don't know. I should not say I don't know. I simply say that from the point of view of money savings we are doing just as well as the C.P.R. What it means in terms of morale, public psychology, loss of identification, involve factors which I say are very difficult to appraise.

Mr. POWERS: That is the point. This must be looked at from the psychological point of view.

Hon. Mr. MARLER: You and I both know that a good deal depends upon the convenience of train departures. If you are going from Ottawa to Quebec I think the fact you can make your connection at Montreal West makes that service more attractive. Whether you are seated in a C.N.R. car or a C.P.R. car matters less in your mind than getting from one city to the other at the most convenient time and as quickly as possible. It depends on the hours at which people are going and on a lot of intangible factors which, I think, makes this a very difficult question for Mr. Gordon to deal with.

Mr. POWER: The reason I brought this up is that the road in between Quebec and Montreal is so awful that I think it is better to go the other side.

Mr. GORDON: I hasten to point out that Quebec is not necessarily a C.P.R. town with regard to freight business. We get a full share of the available freight business out of Quebec City and the surrounding area, and freight business is the business we like to handle.

Mr. POWER: I realize that and I know the service of freight is considerably better than the C.P.R. freight service.

Mr. GORDON: That is what we like to hear.

Mr. HAMILTON (*York West*): I think a great deal of this suspicion arises because of the fact that the pooling arrangement went so far and then seemed to stop. It is difficult for people to understand that if pooling is a good idea it should stop at places where, in their minds, they feel that Canadian National is in a very good competitive position. When you are talking about the report you will be making next year it must occur to you that if the pooling arrangement is good in some places there must be other places where your position is not so good and where it might be to your advantage to look further into it—either that or you could try to reach a position where you could take advantage of your competitive possibilities.

Mr. GORDON: It sounds to me as if you had been listening to some of the discussions we have been having on pooling.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): I should like to ask one or two questions now with regard to the pooling arrangements, and if I do not understand things quite clearly perhaps you could clear up the points concerned. I wonder whether as a result of these discussions there is likely to be more pooling or less pooling?

Mr. GORDON: I don't know. It could be either. It is possible there will be more pooling. I won't rule out that possibility. I understand Mr. Hamilton, you may be referring to a possible extension of the pool west of Toronto. I am not breaking any confidences when I say that has been under active consideration over the years but it has not been found practicable. It is possible that we might decide it will be to our mutual advantage to extend the arrangement. As I say, I don't rule it out.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): You would be inclined to rule out any reduction in pooling?

Mr. GORDON: I do not rule out anything at the moment. The matter is entirely in a state of examination. We have thought about this even to the ultimate extent of pooling all passenger trains. That is a possibility. Another possibility is to give up everything and be strictly competitive, as Mr. Hamilton would like to have it.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Were pooling to be eliminated on the Ottawa Toronto run there would be a tendency to have more departures because both companies would have their trains on the run.

Mr. GORDON: That might possibly be the case, but it should be borne in mind that we might continue to regard each other as sensible competitors and not run trains at the same time. We have a line Ottawa to Toronto for instance which is not now in a condition to handle passenger trains at the high speeds at which passenger trains have to be run. If we put on a competitive service we could not run over the C.P.R. line any more than they could run over our line from Montreal to Toronto. So if we decided to run our own passenger train to Toronto we would be facing very heavy capital expenditure and we would have to consider whether that capital expenditure was worthwhile considering the probable return and other directions in which that money might be spent.

The CHAIRMAN: Shall the item under that heading carry?

Carried.

The CHAIRMAN: We shall come now to the item headed At the Years' End.

Mr. CHURCHILL: Mr. Chairman, in paragraph 82 occurs this phrase:

> "Payroll costs account for an unusually high proportion (nearly 50 per cent) of total operating expenses....."

I have been wondering about the use of that phrase "unusually high proportion". In relation to what is this proportion considered so high? Is it being measured against other years of operation, or against other railroads or what?

Mr. GORDON: In relation to comparisons with other types of industries.

Mr. CHURCHILL: What comparisons with other industries can you give us?

Mr. GORDON: Any industries at all—the telephone business, the oil business, any form of industry at all. Their payroll costs do not run as high those of a railway company for the simple reason that high payroll cost is a characteristic of a service industry, and that is what we are.

Mr. CHURCHILLS Is it fair to compare your costs in this regard with those of other industries in those circumstances? Should the comparison not be only with other service industries?

Mr. GORDON: I am not comparing it, I am only making an editorial comment.

Mr. CHURCHILL: You say the costs are unusually high...

Mr. GORDON: What I am indicating is that control of our payroll costs is a vital factor with regard to our own economic health—that such a high proportion of our costs of doing business lies in the payroll so that anything that affects our payroll affects our ability to pay our expenses out of revenue.

Mr. FULTON: Before you carry this item I have a question or two relating to the income account and the figures for passenger revenue.

The CHAIRMAN: I thought I would go on and deal with the heading Balance Sheet and the statistical matters at this point but if you wish to carry the report I will permit questions now. If the committee is willing to carry the item Statistical Statement I will permit Mr. Fulton to put his question on that, but if there are many questions on the other matter we shall have to deal with the subject individually.

Mr. HAHN: Before you leave this item Year End, and with reference to what Mr. Churchill has said, would you go so far as to say, Mr. Gordon, that any change in salaries would be more quickly reflected in the charge to the public than in the case of any other industry?

Mr. GORDON: Any change in our payroll costs has a greater impact on our ability to pay the expenses of the railway out of revenue because the expense of our payroll bears such a high proportion to total expenses. If you will turn to page 7 of the statistical summary you will see there the distribution of our operating expense dollar and it is shown that out of everything we spend labour takes 59·72 per cent. That is where I get the round figure of 60 per cent —60 per cent of every dollar we spend. It is obvious therefore that, if this cost increases, our ability to pay our expenses out of income is reduced.

Mr. CHURCHILL: In 1939 the proportion was higher.

Mr. GORDON: That is true.

Mr. CHURCHILL: That is why I wondered when you spoke about it being "unduly high".

Mr. GORDON: It is an unusually high percentage of our expense dollar. I am not arguing that our costs of labour are unusually high; I am not arguing that point at the moment. I am simply saying that it is a matter of great practical importance to the operation of the railway that an unusually high proportion of our expense dollar has to go in labour costs.

The CHAIRMAN: Shall the heading Year End carry?

Mr. HAMILTON (*York West*): With regard to the decision to "rework" the finance structure of the company which was carried out a few years ago do you feel now that you are in a fairly good competitive position with the balance sheet or are you still carrying a far greater load of fixed charges carried over from previous lines?

Mr. GORDON: What the recapitulation operation did was to get our interest bearing debt, namely fixed charges, to a reasonable proportion as compared with our equity position vis-a-vis other railroads and while that situation is gradually changing due to the impact of our capital expenditure, from the point of view of fixed charges we are in a position reasonably comparable with let us say that of the C.P.R.

Mr. HAMILTON (*York West*): I gather from looking down the list on page 15, that that situation began to take effect in 1952.

Mr. GORDON: I wonder if you would mind repeating that?

Mr. HAMILTON (*York West*): From looking at your chart on page 15 it would appear that your new financial structure came into being in 1952.

Mr. GORDON: That is right, and then our fixed charges dropped.

Mr. HAMILTON (*York West*): Those fixed charges are again on the rise.

Mr. GORDON: That is right. It is the result of capital expenditures in the meantime.

Mr. HAMILTON (*York West*): Does this worry you at all?

Mr. GORDON: It does, indeed. Perhaps I could take time now to deal with the points that arise. Let me summarize the position for you in this way:

Since 1952, which is the recapitalization year, and taking a five year period to include 1956 and the budget I am presenting today. As part of that five year period, we will be spending on the property for capital account a total of $691 million. That begs the question with regards to some retirements; it is a net amount after we have charged against that figure our retirements but not our depreciation. It would be of interest to note this: that of the

$691 million increase in capital $624½ million has gone directly into C.N.R. property; $38½ million has gone in advances to T.C.A. and $28 million arose out of an increase in our working capital.

Where did we get the money? The money came from $100 million in the form of equity capital provided by the government through the preferred stock arrangement, $93 million of it was out of depreciation as distinct from retirement, and $498 million came from borrowing. That sum of roughly $500 million of borrowed capital has been borrowed from the public market by the sale of C.N.R. bonds guaranteed by the government and we pay interest on those bonds. That represents our increase in fixed charges and roughly speaking that borrowing will increase our fixed charges by about $17 million. This has been gradually building up, but if you take just the round total of $500 million our interest charges will be increasing by about $17 million annually, a sum which we have to earn out of the property. That means that as of the date of the recapitalization 72 per cent of our capital account was in the form of equity on which we are not obligated to earn interest but on which we should pay a dividend if we can, and 28 per cent was in the form of interest bearing loans or borrowing from the public. That is how things stood at the time of recapitalization.

After we have spent this $500 million the proportion will then change roughly to 60 per cent in equity and 40 per cent in interest-bearing debt or advances, and that 60/40 basis is roughly comparable to the position found in other railways. We are not out of that range yet. The real question is, therefore, the policy of the railway, or the wisdom, let us say, of its management in this expenditure of $500 million. What has it done? Insofar as possible we direct our expenditures to what we call self-liquidating projects, where we obtain enough advantage out of it either in the form of additional earnings or savings to meet the interest charges on the new borrowing. So long as we can do that it is sound business practice and moreover it increases and improves our ability to serve the Canadian public. Therefore I can say to you that as of now the increased improvement which the company is deriving in the form of revenue or savings is more than enough to take care of the increase in its fixed charges. That is the way we stand now. But two questions have to be met. One is that this apparently satisfactory result has been due in large measure to the high returns which we obtained from our capital expenditure on the dieselization program. In the early stages of dieselization those savings were at their maximum because we deliberately selected those services which would give us the biggest return. We have now entered upon the stage where though the whole program is still based on economic considerations the amount of return will be subject to the law of diminishing returns. I can say therefore that we are just at the point of having to worry about our ability to keep ourselves in that position, and one of the most difficult problems confronting the Canadian National management is to ensure that the economic benefits which are scheduled to accrue in connection with this capital expenditure are not diverted into meeting steadily increasing current costs, the most important of which are wages and materials. If we find that the savings which we get from these capital expenditures have to be used to meet rising current costs they will not be available to prove the point I am making. If we cannot increase current revenues and get them adjusted to offset the effect of current cost increases the net result would be a growing inability to provide any return whatever on our equity investment and make it increasingly difficult to service the outstanding debt out of our earnings.

Mr. HAHN: We have then reached a critical stage in railroad financing if we go beyond this 60/40 ratio?

Mr. GORDON: No, that is not the real danger in the outline I have given you. There is no magic in the 60/40 division. What I say is that the 60/40 ratio is a place where we commence to watch very carefully, but so long as we can make capital expenditures produce savings or increased earnings which will more than offset the charges for interest and depreciation, the expenditure is justified. We shall be watching the situation, and we take, for our managerial purposes, the view that unless the specific capital expenditure proposed will yield 15 per cent either in the form of savings or by way of additional revenue it is not self sufficient—it is not self liquidating. When we look at our capital budget, therefore, and we see any capital project that appears as if it going to earn less than 15 per cent we give it a very hard look. Sometimes if its earns 12 per cent we say: "this is a marginal case, it is useful and we will go on with it" but we do go right down to the point where we have capital projects that earn us nothing whatever. An outstanding and colourful example of that which occurs to me is the building of stations. Now it is nice to build stations. I love to build stations, but when I look at them in the light of the tests I have been outlining to you, in most cases I can see no additional revenue and no prospect of savings to service the capital involved. There may be some, I suppose, but it in no way measures up to the 15 per cent yard-stick I have mentioned.

There is one additional point I should have made. Another part of our difficulty in connection with our capital expenditure is that we are paying out money today to replace capital assets at today's prices, but our depreciation charges are based on cost price. No accounting formula has been devised to take care of that. The result is we have to pay out more dollars to produce the same thing when worn out after 20 years service and that tends to make it difficult for us to earn enough to service the new capital.

I repeat that in giving you this analysis of the $691 million expenditure I have taken fully into account the fact that we have been dealing with inflated dollars. Up to this moment I can defend all this expenditure as being prudent expenditure earning its keep, and if we can maintain our current costs in proper relation to current revenues this property will stand on its own feet and it will be able to show a profit though perhaps never to the point where we shall fully service our equity capital to the extent it should be—but at least providing a reasonable return on equity capital.

Mr. FULTON: In the figures you have given and the factors you have mentioned as to the point to which you could borrow are you taking into account the repayment of the borrowed capital?

Mr. GORDON: That is offset—the only point that arises is when we come to our refunding operations the question is, can we refund at an interest rate that will be as good as the original interest rate, and over the years the tendency has been somewhat downward. As you know that is begining to look a little more serious.

Mr. FULTON: You are not so much concerned with the question of the actual repayment of borrowed capital?

Mr. GORDON: The only difficulty about refunding is to choose the time for a market operation that will enable us to sell a bond issue at an interest charge not too far removed from the previous interest.

Mr. FULTON: You do not regard it as undesirable, necessarily, to have a heavy borrowed debt?

Mr. GORDON: No, subject always to market conditions. If we were running now into a terrific period of economic uncertainty and interest rates were to rise spectacularly and we happened to have a maturity at that time we would be prejudiced. If you look at page 9 of the statistics you will see our funded debt and in the left-hand column the rate of interest paid from time to time. That rate of interest is purely fortuitous in the sense that it relates to the period during which we went to the market to do the borrowing. The matter of judgment in all this is always to try to go to the market with a maturity on such a basis that you won't increase the interest charges, and you can adjust that, of course, by the terms of the new funding.

Mr. FULTON: I had always conceived it as one of the outward aims of management in companies to pay off their funded debt, but perhaps that is a wrong apprehension on my part.

Mr. GORDON: It is not necessarily so. It depends on the type of business. So long as we get revenue at a rate of interest that is not too far removed from what we have been paying it does not worry us.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Is it not ordinary commercial policy to redeem outstanding bonds following the line of depreciation of the equipment or the improvements that you have made with the money you have borrowed? One would have a top-heavy bond indebtedness if this stuff were depreciated over a period of years and the original debt was still being carried.

Mr. GORDON: There is one peculiarity about C.N.R. financing that we should keep in mind. In a private enterprise company the policy of management is to decide how much each year shall be taken out of earnings and devoted to replacement—earnings that are not paid out as dividends but retained to "plough back" into the property. By that means you can, to some extent, combat the problems of inflation. In the C.N.R. we have no such possibility but under the recapitalization scheme it was arranged that each year the government should invest in the C.N.R. three per cent of its revenues in the form of preferred stock, and that stock carries the obligation to pay four per cent dividend if earnings permit. The effect is that when we get our earnings for the year we start off by paying our interest, looking after income tax if it is exigible, and then the balance of our earnings has first of all to go in the form of paying four per cent on our preferred stock, and if we have anything left over, that has to be paid to the government. But as a practical matter, to earn four per cent on our preferred stock right now would amount to some $32 million annually. What we earned this year is a surplus, so-called, of 10·7 millions which worked out as a dividend of 1·3 per cent on account of this four per cent preferred stock.

Those dividends are not cumulative. We pay over the portion that we can but before this question of retained earnings can become a practical matter at all we would have to be earning enough money to pay four per cent on the preferred stock and that would mean at the present time $32 million to take care of that original dividend requirement.

If the C.N.R. were in a position to pay that dividend, as it should be by any normal business standards, at that point I would be raising the question as to whether or not any further surplus should be used to reduce the interest bearing debt. I would be asking the House then to consider whether or not it is not good business—as I would be advocating—that surplus earnings should be retained for the purpose of reducing interest-bearing debt so that we should not be continually adding to our capital debt. But this is so far into the future that I am not considering it in any practical light.

Mr. HAMILTON (*York West*): You do not think it would be wise for that surplus to be used for that purpose now?

Mr. GORDON: I would welcome it, but it does not meet the statutory rules.

The CHAIRMAN: Shall the item carry?

Mr. HAMILTON (*York West*): If this situation should continue, that is the payment of amounts back on this dividend without a reduction in any way of the bond indebtedness and we continue to borrow—I gather that the critical situation lies not in the ratio of 60/40 but in the fact that the railway might be called upon to meet larger operating expenses and the money taken out of funds which should have been set aside to meet the 15 per cent over-all carrying charge on borrowing?

Mr. GORDON: I certainly congratulate my pupil. You have got it.

Mr. HAMILTON (*York West*): If that should occur we will have set ourselves back to the point where we were before we took over all these lines; we will be faced by the fact that the government will have to step in each year and meet this bonded indebtedness.

Mr. GORDON: Subject to this—that any earnings which are made will first be used to reduce the net over-all deficit which will have to be met by the government.

Mr. HAMILTON (*York West*): That is a situation we should attempt to avoid at all costs.

Mr. GORDON: It boils down to this simple statement, that current revenues in the C.N.R. must be adequate to meet its ordinary operating expenditures and to meet these fixed charges and pay a reasonable amount of dividend if the C.N.R. is to avoid getting into a deficit position. A deficit will happen if we use for current expenses the money that we should properly be keeping for the servicing of the debt and which the capital expenditures have produced. These capital expenditures are producing a yield which is more than sufficient to take care of their interest cost. That money should not be diverted for the purpose of paying current expenses. Those must be paid out of current revenues, and if we get into a position where is not being done, difficulties will, I think, definitely arise and we shall only be unable to pay anything on our equity investment but we may have trouble in meeting our regular fixed charges.

Mr. HAMILTON (*York West*): That is something that should be prevented at all costs or you will be right back facing the need for another recapitalization or writing off of debts.

Mr. GORDON: If we have to meet any marked rise in the cost of labour, supplies, or materials—I am not arguing now whether wages are adequate or not,—if we have to meet a marked increase in the cost of labour and supplies we must find some means of increasing our revenues. We must increase freight rates. We only have two sources from which to meet this: the first is through an increase in freight rates and the second is to get savings out of the property by cutting out services and things of that kind.

Mr. CHURCHILL: Increased volume would have some effect.

Mr. GORDON: Certainly, but I put that under the heading of earnings.

Mr. BELL: Did you submit a brief to the royal commission?

Mr. GORDON: Yes.

Mr. BELL: I did not have a copy as a member of parliament and I was wondering if you could make it available in the same way as T.C.A.?

Mr. GORDON: Certainly. Would members of the committee like to have a copy of the brief?

Some Hon. MEMBERS: Yes.

Mr. GORDON: I will see that that is done.

I hope what I have said will not be interpreted as a prediction of steadily rising freight rates. I am pointing out the logic of events; I am not predicting freight increases.

Mr. CHURCHILL: If population and production increase you would get the volume and might not be faced with the necessity of increasing freight rates?

Mr. GORDON: Yes, but the handling of volume would have to be tested by the capital expenditure necessary to meet it, and if it means that the capital expenditure will yield us a minimum of 15 per cent either in the form of revenue—that means increased volume—or in savings in operation it will pay its keep.

Mr. CHURCHILL: You seem to suggest here in the last two sentences of the report that you find difficulty in justifying the additional freight structure "in the light of the realities of a strongly competitive transportation market."

I wonder if the use of the word "traditional" and this word "realities" reflect your opinion now that the old freight rate structure is unreal in relation to modern conditions?

Mr. GORDON: I have developed that point in the brief which Mr. Bell has referred to. It has been developed there at some length and I think you will find a complete reply there. If I might take the point and put it in a sentence I would say: my personal opinion is that the freight structure of the North American continent does not recognize modern realities and does not recognize the great change which has taken place in the transportation industry. I do not mean rates alone but the form of competition and so on. I have developed that argument at some length in my brief.

Mr. CHURCHILL: There will be no change in some things over the years, such as bulk commodities?

Mr. GORDON: The big question facing the rail industry is how to get enough revenue out of one type of operation to enable the railway to discharge its function as a low rate high volume carrier of certain kinds of products that can only exist on a low freight rate. In other words, part of the railways' duty is to provide service to promote production in Canada of commodities that have to be hauled long distances to their markets and which can only stand a low freight rate. We can only do that if we are able to earn enough money in other segments of traffic to enable us to carry that load and we should be put on a competitive basis in order to be able to do it.

Mr. CHURCHILL: It is competition on the other segments that affects your revenue?

Mr. GORDON: That is a very possible danger. I have developed that point in my brief.

Mr. FULTON: In connection with the general discussion on the availability of revenue, in your table at the bottom page 7 you show us how the operating expenses are distributed and you show that the percentage of total revenue represented by operating expenses has increased from 1939 to the present day from 89·7 per cent to 92·08 per cent which would argue at the same that you are having a decreasing margin available to meet your debt service charges.

Mr. GORDON: Do not fall into the statistical trap of confusing percentages with actual figures. There is something in what you say. This percentage of total revenues we are referring to there relates only to that portion of our expenses which come under operating the railway. They do not include fixed charges, interest or payment of dividend. The fact that it is growing does reduce the margin we have available for the other things but not to any serious amount.

Mr. FULTON: I cannot quite see that—

Mr. GORDON: This operating ratio is a very important figure for us and it is a quick measure of how the railway is getting along, and our operating ratio, generally speaking, is too high.

Mr. FULTON: You have emphasized the danger which would arise were too much of your revenue devoted to labour and material costs. What strikes me as significant is the second portion of the table which we were discussing just now. It shows that in the distribution of the operating expenses labour and materials have declined somewhat since 1932 as a proportion of total operation expenses whereas the item "Other Expenses" has increased very appreciably.

Could you give us an idea what sort of thing is included in "Other Expenses" and what steps you think might be taken to prevent that substantial increase?

Mr. GORDON: There are two reasons for that. One is that our depreciation "write-offs" have heavily increased, which increase the proportion in that type of expense and reduce the proportion in the other categories. The second reason is that volume is increasing. We can reduce a certain amount of our operating expenditure in relation to volume but there comes a point which we cannot go beyond. 1939 is a year of low volume compared with 1955 which would tend to show the labour content would be higher.

Mr. FULTON: What proportion of the item "Other Expenses" is represented by a depreciation?

Mr. GORDON: Mr. Armstrong says he estimated about one third.

Mr. FULTON: It is not a matter of concern, it is a matter perhaps for satisfaction to you that your depreciation goes up, from the point of view of financing future capital expenditure.

Mr. GORDON: One of the reasons why our depreciation expenditure goes up is that buying of new equipment proceeds along these lines: we are putting out more dollars for equipment today than we did 20 years ago. Therefore the depreciation cost is higher, and we have invested very large amounts in equipment in the last five years.

Mr. FULTON: I will defer further discussion on that until later.

The CHAIRMAN: Shall the item carry?

Mr. HAHN: This 15 per cent you spoke of, Mr. Gordon, with respect to earnings or savings—is that a gross figure?

Mr. GORDON: Yes, it is purely our own appraisal of the amount we need in order to cover depreciation and interest charges and any other costs against the capital borrowed.

Mr. HAHN: Are you prepared to suggest investment in other railway lines that do show that amount of profit?

Mr. GORDON: I would certainly not recommend investment in anything to anybody at any time.

Mr. HAHN: You also said that as long as capital costs are greater than the depreciation we were going to have a continuation of this occurrence and we should find ourselves in an awkward position where you might have to come to parliament to get some assistance.

Mr. GORDON: I think you are not quite getting that right. I said that the essential point is to see to it that if possible current revenues are always sufficient to meet current costs of the operation of the railway and the current costs of our financing charges on any outstanding debt plus such amount as may be due as dividends. If we do that we won't slip behind in our ability to meet these charges on increasing capital because most of our capital expenditures are being undertaken on the basis that they are self sufficient. The danger is that we may be driven into a position through a lack of adequacy of current revenue where we shall be using the earnings from those capital projects that ought to be available to pay the interest charges on them.

Mr. HAHN: Would you say then that the amount that you are permitted to write off as depreciation never meets the new capital cost of replacement?

Mr. GORDON: That is the tendency in an inflationary period.

Mr. HAHN: Are you permitted to reassess your capital cost from time to time to compensate for this?

Mr. GORDON: No there is no method of doing that.

Mr. HAHN: But at the present time you would welcome that prospect?

Mr. GORDON: From an accounting point of view it is difficult to work out a formula because the incidence of inflation varies from year to year and from month to month.

Mr. HAHN: The position you are actually in at the moment is that a lot of the old building are fully depreciated but because of the inflationary tendency you are not in a position to replace them?

Mr. GORDON: Yes. What I was trying to say earlier is that in most cases the question of the amount of retained earnings has a bearing on that point. Instead of paying out everything in dividends most companies can retain earnings for that purpose but as we stand now all our surplus earnings over and above our need to meet interest charges and depreciation are being paid to the government. I do not state that as a complaint. I merely state that as an accounting fact, and right now even though we do pay those surplus earnings to the government we are not meeting our obligation to pay four per cent to then as our preferred stock holders. The surplus this year has only provided 1·3 per cent as against an obligation to pay four per cent, and only after we have met that obligation to pay four per cent would I feel it appropriate to raise the question of retaining earnings for the purpose of paying-off some debt.

Mr. FULTON: Is it only the new issues of preferred stock which carry that four per cent obligation?

Mr. GORDON: No. Recapitalization transferred, roughly $750 million of interest-bearing debts into preferred stock, and that four per cent becomes payable on that.

Mr. HAHN: On the new issue?

Mr. GORDON: That is right. On the whole issue.

Mr. HAMILTON (*York West*): You are not on the same basis as the Canadian Pacific Railway which has the right to say "This year we are not going to pay any dividends; we are going to pour this back into our company, or to use it to retire funded debts." They have a discretion which you do not have?

Mr. GORDON: That is right. They can exercise discretion, subject of course to recognition of the fact that the company has to raise money in the market for their securities, and if they pass a dividend at any time it would have a very serious effect from a credit standpoint.

Mr. FULTON: Subject also to what their shareholders might say about it.

Mr. GORDON: Yes, indeed!

Mr. HAMILTON (*York West*): During the depression period they were able to pass it.

Mr. GORDON: Yes, and it seriously affected their ability to raise money, too.

Mr. HAMILTON (*York West*): But it did not necessitate somebody else having to continue to be the guarantee for bonds of some kind?

Mr. GORDON: That is right.

Mr. HAMILTON (*York West*): In connection with that money, you said that you had a plan to raise $500 million, I think it was for the purpose of a modernization program over the last four years and the year to come. Could you give us some idea of where that money was raised? I looked at your list. You can tell sometimes from the way the money was payable and the form of currency. But in this program where did you get the money?

Mr. GORDON: If you will look at page 11 you will find there what happened in 1955 in connection with our 1955 portion of the $500 million, the figure I mentioned before, as covering our capital expenditures for five years. As a statement for 1955, if you take 1955 as an example, you will see there that the government invested in the Canadian National Railways $20·4 million in the form of purchase of preferred stock which I mentioned and you will see that we had to find out of earnings $17·9 million for an increase in depreciation reserves by reason of the higher depreciation on the new equipment. We reduced our working capital by $22·1 million we had a surplus of $10·7 million and the total of all sources of cash amount is $73 million during the 1955 year.

With that cash we paid to the government a dividend of $10·7 million; we reduced the long term debt to the extent of $3,932,864 net, we invested in property in various forms $48·1 million and we made an advance to the T.C.A. of $10·4 million.

T.C.A. pays the interest cost on the advance so that we come out even on that. It does not cost us anything, nor do we make a profit.

Mr. HAMILTON (*York West*): I presume you had to go into the market to get a large proportion of your $500 million? Have you any indication as to where the money was put up?

Mr. GORDON: Yes. It was entirely in Canadian issues. It was sold on the market in Canada, and was spoken for by buyers all across Canada.

Mr. HAMILTON (*York West*): So pretty well all the financing came from Canadian investors?

Mr. GORDON: All of it did. When Canada makes an issue, then in the course of market trading those issues may be purchased and taken to the United States, or anywhere else. This issue was made in Canada and anybody who wanted to pay Canadian dollars for it could buy it. But that is not to say that some American, or United Kingdom, or French investors or anybody else could not buy the issue.

Mr. HAHN: There is no indication that the bonds must be in Canadian hands at all times?

Mr. GORDON: No, there is no restriction upon who owns the bonds. The only stipulation is that they are paid for in Canadian dollars.

Mr. HAMILTON (*York West*): Do you happen to know who owns the bonds?

Mr. GORDON: No. We would not know that. Of course we would know it to the extent that they are registered. But most of them are in bearer form with bearer coupons. They are open to registration if one wants to register them, and when they are registered we would know from the register where they are owned.

Mr. FULTON: What has been their net yield on the average? What is the technical term? What is the discount at which your bond houses under-wrote these for sale to the public?

Mr. GORDON: We have changed that in recent years, and our loans the last two years have been handled for us by the Bank of Canada. The Bank of Canada makes an offer and we realize the net.

Mr. FULTON: What is the net?

Mr. GORDON: If you will turn to page 9 you will see that the last issue was $200 million, and you will notice that they were three and three-quarters per cent, $200 million Canadian National 20 year bonds to mature on February 1st 1974. The issue was sold to the public for an average sale price of 98.89 per hundred. That means that of the $200 million the yield was $197,786,965, and the sale to the public was at a price of 99½ to yield 3·78, and the cost to the railway was 3·83 for that particular issue.

Mr. FULTON: Your experience in respect to the net yield to you is pretty favourable?

Mr. GORDON: Yes. It cost us ·05 per cent to take care of the floatation charges, which is quite low.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): To make sure that I have not that correctly summarized in my mind, do I understand that your line has raised, or would expect to raise before the end of 1956 something in the neighbourhood of $500 million in borrowings.

Mr. GORDON: Since 1952.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Yes, from 1952 to 1956, something in the neighbourhood of $500 million for borrowings.

Mr. GORDON: Yes.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): On the Canadian market?

Mr. GORDON: Yes.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): At an average rate of less than 4 per cent.

Mr. GORDON: That is right. I am only dealing with new capital borrowings. There have been refundings as well.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): This was completely new capital generated for the purpose of your road in Canada?

Mr. GORDON: Yes.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): At a cost to you of less than 4 per cent.

Mr. GORDON: That is right, substantially less than 4 per cent.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Perhaps this question does not follow, but you had a discussion with Mr. Fulton as to operating expenses, and in that connection there is a sharp rise from 1954 to 1955 under the heading of "other expenses" from 12·81 in 1954 to 15·05 in 1955.

Mr. GORDON: Yes.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Looking over the figures which support that rise, it would appear to be almost completely due to non-recurring items in the pension classification.

Mr. GORDON: That is right, $9·7 million.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): So we would expect in your statement next year to see these other expense items dropped back probably to the 12 per cent figure or something of that nature. That would automatically mean that your labour cost item as a percent of your operating dollar would be substantially higher?

Mr. GORDON: Yes. "Substantially" is relative, but it would be higher, yes, if you increase that total, the division of the 100 per cent would be affected.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Let us explore that for a moment. These other expenses are increased from 1939 or from 1953 to the present time, they are gradually increased. Is that not still a little surprising? Would you not expect these, which are mostly fixed charges—would you not expect that with the great increase in traffic, and the fluid rate of expansion of your operations, that such fixed charges would tend to become a smaller proportion of your operating dollar? I can suggest one reason perhaps. Is it not due mainly to the pension plan of the road?

Mr. GORDON: There is a factor in there which you have to keep in mind in depreciation accounting. In 1939 we did not have depreciation accounting of any kind. In 1940 we commenced it on equipment, and starting with 1956 it will be depreciation accounting on everything. So that figure ending in 1939 is not strictly comparable with 1954 and 1955.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): And that would include your pension plan?

Mr. GORDON: Yes.

The CHAIRMAN: Shall the heading "At year end" carry?

Mr. BELL: I have one or two questions, some of which have been covered already; but may I ask you with respect to what you said previously, that the tone of the speeches you made, particularly the New York speech wherein you mentioned that railways are run fairly "feathered", do you not think that within the next few years we should have a complete review of the national transportation picture in Canada?

Mr. GORDON: When I spoke about the restrictions placed on the railways and so on I was not talking about the administration of the Board of Transport Commissioners. The Board of Transport Commissioners administer the law as it is given to them, and our experience has been that they do it in as fair and reasonable a manner as could be expected. What I am talking about is this: that there are certain fundamental changes which have taken place over the years in regard to the whole field of transportation, railways, highways, waterways, airways and so forth, and there has been such a change in that respect that many of the assumptions which were made—going into what I have called the traditional freight rate structure—are no longer valid. I am reminded that when I was appearing before the Gordon Royal Commission on economic prospects for Canada I was looking into the future, and I ventured to say that at some time we shall have to face up to these changed conditions and take a new look at the fundamental basis on which freight rates are being constructed.

Mr. BELL: How would we ever get at those changes, in your opinion?

Mr. GORDON: I think it would probably require a Royal Commission to examine the thing thoroughly, and before that a serious examination by the Board of Transport Commissioners in respect to specific types of rates, but the sort of thing I am outlining would, I think, require legislative action in support of government policy in connection with it, it is a pretty far-reaching sort of thing and I do not want it to be considered that I am advocating a cure-all at all. I am simply giving you my opinion as to the kind of progress which I think must be made if we are to solve this so-called railway problem in regard to earnings.

Mr. BELL: This is extremely important to certain areas in Canada. You mentioned a while ago that perhaps our freight rate structure should perhaps be re-examined. I do not want to put you on the spot over it, because I realize how touchy it is, but would you not think that perhaps the constitutional freight rates such as the Maritime Freight Rates Act and the Crowsnest Pass Act should be examined too, in that enquiry?

Mr. GORDON: If the freight rate structure in the sense in which I was talking about it is to be examined, then all phases of it need to be examined.

Mr. BELL: Would you care to express an opinion of the suggestion which Judge Sloan made in 1954 when he said that the present Crowsnest Pass rate is outdated, and that some form of subsidy should be considered.

Mr. GORDON: No. I think that becomes a question of method and I would not want to be drawn into a comment until such time as I am invited, and I do not think it is appropriate in this context today.

Mr. BELL: There are a great many people who feel that a slight increase in the freight rate for wheat has been long overdue.

Mr. GORDON: Yes, and there are also a lot of people who are against the suggestion.

Mr. BELL: There are a lot of them wheat farmers who are of that opinion. May I conclude with one further statement. I know what various executive officers of the company have expressed recently. What is your opinion about equalized freight rates as far as the Maritime economy is concerned? Do you feel that equalization of freight rates would be beneficial or not?

Mr. GORDON: Equalization of freight rates is another one of those things which is in process of experimentation. I pointed out that the effect of equalization up to now has cost us about $1·7 million which we figure we have suffered in respect to our earnings. The difficulty is that most people consider that equalizaton means reducing freight rates in the particular community in which they happen to be interested. That is not the fundamental task at all in respect to equalization; but in the nature of things, any progress along that line tends to be at the expense of the railways.

Mr. BELL: I agree with you. We had an example this year, just to mention it for the record, of an American potato company trucking their commodity across the border into parts of New Brunswick and there shipping it by train, by rail to the Montreal market under the special freight rates which would be available to them and thereby competing with, and underselling Canadian potatoes at the Montreal market. I think that gives proof that a certain revision as far as the economy of the Maritimes is concerned is long overdue.

The CHAIRMAN: I do not think we should get into a general discussion of freight rates again.

Mr. BELL: You are right.

Mr. CHURCHILL: In relation to Mr. Bell's remarks in regard to Judge Sloan's statement, perhaps I should point out that the Judge's remarks in respect to the Crowsnest freight rates were in the form of an aside, and it was not a judgment.

Mr. BELL: I think I said it was a suggestion.

The CHAIRMAN: Shall the item "At year end" carry?

Carried.

The next is the consolidated balance sheet. Is it the wish of the committee to proceed, or to adjourn until 3 o'clock.

Mr. FULTON: Make it 3 o'clock.

The CHAIRMAN: Very well. The committee will now adjourn until 3 p.m. today when the consolidated balance sheet will be considered. We shall meet in this room.

AFTERNOON SESSION

MARCH 22, 1956,
3.00 P.M.

The CHAIRMAN: We have a quorum, gentlemen. We can commence now with the "Consolidated Balance Sheet". Pages 2 and 3 of the statistical statement—are there any questions?

Carried?

Carried.

Then on page 4. Notes to Consolidated Balance Sheet as at December 31st, 1955 and Major Contingent Liabilities on page 4. Are there any questions on that page?

Carried?

Carried.

"Consolidated Income Account" on page 5—any questions there?

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Mr. Chairman, just before we race through all of these railway operating expenses, pretty well everything is down except "General", Mr. Gordon. Is that a normal situation in a year when traffic is up and business is up?

Mr. GORDON: Well, this change between 1954 and 1955 in the general item of expenses again reflects the item I mentioned this morning, the special item for pensions. It does not normally fluctuate that much. That is a special entry of this year.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): But my point was that nearly everything else in your railway operating expenses had decreased in 1955?

Mr. GORDON: Yes.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): I was just asking whether that was a normal thing to happen in a year when your traffic and your volume and revenues were all sizably increased?

Mr. GORDON: No, I thought we had covered in the previous discussion the 1955 cut in maintenance of way and maintenance of equipment expenditures which was made possible by reason of the higher expenditures we had made the year before that. You will notice that is something that is adjustable from year to year but the significant feature there is under transportation which shows an increase and the "Transportation Account" is where we reflect the increased operating expenses caused by higher traffic. As volume of traffic increases it is reflected in the transportation account, that is, the cost of moving the traffic; and the increase shown there tells you that we had a higher volume of traffic.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Now, there is one other item which we did not refer to earlier and that is the question of your revenue from mail. The volume of mail in Canada has increased year by year, we have had an all-up service, that is, carrying as much first class mail as possible by air for several years and there has been a steady decline in your revenue from mail in the last three years. I am wondering if you can give us an explanation of that.

Mr. GORDON: That reflects the considered policy of the Post Office Department. They have been diverting considerable mail to air, and they have also been going into truck facilities in individual cases in preference to rail. We have been losing under that competition.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): You have some cars which are specially designed for mail carriage—railway mail cars?

Mr. GORDON: Yes.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): What has happened to those?

Mr. GORDON: Well, we use them as long as we need them and if we find we do not need them we will convert them into work cars or something that will be suitable for other kinds of traffic.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Has any of that been done yet?

Mr. GORDON: Well, no, we have had no specific conversions in the last year. We have not, as a matter of fact, many specially designed cars for that service; it is about 57 cars.

The CHAIRMAN: "Consolidated Income Account".

Carried?

Carried.

We then come to "Operating Revenue". Shall that item carry?

Carried.

"Operating Expenses", any questions on "Operating Expenses"?

Shall the item carry?

Carried.

"Operating Expense Distribution" we have dealt pretty well with that, I think. Shall that item carry?

Carried.

Property investment account? Are there any questions on property investment account?

Mr. POWER (*Quebec South*): That is a minus figure on abandoned lines?

Mr. GORDON: Yes.

The CHAIRMAN: Shall the item carry?

Carried.

Investments in affiliated companies not consolidated. Are there any questions on that item?

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Do you plan to consolidate—or perhaps a better word would be extinguish any of these companies at any point?

Mr. GORDON: Are you talking about investments in affiliated companies now?

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Yes. I notice you don't have more than, say, a 50 per cent in any one of them.

Mr. GORDON: Yes.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Is there any possibility of any of these being consolidated?

Mr. GORDON: No. There may be possibility that we would look at the wisdom or otherwise of disposing of our interest if we had a bid for it, but we have nothing actually in hand on any of these now.

Mr. POWER (*Quebec South*): What is the origin of the Canadian National's interest in these companies? Does it date back far?

Mr. GORDON: Yes, most of it dates back to long standing arrangements some of which we inherited from previous railways that were brought into the amalgamation of the Canadian National Railways system itself, and in most cases it represents a joint operation with the railway companies mentioned there where we share their facilities on a basis that is mutually advantageous.

The CHAIRMAN: Investments in affiliated companies not consolidated—carried?

Carried.

The CHAIRMAN: Long-term debt—

Mr. FULTON: Mr. Chairman, have you done the Income Account?

The CHAIRMAN: The Consolidated Income Account, yes, we have carried that Mr. Fulton. Have you a question on that?

Mr. FULTON: Yes, just the relationship between the tables on page 5 and page 6 if you would permit me. I went around to the other elevator because I thought that one was still out of order. Mr. Gordon, I wanted to raise a question about the way in which these figures appear. I do so with some trepidation because I want to say I think the statistical tables you have given us here are very informative and helpful, so I hope you will not think I am taking advantage of that fact in taking the opportunity of asking a question about the way they are set out. I have been impressed by the fact that in these financial returns as they have been laid before us it has always appeared that passenger service is somewhat from the point of view of strict economy the poor relation of other services and in your Consolidated Income Account you show a passenger revenue of $43 million. And elsewhere in the table you have them broken down to show the percentage of the gross operating revenue which they represent. I notice in this breakdown of operating revenue on page 6 there are a number of other items which are certainly related to passenger service although they are not shown as passenger revenue, and I wondered if it would not give a truer and perhaps a more encouraging picture of your passenger operation if they were included in the passenger revenue total. For instance, your sleeping car revenue which is $4·3 million, parlor car and chair car revenue $400,000, other passenger—train $17,000, dining and buffet $3·8 million, restaurants I have omitted because I thought they might use station restaurants and parcel rooms—I should guess that most of the revenue from parcel rooms is because you have passengers using your stations—parcel rooms $56,000 for a total of, I think, $9·5 million which, if you added it to the $43,900,000 passenger revenue, you would get a total of $53 million from passenger car service and revenue in connection with passengers. Do you mind if I ask you whether it would not give a truer picture, a slightly better picture from the point of view of the passenger revenue if they were all included under that general heading?

Mr. GORDON: That is, of course, merely a matter of presentation you have in mind?

Mr. FULTON: Yes.

Mr. GORDON: I am not sure whether that is one of the things that is bound by statistical agreement with the Dominion Bureau of Statistics. We are not entirely free agents in the matter of the method of presentation. This is a matter of statistical agreement on the matter of the form of making returns to the Dominion Bureau of Statistics and also having in mind the Board of Transport Commissioners' regulations as to how we present our statistics. I will be glad to look at the things you have in mind to see whether the presentation could be improved. I personally have no objection to presenting it in a way that will bracket it with the passenger item. I will look at it in relation to next year's report and in relation to what we are required to do elsewhere.

Mr. FULTON: Thank you very much. Another question, if I may, is to ask you if you could tell me what was the total—and I possibly could be able to get it from page 5 and from the items on page 6 under Operating Expenses but I am not sure which ones to pick out—can you tell me the total charge for depreciation this year?

Mr. GORDON: You can pick it out here. I will summarize it for you. You see in running your eye down under Operating Expenses "road property—depreciation—U.S. $1,063,804." Equipment—depreciation—under Maintenance of Equipment is $32,244,907.

Mr. FULTON: That is a big item, yes.

Mr. GORDON: And a small item there for Express Department Equipment —depreciation $292,337.

Mr. FULTON: You have got one up above, Machinery—depreciation—U.S. $88,784?

Mr. GORDON: Yes, $88,784 making a grand total of $33,689,832.

Mr. FULTON: Those items there which are headed Retirements—Road Property Retirements—will those be under your new system of depreciation items?

Mr. GORDON: Under the new uniform accounting, which we will come to, in explaining the budget, those retirements items will still be retirements but will be charged to depreciation reserve account; they won't be a direct charge to our expense account as from the 1st of January 1956.

Mr. FULTON: They will not be?

Mr. GORDON: They will not be.

Mr. FULTON: Are they now?

Mr. GORDON: They have been in the past. Retirements were charged in the past as shown there, yes.

Mr. FULTON: Then, for the purpose of comparison in the future we should not take any account of these retirement items in a comparison of depreciation charges in the future?

Mr. GORDON: They will be eliminated from our operating expense account so that you won't have that comparison in the future. What you will have to compare in the future will be like with like, in the sense of our over-all depreciation charged against the depreciation reserve.

Mr. FULTON: Well, again I can leave further questions on that until we get to the budget. I think those are all the questions I had, Mr. Chairman. Thank you for allowing me to go back to them.

The CHAIRMAN: Long Term Debt and Government of Canada Loans and Debentures.

Mr. BELL: Could I ask what that item is, "Indebtedness to the Province of New Brunswick"? It must be long standing because the interest is five per cent.

Mr. GORDON: I can't tell you specifically. I am sorry, I have forgotten it but it has to do with the indebtedness of one of the companies taken over at the time of the Canadian government railways and probably a short branch line or short portion of line where money was borrowed from the government at that time and which was taken over against the maturity date of November 15, 1958.

Mr. BELL: Would it be Temiscouata?

Mr. GORDON: No, it would not.

Mr. BELL: Well, from the information as it appears there it appears it is an indebtedness of the Canadian National to the province of New Brunswick.

Mr. GORDON: Or something the Canadian National Railways took responsibility for when we took over the line.

Mr. BELL: There would not be any effort to make any prepayments before maturity especially where it is 5 per cent?

Mr. GORDON: We would not expect it. I would be glad to pay if off tomorrow if they would take it but I am sure they would not take it. It is a 5 per cent obligation and we could refinance cheaper than that.

The CHAIRMAN: Shall the item carry?

Carried.

"Companies Comprising the Canadian National Railway System". Are there any questions on this matter? Shall the heading carry?

Carried.

"Source and Application of Funds for the year 1955".

Mr. FULTON: Sorry, I am not quite quick enough. Mr. Gordon, will you expect to show much change in the detail on page 10 and the top of page 11 if you get your consolidation advance as a result of the statute we passed last year?

Mr. GORDON: We are talking now about the table on "Companies Comprising"... yes, as we proceed with our corporate reorganization and squeeze these companies together more disappear.

Mr. FULTON: About how many, do you expect?

Mr. GORDON: Well, I made a statement on this before. As I think I told you, our ultimate object under the plan is to consolidate the system companies in such a way that we will have five major corporate entities, that is, we will have one railway company, one telecommunication company, one steamship company, one hotel company and one realty company. We are making progress in that direction and expect to make a fairly good stab at it again in 1956.

We have under way the consolidation by amalgamation of 17 Canadian subsidiaries as well as applications for the surrender of the charters of several other companies. Some of those are in the United States so that we would hope maybe this year a minimum of 17, but I would make a guess that we will be getting close to our objective in the course of the next three or four years.

Mr. POWER (*Quebec South*): Would that include taking over the Canadian Government Railways?

Mr. GORDON: No, that is not in this particular scheme although we have ideas in connection with that which will have to be worked out. We run the Canadian Government Railways to all intents and purposes as a part of the system now. It is merely a bookkeeping differentiation in regard to the equity stock.

The CHAIRMAN: Shall the item pass?

Carried.

We come now to the heading "Source and Application of Funds for the Year 1955". Are there questions on that item?

Mr. FULTON: Would you please, Mr. Gordon, clear up my confusion with regard to the question of depreciation? You told me a few moments ago that total depreciation charged to operating expenses was $33,689,832. You show an increase in depreciation reserve of $17,972,536. I admit to not too clear an understanding of the whole question on how you handle depreciation but wouldn't your depreciation reserve reflect the amount you actually charged for depreciation?

Mr. GORDON: If you will turn back to page 2 of the green statistical tables you will find under the heading of Property Investment on the asset side a total less recorded depreciation of $248,160,824.

Mr. FULTON: Yes.

Mr. GORDON: That figure in the 1954 balance sheet was $230,188,000. The figure is shown on the other side of the balance sheet in 1955. However, it is the same figures we are comparing; and in the 1954 balance sheet the figure was $230 million odd and in the 1955 balance sheet it is $248 million odd. The difference is approximately $18 million and that agrees with the figure you are looking at now in the statement of source of funds.

Mr. FULTON: And how is that arrived at? Is that too complicated an explanation?

Mr. GORDON: No.

Mr. FULTON: What I am seking is why the amount charged as depreciation in expenses is not the same as the increase in your depreciation reserve.

Hon. Mr. MARLER: Is there a substantial difference?

Mr. FULTON: Yes, $16 million.

Mr. GORDON: The difference you are looking for is between $33 million and the $18 million?

Mr. FULTON: Yes.

Mr. GORDON: Mr. Fulton, the figure which I gave you tatalled $33,689,000.

Mr. FULTON: Yes.

Mr. GORDON: There is a small adjustment which will add $562,000 to that figure.

Mr. FULTON: Yes.

Mr. GORDON: That brings a figure $17,972,000. No, I am sorry, I gave you $33,689,000. That is what I am referring to and by making the adjustment I referred to add the $562,000 on to that figure. Well, it is a minor adjustment in any event, but at all events if we allow for separately operated properties and hotels the figure we are talking about bceomes $34,712,000. Now, you want to reconcile that with the $17,972,000?

Mr. FULTON: Please.

Mr. GORDON: And the explanation of that is the retirements, that have been charged against depreciation account during the year.

Mr. FULTON: And those retirements are—

Mr. GORDON: They are not the retirements included in the operating expenses.

Mr. FULTON: On page 6—they are not those?

Mr. GORDON: No, they are not those. All this confusion will be settled in 1956, but under the system which was still operating in 1955 certain retirements were charged direct to expenses and other retirements were charged to the depreciation reserve. That figure that you are searching for cannot be found in our accounts because it is netted, it becomes a net figure of $17·9 million. We could have done it another way. We could have made that figure $35 million odd and shown the retirements separately, but the retirements that I am referring to were charged to depreciation reserve and this produced the net increase shown here.

Mr. FULTON: In fact I think your early statements should have been that there is a difference between $17,900,000 and $34,712,000; and the difference between those two figures is what you charge to the depreciation reserve on account of retirements?

Mr. GORDON: That is correct.

Mr. FULTON: Thank you.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): You would also reduce your asset account at the same time, wouldn't you?

Mr. GORDON: Yes.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): It is just a bookkeeping entry?

Mr. GORDON: That is exactly it.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): You take it down, you throw it in the junk heap and it comes out of assets and depreciation?

Mr. GORDON: Yes, a matter of showing gross figures or net figures—one way or another.

The CHAIRMAN: Shall the heading "Source and Application of Funds for the Year 1955" carry?

Carried.

"Equipment placed in Service During 1955".

Mr. HAMILTON (*Notre-Dame-de-Grâce*): On that, is any sustained effort being made, Mr. Gordon, to build up your stock of box-cars?

Mr. GORDON: Well, we make our orders on box-cars in accordance with what we forecast to be the needs for traffic, and we are continually placing orders depending on our appraisal of the needs of traffic for the coming year. So that you will find here we had outstanding as at December 31, 1955, orders for 3368 box-cars which are in the process of delivery. Most of them will be delivered by the middle of the year, so the next two or three months will see that cleared up. When you come to the budget you will see an item for the approval of a further order for box-cars for this year which will be placed later in the year.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): That will represent a fairly major change in the forecast of the railroad as to general economic conditions in Canada as at the end of 1954 and the end of 1955, will it not, because at the end of 1954 you had no box-cars on order; at the end of 1955 you have 3300?

Mr. GORDON: Well, that was a question of timing, really; and there is another factor in there, and that is, of course, the number of box-cars we retire, worn out or destroyed.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): They were about the same in each year?

Mr. GORDON: I think that is right.

Mr. HAMILTON (*Notre Dame de Grace):* Well, you retired 2439 in 1954 and 2464 this year so the increase in what you estimate to be your requirements in box-cars represents the view of the management of the railway?

Mr. GORDON: That traffic is increasing.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): That traffic will be increasing and there will be more use for box-cars?

Mr. GORDON: Yes, but there is another important factor that should be kept in mind there, and that is our treatment of what we call bad order cars. In 1955 I think I mentioned that we reduced the percentage of bad order cars that were waiting for repairs from about 6·7 per cent to about 3½ per cent and that put about 3,000 cars into service by reason of keeping repairs down as low as possible.

The CHAIRMAN: Shall the item carry?

Carried.

"Inventory of Railway Equipment".

Carried.

"Statistics on Rail Line Operations".

Mr. HAMILTON (*Notre-Dame-de-Grâce*): I just have one brief question on that and it is this, just something I cannot understand in this presentation, Mr. Chairman. Under "Train miles" for passenger service there are 23,559,000 odd, and under locomotive miles in passenger service 23,418,000 odd. In other words, there are less locomotive miles in passenger service than train miles, and I was wondering why that would be. I would assume the figure for locomotive miles should always be the same because for each train you would have to have a locomotive.

Mr. GORDON: Now, we run self-contained equipment like "railiners".

Mr. HAMILTON (*Notre-Dame-de-Grâce*): In other words, the difference in your passenger service represents the self-cointained units—Budd, R.D.C.'s and things like that?

Mr. GORDON: I cannot say that precisely. I think that would be one reason. Mr. Marler is a better railroader than I am. He reminds me, too, that we have mixed trains and the locomotive that is hauling the train would be credited to freight, whereas the passengers would not be.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): I thought you would like to explain the running of a train without a locomotive.

Mr. BELL: Under this car ferry inventory regarding the Bluenose I realize you have not a bill for the repairs to the Bluenose, but I was wondering if there has been a report or assessment as to when the damage was done, under what circumstances and the approximate cost?

Mr. GORDON: I presume you are referring to the propeller damage?

Mr. BELL: Yes.

Mr. GORDON: The propeller was repaired in drydock only last week and I have not got the account yet.

Mr. BELL: Was there any report or investigation conducted into just where the propeller was damaged?

Mr. GORDON: We have no report on that yet. The situation now is that the channel is being examined to see if we can locate what caused the damage.

Mr. BELL: You would have asked for a report, though, about a matter such as this?

Mr. GORDON: That is right. We do not know yet just where the damage occurred.

The CHAIRMAN: Shall the heading carry?

Carried.

The CHAIRMAN: "Revenue tonnage by commodities." Shall this item carry?

Carried.

The CHAIRMAN: "Operated mileage at December 31, 1955."

Carried.

The CHAIRMAN: A 25-year synoptical history of the Canadian National Railways. Shall the item carry?

Carried.

The CHAIRMAN: Shall the report of the Canadian National Railways for the year 1955 carry?

Carried.

The CHAIRMAN: Could I have a motion. Moved by Mr. Legare, seconded by Mr. Power, that the report of the Canadian National Railways for the year 1955 be carried.

Carried.

Mr. GORDON: Mr. Chairman, I have asked the privilege to make a short statement in regard to press comments that have been carried respecting some statements I made yesterday on the question of handling wheat. This statement has been called to my attention and the headline, I think, is what disturbs me more than the content of the message. It states here that I have blamed the wheat board for the wheat tie-up during the winter. Now, I want to make it perfectly clear that I was simply explaining the railway's situation as it applied to the movement of wheat and I thought I took great care to point out that I do not know whether it is possible for the wheat board or any other agency to forecast what kinds of grades need to be moved into position to meet wheat marketings. I am not attempting in any way to blame any board or to analyse anybody else's activities. I am simply referring to what the railway situation was.

I am informed that in the west there has been a good deal of, perhaps, excitement about my statement. I want to make it perfectly clear that I am not trying to apportion blame. I was simply in this committee trying to explain the railway's situation and that is all.

I hope the press will give that the same degree of attention as they did to my statement of yesterday.

The CHAIRMAN: I think now, gentlemen, we may move on to the capital budget of the Canadian National Railways for the year 1956.

CANADIAN NATIONAL RAILWAYS

YEAR 1956

SUMMARY

PROJECTS	1956 Proposals	Estimated cost to complete projects authorized in prior years	Total	Page
ROAD PROPERTY				
Line Diversions	$ 4,900,000	—	4,900,000	
Roadway Betterments	56,045,000	2,539,000	58,584,000	
Large Terminals	4,992,000	41,330,000	46,322,000	
Yard Tracks and Sidings	3,016,000	767,000	3,783,000	
Buildings	7,357,000	3,799,000	11,156,000	
Highway Crossing Protection	679,000	302,000	981,000	
Signals	1,934,000	2,531,000	4,465,000	
Machinery	4,884,000	241,000	5,125,000	
General	10,749,000	5,268,000	16,017,000	
Miscellaneous Equipment	720,000	54,000	774,000	
Communications—Commercial	9,377,000	6,475,000	15,852,000	
Communications—Railway	89,000	127,000	216,000	
	$104,742,000	63,433,000	168,175,000	(3)
BRANCH LINE CONSTRUCTION				
Terrace-Kitimat	—	922,000	922,000	
Hillsport-Manitouwadge	—	1,878,000	1,878,000	
Beattyville-Chibougamau-St. Felicien	—	25,228,000	25,228,000	
	—	28,028,000	28,028,000	(4)
EQUIPMENT				
Additions	1,209,000	897,000	2,106,000	
Conversions	1,264,000	—	1,264,000	
New	139,500,000	40,900,000	180,400,000	(5)
	141,973,000	41,797,000	183,770,000	
HOTELS	4,544,000	16,064,000	20,608,000	(6)
INVESTMENT IN AFFILIATED CO'S	14,430,000	—	14,430,000	(7)
	$265,689,000	149,322,000	415,011,000	

EXPENDITURES

Estimated Expenditures Subsequent to 1956	$112,182,000	69,265,000	181,447,000
Estimated Expenditures—1956	153,507,000	80,057,000	233,564,000

NOTE: The amounts required for refunding and/or retirement of maturing securities are shown on Page 284 hereof.

CANADIAN NATIONAL RAILWAYS

STATEMENT OF FINANCING AUTHORITY REQUIRED
WITH RESPECT TO CAPITAL BUDGET

YEAR 1956

GROSS CAPITAL EXPENDITURES:		
Road Property	$ 84,077,000	
Branch Line Construction	9,875,000	
Equipment	116,147,000	
Hotels	9,035,000	
Investments in Affiliated Companies	14,430,000	$233,564,000
SOURCE OF FUNDS:		
Depreciation Accruals, etc.		74,570,000
Issue of Securities:		
Preferred stock	20,555,000	
Additional borrowing—1956	138,439,000	158,994,000
		$233,564,000

JANUARY 1, 1957 TO JUNE 30, 1957:

Interim financial authority required with respect to capital projects authorized in 1956 and prior years:		
Capital expenditures		80,000,000
Financing thereof:		
Funds available from depreciation accruals, etc.		35,000,000
		45,000,000
Issue of securities:		
Preferred stock	10,000,000	
Additional borrowing	35,00,0000	45,000,000

COMMITMENT AUTHORITY REQUESTED

Authority is requested to enter into contracts prior to the first day of July 1957 for the acquisition of New Equipment and for General Additions and Betterments that will come in course of payment after the calendar year 1956 in amounts not exceeding in the aggregate........ $ 90,000,000

EXISTING FINANCING AUTHORITY

Financing authority exists under Canadian National Financing and Guarantee Act 1955, Section 3 (1) (b) for an amount of $40,000,000. Estimated expenditures against this amount are $33,000,000 for New Equipment, and $7,000,000 for advances to Trans-Canada Air Lines.

CANADIAN NATIONAL RAILWAYS

SUMMARY OF ROAD PROPERTY CAPITAL BUDGET PROJECTS BY AREAS

TOTAL OF 1956 PROPOSALS AND ESTIMATED COST TO COMPLETE PROJECTS APPROVED IN PRIOR YEARS

—	Atlantic Region	Newfoundland District	Central Region	Western Region	Grand Trunk Western
Line Diversions	—	—	4,900,000	—	—
Roadway Betterments	9,369,317	2,753,576	19,948,010	24,644,085	812,600
Large Terminals	1,401,878	737,312	36,992,198	1,128,150	6,063,000
Yard Tracks	149,230	92,458	2,807,437	664,957	69,080
Buildings	494,932	18,010	8,383,678	1,910,534	159,700
Highway Crossings	10,316	—	592,472	7,257	363,019
Signals	19,500	—	624,613	3,621,324	90,142
Machinery	919,458	104,258	1,610,200	2,258,000	144,900
General	817,639	618,504	6,279,715	3,557,929	1,100,243
Miscellaneous Equipment	16,138	11,100	22,925	29,030	27,555
Communications—Commercial	—	—	—	—	—
Communications—Railway	—	—	—	—	—
	13,198,408	4,398,218	82,161,248	37,821,266	8,830,239

—	Central Vermont Railway	Other	Total	Memo: Estimated cost to complete projects approved in prior years
Line Diversions	—	—	4,900,000	—
Roadway Betterments	1,056,872	—	58,584,460	2,539,269
Large Terminals	—	—	46,322,538	41,330,963
Yard Tracks	—	—	3,783,162	767,437
Buildings	188,891	—	11,155,745	3,798,668
Highway Crossings	8,071	—	981,135	301,855
Signals	109,107	—	4,464,686	2,530,929
Machinery	88,567	—	5,125,383	241,419
General	97,000	3,482,454	16,016,484	5,267,734
Miscellaneous Equipment	9,565	657,698	774,011	53,512
Communications—Commercial	—	15,851,506	15,851,506	6,474,752
Communications—Railway	—	215,807	215,807	127,033
	1,558,073	20,207,465	168,174,917	63,433,571

CANADIAN NATIONAL RAILWAYS

CAPITAL BUDGET—YEAR 1956

BRANCH LINE CONSTRUCTION

Construction of the following new branch lines authorized by the indicated statutes:

	Authorization	Mileage
Terrace—Kitimat	Chapter 20, 1952	46
Hillsport—Manitouwadge	Chapter 49, 1945	27
Beattyville—Chibougamau—St. Felicien	Chapter 49, 1954	294

BUDGET DATA

	Estimated total completed cost $	Expenditures to Dec 31, 1955 $	Estimated cost to complete $	Estimated expenditure in 1956 $
Terrace—Kitimat	11,500,000	10,578,000	922,000	920,000
Hillsport—Manitouwadge	4,312,000	2,434,000	1,878,000	180,000
Beattyville—Chibougamau—St. Felicien	30,800,000	5,572,000	25,228,000	8,775,000
	46,612,000	18,584,000	28,028,000	9,875,000

CANADIAN NATIONAL RAILWAYS

CAPITAL BUDGET—YEAR 1956

NEW EQUIPMENT

	Estimated cost
Authority is requested for the financing of the undernoted equipment, the financing and/or ordering of which was authorized in Financing and Guarantee Acts in prior years....	$ 40,900,000

151	Locomotives.
24	Passenger Train Cars.
1,975	Freight Cars.
5	Work Equipment Units.
2,155	

Authority is requested for the ordering of equipment estimated to cost $139,500,000, of which $73,000,000 will be required to finance anticipated deliveries in 1956. The particulars of the equipment required, as undernoted, may be revised as to numbers and classes, but the total cost will not exceed the amount of the authorization requested above....	$ 138,500,000

273	Locomotives.
29	Passenger Train Cars.
8,290	Freight Cars.
598	Work Equipment Units.
9,190	

Provision for special experimental equipment and for new types of equipment to be tested in operation....	1,000,000
Total Equipment....	$180,400,000

CANADIAN NATIONAL RAILWAYS

CAPITAL BUDGET—YEAR 1956

HOTELS

Summary of 1956 Capital Projects and Estimated Cost to Complete Projects Approved in Prior Years

Charlottetown....	$ 2,050
Nova Scotian....	2,950
Chateau Laurier....	307,400
Fort Garry....	140,900
Bessborough....	25,200
Jasper Park Lodge....	182,900
	$ 661,400
Queen Elizabeth....	19,946,600
	$ 20,608,000

CANADIAN NATIONAL RAILWAYS

CAPITAL BUDGET—YEAR 1956

Investment in Affiliated Companies

		1956 Budget:
		$
Toronto Terminals Railway		
(Joint with Canadian Pacific Railway Co.)—General Additions and Betterments—C.N.R. Proportion 50%	Cr.	780,000
Northern Alberta Railways		
(Joint with Canadian Pacific Railway Co.)—General Additions and Betterments—C.N.R. Proportion 50%		900,000
Chicago and Western Indiana Railroad		
Advances under agreements of March 1/36 and May 1/52		309,000
Atlantic and St. Lawrence Railroad		
Purchase of Capital Stock		1,000
Sub Total		430,000
Trans-Canada Air Lines		
Advances in respect of Capital Expenditures		14,000,000
Total		14,430,000

CANADIAN NATIONAL RAILWAYS

DESCRIPTION OF MATURING BONDS, PRINCIPAL PAYMENTS DUE UNDER EQUIPMENT TRUST ISSUES AND AN EQUIPMENT LEASE AGREEMENT

Due Date 1956		Amount
January 15	Canadian National Railways 2¾% Equipment Trust Series "V" Certificates	$ 675,000.00
February 1	Canadian National Railway Company 4½% Twenty-Five Year Guaranteed Bond	67,368,000.00
March 1	Newfoundland Railway 2½% Registered Instalment Notes	71,103.00
March 15	Canadian National Railways 2⅛% Equipment Trust Series "S" Certificates	2,800,000.00
March 15	Canadian National Railways 2¼% Equipment Trust Series "U" Certificates	1,100,000.00
May 1	Canadian National Railways 2¼% Equipment Trust Series "T" Certificates	1,075,000.00
July 15	Canadian National Railways 2¾% Equipment Trust Series "V" Certificates	675,000.00
September 1	Pembroke Southern Railway Company 4% First Mortgage Bonds	150,000.00
September 1	Newfoundland Railway 2½% Registered Instalment Notes	71,103.00
September 15	Canadian National Railways 2¼% Equipment Trust Series "U" Certificates	1,100,000.00
November 1	Canadian National Railways 2¼% Equipment Trust Series "T" Certificates	1,075,000.00
December 1	Canadian National Railways 2% Equipment Trust Series "R" Certificates	560·000.00
		$76,720,206.00

CANADIAN NATIONAL RAILWAYS

OPERATING BUDGET—YEAR 1956

	1956 Budget	1955 Actual
	$	$
OPERATING REVENUES	685,000,000	683,088,794
OPERATING EXPENSES		
Maintenance:		
Road	135,500,000	124,727,238
Equipment	134,500,000	128,599,558
Total	270,000,000	253,326,796
Transportation	303,000,000	305,424,559
	573,000,000	558,751,355
Traffic	12,800,000	12,483,417
Miscellaneous Railway Operations	6,700,000	6,754,938
General	43,900,000	51,023,415
Total Expenses	636,400,000	629,013,125
Net Operating Revenues	48,600,000	54,075,669
Taxes and Rents	18,200,000	17,365,033
Net Railway Operating Income	30,400,000	36,710,636
Other Income	5,600,000	7,011,353
Available for Fixed Charges	36,000,000	43,721,989
Fixed Charges	33,400,000	33,004,300
SURPLUS	2,600,000	10,717,689

NOTE: The 1956 Operating Forecast is based on 1955 material prices and wage rates.

The CHAIRMAN: And I believe that Mr. Gordon has a memorandum that he would like to have distributed before we deal with the budget. If you will bear with us for just a moment the clerk will distribute the memorandum which has been prepared by the Canadian National Railways.

Now, if the memorandum has been distributed to all members—have all members copies of the memorandum? Mr. Gordon, would you like to read the memorandum?

Mr. GORDON: If the members of the committee have the memorandum before them, and also open the budget papers at page 1, then we might follow the statement through in relation to the figures, because there are a number of rather technical points and I think you can follow them better in this way.

ACCOUNTING CHANGES

The 1956 capital budget is affected by two changes of an accounting nature.

The first is a change in principle incidental to the uniform classification of accounts ordered for adoption by the Board of Transport Commissioners effective January 1, 1956. The major revision insofar as the Canadian National is concerned has to do with the application of depreciation accounting; the comparison between the methods which will be followed from January 1, 1956 and those followed in 1955 may be summarized as follows:

	New Method Accounting	Old Method Accounting
Road Property (stations, bridges, tunnels, etc.)	Depreciation	Retirement
Track Structure (ties, rails, ballast, etc.)	Depreciation	Replacement
Equipment (rolling stock, vessels, etc.)	Depreciation	Depreciation
Other Physical Properties	Depreciation	Retirement (except hotels, in which case depreciation was employed)

These various methods may be defined briefly as follows:

Retirement Accounting: Original cost of asset charged to expense on retirement, new asset capitalized.

Replacement Accounting: Original cost of asset remains in property account on retirement, new asset (replacement) charged to operating expense.

Depreciation Accounting: Systematic annual charges made to expense and credited to depreciation reserve to record currently accruing exhaustion. Retirements charged to depreciation reserve and new assets capitalized.

I call your attention to the four different classifications—road property which consists of such things as stations, bridges and tunnels. The new method will be depreciation; the other method of accounting was retirement. Now, perhaps I can call your attention to the fact that retirement accounting means that the original cost of the asset is charged to expense on retirement, and the new asset capitalized.

Then, as to track structure, which consists of ties, rails, ballast, etc., The old method was replacement and the new method is depreciation accounting, which means that the original cost of the asset remains in the property account on retirement, and the new asset (replacement) is charged to operating expenses.

In the case of equipment, which covers all types of rolling stock, vessels, etc., we had depreciation accounting and the new method will still be depreciation accounting, which for this purpose is explained as a systematic annual charge made to expense and credited to depreciation reserve to record currently accruing exhaustion. Retirements are charged to depreciation reserve and new assets capitalized.

The other physical properties were subject to retirement accounting except hotels, in which case depreciation was employed.

The general effect on the C.N.R. accounts will be to average out the monthly and annual charges to expense, but it is not expected that the 1956 net operating results will be affected materially.

I would just like to interject that under the old system we tended to have a heavy charge in one month and a low charge in another month, so that you got an irregular impact on expense. But in the new form of accounting the charge to expense for depreciation will be levelled off so that there will not be peaks and valleys in the account.

Now, I have said that I do not expect the net operating results will be changed materially. However, since this change in accounting principle will require the capitalizing of a portion of the track structure,—and I call your attention again to the fact that track structure expenditures meaning ties, rails, ballast, etc., replacements were formerly charged to expense under the new system. The capital expenditures recorded in the books will increase but only against the offset of heavier depreciation charges. The asset value side of the balance sheet will be higher but the charge to depreciation will also increase and the net effect of offsetting one of those against the other will, we think, work out roughly about the same.

Apart from the change in figures caused by setting forth expenditures on a gross basis rather than a net basis the format of the capital budget has been revised with the object of making the presentation more comprehensible.

The first page of the attached budget papers is essentially a project budget. It sets out the total cost of the new capital projects proposed in 1956 together with the estimated cost to complete projects authorized in prior years. These projects are dividied into five main categories and a number of sub categories. It will be noted that the total cost of the 1956 proposals summarized on page 1 is $265·7 million and that, as of January 1, 1956, the cost to complete projects proposed for 1956 and those approved in prior years is $415·0 million. The projects comprising the budget are set out in more detail on pages 3 through 7.

The bottom section of this first page indicates that it is proposed to spend $233·6 million in 1956, leaving $181·4 million to be spent in 1957 and subsequent years to complete these projects. This amount of $233·6 million is the maximum which it is considered can be expended on these projects in 1956 but the carrying of the capital projects to this stage of completion in 1956 is also contingent upon the availability of men and materials. Insofar as can now be determined this program can be carried out but unpredictable delays in delivery of equipment—such as occurred in 1955—or shortages such as steel or other basic materials could result in a substantial under-expenditure.

The second page refers solely to financing and commitment authority requirements and it provides the information from which the 1956 Finance & Guarantee Act will be prepared if the proposals are approved. The top section shows the categories in which the 1956 expenditures will be made and the sources from which the funds will have to be obtained. It will be noted that the additional borrowing requirement is $138·4 million; this is the same amount as would be required if the accounting principles had not been revised and the net expenditure basis had been continued for budget purposes.

Now, turning your attention to the actual figures, you see at page 2 that on a cash basis we propose to spend $84,077,000 on road property, $9,875,000 on branch line construction, $116,147,000 on equipment, $9,035,000 on hotels, $14,430,000 in investment in affiliated companies. The detail of the latter figure will be shown later but I will interject now to say that it is largely T.C.A. financing. This makes the grand total of $233,564,000 cash which I mentioned on page 1.

The next section shows the source of the funds, how we propose to obtain the money to finance these expenditures. An amount of $74,570,000 will come out of depreciation accruals of all kinds under the new system. This includes what formerly we considered as retirements and which were offset in the figures I was mentioning a few minutes ago. There will be a gross total of $74,570,000 in all forms of depreciation.

Then, we estimate that the government will provide us with $20,555,000 by the purchase of preferred stock under the provisions of the recapitalization plan mentioned already several times today, which then leaves us with the problem of finding $138,439,000 to finance our requirements for this year. That is the total which we will in the first instance borrow from the government in the form of an advance, and then go to the public market to sell bonds to pay off the temporary government advance.

The bottom part of sheet 2 deals with legal requirements for commitments and other financing to be authorized. The first item is $80 million which covers capital expenditures included in the figures already read to you, but which will not be spent until the first six months of 1957. Since this budget is prepared on a calendar year basis we need temporary authority to spend money in the first six months of 1957, until we are able to get a Financing and Guarantee Act passed for that year. This will authorize the railway to make necessary payments in connection with delivery of equipment or other capital expenditures. I have shown that we will need $80 million for this purpose. Of this expenditure we estimate that $35 million will be available from depreciation accruals. Of the remaining $45 million another $10 million will come from the sale of preferred stock which is purchased from us each month by the government, and the rest will be additional borrowing for the year 1957.

Then, the $90 million is authority which is requested to enter into contracts for the first day of July 1957. No, I am sorry, I am wrong. It covers contracts prior to the first day of July, 1957 which is before the second half of the year when our new Financing and Guarantee Act comes into effect. It cares for new equipment and additions and betterments that will be paid for after the calendar year 1956. That amount is estimated not to exceed an aggregate of $90 million.

The last item is merely a note which is required under the legislation to point out that there is financial authority existing under the Canadian National Financing Guarantee Act of 1955 for an amount of $40 million and that the estimated expenditures against this amount are $33 million for new equipment and $7 million for T.C.A. The advances to $40 million is the 1955 amount which compares with the $80 million in 1956.

Now, that covers the totals of our budget; and the subsequent pages commencing with page 3 we breakdown in summary headings where we propose to spend the money. If I may ask you to turn back to page one, you will see that under the heading of "Road Property" the grand total is $168,175,000. That covers our new projects, together with those which are in process of completion, a total of $168,175,000.

On page 3 I have set forth the type of work on which that money will be spent. You will find that on line diversions, for example, there is an expenditure for the Central region of $4·9 million. Then we go on through headings to road betterments spread through our various regions—the Atlantic region, the Central region, etc., the total of the tables giving a grand total under each heading. I will pause for a moment to give the committee time to look at those headings, and if there are any questions I think this would be the time to deal with them.

The CHAIRMAN: That is right, I think we might have questions now with regard to the breakdown of the estimated exependitures in the various regions.

Mr. POWER (*Quebec South*): Would all those figures across the first column add up to $168 million?

Mr. GORDON: Those plus the ones at the bottom, the breakdown in each case is between the regions—Atlantic, Newfoundland, Central, Western, Grand Trunk, Central Vermont and others.

Mr. BELL: I would like to ask a question which is perhaps difficult to answer. I was wondering, Mr. Gordon, if these figures that are broken down into regions, bear some persistent percentage or likening to the total revenue of that region; in other words, is there any general rule or yardstick?

Mr. GORDON: No, they are not related to revenue, except in the broad general sense that in years of poor revenue our expenditures are lower, including that portion of them which relates to capital. Rail laying programs are a case in point. There is a fair amount of rail laying expense which is charged to operating as well as the portion which is capitalized, so that in a year of poor revenue we will try to hold that expense down, but we do not gauge our expenditure in any region by the relation to revenue. We gauge expenses in terms of what is needed to give service, whether it be freight, passenger or any other service.

Mr. BELL: Admitting that you do not gauge your expenditures in that way, can you form any opinion as to the fact that less revenue regions would be getting more expenditures because of the fact that they perhaps are lower graded lines and so on, or is the opposite true, that the better revenue areas, because they are better revenue—not because of the decision but because of that fact—would be getting more expenditure?

Mr. GORDON: It depends entirely on the nature and class of the traffic. In other words, we may have lines which are solely freight lines, and there may be places where we are only running a service two or three times a week. Well, we do not need to maintain that piece of line to nearly as high grade a standard as we would if we were carrying a high speed passenger train or high speed express trains every day. We have our standards of servicing the railway broken down into six categories, a, b, c, d, e and f, and our engineers will determine which one of those classifications the line should be maintained under, having regard to traffic requirements. It is on that analysis that we decide on our expenditures.

It may be quite possible that in a transcontinental service a freight train or a passenger train may run through a territory which is very poor, from a traffic point of view, but we still have to maintain the line to take care of the through traffic.

Mr. BELL: I would think, though, that it would be quite necessary to watch generally the expenditures so that you would not find a heavy revenue region being built up and completely modernized as against a generally poor outlying region being cut down.

Mr. GORDON: Well, again, I come back to the point that it depends on the traffic. We do degrade lines in relation to the amount of traffic and we do not maintain lines beyond the standard needed for traffic purposes.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): According to your statement on page 1, the first column is headed "1956 proposals"?

Mr. GORDON: Yes.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Does that represent what we may call new thinking? That is not a reference to anything that has been conceived in the past, perhaps started in the past, and is continuing through 1956? Those are the things in the second column? Is that correct?

Mr. GORDON: Yes.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): My question on that basis is this; what major change in your hotel operation is envisioned with $4\frac{1}{2}$ million for the new 1956 proposals?

Mr. GORDON: Perhaps I was too quick in saying "new building". That particular total, for example, mostly covers furnishings and equipment for the Queen Elizabeth Hotel. It is covered in the budget project item, but most of it will not be expended until after this year. We did budget for the hotel as such as a prior year item in the amount of $20 million for the hotel and something like from $5 million to $7 million for the associated work around the railway; but we did not budget at any time for the furnishings and equipment for the hotel. We are budgeting for that now, this year.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): So the $16 million which is in the second column opposite hotels represents construction work primarily on the Queen Elizabeth Hotel this year, and to be started?

Mr. GORDON: Yes.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): And the $4½ million is for the furnishings, since you are asking for a commitment.

Mr. GORDON: If you will turn to page six you will see the details of the hotels there.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): As a matter of fact, page six gives the answer to the question which I just put to you.

Mr. GORDON: That is right.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Since you are asking for a commitment in respect to equipment and furnishings for hotels in the year 1956, does that indicate that you would expect to see the hotel completed this year?

Mr. GORDON: No. That merely means that we are asking for authority to commit ourselves to that extent. It may take two years to complete the acquisition of the rugs, furniture, furnishings and equipment and we want to try to get most of the ordering done this year. We are still planning on a completion date for the hotel of around February, 1958.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): I have one more question. Is there anything in here which would envision a major development in the terminal facilities in Montreal around the central station there?

Mr. GORDON: Around the central station?

Mr. HAMILTON (*Notre-Dame-de-Grâce*): That has been discussed for some time, as to whether major changes should take place there.

Mr. GORDON: There is nothing in this budget for that.

Mr. WESELAK: On page 3, under the heading "Western region" you have a very substantial sum for signals; are those for signals within the system itself, or are they for highway crossings for the protection of the public, or what?

Mr. GORDON: This would be for railway signals only. Any expenditure covering level crossings would show under the heading above it, "highway crossings".

Mr. POWER (*Quebec South*): With respect to the amount of $981,000 for highway crossing protection, is that sum based upon applications which are now before the Board of Transport Commissioners, or are you simply estimating it?

Mr. GORDON: Both. We have taken an estimate of what we know from past experience that we will likely need to meet, plus those ones which are pending.

Mr. POWER (*Quebec South*): And the figure for projects authorized, those are projects authorized by the Board?

Mr. GORDON: That is right. We are talking about the forecast and those figures may vary from five to ten per cent. We cannot tell exactly and we have an item in contingencies to cover that very thing.

Mr. POWER (*Quebec South*): Suppose you had to construct a special viaduct in Quebec city, it would fall under that total?

Mr. GORDON: Yes, but not knowing that, we would say that we may spend $100,000 this year with an expenditure of $500,000 or $600,000 to follow; we might have to commence the first part of the expenditure and charge it to contingency; but eventually all these things come into our budget before this committee.

Mr. POWER (*Quebec South*): Has the grade crossing fund increased its contribution in the last few years?

Mr. GORDON: Yes.

Mr. POWER (*Quebec South*): You do not have to pay as much as you used to?

Mr. GORDON: The grade crossing fund was increased to $5 million under recent legislation and we get our share of that.

Mr. POWER (*Quebec South*): In the case of a municipality like Quebec, if they wanted to have protection put in, and if the cost, let us say, came to $100,000, the city would have to pay half of it, and one-third of it would come from the grade crossing fund?

Mr. GORDON: It would depend on the crossing, whether the railway was senior or not. It would depend on the circumstances. We have not had too much experience as yet with applications of this type, but in any event the Board of Transport Commissioners decides on the merits of the case and how the proportion is to be split. They will listen to the evidence and decide whether the railway was senior or not.

Mr. POWER (*Quebec South*): Or whether one railway was senior to another one?

Mr. GORDON: That is right.

Mr. CHURCHILL: What area is covered by the Grand Trunk Western?

Mr. GORDON: If you will look at the back of your report, if you have it handy, I think the quickest way is to look at the map and if you can find Toronto on the map—it is somewhere on Lake Ontario, I think the quickest way is to place your eye on Detroit and follow it into the United States starting in the Detroit area. The red lines you see on the map represent the Grand Trunk Western route, right through to Chicago. Everything over the American border in this area is the Grand Trunk Western railway.

Mr. CHURCHILL: That $6 million odd for large terminals, what will be the occasion of that construction?

Mr. GORDON: There are two terminals on the Grand Trunk Western, a point called Flint, Michigan and Battle Creek and they have reference largely to the handling of automobile traffic in those heavy traffic areas.

Mr. CHURCHILL: Where is the cut-off between the Atlantic region and the central region?

Mr. GORDON: I think again the map would show it quickest. If you draw a line running through Riviere du Loup and Monk—everything east of that is the Atlantic region.

The CHAIRMAN: Are there any further questions to page 3 of the budget?

Carried.

The CHAIRMAN: Page 4.

Mr. BELL: On page 2 I wanted to ask a question which is a brief one if you don't mind, Mr. Chairman. With respect to additional borrowing, I was interested this morning to hear Mr. Gordon say that the Bank of Canada handles all the arrangements now, instead of groups of underwriters. Do we actually benefit financially having them make the negotiations, or are they just operating, or are they just performing service that you would have done yourselves?

Mr. GORDON: Well, it is a combination of both, really. We have entered into an arrangement with the Bank of Canada that they will act for us in the flotation of large bond issues in very much the same way as they act for the dominion government. They look after the details of making that offering, through the financial circles. We are not bound to that arrangement for all time; but we have felt that in view of the very large sums involved, which run as high as $200 million that we benefit considerably from being able to use the Bank of Canada's organization. The alternative would be to find a group of bond dealers who would underwrite the issue or manage the distribution; and in our judgment when we get into such large figures the Bank of Canada's organization does that much more acceptably.

Mr. BELL: The Bank of Canada, then, would get the commission or part of the commission that the underwriters would have obtained formerly?

Mr. GORDON: No, the Bank of Canada does not charge us for their services in that respect. They only collect from us their out-of-pocket expenses, and the commission referred to is that commission which is allowed to bond dealers under their arrangements with the Bank of Canada.

Mr. BELL: Well, they are actually in the same position as far as the rates were formerly. It is not cut into their price.

Mr. GORDON: Well, I think if I may reverse the question you are trying to discover whether the bond dealers would have got more money from us under the old arrangement or this one.

Mr. BELL: Do they approve of this plan?

Mr. GORDON: I do not know whether they approve of it or not, but in our opinion—and that is the judgment of management—if we were to attempt to float $200 million ourselves through a combination of bond dealers it would cost us considerably more money if it were an underwriting; and it would cost us more money than we could arrange to do it for through the organization of the Bank of Canada.

MR. BELL: I think this is one time, Mr. Chairman, that Mr. Gordon's previous connections with the Bank of Canada have been very helpful.

Hon. Mr. MARLER: One of many occasions.

Mr. POWER (*Quebec South*): Who are the purchasers generally of these bonds?

Mr. GORDON: Any person can purchase a bond because when the offering is made it is made in the open market, the Canadian market, and anybody who has Canadian dollars can buy those bonds. There are bidders for them from all over the world, and a fairly sizable amount might be bought by such people as American insurance companies. But the vast majority has been purchased so far by Canadians.

Mr. POWER (*Quebec South*): Have been purchased so far by Canadians?

Mr. GORDON: Yes.

The CHAIRMAN: Carried?

Carried.

Page 4, "Branch Line Construction".

Mr. GORDON: That is a summary, Mr. Chairman, of the branch lines now under construction showing the estimated total to complete the lines, the expenditures on each to the end of 1955, an estimate to complete and the estimated expenditure for 1956. This is in accordance with the requirements of the legislation covering those branch lines.

The CHAIRMAN: Any further questions?

Mr. FULTON: Will you tell me if it has been covered before. I apologize for having had to be out for a few minutes. With respect to your depreciation accrual that you expect to have this year, your sources of funds are very considerably higher than the amount of depreciation reserve in last year's capital budget. Is that entirely due to the change in the accounting method?

Mr. GORDON: If you turn to page 2, if I may revert to that—you will see that I explain that this year the cash amount that we propose to spend is $233,564,000.

Mr. FULTON: Yes.

MR. GORDON: Broken down under the five main headings that you see there.

MR. FULTON: Yes.

Mr. GORDON: Then, through our depreciation accruals we get $74,570,000. Now, that is the grand total of all forms of depreciation this year, Mr. Fulton. It includes the retirements figure which formerly was netted out and this gross depreciation has become very much more than it was in previous years; but I have put this on a gross basis to make it clearer to the committee and to myself. So that we are now dealing with this budget on the basis of showing gross, because what we then show is that we are getting the $74,570,000 out of our own earnings from all forms of depreciation. We are getting $20,555,000 through the sale of preferred stock to the government and we will have to borrow from the government or get public finance to the extent of $138,439,000.

Mr. FULTON: A question on that; is it correct to say that the effect then of the change in accounting methods is to increase the amount which you can charge to depreciation for new capital expenditure, and thus to that extent to reduce borrowings you have to make?

Mr. GORDON: No, it will make no real difference on our cash requirements or borrowing requirements. What has happened is this, that to an extent there are certain parts of our expenditures which will now be treated as capital, and the offset to them will be higher depreciation charges. So that the net amount of cash that we need to finance with is the same. But what has also happened is that under the previous method we had an irregular pattern of charges to our expense accounts, depending on whether they were retirements or not. It was an accident of date. For instance, we might have a heavy charge in the month of February as compared with March, and there would be an irregular effect on our accounts throughout the year or even between years. Comparing February of this year with the previous year might show quite an irregular effect. Under the new method we have everything on a depreciation accounting basis, on the basis of the lives of the particular property. So that the charge to depreciation month by month will be a systematic, even amount. After we have got through this year you will be able to take it year by year and make valid comparisons.

Mr. FULTON: So that the amount or the proportion that would have to be covered on your capital expenditure to borrowing remains the same. The difference is that previously you would charge some of your capital acquisitions to operating expense, whereas now the only way they can come out of expense at all is by charging them to depreciation.

Mr. GORDON: That is right; and remember that it averages out over the year; and we do not think it will make much difference to our actual net results by reason of the fact that these former charges tended to average out because of the size of our property.

Mr. FULTON: Then the effect on your capital budget this year I can understand is appreciably larger than your capital budget last year; and that is because you are trying to round out this $500 million program you had in 1956?

Mr. GORDON: No, the $500 million I referred to earlier today had nothing to do with this budget. I was simply giving you the record of our capital expenditures since our recapitalization date in 1952. The main reason why this budget is so much larger will be found in the next item we are just coming to on page 5, which is new equipment.

Hon. Mr. MARLER: Also I think Mr. Fulton was not aware of the fact that in the past the expenditures were on a net basis, whereas they are now on a gross basis.

Mr. FULTON: Yes.

The CHAIRMAN: Shall "Branch Line Construction" carry?

Carried.

"New Equipment" on page 5.

Mr. GORDON: I would like to say a word about this new equipment by way of explanation. You will see there a total amount of $180,400,000. Now, of that amount you will see, starting from the top, that $40,900,000 is already authorized in previous budgets, but has not yet been delivered. In the total of $138,500,000 there is a figure of $35,800,000 covering equipment which has already been ordered in anticipation of the approval of this committee. That in part represents the box-cars which show in our annual report as being on order as of December 31. So that what we are looking at now for new approval is the confirmation of the orders which have been placed, namely, $35,800,000 plus the $40,900,000 that has been regularly authorized, and a new request of $103,700,000.

The figure of $138·5 million covers 273 locomotives, 29 passenger train cars, 8,290 freight cars, 598 work equipment units. To make that clear again, there are 8,290 freight cars we are buying through this budget but of that there are 3,225 which have already been ordered, and we are now dealing with a request for the difference, which is 5,065 cars.

Mr. CHURCHILL: Why is there not an order for freight cars outstanding of 4,593, as your total shows?

Hon. Mr. MARLER: Because they have not all been placed.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Just as an item of interest, Mr. Gordon: what would happen to your commitments if the committee in its wisdom decided that they were not wise?

Mr. GORDON: That is a very fair question, and I would reply to it exactly the same as the Canadian Pacific would reply to it. You will find in the annual report of the Canadian Pacific every year an item to the shareholders which says in effect:

> "In anticipation of your approval your management has placed additional orders"

And I have protected myself to that extent by having the approval of the shareholders' representative, which is the Governor in Council, under the legislation affecting the Canadian National Railways.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): That is the point I wanted to make. There was an order in council passed?

MR. GORDON: No, not an order in council, but under the Canadian National-Canadian Pacific Act anything which shareholders would normally approve can be approved by the Governor in Council. In anticipation of this meeting this particular order, which covers about 3,237 cars, was submitted to government for their approval and is now subject to confirmation here. If you press me further and ask: well, what will happen if the committee does not approve, then, I would have some railway freight cars for sale and I could sell them at a very good profit right now.

Mr. CHURCHILL: The committee now applies the rubber stamp, but this does not relieve the Minister of Transport from the responsibility for these cars.

Mr. GORDON: That is right.

Mr. CHURCHILL: Well, some ministers of transport in the past have indicated to us in the house that they do not have that responsibility, that the Canadian National Railways was operating quite independently.

Mr. GORDON: The Canadian National Railway takes full responsibility for those orders; make no mistake about that. Its board of directors decides to place orders. We are now dealing with the technicalities that the board of directors, having exercised its wisdom in furtherance of the management of the property, comes to you for approval and we are prepared to demonstrate that this order was necessary. If you do not agree, and if the committee cannot get the government to agree or the House of Commons, then there will be a very efficient board of directors of the Canadian National Railways looking for a job, I suppose.

Mr. HAMILTON (*York West*): I understand your procedure all right. Is your planning not sufficiently far in advance that you can say to us today or request approval for your requirements in this list of items for even next year?

Mr. GORDON: That is what we are doing right now. I am giving you our forecast in respect of the coming year. I want to say this, because I think it is becoming more and more the case that under current conditions and certainly under conditions that have been applicable ever since I have been president of the railway, it will have to be understood that there might be cases where we would have to place orders in advance of approval or else we do not run the railway, and that will have to be a condition of management that will have to be recognized. If we had not placed these orders as we did, we would not have got into the production line at all and would have been delayed perhaps for two years.

Right now we are in the midst of a current steel shortage that is very serious indeed; and that gives another example of the kind of thing that must be done in the interests of the property. We placed advance orders on rail last year, again, in anticipation of your aproval of the rail laying program that is included in these figures. If we had not placed those orders we would not have got any rail this year at all. So management has to take a calculated risk in accepting responsibility for placing orders. I am saying what I said about the board somewhat facetiously, and I hope it will be taken facetiously because I do not want to see the board of directors fired. They are in exactly the same position as the management of any corporation. The management must exercise its judgment in the interests of the property it is managing, in the form of almost trustees, and they must place the record of their management in front of the shareholders. The shareholders can confirm or do something else; but it is just an ordinary matter of business. We must have rails. We must have ties or we cannot run a railway. Timing is important in these matters; and our timing is based on an appreciation of the market. Shortages are increasing and if we do not get into the production line we do not get anything.

Mr. FULTON: In this respect do you feel you have any greater or lesser freedom of action to exercise judgment than would the board of directors of an ordinary commercial company?

Mr. GORDON: Very much less discretion, I think, for the reason that we always have very much in mind that when we accept the responsibility we are obliged to account for everything that we do right here, and we are dealing with the sort of thing that can come up in the House of Commons at any time. Therefore we tend to hold our discretion just to those things which can be proved beyond peradventure. We do not take a chance on anything going wrong. We could sometimes do a better job if we had more flexibility, but we only take that responsibility, to repeat, when it is a must, when it is so much of a must that we are able to show any reasonable body of people that it had to be done. If we were more flexible we could do more intelligent planning and perhaps do a better job—it is hard to say.

Mr. CHURCHILL: Mr. Chairman, I do not quite see that there is any lack of flexibility. Is there any instance where decisions have had to be changed or refused on a review such as this?

Mr. GORDON: Never, because we have always been careful to so anticipate your decision that it cannot be refused. But I say we have to exercise our judgment in the light of that, and I was answering the question as to whether or not we had the same discretion about it as a private enterprise corporation has. My answer is no, that there is a restriction on our action in that respect.

Mr. HAMILTON (*York West*): I gather this is a tougher ordeal than the average shareholders' meeting in the average company.

Mr. GORDON: I think so; but I would not classify it as an ordeal. I rather enjoy it.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): At least you do not have any proxy battle.

Mr. GORDON: No, that is true.

Mr. HAMILTON (*York West*): I rather guessed the president of your subsidiary, T.C.A., was planning at least ten years in advance.

Hon. Mr. MARLER: Well, it does not take so long to get a box-car as it does to get a Constellation.

Mr. GORDON: If I may at this point, I had better make myself abundantly clear. Really the question we are discussing is whether or not the president of the railway and his board of directors are prepared to take the degree of responsibility that is necessary for the management of the property.

Mr. FULTON: Are able to take.

Mr. GORDON: And are prepared. There will be instances where my judgment might be yes, we would like to buy and the other directors would say: "Wait a minute, you are going to get into trouble if you go too far out on a limb". That is the sort of discussion that takes place. But I would say in my experience both the board of directors and the president of the railway are prepared to take our share of responsibility when we can demonstrate that it is necessary in the interests of the property.

Mr. POWER (*Quebec South*): When you are advised by your sources that there would be a shortage of certain equipment within the next year and that you would not be able to fill orders for three or four years subsequent would you then feel that you could commit the company to purchase immediately or place an order to be delivered in three years?

Mr. GORDON: Depending on circumstances and having in mind our judgment, the price and that sort of thing. We have a purchasing department and their job is to keep in touch with the market. It is not that we are under threat or anything of that sort by the suppliers, but we judge the markets and we form our own impressions as to whether or not we had better place some orders now or later. These orders that will be approved today, I hope, but we may not place them tomorrow or next month. We might not place them at all.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): But you have placed some?

Mr. GORDON: We have placed some, and that was in anticipation of shortages and needs of traffic.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): But in the T.C.A. system it is an even worse situation where aeroplanes are at a terrific premium, and they have to order four or five years hence.

Mr. GORDON: There have been different commitments, I assume, in respect of long term deliveries.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Would it be correct to say that you are retiring box-cars at the rate of 3 per cent per year?

Mr. GORDON: It runs roughly about that figure.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): You are, however, asking for authorization here to order at the rate of about 10 per cent or more; in other words, 8,290 freight cars. They are not all box-cars, I realize.

Mr. GORDON: But there is also this: you must not assume this is to be a matter of timing that is in a single year. I am getting commitment authority here and I certainly will not get all this equipment this year. There will be a carry-over into next year, and perhaps beyond. You will notice that in this total there is $41 million that was authorized in previous years for equipment which has not yet been delivered. The same will be applicable to these 9,190 units. They will not all be delivered this year.

Mr. POWER (*Quebec South*): The reason that I asked that was that that indicated such a sharp increase in your requests. Now, last year you requested authority, I think, for 1,950 freight cars?

Mr. GORDON: That is right.

Mr. POWER (*Quebec South*): And this year it is five times as great or more.

Mr. GORDON: Because in 1954, you will recall, our traffic was falling disastrously. Starting from the latter part of 1953, through 1954, our revenue declined at the rate of $50 million a year. In the light of that experience we did not place orders nor did we ask for authority in 1953-54 year for what might be called normal replacement. In the light of events, perhaps that was a mistake. We could be criticized that perhaps we should have ordered more, but nevertheless as a matter of judgment at the time, and in the light of conditions at that time we short-ordered rather than normal-ordered, and so we had to pick up the backlog that accrued from that situation.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): You would be prepared to assure the committee that there is no—I think perhaps a good term that we will both understand is "air" in this budget for new equipment—that is, that you actually do expect to order and have every intention of ordering the equipment you are asking authorization here for?

Mr. GORDON: There is no over-ordering in these figures, and we intend to order every car that is there, subject to a re-examination as to types. You see, 8,290 freight cars and we have that broken down into different classifications for our own purposes. As we examine traffic we may switch between types, but we will, in my judgment, be placing orders for all this equipment this year.

Mr. HAMILTON (*Notre Dame de Grace*): To what extent on this budget—

Mr. GORDON: May I make this further comment. I do not want to commit myself about timing of any orders because that puts me in a bad position in the market. I am not prepared to say when we will place these orders. We may place them this month or six months from now, but if the car manufacturers knew I was committed to place orders in the next 30 days, up would go their prices.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): As I understand it we are giving you authorization for the entire order, but I wanted to point up the fact that you were not thinking perhaps in terms of 1957 orders, just in case you might want to place them this year.

Mr. GORDON: No, we will come back next year for that, although the delivery of these cars may extend to 1957.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): One more question along that line—because you mentioned the possible switch from one type to another. How closely are you bound by the totals voted under this budget? For example, T.C.A. when they come to us set forth their budgetary requirements under certain headings, and they can increase or decrease those by 10 per cent within that particular heading provided they stay within their total allotted budget. Now, in your particular case are you free, for example, to move a budgetary item that we have allotted for perhaps new equipment over into some other field?

Mr. GORDON: No; and furthermore, what I have summarized for you here is the classifications. You will see, for example, I have put down 273 locomotives. I would feel free to buy any kind of locomotive, but I would not feel free to decrease the number of locomotives and buy freight equipment instead; we intend to order 8,290 units of freight equipment. I would not feel free to switch from that into buying locomotives.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Now, you don't put down opposite these various items the dollar amounts. You just give us the total amount. I suppose that is to leave you free in the competitive market?

Mr. GORDON: I do not want to estimate the figures we think we will have to pay because that lets the competitors know what my idea of price is; but I can give you a dollar total for the four main headings quite easily.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): No, I would not even press you that far, because it might be at some point used by some competitor.

Mr. GORDON: That is right, they could average it out.

The CHAIRMAN: Shall the page dealing with "New Equipment" carry?

Mr. HAMILTON (*York West*): Mr. Chairman, on the last item which is only a very small one, of course, $1 million, can you just give us an outline of what that would be spent for?

Mr. GORDON: That is purely for experimental equipment. We would like to have $1 million in our research and development work. Well, for instance, we are building a protype of a pulpwood car. We are designing a car for carrying pulpwood much more efficiently, and we want some money to see what we can do about that. The reference there is also to an auto transporter car. We have designed in our own research laboratories a car which we think will enable us to carry eight automobiles in a box-car intsead of roughly three or four.

Mr. HAMILTON (*York West*): I am specifically wondering if within that total it includes any further work on that special track laying method we have been reading about?

Mr. GORDON: No, this is rolling stock only.

Mr. BELL: Mr. Gordon, in this budget there are not any new private cars evidently?

Mr. GORDON: No, there are none this year.

The CHAIRMAN: Shall the item carry?

Carried.

"Hotels"?

Mr. BELL: On hotels, I wonder if we could have a separate income statement of the hotels like we had last year. I don't think they have been given and I remember last year we had them.

Mr. GORDON: Yes, we can give you that.

MR. BELL: The income was up a bit, I think.

Mr. GORDON: My trouble at the moment is that the statement I have here is not a net statement, and I want it reconciled with the figure I have in the annual report. The annual report shows net income as $1·7 million for over-all total. I have not got it broken down in that way, but I can do it in a moment.

Mr. BELL: I was only interested in the Chateau Laurier myself.

Mr. GORDON: If you will allow me to give these figures on a basis that they will not come out accurately within a small amount I will give it now generally.

In the case of the Bessborough Hotel, after depreciation, a loss of about $19,000. In the case of the Charlottetown, about $13,000 profit. Chateau Laurier, $402,000 profit. Fort Garry, $68,000 profit. Jasper Park Lodge, $157,000 profit. Macdonald Hotel, $565,000 profit. Newfoundland Hotel, $87,000 profit. Nova Scotian, $76,000 profit.

Hon. Mr. MARLER: I hope, Mr. Chairman, that that will not lead to any requests for a reduction in room rentals.

Mr. BELL: They just went up.

Mr. KNIGHT: Would you give me that Bessborough one again? I am interested in that.

Mr. GORDON: The Bessborough Hotel showed a $19,000 loss after providing for depreciation.

Mr. POWER (*Quebec South*): What is the Macdonald?

Mr. GORDON: $565,000 profit.

The CHAIRMAN: What about the Charlottetown? What was the figure?

Mr. GORDON: About $13,000 profit.

Mr. HAMILTON (*York West*): Do you have our share out of the Vancouver?

MR. GORDON: Yes, that shows $345,000 profit.

Mr. HAMILTON: (*York West*): Is that to be halved?

Mr. GORDON: That is our share of it.

The CHAIRMAN: Shall the item "Hotels" carry?

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Just one question on that. In respect of your capital commitments in the future in connection with the hotel in Montreal, Mr. Gordon, have there been any increases in your estimated costs of constructing the hotel, due to design changes or things of that nature? Have there been design changes?

Mr. GORDON: There have been design changes but not of a character that will, I think, substantially go over our estimate. We are running pretty close to the estimate. On a job of that size you cannot tell until you get closer to completion, but we do not expect the estimate to be substantially exceeded.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Who suggested the design changes?

Mr. GORDON: A conglomeration of the committees, plus our association with Hilton.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): You had no other consulting architects except the one Chicago firm?

Mr. GORDON: That is right. But when we get into the actual construction, we have had a committee representing all departments who have had views as to their particular departments, and in addition to that we have had some very helpful suggestions from the Hilton group in respect of design, making better convention facilities, better access and things of that kind.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): And you have changed the steel work slightly?

Mr. GORDON: To some extent. There is very little major change, but there is some change, and the net effect of those changes, as I say, I do not think is going to make our estimate very far out.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Got a lot of business lined up looking for the opening of the hotel?

Mr. GORDON: We have had a great number of inquiries. We have not felt free to book too much definitely. We have two bookings of large conventions for the year 1958 and we have quite a number of inquiries, and as soon as we are in a position where we are ready to confirm, we expect quite a flock.

The CHAIRMAN: Shall the item "Hotels" carry?

Carried.

"Investments in Affiliated Companies." Shall that item carry?

Mr. HAMILTON (*York West*): Mr. Gordon, it is in my mind I heard under the first item of an increase in trackage in the Harbour Commission area in Toronto.

Mr. GORDON: This is only the Toronto station which is operated jointly. It has nothing to do with the harbour railway.

Mr. HAMILTON (*York West*): That is a separate legal entity?

Mr. GORDON: Yes, that is operated by the National Harbours Board, not by the railways. I am sorry, I am wrong about that; I am confusing it with Montreal.

Mr. HAMILTON (*York West*): Last year we had some legislation before the house in which there was a change of responsibility on an increase in trackage in that area and, as I understood it, the railways were taking over the laying of an additional trackage there and were to be compensated in some way by rentals.

Hon. Mr. MARLER: There was an agreement made between the—

Mr. HAMILTON (*York West*): Harbour Commission, I think.

Mr. GORDON: We provide service to the Toronto Harbour Commission in regard to the branch they have down on the water-front. We provide service for that under an agreement; and in the course of providing that service if there are any trackage changes and so on it would be under the agreement in which it is provided for.

Mr. HAMILTON (*York West*): Is any of this amount set aside for a purpose?

Mr. GORDON: No. You will notice this is a credit item. This is not a debit item.

Mr. FULTON: How did that happen?

Mr. HAMILTON (*York West*): In other words, you have money coming back to you?

Mr. GORDON: This is a credit item which is another curious accounting adjustment; but it arises out of this, that, formerly, before we made this adjustment, the facilities in the area owned by the Canadian Pacific and Canadian National were part of this property. Now, for reasons of convenience and other things we, each of us, have bought our own part of the property from the joint interest and we are crediting the joint interest with that part of the property we are taking over ourselves.

Mr. HAMILTON (*York West*): Is there actually a physical division of land taking place in Toronto, then?

Mr. GORDON: No. It is the express facilities we have in mind. You may recall on the west end of the terminal area generally speaking is Canadian National Railways.

Mr. HAMILTON (*York West*): West of York Street, yes.

Mr. GORDON: And the east end, Canadian Pacific Railway and for reasons of physical convenience we have decided that we should each own our own facilities there and not have to go through the joint committee in respect of purchases, operations, etc. So we have each bought back our facilities from the joint interest at an estimated price; and the money is being used to pay off bonds which were issued by the Toronto Terminals Railway and were jointly owned by the two interests.

Mr. HAMILTON (*York West*): Now, I do not see any provision here for an outlay for the Toronto Terminals Railway and I understood there was to be money spent on trackage there. Do you know anything about that?

Mr. GORDON: That would come through the Toronto Terminals area as such, and would go into our accounting in separately operated properties.

Mr. HAMILTON (*York West*): The only reason I asked is that we are naturally anticipating a much greater volume of freight traffic there, once the seaway opens up.

Mr. GORDON: It would not be in the stations in any event that we would have trouble. It would be in our yards; and we are concerned about our own yard facilities in Mimico and beyond the station area.

Mr. FULTON: Why are you buying $1 thousand in capital stock of the St. Lawrence Railroad?

Mr. GORDON: That is part of the corporate reorganization provision we are doing.

Mr. FULTON: I do not see it mentioned anywhere in your report as an affiliated company. What is the relationship?

Hon. Mr. MARLER: The Atlantic and St. Lawrence is the line that runs between Montreal and Portland.

Mr. GORDON: It shows there in item 2 on page 10 of the green sheets.

Mr. Fulton: That is a system company, not an affiliated company, it is not? I am confused.

Mr. GORDON: Well, as a matter of fact perhaps we have slipped a bit here. This heading "Investment in Affiliated Companies": It used to be called in the budget "Acquisition of Securities" and I thought I would simplify it by calling it "Investment in Affiliated Companies" and I was perhaps misleading myself.

Mr. FULTON: It is a quite simple explanation. It is explained now.

The CHAIRMAN: Shall the item carry?

Carried.

"Description of Maturing Bonds, Principal Payments Due Under Equipment Trust Issues and Equipment Lease Agreement".

Mr. GORDON: Well, I might say, Mr. Chairman, that is a new sheet too that we put in in the interests of making the statement complete in our budget. It is a refunding item and used to be dealt with separately; but we thought we could show it now in our budget, the actual bonds which matured each year so the committee could see what our re-financing job is.

Mr. FULTON: Last year, Mr. Gordon, I do not know whether it was as a result of your re-financing but you had achieved a debt reduction of approximately $4 million shown on page 9?

Mr. GORDON: Yes, the effect of which is that it really came out of our working capital. We reduced our working capital $22,192,000. If you look at page 11 on the green sheets, if you have it there, you will see that it is in part offset against that $22 million reduction.

Mr. FULTON: It was not in any sense as a result of the use of re-financing?

Mr. GORDON: No, just a fortuitous item. You see, theoretically in any year if we divert enough cash we could pay off any security as it falls due and it so happens in doing our refunding arrangement there was a small amount we were able to take care of out of our own cash resources instead of re-financing it.

Mr. FULTON: Do you expect to have to re-finance any of these?

Mr. GORDON: Yes, except to the extent that we can write down our working capital and this year I do not think we will be able to.

Mr. FULTON: I notice you do not make any provision for acquisition of working capital whereas last year you had $15 million.

Mr. GORDON: The $15 million was the forecast, for working capital, $22 million was what we actually did.

Mr. FULTON: Well, you would actually purchase $22 million less $4 million. If you used $4 million to achieve a debt reduction you only used $18 million in working capital for capital purposes.

Mr. GORDON: $15 million had really nothing to do with equipment. It is not very well stated, I admit; and that is what we are trying to clear up this year. The $15 million is only a source of funds as we are showing it here; but, instead of $15 million reduction in our working capital, we were able to show $22 million, $4 million of which was used to reduce debt.

Mr. FULTON: You do not anticipate anything like that this year?

Mr. GORDON: We do not think so.

Mr. FULTON: It is not your fault but do we have to anticipate a slightly higher interest on the re-financing than on the old debt?

Mr. GORDON: Well, I will be going to the market some time this year and I would like to say I anticipate lower interest rates. I would like to say that; but whether it will come about or not I do not know. You will observe, of course, in looking at these items, some are at high interest rates, one at 4½ per cent and I am certainly not going to pay anything like that. The largest item $67 million maturing February 1—we have paid that off by borrowing from the government.

Mr. FULTON: Short term?

Mr. GORDON: Yes, and that is what shows in our balance sheet as due to the government at the present time. What the net effect will be will depend on what we are able to re-finance at; and I am serving notice on the financial community that I expect them to give me a better interest rate than last time. Whether they will or not I cannot say.

The CHAIRMAN: Shall the item carry?

Carried.

"Operating Budget for the year 1956".

Mr. GORDON: Perhaps I should make a comment on this. You will understand this is purely an estimate as to what might happen in the coming year and the revenue figure of $685 million in relation to what is happening now might appear to be a fairly conservative figure. Moreover, in the light of $685 million revenue—I assume the members of the committee might wonder why the surplus is shown as $2·6 million at the end of the year as compared with $10 million last year. The explanation for that is that there has been a rise in prices in our materials and supplies towards the end of 1955, which I am sure will carry forward into 1956, plus the fact that we will not be able to reduce our maintenance expenses in 1956 nearly as much as we were able to in 1955. As I explained earlier, our rail laying program, which is the major program, will be greater, and so forth. So this represents our best guess as to what the net effect will be. But I should say this, too, that even if that figure of $685 million, which is a key figure in relation to trying to guess what our net result will be—even if that shows substantially higher, I want to call your attention to the note that this is based on 1955 material prices and wage rates.

Mr. POWER (*Quebec South*): That could be thrown out of kilter on a general wage increase?

Mr. GORDON: It could be thrown very definitely out of kilter, depending on what our expenses may be in those areas of materials and wage rates.

Mr. FULTON: When you prepared this budget, Mr. Gordon, had you arrived at the same sort of figure of G.N.P. that Mr. Harris mentioned—$28 billion or were you preparing this on the basis of a somewhat smaller G.N.P.

Mr. GORDON: No, generally we arrive at a figure—all these figures are so much crystal-ball gazing that I am reluctant to follow my thought processes in regard to it—but in the course of trying to make an economic forecast of this kind it seemed to us that there were so many contradictory factors in the economy that they rather tended to cancel out and that this year we would not have anything which would show as sharp an increase as between 1954 and 1955 but we did think there would be a steady but much more modest growth.

Now, I think, Mr. Harris—I have not read the budget speech—I am sorry to say—I think he was predicting about a 4 per cent increase in G.N.P. and roundly we would come out about the same thing. But to qualify that, the record shows that railway revenues never increase in anything like the proportion of gross national product. There are not the same complexes in the railway economy as there are in the general economy. I have some figures here which will show that the railway revenues seldom increase by more than about half the percentage of the G.N.P. increase.

Mr. CHURCHILL: G.N.P. would go up with grain stored on farms which doesn't help your revenue at all?

Mr. GORDON: That is right. We get a lot of very contradicting factors. For instance, in 1955 it showed a spectacular increase and over 1954 our revenue increased 6·6 per cent and G.N.P. went up 10·4 per cent in that year. So the mix of the traffic as we call it, is what is important and we do not get the same relationship. We don't get a relationship with G.N.P. that is in direct proportion—usually about half of it.

Mr. POWER (*Quebec South*): You might get a delayed reaction. This stored grain might be shipped all of a sudden.

Mr. GORDON: Yes, and it depends how that hits us, what time and so on.

Mr. CHURCHILL: How close was your budget of 1955 to the actual of 1955?

Mr. GORDON: We estimated on about a break even basis last year, I think. We estimated just about a break even point, about $500,000 profit. But you see that is why I say that in making up a budget of this kind and dealing with figures even a swing of 5 per cent one way or the other is not unusual at all. In 1954 we showed a decline in our revenue of about $50 million from the estimate we made in that year; we were wrong to the extent of $50 million. That is unusual. I do not think we will be as much wrong this year. This is what we are basing our organizing for expenditures and so forth on.

Mr. CHURCHILL: You hope to improve this year?

Mr. GORDON: Yes. I do not see how we can, from the standpoint of the net, be as much wrong. We might be wrong in the gross but, even with a substantially increased gross, I do not see that that will be reflected in our net, which is the surplus figure we are discussing.

Mr. FULTON: Is this something produced for our information, or is it also in your own working papers?

Mr. GORDON: This is required by statute.

Mr. FULTON: For the information of parliament?

Mr. GORDON: For the information of parliament, yes.

Mr. FULTON: I am not in the least implying that you would produce one set for us and one for yourself, but—

Mr. GORDON: This is what we are working on ourselves. It is what we are basing our program for this year on. This is what we start out with, and every quarter we take a look at the actual results and if we find, as we found in 1954, that we were running low we took steps at that point to cut our services. If the traffic is going down, we adjust our forces to the needs of traffic, or vice versa. We make a monthly review of our budget forecast to try to bring ourselves into current conditions, and every quarter we make a very special review in the light of trying to forecast again.

Mr. BELL: One of the reviews at the end of the month would be men?

Mr. GORDON: Yes, and maintenance of equipment. We try to avoid cutting into a program situation with maintenance of way where we have men out on the line and materials and supplies moving towards specific jobs. We try to carry those through. We can adjust programs in respect to maintenance of equipment much more quickly.

Mr. HAMILTON (*York West*): The greatest expenditure facing you, which will probably affect your net, will be labour negotiations?

Mr. GORDON: Yes. We have the board of conciliation operating right now and a great deal will depend on what comes out of that.

Mr. HAMILTON (*York West*): This is a very narrow margin when you face that.

Mr. GORDON: It is no margin at all. What it shows is any increase of size will, on the basis of these conditions put the C.N.R. in a deficit position.

The CHAIRMAN: Shall the "Operating Budget" carry?

Agreed to.

Shall the Capital Budget of the Canadian National Railways for the year 1956 carry?

Agreed to.

Moved by Mr. Weselak, seconded by Mr. Hamilton (York West), that the Capital Budget of the Canadian National Railways for the year 1956 carry.

I think we should now discuss the Canadian National Railways Securities Trust.

Now, gentlemen, I assume we will not read this. There is a great deal of detail in connection with investments that are made by the Canadian National Railways, and I would ask for any questions which members might like to put in respect to the Canadian National report on securities trust.

Mr. WESELAK: I move, Mr. Chairman, that the report be taken as read.

The CHAIRMAN: Moved by Mr. Weselak, seconded by Mr. Power (Quebec South), that the report of the Canadian National Railways Securities Trust be taken as read and that it be included in the record.

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

MONTREAL, 2nd March, 1956.

The Honourable George Marler, M.P.,
Minister of Transport,
Ottawa.

Sir,

In conformity with Section 17 of The Canadian National Railways Capital Revision Act, 1952 the Trustees of The Canadian National Railways Securities Trust submit the following report of the transactions for the calendar year 1955.

Application was made to the Governor in Council by the Directors of The Canadian National Railways Securities Trust for the release of certain securities to be cancelled and cremated for the purpose of advancing the consolidation and simplification of the corporate structure of the Canadian National Railway System and approval was so granted under authority of Order-in-Council P.C. 1955-844 dated 8th. June, 1955.

The Trustees present herewith the Balance Sheet at 31st December, 1955.

DONALD GORDON,
For the Trustees.

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

Balance Sheet at 31st. December, 1955

Assets

Claims for Principal of Loans—		
Canadian Northern Railway	$312,334,805.10	
Grand Trunk Railway	118,582,182.33	
Grand Trunk Pacific Railway	116,006,599.08	
Canadian National Railway Company	96,936,971.75	
		$ 643,860,558.26
Claims for Interest on Loans—		
Canadian Northern Railway	$309,702,897.65	
Grand Trunk Railway	103,250,802.95	
Grand Trunk Pacific Railway	107,326,622.84	
Canadian National Railway Company	54,501,313.57	
		574,781,637.01
Transactions of Canadian National Railway System from 1st. January, 1937, to 31st. December, 1951, affecting the book value of the capital stock of the Securities Trust		108,480,697.14
Securities Held—		
Collateral Securities—Schedule A.1		....
Other Securities —Schedule A.2		....
		$1,327,122,892.41

Liabilities

Capital Stock Owned by Canadian National Railway Company—5,000,000 shares of no par value capital stock:—	
Stated value at 1st. January, 1952	$ 378,518,135.02
Amount by which the book value of claims and interest thereon exceeded the initial stated value as of 1st. January, 1937	948,604,757.39
	$1,327,122,892.41

R. D. ARMSTRONG,
Comptroller.

CERTIFICATE OF AUDITORS

We have examined the books and records of The Canadian National Railways Securities Trust for the year ended 31st. December, 1955.

The Collateral and Other Securities, as set out in Schedules A.1 and A.2 attached hereto, were verified by examination or by certificates from the depositaries.

In our opinion, the above Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the Trust's affairs at 31st. December, 1955, in accordance with the provisions of The Canadian National Railways Capital Revision Act, 1952.

Dated at Montreal,
2nd. March, 1956.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

Summary of Indebtedness Transferred from the Government of Canada to the Securities Trust

	Loans Outstanding			Notes and Collateral Held	
Canadian Northern Railway:					
3½%	Loan, Chapter 6, 1911	$ 2,396,099.68	None.	Charge is on premises mortgaged October 4, 1911.	
4%	Loan, Chapter 20, 1914	5,294,000.02	None.		
5%	Loan, Chapter 4, 1915	10,000,000.00	None.		
6%	Loan, Chapter 29, 1916	15,000,000.00	Mortgage dated June 23 and June 26, 1916.		
ø6%	Loan, Chapter 24, 1917	25,000,000.00	6%	Demand Notes	$ 33,012,414.32
ø6%	Loan, Vote 110, 1918	25,000,000.00	6%	Demand Notes	27,203,003.65
ø6%	Loan, Vote 108, 1917	35,000,000.00	6%	Demand Notes	40,031,122.27
ø6%	Loan, Vote 127, 1920	48,611,077.00	6%	Demand Notes	53,008,779.65
ø6%	Loan, Vote 126, 1921	44,419,806.42	6%	Demand Notes	50,259,312.47
ø6%	Loan, Vote 136, 1922	42,800,000.00	6%	Demand Notes	46,691,634.60
			{6%	Demand Note	5,700,000.00
ø6%	Loan, War Measures Act, 1918	1,887,821.16	{3½%	Debenture Stocks	5,109,999.99
ø6%	Equipment Loan, Chapter 38, 1918	56,926,000.82	6%	Demand Notes	56,858,496.44
	Mortgage covering loans above	....	Mortgage dated November 16, 1917		....
	Total Canadian Northern	$312,334,805.10			
Grand Trunk Railway:					
6%	Loan, Vote 478, 1920	$ 25,000,000.00	6%	Demand Notes	$ 25,479,226.97
6%	Loan, Vote 126, 1921	55,293,435.18	6%	Demand Notes	56,646,816.12
6%	Loan, Vote 137, 1922	23,288,747.15	6%	Demand Notes	23,288,747.15
4%	Loan to G. T. Pacific, Chapter 23, 1913, guaranteed		{4%	Demand Note	15,000,000.00
	by Grand Trunk	15,000,000.00	{4%	G. T. P. Debentures	15,000,000.00
	Total Grand Trunk	$118,582,182.33			
Grand Trunk Pacific Railway:					
3%	Bonds, Chapter 24, 1913	$ 33,048,000.00	3%	1st. Mortgage Bonds	$ 33,048,000.00
6%	Loan, Chapter 4, 1915	6,000,000.00	4%	Sterling Bonds	7,499,952.00
6%	Loan, Vote 441, 1916	7,081,783.45	Mortgage, June 28, 1916		....
6%	Loan, Vote 444, 1917	5,038,053.72	Mortgage, October 18, 1917		....
6%	Loan, Vote 110, 1918	7,471,399.93	Mortgage, October 18, 1917		....
	Receiver's Advances, P.C. 635, March 26, 1919	45,764,162.35	Receiver's Certificates		53,339,162.74
	Interest guaranteed by Govt. of Canada	8,704,662.65	Cremation Certificates, coupons destroyed		8,698,170.42
	Interest guaranteed by Provinces of Alberta and Saskatchewan	2,898,536.98	Cremation Certificates, coupons destroyed		2,925,723.88
	Total Grand Trunk Pacific	$116,006,599.08			

SCHEDULE A.1—Concluded

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST—(Concluded)

Summary of Indebtedness Transferred from the Government of Canada to the Securities Trust—(Concluded)

Loans Outstanding		Notes and Collateral Held	
Canadian National Railway Company:		6% Canadian Northern Demand Note	$ 12,655,019.57
6% Loan, Vote 139, 1923	$ 24,550,000.00	G.T.P. Receiver's Certificates	3,313,530.01
		G.T.P. Interest Coupons (Cremation Certificates)	1,530,831.96
		5% Canadian Northern Demand Note	1,318,315.86
5% Loan, Vote 137, 1924	10,000,000.00	G.T.P. Receiver's Certificates	4,691,173.58
		G.T.P. Interest Coupons (Cremation Certificates)	1,530,822.24
		5% Canadian Northern Demand Note	9,496,718.21
5% Loan, Vote 377, 1925	10,000,000.00	G.T.P. Receiver's Certificates	Cr.1,422,425.17
		G.T.P. Interest Coupons (Cremation Certificates)	1,530,802.80
		5% Canadian Northern Demand Note	9,062,624.30
5% Loan, Vote 372, 1926	10,000,000.00	G.T.P. Receiver's Certificates	Cr. 364,898.78
		G.T.P. Interest Coupons (Cremation Certificates)	1,530,880.56
5% Loan, Vote 336, 1929	2,932,652.91	5% Canadian National Railway Company Demand Notes	2,932,652.91
5% and 5¼% Loans, Chapter 22, 1931	29,910,400.85	5% and 5¼% Canadian National Railway Company Demand Notes	29,910,400.85
5½% Loans, Chapter 6, 1932	11,210,815.56	5½% Canadian National Railway Company Demand Notes	11,210,815.56
Less: adjustment authorized by the Capital Revision Act, 1937	Cr.1,666,897.57		
Total Canadian National Railway Company	$ 96,936,971.75		
Total Loans	$643,860,558.26		

SCHEDULE A.2

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

Securities transferred from the Government of Canada to the Securities Trust pursuant to the provisions of The Canadian National Railways Capital Revision Act, 1952

Description of Issue	Amount	
	Sterling Currency	Dollar Currency
Canada Atlantic Rly. Co. 4% Consolidated First Mortgage Sterling Bonds, due Jan. 1, 1955	£1,061,300	
Canadian National Rly. Co. 4¾% Twenty-five Year Guaranteed Bonds, due June 15, 1955		$ 1,504,000.00
Canadian National Rly. Co. 4½% Twenty-five Year Guaranteed Bonds, due Feb. 1, 1956		2,632,000.00
Canadian National Rly. Co. 4½% Thirty Year Guaranteed Bonds, due July 1, 1957		864,000.00
Canadian Northern Alberta Rly. Co. 3½% First Mortgage Debenture Stock, due May 4, 1960	534,097	
Canadian Northern Ontario Rly. Co. 3½% First Mortgage Debenture Stock, due May 19, 1961	6,294,345	
Canadian Northern Rly. Co. 3½% First Mortgage Debenture Stock, due July 20, 1958	359,869	
Canadian Northern Rly. Co. 3½% First Mortgage Debenture Stock, due July 20, 1958		508,666.00
Grand Trunk Pacific Rly. Co. 4% Mortgage Sterling Bonds, Series "A" (Prairie Section), due April 1, 1955	1,364,500	
Grand Trunk Pacific Rly. Co. 4% Mortgage Sterling Bonds, Series "B" (Mountain Section)' due April 1, 1955	1,402,900	
Grand Trunk Pacific Rly. Co. 4% First Mortgage L.S. Branch Sterling Bonds, due April 1, 1955	1,107,200	
Grand Trunk Pacific Rly. Co. 3% First Mortgage Sterling Bonds, due Jan. 1, 1962	1,754,500	
Grand Trunk Pacific Rly. Co. 4% Sterling Bonds, due Jan. 1, 1962	90,900	
Grand Trunk Western Rly. Co. 4% First Mortgage Bonds, due July 1, 1950	649,500	
Grand Trunk Western Rly. Co. 4% First Mortgage Bonds, due July 1, 1950		1,293,500.00

Mr. FULTON: I notice that Mr. Gordon made a statement on this last year, an explanation of what it was, at page 153, so I would move that the report be carried.

The CHAIRMAN: Mr. Fulton moves, seconded by Mr. Hamilton, (*York West*) that the report be carried.

Now, I think we should go to the Canadian National (West Indies) Steamships, Limited. If you have that report for 1955 before you, I will ask Mr. Gordon to read the report.

Mr. GORDON: Mr. Chairman and members, first I shall read for the record the letter of transmital.

CANADIAN NATIONAL ((WEST INDIES) STEAMSHIPS, LIMITED
Donald Gordon, President—J. A. Sauve, General Manager

MONTREAL, February 24, 1956

The Honourable George C. Marler, M.P.,
Minister of Transport,
Ottawa.

Dear Sir:

Submitted herewith, on behalf of the Board of Directors, is a report on the operations of Canadian National (West Indies) Steamships, Limited for the year ended December 31, 1955.

The devoted service of the company's officers and employees is again recorded with appreciation.

Yours truly,

DONALD GORDON.

ANNUAL REPORT 1955

The operating revenues of Canadian National (West Indies) Steamships, Limited were 17% higher in 1955 than in the preceding year. Operating expenses, on the other hand, increased only 11%. Consequently, the operating loss was reduced by $270,822 from 1954.

In addition to the improvement in operating position, there was a reduction of $207,771 in interest charges arising out of the refunding of the company's outstanding bond issue which matured during the year, and a nonrecurrent profit of $53,853 realized from the liquidation of security holdings in the course of this refinancing.

As a result, the deficit for the year 1955 was reduced to $95,964—$532,446 less than in 1954.

The following statement is a summary of the Income Account in comparative form:

	1955	1954
Operating revenues	$5,946,605	$5,105,082
Operating expenses	5,995,684	5,424,983
Operating loss	$ 49,079	$ 319,901
Net interest expense	100,738	308,509
Net deficit from operations	$ 149,817	$ 628,410
Profit from liquidation of vessel replacement fund securities	53,853	—
Deficit	$ 95,964	$ 628,410

Operating Revenues

Operating revenues, at $5,946,605, were $841,523 higher than in 1954. The principal factors in the increase were freight revenue, which rose $637,241 or 13% over the previous year, and charter revenues, which were up $225,991 from 1954. There was also a modest increase in miscellaneous revenues, while passenger declined by $23,244 or 13%.

The rise in freight revenue was attributable mainly to an increase in northbound sugar traffic coupled with higher rates. The movement of sugar was up 42,328 tons and the rate per ton almost 15%. The rates for carrying sugar, the commodity which accounted for over 99% of the 212,170 tons of northbound traffic, are still, however, substantially below those for other commodities.

Southbound tonnage, at 127,885, was down slightly from 1954, primarily because of a decrease in the movement of flour to Jamaica. In terms of revenue, however, this tonnage loss was offset by additional traffic in higher rated commodities.

The increase in revenue from trip and time charters reflected a greater availability of cargoes as a consequence of the generally more favourable business conditions which prevailed during the year.

The decrease in passenger revenue was occasioned by a reduction in the number of inter-island calls and by the temporary withdrawal of the "Canadian Challenger" for repairs.

Operating Expenses

Operating expenses, at $5,995,684, were up $570,701 from 1954. The principal factors were increases of $479,584 in voyage expenses and $81,924 in pension costs.

Of the increase in voyage expenses, $408,437 represented higher freight handling costs, port charges and other expenses incidental to the increase in traffic. There was an increase of $40,955 in fuel, crew wages, supplies and insurance expenses because of more operating days. Voyage expenses also included an item of $82,757 for the chartering of a replacement vessel for one trip when the "Canadian Challenger" was out of service for repairs. These increases were in part offset by a reduction of $52,565 in vessel maintenance costs.

Refinancing

The company's 25-year 5% bond issue of $9,400,000 matured on March 1, 1955 and was retired. Of the funds required, $5,800,000 was available from the vessel replacement fund. The balance of $3,600,000 was obtained from the federal government: through the issue of $1,600,000 in common stock and a loan of $2,000,000 bearing interest at 2½%.

This loan will be repaid from the proceeds of depreciation accruals over a period of eight and one-half years.

Capital Expenditures

During 1955, a total of $90,273 was expended on capital account. Of this amount, $42,217 represented progress payments for the installation of refrigeration chambers in the five vessels not previously equipped with these facilities. An additional expenditure of some $73,000 is required to complete these installations in 1956.

The remaining $48,056 of the 1955 capital expenditures included outlays for new fire-fighting equipment, for the purchase of radar units formerly under lease on the three motor vessels, and for permanent awnings on these same three vessels.

The Balance Sheet at December 31, 1955 and the Income Account for the year are set out on pages 8 to 10. There was no change during 1955 in the active fleet, which is listed on page 11.

BALANCE SHEET

At December 31, 1955

ASSETS

Current Assets		
Cash on hand and on deposit	$1,019,860	
Accounts receivable	394,325	
		$1,414,185
Insurance Investment Fund		2,789,634
Capital Assets		
Vessels	6,525,355	
Less recorded depreciation	3,517,822	
		3,007,533
Other Assets		21,001
		$7,232,353

LIABILITIES

Current Liabilities			
Accounts payable		$ 456,478	
Government of Canada:			
Current accounts	$ 172,909		
Loan repayment due 1956	225,000		
		397,909	
Other current liabilities		38,450	
			$ 892,837
Provision for Insurance			2,789,634
Other Liabilities and Deferred Credits			124,882
Government of Canada Loan and Advance			
Loan—2½% repayable semi-annually, maturing September 1, 1963		2,000,000	
Less repaid	100,000		
repayments due 1956	225,000		
		325,000	
		1,675,000	
Working capital advance		150,000	
			1,825,000
SHAREHOLDERS' EQUITY			
Capital stock authorized and issued 16,400 shares par value $100 per share		1,640,000	
Less discount on capital stock issued		40,000	
			1,600,000
			$7,232,353

R. D. ARMSTRONG
Comptroller

CERTIFICATE OF AUDITORS

We have examined the books and records of Canadian National (West Indies) Steamships, Limited, for the year ended 31st December, 1955, and, in our opinion, proper books of account have been kept by the Steamships.

The above balance sheet and the relative income account are prepared on a basis consistent with that of the preceding year and are, in our opinion, properly drawn up so as to give a true and fair view of the state of the Steamships' affairs at 31st December, 1955, and of the income and expense for the year according to the best of our information and the explanations given to us, and as shown by the books of the Steamships.

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

Dated at Montreal,
1st March, 1956.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

INCOME ACCOUNT

Operating Revenues	1955	1954
Freight and Charter	$5,757,423	$4,894,191
Passenger	155,107	178,350
Other	34,075	32,541
Total	$5,946,605	$5,105,082

Operating Expenses		
Voyage expenses	$5,305,450	$4,825,866
Lay-up expenses	27,942	22,751
Depreciation on vessels	270,416	269,031
Management and office expenses	207,456	207,360
Pensions	160,207	78,283
Other	24,213	21,692
Total	$5,995,684	$5,424,983
Net operating deficit	*$ 49,079*	*$ 319,901*
Vessel replacement fund earnings	23,927	166,741
Profit from liquidation of vessel replacement fund securities	53,853	
Available for interest	$ 28,701	*$ 153,160*
Interest charges	$ 124,665	$ 475,250
Deficit	*$ 95,964*	*$ 628,410*

FLEET AT DECEMBER 31, 1955

		Gross tonnage	Dead-weight tonnage
"Canadian Challenger"	Diesel-powered and refrigerated	6,745	7,460
"Canadian Constructor"	Diesel-powered and refrigerated	6,745	7,460
"Canadian Cruiser"	Diesel-powered and refrigerated	6,745	7,460
"Canadian Conqueror"	*Non-refrigerated	2,930	4,532
"Canadian Highlander"	*Non-refrigerated	2,966	4,532
"Canadian Leader"	*Non-refrigerated	2,930	4,532
"Canadian Observer"	*Non-refrigerated	2,967	4,532
"Canadian Victor"	*Non-refrigerated	2,963	4,532
		34,991	45,040

**Installation of refrigeration facilities in progress. Work completed on "Canadian Highlander" and "Canadian Leader" early in 1956.*

The CHAIRMAN: Thank you, Mr. Gordon. Are there any questions about that report of Canadian National West Indies ships?

Mr. BELL: Mr. Chairman, I think we are all pleased to see that the West Indies steamships had a better year. There are one or two questions I would like to ask with reference to the annual report. You say in the report, Mr. Gordon, that it was necessary to reduce the number of inter-island calls and therefore the passenger revenue showed a resultant decrease. Can you tell me exactly why? I realize that passenger traffic revenue is not much, but can you tell me why it is necessary to reduce inter-island calls.

Mr. GORDON: That was because of the withdrawal of the Canadian Challenger for repairs.

Mr. BELL: But the way the report reads—

Mr. GORDON: It is not very well worded, I agree. The two things should have been bracketed together.

Mr. BELL: Now, with respect to freight traffic generally, last year we mentioned that there was considerable competition in the northbound run with Saguenay terminals and Alcoa. I notice the freight rates were increased for sugar, but you mention that the rates could well bear further increase. Would you tell me how the rates are effected?

Mr. GORDON: Well, purely by competition.

Mr. BELL: It is just a matter of deciding, and therefore where there is not as much competition—oh, the competition is on the northbound?

Mr. GORDON: Yes.

Mr. BELL: That limits the fact that you cannot raise the rates to what you feel they should be in comparison with other runs?

Mr. GORDON: We have to meet the market if we are going to get the traffic.

Mr. KNIGHT: Mr. Gordon, what is the situation in regard to the southbound traffic? Is the amount of Canadian goods that these people are buying down there keeping up or is it decreasing; in other words, to what extent is your southbound space filled?

Mr. GORDON: Well, I can do that by giving you the actual tonnages between the two years. In 1954 the tonnage was 136,635 as against 127,885 for 1955. The main decrease in that figure seems to be in flour where we dropped about 12,500 tons as between the years.

Hon. Mr. MARLER: I think, Mr. President, the great difficulty about moving southbound traffic is the fact that there were restrictions on trade and on imports in many of the West Indies.

Mr. BATTEN: Mr. Chairman, with relation to your southbound traffic we in Newfoundland have a good deal of fish which is shipped St. John's to Halifax and from there to the West Indies. What would be the possibility of having a portion of this service operate from Halifax to St. John's carrying Newfoundland freight and from there to the West Indies?

Mr. GORDON: We cannot provide that service on the present schedule and remain competitive. It would enlarge our sailing time to a point where we could not provide a competitive service but at this point if I may introduce Mr. Sauve who is our general manager of Canadian National (West Indies) Steamships he can perhaps explain that in more detail.

Mr. BATTEN: It has to do with organization of the trips and time schedule?

Mr. GORDON: If we run into St. John's it would take about four to five extra days in our steamers which would put us in a poor competitive position with Saguenay Terminals, and in so far as motor vessels are concerned we would take possibly about three days which would extend our trip so that instead of sailing every 14 days the sailing would be every 17 days; so business naturally would flow to the company that is giving the more frequent service.

Mr. BATTEN: The reason why I asked the question is that we quite often have a delay in freight at the mainland, usually at North Sydney which could be relayed, and I think any fisherman in Newfoundland who is sending his fish through St. John's to Halifax and from there to the West Indies is having quite a reduction in his rates.

Mr. GORDON: We could pick it up in Halifax. The question really resolves itself into just that. There are a number of places in Canada that we could probably get freight from, but if we attempt to do that we would be unable to maintain a scheduled service and we would not be competitive in the West Indies trade. For example, we do not provide a regular service for Saint John, New Brunswick either, for the same reason. We cannot go into Saint John and maintain our schedule. We could go up to Toronto theoretically and take traffic out of Toronto, then down to the West Indies; but if we did that, we would enlarge our schedule so we would be out of the competitive market on the traffic. We have to decide as a matter of management what kind of service we are prepared to give and with the number of ships we have and the type of service that we are running we cannot enlarge or expand that service to cover other ports.

Mr. KNIGHT: This tendency to decrease the deficit is welcome, of course. Is that continuing thing? Is it going on this year?

Mr. GORDON: I hope so. The minister made a statement on that.

Hon. Mr. MARLER: Yes, I said we had had an interdepartmental committee which was looking over the operation of the Canadian National (West Indies) Steamships and our expectation was that on the average the deficit would probably run about $200,000 per annum. It was actually less last year; but on a long term basis over the five years to which I referred in my statement in the House of Commons we anticipated that it might run to an average of $200,000 per annum loss.

Mr. KNIGHT: One other question, Mr. Gordon. When did you get rid of your last passenger ship as such?

Mr. GORDON: The Lady boats?

Mr. KNIGHT: Yes.

Mr. GORDON: 1952.

Mr. KNIGHT: Well, this increase in loss of passenger revenue over last year is based on the passengers that were carried by these freighters?

Mr. GORDON: Yes.

Mr. KNIGHT: That seems to be a large figure in proportion to the amount of passengers they can carry. How many passengers can they carry?

Mr. GORDON: Only 12. It is a very small operation.

Mr. KNIGHT: I mean there is a large decrease there in passenger revenue, at least it seems so. I am reading from the bottom of page 5 of the report.

Mr. GORDON: That also was due to the fact that the Canadian Challenger, which was one of those ships, was out of service for repairs. That is the same reason we mentioned that we had to cut down on the inter-island calls as referred to by Mr. Bell.

Hon. Mr. MARLER: I do not know whether Mr. Knight understands that the vessel carries 12 regular passengers and also a certain amount of deck passengers on the inter-island trade.

Mr. FULTON: Let us get for the record some of your fares if you have them available. Some day one of the members here might want to take a cruise to the West Indies.

MR. GORDON: If you do I would advise you to get your bid in early because those ships are well filled. We have only 12 staterooms that are suitable for members of parliament. We have little or no trouble filling them. There are only three of the ships that have them. We have eight ships in service but there are only three that are equipped for passenger service so that makes 36 staterooms all told.

Mr. FULTON: Have you any typical fares available?

Mr. GORDON: Yes. We have lots of advertising but of course we would not have it here. The round trip would be something under $500—I would say about $450. Well, do not quote me on that but I will send you a full advertising brochure.

Mr. HAMILTON (*York West*): What happened to the Canadian Challenger that it required repairing?

Mr. GORDON: It ran into rudder trouble. What was the cause of the damage Mr. Sauve?

Mr. SAUVE: The rudder was damaged. It was one of those unfortunate things that happened and the ship was just put out of commission. It damaged the propeller and she had to be towed from Grenada—this happened coming into Grenada—she had to be towed from Grenada up to Halifax.

Mr. HAMILTON (*York West*): No connection between regular maintenance work and this accident?

Mr. GORDON: No. We were very fortunate that the accident happened in fairly calm water. If we had been on the high seas we might have lost the ship.

Mr. HAMILTON (*York West*): Another question. Are these employees those of the over-all Canadian National Railways or are they employees of the steamship line alone?

Mr. GORDON: They are employees of the setamship line but they come under the provisions of the Canadian National pension fund.

Mr. HAMILTON (*York West*): Do they come within the group of people who are now before the conciliation board bargaining?

Mr. GORDON: No.

Mr. HAMILTON (*York West*): Is there any issue at stake like that for the current year in assessing how we stand?

Mr. GORDON: We have union agreements here, too, of course, but they do not expire until October of this year. There are no current demands before us.

Mr. KNIGHT: I would like to ask Mr. Marler if there are considerations other than the mere making of profit on this particular line which would help to make up the mind of the Canadian government to continue to operate this service. I must apologize for not reading your speech.

Hon. Mr. MARLER: I cannot blame you for that. I will dispense with reading the first four pages of it, Mr. Chairman, but I commented by saying that it was the opinion of the government that this price of a deficit averaging about $200,000 per annum was not too high a price to pay for the continuation of dependable steamship service between Canada and the West Indies due to the tangible and intangible factors in our trade, and our relations with the West Indies.

Mr. KNIGHT: That is what I wanted to get on the record.

Hon. Mr. MARLER: I would just like to add a word to that, Mr. Chairman. I was in Barbados during the Christmas holiday...

Mr. FULTON: Go down by Canadian National Steamships?

Mr. BELL: He could not get on the list.

Hon. Mr. MARLER: I was in Barbados at the Christmas vacation and I heard down there that a great deal of interest was expressed locally in the purchase of Canadian apples, for example. And also, as Mr. Batten mentioned a little earlier, there is the question of shipping Newfoundland fish. I must say personally I think it is a very good thing for Canadian trade to keep up this steamship connection between Canada and the West Indies so as to further the trade. I think the trade would be more if it were not for the fact that currency deficits in the island make it necessary for them to restrict their imports, which they have to pay for in Canadian dollars.

Mr. BELL: Mr. Marler, in that connection when we have the completions made to the refrigeration processes in these ships will that be sufficient to take care of all the demands for refrigerated service such as the ones you are into?

Mr. GORDON: If I may answer that, the situation here is exactly the same as the situation which we discussed in the railway in respect of the peak loads. We believe the refrigeration we are now putting in the ships and which will be completed by about May or June—two are completed now and the others probably May or June...

Mr. BELL: What ships?

Mr. GORDON: All the ships will be refrigerated then and we believe that they will be able to take care of all available shipping, with the single exception of perhaps the month of December when there is a big demand for apples around the Christmas season, and there may be some shortages at that time. Apart from that, throughout the year we believe we have ample accommodation.

Mr. BELL: In connection, Mr. Gordon, with exploring new possibilities and in your quest for other freight contracts in the general West Indies area, I think we mentioned last year that you have field men or contacts who attempt to promote generally the steamship line. I was wondering, there, if any consideration had been given to a stop at Haiti.

Mr. GORDON: Well, perhaps it would be a good time for me to say this. Since we disposed of the Lady boats we have gradually got this service into what I call a freight minded service. In the past with the passenger ships, the luxury cruisers, they tended to overwhelm the whole operation and keep it on a standard where it had a very heavy loss. Since we have given up that luxury service, we still have a small passenger carrying capacity but it is not in the same luxury class, and we have been able to devote our attention much more specifically to the business of freight trade carrying, carrying of freight. And I am glad in Mr. Sauve's presence here to pay him a particular tribute in that respect. Mr. Sauve became our general manager in April last year and he has exhausted all ways and means of increasing our trade capacity in freight. In that connection he has made a survey with a view to recommending further improvements and calling at further ports in the West Indies. I believe Haiti is one of the things we have in mind right now. We will make some experiments this year to see if we can develop trade at this point. Some will be wrong but we are going to try them and see if we can keep that service and still keep up our schedules. We are making an additional effort to get more trade.

Mr. BELL: Well, are you perfectly satisfied with the fleet size at the present time and do you foresee any development in demand in the foreseeable future?

Mr. GORDON: Well, the foreseeable future in my vision is a long way ahead. I would say this and I think Mr. Sauve would agree, that as of now we feel our fleet is adequate to meet the trade offered. If we do open up trade possibilities which would indicate that another ship would be an economic proposal we would not hesitate to recommend one. We could always charter a ship and get it rapidly into service and probably that would be our first step if we saw enough trade developing. But now I do not think that is an immediate possibility. Certainly if it does develop that way we will not hesitate to make the necessary recommendations.

Mr. BELL: Well, have you considered the possibility, Mr. Gordon, in the future, if new purchases were necessary, of having the type of vessel that would permit a greater passenger accommodation? I realize there is a restriction on the number of passengers that vessels can carry without doctor service, but there is no reason why an ocean going type of vessel would not accommodate a greater number of passengers in a semi-luxury class and also provide adequate freight and refrigerator service.

Mr. GORDON: There is one fatal flaw to that which I am able to speak of for myself, without asking Mr. Sauve. The flaw in that argument is that with a passenger service of the character you are mentioning you must have regular ports of call, you must arrive there on the dot or close to it. You cannot get business in freight unless you are prepared to adjust yourself to the traffic offering in that way. We have made our schedule for our freight carrying vessels so that while we do run a scheduled service we are not absolutely down to a specific time in the same way as passengers. Passengers, in other words, will not be pushed around as bags of flour can be. Will you confirm me, Mr. Sauve, is that right?

Mr. SAUVE: That is right.

Mr. GORDON: As far as I can see, there is not enough in the passenger business to justify any anticipation that we would go back into it particularly in the luxury class. Operating passenger service to the West Indies has now gone so much to aeroplanes that the ship service is hopeless competition.

Mr. HAMILTON (*York West*): You talked about the difficulty of expanding your ports of call. I am anticipating perhaps your answer to this question. Has there been any thought given to the use of the St. Lawrence seaway at all, when it is opened for this West Indies service?

Mr. GORDON: Not specifically on the West Indies service. I doubt very much if it would tie into that, nor do we intend to embark on a ship service up canals or to go into the interior of the country. We do not have that in mind. It may be, however, that we might be able to adjust the service as far as Montreal; but I doubt if we would ever go farther than that. It is one of the many things that we have to examine in regard to the impact of the seaway development.

Mr. HAMILTON (*York West*): Would these vessels be suitable for the canal?

Mr. GORDON: Mr. Sauve tells me yes, these vessels could go up but whether it would be an economic proposition to send them up is another matter.

Mr. HAMILTON (*York West*): It would not be economical, I presume, unless you had a larger fleet.

Mr. SAUVÉ: No, it is your traffic. There would not be too much inbound traffic for Toronto, supposing you ran as far as Toronto and Port Colbourne. Your biggest commodity is sugar.

Mr. BELL: You would have to break the schedule to go to Toronto.

Mr. GORDON: Yes, at least seven more days.

Mr. FULTON: That is something that Toronto will have to do without.

Mr. HAMILTON (*York West*): This program will complete the refrigeration in all ships?

Hon. Mr. MARLER: Mr. Chairman, just before we leave this: When I made the statement the other day in the House of Commons about the continuation of the service Mr. Bell asked if I did not remember that at the last session it was pointed out that the condition of these vessels was very serious, and if future plans were being made it would be essential that the boats be serviced immediately. For the record, I would like to know what is the condition of the vessels.

Mr. BELL: May I say before that is answered, I did say that and I did not realize it was important enough to rise on a question of privilege. What I meant there was that the competitive position was serious; and I meant that with respect to refrigeration as far as competition was concerned; and in the excitement of the moment I did not make myself clear. But I would be interested in hearing an answer to that.

Mr. GORDON: Well, all our ships are maintained in first class condition. There is no question about the seaworthiness and the adequacy of the ships in handling traffic or any thing of that sort.

Mr. BELL: What about the age generally?

Mr. GORDON: They range from 1945 to 1947. The oldest ones are 1945 and the newer ones, the Canadian Challenger and Canadian Constructor 1947; so they are not old ships.

Mr. BELL: How do these compare in speed with the Saguenay terminals and Alcoa?

Mr. SAUVÉ: The motor vessels compare very favourably with the Alcoa and the Saguenay ships. They are about 10 or 11 knots. They compare favourably.

Mr. GORDON: There are only three motorships in service.

Mr. KNIGHT: Just one question. What are the implications in the liquidation of the vessel replacement fund?

Mr. GORDON: Well, the vessel replacement fund came out of the insurance collected from the sinking of the "Lady" ships. There were originally five "Lady" ships. Three were sunk during the war and the insurance collected on those three ships was put into a vessel replacement fund in addition to the depreciation fund from year to year and that was used for the paying off of the bonds which had been issued for the purpose of financing those ships when they went into service.

Mr. POWER (*Quebec South*): Was the Lady Grey one of those ships?

Hon. Mr. MARLER: No, that is an icebreaker.

Mr. KNIGHT: There is not anything now in vessel replacement?

Mr. GORDON: The vessel replacement fund is no longer in existence under that name, but we do set up depreciation each year in the normal way.

Mr. KNIGHT: I know; but that depreciation is not necessarily deducted for that particular purpose.

Mr. GORDON: That is right.

The CHAIRMAN: Shall the report carry?

Carried.

Moved by Mr. McCulloch seconded by Mr. Legare that the annual report of Canadian National West Indies Steamships Limited carry.

Now then, I would direct your attention to the budget of Canadian National West Indies Steamships Limited shown on page 9 of the document which we referred to before.

CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS, LIMITED

CAPITAL BUDGET AND OPERATING BUDGET

Year 1956

	1956 Budget:	1955 Actual:
	$	$
INCOME ACCOUNT		
Operating Revenues	5,750,000	5,946,605
Operating Expenses	5,900,000	5,995,684
Net Operating Deficit	150,000	49,079
Vessel Replacement Fund Earnings		23,927
Profit from Liquidation of Vessel Replacement Fund Securities		53,853
Available for Interest	150,000	28,701
Interest Requirement on 5%—25 year Bonds due March 1, 1955, principal amount $9,400,000		78,333
Interest on Government Advances	50,000	46,332
Deficit	200,000	95,964
CAPITAL BUDGET		
General Betterments	80,000	90,273

NOTE:—Funds for Capital Expenditures to be financed out of depreciation accruals.

Mr. GORDON: There is very little to say about this, Mr. Chairman. It is self explanatory. We have made an estimate of the income account which shows a net operating deficit of $150,000 and, with interest on government advances, $200,000. From the capital budget we have only asked for $80,000, of which will complete the installation of the refrigeration we have mentioned in the report; and the $7,000 is just a general contingencies fund.

The CHAIRMAN: Are there questions on the budget? Shall the budget carry?

Carried.

Moved by Mr. Knight, seconded by Mr. Power (*Quebec South*) that the budget of Canadian National West Indies Steamships Limited carry.

Now then, we have some votes that have been directed to us which have to do with Canadian National Railway items. The first one is vote No. 454, Prince Edward Island Car Ferry and Terminals deficit for 1956.

Moved by Mr. McCulloch, seconded by Mr. Carrick, that this item carry.

Carried.

Vote No. 460, North Sydney-Port aux Basques Ferry and Terminal deficit for 1956.

Moved by Mr. Batten, seconded by Mr. Bell.

Mr. FULTON: Is there anything appearing on this item to the effect that the *William Carson* is laid off?

Hon. Mr. MARLER: The *William Carson* is operating between Nova Scotia and Argentia in Newfoundland, while the terminal facilities at Port aux Basques are being readied for the vessel.

Mr. FULTON: Does the fact that the run is not now being operated have any effect on the amount of this item?

Mr. GORDON: It would have an effect to this extent, that the *William Carson* is not carrying its full load to Argentia. It is only being used as a temporary service and when it goes into its regular run from North Sydney to Port aux Basques there will be an increase in revenue, I assume. I don't know, but I assume that the amount of the deficit would be reduced.

Mr. BELL: Any of the other expenses in connection with the changes that have to be made regarding the *William Carson* would not be shown in this item?

Hon. Mr. MARLER: No, they will come on the vote in the Public Works Department.

The CHAIRMAN: Moved by Mr. Batten, seconded by Mr. Bell, that this vote carry.

Carried.

Vote No. 466, Maritime Freight Rates Act.

Moved by Mr. Murphy, seconded by Mr. St. Laurent (*Temiscouata*), that vote 466 carry.

Carried.

Vote No. 467, Canadian National (West Indies) Steamships Limited deficit, 1956.

Moved by Mr. McCulloch, seconded by Mr. Byrne that vote 467 carry.

Carried.

Now then, there are the auditors' reports for the Canadian National Railways, first. We have with us today Mr. Turville and Mr. Morison, the auditors. Before we deal with the auditors' report I wish to take this opportunity of thanking Mr. Donald Gordon and his associate from the Canadian National Railways for the presentation that they have made in connection with the report of the Canadian National Railways and Canadian National (West Indies) Steamships Limited.

Are we ready to hear the auditors' report?

Mr. CARRICK: I move the report be taken as read.

The CHAIRMAN: Moved by Mr. Carrick, seconded by Mr. Batten that the report be taken as read.

GEORGE A. TOUCHE & CO.
CHARTERED ACCOUNTANTS
Coristine Building
410 St. Nicholas Street
Montreal 1

7TH March, 1956.

CANADIAN NATIONAL RAILWAY SYSTEM

The Honourable The Minister of Transport,
Ottawa, Canada.

Sir,

We have audited the accounts of the Canadian National Railway System for the year ended 31st December, 1955 under authority of the Canadian National Railways Act, and we now report, through you, to Parliament.

Our examination of the accounts was made in accordance with generally accepted auditing standards, and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. In this connection we worked in collaboration with the executive accounting and financial officers at Headquarters having as a common objective the securing of maximum internal protection to the System in the control of cash receipts and expenditures, securities held, material stores and accounts receivable of all types. The System is further protected by fidelity bond insurance with outside underwriters. The audit tests were carried out in the offices of System Headquarters, Regions and Separately Operated Properties in Canada, the United States, London (England) and Paris (France).

Our audit of the accounts included the verification of the consolidated balance sheet and the consolidated income account and certification thereof.

Apart from the investment in Trans-Canada Air Lines, the holdings in the capital stocks of the Affiliated Companies are insufficient to give voting control and accordingly the Companies are not treated as units of the System nor have their accounts been audited by us. In the majority of instances they are audited by joint committees composed of System accountants and representatives of outside interests.

Further progress has been made during the year in the revision of the corporate structure of the System, the Muskegon Railway and Navigation Company having been merged into the Grand Trunk Western Railroad Company. Two land companies were dissolved late in the year and their charters surrendered.

CONSOLIDATED INCOME ACCOUNT

Surplus For The Year

There was an increase in net railway operating revenue of $39,904,000 as compared with the previous year, railway operating revenues being greater by $42,452,000 principally accounted for by an increase of $36,198,000 in freight revenues, and railway operating expenses increasing by $2,548,000.

After providing for Taxes and Rents, there was an increase in net railway operating income of $36,071,000, and net income from other sources rose by $3,882,000.

After provision for Fixed Charges, the surplus for the year amounted to $10,717,000, which is payable to the Government of Canada as a dividend on its holding of preferred stock.

Depreciation of property investment has been calculated on the same bases as in the previous year. We refer you to the notes applicable to the consolidated balance sheet in this regard.

We have received certificates from responsible operating and executive officers to the effect that the fixed properties and equipment have been maintained in a proper state of repair and in an efficient operating condition during the year; that insofar as traffic demands would permit, such physical retirements as should have been made during the year; as a result of wear and tear and obsolescence have been made, and that notification of all such retirements has been given to the Accounting department.

CONSOLIDATED BALANCE SHEET

Current Assets and Liabilities

Accounts Receivable and Payable of all classifications have been tested by us with the subsidiary and controlling records, cash and other transactions subsequent to the year end, departmental files and general supporting information, but such accounts have not been verified by direct comunication with the individual debtors and creditors.

A physical inventory of Material and Supplies was taken by the Railway as at 30th September, 1955, and in connection therewith we have received certificates from the responsible officers to the effect:

(a) That the quantities were determined by actual count, weight or measurement or by a conservative estimate where such actual basis was impracticable, and

(b) That the inventory pricing was laid down cost based on weighted average cost for ties, rails and fuel and on latest invoice prices for new materials in General Stores, and on estimated utility or sales value for usable second-hand, obsolete and scrap materials after making reasonable allowances for condition thereof.

The physical inventory valuation exceeded the ledger balances, and the latter were brought into agreement with the physical inventory through a credit to railway operating expenses.

Investments in Affiliated Companies Not Consolidated

These investments are represented by capital stocks, bonds and obligations for advances of companies affiliated with but not forming a part of the National System. Apart from the Trans-Canada Air Lines, these investments have been made, in association with other railways, primarily to secure the benefits of traffic interchange and terminal facilities. The basis of the balance sheet figure is cost or, in respect of certain United States securities, less than the special valuations approved by the Interstate Commerce Commission.

Property Investment

Against the Corporate portion of the property investment brought into the National System accounts at 1st January, 1923, there have been properly applied the reductions authorized by the Canadian National Railways Capital Revision Act, 1937, but no similar reductions were authorized at that time covering the Crown property investments in the Canadian Government Railways. Since 1st January, 1923, the additions and betterments less retirements of the System have been shown on the basis of cost. During the year under review the additions and betterments, less retirements, amounted to $48,081,000 as compared with $147,462,000 in the previous year.

Other Assets and Deferred Charges

Investments under this heading consist mainly of Government of Canada Bonds valued at cost and include unlisted securities of miscellaneous nature held primarily for purposes of traffic benefit valued at or below cost.

Deferred Charges consist principally of deferred payments under agreement; sundry deferred accounts receivable; the ledger value of inactive properties pending dismantlement or disposal; the estimated salvage value of equipment and property retired; the unamortized cost of opening ballast pits which will be written off on the basis of yardage used; the estimated salvage value of non-perishable material in ballast pits and other temporary tracks; accepted interline freight claims paid in advance of investigation with other carriers, and miscellaneous debit items not otherwise provided for or which cannot be disposed of until additional information is received.

Temporary Cash Investments, Pension and Insurance Funds

Included in the above were System securities aggregating $42,449,000 valued at par and securities of the Federal Government and those of or guaranteed by Provincial Governments amounting to $117,928,000 carried at cost. The year-end market value of the Government securities was 2·49% less than cost.

The Pension Fund stands at $128,000,000 having increased by $25,500,000 during the year.

Other Liabilities and Deferred Credits

The principal items included under the above heading are the outstanding capital value of the workmen's compensation awards by the Provinces of Ontario and Quebec; percentages retained from contractors pending completion of work in progress; deferred payments of principal and interest under agreement; the estimated liability for injuries to persons; the estimated liability for overcharge claims; the estimated portion of prepaid revenues on freight in transit; the excess of actual revenues over year-end estimates carried in suspense; provision for dismantlement or disposal of inactive properties, and miscellaneous items not otherwise provided for or which cannot be disposed of until additional information is received.

Long Term Debt

System securities in the hands of the public of a par value of $76,606,000 were redeemed during the year. Loans from the Government of Canada increased by $72,673,000.

Shareholders' Equity

In compliance with Section 6 of the Canadian National Railways Capital Revision Act, the Minister of Finance purchased during the year from the Company at par 20,369,678 four per cent preferred shares of one dollar par value equal to three per cent of the gross operating revenues of the System for the twelve months ended 30th November, 1955. 1,782,234 additional preferred shares were purchased in January, 1956, of a par value equivalent to three per cent of the gross revenues for the month of December.

General

Further extension of machine accounting for accounting and statistical purposes was made during 1955 and early 1956. Additional extensions are contemplated by the summer of 1956.

Where foreign currencies are involved, the balance sheet accounts of the System are converted generally as follows:

(a) United States Currency—at the dollar par of exchange.

(b) Sterling Currency—at the former par of $4.86-$\frac{2}{3}$ to the pound. (Sterling assets represent only approximately ·04% of the total assets shown on the consolidated balance sheet.)

(c) French Currency—at approximately 15 francs to the dollar for the original investment in Hotel Scribe and 359 francs to the dollar for working capital accounts.

Dollar amounts stated in this report are to the nearest thousand.

Yours faithfully,

(*Signed*) GEORGE A. TOUCHE & CO.

The CHAIRMAN: Are there questions on the auditors' report, first dealing with the Canadian National Railways system?

Mr. FULTON: I have only some very small questions. In reading the auditors' report I did not notice anything brought to our attention by the auditors which I would assume to be of a nature that you thought outstanding or requiring any corrective action?

Mr. FRANK P. TURVILLE (Auditor, George A. Touche and Company): That is true.

Mr. FULTON: However, on page 2 of your report you say under the heading "Consolidated Balance Sheet" that a physical inventory was taken by the railway as at the 30th of September, 1955, and at the end of that paragraph you say:

> The physical inventory valuation exceeded the ledger balances, and the latter were brought into agreement with the physical inventory through a credit to railway operating expenses.

First of all, I should say I cannot find an item for it in the annual report of the railway. Is it just included in the general total of operating expenses?

Mr. TURVILLE: Yes, Mr. Fulton that is credited, to railway operating expense and distributed to the various accounts in the regions.

Mr. FULTON: Its effect would have been somewhat to reduce the operating expense?

Mr. TURVILLE: Yes, it would reduce it.

Mr. FULTON: Can you give us the total?

Mr. TURVILLE: I can give it to you as a percentage of the materials handled, it is very small. It is about $\frac{1}{5}$ of 1 per cent of the materials handled during the year.

Mr. FULTON: Just so that we can assess its effect, it would be of a nonrecurring nature, I assume?

Mr. TURVILLE: No, an overage has been occurring in most years.

Mr. FULTON: I did not notice it in your previous report. It may have been there. I beg your pardon, it is right there.

Mr. HAMILTON (*York West*): Mr. Turville, just a couple of questions. I think you probably heard Mr. Gordon indicate that there was this accounting change which was coming because of a ruling by the Board of Transport Commissioners. Now, I understood him to say that it would have made very little difference in the actual picture that we had here and that next year that observation would still apply. Would that be your opinion as well?

Mr. TURVILLE: I think that is not a fair question to ask me as an auditor at the moment. We have audited the accounts of the Canadian National Railways for 1955 and we have not done very much on the auditing of the accounts of the Canadian National for 1956. I have seen figures which would appear to demonstrate the fact that there will not be any material difference, but I am sure you would not expect me to say that I agreed with him at the moment.

Mr. HAMILTON (*York West*): Well, whether the question was fair or not, I think you answered it anyway. One other question: You have indicated that there has been a further extension of machine accounting in one of your paragraphs near the end of your report. Does the whole set-up appear to you to be taking advantage of the newest in automation as far as accounting is concerned in order to keep our rates as low as possible?

Mr. TURVILLE: I know the Canadian National Railways departments have been taking very active interest in this, and they have not jumped at the first proposition that has been suggested to them. It is a slow process, this thing;

but progress has been made and new installations that we have seen in the central region and the western region etcetera are certainly showing improvement.

Mr. HAMILTON (*York West*): Now, is this a fair question: is it in line with the use of such equipment by commercial companies that you audit?

Mr. TURVILLE: Yes, definitely.

Mr. HAMILTON (*York West*): It is?

Mr. TURVILLE: Definitely.

Mr. HAMILTON (*York West*): Another question. I notice on your first page that you refer to the fact that the affiliated companies since Canadian National does not have voting control you don't audit those accounts?

Mr. TURVILLE: No.

Mr. HAMILTON (*York West*): But do you examine the audited statements?

Mr. TURVILLE: Yes, we get the audited statements certified by joint committees of the Canadian National Railways and the other railways concerned.

Mr. HAMILTON (*York West*): How often do you get them?

Mr. TURCOTTE: Once a year. Some times they are late in arriving.

Mr. HAMILTON (*York West*): You do not examine those on a quarterly or half yearly basis or anything like that?

Mr. TURVILLE: No, an annual basis. When I said we get them through promptly we did not get them as quickly as you get the report on the Canadian National Railways.

Mr. MORISON: They have to go through their own companies first.

Mr. HAMILTON (*York West*): And although you do not conduct the audit do the statements which you receive, and which I assume are reflected here in this statement, appear to be in order, all of them?

Mr. MORISON: Yes, as far as we can tell without examination of the books.

Mr. FULTON: One further question under the heading of "Other Assets and Deferred Charges". There is a sentence which I do not understand. I would be glad if you would just enlarge on it or perhaps Mr. Gordon would have to answer it. The first paragraph:

> Investments under this heading consist mainly of government of Canada bonds valued at cost and include unlisted securities of a miscellaneous nature held primarily for purposes of traffic benefit valued at or below cost.

Can you explain that?

Mr. TURVILLE: I think it was mentioned last year and an explanation given. They include hotels and grain elevator companies not owned nor controlled by the Canadian National Railways.

Mr. FULTON: You mean held primarily for purposes of traffic benefit in order to create traffic for the railways?

Mr. TURVILLE: Yes, the Admiral Beatty is one which is not owned by the Canadian National, but they own a portion of their stock.

Mr. HAMILTON (*York West*): Another question, Mr. Turville. You probably could lay your finger on it quicker than I could. The surplus of inventory as disclosed by your check, have you that amount?

Mr. TURVILLE: Yes, I have.

Mr. HAMILTON (*York West*): How much was it?

Mr. TURVILLE: One million two hundred thousand dollars.

Mr. HAMILTON (*York West*): Now there again I see, as with T.C.A., that was credited to operating expense?

Mr. TURVILLE: Yes.

Mr. HAMILTON (*York West*): Is that a repetition of your question, Mr. Fulton?

Hon. Mr. MARLER: So far.

Mr. HAMILTON (*York West*): I am sorry.

Mr. TURVILLE: It is larger than is usually expected this year because of the fact that a lot of the coal piles have been cleaned up, and you know what that means and these overages have developed and become significant, which always happens at a time when you are cleaning up a coal pile and the clean-ups have been heavier than normal.

The CHAIRMAN: Shall the auditors' report for the Canadian National Railways system carry?

Moved by Mr. Fulton, seconded by Mr. Power (*Quebec South*) that the auditors' report of Canadian National Railways system carry.

Carried.

Now then we will deal with the Canadian National (West Indies) Steamships auditors' report. Can I have a motion that it be taken as read?

Moved by Mr. Power seconded by Mr. Batten the auditors' report of Canadian National (West Indies) Steamships Limited be taken as read.

GEORGE A. TOUCHE & CO.

CHARTERED ACCOUNTANTS

Coristine Building,

410 St. Nicholas Street,

Montreal, 1.

7TH. MARCH, 1956.

CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS, LIMITED

The Honourable The Minister of Transport,
Ottawa, Canada.

Sir,

We have audited the accounts of the Canadian National (West Indies) Steamships, Limited for the year ended 31st December, 1955, and we now report, through you, to Parliament.

Our examination of the accounts was made in accordance with generally accepted auditing standards, and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. In this connection we worked in collaboration with the executive accounting officers having as a common objective the securing of maximum internal protection to the Steamships in the control of cash receipts and expenditures, securities held, material stores and accounts receivable of all types. The Company is further protected by fidelity bond insurance carried with outside underwriters.

Our audit of the accounts included the verification of the balance sheet and income account and certification thereof.

Accounts receivable and payable of all classifications have been tested by us with the subsidiary and controlling records, cash and other transactions subsequent to the year end, departmental files and general supporting information but such accounts have not been verified by direct communication with the individual debtors and creditors.

The Insurance Investment Fund, which increased by $47,000 during the year, is composed of investments in the securities of the Government of Canada, the Canadian National Railways (Guaranteed by the Government of Canada), the Provinces of Quebec and Ontario and securities guaranteed by the Province of Ontario together with cash and sundry current assets. The year-end market value of these securities was 3·92% less than cost.

The Vessel Replacement Fund was liquidated during the year and the proceeds of $5,800,000, together with $3,600,000 provided by the Government of Canada through a loan of $2,000,000 bearing interest at the rate of 2½% per annum repayable in semi-annual instalments and the purchase of $1,600,000 of capital stock, were utilized in redeeming the Company's bond issue of $9,400,000 maturing on 1st March, 1955. As a result of this refinancing, net interest expense was reduced by $208,000, and a profit of $54,000 was realized on the sale of Vessel Replacement Fund securities.

Investment in vessels is carried on the general basis of cost less accrued depreciation. Provision for depreciation during the year was made on bases consistent with that of the previous year, namely:

(*a*) The three diesel powered and refrigerated vessels—5%;

(*b*) The five non-refrigerated vessels—3%.

We have received a certificate from the responsible officers that all equipment has been maintained in a proper state of repair and in an efficient operating condition during the year.

Where foreign currencies are involved, the balance sheet accounts of the Steamships are converted generally as follows:

(*a*) United States Currency—at the dollar par of exchange.

(*b*) Other Foreign Currencies—at the current rates.

Dollar amounts stated in this report are to the nearest thousand.

Yours faithfully,

(Signed) GEORGE A. TOUCHE & CO.

The CHAIRMAN: Any questions on this report?

Mr. BELL: Mr. Chairman, one question, to show some interest in this report. I notice that the market value of the securities held in the insurance investment fund was nearly four per cent less than cost, whereas in the previous year it was equal to cost. I was just wondering, as a point of information, what securities had dropped that much in these days of rising markets?

Mr. TURVILLE: Government bonds, for example, are lower, and provincial bonds are lower. The Canadian National bonds are lower in 1955 than at the end of 1954. That is not out of line with general conditions. It does not mean they pay too much for them.

Mr. BELL: Those are bonds?

Mr. TURVILLE: All bonds.

Mr. HAMILTON: (*York West*): Mr. Turville, in your fourth paragraph of this account in connection with verification of accounts, is this the general procedure? You say that you have tested them; but I assume you have not asked for the written slip back from the debtor or creditor?

Mr. TURVILLE: It is the general practice of our firm to obtain outside verifications from both debtors and creditors. But in the case of these companies, particularly the railway company, it is very difficult to verify them in this way when you have many accounts divided among regions and districts. Of course in this case I think the balance was largely the balances receivable from agents. We examine the agents' reports coming into the steamship company.

Mr. MORISON: We verify them subsequently to the cash receipts and items coming in later on.

Mr. HAMILTON (*York West*): You checked it up later. Even though you have not verified it this year, next year you would check?

Mr. MORISON: We verify them before we certify the accounts. We see them settled in the subsequent period,—January or February.

Mr. HAMILTON (*York West*): The method of verification is slightly different here from that which you would get in an average company?

Mr. MORISON: Well, these voyages are all closed now. They were open at the end of December. They are now closed voyages, and finalized. We know they are settled before we finish the audit.

The CHAIRMAN: Shall the auditor's report carry?

Moved by Mr. Power and seconded by Mr. Bell that the auditor's report of Canadian National National West Indies Steamships Limited carry.

Carried.

The CHAIRMAN: Now, I would suggest that the committee meet on Monday afternoon at 3.30 in order to consider the report, before any presentation is made.

Mr. FULTON: Mr. Chairman, before we conclude this portion may I say a word? I know that Mr. Macdonnell last year, when he was a member of the committee asked for certain information to be compiled with respect to the tables, the statistical tables and the method of presenting the budget, and I would like to say I know on his behalf and certainly my own—I am sure all the members of the committee will agree—that we express appreciation of the very full picture given in these statistical tables and in the method of setting up the capital budget for the year. I think that our suggestions and requests have been compiled with and I think we should express our appreciation.

The CHAIRMAN: I should also like to express to Mr. Turville and Mr. Morison who are here representing the auditing firm our thanks for their very careful consideration of the accounts and their assistance here today.

The committee adjourned.