

Canada. Parl. Senate. Standing
Comm.on Transport &
Communications, 1958.
Proceedings...
Bill C-47.

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THE SENATE OF CANADA



PROCEEDINGS

OF THE

STANDING COMMITTEE ON

TRANSPORT AND COMMUNICATIONS

To whom was referred the Bill C-47, An Act to authorize the provision of moneys to meet certain capital expenditures of the Canadian National Railways System during the calendar year 1958, and to authorize the guarantee by Her Majesty of certain securities to be issued by the Canadian National Railway Company.

The Honourable H. de M. MOLSON, Acting Chairman.

WEDNESDAY, AUGUST 13, 1958.

WITNESSES:

Mr. Donald Gordon, President of C.N.R.
Mr. A. Rosevear, Counsel for C.N.R.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1958

TRANSPORT AND COMMUNICATIONS

The Honourable Adrian K. Hugessen, *Chairman*

The Honourable Senators

*Aseltine	Haig	Monette
Baird	Hardy	Nicol
Beaubien	Hawkins	Paterson
Bishop	Hayden	Pearson
Bouffard	Horner	Power
Bradley	Hugessen	Quinn
Brunt	Isnor	Raymond
Campbell	Jodoin	Reid
Connolly (<i>Halifax North</i>)	Kinley	Robertson
Connolly (<i>Ottawa West</i>)	Lambert	Roebuck
Dessureault	Lefrançois	Smith (<i>Queens-</i>
Emerson	*Macdonald (<i>Brantford</i>)	<i>Shelburne</i>)
Euler	Marcotte	Stambaugh
Farris	McGrand	Veniot
Gershaw	McKeen	Vien
Gladstone	McLean	Wood
Gouin	Méhot	Woodrow—50.
Grant	Molson	

(Quorum 9)

**ex officio* member.

ORDER OF REFERENCE

Extract from the Minutes of the Proceedings of the Senate

TUESDAY, August 12, 1958.

"Pursuant to the Order of the Day, the Honourable Senator Haig, P.C., moved, seconded by the Honourable Senator Monette, that the Bill C-47, entitled: An Act to authorize the provision of moneys to meet certain capital expenditures of the Canadian National Railways System during the calendar year 1958, and to authorize the guarantee by Her Majesty of certain securities to be issued by the Canadian National Railway Company, be read the second time.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.

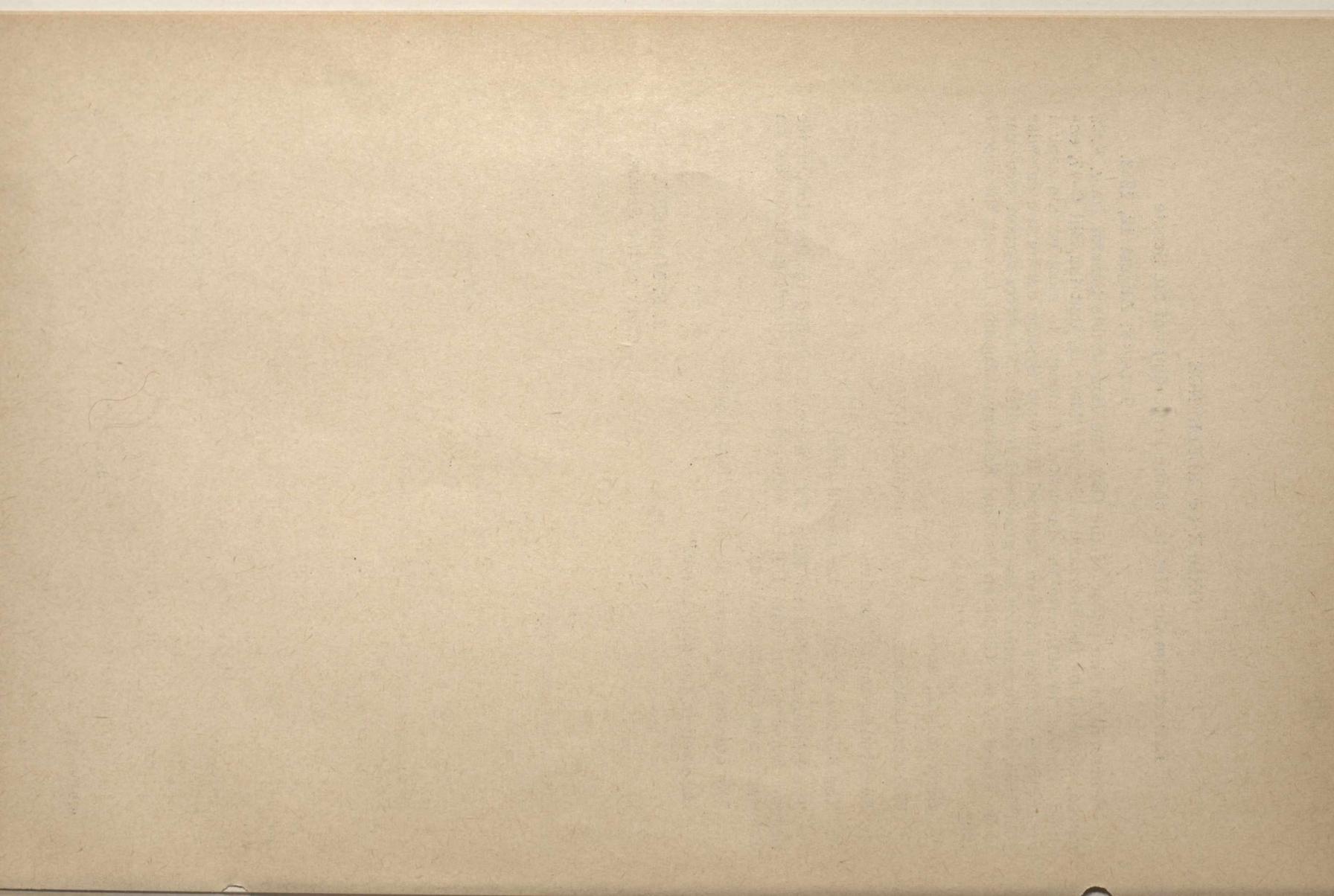
The Bill was then read the second time.

The Honourable Senator Haig, P.C., moved, seconded by the Honourable Senator Monette, that the Bill be referred to the Standing Committee on Transport and Communications.

The question being put on the motion, it was—

Resolved in the affirmative."

J. F. MACNEILL,
Clerk of the Senate.



MINUTES OF PROCEEDINGS

WEDNESDAY, August 13, 1958.

Pursuant to adjournment and notice the Standing Committee on Transport and Communications met this day at 10.30 a.m.

Present: The Honourable Senators: Molson, *Acting Chairman*; Aseltine, Bouffard, Bradley, Brunt, Emerson, Euler, Gladstone, Gouin, Haig, Isnor, Lambert, Lefrancois, Macdonald, Power, Robertson, Smith (*Queens-Shelburne*) and Stambaugh—18.

In Attendance:—Mr. E. Russell Hopkins, Law Clerk and Parliamentary Counsel.

On Motion of the Honourable Senator Aseltine, the Honourable Senator Molson was elected Acting Chairman.

Bill C-47, "An Act to authorize the provision of moneys to meet certain capital expenditures of the Canadian National Railways System during the calendar year 1958, and to authorize the guarantee by Her Majesty of certain securities to be issued by the Canadian National Railway Company," was read and considered clause by clause.

The following officials from the Canadian National Railways Company were heard in explanation of the Bill:—

Mr. Donald Gordon, President.

Mr. A. Rosevear, Counsel.

Also in attendance but not heard were:

Mr. J. H. Spicer, Director of the Budget, C.N.R.

Mr. J. E. Lowe, Executive Assistant, Dept. of Finance.

Mr. Walter Smith, Assistant Executive Representative, C.N.R.

On Motion of the Honourable Senator Bouffard, seconded by the Honourable Senator Brunt, it was RESOLVED to report the Bill without any amendment.

On Motion of the Honourable Senator Aseltine, seconded by the Honourable Senator Isnor, it was RESOLVED to report recommending that authority be granted for the printing of 800 copies in English and 200 copies in French of the Committee's proceedings on the said Bill.

At 1.00 p.m. the Committee adjourned to the call of the Chairman.

ATTEST.

Gerard Lemire,
Clerk of the Committee.

THE SENATE

STANDING COMMITTEE ON TRANSPORT AND COMMUNICATIONS

EVIDENCE

The Standing Committee on Transport and Communications, to whom was referred Bill C-47, to authorize the provision of moneys to meet certain capital expenditures of the Canadian National Railways System during the calendar year 1958, and to authorize the guarantee by Her Majesty of certain securities to be issued by the Canadian National Railway Company, met this day at 10.30 a.m.

Senator Molson in the chair.

The ACTING CHAIRMAN: Honourable senators, we have before us Bill C-47, a bill to authorize to provision of moneys to meet certain capital expenditures of the Canadian National Railway System.

As witnesses we have Mr. Donald Gordon, President of the Canadian National Railways, Mr. A. B. Rosevear, counsel for the railway, Mr. Spicer, Chief Budget officer, and Mr. Low, Executive Assistant of the Finance Department. Would it be your pleasure to hear Mr. Gordon first?

Some SENATORS: Agreed.

Mr. DONALD GORDON, *President of the Canadian National Railways System*: Mr. Chairman, I perhaps might say a word about the meaning of the bill. Honourable senators will recall that the form of the Canadian National Financing Guarantee Act has become almost a standard, as a comparison of this bill with those of previous years would establish. The bill is designed to grant authority to the company to make capital expenditures during the calendar year 1958 and during the first six months of 1959, for the purposes set out in the bill, including capital requirements of Trans-Canada Air Lines.

The bill also authorizes the Minister of Finance to lend money to the Canadian National Railways for the purpose of meeting authorized capital expenditures, it will permit the company to make public issue of securities to obtain funds for the purpose of repaying moneys borrowed from the minister. The bill also authorizes the minister to guarantee on behalf of Her Majesty the payment of interest and principal when due on securities issued to the public.

Finally, it provides for the appointment of independent auditors to conduct continuous audit of the accounts of the Canadian National Railways.

Mr. A. B. Rosevear, who is the general solicitor of the Canadian National Railways, is attending with me and will give such explanations as may be necessary covering legal points, and I would be glad to supplement these in respect of questions of general interest effecting the operations of the Canadian National Railways and its associated enterprises.

Senator HAIG: In view of that, Mr. Chairman, I suggest that Mr. Rosevear give us the legal points, and Mr. Gordon can explain other questions that may arise.

The ACTING CHAIRMAN: If it is your pleasure gentlemen, I will call Mr. Rosevear.

Mr. A. B. ROSEVEAR, *General Solicitor, Canadian National Railways*: Mr. Chairman and honourable senators the legal points I think are quite simple and straight forward. The senators have examined previous bills on many occasions, and perhaps it might be as well if I run over the bill quickly. If any senator wishes to ask a question as I go along I will be glad to answer it.

Section 3 is an important section of the bill, which authorizes the establishment of expenditures for the calendar year and for the first six months of the succeeding calendar year. The senators will realize that Parliament does not usually grant authority for capital expenditures until sometime around the middle of the calendar year. Therefore, it is necessary to provide for the financing of the company for the first six months of the following year—in this case 1959. That is covered in section 3(a) and (b).

Another authority granted by this section is to make contracts not exceeding a certain amount of money. This authority is estimated by the company, and it enables us to legally enter into contracts with suppliers and others for the calendar year 1958 and for the first six months of 1959. You realize it is necessary for us to have Parliamentary authority to make these contracts.

Senator MACDONALD: To what amount?

Mr. ROSEVEAR: The amount is covered in paragraph (c), \$110 million.

Senator MACDONALD: Is that in addition to the amount mentioned in paragraph (a)?

Mr. ROSEVEAR: In addition to the amount mentioned in paragraphs (a) and (b). Perhaps I should explain that these contracts can be entered into, but the authority to expend money must be contained in the next year's Financing Guarantee Act. The actual authority to obtain the money to meet the obligation is entered into and carried forward to the next year's Financing and Guarantee Act. In other words, we will have to come back to Parliament next year for the money.

Senator MACDONALD: I want to understand this. The contracts can be entered into in 1958?

Mr. ROSEVEAR: That is right.

Senator MACDONALD: But cannot come into effect until 1959?

Mr. ROSEVEAR: It won't be completed until 1959. Mr. Gordon can explain that. It must be for the acquisition of new equipment.

Mr. GORDON: If I may add a word. The difference Mr. Rosevear is explaining is between the commitment and the actual financing. We get authority to commit ourselves for ordering of such things as equipment etcetera, which may not be delivered for 10 or 12 months hence. So, we first of all get authority to commit ourselves for the order, and then later on when we actually need the money to pay for it, there is authority for the necessary financing of that commitment. The financing takes place first in the form of borrowing from the Minister of Finance, and he makes the money available; this gives him authority to make the advance available. Then later on we can decide with the Minister of Finance's approval to go to the public market to sell our securities, guaranteed by Canada.

Senator MACDONALD: You are obligated to carry out the commitment next year?

Mr. GORDON: Yes sir. That is why we state in the commitment here, and make it perfectly clear, that it is a commitment which will need to be financed later on.

Mr. ROSEVEAR: In other words, we are advising Parliament of commitments which we have to make in the calendar year and the first six months of next year, so that Parliament will know the extent to which we are making commitments. Perhaps I should add that we have to order equipment ahead of time.

Senator MACDONALD: I understand that, but the point I am getting at is that this bill is to authorize the expenditures set forth in paragraph (a) plus the expenditures set forth in paragraphs (b) and (c).

Mr. ROSEVEAR: That is right, except that paragraph (c) covers contracts not expenditures.

Senator EULER: Totalling half a billion dollars.

Mr. ROSEVEAR: You will find the actual amount we can borrow is limited later on in the bill. Our expenditures are set forth for the year—the expenditures we may have to make—but we never do get up quite that high, because orders are not delivered, and so on.

Section 4 of the bill limits the amount we can borrow to \$307 million. That figure is in the explanatory note, and is reconciled there. If you will look at the explanatory note you will observe that we have uncompleted work of \$28 million, which is taken off the \$330 million; we add to that the interim financing authority for the first six months of 1959, and take off \$85,130,000 and \$44 million, a total of \$129,130,000, for depreciation. We deduct that because since depreciation funds are available to finance capital expenditures we don't need the money from Parliament.

Senator MACDONALD: But you are asking for authorization to enter into commitments amounting in all to \$330 million, plus \$134 million, plus \$110 million, making a total of \$574 million.

Mr. ROSEVEAR: That is right.

Mr. GORDON: I notice you have this document before you: if you will look at page 1 of the Capital Budget figures, you will see the summary very clearly set forth there.

The effect of it is that the new proposals we make for capital expenditures in the year 1958 total, in all, \$377-odd million under the various headings shown. We then have another column showing uncompleted projects which have already been authorized and which are in the nature of a Parliamentary re-vote, and the grand total of the capital budget that we have in play therefore is \$545,596,000. That is the total budget in play during the year 1958.

The cash expenditures which we expect to find, and which will have to be financed, totals \$302,623,000. That is the money we have to find from one source or another in the current year.

Senator EULER: You can make commitments beyond that?

Mr. GORDON: Yes, we have commitments in play, as I say, which will total \$545,596,000. They vary as to the stages in which they are in. Some of them we have not yet undertaken, others are in hand, but all have been authorized under this budget. According to our estimates we will have to find \$302,623,000 cash; of that amount we will generate ourselves in the form of depreciation charges \$85,130,000 plus \$44 million in the form voted here—\$129,000,000 as shown in these figures.

Senator EULER: Would you have to secure any further authorization to expend the \$545 million.

Mr. GORDON: Yes, senator. The \$545 million is the total cost of all projects included in the capital budget for this year but we are asking for authority to

expend only \$302.6 millions of this during 1958. Next year we will be asking for funds to cover the same part of the remainder of this amount plus new projects under consideration.—This will be the 1959 budget.

Senator BRUNT: But you cannot go beyond the \$545 million?

Mr. GORDON: No, not without coming back with another budget.

Senator MACDONALD: And that will carry over until July 1, 1959?

Mr. GORDON: That is right.

Senator GOVIN: Is the \$110 million of commitments in that amount of \$545 million?

Mr. GORDON: The \$110 million is the amount that we estimate will be required for contract purposes in the first half of the year 1959.

Senator ISNOR: Mr. Chairman, I would like to ask Mr. Gordon some questions, as a matter of principle, arising out of the discussion over the CBC's financing as to whether there is any authority in the Railway Act concerning the limitations as to the amount of commitments which the railway might make and then come to Parliament for authorization for that amount.

Mr. GORDON: I do not know if I can reply to that question. The only limitation is in our budget as approved. We submit a capital budget each year which is approved by our Board of Directors, presented to the Government and then approved by Order-in-Council. After that has been done it is referred to the House of Commons Parliamentary Committee and I appear before that committee and give all necessary explanations. Then having gone through that procedure the Financing and Guarantee Bill comes into being. When it is passed that becomes our authority. But there is no limit in the sense that we are aiming for any particular total. The only limit is what do we need in respect of running the railway.

Senator ISNOR: That brings up the question of what you need. That is the same question facing the Canadian Broadcasting Corporation. There is no limit. Let me give you a concrete example. Take the case of a contract for a hotel either in Winnipeg or Halifax. To build that hotel you get a firm offer. And then because of a change in plans there will be another \$500,000 or another million dollars more to be spent on that hotel. Have you the authority to carry on that additional contract or sub-contract?

Mr. GORDON: No, it would have to come out of the total of the amount that we have specified. We have an amount for contingencies that will take care of what you might call nominal overrun, but anything substantial we would have to defer and come back for more authority.

Senator ISNOR: What happens to these nominal overruns, in money?

Mr. GORDON: Let us say we have a specific item on which we estimated the cost at \$10 million, and we had that in our budget as a project. It was authorized. Then we called for bids or tenders and found that in light of conditions the actual cost would be \$12 million. In that case we would not go ahead with that project. We would look at the thing and determine whether or not we wanted to go ahead with it and if we did and funds weren't available we would have to come back for further authority and wait until the next budget is approved.

Senator ISNOR: You mean to say that if you had received tenders for that project which you estimated would cost \$10 million and it ran to \$12 million you would throw the whole thing aside?

Mr. GORDON: We would not be under any commitment to go ahead with it. Our tenders are always called on the basis that we have complete right to refusal.

Senator ISNOR: Is that the situation applicable to delay in building the hotel in Halifax?

Mr. GORDON: There is nothing held up at Halifax. I notice that the Foundation Company, which has the contract for the foundation, has a strike on its hands at the moment but that has nothing to do with us.

Senator EULER: Supposing you had appropriated \$10 million and the offer was \$10 million or below and they went on with it and as is so usual you would find out after all that there are extras coming up adding perhaps another million to the cost. What would you do about that?

Mr. GORDON: I cannot conceive of a situation where the overrun in the expenditure would be more than 10 per cent. We would regard an overrun of that amount a serious matter. Nevertheless we would be able to take care of that out of our contingency fund; but I cannot conceive of a practical situation of that sort. We always know pretty well what the tender is likely to be within certain limits.

Senator EULER: That seems to be happening right along, though.

Mr. GORDON: Let me make this clear. In all requests for tenders we first of all prepare our own engineering estimates and if our engineers are more than a reasonable percentage out then we get some other engineers, that's all, because that is their job. In practise I have found the figures are pretty close. We do not find much variation between the estimate and the actual tender.

Senator EULER: You take care of the overruns out of your contingency funds?

Mr. GORDON: Yes, that is part of our business. We have a tremendous number of contracts and tenders going on all the time and as a business management we must be able to handle them.

Senator MACDONALD: I notice at the bottom of page 1 there is this note: "The amounts required for refunding and/or retirement of maturing securities are shown on page 8 hereof."

Mr. GORDON: Yes.

Senator MACDONALD: These maturing securities amount to \$14,517,000. Will it be necessary to raise additional funds to pay these maturities or can you issue securities in their place?

Mr. GORDON: We could do it either way but in actual practice we do not issue renewal securities for these items. We pay them off in cash, and that is why it is in our general cash requirement. We borrow in the first instance from the Government and then go to the market with an issue to the public. I think the last one was \$300 million. This is treated as a cash requirement because as they mature we pay them off.

Senator ISNOR: You spoke, Mr. Gordon, about the estimates made by your engineers. I would judge from what you have said that their estimates would be pretty accurate.

Mr. GORDON: Yes.

Senator ISNOR: How did the estimate for the subway in Halifax, which we were after for so many years, compare with the actual cost?

Mr. GORDON: A subway?

Senator ISNOR: Yes, your portion of it.

Mr. GORDON: I don't recollect that. I haven't got that specific information with me at the moment. I would have to look it up but again I can speak with confidence that our estimate would be pretty close to the actual result. I can generalize on that with confidence. I would be very glad to get the specific information for you, Senator Isnor.

Senator ISNOR: I think it would be interesting information to have because of the long fight we had to get the subway. When you say it is many hundreds of dollars and it was done in the proper time—

Mr. GORDON: That is a matter of opinion. If it is agreeable I might furnish this information directly in correspondence. Would that be satisfactory?

Senator ISNOR: Yes, as long as it is not marked "Personal".

Mr. GORDON: Not at all. In fact, I will send it through the Committee if you would prefer. I think that I am entitled to make this comment: I would not like the remark to stand on the record that our attitude in favour of the matter was an unreasonable one.

Senator ISNOR: That is a matter of opinion.

Mr. GORDON: That is matter of opinion on both sides.

Senator BRUNT: We are getting into opinions today.

The Acting CHAIRMAN: Have you finished your statement, Mr. Rosevear?

Mr. ROSEVEAR: I have unless the senators want to proceed with the bill.

The Acting CHAIRMAN: I believe you are up to clause 4.

Senator BRUNT: Might I ask a question?

Mr. ROSEVEAR: Yes.

Senator BRUNT: When you borrow from the Minister of Finance to carry along temporarily until you do your financing by the sale of bonds to the public, what rate of interest is charged to the C.N.R.?

Mr. GORDON: That is a rate of interest agreed upon between ourselves and the Minister of Finance and it is calculated on a certain formula.

Senator BRUNT: And then when the bonds are sold the Minister is reimbursed on the advance made and with interest.

Mr. GORDON: Depending on the amount of the public borrowing with the full amount of the public borrowing we pay off the advances from the Minister in order of date. That is, we pay back the first borrowing but we don't necessarily borrow enough from the public to pay off all the loans that might be outstanding to the Minister at one time.

Senator BRUNT: Your last loan was \$300 million?

Mr. GORDON: Yes.

Senator BRUNT: Did that entirely discharge your indebtedness to the Minister of Finance?

Mr. GORDON: Not at that time but pretty close to it.

Senator BRUNT: You have no idea what was left?

Mr. GORDON: Not offhand. It would have been a matter of \$30 million, \$40 million. You never make these things exact.

Senator BRUNT: I can understand that.

The Acting CHAIRMAN: I don't think you dealt with clause 2, did you?

Mr. ROSEVEAR: Subsection 2 of section (3) is designed to authorize the Company to issue securities and to sell them to the public. I think perhaps that simple statement explains most of these paragraphs.

You will notice that in subsection (3) we had to include a statement of the amounts borrowed in the Annual Report of the Company, and in subparagraph (4) an estimate of the amounts required for the purposes of paragraph (b) of subsection (1). That is, the first six months of 1959 have to be included in our budget for 1959, and in that connection I should mention to you, Mr. Chairman, that the \$134 million which you see will be included in next year's Financing and Guarantee Act.

You will notice we can divert expenditures. That is covered by subsection (6). I have skipped over subsection (5) because that is a technical section. Subsection (6) permits the Company to divert expenditures from one purpose to another purpose. Section 4 authorizes the Company to issue securities, and these are securities to the public. May I skip over to section 6 for a moment to show you that this section authorizes loans to be made by the Minister, and you more or less have to read sections 4 and 6 together. Section 5 authorizes the guarantee on behalf of Her Majesty.

Senator BRUNT: Might I ask a question?

Mr. GORDON: Yes.

Senator BRUNT: I understand that before you can go to the public for borrowing you must always obtain the approval of the Governor in Council?

Mr. GORDON: Yes, indeed.

Senator BRUNT: So there is a direct control by the Government?

Mr. GORDON: That is right.

Mr. ROSEVEAR: Then turning quickly to section 7 of the bill, this is a general section which authorizes us to loan money to our subsidiary companies. Section 8 provides for the payment of the proceeds of a public loan into the Consolidated Revenue Fund or into a bank authorized by the Minister. That again shows the control of the Government over the proceeds of a public loan.

Then section 9, which is an important section, enables us, if our revenues are not sufficient to cover our expenditures, to go and ask the Government to advance money to us on our current account. That is what section 9 is designed to do; otherwise at times it would not be possible to carry on.

Section 10 gives specific authority to draw down money for the Trans-Canada Air Lines if it is in the same position; that is, if its revenues are not sufficient to meet its expenditures.

I believe honourable senators know that the reason the Trans-Canada Air Lines is included in this is to avoid duplicate legislation, and also to have one channel of communication between the Minister of Finance and the C.N.R. and its wholly-owned Company, the Trans-Canada Air Lines.

Senator MACDONALD: In that connection the C.N.R. Railways and the Air Lines are two different organizations?

Mr. GORDON: Yes, but we act as their banker, so to speak. In other words, it is not considered advisable that the Trans-Canada Air Lines, with their relatively smaller requirements, should be issuing individual bonds to the market, so the C.N.R. is used as the procedure through which they may raise their capital funds. We include in our capital the capital requirements of Trans-Canada Air Lines, although they make a separate budget and appear before a separate committee. It is purely procedural in the sense that the money they need is included in our borrowing, and then we reloan it to Trans-Canada at exactly the same cost as it cost the C.N.R.

Senator BRUNT: Do you include it in your budget?

Mr. GORDON: Yes.

Senator BRUNT: And therefore it is on page 1?

Mr. GORDON: Yes. You will see it under the item "Investment in Affiliated Companies" on page 1 of the papers you have before you. The \$47,123,000 detailed on page 7 is largely for Trans-Canada Air Lines.

Senator EULER: The bonds should be in the name of the C.N.R.?

Mr. GORDON: Yes, as Canadian National obligations; and we reloan the amount to the Trans-Canada.

Senator EULER: And then the Government guarantees the C.N.R.

Mr. GORDON: The guarantee of the Government is of C.N.R. bonds, yes.

Senator MACDONALD: Do you approve of the necessity for raising these funds that the air lines require?

Mr. GORDON: Well, in this capacity. You will recall that of the Trans-Canada board of directors the C.N.R. appoints five directors, and the Government appoints four. The C.N.R. is the owner of the stock; we hold all the stock of the Trans-Canada Air Lines; and in that capacity we appoint five of the board of directors, and the Government appoints four. So I am a member of the board of directors, and the board of directors accepts responsibility for the capital budget of the Trans-Canada—in that capacity.

The CHAIRMAN: It is a wholly-owned subsidiary?

Mr. GORDON: That is right.

Senator BRUNT: And you have control of the board of directors?

Mr. GORDON: Well, numerically, yes.

Senator LAMBERT: I see on page 7 that advances in respect of capital expenditures for 1958 only are \$45 million.

Mr. GORDON: Yes.

Senator LAMBERT: That would be part of the \$47 million?

Mr. GORDON: That is part of the \$47 million, that is right.

Senator LAMBERT: And that is on that new equipment?

Mr. GORDON: Largely for new equipment.

Senator LAMBERT: Which has not been delivered yet?

Mr. GORDON: Which has not been delivered yet.

Senator EULER: How about the 150 locomotives referred to on page 6? Are they diesels?

Mr. GORDON: All diesels. No steam locomotives are being built.

Senator EULER: What percentage of old steam locomotives have you still in service?

Mr. GORDON: At the end of the year—I have the figure right here—

Senator EULER: They will all disappear in due course?

Mr. GORDON: Yes; in a matter of two or three years, we will be dieselized. In steam locomotives at the end of the year we had on hand 1,192 road locomotives and 252 switching locomotives—these are steam—out of a total of 2,910.

Senator EULER: How about the passenger services? Are they nearly all diesel?

Mr. GORDON: No. We have not done it that way. There are two stages in our dieselization program. We started about six years ago and we proceeded to provide dieselization on that type of service which gives the biggest return on the investment, and that turned out to be largely the fast freight, the manifest freight. That is the first stage. Our passenger service is not the best from the financial point of view that we have.

Senator EULER: It will be the last to get dieselization?

Mr. GORDON: No. The main run trains, such as the Supercontinental, have been dieselized. We started this year on getting away from the first stage. We are now doing what we call geographical dieselization, so we will start from each end of Canada—British Columbia and the Maritime provinces—and work in on that basis. We will then be completely dieselized by areas, and we expect that program to be finished by 1960.

Senator LAMBERT: Just a word on T.C.A. The T.C.A. is a subsidiary of the C.N.R. Do its earnings return enough to take care of its capital expenditures?

Mr. GORDON: To provide for servicing them, interest, and so forth. It has done so so far, yes, sir.

Senator LAMBERT: And it also amortizes the capital expenditure?

Mr. GORDON: That would be part of the requirement, yes, sir.

Senator BRUNT: Well, T.C.A. operates at a profit? What do you do with it? Do you leave the profit in the company?

Mr. GORDON: Well, it shows a nominal profit—and I am not really speaking of the T.C.A. budget, because the president of the company is the person to do that. I will however give you the information to the best of my knowledge. The surpluses that have been shown by the T.C.A. so far have been pretty well required for the provision of the rapid depreciation in older equipment, so there has been no dividend to the C.N.R. as owner of the stock so far I hope there will be, but it hasn't come yet.

Senator LAMBERT: This question really bears on a point which is not in discussion here, of prospective competitive trans-Canada service with the T.C.A. I was just wondering how far the financial terms of the T.C.A. would bear on that question.

Mr. GORDON: Well, only time will show that. All I can say is that the management of T.C.A. has taken into account all the competitive factors you have mentioned and they are endeavouring to provide prudent management. As we see it now, the commitments entered into are prudent commitments, and we expect the company will operate in such a way as to pay these commitments off. That condition may change with new competition or the progress of competitive forces and so forth. Only time can produce an answer to that.

Senator STAMBAUGH: I wonder if we could not get over this page by page, instead of skipping from one page to another. I think in that way we will get a more thorough examination, and it would be easier to follow.

The CHAIRMAN: The budget, or the bill? The budget.

Senator MACDONALD: Before you do that, may I ask, is the president of T.C.A. a director of the C.N.R.?

Mr. GORDON: No, sir.

Senator MACDONALD: Are any of the officers of T.C.A. directors of the C.N.R.?

Mr. GORDON: No. The set-up is that the president of T.C.A. is a director of the company, and there are other directors appointed by the Government.

Senator MACDONALD: The president of T.C.A. is a director of the C.N.R.?

Mr. GORDON: No,—of T.C.A. There is no officer of the T.C.A. a director of the C.N.R.

Senator BRUNT: But you have interlocking directors?

Mr. GORDON: We have interlocking by reason of the fact that there are common directors of the C.N.R. and T.C.A.

Senator BRUNT: Who is the present president of the T.C.A.?

Mr. GORDON: Gordon McGregor,—a very excellent first name, I would like to point out.

The CHAIRMAN: It is your pleasure, then, to run through the budget?

Senator ISNOR: I have two general questions. May I put them now, or later? Which ever Senator Stambaugh wishes.

Senator STAMBAUGH: If they have to do with the budget I would prefer that they wait until we get through.

Senator ISNOR: All right.

Mr. GORDON: Perhaps I can just turn over page by page here. I think I can explain this to you so that you can get the perspective. I need hardly say that the detail of a budget of this kind is tremendous. But I think this would give you the highlights. On page 1 is an overall picture of our budget. In the first column you will find under various heads our estimates of the new projects and new expenditures which we are proposing in this budget for 1958.

In the next column we have shown the projects which have been previously authorized and remain to be expended; and the third column is therefore the total budget we are working on. The last column of 1958 expenditures is of particular interest of the Minister of Finance, because that is the amount of actual money we need for 1958 to finance these capital expenditures.

Now, if you turn to page 2, we have there summarized how we get financing authority, as well as how we propose to finance this very large sum of money. The 1958 cash expenditures, you will recall, were referred to as \$302,623,000. On page 2 you will see that same figure, and we have broken down above that how we expend the money. In other words, of the total of \$302 million odd, \$85,130,000 is found from our own depreciation accruals; that represents the amounts we write off in accordance with the formula of depreciation of equipment and other property, and \$21,000,000 is under the arrangement that was made under Recapitalization where each year we sell to the Government an amount of preferred stock equal to three per cent on our annual revenues; that is the \$21 million.

Senator BRUNT: Is that the net earnings, Mr. Gordon?

Mr. GORDON: No, it is on our gross revenue, three per cent of our gross revenue. The balance, \$196,493,000 is what we estimate we will have to get in additional borrowing either from the Government or the public.

Senator MACDONALD: That is, \$196,493,000?

Mr. GORDON: Yes; that is on page 2, just under the heading of, "Sources of Funds".

Senator MACDONALD: Is it included in the bill?

Mr. GORDON: Yes.

Senator SMITH (*Queens-Shelburne*): What is the method of borrowing?

Mr. GORDON: In the first instance, we borrow from the Government, and then with the agreement of the Government we arrive at the time when it is considered suitable to go to the market to float a bond issue. We have to bear in mind that the Government itself has very large requirements in borrowing from the public, and we adjust ourselves to the situation accordingly, and we have to find the proper timing in respect of the Government's own needs.

Senator SMITH (*Queens-Shelburne*): What rate of interest do you pay for borrowed money?

Mr. GORDON: It depends on the market.

Senator SMITH (*Queens-Shelburne*): When you borrow money from the Government is there any formula which establishes the rate of interest?

Mr. GORDON: Yes, we have an understanding with the Government which is reviewed every six months—a short term rate of interest plus a differential.

Senator SMITH (*Queens-Shelburne*): What is the differential?

Mr. GORDON: It is one-eighth per cent, as I recall.

Senator STAMBAUGH: Can you give us the average interest rate on your total investment of bonds?

Mr. GORDON: On the total borrowing, I have that figure somewhere. Would you leave that with me for a moment? I may have it in my files here.

Senator STAMBAUGH: How much preferred stock is outstanding?

Mr. GORDON: You have the balance sheet before you, which shows that the preferred stock outstanding is 861,354,082 shares of stock at \$1 par. The preferred stock is a four per cent preferred stock, and the manner in which that works is that under the legislation, if we show a surplus that surplus is first of all to be used to pay what we can on the four per cent stock. So far we have only paid a portion of it and have not been able to fully pay the four per cent, and of course this year we have a serious deficit.

Senator STAMBAUGH: What is the common stock?

Mr. GORDON: There are 861,354,082 shares of four per cent preferred stock, and there are also 6,000,000 shares of no par value capital stock, amounting to \$396,518,135.

Senator STAMBAUGH: Issued?

Mr. GORDON: Issued, all held by the Government.

Senator POWER: What is the object of issuing preferred stock?

Mr. GORDON: You may remember, when I recall it to your attention, that in 1952 we had a recapitalization, and at that time a substantial amount of bonds outstanding and held by the Government at that time were paid off, and we issued this preferred stock in its place with the idea that we would pay the four per cent if and when earned. That relieved us of the fixed interest obligation on those outstanding bonds, on the general theory that that amount of indebtedness had grown out of the bankrupt companies that formed part of the system taken over in 1923, and we were relieved of that interest obligation under that formula.

Senator POWER: And I may take it that since 1952 you have issued 800,000,000 of preferred stock. Was that to pay off some of the old bonds?

Mr. GORDON: Yes, at the time we paid off the old bonds. I am speaking from memory, but I think it was something of the order of 780,000,000 of the stock arose for that purpose.

Senator POWER: So that roughly it would be about 20,000,000 that you have issued since 1952?

Mr. GORDON: No, not quite. For instance, in 1958 we are estimating, when we are issuing \$21 million on the basis of our earnings. That has been about the range; it runs about \$21 million a year since recapitalization that we have issued.

Senator POWER: And what has accrued in the way of debt on the preferred stock up to date?

Mr. GORDON: On the interest? It is non-cumulative.

Senator POWER: Non-cumulative?

Mr. GORDON: That is right.

Senator SMITH (*Queens-Shelburne*): I should like to ask another question on the additional borrowing. In the past what has been the experience as to the longest period of time you have financed those additional bonds through short-term loans and renewing them from time to time with the Government?

Mr. GORDON: Well, our general agreement with the Government is we will go to the market on a fairly current basis. In other words, we borrow purely as a banking expedient, and will go to the market on any occasion when the Government feels it is appropriate for us to do so. In other words, they tell us their decision, and we are always willing to accept. Of course, if we do hold strong views that the time is inappropriate, undoubtedly the Finance Minister would listen to us, but generally speaking we speak to him and the officials with regard to whether a bond issue would be appropriate

this month or next year, and decide whether the market conditions are suitable, etc., on the general understanding that we will pay off as quickly as we can on public borrowing.

Senator ISNOR: I wonder if Mr. Gordon would enlarge on that? With regard to the re-financing in 1952, Bill No. 308, as I remember, I think one portion of it was to save \$22 million, and another to save over a period of ten years, \$3 million a year. I wonder if Mr. Gordon could make a general statement as to the outcome of that re-financing, and the effect it has had on your whole financial structure?

Mr. GORDON: Well, the only thing I can answer to this is that in 1952 the effect of the recapitalization, that is, the exchange of preferred stock for the bonds that were then outstanding, had the effect of relieving the C.N.R. of its cumulative interest charges.

Senator ISNOR: As I recall the amount was \$763 million.

Mr. GORDON: It was around that figure, I haven't it exactly, but the effect was to relieve us of our annual obligations.

Senator EULER: How much have you paid out by way of annual dividends on preferred stock; it was supposed to be four per cent?

Mr. GORDON: It has been the exact amount of our surpluses in those years. We had surpluses in the years 1952, 1953, 1955 and 1956, which total in millions of dollars, \$37.1.

Senator EULER: How much have you been short of paying a full dividend?

Mr. GORDON: I could give it roughly, but you also have to net that out because there were years in which we showed a deficit as well.

The amount of the surplus was \$37 million and that was paid to the Government, but during this period we have had deficits more than sufficient to wipe it out. So actually if you take the net of the years, which is the important thing, we had surpluses totalling \$37 million up to and including last year and we had deficits totalling \$58 million, so in effect we are short of balancing by \$21 million.

Senator EULER: Do you carry that as a liability?

Mr. GORDON: No, it is not cumulative. The deficit is voted each year.

Senator BRUNT: In how many years since 1950 have you had a deficit?

Mr. GORDON: In 1950 there was a deficit of \$3,261,000.

Senator MACDONALD: Was that not on the former financial setup? Was the setup not changed in 1952?

Mr. GORDON: Yes, but I am talking about the figures published at that time.

In 1951, there was a deficit of \$15,032,000.

In 1952, as a result of the recapitalization we showed a surplus of \$142,000.

In 1953 the surplus amounted to \$244,000.

In 1954 we showed a deficit of \$28,758,000.

In 1955 we showed a surplus of \$10,718,000.

In 1956 the surplus amounted to \$26,077,000.

Last year, by reason of the disastrous decline in traffic the deficit amounted to \$29,573,000.

In the budget you will find that we are forecasting \$55 million for this current year and that is without taking into account any wage adjustments that might come out of the present labour negotiations.

Senator BRUNT: Or any freight rate increase you might get in the future?

Mr. GORDON: Yes, but that could hardly be applicable to this year's operations now.

Senator BRUNT: Not to the calendar year but to the fiscal year.

Senator MACDONALD: Do you say the results last year were due entirely to a decrease in traffic?

Mr. GORDON: Well it is always very difficult to exactly find these things. In 1956, as I said, we had a surplus of \$26,077,000.

In 1957 the deficit was \$29,573,000.

We had a very substantial decline in traffic in the year in addition to which our wage costs increased substantially. Those are the two major factors.

Senator MACDONALD: Does traffic include both passenger and freight business?

Mr. GORDON: Yes, I am taking traffic in the broad sense. But of our grand total of revenue only about 7 per cent to 8 per cent of the total gross revenue comes from passenger business.

Senator EULER: Do the end results not show the effect of more active competition?

Mr. GORDON: It is bound to be.

Senator EULER: Would that competition consist of rail competition or truck competition?

Mr. GORDON: I would say more trucking competition and intensification of passenger competition in the form of private automobiles and busses.

Senator SMITH (*Queens-Shelburne*): When was this budget prepared in which you estimate a deficit of \$55 million for the current year?

Mr. GORDON: It was prepared for our own purposes in January, it was revised in March, and when I appeared before the Parliamentary Committee of the House of Commons there was a further revision due to a technical matter of depreciation which we adjusted at that time, but the \$55 million is our current estimate subject to whether or not we run into further expenses in the way of wage increases or are able to get any further freight rate increases.

Senator SMITH (*Queens-Shelburne*): Is that the same estimate you made up on January 1, when you originally made up your budget? What has been your experience in the last six months with regard to freight traffic?

Mr. GORDON: Well, we were quite pessimistic in January and I am afraid our pessimism has been justified.

Senator SMITH (*Queens-Shelburne*): Are there any signs yet of a picking up of freight traffic?

Mr. GORDON: I would not want this to go out as an opinion, but I do see signs of an upturn but they are not sufficiently emphasized for me to see much likelihood of changing this figure for this year.

Senator EULER: Truck competition is increasing all the time is it not?

Mr. GORDON: I would say yes.

Senator EULER: Have you any idea how you can meet that?

Mr. GORDON: Yes, we have a number of plans in that respect. We have already produced a number of what we call incentive rates which are aimed directly at the matter of meeting truck competition where we give a lower freight rate in terms of volume or car loadings. We have also worked out a number of agreed charges. As members of the committee know, the agreed charge is a new weapon devised over the last few years whereby we will

quote a special rate to a shipper who undertakes to send a specified percentage of all his traffic by rail, and if he agrees to send a higher percentage, the rate will be adjusted downwards accordingly. I may say that the higher the percentage the lower the rate.

Senator BOUFFARD: I see that the policy of the Canadian Pacific Railway is to acquire trucking facilities. Is the same policy being followed by the Canadian National Railways?

Mr. GORDON: I said in the Committee of the House of Commons that I prefer not to be drawn into a definite statement on that because the matter is very active currently. It is the intention of the Canadian National management to remain competitive in the transportation business and to take whatever steps are necessary to do so. What we intend to accomplish I do not want to say at the moment but we are in active negotiation.

Senator ISNOR: You have already entered into one deal, have you not, in respect to trucks?

Mr. GORDON: A deal of what character?

Senator ISNOR: Have you not taken over two trucking companies?

Mr. GORDON: No, we have not acquired any trucking companies so far. In our own charter provision is made for a Canadian National transportation company and we have power to run trucks under certain conditions but they vary as between provinces. We are in a terrific legal tangle in that regard. But in the Maritime provinces we have embarked on trucking under rail management.

Senator EULER: Has the Board of Transport Commissioners any authority in these matters at all?

Mr. ROSEVEAR: Over trucking you mean?

Senator EULER: Over any arrangement you may make as to rates.

Mr. ROSEVEAR: The Board of Transport Commissioners does not have any jurisdiction over highway transportation.

Senator EULER: But has it any control over your rates?

Mr. GORDON: We had in mind, however, enlarging our trucking operations or purchasing a trucking company. I take it your inquiry is. Does it have to be approved by the Board of Transport Commissioners?

Senator EULER: Not necessarily. You may make certain adjustments of rates. Is that subject to approval by the Board of Transport Commissioners?

Mr. GORDON: The Board of Transport Commissioners has jurisdiction over all railway rates, but not over trucking rates.

Senator EULER: But as you said your own railway rates are made to meet the competition.

Senator BRUNT: If you were to go to the X Motor Company at Windsor and they decided to give you 90 per cent of their business and you gave them a fixed special rate does that rate have to be approved by the Board?

Mr. GORDON: We can quote the rate provided the other railway company goes along with us. We can quote that rate, but having quoted it and announced it then it can be challenged by anybody before the Board of Transport Commissioners.

Senator EULER: That is what I am getting at.

Senator BRUNT: Do you have to make a formal application for approval or do you sit back and wait for it to be challenged?

Mr. GORDON: We sit back and wait for it to be challenged.

Senator EMERSON: Mr. Gordon, I understand for the past year you show a \$29 million deficit in your overall operations and in the budget before us you are forecasting a deficit of \$55 million. Do you not think that there is an upturn in business? Of course there certainly is in the United States. If you believe that there might be an upturn in business why would you be budgeting for a deficit of \$55 million?

Why would you be budgeting for an increase of \$25 million loss for this year when you make the statement that you think an up-turn in business is coming, and most businessmen probably think the same thing? Are you figuring that the \$55 million is due to the Seaway, or is it due to increases in wages and other operating costs?

Mr. GORDON: You see, it is a matter of timing. You must remember that you are comparing this with the previous year. In 1957 we show a deficit of \$29.6 million. In the early part of the year our traffic was not nearly as depressed as in the latter part of the year. The decline in traffic started about the fall of 1956, and that decline has been progressive and has extended into 1958. So, the overall level of traffic through 1958, for the whole year, has been much lower than for the whole year 1957.

Senator EMERSON: When does your year end?

Mr. GORDON: December 31.

Senator EMERSON: Is the Seaway going to have much bearing on your earnings?

Mr. GORDON: We have tried to estimate its effect, and we believe in the short run it will have quite an effect; but in the long run—and I am talking of a period of over five years after the Seaway gets going—we expect with the sort of industrial development that will be developed by reason of new power facilities and its availability, that there will be enough generation of industry to more than offset the loss of traffic that may occur in the short run. We are not too much afraid of the long run effect of the Seaway.

Senator BOUFFARD: I would like to ask Mr. Gordon whether he has taken a decision as to whether the local commissions have any jurisdiction in the matter of inter-provincial transport.

Mr. GORDON: In the matter of trucking?

Senator BOUFFARD: Yes.

Mr. GORDON: I don't know. The question of trucking and rates in respect thereto is in a bit of a muddle at the moment. We have it under very careful analysis, but just how we are proceeding, I am not prepared to say.

Senator BOUFFARD: You have not reached a final decision on that?

Mr. GORDON: No, we have not. The matter is a very active current problem, and we will have to deal with each particular jurisdiction, because the situation is different for each province.

Senator BOUFFARD: But in the matter of interprovincial transport it seems to me that a decision was rendered some time ago as to whether the local commissions have any jurisdiction in the matter of interprovincial transport.

Mr. GORDON: That is right, but we find there is a great difference between making decisions and making them stick. We find as soon as we start to do something, it is challenged in one way or another.

Senator BOUFFARD: So no final decision has been reached?

Mr. GORDON: No. We will have to test it as we go along.

Senator ROBERTSON: Are the increased rates of interest on long-term money, as a result of the conversion loan, likely to have any bearing on your budget?

Mr. GORDON: To the extent that additional interest costs will be a factor in the budget, yes sir. It won't effect this year's budget, I do not think, because we won't likely be going to the market immediately.

The Acting CHAIRMAN: The next time you have to finance publicity it will have a bearing on it?

Mr. GORDON: Yes, indeed.

Senator ISNOR: Mr. Chairman, may I ask a supplementary question to that asked by Senator Smith in regard to the term used "convenient time", in which you presented this—that is, convenient to the Government. You had the budget ready, as I understand it, in January?

Mr. GORDON: No, not for the Government. We made our first forecast for our own purposes in January. Our budget was actually ready for submission about the first part of April.

Senator ISNOR: I should think it would have been very much easier for the Minister of Finance, in presenting his budget, if he knew your requirements. I was wondering whether he received those requirements before his budget was presented.

Mr. GORDON: First of all you have to remember that we have to get our annual report prepared, audited and verified. In practice we find we cannot get our books closed and a proper audit made and certified much before the end of March; in fact, it is a terrible rush even to get it then. It is usually about the middle of April. What we do is break our necks, so to speak, to submit it in the early part of April. We try our best to get it before the Parliamentary committee before the Easter recess. That was not found possible this year.

Senator ISNOR: Am I right in saying you would present this likely deficit of \$55 million prior to the announcement of the budget?

Mr. GORDON: Yes, indeed. The Government was aware of our general estimates, yes.

Senator ISNOR: Mr. Chairman, may I depart a little so as to procure some information in regard to train service? It has a very definite link with the bill.

The Acting CHAIRMAN: Senator Isnor, we have agreed we would run through these budget papers first. If you will permit, I think we should get through those, and have the questions afterwards.

Senator BRUNT: On page 1, Mr. Gordon, you show a \$4 million figure in connection with signals. Does that relate solely to railway signals, or is any part of it for signals at railway crossings?

Mr. GORDON: No it refers to railway signals but the budget refers to both. I think I have pretty well covered page 2; it is procedural as to how we get the financing arranged.

Page 3 is a breakdown in summary form, and indicates the type of expenditures we are making by various districts. You will find the vote under the general heading "roadway" shows that in the Atlantic Region we propose to spend some \$7 million, in Newfoundland \$1,900,000; in the Central Region, which is our most active travelled, \$20,900,000. That covers the general requirements for roadway, keeping it in shape, keeping it alive.

Senator BRUNT: This might be a good time for Senator Macdonald to bring up his problem in respect of the roadway between Toronto and Ottawa.

Senator MACDONALD: Perhaps I could mention the matter of pool trains, now that the subject has been raised. I have travelled on various railway lines,

and I have found that the comfort of travelling on pool trains generally is not as good as on other lines. Is it a fact that the second-rate equipment is used on the pool trains, where you have no competition?

Mr. GORDON: No, I would not say so. But this fact does emerge: the pool is carried on with equipment provided by each railway, and quite naturally you would not expect the C.P.R. to put on pool territory its dome cars which are devoted to its own operation on the trans-continental services. First of all, they would mix with our equipment—it would not be a practical thing to do. But apart from that, the equipment that goes into pool trains is first-class equipment.

Senator MACDONALD: Is the equipment on the line between Toronto and Ottawa as good as the equipment on other trains which are not run on a pool line?

Senator BRUNT: Say between Toronto and Chicago.

Mr. GORDON: I would say so; it is modern equipment; it is the same kind of equipment and is interchangeable. We have the same cars on other trains. But it must be remembered that the pool train between Ottawa and Toronto is operated by the C.P.R. on the passenger side.

Senator MACDONALD: That may be so, but your equipment is on it.

Mr. GORDON: Yes, in part. Let us put it this way: the kind of sleeping car and dining car etcetera that we contribute to the pool operation is exactly the same type of equipment we have on our other first-class trains.

Senator MACDONALD: And is as modern.

Mr. GORDON: I would say so, generally. But as I mentioned before, the C.P.R. has special equipment such as stainless steel cars and dome cars which do not get into the pool operation.

Senator MACDONALD: Are you operating any new equipment by way of coaches or sleepers on the line between Ottawa and Toronto?

Mr. GORDON: I would have to examine that, because most of the equipment used between Ottawa and Toronto is contributed by the C.P.R.

Senator MACDONALD: Your company does contribute something?

Mr. GORDON: As I recollect it, we contribute the dining car.

Senator MACDONALD: And one parlour car?

Mr. GORDON: To the extent we contribute equipment, my general statement is the same: it would be the same kind of equipment we would run on another train.

Senator MACDONALD: I think honourable senators who have travelled on that line between Toronto and Ottawa have found in travelling at night that it is practically impossible to sleep on the train. You are thrown around just as badly as if you were on a ship, and you have not got the benefit of the fresh air. I came up on that train to Ottawa on Monday night and I say that there was not one person who could have slept more than three hours on that train. The point I am getting at is how can you expect to attract traffic if it is so uncomfortable?

Mr. GORDON: I can only say in answer to that statement that it is news to me. I have heard no complaints of that kind.

Senator MACDONALD: I think it would be a good thing if some of the higher officials on your railroad would take a bedroom sleeper from Toronto to Ottawa sometimes.

Mr. GORDON: That is done.

Senator EULER: I can contribute to this. Senator Macdonald and I have occupied adjoining bedrooms. We were both over the trucks the last time and naturally you do not have as comfortable a ride as you would in the centre of the car, but he is certainly right in saying that it is utterly impossible to sleep in those bedrooms at the end of the cars. Really, nobody could sleep because of the terrific noise.

Mr. GORDON: I must confess I am at a bit of a loss. First of all, I don't know the sleeping habits of senators.

Senator BRUNT: You should travel with us.

Mr. GORDON: Furthermore, various of our officials do travel the trains in the course of a general checkup. There is always somebody on those trains to keep an eye on conditions. I have also found we have a very vocal public on the matter of service generally, and I have just not heard these stories. I will take cognizance of these comments.

Senator EULER: I understand that the Toronto-Ottawa train is run entirely by the C.P.R.

Senator MACDONALD: I can't agree. Some of the equipment is owned by the C.N.R.

Senator BRUNT: The main complaint arises from the road bed and the operation of the train.

Mr. GORDON: It is not only a matter of equipment but the roadbed and the speed and operation of the train generally. Before I could answer you I would like to know what happened and at what time.

Senator EULER: I might say that on my last trip I slept pretty well for the first four hours. That was probably because of a better roadbed and perhaps because I took a sleeping powder. But after that it was simply terrible.

Senator BRUNT: You made the statement that you believed the equipment on the trains between Toronto and Ottawa is just as modern as on the trains from Toronto to Winnipeg or Toronto to Chicago. I find I have to disagree with you. In all the trips I have made from Toronto to Ottawa I have never seen a pullman car with a roomette, which is the latest of equipment. Is it not possible to occasionally get a car put on that is equipped with roomettes?

Senator EULER: They are not as good as bedrooms.

Senator BRUNT: I know that. I take a bedroom myself, but many members of the House of Commons have mentioned to me that they have never been able to get a roomette because the type of car that has a roomette is never on the Toronto to Ottawa run.

Senator HAIG: The man who takes a roomette ought to be arrested. He is crazy.

Mr. GORDON: There you have the answer. After all, we are in the business of giving service and there is only a limited number of roomettes and we use the roomettes on the trips which in the judgment of our Passenger Department will give us the best advantage. That is where we use them.

Senator BOUFFARD: We have the same difficulty on the trains between Quebec and Montreal.

Mr. GORDON: I would point out again that the pool train between Montreal and Quebec is C.P.R. operated.

Senator BOUFFARD: Is there any agreement between the railroads as to how the train is going to be operated? Whether it is a senator or a member of the C.N.R. or C.P.R., nobody could sleep on the train between Quebec and Montreal when it is passing through, say, Three Rivers.

Mr. GORDON: I do not hold any brief for pool operations. I inherited them and am living with them the best I can.

Senator BOUFFARD: Have you any agreement between the Companies as to how the train is going to be operated?

Mr. GORDON: There is an agreement in respect to pools, and it states in general terms that there of course shall be certain types of equipment, operations, and so on, but all these things become a matter of interpretation.

Senator BOUFFARD: We don't have that kind of juggling around on the day train. It is on the night train.

Senator BRUNT: That's when they pick up the milk cans.

Mr. GORDON: If there are sufficient complaints and senators send them to me I will have them investigated to see what improvement can be made.

Senator MACDONALD: I would like to follow this further. Mr. Gordon spoke about senators not being able to sleep.

Mr. GORDON: I beg your pardon. I would not make that statement. I said I did not know your sleeping habits.

Senator MACDONALD: I was referring to everyone on that train but I did have in mind more the members of the House of Commons. Quite a few of them come from western Ontario and they take that train regularly. They must go back to their constituencies. It is necessary for them to go back very frequently. I cannot see how they can take that train and be thrown around all right long and then be fit to carry on their duties as a member of Parliament in the House of Commons. They just can't do it. Therefore, I feel an effort should be made to make that night trip more comfortable. Can I ask this question? Is it the intention of the railroads to continue for ever this pooling arrangement or is there any proposal to do otherwise? I have a recollection that someone mentioned a year or so ago that it was the intention to discontinue the pooling arrangements.

Mr. GORDON: It has been under active discussion since I joined the railroad, and that is eight years ago and I am getting to be an old man at it.

Senator MACDONALD: You are a young man yet.

Mr. GORDON: We get down to this fact. Neither side of the operation likes the pooling arrangement but you cannot get away from the fact there is legislation on the books that directs that we use this equipment to the best of our ability, and in dollars and cents the pooling system is financially economic. The amount it saves runs into substantial figures. If we were to break the pool this sort of thing would happen. Let me give you an example. The Toronto-Ottawa run is operated by the C.P.R. but if we broke the pool and each ran our own passenger service, and we would be required to do so, I think, our line between Toronto and Ottawa as it is now would not be suitable for passenger service. It is a freight line. It has been allowed to deteriorate, if you want to use the word, to freight line standards. It would cost us a substantial number of millions of dollars to put our line between Toronto and Ottawa into shape.

Senator EULER: Not if you came along the lakefront to Kingston and up from there.

Mr. GORDON: The line which would give us access to Toronto out of Ottawa is now on a freight line standard.

Senator BRUNT: Where does it run? Could you tell us briefly?

Mr. GORDON: I can see it in my mind's eye but I cannot describe it.

Senator BRUNT: Does the map show it?

Senator BOUFFARD: I don't think the pooling agreement has anything to do with the operation of the line. It does not matter whether the night trains are pool-operated or not.

Mr. GORDON: That may be the case. I do not dispute that.

Senator BOUFFARD: Before we had the pooling agreement it was just as bad between Quebec and Montreal.

Mr. GORDON: I am not going to say dogmatically that the breaking of the pool system would necessarily improve the service. I don't know.

Senator BOUFFARD: No, I don't think so. It is the operation of the train.

Senator MACDONALD: I think competition would improve the service. I am satisfied there is a better service between Toronto and Chicago where there is competition than between Toronto and Ottawa where there is no competition. Where there is competition you put on your best equipment. Where there is no competition I am satisfied they do not put on their best equipment.

Senator BOUFFARD: You may be right, but competition has a lot to do with it. Between Quebec and Montreal there would not be any competition anyway.

The CHAIRMAN: Honourable senators, time is running on, and I suggest that we let M. Gordon continue going through these budget statements.

Mr. GORDON: I have listened with great interest to what the senator has said, and I will undertake to take a personal interest in this service. I am not aware of these complaints, but I will do what I can in connection with them.

Senator MACDONALD: Thank you very much.

Senator ISNOR: You stopped me when I was going to bring up the same question, and we have had 20 minutes of talk about travel between Ottawa and Toronto.

Senator BRUNT: Those are the important places!

Senator ISNOR: I was going to talk about travel between Montreal and Halifax, or, putting it the other way, Halifax and Montreal. We do not have Mr. Gordon before us very often, and I would like to compliment him on a very marked improvement as far as the Ocean Limited is concerned. It is a really good service, of which they can be proud, and which we in the Maritimes are particularly proud of. The running time is good, the equipment is good. But in doing this, he has entirely forgotten two other trains, namely the Scotian, 59-60, and the Maritime, leaving at different times, and allowing passengers to enjoy other scenic beauties, particularly perhaps in New Brunswick and Quebec; and I am making a plea for him to give the same consideration to the equipment on 59, the Scotian, and the Maritime. I will not put in a specific request for any specific type of car, except that we want a car with enclosed space on the Scotian and the Maritime. I think, if he will do that, he will be able to change the revenue figure of \$700 million to the \$753 million which it was the year before. Not all the increase would come from there, but it is the general principle of service. May I also say that there is general criticism in the Maritimes in respect of the so-called white cars being attached to both the Scotian and the Maritime. So I make these two suggestions, namely, enclosed space, one car—I think it will be a paying proposition—attached to each of these two trains, plus the carrying of the so-called white car.

Senator SMITH (*Queens-Shelburne*): What is a "White" car?

Mr. GORDON: A combination sleeping car and a buffet car.

Senator ISNOR: They only put it on for us when they have 20 cars or more and they need an extra car to handle the traffic between Halifax and Montreal.

Mr. GORDON: I regret to say that, the more passenger trains we get to run, the more money we lose, in any circumstances; and I must further point out that

the question of trains and equipment is purely a matter of cost. When you talk about an enclosed space car you are talking about \$230,000 per car. You put ten cars in a train and you have got \$2,300,00 worth of cars running at one time.

Senator ISNOR: No, no, I am asking for one car only, having practically the same operating expense in connection with the train.

Mr. GORDON: Each one of these trains has its equipment analysed in terms of traffic requirements. We do the best with the equipment we have got, and we shall do our best not to buy any more passenger equipment than we can possibly avoid, because it is a losing proposition.

Senator ISNOR: Mr. Gordon has made that statement in the House of Commons, and he has made it before us on various occasions. He referred to the loss on meals on the C.P.R. of 65 cents for every meal served, and he followed that statement by saying, "We are pleased to say our deficit is only 55 cents as compared with their 65 cents". So the loss on your meals is a little lower than on the C.P.R. That is immaterial except to the consideration that a matter of service is involved. Today all big stores are catering to the public as far as services are concerned, by providing parking places and so on. I think, Mr. Gordon, you have been labouring under a misapprehension in so far as your service is concerned, as you did years ago with regard to your freight. You did not supply the proper service as to freight, and you began to lose it to the truckers; and down through the years you have had to fight this competition because you did not realize that you were not giving the required service as far as freight was concerned. I think the same applies today in so far as passenger service goes. Unless you give better service in so far as the passenger service is concerned you are not going to be in much better condition. You may say, "Isnor does not understand railroading". Well, I only understand what I hear from the travelling public. I am giving these statements today in a sincere manner, in an effort to improve the travel between Halifax and Montreal.

Mr. GORDON: We will just have to agree to disagree, because I can point to a specific and spectacular example. Our Supercontinental train, I am prepared to say, has the best of equipment. It will compare with any train in the world.

Senator ISNOR: Where does it start from?

Mr. GORDON: It starts from Montreal and runs to Vancouver.

Senator ISNOR: West.

Mr. GORDON: But I am taking a specific example. Here is a train with the most modern service, with as good service as can be found anywhere, and I would be afraid to tell you how many millions of dollars we lose on that service. We have a counterpart, in the Ocean Limited. There are not any of them that pay.

Senator ISNOR: Traffic is heavier on the Ocean Limited than it has been in years, notwithstanding the depressed conditions.

Mr. GORDON: I have not the figures in my mind, but I would doubt it. There is no use blinking at facts, and it is an outstanding railway headache. This condition is true not only of the C.N.R. but of every railway in the United States. There is not one railroad in the United States that is not begging for permission to give up its passenger service.

Senator SMITH (*Queens-Shelburne*): What is the present cost of one of these locomotive rail liners?

Mr. GORDON: In round figures it runs about \$200,000.

Senator SMITH (*Queens-Shelburne*): That does not include the power units?

Mr. GORDON: It is delivered ready for operation.

Senator SMITH (*Queens-Shelburne*): You have applications for some of these liners?

Mr. GORDON: Yes. In this budget, this current budget, we have, if I remember correctly, 25.

Senator SMITH (*Queens-Shelburne*): Do you happen to know whether consideration is being given to one to operate from Halifax to Yarmouth, on the Canadian National?

Mr. GORDON: I will deal with that. Will you leave that question with me for the time being?

Senator CROLL: Mr. Gordon, you made two statements a few moments ago. You said that the more passengers you carry the more money you lose, and that you are resisting the acquiring of new, as you say, expensive passenger equipment. I gather from that that you see no future for a carrying passenger railway?

Mr. GORDON: I wouldn't say that. I am glad you raised that question, because like all generalizations, I should make a qualification. We are examining our passenger story, so to speak, on the basis that we believe there might be a future if we concentrated on fast inter-city trains rather than the continuous transcontinental train; in other words, instead of concentrating our attention on a train that runs all the way from Montreal to Vancouver, or all the way from Montreal to Halifax, we think it might make more sense to provide a frequent fast modern service between cities and forget about the continuous run and break up the transcontinental service. We are examining that. I do not know if the economics will prove that or not, but we have that in mind in terms of the competition likely to develop from airlines, which seems, looking to the future, to be heavily concentrated in the long distance runs; and the jet will not find it economical to make the short run, because by the time you get the jet plane high enough in the air to work at maximum efficiency it is time to come down again in the three hundred mile run, but if it were a one thousand mile run or more a jet plane can "lick the pants off us"—if I may use that expression—in the long distance haul.

Senator CROLL: Wherein does your problem differ from comparable American railways in the passenger business?

Mr. GORDON: I would say the problem differs in the degree of intensity of traffic and the fact that we only have in Canada one or two cities of a size that produces the volume of traffic that would be interesting in terms of running an economic passenger service. There is more of these cities in the United States.

Senator CROLL: One more question, then. You are a public utility, publicly owned, and you give the public service. Your chief concern is the deficits you have; is that not right?

Mr. GORDON: Oh, no.

Senator CROLL: Then what is it?

Mr. GORDON: I think it is a combination of both. We accept the responsibility of giving the public essential service, but mind you, what is assumed to be an essential service is not always necessarily so. If we find there are alternative services being provided for the public we see no reason why the railway should continue a deficit operation; and then in respect of the actual services that we feel obligated to run, we feel as a matter of management we should do everything we can to eliminate the loss, which means different kinds of equipment, different kinds of runs, different kinds of service, if you will, and a searching for what the public is willing to pay for.

Senator CROLL: Just stop there. Are you not setting yourself up as a judge as to what the public is prepared to keep up? As long as Parliament provides the money why don't you provide the service? Isn't that it?

Mr. GORDON: No sir, I disagree with that. I think that is a negation of management. Parliament is providing the money surely on the basis of the recommendation of management as to what is necessary for running a railway. Management of the railway is entrusted to a board of directors, and it has never been a part of policy, as I have always understood it, that the Parliament of the day will assume managerial judgment in respect of the service.

Senator CROLL: No, I didn't go that far at all. No one is interfering with managerial judgment. Parliament merely provides the money on the recommendation that this is essential service, necessary service, and that it is necessary for us to have, say a \$55 million deficit, or a \$2 million deficit. I am merely taking that out of the air. It is a case of this is what we need, and this is what it will cost in order to provide the services. We do that with other services we render, and why does not that apply to the railways?

Mr. GORDON: Because the general assumption is that the management of the railway is entrusted as it always has been, on the basis that we will run it as a competitive commercial service and do it on a basis where we won't have deficits. Ordinary business management requires that we operate the service on such a basis that it will pay for its keep, I would like to see surpluses, as a good manager, but will be satisfied if we break even; but I do not think, from the reading I have done in the past, that there is any intention that the C.N.R. be operated regardless of its financial results. It was always assumed the railway would be able to earn its own keep, and if we simply provided service willy-nilly without regard to commercial and competitive considerations, then the drain on the taxpayer would be under no control whatsoever.

Senator CROLL: Well, is there a burden you carry in addition to passengers which causes you to have a deficit?

Mr. GORDON: Yes.

Senator CROLL: I thought some years ago we took that burden off his shoulders?

Mr. GORDON: In part, that is right.

Senator CROLL: Why didn't we take it all off?

Mr. GORDON: Because it is impossible to forecast these things. I am not arguing at all that we are condemned to perpetual deficits. What I said at the time of recapitalization was, and I expressed the opinion, that the burden of debt was unrealistic and wrong. If it could be gotten out of the way I felt that over the average of good years and bad years the C.N.R. ought to be able to stand on its own feet. Now, up until last year my statement in that respect was true. Over the five years until 1956 we had an overall surplus, if you take the five years together. Last year we had a very bad deficit, and we are facing another one. I am not saying that five years from now or three years from now we will still have that deficit. I hope that with good managerial action, and if we are supported in the way we should be in running our affairs from a managerial point of view, we will continue to break even on the average. It is wrong to take an individual year as a test of the C.N.R. operations.

Senator CROLL: Do you say that any service that has an average of deficit should be discontinued?

Mr. GORDON: No, not as a general statement. I think when our services are the only means of transportation, I acknowledge that it is part of our burden that we should provide that service. Of course, we cannot abandon a service or part of our services of our own free will; that has to be done by application

to the Board of Transport Commissioners. We have to ask for permission to abandon a service. We always do it on that basis, and it is done on the basis of demonstrating either that there is no need for the service, that it has dwindled to a point unreasonable to expect the railway to continue it, or that there is an alternative service of a better kind from the standpoint of public need and necessity at much lower cost than the railway can provide it.

Senator BRADLEY: Don't you think when you reach that point you should provide an adequate service?

Mr. GORDON: The railways first went into the undeveloped parts of the country, and usually it was the first means of transportation. We opened up the country. In time a city or town starts to grow, and in due course a highway goes in, and in due course trucks and busses provide service, and we find that with the new facilities many of the railway facilities are unnecessary. That is why I take issue with the senator from Halifax-Dartmouth (*Hon. Mr. Isnor*,) when he said that we lose traffic merely because we do not provide the service. That is not so. What happens is that a new technique in transportation has grown up and provides a more flexible service, and from the standpoint of overall transportation the public is entitled to get the transportation service at the lowest cost and be ensured its actual needs will be provided for. You do no need to force railway service down their throat if it costs more.

Senator BRADLEY: Do you agree that you should provide an adequate service until it has been ascertained that better service has been provided by other sources?

Mr. GORDON: Yes, subject to a definition of the word "adequate".

Senator BRADLEY: Well, just come down to Newfoundland and I will show you something.

Mr. GORDON: I will tell you this, that the Newfoundland service is so much better than it used to be before Confederation, and I quote as my authority the Premier of the province.

Senator BRADLEY: I do not care about the opinion of the Premier of the the province, come down and I will prove it to you.

Senator HAIG: The question that the President of the road brings up is illustrated in the city in which I live, Winnipeg; I would say that 50 per cent of the business fraternity of that city jump in a plane to come to Toronto or Montreal. Of 50 people travelling, 40 travel by plane and 10 by train and that situation is leaning that way all the time. For instance, you can come to Montreal from Winnipeg for \$110 return, the air line furnishes meals, and you are back at home before you are hardly away by train. Anyone wanting to go to outlying cities like Winnipeg, Calgary or Regina from cities like Montreal or Toronto, jump a plane all the time, and it is getting to be more so. The Minister of Transport is already agitating that there should be two air lines between here and the coast. I want to say this, and that you cannot get the people to go on spending money on one service when there is another service that will answer the purpose better or just as well. The people won't do it.

Senator BRADLEY: You mean they prefer to lose money on the T.C.A.?

Senator HAIG: Well, this is a new scheme and we will see how it develops.

Senator ASELTINE: Mr. Chairman, we are perhaps getting away from page 3. Maybe we had better get back to that.

Senator MACDONALD: I do not think we have gotten away from it all. I think that there are items there we have been discussing perhaps not directly but indirectly. We have been talking roadbed, new stations, tracks, terminals.

Senator ASELTINE: I do not mean we have been wasting time.

Mr. GORDON: When we are through with this page you will have really seen the highlights of the budget. And if there are any general questions perhaps we may as well clean them up here.

The ACTING CHAIRMAN: Are there any questions on page 3?

Senator POWER: Where are these large terminals located that we have been discussing?

Mr. GORDON: Moncton is the biggest one on the Atlantic Region.

Senator POWER: \$15 million for Moncton?

Mr. GORDON: Yes.

Senator POWER: What does the item "signals" comprise?

Mr. GORDON: That is a long-term program covering modern railway signalling generally known as centralized traffic control. We are away behind in our modern signalling, we have much less mileage in relation to our size than most other railways on the North American continent.

Senator POWER: Is that signalling for railway purposes only?

Mr. GORDON: The item above refers to level crossings under the Board of Transport Commissioners.

Senator POWER: Does it include expenditures involved in carrying television and so on?

Mr. GORDON: That would come under communications.

Senator POWER: All we see here under communications is \$24 million for Hudson Bay.

Mr. GORDON: No, it says, "other, including Hudson Bay". This is the total expenditure on communications all across Canada—\$24,272,000 covering all our installations, telegraph wires, microwave, television programs and other services we render the public.

Senator POWER: As I understand it these signals mean only railway signals?

Mr. GORDON: Railway signals, that is right.

Senator POWER: How much is for "other" and how much is for Hudson Bay?

Mr. GORDON: There is very little for Hudson Bay. The two items you see are \$797,000 and \$93,000—these are the only Hudson Bay items.

Senator POWER: "General"? There is a total of \$24,272,000 for that.

Mr. GORDON: Let me explain it this way. We have broken expenditures down into Newfoundland region and Atlantic region into columns, that is railway. Now we have this heading here under "other", that is, activities apart from the railway, and the only reason we put the Hudson Bay Railway under this special heading is that the Hudson Bay Railway had come into the system last year for the first time, but next year we won't show it in that way.

Senator POWER: What does "other" include?

Mr. GORDON: \$24 million for communications and \$10.9 million is the total of all our contingency funds for purposes all across the System. These are items of expenditure that we have not provided for, items to meet special situations that might arise. We may have a very serious wreck, for instance, a bridge may burn down. This is a tremendous system and \$10 millions is not out of the way.

Senator POWER: Would you mind breaking down that \$24,272,000?

Mr. GORDON: It covers hundreds of items but perhaps I can give it to you by districts in the first instance.

Senator POWER: What are the larger items?

Mr. GORDON: The difficulty is that the \$24 million is the grand total of all the projects outstanding. That is not the cash figure we are spending this year. The total cash figure for 1958—

Senator POWER: You have it on page 1; if I understand this thing properly you have \$18 million you are going to spend.

Mr. GORDON: That is right, \$18,296,000.

Senator POWER: What are the big chunks there?

Mr. GORDON: I have \$505,000 for expansion of high frequency carrier system between Toronto, Hornepayne and Winnipeg; \$564,000 covering circuits between various points in the Central Region for commercial voice circuits. We provide telephone communications as well as teletype communications and things of that kind. Most of these expenditures are revenue producers; we sell them to the public. We have provisions for air movement information which is of a confidential character with the Department of National Defence. There is a large item in there for that.

Senator POWER: How much is that, roughly?

Mr. GORDON: In Montreal, it is \$1,600,000 out of a total of \$1,980,000 covering the semi-automatic tape switching system.

Then we have \$398,000 for private telephone circuits in the western region for lease to the Bell Telephone Company.

We have an item of \$322,000 providing for facilities for the Department of National Defence in Winnipeg, Cranberry Portage, and we have communications in Churchill, Manitoba, to a grand total of \$531,000.

Senator POWER: Do you run the telephone system to Churchill?

Mr. GORDON: Yes.

Senator BOUFFARD: Does that item include telegraphic communications?

Mr. GORDON: This particular one would. Telegraphs, telephone or television, teletype. For instance we run all the brokerage teletype wires. That is very expensive stuff but profitable to us. There are a great number of half million dollar items all through this.

Senator POWER: What does it cost to belong to the Trans-Canada Telephone system that carries the video?

Mr. GORDON: We do not belong to that.

Senator POWER: Is there some arrangement you have made with the Canadian Pacific Railway?

Mr. GORDON: The Canadian Pacific Railway and ourselves carry on joint facilities.

Senator POWER: Between Montreal and Toronto?

Mr. GORDON: We have joint facilities with the C.P.R. But we are not part of the Trans-Canada organization.

Senator POWER: How much are your expenditures to cover the arrangement you have with the C.P.R.

Mr. GORDON: I cannot break that down for the moment.

I would have to analyse the places, and it would be quite an analysis because it varies in the different parts of the country.

Senator POWER: Where else do you have this arrangement?

Mr. GORDON: We have a television network for the CBC between Toronto, Ontario, and London, Ontario, and added to that are other facilities between other centres in Ontario. We also have a service between Montreal and Quebec, with Sherbrooke being added just recently, and we have a service extended to Rimouski which was brought into operation in August last year,

and there has been a service to Jonquiere on a temporary basis and it is now being made permanent. We have added Three Rivers, a service which commenced in March of this year, and we have the French-language television network in that area.

Senator POWER: From Montreal across the province?

Mr. GORDON: Yes. We tender on that on a competition basis against the Bell Company mostly.

The ACTING CHAIRMAN: You have some questions you want to ask, Senator Smith?

Senator SMITH (*Queens-Shelburne*): Yes. I would like to ask something in regard to page 4. In the first place, I would like to ask about the situation with respect to the Heath Steele Mines at Bartibog. I am talking about the branch line there and I notice that you are requesting \$200,000 to complete that. I thought that line had already been built.

Mr. GORDON: This is just to clean up matters. We have a traffic agreement with the company.

Senator SMITH (*Queens-Shelburne*): What kind of an agreement do you have at a time like this when they are not using the line?

Mr. GORDON: That is the very reason we get a traffic agreement. When a company like that asks us to give a rail service we analyse the cost of the line and what we believe it will cost to operate. We then figure the tonnage volume of the particular material and the freight rate on it, and we tell the company that we need a minimum tonnage of so much to justify our running the line. If they guarantee that, which is usually for a period of 10 years, sometimes longer, a period over which we figure we can amortize our costs, we go ahead and build the line. If the tonnage is not produced then they reimburse us for our out-of-pocket costs as if the traffic had been handled.

Senator SMITH (*Queens-Shelburne*): What is the purpose of the branch line from Optic Lake to Chisel Lake.

Mr. GORDON: The Hudson Bay Mining Company is the reason for the Optic Lake-Chisel Lake line.

Senator MACDONALD: They are all preceded by bills.

Mr. GORDON: Yes, there are special bills passed in connection with them.

Senator BOUFFARD: That is what you have done in the Chibougamau area?

Mr. GORDON: Yes.

Senator BOUFFARD: Have you started operating the Chibougamau line?

Mr. GORDON: We are operating the western end through to Chibougamau. The line from St. Felicien north is still under construction.

Senator BOUFFARD: Is the operation now going on giving you the result you expected to have?

Mr. GORDON: Not at the moment. It has been affected by a depression in the copper prices but we still feel it will be all right in the long run.

Senator MACDONALD: You anticipated that the western end of the line would be the big end?

Mr. GORDON: Yes, both in connection with the pulpwood and the mining development. The pulpwood end has held up reasonably well but the results in the last six months have been disappointing in regard to the volume of mining business.

Senator BOUFFARD: That is not surprising; it is because of the depression.

The ACTING CHAIRMAN: Are there any further questions with respect to page 4? Any about page 5?

Senator MACDONALD: As a matter of interest I notice there is a proposal to spend \$79,000 on the Chateau Laurier. Could Mr. Gordon give us some idea what that expenditure is for?

Mr. GORDON: It is not very important. It is just general rehabilitation. There are some power cables that need renewing, and a small drying unit in the laundry and a sleeve finisher, a new battery of coffee urns, new equipment for refrigeration, which needs to be renewed, and the grand total is \$79,000.

Senator MACDONALD: There is nothing in there to provide for replacing the carpet, which is worn threadbare in many places.

Mr. GORDON: Isn't that extraordinary? I walked out yesterday and I noticed a brand new carpet on the third floor.

Senator MACDONALD: I see that I am discriminated against again. I am on the first floor. I hope the next time you visit me it will be on the first floor.

Mr. GORDON: It is in hand and it will be done progressively. This would not come under the budget before us. It is an operating expense.

Senator MACDONALD: I am not suggesting that any special privilege should be given to people occupying the first floor. I am talking about the hotel generally.

Mr. GORDON: The new carpet might be associated with a slight increase in room rentals.

Senator MACDONALD: I think that the rate we are paying at the Chateau Laurier Hotel now would suggest that the hotel could well afford to give us proper carpets.

Mr. GORDON: It is in hand. It is an operating expense. We spent over \$500,000 in the last two years in the Chateau Laurier Hotel in rehabilitating the old wing, the rooms on the west side. You probably don't know it but they didn't have bathrooms or showers and we spent nearly \$500,000 there. There is a steady program going on and over the next year we will see some results from it.

Senator MACDONALD: I think it is a well-run hotel. I was just asking about the carpets, and if it would not be out of place at this moment I would mention that in my home city of Brantford they make very good carpets.

Mr. GORDON: We know that very well, for they have had a very large order in connection with the Queen Elizabeth Hotel.

The Acting CHAIRMAN: Any further questions with respect to page 5?

Senator GOUIN: Could we have a general idea about the changes that are to be made to the Nova Scotian Hotel?

Mr. GORDON: We are completing 160 rooms and remodelling the public space so as to provide convention facilities and much improved dining facilities. That is actually in hand now. The contract for the excavation has been awarded and you will see steady progress from now on.

The Acting CHAIRMAN: Any further questions on page 5? Any on page 6?

Senator BRUNT: I am happy to see there will be 89 passenger cars bought.

Mr. GORDON: Wait a minute. This would not be cars for carrying passengers. This would be express and baggage cars, etc.

Senator BRUNT: We are still out on the limb.

Mr. GORDON: The BUDD cars would be under that heading.

Senator ISNOR: In connection with the statement made a while ago by Mr. Gordon to the effect that the more passengers he carried the greater the loss, it is interesting to note that down through the past 25 years, according to the table provided by Mr. Gordon, the C.N.R. had its best year last year. If I

am correct in my figuring, it shows a revenue per passenger mile of 3.124 as compared to—and I will just pick out one at random—1.810.

Mr. GORDON: Yes.

Senator ISNOR: Does that seem to contradict you?

Mr. GORDON: No. There is no contradiction. There is a simple explanation. We have accomplished that by being successful in abandoning a number of commuter services and in abandoning the commuter services, which is a low-rate service, the average revenue from other services has gone up.

For instance, we abandoned the Montreal and Southern Counties Railway where the average fare may have been 12 to 15 cents. We have got out of that service, which was a heavy loser, and have also got out of other commuter services. As we do that, the revenue earned on other services has gone up. We were also successful in getting a 100 per cent increase in commuter fares over the last few years.

Senator ISNOR: On the same principle as we who are in business would eliminate non-profit items, you eliminate certain smaller services.

Mr. GORDON: We can only do it when we are able to demonstrate there is an alternate service.

Senator ISNOR: That brings me to the point I made before and still make: you analyse the increased traffic existing at the present time and because of improved services—

Senator BOUFFARD: They are losing more money.

Mr. GORDON: Let me say that I went into this business with starry-eyed enthusiasm about passenger service; I thought something could be done about it. But year after year my disappointment grows. Despite my efforts to the contrary, you can't make money on passenger service.

Senator ISNOR: Would you be good enough to send me some time the passenger traffic on the Ocean Limited for 1956, 1957 and 1958?

Mr. GORDON: I will be glad to do it.

Senator ISNOR: And I will come back at you next year.

Senator BRUNT: From what you have said with regard to commuter services, is it a fair expectation that it is going to become less rather than more? I am thinking of commuter trains into Toronto.

Mr. GORDON: I would not like to predict on that. I don't think we are going to be allowed to abandon services there because of our flexibility and the growth in population. The problem in commuter service is that of peak load: if we could spread the commuter service over the whole day we would make money, but as it is it is concentrated on one or two hours in the morning and evening. We have to maintain a crew which in the main lies idle; we can't use them on other work. The cost is terrific in comparison to the revenues.

Senator LAMBERT: Would you say the expenses connected with hotels have any relation to passenger traffic?

Mr. GORDON: Not so much nowadays. It used to be thought that the operation of hotels was advantageous for passenger traffic, but I think our opinion now is that it has a smaller effect on it.

Senator LAMBERT: They stand on their own feet?

Mr. GORDON: That is right. Not only that, but a majority of travellers arrive by automobile, and I think they would come in any event. In other words, the existence of a hotel does not attract passengers, with the single exception possibly of the Jasper Park Lodge, where we get a fair amount by train.

Senator BOUFFARD: What is the explanation of the capital expenses of \$45 million for Trans-Canada Air Lines?

Mr. GORDON: T.C.A. runs its own budget, and Mr. MacGregor appears separately in that connection. I would not undertake to discuss T.C.A.'s budget, except merely to be helpful. I cannot be considered a witness on behalf of T.C.A. But generally speaking, the expenditures are in connection with the purchase of equipment and the enlargement of facilities necessary for the maintenance of that equipment. It is for jet equipment, plus additional maintenance facilities, hangar space and mechanical space necessary for maintenance.

Senator LAMBERT: The orders for the Vanguard place the amount at more than that, I think.

Mr. GORDON: This is only the portion for this year. I am speaking only from memory, but I think you will find T.C.A. have commitment items the same as ourselves. This is only cash.

Senator MACDONALD: Do you recall whether T.C.A. made money last year?

Mr. GORDON: Yes.

Senator MACDONALD: To what amount?

Mr. GORDON: \$404,674, net income, with total revenue of roughly of \$105 million.

Senator MACDONALD: That would be less than 3 per cent.

Mr. GORDON: That would be about .4 per cent.

Senator ISNOR: Would Mr. Gordon be good enough to give us the breakdown of the operating revenue, \$700 million on page 9? I have particularly in mind the freight-passenger traffic.

Mr. GORDON: I think the best way to do that is to take the previous year, which is about in the same ratio. If you will turn to page 30 of our Annual Report you will see the total operating revenue is \$753 million; of that amount \$605 million came from freight, \$58 million from passenger service, \$43 million express, \$21 million communications, and \$26.5 million sundries, which includes such things as mail, rentals and so on. That would be about the same ratio in respect of the \$700 million.

Senator ISNOR: The big difference this year is in freight.

Mr. GORDON: In freight, yes.

Senator ISNOR: Practically the whole amount is in freight

Mr. GORDON: Yes. There was some decline in passenger service, but not necessarily as much as in freight. About 7 or 8 per cent of our total revenue comes from passengers. But it was freight that hurt us most when the traffic fell off.

Senator ISNOR: That bears out what I am trying to establish: your big difference this year is in freight as compared to passengers.

Mr. GORDON: Yes.

Senator ISNOR: Therefore there is somewhat of a contradiction in your statement.

Mr. GORDON: I admit no contradiction. The fact that we get revenue from passenger service does not mean a thing, if expenses for that service exceed revenue.

Senator ISNOR: As long as you are giving a public service, you must keep that contact—and I am still speaking of the Montreal to Halifax run.

Mr. GORDON: I am not denying that; I am not suggesting that we are thinking about abandoning passenger service, far from it. I quite admit passenger service is essential as a service, and so long as we are in the passenger business, it will be our aim to give the best we can.

Senator ISNOR: I come back to the first item: Last year your revenue was \$753 million; this year you have around \$700 million. You say that is because of the decrease in freight traffic?

Mr. GORDON: Yes.

Senator ISNOR: There was very little decrease in passenger traffic.

Mr. GORDON: There is a percentage point there. The decline in our freight will be about 8 per cent under the previous year; percentagewise, I doubt if our passenger traffic will fall off that much, but I don't know.

Senator ISNOR: If that is so, and your passenger service is being maintained, is it not wise to cater a little more to that branch of the business?

Mr. GORDON: We do. We cater to it to the maximum extent possible. I am not suggesting we are depriving passenger service of anything. We have as good a passenger service as any railway on the North American continent.

Senator ISNOR: I agree with that. I have been over the Santa Fe and other lines. But I still ask you to further consider the more modern equipment on the two trains I have already mentioned.

Mr. GORDON: I will take due note.

Senator SMITH (*Queens-Shelburne*): I would like to ask some questions about page 10, in particular about an item that has to do with the Canadian National West Indies Steamships Limited. I understand the steamship line has now been sold to the Cuban Foreign Trade line for something over \$2½ million.

Mr. GORDON: \$2,800,000.

Senator SMITH (*Queens-Shelburne*): We learn by radio and other ways that there was a better offer made from the Aura Shipping Company. Can you comment on that?

Mr. GORDON: Only that it isn't true.

Senator SMITH (*Queens-Shelburne*): There is no firm offer from any other company?

Mr. GORDON: No firm offer from the company mentioned in this morning's press story.

Senator HAIG: The paper said they were just sending it in.

Senator SMITH (*Queens-Shelburne*): That was yesterday.

Senator HAIG: The man who said he was buying it for \$3 million said he was sending it in yesterday.

Senator SMITH (*Queens-Shelburne*): I am quite content with Mr. Gordon's answer. Now, to get a little background on the subject, can you tell me what the profit was in 1956?

Mr. GORDON: I am sorry, I do not have that at the moment. I did not think this was in this session.

Senator SMITH (*Queens-Shelburne*): Anyway, it was a small profit.

Mr. GORDON: My recollection is that it was.

Senator SMITH (*Queens-Shelburne*): \$200,000 or \$300,000?

Mr. GORDON: It could not be any more.

Senator SMITH (*Queens-Shelburne*): It was in that area. The question that follows on is, if business had kept on the same might we have expected the same or more profit in the last year?

Mr. GORDON: No, sir. The difficulty there was that we were faced with a demand for a substantial increase in wages that would more than have eliminated any possibility of profit. If everything had stayed the same, if we had had the same amount of traffic and had been able to keep costs at the same general level, I think we might have made a profit. The figure here shows that there was a surplus in 1956 of \$23,281, and an overall loss for 1957 of \$648,850, but that is because of the fact that the ships had been laid up since last July.

Senator SMITH (*Queens-Shelburne*): What would have been the total wage cost if you had met the last demands of the union, on an annual basis?

Mr. GORDON: This matter has been one of so much controversy that I dislike to trust to my memory, and I am not equipped here to quote the figures. I would be glad to supply the figures either to the committee or to yourself when I have got them, but I do not want to risk any statement that would be challenged.

Senator SMITH (*Queens-Shelburne*): In what form is the guarantee for the continuance of the present kind of service between Canada and the West Indies?

Mr. GORDON: Only as a declaration of intention by the company. There is no way to enforce the guarantee, but they have stated that they intend to operate a service between Canada, Cuba and the Carriibbean, including the ports that the Canadian National Steamships formerly called at. They have also indicated that if the traffic got to the point that they felt it appropriate, they would extend these operations.

Senator SMITH (*Queens-Shelburne*): What is the position of Cuba's foreign trade? Is that a national institution in Cuba?

Mr. GORDON: The bank?

Senator SMITH (*Queens-Shelburne*): Yes.

Mr. GORDON: Yes, it is a subsidiary. The actual technical thing is that the concern we are doing business with is a wholly-owned subsidiary of the National Bank, and perhaps I should say that the deal we have with them, the payments under the deal, are further guaranteed by the Bank of America.

Senator SMITH (*Queens-Shelburne*): And the letter of intent you have is from that bank?

Mr. ROSEVEAR: Yes.

Senator SMITH (*Queens-Shelburne*): Has the bank yet indicated to you which company will operate that Canadian National Steamship service?

Mr. ROSEVEAR: Oh yes, the company is named there: the Flota Maratima Browning de Cuba.

Senator SMITH (*Queens-Shelburne*): Is it a privately-owned company?

Mr. ROSEVEAR: That is a privately-owned company. They are operating ships now under a lease arrangement, that being a Cuban company.

Senator SMITH (*Queens-Shelburne*): There is no great danger, you say, of this service not being operated?

Mr. GORDON: In my judgment, no. I think they intend to operate, subject to all the hazards of marine merchandising at this time.

Senator SMITH (*Queens-Shelburne*): Would you agree that the rather low price that was paid for these ships will not put them in a position of unfair competition with the very few deep-sea ships we have, which incidentally are owned by the Mersey Paper Company in my constituency?

Mr. GORDON: I would say that the price received is a reflection of present-day market conditions. If we had been able to sell these ships early last year, when the market was stronger, we might have done better. But all these things are the reflection of competitive conditions. To the extent that they are able to operate the ships on a better basis than anyone else they will be more competitive.

Senator SMITH (*Queens-Shelburne*): The danger we see in my district is that one of these ships or more may take over the transportation of newsprint from Newfoundland down, say, to Florida, and run our own ships out of business. You do not feel that that may be so?

Mr. GORDON: I do not foresee that, but I would not want to give any—

Senator BRUNT: There is nothing a sailor could do to stop that.

Mr. GORDON: No, it is subject to competitive conditions.

Senator ISNOR: Would you care to give us figures of the capital costs of these ships originally, without depreciation?

Mr. GORDON: I am sorry to say I did not come here with any figures on this, but I can tell you that the price that we got for the ships will be slightly more than sufficient to write off the depreciated amount on our books.

Senator ISNOR: That is not a very satisfactory answer to my question, of course.

Mr. GORDON: No. You are talking about the original cost?

Senator ISNOR: That is right.

Mr. GORDON: Well, of course, some of these ships are quite old, and some were bought under peculiar circumstances. Some of them were acquired second-hand. I would really have to have my books to tell you the figures. I could make a guess.

Senator ISNOR: I would be satisfied with a guess.

Mr. GORDON: If it is a guess that does not reach the press I will give it to you personally. But I do not want to get these figures in the press. They will just produce more and more arguments. I can give you this figure. I find that on the balance sheet of the company in the report ended December 31, 1957, the vessels show a recorded book value of \$6,660,937, less recorded depreciation of \$4,068,283.

Senator ISNOR: Yes; but that was after two-thirds of that amount was written off.

Mr. GORDON: Yes.

Senator ISNOR: That does not mean very much. How many of the ships will use Halifax as a home port?

Mr. GORDON: Well, that will depend on the decision of the purchaser. He is perfectly free to register those ships wherever he chooses.

Senator ISNOR: There is no condition?

Mr. GORDON: No condition necessary. It is in fact a condition that could not be enforced, you see.

Senator ISNOR: The answer was given in the House of Commons that the home ports would be Montreal and Halifax.

Mr. GORDON: I don't think so, with due respect, I do not think that statement was made.

Senator ISNOR: I think that was given yesterday by the Minister of Transport.

Mr. GORDON: No. He simply said that the Canadian ports that would operate would be Halifax and Montreal. But the question of the home port, that is a technical description, which I take to mean the registry of vessels. There is no way we could sell the ship with that kind of string attached. Here is the statement that was made by the Minister yesterday in the House of Commons:

The firm plans to place eight C.N.S.S. vessels in the service as soon as possible between Canada, Cuba and the West Indies, using the ports of Halifax and Montreal.

Senator BOUFFARD: There is nothing about registry there.

The CHAIRMAN: Shall we now take the bill clause by clause?

Some SENATORS: No.

Senator BOUFFARD: I move that the bill be reported without the amendment.

Senator BRUNT: Seconded.

Senator MACDONALD: May I ask first who appoints the auditors?

Mr. GORDON: The appointment of auditors is entirely in the hands of the Government. They are independent auditors. It is stated in the bill that they are independent in the sense that they are not part of the staff of the

Canadian National Railways. They are an outside firm, and the appointment is made by Government—by Parliament under this bill.

Senator MACDONALD: Yes, but are the auditors recommended as permanent auditors by the railway to the Government?

Mr. GORDON: No.

Senator MACDONALD: That is, the board of directors?

Mr. GORDON: No sir.

Senator BRUNT: It is an independent operation of the railway.

Senator BOUFFARD: You did not recommend the change?

Mr. GORDON: There was no discussion over this at all.

Senator ISNOR: Is it usual to appoint an individual of an audit company or—

Mr. GORDON: So far as the Canadian National Railways are concerned the custom has been to name the firm. This is the first time I recollect that an individual has been named, but it is not unusual in accounting practice, of course.

Senator ISNOR: Oh, no; I am just thinking of the C.N.R.

Senator BRUNT: There is nothing irregular about naming an individual?

Mr. GORDON: No.

Senator MACDONALD: Do you know why in this instance it was changed from a company to an individual?

Mr. GORDON: I have no knowledge of that; that is entirely a decision of the Minister, I presume.

Senator BOUFFARD: And as I understand it, the C.N.R. did not recommend the change?

Mr. GORDON: Well, we couldn't recommend. My answer to the question is that there was no discussion with the railways about a change in auditors.

Senator HAIG: There couldn't be.

Mr. GORDON: No; it is not for us to say.

Senator HAIG: I venture to say it never has been.

Mr. GORDON: It is specifically stated in the bill. They are the watchdog, and it would not do for me to decide what sort of watchdog is to be set on me.

Senator BRUNT: That is right.

Mr. GORDON: Parliament appoints the auditor.

Senator MACDONALD: That does not prevent them from consulting with the railway. I would not see anything wrong with consulting with the railway as to a permanent auditor; however, it was not done.

The CHAIRMAN: Just before the question, may I say that Mr. Gordon has the answer to one of the previous questions: What is the average cost of your bond issue?

Mr. GORDON: The average interest cost to us of all outstanding public obligations at the end of the year was about 3.1 per cent.

The CHAIRMAN: Question, gentlemen. Do I report the bill?

—Carried.

Senator MACDONALD: I am sure we are all very pleased with the evidence that has been given by Mr. Gordon and the other gentleman.

Senator ASELTINE: We thank the officers of the Canadian National Railways for coming here today and giving us this useful information.

Senator MACDONALD: May I also add that the chairman was an excellent presiding officer.

Senator BRUNT: Hear, hear.

—whereupon the committee adjourned.

