

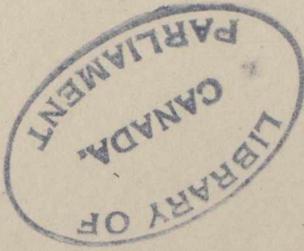


Prm. 10-A,  
~~36~~

Canada. Parl. House of Comm.  
Standing Comm. on Railways and  
Shipping Owned, Operated and  
Controlled by the Gov't. 1938.  
Minutes of proceedings and  
evidence.

DATE	NAME - NOM

Canada. Parl. House of Comm.  
Standing Comm. on Railways and  
Shipping Owned, Operated and  
Controlled by the Gov't. 1938.



*James Curran  
Curran  
1938*

J  
103  
H7  
1938  
R3  
A1



STATEMENT OF

OF

# RAILWAYS AND SHIPPING

AND

OF

MINUTES OF PROCEEDINGS AND EVIDENCE

NO. 1

IN

PARLIAMENT

1911

Printed and Published by the Stationery Office, London.

1911

Printed and Published by the Stationery Office, London.



SESSION 1938

HOUSE OF COMMONS

---

STANDING COMMITTEE

ON

# RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

---

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

---

WEDNESDAY, APRIL 6, 1938

TUESDAY, APRIL 26, 1938

---



WITNESSES:

Mr. S. J. Hungerford, Chairman, Board of Directors, and President;  
Mr. T. H. Cooper, Comptroller, and Mr. W. M. Armstrong, Assistant  
Director, Bureau of Economics Canadian National Railways, Montreal.

OTTAWA

J. O. PATENAUDE, I.S.O.

PRINTER TO THE KING'S MOST EXCELLENT MAJESTY

1938

MEMBERS OF THE COMMITTEE

Sir EUGÈNE Fiset, *Chairman*

and

Messieurs

Barber,  
Beaubier,  
Bothwell,  
Elliot (*Kindersley*),  
Emmerson,  
Ferland,  
Fraser,  
Hanson,  
Heaps,  
Howard,  
Howden,  
Howe,

Kinley,  
McKinnon (*Kenora-Rainy  
River*),  
McLarty,  
Maybank,  
Parent (*Quebec West and  
South*),  
Ross (*Middlesex East*),  
Stewart,  
Vien,  
Walsh,  
Young.

R. ARSENAULT,

*Clerk of the Committee.*

## ORDERS OF REFERENCE

HOUSE OF COMMONS,

THURSDAY, February 24, 1938

*Resolved*,—That Standing Order 63 of the House of Commons, relating to the appointment of standing committees of the House, be amended by adding to the standing committees of the House for the present session a Standing Committee on Railways and Shipping owned, operated and controlled by the Government, to which will be referred accounts and estimates and bills relating thereto of the Canadian National Railways and the Canadian Government Merchant Marine for the present session, for consideration and report to the House; provided however that nothing in the resolution shall be construed to curtail in any way the full right of discussion in committee of supply; and that the said committee consist of Messrs. Barber, Beaubier, Bothwell, Deachman, Elliott (*Kindersley*), Emmerson, Ferland, Fiset (Sir Eugene), Fraser, Hanson, Heaps, Howard, Howden, Howe, Kinley, McKinnon (*Kenora-Rainy River*), McLarty, Maybank, Parent (*Quebec West and South*), Stewart, Vien, Walsh and Young.

*Attest.*

ARTHUR BEAUCHESNE,  
*Clerk of the House.*

---

MONDAY, February 7, 1938.

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

*Attest.*

ARTHUR BEAUCHESNE,  
*Clerk of the House.*

---

TUESDAY, March 8, 1938.

*Ordered*,—That the name of Mr. Ross (*Middlesex East*) be substituted for that of Mr. Deachman on the said Committee.

*Attest.*

ARTHUR BEAUCHESNE,  
*Clerk of the House.*

---

TUESDAY, March 29, 1938.

*Ordered*,—That the Resolution passed by this House on February 11, 1938, referring the following estimates to the Committee of Supply, be rescinded, and that the said estimates be now referred to the Standing Committee on Railways and Shipping:—

Vote 427, Maritime Freight Rates Act, Canadian National Railways, Eastern Lines, 20 per cent reduction in tolls, \$2,278,000;

Vote 428, Maritime Freight Rates Act, railways other than Canadian National Railways, 20 per cent reduction in tolls, \$860,000;

Vote 437, Prince Edward Island Car Ferry and Terminals, capital, \$35,000;

Vote 438, Canadian National (West Indies) Steamships, Limited, capital, \$24,000.

*Attest.*

ARTHUR BEAUCHESNE,  
*Clerk of the House.*

---

WEDNESDAY, April 6, 1938.

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

*Ordered*,—That it be given leave to sit while the House is sitting.

*Ordered*,—That the quorum of the Committee be reduced from 12 to 10.

*Attest.*

ARTHUR BEAUCHESNE,  
*Clerk of the House.*

## REPORT TO THE HOUSE

WEDNESDAY, April 6, 1938.

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

## FIRST REPORT

Your Committee recommends:—

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

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

3. That the quorum of the Committee be reduced from 12 to 10.

All of which is respectfully submitted.

EUGENE FISET,  
*Chairman.*



## MINUTES OF PROCEEDINGS

WEDNESDAY, April 6, 1938.

The Standing Committee on Railways and Shipping, owned, operated and controlled by the Government, met at 11 a.m.

*Members present:* Messrs. Barber, Bothwell, Emmerson, Fiset (Sir Eugene), Hanson, Heaps, Howard, Howden, Howe, Kinley, McKinnon (*Kenora-Rainy River*), McLarty, Maybank, Stewart, Walsh, Ross (*Middlesex East*), Young.

On motion of Mr. Young, Sir Eugene Fiset was elected Chairman.

Sir Eugene Fiset took the Chair.

A request from Mr. D. J. Hartigan, M.P., that the Committee hear a representative of Operators of the Western Union who were absorbed into the Canadian National Railway System, was submitted to the Committee.

On motion of Mr. Howden,

*Ordered,* That the Clerk inform Mr. Hartigan that the Committee has no jurisdiction in the matter.

On motion of Mr. Maybank,

*Resolved,* That the Committee request permission to print, from day to day, 500 copies in English and 200 copies in French of its minutes of proceedings and evidence, and that Standing Order 64 be suspended in relation thereto.

On motion of Mr. Young,

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

On motion of Mr. Howard,

*Resolved,* That the Committee recommend to the House that its quorum be reduced from 12 to 10.

Messrs. Stewart and Walsh filed questions to be submitted to the President of the Canadian National Railways, to be answered by officials of the Railway when appearing before the Committee.

The Committee adjourned until Tuesday, April 26, at 11 a.m.

R. ARSENAULT,

*Clerk of the Committee.*

---

TUESDAY, April 26, 1938.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government met at 11 a.m., the Chairman, Sir Eugene Fiset presiding.

*Members present:* Messrs. Bothwell, Emmerson, Ferland, Fiset (Sir Eugene), Hanson, Heaps, Howden, Howe, McKinnon (*Kenora-Rainy River*), McLarty, Parent (*Quebec West and South*), Stewart, Vien, Walsh, Young.

*In attendance:* Mr. V. I. Smart, Deputy Minister of Transport, Mr. S. J. Hungerford, President, Canadian National Railways, Mr. T. H. Cooper, Comptroller, C.N. Rys., Mr. W. M. Armstrong, Assistant Director, Bureau of Economics, C.N. Rys., Mr. A. V. Franklin, Railway Auditor, Department of Finance, and Mr. O. A. Matthews, of George A. Touche & Co., Auditors of C.N.R. Accounts.

Mr. Cooper filed answers to questions submitted by Mr. Walsh on April 6.

The Committee proceeded to the consideration of the Annual Report of the Canadian National Railway System for the year ended December 31, 1937.

At 1 o'clock the Committee adjourned until 4 p.m.

#### AFTERNOON SITTING

The Committee resumed at 4.15 p.m. and gave further consideration to the Annual Report of the Canadian National Railway System.

At six o'clock the Committee adjourned until to-morrow, Wednesday, at 11 a.m.

R. ARSENAULT,  
*Clerk of the Committee.*

# MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 277,

April 26, 1938

The Standing Committee on Railways and Shipping met at 11 a.m. The Chairman, Sir Eugene Fiset, presided.

The CHAIRMAN: Order, gentlemen. At the last meeting of the committee you, Mr. Walsh, asked a question. The answer is ready for you now. Do you want it read into the record?

Mr. WALSH: Not necessarily, so long as it is in the report.

The CHAIRMAN: Will a copy for you be sufficient?

Mr. WALSH: Yes.

The CHAIRMAN: All right; here it is:

Question A. 1.—What was total par value of Canadian National funded debt issued from 1923 to 1937 inclusive?

Answer: Funded Debt issues 1923-1937. . . . .	\$847,367,589 11
(Excludes 2% 1927 Guaranteed Debenture Stock \$34,927,098.20 issued in exchange for like amount of G.T.P. Ry. 4% Perpetual Debenture Stock.)	

Question A. 2.—What was the amount of discount on same and the expense of issue?

Answer: Discount. . . . .	\$22,767,918 00	
Issue Expense. . . . .	634,865 47	
		23,402,783 47

Question B. 1.—How much of the par value of the issues referred to above have been retired?

Answer: Retirements to December 31, 1937, of issues made 1923 to 1937 not including exchange of G.T.P. Railway 4% Perpetual Debenture Stock referred to above. . . . .	188,769,059 72
--	----------------

(NOTE: The above amount does not include \$241,104,274.66 retirements during the period of issues made prior to 1923.)

Question B. 2.—What was the amount of discount and expense applicable to the issues so retired?

Answer: . . . . .	7,084,785 64
-------------------	--------------

Question C. 1.—What proportion of such discount or expense was included in the cash deficits voted by Parliament in each of the years 1933 to 1937 inclusive?

Answer: Discount and issue expense included in cash deficits:—		
1933. . . . .	Nil	
1934. . . . .	\$ 1,602 02	Issue Expense
1935. . . . .	23,464 75	Issue Expense
1936. . . . .	31,102 11	Issue Expense
1937. . . . .	938,728 79	Discount

There was another question asked by Mr. Stewart, but the Canadian National officials do not feel that they should answer it; but in order to clarify the situation, before dealing with this question we shall wait until the steamship lines are being considered. At that time Mr. Vaughan will be here and will be able to give a full explanation. Is that satisfactory?

Now, gentlemen, we are to consider the annual report of the Canadian National Railways. I suppose the procedure we followed last year will be satisfactory so far as this year's proceedings are concerned. I am going to ask Mr. Armstrong to read the presidential address.

Mr. ARMSTRONG:

CANADIAN NATIONAL RAILWAYS

MONTREAL, March 18th., 1938.

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

SIR,—In conformity with sections 14 and 15 of The Canadian National-Canadian Pacific Act, 1936, the Board of Directors submits the following report of the operations of the Canadian National Railways for the calendar year 1937.

RESULT OF OPERATIONS

	1937	1936	Increase or Decrease
Operating Revenues.. . . . .	\$198,396,608 61	\$186,610,489 38	\$11,786,119 23
Operating Expenses.. . . . .	180,788,858 09	171,477,690 07	9,311,168 02
Net Operating Revenue.. . . . .	\$ 17,607,750 52	\$ 15,132,799 31	\$ 2,474,951 21
Operating Ratio.. . . . .	91.12%	91.89%	
Net of Other Income and Profit and Loss Requirements.. . . . .	9,320,522 24	8,723,888 05	596,634 19
Net Available for Interest.. . . . .	\$ 8,287,228 28	\$ 6,408,911 26	\$ 1,878,317 02
Interest on Funded Debt held by Public.. . . . .	48,888,545 56	49,184,622 87	296,077 31
Interest on Government Loans.. . . . .	1,744,550 71	527,682 21	1,216,868 50
Cash Deficit.. . . . .	\$ 42,345,867 99	\$ 43,303,393 82	\$ 957,525 83

*Operating Revenues*

Gross operating revenues totalled \$198,396,609, an increase over the preceding year of \$11,786,119, or 6.32 per cent, thus maintaining the progressive gain in revenues from the low point of \$148,519,742 in 1933. While all of the expected improvement in revenue did not materialize, due largely to crop conditions and also to the sharp business recession in United States territory in the latter part of the year, the increase of 6.32 per cent compares favourably with the showing of United States Class 1 railroads which reported increased revenues of 2.8 per cent over 1936.

Freight revenues increased by \$8,308,097, or 5.7 per cent. There was an increase in tonnage on all regions except the Western Region. A statement of revenue tonnage by commodities appears on pages 24 and 25. System grain tonnage decreased by 1,948,790 tons. There were no major freight rate changes during the year in Canada. Due to cancellation on December 31, 1936, by the Interstate Commerce Commission of emergency charges applying on United States and international traffic, the system freight revenues were reduced by approximately \$2,000,000 as compared with 1936. To a small extent this decrease was offset by rate increases authorized by the Commission under order dated October 19, 1937.

Passenger revenues increased by \$1,923,021, or 11.3 per cent. There were no important changes in basic passenger fares. The additional air-conditioned equipment placed in service during the year had a favourable effect upon passenger revenues. The program of air-conditioning, referred to in the 1936 annual report, is progressing actively. At December 31, 1937, there were 253 air-conditioned units in service. The program for the year 1938 provides for an additional 163 units. Air-conditioned cars operated by the Pullman Company over Canadian National lines number 53. Low fare coach excursions continued to be popular.

Commercial telegraph revenue increased \$475,682, or 10.8 per cent; Express revenue increased \$438,181, or 4.9 per cent; Mail revenue increased \$149,043, or 4.4 per cent.

*Operating Expenses*

Operating expenses for the year totalled \$180,788,858. A summary will be found on page 14 and details on pages 15 to 17.

Maintenance of Way and Structures expenses decreased \$2,586,618 as compared with the previous year; Maintenance of Equipment increased \$5,942,223; and Transportation \$5,405,786.

The increase of all operating expenses over those of the preceding year was \$9,311,168. Increased rates of pay, to which reference is made in another section of this report, accounted for \$2,800,000, and increases in prices of materials accounted for \$3,500,000. The program of maintaining and of modernizing rolling stock was augmented during the year, resulting in additional charges to Maintenance of Equipment expenses of \$2,500,000, the benefit of which will be reflected in subsequent years. Equipment retirement charges to operating expenses increased over the preceding year by \$730,000. There was a reduction in expenses due to the elimination of the Unemployment Relief Maintenance of Way Program of \$1,015,000, and flood damage and snow removal costs were \$528,000 less than in 1936.

The property has been efficiently maintained having regard to traffic requirements. The moderate increase in expense which resulted from the increase in traffic, apart from changes in wage rates and prices of materials, can be considered as satisfactory. The traffic in 1937 was handled at a lower operating ratio than in 1936 notwithstanding those increases in wage rates and prices of materials. The improvement in the net operating revenue was \$2,474,951.

Construction of the Senneterre-Rouyn branch line authorized by Chapter 26, 1936, is continuing. During 1937 rail was laid on 10.86 miles of track from Rouyn to the Kenojevis River and on 41.20 miles of track from Senneterre to the Lemoine Narrows bridge, leaving a distance of 48 miles on which rail remains to be laid. Effective November 29, 1937, that portion of the line between Senneterre and Val d'Or, a distance of 37 miles, was opened for operation under authority of the Board of Railway Commissioners. It is expected that the entire branch will be completed and in operation during 1938.

Owing to the limited purchases of new rolling stock in recent years, as well as growing traffic requirements, it was necessary to purchase the following additional equipment during the year: 3,000 box cars; 400 refrigerator cars; 400 gondola cars; 200 automobile cars; 49 flat cars; 30 sand cars; 50 first class air-conditioned passenger coaches; 10 mail and express cars; 10 baggage cars, and 15 snow plows.

The following table shows the new equipment delivered each year from 1928 to 1937 inclusive:—

Year	Locomotives	Freight Train Cars	Passenger Train Cars	Work Equipment Units	Total
1928.. . . . .	10	360	72	40	482
1929.. . . . .	76	5,757	91	46	5,970
1930.. . . . .	69	4,934	76	16	5,095
1931.. . . . .	23	4,301	11	4	4,339
1932.. . . . .	1	....	..	..	1
1933.. . . . .	..	500	..	..	500
1934.. . . . .	..	....	..	..	....
1935.. . . . .	..	61	..	2	63
1936.. . . . .	15	1,219	..	10	1,244
1937.. . . . .	..	3,769	60	2	3,831
	<hr/> 194	<hr/> 20,901	<hr/> 310	<hr/> 120	<hr/> 21,525

## FINANCE

*Retirement of Obligations*

Expenditures for the retirement of capital obligations, including sinking fund and equipment trust principal payments, amounted to \$6,752,792.

*New Issues*

Under authority of the Canadian National Railways Refunding Act, 1935, an issue of Canadian National Railway Company Dominion Guaranteed Bonds was made dated February 1, 1937, the proceeds therefrom being used to retire temporary loans made by the Government in 1936 for refunding. The issue comprised:—

\$15,500,000  $2\frac{1}{4}$  per cent seven-year bonds; sold at 98.75 per cent at an annual cost of 2.46 per cent.

\$20,000,000 3 per cent fifteen-year bonds; sold at 98.75 per cent at an annual cost of 3.11 per cent.

An issue of \$14,300,000 Canadian National Railways  $2\frac{1}{2}$  per cent Equipment Trust Certificates, Series "O" 1937, was made to provide for the payment of part of the purchase price of new equipment costing over \$19,000,000. The certificates, which mature serially in ten annual instalments, were sold at 98.62 per cent, the annual cost to the railway being 2.82 per cent.

## GENERAL

*Employees, Wages, Etc.*

The average number of employees in service during the year was 79,471, as compared with 78,836 in 1936. The total payroll expense for 1937 was \$117,804,769 as compared with \$111,221,129 in 1936, an increase of \$6,583,640 or 5.92 per cent.

Reference was made in last year's report to the establishment of Boards of Conciliation and Investigation to consider the employees' requests for the removal of the 10 per cent wage reduction on lines in Canada. On February 1, 1937, the Canadian Pacific and Canadian National Railways concurrently put into effect the first of the recommendations of the Board which dealt with the main dispute, providing for the reduction of the deduction from 10 per cent to 9 per cent. The representatives of the employees continued their demands for an agreement which would completely remove the wage deductions which had been in effect under various agreements from December 1, 1931. The general rate of deduction had been 15 per cent during 1934, and for the running trades and telegraphers the deduction was 20 per cent for six months in 1933. The general 15 per cent deduction, by agreement of November 3, 1934, became 12 per cent on January 1, 1935, and 10 per cent on May 1, 1935.

The managements of the two railways on March 29, 1937, reached an agreement with the employees which provided for gradual reduction of the general rate of wage deduction, the deduction becoming 8 per cent on April 1, 1937; 7 per cent on June 1; 6 per cent on August 1; 5 per cent on October 1; 4 per cent on December 1. The deduction became 2 per cent on February 1, 1938, and basic rates are to be restored on April 1, 1938. Employees subject to other rates of deduction were dealt with by arrangements reducing the deductions proportionately.

It may be noted that Class 1 roads of the United States with an increase in traffic of 2.8 per cent had an increase in expense of 6.4 per cent. The Canadian National had an increase in traffic of 6.3 per cent with an increase in expense of 5.4 per cent.

*Net of Other Income and Profit and Loss Requirements*

The accounts grouped together under this heading increased by a total of \$596,634 over 1936.

Taxes: Taxes amounted to \$6,697,242 compared with \$6,743,147 in 1936. These figures are exclusive of sales tax added to the cost of materials, which cost the railway in 1937 approximately \$4,200,000.

Hotels: The revenues from hotel operations continued to improve and resulted in an operating income for the year of \$200,087 after providing for taxes; an increase of \$40,070 over 1936.

Equipment Rentals: Equipment rentals increased \$555,000.

Northern Alberta Railways (jointly owned by Canadian National-Canadian Pacific): The operating revenues increased from \$2,029,371 to \$2,504,001, an increase of \$474,630. The net revenue increased from \$313,640 to \$756,579, an increase of \$442,939. After meeting interest requirements, the net loss for the year was \$912,233, an improvement over 1936 of \$345,239. The proportion of the net loss assumed by the Canadian National, namely one-half, was \$456,116, a decrease of \$172,619.

*Interest Charges*

Interest on funded debt held by the public

The total requirements for 1937 were \$48,888,546 as compared with \$49,184,623 for 1936, a decrease of \$296,077, the reduction being due to the refunding at lower rates of interest of issues maturing or called for redemption in 1936.

Interest on Government loans

Interest payments by the railway to the Government on loans for capital purposes and on temporary advances for refunding purposes amounted to \$1,744,550 as compared with \$527,682 in 1936. Prior to 1937 interest was not paid on Government loans for capital purposes. Following passage of The Canadian National Railways Capital Revision Act, 1937, the Government adopted the policy of collecting from the railway in cash the interest on all such loans made since January 1, 1932. As a result of this change of policy the railway was required to pay in cash for such interest accrued during 1937 the additional sum of \$1,684,753.

The total interest payments during the year were \$50,633,096 as compared with \$49,712,305 in 1936.

*Cash Deficit*

It will be noted from the foregoing that after payment of all operating expenses the net operating revenue of the railway for the year 1937 was \$17,607,750, an increase of \$2,474,951 over the previous year. After payment of taxes, rentals, discount and all other charges of every description, excepting only capital losses from line abandonments charged to Proprietor's Equity, the net income available for interest was \$8,287,228, an increase of \$1,878,317 over the previous year. After applying such net income against the interest on funded debt due to the public, and interest on Government loans as above referred to, there was a deficiency of \$42,345,867 as compared with \$43,303,393 in 1936. Had the change of policy referred to in the preceding item not taken place the cash deficit for 1937 would have been \$40,661,114.

## CAPITAL EXPENDITURE ACCOUNT

The net expenditures on property investment account for the year 1937 amounted to \$20,874,664 made up as follows:—

Rolling stock purchased or built.. . . . .	\$17,876,343
Rebuilding of freight and passenger equipment.. . . . .	871,868
Air-conditioning passenger cars.. . . . .	815,099
Senneterre-Rouyn branch line.. . . . .	3,132,883
Vancouver Hotel.. . . . .	214,388
Reconstruction of Saint John River Bridge, Fredericton, N.B.. . . . .	551,757
General Additions and Betterments, less Retirements (Net).. . . . .	4,949,086
Equipment Retirements—Credit.. . . . .	7,536,760
	\$20,874,664

Early in the year negotiations were entered into between a Committee of Chief Executive Officers representing the various railway labour organizations in the United States and a National Carriers Conference Committee representing the railways to consider demands on the part of the labour organizations for increased rates of pay. Negotiations having broken down the National Mediation Board offered its services, which were accepted, and as a result agreements were reached increasing the rates of employees, other than those engaged in engine and train service, by five cents per hour from August 1, 1937, and of employees engaged in engine and train service by five and one-half cents per hour from October 1, 1937. Canadian National United States lines became obligated for these increases together with all other United States railroads.

*Canadian National Pension Plans*

Under the various pension plans in effect on the system, 801 employees were pensioned during the year; pensioners numbering 394 died; pensioners numbering 649 who had served on Canadian National United States lines and had been pensioned under Canadian National pension plans were transferred during the year to the United States Railroad Retirement Board, reducing the system pension rolls at the time of transfer by approximately \$37,000 per month. The number on pension at December 31, 1937, under Canadian National pension plans totalled 6,287.

The CHAIRMAN: May I ask with regard to the number of pensioners mentioned, 6,287, if that covers the whole of your list?

Mr. ARMSTRONG: Yes.

The CHAIRMAN: It covers every pensioner?

Mr. ARMSTRONG: All of the lines' pensioners, excluding those in the United States.

Mr. HOWDEN: That is Canadian pensioners only.

Mr. ARMSTRONG: Yes.

Mr. WALSH: Might I ask a question following up that question, Mr. Chairman

The CHAIRMAN: Yes.

Mr. WALSH: When you refer to pensioners do you also refer to those on a retiring allowance?

Mr. ARMSTRONG: Everything is included.

Mr. WALSH: This figure is inclusive of all who are receiving retirement allowances in any form whether pension, gratuity or anything else given by the Canadian National Railways because of services rendered?

Mr. ARMSTRONG: Yes.

The CHAIRMAN: That is correct.

### *United States Railroad Retirement Plan*

United States carriers and labour organizations reached an agreement with regard to a plan providing for annuities to employees upon retirement, to which effect was given by the enactment of the Railroad Retirement Act and the Carriers' Taxing Act, approved June 24, 1937, and June 29, 1937, respectively.

Under the new legislation, which repealed the former Taxing Act, and effective January 1, 1937, 2 $\frac{3}{4}$ % was withheld from employees' wages and an equal amount is being paid by the railways. The tax rates are progressive, becoming fixed at 3 $\frac{3}{4}$ % in 1949. The amount of the tax payable by the National System in 1937 was \$515,000.

### *United States Social Security Act*

The National System in the United States is subject to Federal and State legislation dealing with unemployment insurance, also to Federal legislation dealing with old age pension benefits for employees other than those covered by the Railroad Retirement Plan. The cost to the system in 1937 under such legislation was \$459,000.

### *Trans-Canada Air Lines*

In accordance with the authority contained in The Trans-Canada Air Lines Act, 1937, the Canadian National Railway Company subscribed for the entire capital stock of Trans-Canada Air Lines, consisting of fifty thousand shares of one hundred dollars per share. To December 31, 1937, calls aggregating seventeen per cent (\$850,000) of the stock have been met.

The affairs of Trans-Canada Air Lines are dealt with in a separate report.

### *Canadian National Railways—Capital Revision*

At the last session of Parliament an Act was passed, being Chapter 22 of the Statutes of 1937, to provide for cancellation of capital stocks and certain indebtedness of the Canadian National Railway System to His Majesty and for adjustment of the accounts of the system. All things required by that Act to be done have been done. The previously outstanding capital stock of the Canadian National Railway Company (formerly Grand Trunk Railway Company of Canada) having a par value of \$180,424,327.70 has been surrendered by the Dominion and cancelled. \$82,000,600 of the outstanding capital stock of The Canadian Northern Railway Company has been surrendered by the Dominion and cancelled. The remainder of the outstanding stock of the Canadian Northern Company, amounting to \$18,000,000, has been transferred from the Dominion to the Canadian National Railway Company in exchange for one million no par value shares of the latter company being its entire issued share capital. The capital stock of the Canadian National Railways Securities Trust, consisting of five million shares of no par value, has been issued as consideration for the transfer to the Securities Trust of the indebtedness of the railway system to the Dominion as set out in Schedule A of the Act and the collateral securities held in respect thereof.

Adjustment of the balance sheet accounts of the system has been made as of January 1, 1937, and for purposes of record the 1936 published accounts as adjusted in conformity with the provisions of the Act are shown on page 29 of this report.

The adjustments authorized by the Act were entirely confined to the relationship between the Government and the railway, and did not deal in any way with the large funded debt of the system in the hands of the public.

*Co-operation*

During the year the directors reviewed the field of co-operation with the Canadian Pacific Railway and enlarged the scope of their studies. The co-operative activities related to matters previously studied but largely to the study of the abandonment of functionally duplicate lines of railway and the preparation of detailed agreements in regard to those lines where an abandonment had been recommended by the Joint Co-operative Committee and approved by the Joint Executive Committee. A total of 637 miles of line have been so approved for abandonment and with regard to most of these lines the preparation of detailed agreements is actively in hand. Agreements have been completed in the case of the Canadian National line between Middleton and Bridgetown and the Canadian Pacific line between Linwood and Listowel. In each of these cases the company whose line is abandoned is withdrawing all service from the territory. Applications to the Board of Railway Commissioners in these two cases are in hand. Studies of 1,550 miles of other functionally duplicate lines are still in progress.

The outstanding achievement in co-operation was the completion, after prolonged and difficult negotiations, of an arrangement for the closing of the Canadian Pacific Company's hotel in Vancouver and the joint operation of the new Canadian National hotel in that city. This arrangement will become effective when the Canadian National hotel has been completed and furnished, which it is expected will be in 1939. Such arrangement it is expected will reduce capital expenditure and produce an operating return for both companies.

*Competition*

One of the pressing problems in the transport situation is the placing of highway and inland water competition on a fair and equitable basis in relation to the railways. The directors are gratified to observe that the Parliament and Legislatures of Canada are giving consideration to this serious problem.

*General Outlook*

The immediate outlook for railway revenues is obscured by several factors, principally the marked recession in business in the United States, the disturbed international situation and the cumulative effect of a series of adverse crop conditions in portions of Western Canada. None of these factors is within the control of railway management, and so long as they continue to be adverse, railway revenues must be expected to remain at relatively low levels. Fundamentally, the National System is well equipped to take immediate advantage of any improvement in world conditions which will tend to stimulate the trade upon which the prosperity of the railway depends. Pending such developments the railway is continuing to render the transportation service which is necessary for the country in the most economical manner.

The effect of increased productivity in Canada upon the future revenues of the National System does not require to be stressed. An increase in productivity in any form of industry, including agriculture, at once reflects itself in the earnings of the system; and decreases in the volume of production affect seriously the gross revenues of the railway. The gross revenues of the Canadian National from the transportation of grain grown in Western Canada in the years 1925-1934 inclusive averaged \$22,000,000 per annum, the tons of grain carried averaging 5,000,000 during that ten-year period. The comparable figures for the past three years have been as follows:

Year	Tons Carried	Revenue
1935 . . . . .	3,720,944	\$15,409,810
1936 . . . . .	3,915,606	15,777,702
1937 . . . . .	2,356,656	9,643,572

It will be noted that the gross revenues of the railway from the movement of Western Canada grain in 1937 were only 44 per cent of those obtained on the average during the ten-year period ending in 1934. The general prosperity of the country resulting from good crops contributes even more substantially to the earnings of the railway.

The loyal and efficient service of officers and employees, and the patronage extended to Canadian National Railways by the public during the year 1937 is acknowledged.

For the Board of Directors,

L. S. HUNGERFORD,

*Chairman.*

The CHAIRMAN: Are there any questions, gentlemen?

Mr. PARENT: I would like to have the salaries of each of the general officers of the C.N.R. I know you cannot give them right now but I would like to have a list of the officers mentioned in the first page of the report. I would also like to call the attention of the committee and of the representatives of the Canadian National Railway who are before us that out of 43 positions that are here indicated there are 30 held in the city of Montreal, and I am told that there is not one French speaking person in one of these official positions. That seems quite strange. I don't want to have any of these officers displaced but I would like in future if any promotions are made or if any vacancies occur on that board that more consideration should be given to the French population which now number 4,000,000 in Canada; and I believe on the Canadian National Railways that we should be entitled to have fair representation. There are places like in the legal department, in the colonization and agricultural department, in the general publicity department and in the medical department where certainly accommodation could be found for some outstanding French-Canadian people that could represent us on that board. I have made investigation of that and that applies as well to the other railway companies.

The CHAIRMAN: With regard to your first request, I think it has always been agreed for the last eleven years at least that this kind of information was not to be supplied.

Mr. PARENT: It is not?

The CHAIRMAN: I do not know if you can get it privately, if that would suit your purpose—providing it is not to be used outside.

Mr. PARENT: I do not insist, if it is against the interest of the railway that it should be known. I do not see why the salaries of employees of a railroad should not be known. Of course, if you should have any reasons for not giving this information about the railway I would drop my question, but I would like to know the explanation before withdrawing it.

Mr. HUNGERFORD: It has always been held before that it was not in the best interests of the country to publish this information because there is no similar information given in respect to other corporations.

Mr. PARENT: I understand, if you go to a board of directors meeting, if you are a shareholder you can ask what the salary of your president is. If I go to a C.P.R. meeting and I am a shareholder I am entitled to know how much my employees or directors are paid.

Mr. HUNGERFORD: It is a very broad question. We think it should not be given. Of course, this committee has the power to do what they like.

Hon. Mr. HOWE: If I might make a suggestion, I might say that the Governor-in-Council approves and fixes the salaries of the president and general manager, and the directors, and I think there is no difficulty at all about giving

you those salaries. They are a matter of public record. As far as the salaries of the internal organization go those are a matter for the board of directors to consider. After all, we are representing the shareholders here and I do not think the railroad would object to giving it to you privately. I do not think we should publish a list of the salaries when the competing railroad is not publishing similar information.

Mr. PARENT: I am not insisting that it be given publicly, but I would like to have it for my own information.

Hon. Mr. HOWE: I think you could easily get that from Mr. Hungerford privately, with the understanding it would be used privately.

Mr. PARENT: That is understood.

Hon. Mr. HOWE: Any other member might get it, I think, under the same condition. I think it is in the interest of the railway that it should not be made too generally public. This is one of those border-line questions. I do not think it is in the interest of the railway to put that in the daily press.

Mr. PARENT: It has been called to my attention; and the same thing applies also to the C.P.R. It is a strange thing that, out of four million people, we cannot find a fair representation on any of the big railways. We have Mr. Gagnon appointed by the government on the Board of Directors, it is true; but as far as the inside administration of both the railways of Canada are concerned, the fact that a man is a French Canadian seems to be a bar against him. I would like to find out if that is the fact. It seems absolutely extraordinary that on both the big railways of Canada, out of eighty key positions, we have absolutely no representation. I do not see that there is any monopoly of intelligence in one race more than in the other, especially in certain departments; I am sure that we can stand beside anyone.

Hon. Mr. HOWE: I think the railways almost never make appointments out of the blue to senior positions. It is a matter of working up from the ranks. I think there are French Canadians well on the way up. I know of several personally. But it so happened that we took this over from private control in 1917.

Mr. PARENT: Take, for instance, conditions in the Chateau Laurier where you have quite a good part of the population patronizing the hotel. I do not believe you have more than three or four people speaking French in the hotel. You can go there at night and you cannot even get information.

Mr. HUNGERFORD: We would be glad to give you information about the Chateau Laurier, if you wish it.

Mr. PARENT: I am just calling it to the attention of the committee. It is in the interests of the railroad.

Mr. WALSH: I personally would like to support the views of the minister in the fact that probably it might be in the public interest to know the salaries given to those who derive their appointments from the government; but with regard to those who derive their appointments from the Board of Directors, I do not think it is in the public interest to give the information, either privately or publicly, as to their remuneration or salaries. The Board of Directors are appointed for the purpose of administering that railroad and I feel that it is within their prerogative. I know that at a general meeting of the Canadian Pacific Railway, if I were a shareholder I would take the same point of view,—that it is not in the interest of the shareholders or of the public to have a list of names and salaries published, even privately to the shareholders. It is not in the interest of the railway and even more so is it not in the interest of this publicly-owned railway.

Mr. PARENT: Well, I do not agree with those remarks. I do not see what objection there is or in what way the management of the railway can be affected by knowing how much an employee is paid. Here in Canada we

publish every salary of every employee, from a stenographer to the Prime Minister of Canada; and there has never been put forth the contention that it is not in the interest of Canada that the salaries should be known. It is very interesting to know.

Mr. WALSH: I think probably it is in the interest of Canada to know of the salaries of those,—particularly the meager pittance of a good number of those. It is in the public interest to know if they are employed by the government. But we have turned this railway management over to a Board of Directors. They are to direct and administer this.

The CHAIRMAN: I remember that the same question was brought up sometime in 1931 and 1932, I think it was; and the main reason advanced then by the officers of the Canadian National that it was not advisable to publish such a list was that it might create among the employees a tremendous amount of jealousy by knowing the salary of each individual, and it was considered then that it was not in the public interest to publish such a list. I think, though, that the committee did authorize one or two special members of the committee that were insisting on that list, to obtain a private list, if I am not mistaken.

Mr. PARENT: On the other hand, if the salaries were published, it might be a stimulation for other people to work and try to get these positions, if the salaries are interesting.

Mr. HUNGERFORD: In 1932 there were three members of this committee appointed to look into the question of the salaries paid on the Canadian National Railway System. They did that. There was a survey of the whole thing at that particular time, and a very large readjustment. Since then there have been practically no change excepting those that were made necessary by promotions to fill vacancies. But this information is available to the directors, of course, in every detail.

The CHAIRMAN: Do you insist on getting that information, Mr. Parent?

Mr. PARENT: Sure, personally. I will keep it to myself, but I need it for the inquiry that I am making.

The CHAIRMAN: Well, gentlemen, what are your wishes?

Mr. YOUNG: Mr. Chairman, I am not at this moment prepared to ask that these salaries be made public. But I do not want to be silent if there is any suggestion that they cannot be obtained. I hold the view that this is a proper subject to investigate, if this committee so desires; but I am also prepared to co-operate with the management to the extent of not adding my voice at this moment to say that they should be given out. It may be that, after we learn more about the matter, in a judicious way of finding things out, there will be very obvious reasons why this thing should not be broadcast. I always feel that, in our country where we have two large systems—one system being publicly-owned and the other system being not publicly-owned—for some reason or other there might be some discrimination by disclosing information about one which was not disclosed about the other. That may be a potent reason why these things should not be made public. But all I desire to say at the moment is that if we do not lay down the rule that it cannot be supplied, I am content for the time being.

The CHAIRMAN: Then we shall let the matter stand for the present.

Mr. HOWDEN: Hear, hear.

Mr. WALSH: Do you want us to ask questions or could we reserve certain questions for the detailed information which follows the report?

The CHAIRMAN: Do you not think it would be better to wait until we are considering the details? That is what we did last year, with very good results.

Mr. WALSH: There are some questions I would like to submit without going to the trouble of reading them. They bear on the information that is given on page 5, under capital expenditure account and other details brought into that account. If the committee would allow me, I would just submit the questions and the chairman could give them to the officials.

The CHAIRMAN: You do not want them to be read into the record?

Mr. WALSH: They could be copied into the record rather than taking up the time of the committee to read them.

The CHAIRMAN: That is rather out of order.

Mr. WALSH: I can read them.

The CHAIRMAN: Will you please do that? I would prefer that.

Mr. WALSH: If it is the wish of the committee, I shall do that. I wish to ask the following questions:—

1. What tonnage of Canadian National Railways fuel coal has been delivered at Chipman, New Brunswick, for the years 1937 and 1938?
2. For how long a time are Canadian National Railways cars supplied to the Canadian Pacific Railways at that point for fuel coal without charge?
3. What demurrage or per diem has been received for Canadian National Railways cars supplied at that point?
4. What is the total cost per ton, all charges included, of fuel coal delivered at Chipman?

Then the next series of questions is as follows:—

1. What was the total cost of building the Canadian National Railways spur from Hardwood Ridge to North Minto, New Brunswick?
2. What is the cost of maintenance of this spur for the years 1936 and 1937?
3. What was the cost of supplying locomotive and van?
4. What demurrage or per diem is received on Canadian National cars supplied at North Minto, New Brunswick?
5. How long are these cars allowed to be kept without any charge?
6. What agreement was made for shipping commercial coal over this spur when it was built?
7. Has this agreement been lived up to? If not, for what reasons?
8. What tonnage of Canadian National Railways fuel coal has been moved over this spur?
9. What was the cost of this coal at Hardwood Ridge, all charges included?

Then the next series of questions is as follows:—

1. During the year 1936-1937 and January and February, 1938, what tonnage of fuel coal was supplied the Canadian National Railways, by months, from each of the following districts, (a) Maccan; (b) Springhill; (c) New Glasgow; (d) other Nova Scotia districts?
2. What price is paid for Nova Scotia coal f.o.b. cars Canadian National Railways tracks at above districts?
3. What is the cost per ton mile for hauling coal from Nova Scotia to New Brunswick points?
4. At what points in New Brunswick was the above mentioned Nova Scotia coal used, and what tonnage of each?
5. What is the policy of the Canadian National Railways in buying fuel coal?
6. Is competition developed between operators and districts, and all compelled to accept the lowest price offered?

7. Is any consideration given to the possibility of paying a proper standard of wages?

8. How much Canadian National Railways fuel coal is purchased in Nova Scotia for use in, (a) New Brunswick; (b) Nova Scotia; (c) Quebec; (d) Ontario?

9. How much New Brunswick coal is purchased for use in each of the above provinces?

If there are any maritime members here, I apologize for asking these questions, coming as I do from the province of Quebec; but this is information that I desire, and it is desired by others interested in that particular phase of our national railways.

The CHAIRMAN: It is quite apparent that this is the result of your wonderful vacation in the maritimes last year, Mr. Walsh.

Mr. WALSH: That is quite correct.

The CHAIRMAN: One part of the question is rather large, especially 7, 8 and 9 of the last series. I am afraid it will take some time for the officials to collect this information, even if they can supply it. We will leave the questions on the order paper and let the officials peruse your questions and see what parts can be answered. Have you another copy, Mr. Walsh?

Mr. WALSH: Yes.

The CHAIRMAN: Would you give it to the clerk, please. Are there any other questions, gentlemen? If not, shall we go on to the consolidated balance sheet? Mr. Armstrong, will you take the chair again?

Mr. ARMSTRONG: On the asset side, investment in road and equipment, \$1,849,929,232.68; improvements on leased railway property, \$4,371,294.37; miscellaneous physical property, \$60,638,487.47; a total investment of \$1,914,939,014.52. Sinking funds: System securities at par, \$286,023.70—

Mr. WALSH: Mr. Chairman, is it necessary to read all this when we have it before us?

The CHAIRMAN: I am entirely in the hands of the committee. You have all read the balance sheet. If there is no particular need, we can dispense with that.

Mr. MCKINNON: I do not think it is necessary.

The CHAIRMAN: Then, let us go on to considering the profit and loss account. The same thing applies to that.

Mr. WALSH: Can we ask some questions in connection with the consolidated balance sheet?

The CHAIRMAN: Yes.

Mr. WALSH: On page 11, 5,000,000 shares of no par value capital stock issued by Securities Trust, \$269,325,705.67. That was the amount that was authorized last year, less a certain figure—less, I think, \$711,732.21. Is that correct?

Mr. COOPER: Yes.

Mr. WALSH: In other words, \$269,325,705.67 should be increased by \$711,732.21. The point I am trying to make is this: That \$711,000 represents a capital loss. If you turn to page 29 of this report, it will give further details in connection with that or further reference to it. The proprietor's equity was \$270,000,000 and this year it is down to \$269,000,000. If we continue to charge against that the \$711,000 this year—it is quite obvious that if we are going to have this capital loss each year—you are going to gradually approach the point where the proprietor's equity is nil; in fact, it is quite conceivable, according to geometrical principles, to carry it to an absurdity where the proprietor's equity would be less than nil if this principle is going to be followed. I would like to know from the president or the Board of Directors on what

principle they are working and where it is bound to lead us, as far as the proprietor's equity is concerned. If this continues, the Dominion Government's equity will be nil or less. Is this \$711,000 going to be voted in the same way as the cash deficits each year? If not, why? In what way will this be shown in the public accounts of Canada? We have a cash deficit, as you know, referred to at the beginning of the report, of \$42,345,867.99. Then we have \$711,732.21 charged against proprietor's equity, reducing that from \$270,000,000 to \$269,000,000. In parliament we vote \$42,000,000; are we going to do the same with the \$711,000; or what is the intention of the board of directors with regard to that amount?

Hon. Mr. HOWE: If you have before you the balance sheet of the Securities Trust, you will find that that arose entirely out of the tearing up of some one hundred and forty miles of railway. The asset has disappeared. It is the practice of all railways to charge capital abandonments to the balance sheet rather than to profit and loss. In any railroad statement you will find the write-off on capital where lines have been torn up in that way, and the same way if lines have been added. It shows as a change in capitalization.

Mr. WALSH: But can you not conceive of a point where the amount of \$270,000,000 is going to practically disappear?

Hon. Mr. HOWE: Absolutely, if you tear up that many lines of railway. If you have no railway, you have no proprietor's equity.

Mr. WALSH: Then this \$711,000 is capital which you are eliminating?

Hon. Mr. HOWE: It has disappeared, yes.

Mr. WALSH: Most likely it is represented by bonds that are in the hands of the public and on which the people of Canada through the government are paying interest. Now the proprietor's equity is cancelling this \$711,000. When that peculiar system was set up, was it the intention to charge these capital losses against the proprietor's equity, or to charge them against the current account, in view of the fact that you are continuing to pay the bonded indebtedness? The bonded indebtedness is still there, and we are continuing to pay that interest. It does not seem to be fair simply to say, "Well, we have torn up that line of railway, let us forget about it." We cannot forget about it because annually we are paying a certain amount of interest on the funded debt represented by the lines we have torn up.

Hon. Mr. HOWE: What would happen if you voted the money and gave it to the C.N.R.? Your proprietor's equity would be the same, the working capital would be up and your investment account down. What would be the benefit?

Mr. WALSH: You have a cash deficit of \$42,000,000 odd this year, and if you add to that the capital loss of \$711,000 and had the total voted, you are going to vote \$42,000,000 and then the proprietor's equity remains as it is, representative of the bonded indebtedness of the railway on which you are paying interest. At the present time, this will not show in that respect at all.

Hon. Mr. HOWE: No railway does that sort of thing. They charge these things direct to profit and loss. We took those lines up because we thought it was better for the railway to have them up than down, and therefore we depleted the equity the government had in those rails.

Mr. WALSH: That is looking at it from the material point of view. The bonds have not been eliminated.

Hon. Mr. HOWE: You cannot eliminate bonds. We believe it is in the public interest, even though we cannot eliminate the bonds, to sometimes eliminate the track.

Mr. WALSH: I cannot see why you should write it off because, after all, proprietor's equity is presumed to represent the bonded indebtedness.

Hon. Mr. HOWE: No, no.

Mr. SMART: It is a physical asset.

Hon. Mr. HOWE: It is the equity the government has in the property.

Mr. WALSH: Your equity is still there if you have bonds out against that particular line. It is going to lead to this: you have a certain deficit reported this year of \$42,000,000. You are going to endeavour to charge against the proprietor's equity each year as much as you possibly can in order to keep the actual deficit reported down to the minimum.

Hon. Mr. HOWE: Why do you say that?

Mr. WALSH: Because I feel that this \$711,000 is something that is lost to the Canadian National. It is being lost in a material sense; it is not being lost in the sense that the bonded indebtedness is still represented there and is paid for annually. I feel that this \$711,000 should be added to the \$42,000,000, making a total of \$43,000,000 odd, and that that amount should be voted by parliament to the Canadian National Railways and accounted for as part of the deficit of the railway for this current year. That is my own opinion. I do not know whether it falls short of proper accounting or not; I just look at it from an ordinary layman's point of view.

Hon. Mr. HOWE: It would be different accounting than I have ever seen on any railroad. You can show me any railroad statement you like and I will show you a difference in the profit and loss account where something has been added or subtracted through a change in the capital position. It is in our profit and loss account the same way, page 12. The railroad does not need the money; why vote them the money? It is simply a reduction in capital.

The CHAIRMAN: This item re-appears again, and we will be considering the Securities Trust of which Dr. Clark is the chairman. I think it would be better to postpone your question, Mr. Walsh.

Mr. WALSH: In last year's statement, December 31, 1936, on page 9, the first item, under Consolidated Balance Sheet, was stocks. Then you had government grants in aid of construction, \$15,000,000.

The CHAIRMAN: From what page are you reading?

Mr. WALSH: Page 9 of last year's report, and I am comparing it with this year's report on page 11. There is an item of government grants in aid of construction, \$15,142,633.32. I was trying to trace that through to find out where it is. It was there last year, but it is not in the consolidated balance sheet this year. Is there any particular reason for that or where has it disappeared?

Hon. Mr. HOWE: You will find that in the Capital Revision Act of 1937.

Mr. SMART: It is one of the items that were written off at that time.

Mr. WALSH: The \$15,000,00 was money that was written off?

Hon. Mr. HOWE: That is right.

Mr. WALSH: Last year there was an item "By provinces of Canada prior to Confederation" \$3,000,000. Where has that gone?

Hon. Mr. HOWE: You will find that on page 14.

Mr. SMART: That is in a little booklet, the Capital Revision Act.

Hon. Mr. HOWE: Those are the Grand Trunk debentures issued prior to Confederation. I think if you will study the Capital Revision Act you will find that.

Mr. YOUNG: I do not think we have copies of that Act.

Hon. Mr. HOWE: You have not got them here, but we studied that very thoroughly last year.

Mr. WALSH: I notice, Mr. Chairman, on page 30 of the Capital Revision Act there is an amount of \$15,142,633.34, but the other item that was there in the consolidated account, \$3,013,000, does not appear on page 30. At least, if it does appear, it is obscured and I cannot find it.

Hon. Mr. HOWE: What was the item?

Mr. WALSH: "By provinces of Canada prior to Confederation" \$3,013,748.90. Adding that to the \$15,000,000 you have a total of \$18,156,000 last year, and I notice on page 30, Chapter 22, of this booklet entitled The Capital Revision Act, that you have \$15,142,683.34 accounted for.

Hon. Mr. HOWE: Can you explain that, Mr. Cooper? I think that \$3,000,000 was outside the Act, was it not?

Mr. COOPER: The other smaller items, amounting to three millions of dollars, representing provincial, municipal, United States state and federal subsidies, amounting in all to \$1,628,000, were written off to the credit of the investment account.

Mr. WALSH: The \$3,000,000 has been split up?

Mr. COOPER: Yes.

Mr. WALSH: And it is to be found on what page?

Mr. COOPER: Page 18 shows the changes in the property investment account during the year. You will note towards the foot of the statement that certain book-keeping transfers were made affecting proprietor's equity and grants in aid of construction, \$2,342,289.93. In that is \$1,600,000 of these provincial, municipal and United States subsidies.

Mr. WALSH: Yes, that is part of it.

Mr. COOPER: The other part represents a subsidy given by the Dominion of Canada towards the maintenance of the Prince Rupert dry dock, and we eliminated that from the balance sheet by a credit to profit and loss. That is included on page 12 of the statement as a miscellaneous credit included in the amount of \$1,400,000, page 12.

Mr. WALSH: Under miscellaneous credits?

Mr. COOPER: Yes, sir.

Mr. WALSH: Who authorized that, the Dominion?

Mr. COOPER: No.

Mr. WALSH: The Board of Railway Commissioners?

Mr. COOPER: I initiated it. It was discussed with the department officers, and it was discussed with the government auditors, and we agreed between us that that was the proper thing to do.

Mr. WALSH: Then the railway is interested in the Prince Rupert Dry Dock?

Mr. COOPER: Yes, sir; it belongs to us.

Mr. WALSH: And operated by the railway?

Mr. COOPER: It is operated by the railway and the cost of operation included in our statement. We receive from the Dominion each year about \$76,000 as a subsidy. It goes towards the cost of keeping the dry dock in A-1 condition.

Mr. WALSH: Is that a recognized annual subsidy or is it a fluctuating amount?

Mr. COOPER: No; it goes on for twenty-five years, dating back from about 1918.

Hon. Mr. HOWE: It is under The Dry Docks Subsidies Act, the Department of Public Works.

Mr. WALSH: Is the revenue from that dry dock sufficient to carry the expense of it, or is that helping to create part of this deficit?

Mr. COOPER: No; I do not think that the dry dock, apart from the subsidy, would carry itself, but, with the subsidy, it will.

Mr. WALSH: The subsidy, then, more or less represents the actual deficit that might be involved if the government did not make that particular grant?

Mr. COOPER: No, I do not think so. The subsidy is a payment by the government because, under The Subsidies Act, certain obligations were placed on the company as to the standard of maintenance to which the dry dock must be maintained. In view of the obligation under the Act we are in receipt of this annual subsidy of \$76,000. In the year 1937 we treated that as income to the dry dock together with any income from repairs to vessels which go to the dry dock for that purpose, and against the accounts of the dry dock we charge the cost of maintenance and repairs to vessels, and all other expenses. The net result then goes into our income statement.

Mr. WALSH: Would it be out of order, Mr. Chairman, if I asked to have a statement filed and recorded in our minutes showing the actual receipts and disbursements in connection with this dry dock at Prince Rupert?

Mr. COOPER: There is no difficulty about that. You mean for the year 1937?

Mr. WALSH: Yes.

Mr. COOPER: Yes, sir, we can do that.

The CHAIRMAN: Would it be satisfactory to give you the memorandum for your personal information?

Mr. WALSH: I would include it in the minutes. I believe it is of general interest to all.

Hon. Mr. STEWART: Is not the position this: we have an Act of Parliament providing for subsidies to dry docks, and they are of different classes. The subsidy varies according to the class of dry dock and the requirements in connection with it.

Now, I assume that in the beginning when this subsidy was granted, as the official has stated, I believe in the year 1911—you say that is when it began?

Mr. COOPER: That was the date of the agreement, November 30, 1911.

Hon. Mr. STEWART: The Act has been in force for a longer time than that, as I recall it, and it is administered by the Department of Public Works. Each year the subsidy is voted. I do not recall to whom the subsidy was originally granted.

Mr. COOPER: The Grand Trunk Pacific Railway Company.

Hon. Mr. STEWART: The Grand Trunk Pacific Railway Company established the dry dock and qualified for the subsidy in the same way that any private company or any company may establish a dry dock and qualify for a subsidy.

Mr. COOPER: Quite so.

Hon. Mr. STEWART: It is part of their revenue. That is as I understand the situation here. Each year they operate the dry dock. Taking that subsidy into consideration, is there a surplus or is there still a deficit?

Mr. COOPER: If you will give me a minute I shall find the results for 1937 and give them to you now. In 1937 the operating revenues of the dry dock amounted to \$98,000, the expenses were \$142,000. After taxes we had a deficit of \$50,000; but after applying the subsidy of \$76,000 and an amount of interest income of \$1,500, we had a surplus of \$28,000. That is, after applying the credit of \$76,000 we had a profit of \$28,000 which is transferred to the system income.

Hon. Mr. STEWART: Turned around the other way it would be a deficit. Without the subsidy you had a loss.

Mr. COOPER: Quite so.

Hon. Mr. HOWE: Every dry dock in Canada has had a subsidy. There are two others on the Great Lakes.

Hon. Mr. STEWART: That is what I want to point out. There are several dry docks and they all get a subsidy.

The CHAIRMAN: This subsidy is paid every year and is included in the estimates of the Department of Public Works, and is transferred over to the Canadian National Railways.

Mr. COOPER: Yes. I think it is fair to point out that under the Act we are obligated to maintain the dry dock in a very high state of condition, probably in a higher state of condition than we would under ordinary circumstances.

The CHAIRMAN: After this explanation do you still want your report?

Mr. WALSH: No. I think he has given exactly what I was looking for and I appreciate getting that information. I had intended, Mr. Chairman, with your permission, before I discussed any of the items to make this remark. Mr. Cooper is here this year the first time in his official capacity succeeding Mr. McLaren after Mr. McLaren's retirement. I do want to tell the president and the board of directors how much I personally appreciate the appointment of Mr. Cooper to the position he now holds.

The CHAIRMAN: Carried.

Mr. WALSH: I consider Mr. Cooper one of the outstanding railway accountants. I do not say this just to flatter Mr. Cooper; I say it rather to flatter the president and the board of directors of the Canadian National Railways. Mr. Cooper stands very high in the estimate of anyone interested in railway accounting and I was very glad to see the appointment go the way it did and I am glad to see Mr. Cooper here to-day answering the questions.

Mr. HOWDEN: Is this a very busy dock at Prince Rupert; is it a very necessary dock?

Mr. COOPER: The total revenue last year was \$98,000.

Hon. Mr. HOWE: It took in \$89,000 in ship repairs, and \$9,000 for other work.

The CHAIRMAN: Are there any other questions?

Mr. WALSH: I take it for granted it is not impossible to get \$711,000 filed in parliament the same way as \$42,000,000.

The CHAIRMAN: You will have a further opportunity when Dr. Clark is here to explain his chairmanship.

Mr. WALSH: Just a question in passing. This report of the Canadian National Railways Securities Trust containing the \$711,000 deficit is given in a blue book. Is this a blue book? Is there any significance in the fact that this is a blue book, the colour usually adopted by the government, even a Liberal government, in issuing departmental information, or does it just happen to be a coincidence?

The CHAIRMAN: It is because it is departmental information that it is a blue book.

Mr. WALSH: I was wondering. Section 22 of Bill No. 12 as passed last year says:—

The Securities Trust is hereby declared for the purpose of this Act to be a company comprised in the National Railways.

Mr. SMART: That is for the purpose of consolidating the balance sheet. That report is a government report. You see, the Securities Trust consists of certain deputy ministers and certain representatives of the railway company. It is

administered here in Ottawa and Mr. Clark is the chairman. Now, all other government department documents are published in a blue book, and we are simply following it out, that is all.

Mr. WALSH: This is a government statement?

Mr. SMART: A government publication.

Mr. WALSH: The Canadian National Railways as such has little knowledge of what is contained in this booklet except in so far as they supplied certain information. It was not my understanding when we were discussing this Securities Trust last year that it was to be a department of government. I cannot recall that point having been emphasized last year. Personally I understood that it was to be part of the Canadian National Railways, and was to be reported as such.

Mr. SMART: No; the Act calls for a report of this securities trust to be prepared and tabled at the same time as the annual report of the Canadian National Railways.

The CHAIRMAN: As a matter of fact, it was done at your request.

Mr. WALSH: No. Do not give me any credit for doing anything of that nature. I see here the Act says:—

The Securities Trust is hereby declared for the purpose of this Act to be comprised in the Canadian National.

When I saw that clause last year my understanding was that it was in reality merely a subsidiary of the Canadian National Railways.

Hon. Mr. HOWE: No, that was done simply for the purpose of consolidating the balance sheet of the railway.

The CHAIRMAN: It is more in the Department of Finance than anywhere else. Mr. Clark is the deputy minister of finance.

Mr. SMART: Mr. Clark and myself and the deputy minister of justice, together with two representatives of the railway company comprise the board.

Mr. McLARTY: Section 12 of the Act covers it.

Mr. WALSH: I was reading Section 22.

The CHAIRMAN: Are there any further questions?

Mr. HEAPS: Carried.

The CHAIRMAN: Do you want to consider the consolidated profit and loss account? Are there any questions?

Mr. VIEN: Mr. Chairman, I understand we shall have the privilege of coming back to the accounts. They are not carried definitely?

The CHAIRMAN: No. We are going to examine every one of them in detail at another time. At that time you can ask any questions you like.

Mr. HOWDEN: Under the heading of credits there is an item of a donation of \$108,000. I should like to know the significance in that.

The CHAIRMAN: What page?

Mr. HOWDEN: Page 12.

The CHAIRMAN: Can you explain that, Mr. Cooper?

Mr. COOPER: Yes.

Hon. Mr. STEWART: Before you pass page 11 will you permit me to say this. There is a long term funded debt unmatured of \$1,221,997,398.79. Is there any prospect of refunding that at a lower rate, or of anything being done in that direction?

Hon. Mr. HOWE: Mr. Chairman, I have looked into that very carefully. A study was made by my own department and by the Bank of Canada. A considerable part of that debt is not guaranteed by the government, but it

represents a first mortgage on some important parts of the system, and until the bonds come due we see no practical way of refunding it. Of course, it is being refunded as the bonds come due, but there is no possibility of a compulsory refunding as far as we can see.

Hon. Mr. STEWART: I assume, Mr. Chairman, that maturities take place from time to time at different dates?

Hon. Mr. HOWE: That is true.

Hon. Mr. STEWART: Are any of the maturities in sight or are they still a long way off?

Hon. Mr. HOWE: There is a comparatively small maturity this year of \$69,000,000. I think it comes due within the next twelve months.

Hon. Mr. STEWART: This year?

Hon. Mr. HOWE: Yes.

Hon. Mr. STEWART: Is it the opinion of the minister that something may be accomplished in the direction of refunding that loan at a lower rate?

Hon. Mr. HOWE: That will be refunded at a lower rate.

Hon. Mr. STEWART: When it comes due.

Hon. Mr. HOWE: Yes. There will be a refunding bill brought to parliament this year with respect to the \$69,000,000.

Hon. Mr. STEWART: Maturing this year?

Hon. Mr. HOWE: Yes, and probably some additional provisions in case we are able to work out other refundings.

Hon. Mr. STEWART: General power and authority to refund where it is possible to do so at a lower rate?

Hon. Mr. HOWE: Yes.

Hon. Mr. STEWART: When does the next maturity come due?

Hon. Mr. HOWE: I think it is given on page 20.

Hon. Mr. STEWART: Yes, it is. I am sorry.

Mr. YOUNG: I take it that this item that Mr. Stewart has been discussing will be discussed in detail when we arrive at page 19 because I want to say something about that myself?

The CHAIRMAN: Quite so.

Mr. YOUNG: We are not passing it now.

The CHAIRMAN: No.

Mr. HOWDEN: I am still curious about the donations, Mr. Chairman. That is an added heading.

Mr. COOPER: The situation is something like this. If an industry pays for the cost of a siding which is constructed on railway property, the ownership is deemed to rest with the railway. We set up the construction cost in our investment account with a corresponding credit to donations. That is a book-keeping method whereby the total investment in railway property is set up on the books. Inasmuch as the railway does not itself assume the cost we necessarily must treat the offset as a donation.

Mr. HOWDEN: That is to say, the parties request and pay for the siding.

Mr. COOPER: If they pay for it, yes.

Mr. HUNGERFORD: Or part of it.

Mr. HOWDEN: I see.

Mr. COOPER: It is general railway accounting practice, covered by the accounting regulations of the Interstate Commerce Commission.

Hon. Mr. STEWART: There is one item on page 11, tax liabilities, \$1,811,-257.52; would you explain that item please?

Mr. COOPER: They are taxes which have been accrued in advance of payment. For instance, we may have a tax due in July, 1938, payable at that time. Now, six months of that accrued during the year 1937. We charge that into 1937 income under the heading of tax accruals and we set up a liability under the heading here.

Hon. Mr. STEWART: I thought taxes ran with the calendar year.

Mr. COOPER: They vary, particularly in the United States. You will find the taxes are not usually paid in advance in the United States.

Hon. Mr. STEWART: They run for the calendar year, municipal taxes and the like.

Mr. COOPER: Municipal taxes, yes.

Hon. Mr. STEWART: But, of course, these would not all be municipal or provincial taxes.

Mr. COOPER: No. There is the United States federal, state, municipal—every kind of tax is in there.

Hon. Mr. STEWART: Yes, this covers them all.

Mr. COOPER: It is the amount which was accrued up to the end of December, 1937.

Hon. Mr. STEWART: Yes.

The CHAIRMAN: Are there any other questions?

Mr. WALSH: On page 12, Mr. Chairman—

The CHAIRMAN: Yes.

Mr. WALSH: There is indicated there a debit balance of \$42,345,867.99. You will recall that there was provided in last year's budget, or estimates, or amount to the railways, a presumed deficit of \$35,000,000.

Hon. Mr. HOWE: \$35,000,000

Mr. WALSH: \$35,000,000; that was what was budgetted for presumably by the railway. They budgetted on a certain revenue plus a contribution from the government of \$35,000,000. This year they actually show a deficit of \$42,345,867.99, instead of \$35,000,000. Now, the question I want to ask is this: I presume that the Canadian National Railway like all other railways has a budget—is that correct?

Mr. HUNGERFORD: Yes.

Mr. WALSH: When we get a budget drawn up with a presumed deficit of \$35,000,000 we take it for granted that that is a figure which has been arrived at after a certain amount of study by that budget committee, and they arrive at a certain figure to cover the year's operations plus \$35,000,000 of a grant by the government, and then they come before our committee of parliament not only to ask for the \$35,000,000, but \$7,000,000 more than they actually allowed for last year.

Now, in ordinary business we try to budget and we try to watch our expenditures pretty carefully at the beginning of the year to see that we are living within our budget. I notice by going back over the accounts of the Canadian National Railway to the year 1932, when the present set-up came into effect, that there has only been one year that they did not come back with their budget very much over-expended. I look at the year 1932. They put up a budget provision that year of \$49,000,000 and then they came before the committee with an actual cash deficit of \$60,000,000; an over-expenditure of \$11,000,000. In 1933 their budget provision was \$54,000,000, the cash deficit \$58,000,000; an over-expenditure of \$4,000,000. In 1934 they did not over-expend, they showed a surplus. They came back that year with a surplus of \$432,000. In 1935 they came back with an over-expenditure of \$3,000,000. In 1936 they over-expended by \$3,000,000, and in 1937 (this year) they over-

expend by an amount of \$7,000,000. Now, I can't see any reason for the Canadian National Railway budgeting for a certain amount and then over-expend. We can't do that and don't do it in private business, nor do we do it in our individual lives; we can't afford to do it. I know from my own experience in my own business I have to budget to a central finance committee and I was going to say God help me if I go back to that central finance committee at the end of the year and say well, I am sorry, I misjudged and you will have to give me another \$2,000 in order to meet a deficit—

Mr. HEAPS: How can you compare a business such as the one you refer to with a railway such as the Canadian National? How could they possibly have foreseen that there was going to be the drought condition there was in western Canada with the whole crop practically ruined? If you can forecast accurately what the weather conditions are going to be for a period of twelve months ahead, well then the budget committee of the railway would certainly be glad to have your advice.

Mr. WALSH: It is all right for the honourable member to suggest forecasting weather conditions twelve months ahead—

Mr. HEAPS: It is all right for you to suggest that the railway should keep within their budget estimate but—

Mr. WALSH: They asked for \$35,000,000 in their budget when apparently they needed over \$40,000,000. If the budget is not for the purpose of controlling expenditure then of what use is it, of what use is a budget committee otherwise; why have a budget at all if you are going to over-expend every year? I would not mind if there was a mistake one year. Unforeseen circumstances might explain that. But when it is every year anything from \$11,000,000 down to \$3,000,000 of an over-expenditure in relation to the budget that is a different matter.

Now, it seems to me that the budget committee of the Canadian National Railways this year are drawing up a budget and they are going to ask the Minister of Finance to vote \$40,000,000 or \$50,000,000. Now, I think this committee should insist on the Canadian National Railway living within the amount that is granted to them in their bill.

Mr. HEAPS: That is impossible.

Mr. WALSH: I do not want to see them come back next year announcing that they have over-spent to the extent of \$7,000,000. That is not fair to parliament. That is not fair to the people of this country—to ask for an additional amount over and above that which was granted the preceding year. In other words, I want to see a curtailment of expenditure in the Canadian National Railway expense position, to have them live within the budget as announced. Now, I do not know what the announcement is going to be this year but I can judge by figures I have taken out of the *Gazette*. I notice here the earnings for January and February of 1938 show that the Canadian National are down \$3,413,089 as compared with last year. We have no figures for March as yet. Personally I am going to ask that the actual figures for the first three months of the year be given. I am also going to ask for the revenue and expenditure account as for the month of April. Now, I figure that judging from these figures the Minister of Finance will have to ask for a sum equivalent to \$50,000,000 in place of the \$35,000,000 this year if the Canadian National are desirous of balancing their budget next year. Now, I am waiting to see; what is the Minister of Finance going to do? Is he going to come out and ask us for \$50,000,000, or for the \$35,000,000 with the operating revenue which he anticipates with the thought that the budget of the Dominion of Canada will be balanced on the strength of that, and is he then going to have the Canadian National Railways come through and disappoint him, disappoint the parliament of Canada, dis-

appoint the people of Canada, by announcing that unforeseen circumstances have given rise to a \$50,000,000 deficit rather than the amount suggested by the Minister of Finance in his budget. Now, I want to avoid that and I want the budget committee of the Canadian National Railways to consider their budget carefully and to give a figure to the Minister of Finance and then know that having given him that figure they are going to live within that budget and not go beyond it. I am stressing that point as much as I can possibly stress it, and then next year we will not be faced with this, and we won't have any member of this committee saying, well they did not know there was going to be a terrific drought in the west, or a lack of traffic, or something of that nature which will prevent them from living within the bounds of their budget.

Hon. Mr. HOWE: Perhaps I can answer that, because I brought down the budget last year. Naturally one cannot make up a budget of this kind without some assumptions with respect to volume of traffic. Traffic was an important factor in our assumptions for last year's budget, and in the making of it we proceeded on the assumption that there would be at least an average crop in western Canada. We thought it would be at least as good as the ten year average. Now, you read somewhere figures there showing deficits in every year but one, and the one year in which a deficit was not shown was 1934 which was immediately following a big crop year when we had an average crop—that was the crop of 1933, the only fairly average crop we have had since 1929. The budget worked out perfectly correctly for that year. Now, the budget would have been accurate for the year under consideration if we had had an average crop last year. Had we had that average crop we would not have exceeded our budget.

Mr. WALSH: How can the minister assume that we are going to have a good average crop for this year?

Hon. Mr. HOWE: Well, you must assume something.

Mr. WALSH: I can understand this year, judging by the reports that have come from the west; I can understand your assuming that we are going to get a more average crop out there this year. That would be a perfectly logical conclusion this year, but last year I do not think there was anything to justify any rosey hopes for the west.

Hon. Mr. HOWE: In January of last year when this budget was made up conditions did not look so bad, or very much different from the way they look to-day.

Mr. YOUNG: This particular item goes a long way to show how very difficult it is, first to estimate traffic; and secondly it goes a long distance to show the value of western Canada to the prosperity of the Canadian National Railway and to the whole of Canada in ordinary times—

The CHAIRMAN: Hear, hear.

Mr. YOUNG: Just as the minister has explained, in a year when there is a crop it not only helps the Canadian National Railways but it helps traffic generally throughout Canada. I think Mr. Hungerford would bear me out in that statement.

Mr. HUNGERFORD: Yes, sir.

Mr. YOUNG: I don't know how any member of this committee can expect the management of this road or of any other road to anticipate just what kind of weather conditions we are going to have in this country. Personally I doubt very much whether any member of the present management of this road or any other road can do it. Now the other suggestion made by Mr. Walsh was this, that we anticipate that conditions will be very bad and ask parliament to vote an amount in excess of the amount there last year; in other words, let us be sure there will be enough voted so that there will be no deficit. Well,

Mr. Chairman, to me that would be perhaps just the other way of going about things. We would be telling the road that it is very necessary to be careful, but in any event we are going to give you an amount of money sufficient that you will not need to worry. So far as I am concerned, as a member of this committee, I am opposed to that. I quite appreciate that the Canadian National Railways, like a good many other people in this country, are having to operate under very difficult conditions. In preparing their budget this committee has to take all important factors into consideration. Now, I am pleased to say to Mr. Walsh and to the rest of the committee that after having viewed conditions out on those great plains of ours, we have some moisture there this year, and from what I have seen I would think that we are going to have a good crop this year—reasonably good. I think we can count on an average crop and that should bring some hope into this committee to-day. But, at the same time, if a year from now the budget, because of conditions at present unforeseen, does not turn out to be as we anticipate, I do not think that the management then should be held accountable for such conditions over which they had no control. I think we have done the best we could in the circumstances, last year or any other year, having regard to the conditions which prevailed, and I would be sorry that any statement should be spread through the press or otherwise that there has been some very bad budgeting going on, where in my own judgment at least nothing of the kind has occurred.

Mr. HEAPS: I think we will all agree it is much easier to possess hindsight than fore-sight. I think last year when the amount was estimated that we would have a deficit of \$35,000,000 to vote in this committee everyone agreed that that would be about the approximate amount. I think that even Mr. Walsh himself agreed to that.

Mr. WALSH: No.

Mr. HEAPS: He did not at that time express any particular objection to the amount going into the estimates of the C.N.R. accounts. I just happen to have had brought to my notice some of the reports submitted to this committee by Mr. Hungerford and if Mr. Walsh will kindly look at page 8 of the report he will find some rather interesting figures which might to some extent explain the reason why we have this extra amount to vote in these estimates. You will find on page 8 that in the year 1935 we carried 3,720,944 tons of freight with a revenue of over \$15,000,000; in 1936 we carried 3,915,606 tons of freight with a revenue of \$15,777,702; and in 1937, the year of the bad crop which affected the volume of traffic of the Canadian National Railways and the Canadian Pacific Railway to just the same extent I believe, our traffic of that year coming for grain and so on in western Canada was 2,356,656 tons and our revenue was \$9,643,572; a drop of receipts under that one particular item of over \$6,000,000.

I think that the C.N.R. Committee which was doing the budgeting or estimating for the year 1937, took the approximate average of the previous years, and I do not think they could have done very much more than that; and had that crop been of the average of the previous years, with the increase of over \$6,000,000, I do not think the \$35,000,000 deficit would have been very far out. In fact, I think that every member of the committee is anxious to keep the deficit of the Canadian National Railways down to an actual minimum. I know I am. In fact, I would like to see it wiped out, if I possibly could; and if there are any ways or means by which the Canadian National officials could help us to wipe it out, I think they would have the wholehearted support of the members of this committee. There is one point I would like to ask a question about, if I may. Perhaps Mr. Cooper or some other official could give me the amount of interest that the Canadian National Railways has to meet each year?

Mr. COOPER: In 1937? You are speaking of interest due the government?

Mr. HEAPS: No, interest on the public indebtedness.

Mr. COOPER: Yes. In 1937, it was \$48,888,000.

Mr. HEAPS: The reason I am asking that question is that I noticed, just in casually looking at the amount outstanding of over one billion dollars to the public, that quite a large amount—in fact, I think the largest amount, outside of the provincial governments—pay high interest charges, some being five and five and a half per cent.

Mr. COOPER: The average rate is four per cent.

Mr. HEAPS: How is the average worked out? Is it a weighted index or is it that amount or is it just a rough figure?

Mr. COOPER: No, it is an actual figure. If you take the amount of principle outstanding at December, and the rate of interest, extend the interest and divide the aggregate outstanding principle into the aggregate interest charges, you get an average of 4 per cent.

Mr. HEAPS: I am looking at the information contained on page 19, and I notice some of the largest amounts, going up to \$50,000,000, are 5 per cent bonds and  $4\frac{1}{2}$  per cent bonds. I find that the smallest amounts have the lowest interest charges. I am just wondering if there were not perhaps some way of reducing the annual interest charges by some form of refunding, if at all possible, to bring it all down to an average of 3 per cent, and if we could not possibly save on that basis.

Mr. COOPER: We have made considerable progress in that direction, Mr. Heaps.

Mr. WALSH: On page 20 it shows an appreciable reduction of interest that is charged. You have four items there, Dominion of Canada Loans,  $3\frac{3}{4}$  per cent. On last year's statement these varied from 5 per cent down to 4 per cent.

Mr. COOPER: I would like to read these figures: In 1931, our interest charges were \$55,500,000; in 1932, they were \$56,900,000; in 1933, they were \$56,400,000; in 1934, \$55,800,000; in 1935, \$53,400,000; in 1936, \$49,184,000; and in 1937, they were \$48,888,000.

Mr. HEAPS: I just picked this up at random here and there are some recent issues—5 per cent forty-year guaranteed gold bonds due 1969 to the extent of \$60,000,000 issued in 1929; 5 per cent forty-year guaranteed gold bonds due 1969, again \$60,000,000 issued in 1929;  $4\frac{3}{4}$  per cent guaranteed bonds issued in 1930, \$50,000,000;  $4\frac{1}{2}$  per cent bonds issued in 1931, \$70,000,000. I find that most of the largest amounts—really the bulk of them—have a long time to run. I was wondering if it is at all possible for us to have some form of refunding of the whole thing, or at least part of the capital structure, which would result in a possible large amount of saving. I do not know if Mr. Cooper is the man to answer that, or whether the minister is the man.

Hon. Mr. HOWE: I might say that a very thorough examination was made of this situation by the general manager of the Bank of Canada. He went to Europe for that purpose. A large amount of the large interest bonds are held in Europe. The best advice he could give us was that nothing could be done on a large scale without absolute repudiation; and even there the bonds represented a first mortgage on a principal part of the system. In other words, if we stopped paying interest, the bondholders could seize a part of the railroad and we would be out of business.

Mr. HEAPS: I am not suggesting repudiation of the bonds nor am I suggesting that we do not pay the interest charges. I was wondering if there were any means by which the higher interest bonds of  $5\frac{1}{2}$  per cent and  $4\frac{3}{4}$  per cent could be in some way refunded so that the interest which would be paid to-day on our bonds would be around about  $3\frac{1}{2}$  per cent.

Hon. Mr. HOWE: If we could possibly call those bonds and do that, we would do it; but they are not callable bonds.

Mr. HEAPS: They are not callable bonds?

Hon. Mr. HOWE: No.

Mr. HEAPS: According to what the minister says, we are compelled to go on paying five per cent or approximately five per cent on a very large amount of the bonds now outstanding against the Canadian National Railway System.

Hon. Mr. HOWE: We see no way of changing that position.

Mr. McLARTY: There are none of the higher interest rate bonds that are callable?

Hon. Mr. HOWE: We have a series of \$60,000,000 five per cent bonds callable in 1949. That is the first.

Mr. McLARTY: That is the earliest?

Hon. Mr. HOWE: Yes.

Mr. HUNGERFORD: There is practically nothing callable now.

Mr. HEAPS: I did not quite get that.

The CHAIRMAN: He says there is nothing callable now.

Mr. HEAPS: The government has no right to call in any of these bonds before the date of maturity?

Hon. Mr. HOWE: No.

Mr. YOUNG: I do not know that we ought to be quite satisfied just with any investigation which we have made hitherto with regard to these perpetual non-callable bonds. It seems to me that the interest being paid is entirely out of line. The principle is wrong to begin with. I am not suggesting that any person in this room is responsible for the situation which exists; but when anything is obviously so out of line with present day conditions, I do not think that we can be quite satisfied when we simply say that nothing can be done. I do not believe that. I believe this—and I am speaking not only with regard to the railways—but with regard to bonded indebtedness of the country, and I am not referring to Canada as Canada but to every provincial government and every municipal government, we are going through such a condition that I think it is absolutely imperative that we give this matter very serious consideration. It was not in this committee that I intended to say this. I intended to say it elsewhere. But to me we are simply up on financial stilts; we must get off those financial stilts and we must get on the ground. These non-callable bonds in this national railway are something which should receive great consideration. I do not know that the management of the Canadian National Railways can give it that consideration, but I do believe that we as a parliament must give that consideration and that a remedy must be found; because this country cannot continue to pay the interest rates which we have been called upon to pay throughout the years. It cannot continue to pay them and the Canadian National Railways cannot continue to pay them. I for one am not satisfied that it is good enough to send even the governor of the Bank of Canada to Great Britain to endeavour to negotiate this and he come back and say that it cannot be done. The governments in a lot of the major countries of the world, which I will not attempt to enumerate, found that they could not pay the interest rates which they had been paying and they had a reorganization in their finances. That is true in Great Britain; it is true in Australia; it is true in France; in Germany it amounted to repudiation; and yet here we say, "Well, this thing cannot be done." Well, I doubt very much whether the remarks I am making now are properly made except with regard to this item, because what I have in mind is something very much larger than what is represented in this balance sheet here. But I do not believe that we in this

committee should be content to pass the matter by the minister saying that because the governor of the Bank of Canada had made some attempt, that that is all the attempt that should be made.

Mr. HEAPS: I notice in this item some 6½ per cent bonds still outstanding.

Mr. MCKINNON: Seven per cent.

Mr. HEAPS: To the extent of \$24,000,000 and not due until 1946. It seems to me that the amount of our interest charges is altogether too high on the Canadian National Railway System; and I still feel that if perhaps some way could be found of cutting down the interest charges to something in keeping with what interest charges are to-day, we could cut down the deficit on the railway to a fairly large extent. The deficit of \$42,000,000 I think could be almost cut by one-third, just giving a rough guess; and I think it would be a welcome relief to the people of this country if we could do something along that line. Of course, I do not know what the Bank of Canada has done in this regard; I do not know even what the Department of Finance has done; but I think a very determined effort should be made in the direction of seeing if something can be done about these perpetual bonds, some at five per cent, some at four per cent. There is nothing except a comparatively small amount at three per cent; all the rest are at fairly high interest rates compared with what we know at the present time. When we see the interest charges to-day, compared with the charges upon the railway of six per cent—twice as much as we should be paying—I think if we could do something, it should be done; I think if there were some means whereby we could make a great hole—at least, a great dent in this deficit of the Canadian National Railway System, we should adopt it.

Mr. HOWDEN: Mr. Chairman, we seem to have gone by the matter that I had in mind, and that can apply to some extent to the remarks of the two last speakers. What I was going to say was that whereas it has been very desirable that refunding operations perhaps that would lower the cost to the country might be found, I sincerely hope that the management will not allow the remarks of Mr. Walsh or those of Dr. Young or Mr. Heaps unduly to curtail the activities of the railway. Mr. Walsh spoke about the Canadian people being disappointed over this budget matter. The number of Canadian people who peruse these figures or who inspect any of these figures is comparatively slight. I think we noticed in the pages that we have scrutinized that the company has some 79,000 employees. I do believe that the Canadian people would be very much more disappointed and less satisfied to see a poor service on the Canadian National Railways and large numbers of these employees thrown out of employment through an endeavour to economize or possibly to more closely approximate the budget estimate. I imagine that it would be the cause for a great deal more dissatisfaction and disappointment to the people than would the loss of a few dollars through the affording of good railroad service and keeping the employees of the railways reasonably employed and at work.

The CHAIRMAN: Are there any further questions, gentlemen?

Mr. WALSH: Coming back to the budget question again, could Mr. Hungerford explain to the committee in short detail the method by which the budget committee arrived at their figures? How do you proceed?

The CHAIRMAN: Before going on with that, Mr. Walsh, I suppose you understand that last year was the first year that the Canadian National Railways had a budget in advance. In the past, we used to examine the accounts of the Canadian National Railways in arrears, we had no budget. That was the first time in the history of the Canadian National Railways that they were asked to budget in advance and the money was voted in advance by parliament. And I do not think they did so badly, if you consider the conditions of the crops last year.

Mr. HUNGERFORD: I think it might be interesting to you to know how we set up a budget. As late in the fall as possible we have representatives canvass the business men in all sections of the country and get their opinions as to the prospects for the ensuing year. That information is all put together and studied in the light of the circumstances existing at the date of the study. All of the officers that have any knowledge particularly of that subject are consulted; they act as a general committee to consider all of the evidence and information available at that particular time.

But I submit to you that it is a tremendously difficult task to accurately determine what the revenues are going to be twelve months hence. I do not know of anyone who can do that. And in the final analysis it must be the most intelligent guess possible.

Now, when we find that our revenues are not keeping up to the budget figure that has been set, then we do all in our power to reduce our expenses in proportion; but there is a limit beyond which we cannot go in the operation of the railway. We are subject to governmental authority in respect to train service and all forms of services more or less; and, consequently, it is not possible to reduce expenditures in proportion to a drop in traffic. That simply cannot be done. Taken altogether, I doubt if anybody has the ability to forecast what is going to happen months ahead. I would ask you in that regard to consider the situation at the present time. The conditions are unusually disturbed. I would be glad if you would consider the probable earnings in 1938 from that standpoint.

Mr. WALSH: Mr. Chairman, I appreciate those remarks, and I am also hoping that my friend, Dr. Young, does not think that I lack in appreciation of what the West means to Canada. We appreciate that more in the East than probably most people in the West will give us credit for.

There is one other point I wanted to make. I notice after the budget figures were passed last year, immediately afterwards, the railway entered upon tremendous expenditures. It would have been better if they had delayed such operations to a certain extent to note the progress or lack of progress during the course of the year before initiating such tremendous expenditures, some of which might have been delayed seeing that the year was not going to be a propitious one.

As far as my friend, Dr. Howden, is concerned, I do not think there is any member of this committee who desires to see such a curtailment in the expenditures of the Canadian National Railways that will affect even one hour of time of any man employed on that railway.

I would like to ask Mr. Cooper this question: What was the Canadian National Railway budget last year for capital expenditure, and to what extent was that over-expended or under-expended?

Mr. COOPER: The budget estimate was \$9,307,000, and the actual expenditures were \$4,282,000, an expenditure under the budget of \$5,025,000.

The CHAIRMAN: So they were pretty cautious.

Mr. WALSH: That is the kind of cautiousness that I am trying to urge upon the Canadian National Railways for the coming year in connection with operation as well as capital expenditure. I feel that if they would be firm to certain expenditures and not immediately enter upon certain expenditures after the budget is passed, but wait for a certain length of time to determine the development, they will see it will be easier to live within their budget. I was going to discuss another item, but I notice it is one o'clock.

The CHAIRMAN: The committee is adjourned until 4 p.m.

## AFTERNOON SESSION

The CHAIRMAN: Gentlemen, we were considering at our session this morning page 12 of the report, the consolidated income account, and it was decided that we should not read any particulars of it, but reserve our discussion of details for a later period. Shall we pass on from page 12?

Mr. HEAPS: There is one question I should like to ask as a matter of information, which I hope the finance department of the railway will be able to supply. I should like them to make up a tabulation showing what the annual interest charges would be on the Canadian National system if instead of paying the existing interest charges they were paying an interest charge of 3 per cent.

Mr. COOPER: I can answer that now. It would be 25 per cent less than it is at the present time. It would be \$36,000,000 instead of \$48,000,000 and would save us \$12,000,000 a year in interest charges.

Mr. HEAPS: When you tell me that I feel that \$12,000,000 is worth going after each year. I think 3 per cent at the present time would not be an unfair rate to pay on federal government guaranteed bonds; I am just wondering if there are not ways and means even in spite of what the minister said this morning of doing something about some readjustment on the capital structure in so far as interest charges are concerned.

The CHAIRMAN: I may inform you I instructed the clerk to take a special note of the remarks that were made this morning with a view to embodying them in our report.

Mr. HEAPS: The reason I am saying that is this: I do not want an impression to go out that we want to repudiate interest charges on the Canadian National Railways system, but I think in view of all the circumstances under which the railway was acquired and became government property and in view of the fact that the bondholders are guaranteed interest charges on a railway which was bankrupt when it was taken over by the government, the position of the company ought to have due consideration. I believe it ought to have due consideration in view of the fact that over a period of years the deficit has been large. Probably if a stronger effort was made than ever was made before it might result in the saving of an amount of money to the system which would be, I think, a very good thing for the system and also a very good thing for the Dominion of Canada.

The CHAIRMAN: That will be included in the report, Mr. Heaps. Shall we go on with the operating revenues and details? Mr. Armstrong, will you read that report?

Mr. WALSH: Before you leave page 13, I should like to get some information in that connection. In about the centre of page 13 there is an item there which gives the revenues from hotel operations and the expenses of hotel operations and the taxes on hotel property. I should like to have a statement from the directors of the Canadian National Railways showing the actual investment in each hotel and is being operated at the present time, the amount of revenue obtained during the year 1937 from each hotel operated by the Canadian National Railways system and also the operating costs in connection with each hotel. That is all I wanted to get at the present time. If I can get that information some time before the close of our discussion on the report it will be quite satisfactory.

Mr. HUNGERFORD: We will prepare that.

Mr. WALSH: I also want to take up a matter in connection with the new hotel at Vancouver. When you go back to page 5 you notice a reference to the Vancouver hotel and the item of \$214,388 appears. Could the president tell us about what sum will be required in 1938 to complete the hotel in Vancouver?

Mr. HUNGERFORD: The expenditure in 1938 as shown in the budget amounts to \$1,750,000, and it will take somewhere between one-half and three-quarters of a million to complete the hotel and make it ready for operation. The \$1,750,000 in 1938 would not complete the hotel. It requires from half a million to three-quarters of a million next year to do that.

Mr. WALSH: It will put it in condition where you are going to be able to use it?

Mr. HUNGERFORD: The plan is to open it as near to the 1st June next year as possible.

Mr. WALSH: 1939?

Mr. HUNGERFORD: Yes.

Mr. WALSH: What I wanted to ask is this—and if any member of the committee has the idea that this is becoming political, there is political significance.

The CHAIRMAN: Don't mention it.

Mr. WALSH: There is political significance in it because when the Minister of National Defence has to make an answer on behalf of the Minister of Transport, and he in turn on behalf of the president, the manager of the Canadian National Railways, in the city of Vancouver that this hotel is about to be completed and opened, I could not put any other construction on it than the construction of a political nature. It was the Minister of National Defence, in his home town and home province who was seeking to make political capital out of a huge expenditure by the Canadian National Railway system. I should like to ask the president if the opening of this hotel and the expenses involved have been discussed at a board meeting of the Canadian National Railways, and if that board authorized the Minister of National Defence to make any statement, or why that statement was not made by the person who in the natural course of events should have made the statement, namely the general manager of the railway.

Now, I should like to find out just where the contact came in between the board, the manager, the Minister of National Defence and the Minister of Transport.

The CHAIRMAN: Don't you think it would be fairer to wait until the Minister is able to be present? He is not able to be present this afternoon because he has a bill before the House. Would you mind postponing your question until he is here?

Mr. WALSH: If you will allow me to refer to it again, that will be all right.

Mr. HEAPS: Is not this hotel to be jointly operated by the two railways? There was a report in the newspapers to that effect. I was wondering if it was correct?

Mr. HUNGERFORD: That is the plan.

Mr. HEAPS: Do I understand further that the existing C.P.R. hotel in Vancouver is to cease operation when the new hotel opens?

Mr. HUNGERFORD: Yes.

Mr. HOWDEN: May I ask to what extent the C.P.R. is contributing to the expense of preparing this hotel for operation?

Mr. HUNGERFORD: Nothing.

Mr. HOWDEN: Nothing?

Mr. HUNGERFORD: No.

Mr. HOWDEN: The government is providing a joint terminal for the two railways?

Mr. HUNGERFORD: The C.P.R. contribution consists of various things. They are eliminating competition entirely, and they lend their patronage support to the new structure, and then the Canadian National Railways gets a share in the salvage of the old hotel property.

Mr. WALSH: Can you explain in some detail the arrangements that have been entered into for the operation of this hotel jointly by the Canadian National and the C.P.R.?

Mr. HUNGERFORD: There will be a hotel company formed, the common stock of which will be owned jointly by the two companies. The Canadian National will lease this hotel to the operating company, and the Canadian National after the payment of operating expenses, taxes, depreciation on furniture and things of that kind, will be entitled to a certain income rental.

Mr. HEAPS: In case there is a loss will the loss be shared jointly by the two railway companies?

Mr. HUNGERFORD: Yes.

Mr. HEAPS: Will that apply also to the capital cost of the hotel?

Mr. HUNGERFORD: No.

Mr. HEAPS: In so far as the capital of the hotel is concerned that will be borne by the government?

Mr. HUNGERFORD: The Canadian National.

Mr. HEAPS: In regard to an operating loss, assuming there is one, which we do not know, that will be shared jointly?

Mr. HUNGERFORD: Yes.

Mr. HEAPS: If there is a profit on the operating of the hotel will that go towards paying off the capital expenditures involved?

Mr. HUNGERFORD: I had not completed my statement in answer to Mr. Walsh. The rental that will be paid to the Canadian National by the operating company will be on an income basis, up to a maximum of \$280,000 a year. Out of what is paid by the operating company to the Canadian National, 25 per cent will be paid to the C.P.R. and 75 per cent will be retained by the Canadian National. If the hotel is operated at a loss then the Canadian Pacific Railway will have to join with the Canadian National in supplying the additional working capital.

Mr. HEAPS: Only for the operating capital or expenditures.

Mr. HUNGERFORD: Practically so, yes.

Mr. HEAPS: Nothing in regard to the capital cost.

The CHAIRMAN: Any further questions?

Mr. YOUNG: I think we ought to have a complete statement on this matter. The things we have had have been so abbreviated that I doubt if anybody in this committee can follow what took place out there. I think that we should have a complete statement of the whole picture of just exactly what took place and how the thing came about.

Mr. HUNGERFORD: Well, what is it you want, Mr. Young? The agreement that was reached?

Mr. YOUNG: I would like to know just what the whole agreement is. For instance, there is a hotel out there now not owned by us. Apparently in some way or another we became involved in a hotel we do not own.

Some Hon. MEMBERS: No.

Mr. YOUNG: Perhaps we could have somebody tell us about it.

Mr. HUNGERFORD: We are entitled to half of the salvage from the old hotel exclusive of furniture. There is an arrangement about the furniture.

Mr. HEAPS: You can utilize part of the hotel at Vancouver

Mr. HUNGERFORD: We are trying to do that. What proportion of the old furniture would be suitable in the new hotel can only be determined by a survey. That has not been done yet.

Mr. McKINNON: How many of the hotels paid operating costs?

Hon. Mr. STEWART: Before we leave that may I ask the chairman what he means by "salvage" of the Canadian Pacific hotel? How far does that go? Does it apply only to the building itself?

Mr. HUNGERFORD: No. We are not quite sure how it will develop, Mr. Stewart. The building may be torn down and the property sold.

Hon. Mr. STEWART: Where a hotel is destroyed, is that salvage?

Mr. HUNGERFORD: Yes.

Hon. Mr. STEWART: If it is sold then you get the proceeds?

Mr. HUNGERFORD: Yes, whatever it covers, or if it should happen that we can make a satisfactory lease of the premises for a certain length of time we will share in that.

Mr. YOUNG: They would make a lease?

Mr. HUNGERFORD: The Canadian Pacific would make a lease.

Mr. McKINNON: Would it be possible that that property might be leased to another hotel company?

Mr. HUNGERFORD: No. The Canadian Pacific undertakes not to carry on any hotel business in Vancouver during the tenure of this lease.

Mr. McKINNON: And they will not lease the present hotel to another company to operate as a hotel.

Mr. HUNGERFORD: No.

Mr. YOUNG: I think the shortest way would be to have a copy of any agreement which exists placed before this committee, and that perhaps would be the quickest way of getting the information before the committee.

The CHAIRMAN: Is there any objection to that?

Mr. HUNGERFORD: I do not think so.

The CHAIRMAN: The agreement is not signed yet, Mr. Young.

Mr. HUNGERFORD: That is, not the formal agreement, the tentative agreement is signed. Frankly I do not think that should be published at this stage, but if the committee wants it—

The CHAIRMAN: What is the pleasure of the committee? It is not advisable that the details of this agreement should be made public. If a copy is given to each member privately would that be satisfactory?

Hon. Mr. STEWART: I am not sure that it is not desirable that these details be made public. After some of the remarks which we hear about the C.P.R. getting the advantage out of this agreement—which I do not believe for a moment—it seems to me that possibly it might be desirable to have a full statement made, or at least a summary of the terms of the agreement, prepared by the chairman, without going too much into detail covering the conditions that he has outlined.

The CHAIRMAN: Would that be satisfactory?

Hon. Mr. STEWART: I haven't any doubt that the agreement will be found to be a fair and reasonable one under the circumstances. I think it is in the public interest that we should be able to know about it in order to be able to answer these wild criticisms that we do hear from time to time in all matters of this kind.

The CHAIRMAN: As a matter of fact there is only part of the agreement that has been signed at the present time and until it is completed I do not see how we could possibly make it public; but, if the members of the committee would be satisfied with a statement signed by the president of the road explaining the circumstances as they stand today, surely that ought to be satisfactory.

Mr. HOWDEN: I do not believe we will need a signed statement, if the president of the road will make up a summary of the essential point of the agreement that should satisfy the committee.

The CHAIRMAN: You mean, that Mr. Hungerford prepare a statement to be read to the committee here? Would that be satisfactory?

Mr. HUNGERFORD: Yes.

Mr. HOWDEN: Yes, a summary of the essential points.

The CHAIRMAN: We will now turn to operating revenue; go ahead Mr. Armstrong.

Mr. MCKINNON: I would like Mr. Cooper to answer the question I asked him about hotels.

Mr. COOPER: You mean, about the number operated at a profit?

Mr. MCKINNON: Yes.

Mr. COOPER: There are six.

Mr. MCKINNON: Do these mountain resort hotels operate at a profit?

Mr. COOPER: Jasper Park and Minaki operated at a profit. Pictou lost \$40. So that out of the three mountain resorts—if you call Pictou a mountain resort—two were profitable from an operating point of view and one lost \$40.

Mr. EMMERSON: What about the eastern hotels, the Nova Scotian and Charlottetown, do you include those?

Mr. COOPER: No, I was referring to the Pictou Lodge.

Mr. EMMERSON: Yes, that is the summer lodge; but how about those that are continually in operation?

Mr. COOPER: The Nova Scotian operated at a profit of \$7,493, and the Charlottetown hotel lost \$6,600.

Mr. HOWDEN: Then the two balance, one against the other.

Mr. COOPER: Yes, sir.

Mr. HOWDEN: What year was the one in Charlottetown opened?

Mr. ARMSTRONG: It was opened in 1930.

The CHAIRMAN: Go ahead, Mr. Armstrong.

Mr. ARMSTRONG: Pardon me, 1931, sir. Operating revenues—shall I read each of the items?

The CHAIRMAN: Yes, until they ask questions you better go on.

Mr. WALSH: Why read it, we have it all here?

The CHAIRMAN: I am quite satisfied, but I thought it was the wish of members of the committee.

Mr. WALSH: We can ask questions?

The CHAIRMAN: I will take it then that you have all the details before you.

Mr. WALSH: In connection with express—

The CHAIRMAN: I love that kind of business.

Mr. WALSH: Thank you. The revenue from express I presume is affected in some way by the charges made by the parcel post delivery; is that right?

Mr. ARMSTRONG: You mean, that the reduction in the parcel post rate had an effect?

Mr. WALSH: When the parcel post made a reduction in their charges and an increase in the amount they will carry as parcel post, that has a direct effect I presume on the business of the express company operated by the Canadian National?

Mr. ARMSTRONG: It is directly competitive with express.

Mr. WALSH: If they reduce their rates naturally express has to follow suit?

Mr. HUNGERFORD: Quite.

Mr. WALSH: Of course, I presume it is not the business of this committee, but I am under the impression that the parcel post business of the Post Office Department is not on a paying basis. We can all understand that. Now, is there any way or means that can be adopted whereby the Post Office Department could work in harmony in conjunction with the express department of the Canadian National Railways in order to carry parcel post at a reasonable rate and get at an equitable rate, so that the railways can either make more money on express or stand less chance of losing money?

The CHAIRMAN: Then the post office will lose revenue.

Mr. WALSH: The post office will not lose the revenue. The Post Office Department at the present time I feel are carrying parcels at too low a rate. It is very satisfactory from the public standpoint, I quite recognize that; very satisfactory. But the public are getting a low rate on parcel post and we are paying it out indirectly with the other hand by the deficit of the Canadian National Railways. Now, with a view to improving the position of the Canadian National Railways and to reducing a part of these deficits I make the suggestion that the parcel post is having a very direct bearing on the revenues of the express company and to that extent helping the railway company show a larger deficit than they would be showing under normal conditions. Now, is it possible to have a closer collaboration between both so that rates could be made more equitable and more in harmony with the cost of carriage.

Mr. HUNGERFORD: I do not see how the railway could bring that about, Mr. Walsh.

Mr. WALSH: I presume the government could, seeing that the government is directly interested in the Post Office Department and indirectly interested in the railways, and the government should take some kind of a step in order to reach an agreement whereby the Post Office parcel rates are on a sound economic basis. In the old days I know the express company carried parcels on an economic basis, on a cost basis. Now, I feel that we are not carrying parcels on a cost basis as far as the post office is concerned. I do not want to appear as though I am advocating an increase in the cost for post office facilities, but I do not see that the Canadian National should be charged with a deficit of \$43,000,000 a year when part of that deficit could be looked after by a more economic working basis as far the parcel post and express services throughout the country are concerned.

The CHAIRMAN: Without divulging any secret, I think that the matter is already under way.

Mr. WALSH: Thank you.

Mr. HOWDEN: Mr. Chairman, I have often wondered—it is a matter of information I am after alone—with regard to the mail item, just what sort of an agreement is there between the railways for the transportation of mail? Is it tendered for, or why will one railway have the bulk of the mail carrying, the through mail carrying, and the other railway have comparatively none?

An Hon. MEMBER: It is pretty well divided.

Mr. HOWDEN: That is what I want to know, whether it is fifty-fifty, or how it works out. I had always been under the opinion that the old railway carried the bulk of the mail across Canada.

The CHAIRMAN: I think it is hardly fair that this committee discuss this, these arrangements are made by the Post Office Department.

Mr. HOWDEN: It is something that we men as members of parliament should know something about.

The CHAIRMAN: You can ask the Postmaster General about it when his estimates are up in the house.

Mr. HOWDEN: No, it is part of this report also.

The CHAIRMAN: Only in so far as the Canadian National is concerned.

Mr. HOWDEN: I would like to know just on what basis the Post Office Department pays the railways for carrying mails.

The CHAIRMAN: As far as the Canadian National Railway is concerned.

Mr. HOWDEN: As far as the Canadian National is concerned.

The CHAIRMAN: That is proper.

Mr. HOWDEN: Now, I understand that the parcel post—which was referred to by Mr. Walsh—have increased the weight of package they will carry from 15 pounds to 25 pounds?

The CHAIRMAN: Yes, to 25 pounds.

Mr. HOWDEN: And I wanted to know what effect that had with regard to the formal contact with the railways. Do they get more money because there was more mail to be carried; or, do they get a lump sum? That is a thing which I have never been able to find out.

Mr. HUNGERFORD: As the Chairman has indicated, that is a matter which is under consideration now; but the general form of contract between railways—all railways—and the Post Office Department is that the latter pays so much for a given amount of space in a car; it may be half a car, or a quarter of a car, or a full car. They pay so much for it.

Mr. VIEN: Can we get those figures?

Mr. COOPER: We have the figures here if you want them.

Mr. HOWDEN: In the matter of carrying mail to the same terminal is the selection of the railway determined by tender, or how is the selection made?

Mr. HUNGERFORD: It is made by the Post Office Department.

Mr. VIEN: Could we have the basis on which mails are being carried now?

Mr. ARMSTRONG: That is, the rates for spaces of various sizes?

Mr. VIEN: Yes, the basis on which it is paid for?

Mr. ARMSTRONG: We will have to get that information for you.

Mr. VIEN: All right, at a later date. I would take it for granted then that the same basis applies to all Canadian railways?

Mr. HUNGERFORD: I think so.

Mr. VIEN: Now, Mr. Chairman, I wonder if it would be feasible to have a break-up in the figures of operating expenses somewhat along the same lines as that break-up in the figures of operating revenues. You take for instance with respect to Mr. Walsh's express item; have you the figures on operating expenses in express matters? Under the head of operating revenue we find that in 1936 you had a revenue, a gross revenue of \$8,497,000, and in 1937 a gross revenue of \$8,915,000. Could we have a break-up of the operating expenses? How much did the express service cost in 1936, and in 1937? Have you got those figures?

Mr. SMART: You have got the wrong figures haven't you? It was \$3,504,000 in 1937 and \$3,355,000 in 1936—that is under mail. Oh, you were talking about express.

Mr. VIEN: I am talking about express now.

The CHAIRMAN: And you want the total of the expenses, all the items comprehended in the summary of operating expense?

Mr. VIEN: Yes.

Mr. HUNGERFORD: You want the full details.

Mr. VIEN: I want to get the full details, but I would like to know if there is any difficulty in giving us the same details in connection with expenses. I would like to have it on the same basis as it is furnished in respect to revenues.

Mr. COOPER: The revenues in 1937 were \$8,915,000.

Mr. VIEN: Might I ask those gentlemen at the head table if they could speak a little louder, because the acoustics are not very good here and if we want to follow what is being given we have got to be able to hear it.

Mr. COOPER: The revenues for 1937 were \$8,915,000.

Mr. VIEN: Yes.

Mr. COOPER: The expenses for 1937 were \$4,893,000.

Mr. VIEN: Will you give me the same figures on expenses in 1936?

Mr. COOPER: Yes, \$4,686,000.

Mr. VIEN: Yes.

Mr. COOPER: I would point out that in the express department operating expenses, we do not include the repairs of rolling stock used in the express service nor do we include the cost of hauling express cars.

Mr. VIEN: It would be only out-of-pocket expenses for the express services without taking into account equipment?

Mr. COOPER: And the haul of express cars.

Mr. VIEN: And the haulage of the equipment?

Mr. COOPER: Yes.

Mr. VIEN: But have you any apportionment of the cost of the equipment and of the hauling of the equipment in your own figures? In setting up your own figures, to determine whether your express services are a paying proposition or a losing proposition, would you not make an arbitrary or a somewhat arbitrary division of figures so as to arrive at some approximate idea of whether the express service is on a paying basis or not?

Mr. COOPER: Well, we do not do it as routine work. If that knowledge were required, a special cost analysis of operations would be involved.

Mr. VIEN: Have you these figures available?

Mr. COOPER: No, sir.

Mr. VIEN: How can you ascertain if your express services are a paying proposition or a losing proposition? Are you charging to the express service the use of the cars on a wheelage basis or a mileage basis?

Mr. COOPER: We do not charge to the express service in the figures which I have given anything whatever for the upkeep of the rolling stock or the hauling of the cars.

Mr. VIEN: How are your express services carried on? It is a department of the company, is it?

Mr. COOPER: Yes.

Mr. VIEN: It is considered a department of the company?

Mr. COOPER: Yes.

Mr. VIEN: Are you not charging that department with a certain proportion of the cost of maintaining the equipment?

Mr. COOPER: No, sir.

Mr. VIEN: Should you not?

Mr. COOPER: We would if it were required—for instance, if you had a rate investigation.

Mr. VIEN: No; but I would imagine that for your own personal guidance it would be helpful to know whether your express services are paying or not.

Mr. ARMSTRONG: May I say that we have from time to time made an analysis of the value of the express department to the balance of the system. You can take it on two different bases. You can take it on the amount of revenue you get in from the express business and the actual amount of out-of-pocket cost that you have chargeable against the express business. That would give you one answer.

Mr. YOUNG: What do you mean by out-of-pocket cost?

Mr. ARMSTRONG: I mean additional expenses we have because we operate express; in other words, if we do not operate express to-morrow, how much expense could we save?

Mr. VIEN: I think you said just a moment ago that you did not charge anything.

Mr. ARMSTRONG: No. I said we make a special analysis from time to time—possibly once every two or three years—to see what the value of the express department is to the balance of the system.

Mr. HEAPS: Does the company fix its own express rates?

Mr. ARMSTRONG: How do you mean?

Mr. HEAPS: Well, does it fix its own charges or is that done by the railway commission?

Mr. ARMSTRONG: By the railway commission.

Mr. YOUNG: They are approved by the railway commission.

Mr. ARMSTRONG: The company proposes the rate and the board approves the rate.

Mr. YOUNG: Do you set them in conjunction with the other railway companies?

Mr. ARMSTRONG: Yes. The rates are standard rates.

Mr. YOUNG: Uniform rates?

Mr. ARMSTRONG: Yes.

Mr. VIEN: Through the Canadian Express Association?

Mr. ARMSTRONG: Yes.

Mr. VIEN: To which you belong?

Mr. ARMSTRONG: Yes.

Mr. VIEN: And it works with the railway board in connection with the tariff?

Mr. ARMSTRONG: Yes.

Mr. VIEN: The express tariff?

Mr. ARMSTRONG: Yes.

Mr. VIEN: If I recall correctly, when express rates are under review there is a certain charge made for the use of the cars; there is an arbitrary apportionment of overhead and fixed charges as well as a direct charge as part of the expenses, of the out-of-pocket expenses; there is a certain charge—I forget if it is on a car mileage basis or a tonnage basis; but I thought that there was a certain apportionment of expenses to take care of the cost of the cars.

Mr. ARMSTRONG: Perhaps this will clear it up. In the accounts as they are set up, they merely represent—the accounts we are speaking about here now in the annual report—the revenues of the express department and the direct expenses of the express department. They do not include as express expenses

the cost of hauling and maintenance of rolling stock. We also set up a figure—from time to time we analyse the express department figures to see its value to the rest of the system and we add the out-of-pocket cost for this—for the haul of the cars and for the repair of the cars.

Mr. VIEN: And for the investment—to take care of the investment and sinking fund on your rolling stock?

Mr. ARMSTRONG: If there is sufficient available, yes. I mean, that is added in to see what the final picture is. The express department, as a department, adds to the system net on an out-of-pocket basis; in other words, it is of value, of substantial value, to the rest of the system.

Mr. VIEN: Yes. But you have express cars. You have a certain number of express cars. They cost your system a certain amount of money and they depreciate by usage. Then you have your cash investment in your equipment, your maintenance cost and your sinking fund to take care of the retirement of this equipment in a certain number of years. All that is really expense incurred with respect to the express services.

Mr. ARMSTRONG: Quite so.

Mr. VIEN: Therefore, to make up a true picture of whether your express services are a paying or a losing proposition, you should take into account, in my humble opinion, not only the out-of-pocket expenses to carry the express matters on your equipment but also a certain amount to take care of the investment in the equipment and the maintenance of the equipment and the retirement of the equipment.

Mr. ARMSTRONG: That is, sir, out-of-pocket cost in this particular case.

Mr. VIEN: Yes.

Mr. ARMSTRONG: That is, interest becomes out-of-pocket cost; otherwise you could get rid of this equipment if you did not operate express. When I say out-of-pocket cost, it would include both interest and depreciation—it is an economic study of the whole matter.

Mr. VIEN: Yes, but these are the figures that we would like to arrive at—at least I would like to arrive at, if it is not too much trouble.

Mr. ARMSTRONG: I have not a copy of the last one that was made, but we could get a copy of it.

Mr. VIEN: Do you get that from year to year?

Mr. ARMSTRONG: I would not say it is done every year, but it is done quite frequently; I would say at least every two years.

Mr. VIEN: For instance, can you tell us from the information in your possession whether your express services are a paying proposition or a losing proposition, taking into account not only the out-of-pocket expenses following the movement of the goods but as well the other items that I have mentioned?

Mr. ARMSTRONG: We will furnish you with a statement. I would say that on the out-of-pocket basis that I have described, the express is a paying proposition.

Mr. VIEN: Even taking into account the overhead and fixed charges?

Mr. ARMSTRONG: When you say fixed charges, of course it would include merely fixed charges on your equipment?

Mr. VIEN: Yes.

Mr. ARMSTRONG: My recollection is that there is sufficient to pay that. I would like to check that. That is merely the equipment.

Mr. VIEN: Yes, and haulage?

Mr. ARMSTRONG: Yes; haulage of equipment.

Mr. VIEN: And you will furnish those figures?

Mr. ARMSTRONG: Yes.

Mr. VIEN: The same with respect to mail. For instance, is the mail service a paying service?

Mr. ARMSTRONG: Well, again, speaking on an out-of-pocket basis, we get a revenue from mail of something in the neighbourhood of \$2,800,000 a year.

Mr. BOTHWELL: Three and a half million.

Mr. VIEN: You had \$3,504,000 in 1937.

Mr. ARMSTRONG: In Canada and the United States together, three and a half million.

Mr. VIEN: And \$3,355,000 in 1936. It would be interesting to know how much this service has cost you. I am going to tell you why I am asking this, and I am glad the honourable the minister is here; because I would suggest that it would be totally unfair to the Canadian National Railway System to carry the mail of His Majesty at an expense to the system; and my honourable friend the minister might well ask the honourable the Postmaster General to be a little more generous towards the system and the other railways as well.

Hon. Mr. HOWE: I find they are very penurious over in that department.

Mr. VIEN: I know the ingenuity of the honourable the minister, and I think he is such a driving force that he can overcome that difficulty.

The CHAIRMAN: He can strike a good bargain.

Mr. VIEN: I would suggest it would be unfair to the Canadian railways—not only the Canadian National System but the Canadian Pacific as well—that they should be called upon to carry His Majesty's mail throughout this country at an expense to their system. They should receive adequate compensation and this adequate expense should include not only the out-of-pocket expenses incurred in a movement of the mails, but as well a certain compensation for the equipment and the retirement of the equipment. It would be helpful to us in that direction to have the figures as to how much that service does cost the system; and that should include not only the out-of-pocket expenses explained but as well a certain compensation for the cash investment in the rolling stock, the haulage and a certain amount for the amortization or the retirement of the equipment in due course. Now, on this, Mr. Chairman, it might be appropriate to ask the officers of the Canadian National Railway System if in the express services there could not be a greater pooling of the efforts of the two systems. For instance, you have express agencies in all the large cities, towns and localities in Canada. There are agents there to try to sell the services of both systems to the public. If there were only one express system in Canada, matters to be shipped to destinations on the Canadian National would be routed via C.N.R.; matters destined or originating on the C.P.R. system would be routed via C.P.R.; but there would be only one management and there would be only one express agency in the various cities and towns.

Mr. YOUNG: May I ask a question just there. Suppose that took place between Ottawa and Montreal; it would be routed as you say on the C.P.R. where the C.P.R. goes and C.N. where the C.N. goes. Which line would it be routed on between here and Montreal?

Mr. VIEN: There would be an apportionment between the two systems of the gross earnings or of the net earnings of the material. Take for instance, between Montreal and Toronto, Montreal and Ottawa, or points served by the two railway systems.

Mr. HEAPS: Suppose they went direct from here to Montreal?

Mr. VIEN: Yes. Why should there be an express agency to take materials from Ottawa to Montreal via C.P. and via C.N.?

Mr. YOUNG: Would the same thing not apply to freight?

Mr. VIEN: Largely, yes.

Mr. YOUNG: If so, what would you have then?

Mr. VIEN: What would you have then?

Mr. YOUNG: Yes.

Mr. VIEN: A considerable saving of expenses.

Mr. YOUNG: Apart from that, what would you have?

Mr. VIEN: What would you have then?

Mr. YOUNG: Yes.

Mr. VIEN: You would have considerable saving.

Mr. YOUNG: You would have what some people call unification, would you not?

Mr. VIEN: I am not particularly concerned about the term "unification," I am simply concerned about suggesting. I am not presently urging unification.

Mr. HEAPS: Is it not unification that you are suggesting?

Mr. VIEN: No; pooling.

Mr. HEAPS: What is the difference?

Mr. VIEN: There is a difference.

Mr. HEAPS: No, you are just splitting hairs.

Mr. VIEN: Oh, no. My honourable friend is certainly mistaken. There is a vast difference between unification of the systems, as has been advocated in certain quarters; and I am not so far from saying that there is some merit in some of the ideas that have been propounded. I am not committing myself to a policy now. But there is some merit in some of the speeches that I have read, and I think there is no question but that there is an enormous amount of merit in the idea of pooling services when such pooling is practicable.

Mr. MCKINNON: Is that not being done right now?

Mr. VIEN: To a certain extent. My question now is directed to the management. I am not suggesting that there is something sinister being done or that there is any fault or any negligence, I am not suggesting that at all. There may be a very reasonable reply to my question. But my question, and I put it with an open mind, and I am not suggesting that the answer should be in the affirmative though I am putting it forward with all candour, is as follows: Would it be advantageous to this country to have only one railway express agency, and that all should be pooled from Halifax to Vancouver under a certain system that could be devised whereby the net profits, the net earnings, could be divided between the two services? What I have said of the express service I am asking with respect to the commercial telegraph activities of both railway systems. That is my question, and I ask it not with a view to urging the officials to answer in either way. I am simply seeking information.

Mr. HEAPS: Is that not asking a great deal on such sudden notice, for the management of the railway to answer? I have no objection, of course, to the question being answered, but I think in fairness to the management, when you ask them to give you a report on the question of pooling the services on certain portions of the railway, that is, the express service and the telegraph service, you should not expect an immediate answer.

Mr. VIEN: I am not suggesting that they should give an immediate answer.

Mr. HEAPS: What I am suggesting is that you should give some opportunity to them to answer your question.

Mr. VIEN: The management is perfectly at liberty to take a week, two weeks or a month; I am not asking for an answer right off the bat. But this is a question which suggests itself to me as a member of parliament. There is no

doubt but that we should all be very much concerned about the net operating results of the government owned railway system. We are called upon to write off large capital outlays of money. We are called upon every year to pay a certain operating deficit; if not operating, a certain net deficit. I have the greatest admiration for the management of the Canadian National Railways. I think that we have put at the head of the Canadian National Railways the best men, the most efficient men that were available in Canada. I take much pleasure in supporting the views that Mr. Walsh so ably expressed this morning with respect to Mr. Cooper, but the same could be said with the same degree of accuracy of Mr. Hungerford and all the eminent gentlemen who are with him at the head of the Canadian National system. I am not laying at their doorstep the deficit of \$42,000,000 that we have to face in parliament.

But what is the purpose of this committee if we are not going to study together the problems that confront the country and parliament as a whole? It has been referred to this committee for the purpose of studying the various questions, and among them is the one I have just put forward.

Without limiting the freedom of action of the Canadian National system, is there not a possibility of augmenting the net revenue from the railways by pooling certain services which are not necessary to the carrying on of their railway operations and to save duplication of services and a great deal of money?

The CHAIRMAN: You have asked three different questions. First of all, the management has undertaken to give you a report on the express situation. Secondly, as far as the mail service is concerned, as this involves two departments, the railways and the post office department, I think it had better be left in abeyance. As far as the third question is concerned, I suppose you will give some time to the management to think the matter over?

Mr. VIEN: Yes.

Mr. YOUNG: Mr. Chairman, with regard to the third question, it strikes me that we are a little outside of our reference.

The CHAIRMAN: I think we are.

Mr. YOUNG: We are not here to discuss the question of what the policy of this country should be with regard to unification, amalgamation or transportation generally. I take it that that is not the function of this committee. Every question that Mr. Vien has asked, in the third section of his address, would I think refer only to those things which I have mentioned. His question will be to the management of the road to express their views on those matters. We are investigating the operation and management of The Canadian National Railways, not as between two roads or how they would be affected. And I cannot help but feel that we are just a bit wide of the mark when going into that much wider question.

The CHAIRMAN: I would like you to remember that Mr. Vien did not press for an answer.

Mr. YOUNG: Oh, yes; my friend alongside of me said, "I am not suggesting that the management should not answer." It went that far. I am suggesting that it might be improper for the management to answer. I am going that far, myself, because the management of this road is not called upon to form the policy of this country up to the present moment.

The CHAIRMAN: In answer to Mr. Vien, the management may come before us to-morrow and, after due consideration, tell us that they do not consider it is in the interests of the public that this should be discussed here.

Mr. YOUNG: I do not think it is up to the management to say anything of the kind, if I may so suggest; because it is up to us to see that we conduct our affairs here properly in accordance with our reference. We have a reference, and I for one am not going to be a party to asking this management what

they think about amalgamation or unification, and I think the sooner we express that view and the more clearly we express it, the better for all concerned. Mr. Vien might not have had this in mind, perhaps not; anyhow, that is the way it strikes me, and as one member of the committee I want to express the view that I do not think it is a proper question to discuss, the implied question of what this country would save or would not save had we unification, or whether or not that policy should be brought into operation. I do not think that is for this management to say.

In connection with through mail service from Montreal to Vancouver, do you carry all the through mail on that route?

Mr. ARMSTRONG: No.

Mr. YOUNG: Do you carry all the through mail from Toronto to Vancouver?

Mr. ARMSTRONG: No.

Mr. YOUNG: What proportion of the through mail do you carry from each of those points?

Mr. ARMSTRONG: We would not know it by routes. We certainly carry the smaller proportion of those particular services.

Mr. HOWDEN: Do you carry any except to those post offices which your railway serves?

Mr. ARMSTRONG: I do not think that we carry any through mail. It is principally local mail that we carry.

Mr. VIEN: How are these through mails divided between the two services?

Mr. ARMSTRONG: Shall I give you the revenues for the year 1937? In Canada the Canadian National in 1937 obtained \$2,951,514; The Canadian Pacific obtained \$3,596,176. That is for the year 1937.

Mr. VIEN: My question was this: On what basis are the mails divided between the two systems?

Mr. ARMSTRONG: That is done by the post office department.

Mr. VIEN: Yes, but that does not answer my question fully. Is there any basis on which the mail matters are divided between the two systems?

Mr. HEAPS: I suppose that is a matter for the post office to determine.

Mr. VIEN: If the officers cannot answer, they will say so.

Mr. ARMSTRONG: The answer I gave was, that it was divided or arranged by the post office department.

Mr. VIEN: But do you know on what basis the post office department proceeds to distribute mail matters between the two systems?

Mr. HUNGERFORD: No, we do not know that.

Hon. Mr. STEWART: In some areas one railway will have better facilities for carrying the mail, and in another area the other railway will have better facilities. And, of course, we know that the post office endeavours to make the mail service as rapid and efficient as possible. That must surely be an element. And then I have always understood—the figures, I think, have been given in parliament at different times—that as far as possible there is an effort, apart from that area in which they can give special service, to divide it about equally.

Mr. YOUNG: Did I understand one of the officers of the company to say that in respect to through mail from Montreal and Toronto, the two points I mentioned specifically, they did not carry any of that mail?

Mr. ARMSTRONG: No, sir.

Mr. HUNGERFORD: Not Montreal to Toronto.

Mr. YOUNG: No, Montreal and Toronto to Vancouver.

Mr. MCKINNON: You do not carry any of that mail?

Mr. ARMSTRONG: So far as I know, there is no through mail carried.

Mr. YOUNG: Would the service on the Canadian National Railways from Montreal to Vancouver and from Toronto to Vancouver be less advantageous from the point of view of carrying mails than if they were carried on the other road?

Mr. HUNGERFORD: The Canadian Pacific runs two trains a day. We run one for the most of the territory. They serve certain communities and we serve other communities, and it is a matter of judgment by the post office department as to how the mail shall be divided. In general I think it is probably fair to say that the Canadian National—I am speaking wholly from memory now—carries far more mail from Halifax through to the Detroit River en route to Chicago than does the Canadian Pacific in that corresponding territory. I think it is also equally true to say that the Canadian Pacific has the larger share of the transcontinental traffic. But, after all, it is a matter for the post office department to decide. They have it in their power, and they decide how the mail is going to go.

Mr. WALSH: Following up that item, the Canadian National is an up-to-date business organization and in competition with another up to the minute business organization, and they have these figures before them—three million against two million. Now, have their board of directors ever canvassed that situation and reached the conclusion that they were not getting a fair proportion of the business, and have they made representations accordingly, like two business firms? If I were in business and General Fiset was in business and he was getting three million and I two million from the same source, well, I would be on my toes raising a holler for more business, especially in view of the fact that my deficit that I was creating was being paid for by the party that was distributing that business. I should like to make the suggestion that the Canadian National Railways, through their board of directors, should take steps to see that they get a more adequate share of the business, particularly in view of the fact that the Canadian National Railways have 119,000 employees against 68,000 of the C.P.R., or how does it go?

Mr. HEAPS: It is slightly high.

Mr. WALSH: The Canadian National has more mileage of railways than the Canadian Pacific. Is not that right?

Mr. ARMSTRONG: The Canadian National has 79,000 employees.

Mr. WALSH: And the Canadian Pacific 68,000.

Mr. ARMSTRONG: The Canadian National includes telegraphs and express; I understand the Canadian Pacific does not.

Mr. WALSH: That was the point I was bringing out. It seems to me the Canadian National Railways are not getting a fair share of the business from the government. I think steps ought to be taken.

Mr. HUNGERFORD: What would you suggest that we do?

Mr. WALSH: I would suggest that the president of the railway interview the post office department and see to what extent you are being let down, the same as I would do if it was my own business, and the same as you would do if it was your own business and you were losing \$42,000,000 a year. If that were happening you would go to your source of revenue to see if you could get an increase in revenue. That is what I would suggest doing. If the shoe were on the other foot and the Canadian Pacific were getting \$2,000,000 and you were getting \$3,000,000, I have no doubt in my mind that they would have someone interviewing someone in the post office department and the government to see what they could do about increasing their proportion and getting their share.

Now, may I leave that matter and take up the suggestion made by Dr. Young. Dr. Young suggested that it was not within the purview of this committee to discuss what Colonel Vien has suggested in connection with closer and more effective co-operation. Now, I should like to draw Dr. Young's attention to a part of the report of the Canadian National Railways which deals with co-operation and deals with competition. If we cannot discuss what Colonel Vien has brought before this committee I do not see to what extent the word "co-operation" has any significance in the report of the Canadian National Railways. I feel Colonel Vien has brought a very important matter before this committee and that it is within our purview to discuss that and to do something more effective than actually discussing it. We have to realize that we are trustees for the people of Canada, and we are costing the people of Canada at least \$42,000,000 to \$43,000,000 on this year's operations of the Canadian National Railways. Surely, we can discuss ways and means of making that less burdensome to the people of Canada without in any way inflicting a hardship on any person living in the Dominion of Canada.

I should not like to urge Colonel Vien's scheme or suggestions if it was going to cost any man in connection with the express service, either of the Canadian Pacific or the Canadian National Railways, one hour's time or one day's work, or one man's job.

Mr. HEAPS: How are you going to prevent it?

Mr. WALSH: It can be done.

Mr. HEAPS: How?

Mr. WALSH: By the natural shrinkage and superannuation and things of that nature. It seems to me that there are certain members of parliament who want to see continually this deficit of \$42,000,000 to \$43,000,000 a year. It seems to me that is the whole object. How can it be done? Well, let us try to find ways and means of doing it without asking a man to give up his job. The natural shrinkage in the express department personnel is about 5 to 6 per cent a year, and there are other means of providing shrinkages without asking a man to leave the service. Surely there must be ways and means. If it were our private business and we were in the condition, we would find ways and means and we would not be heartless in doing it. That is the point. I should like to give Colonel Vien every possible support I can in this matter. That is my sole object in coming before this committee and in studying these reports as I do from year to year. My whole object is to work in harmony with the management to bring about a condition so that the Canadian National Railways will be a paying proposition to the people of Canada as was promised in the first report that was brought into being in 1922. It was suggested at that time that it would be possible to make this railway a paying proposition. Now, I still believe that it might be possible; I still believe that, and I believe that Colonel Vien has made a suggestion which will make it possible, without in any way identifying ourselves with unification. I know that unification sounds like amalgamation to a lot of people; but it does not mean the same thing. I do not think any one is willing at the present time, especially those who sit on this committee, and I include myself, to suggest that they are favourable to unification. We have not got unification in mind. Here are two departments, the department of express and telegraph lines where co-operation could be brought about to the advantage of both railways which would mean a saving of money to the Canadian Pacific and a saving of money to the Canadian National, and without costing one man one hour of time on either railway. It may take more than a year or two years, or three years to bring that about, but we can start with that objective, and over a period of time with the natural shrinkage and other shrinkages that take place in the personnel from year to

year you would find that the slack would be fully taken up and in five years time we would have good evidence of what could be accomplished in the field of closer co-operation.

Hon. Mr. HOWE: Mr. Chairman, I may point out that it takes two railways to work out a co-operation plan. At the present time the Senate has arranged a full dress investigation into both co-operation and unification. Mr. Hungerford will be appearing there in a week or two to answer such questions as the Senate may ask him on this very subject. He will be confronted there by Sir Edward Beatty of the Canadian Pacific Railway, and both parties will be able to discuss the subject. In this committee we could have Mr. Hungerford's view, if you like. The position then would be that Mr. Hungerford's views would be made public before he gives evidence in another committee, and I think it would be prejudicial to the interests of the railway to have that happen. May I point out also that this subject was brought up in parliament some three or four years ago. A Bill was introduced to go much farther than is proposed to-day. The Bill called for a physical amalgamation of the express companies and a physical amalgamation of the telegraph companies. I need not remind this committee what happened. Many of you were in parliament at that time. We all know the bills were withdrawn for very excellent reasons which appealed to the government of the day. I agree with Dr. Young. I believe it is outside the scope of this committee to discuss matters that necessarily apply to both roads, especially at a time when we have both railways appearing in another part of this parliament to discuss that very thing. I believe in a way the matter is sub judice and my suggestion is we do not press the management to answer questions which they will certainly be asked to answer in another inquiry in the course of a week or two, because I know that it would be embarrassing them, and after all it is a matter of government policy that is involved in the questions asked.

Mr. HEAPS: Mr. Chairman, I should like to say a word. When members of this committee get up and say other members are anxious to see deficits of \$42,000,000 on the railways each year, I think it behooves others who are inferred by the statement to be in favour of that to get up and say a word or two. I suggested this afternoon a method of saving approximately \$12,000,000 a year. I have not heard Mr. Walsh half so vociferous in trying to make a saving on interest and in other directions.

Mr. WALSH: I have it booked down here. I am going to support it when we come to that item.

Mr. HEAPS: So far we have not heard one word from Mr. Walsh in that direction. I want to say a word or two about the saving that would take place if amalgamation were brought about. Mr. Walsh said that nobody would be hurt.

Mr. WALSH: I did not suggest amalgamation.

Mr. HEAPS: Call it by any other name you like. An onion by any other name has the same smell and taste. The same thing applies to a pooling arrangement. A pooling arrangement or a co-operation arrangement is the same thing. It is a form of amalgamation. When we pooled the services between Toronto, Montreal and Ottawa it was not called amalgamation, it was called pooling. Do not let us fool the people by calling something pooling when it is really a form of amalgamation. I say this, when we are told that we can co-ordinate the two services into one service without any individual being hurt, I say it cannot be done. It is just like Mr. Walsh trying to teach his children that two and two are six. That cannot be done. Two and two are four. If you co-operate the two services men are going to be laid off.

Mr. WALSH: No.

Mr. HEAPS: Then if nobody is going to be laid off where is the saving going to come?

Mr. WALSH: They did it in England and no one was laid off.

Mr. HEAPS: You co-operate or you pool the services and a number of men are superannuated; they go on the superannuation fund. Perhaps men die. What is going to happen to the young men that come out of Mr. Walsh's school 18 or 19 years of age, looking for work?

Mr. WALSH: They will find it.

Mr. HEAPS: A lot of them are looking for work to-day. When you co-operate the two services of the country, I do not care what direction it is in, the fact is there will be so many less positions available for people who want work. If we do that we will be in exactly the same position in regard to the pooling arrangements from Montreal to Toronto and Montreal to Ottawa. When these services were pooled, what became of these men who went off the service in the area?

Mr. YOUNG: I am going to raise a point of order. I am going to take the same exception to what Mr. Heaps is saying, because he is discussing the same question. I think it is entirely outside the reference. I want to point out that I am going to raise the same point of order in regard to Mr. Walsh.

Mr. WALSH: Is that a point of order?

Mr. YOUNG: The same point of order.

Mr. WALSH: I am not speaking. I have not got the floor. You cannot raise a point of order on me; I have not got the floor. Mr. Heaps has the floor.

Mr. YOUNG: I must admit the hon. gentleman is sitting down at the moment. I was just going to say this; while there is here in this report something about co-operation, it is merely a report from the management of the Canadian National Railways to this committee on what has taken place in regard to the policy laid down by the parliament of Canada; that is all it is. They are not saying whether it is right or wrong. They are merely explaining to this committee just what improvements have taken place. Again I am going to say I do not think we should allow ourselves to get into the position of discussing the wider question. As the Minister has pointed out it will be discussed in another place altogether.

Mr. VIEN: There is a point of order before the chairman and it appears to have arisen from some of my remarks, which I think have been misconstrued, and I want to correct them. I do not know whether that is due to my lack of command of the English language or lack of ability to express my own thoughts. I think that the procedure that has been suggested by the honourable the minister is extremely wise. I agree with that policy and I am perfectly satisfied as to the procedure that he has outlined; but I want to point out that I was not advocating any policy, I was asking a question from the manager of the Canadian National Railways, and I believe that the question which I am asking is within the scope of our reference. It is, the amount of express matter—\$8,915,000. The management advises us that in accounting the expense with respect to rolling stock and the volume of that rolling stock, the expenses were \$4,893,000, in the year 1937. My question to the management was this, is there any possibility of reducing this expense; and I think that question is certainly within the scope of the reference; and my friend Dr. Young has put in my mouth words that I did not use. I have not suggested any policy, I have been asking a question from the management; and that is that. As regards the procedure suggested by the honourable the minister I think it is very expedient that it should be adhered to and followed and I am perfectly satisfied with it.

The CHAIRMAN: The only question before the committee is this, that the management will furnish Mr. Vien with a report which he has asked for in so far as express is concerned—

Mr. VIEN: And the amount of the mail—

The CHAIRMAN: No, mail concerns two departments and it is agreed to let that drop. As far as the third question is concerned of pooling services—not amalgamation—of pooling services—which was meant by Mr. Vien—that I think is a fair question for us to discuss here. But we went far afield, as you have noticed, and I do not think we have any business to discuss here amalgamation or anything of that kind.

Mr. HEAPS: If you are going to discuss pooling will you tell me how far pooling is removed from amalgamation?

Mr. WALSH: As far as day is from night.

Mr. HEAPS: Never mind, Mr. Walsh, I am asking the Chairman.

The CHAIRMAN: I mentioned pooling. I think there is a vast difference.

Mr. VIEN: Not only that, but there is a statute on our statute books which compels the two railways to pool as much as possible. It is a statute of this parliament and I am entitled in this committee to ask from the management an explanation as to how far pooling has been carried out and to what extent, and to what further extent it can be carried out; and I think the management understands the scope of my question; and I am not urging any policy, I am asking a question. Now, there is one further point on which I would be glad to have some information, and that is the first question which I asked of Mr. Cooper; I asked whether it would be possible to break down the figures in respect to expenses in the same way as they are broken down with respect to revenue.

The CHAIRMAN: And the answer that he gave was that it involved a great deal of work and research, and if you insist on it they are prepared to do it.

Mr. VIEN: I did not get the answer, is there any great difficulty, Mr. Cooper?

Mr. HUNGERFORD: I think we will be able to give you a statement that will answer your purposes.

Mr. MCKINNON: In view of the fact that co-operation of services is provided for in the statute I presume that the Canadian National Railway has done the best it could to co-operate with the other railways to see that it was carried out to as large an extent as possible.

Mr. HUNGERFORD: We have done a lot in that direction.

Mr. MCKINNON: Following up that question, there has been a good deal done by way of co-operation of services on some of the runs—

Mr. HUNGERFORD: That would apply to the passenger services.

Mr. MCKINNON: And where that was applied naturally there would be a number of employees displaced, wouldn't there?

Mr. HUNGERFORD: Yes.

Mr. MCKINNON: How many employees have been displaced since you adopted that policy?

Mr. HUNGERFORD: I do not know that I could tell you off-hand.

Mr. ARMSTRONG: The figure is somewhere between 135 and 165.

Mr. MCKINNON: They would be employees of the Canadian National?

Mr. ARMSTRONG: No, of both services. It is not divided as between Canadian National and Canadian Pacific.

Mr. MCKINNON: There has been no provision made to compensate these people in any way, shape or form for being turned out of the service?

Mr. ARMSTRONG: The people who have been dismissed? No.

Mr. HUNGERFORD: I think a little explanation is necessary there in order for you to grasp the significance of the situation. In connection with the pooling that has been done in relation to passenger service, the passenger service is

always manned by the senior men. They select the passenger service, and they have the right to do so by virtue of their seniority in the service. When they are displaced through a pooling arrangement such as has taken place, they exercise their seniority rights and take the next best job; and, of course, that goes on till a junior man is pushed out at the bottom of the list. For that reason it is pretty hard to identify the individuals affected.

Hon. Mr. STEWART: Would it be correct to assume that some of these 135 who were forced out and compelled to take inferior positions have through the course of time and promotions in the ordinary course got back to the same standing, some of them, as they had before they were forced out?

Mr. HUNGERFORD: I think it is very doubtful. A certain number of men have been dropped, but it is smaller than has been mentioned here to-day.

Mr. HEAPS: However that may be the fact remains that 135 men were pushed out of the service as the result of this pooling arrangement. That means, does it not, that there are 135 jobs less to-day than there were at the time when the pooling arrangement went into effect?

Mr. HUNGERFORD: I suppose that is substantially the case. Of course, it is affected by the total amount of traffic, whether the volume of traffic goes up or comes down.

Mr. HEAPS: But the fact is that as the result of the arrangement you had 135 people laid off, and that means that there are 135 less positions than there would have been had there been no arrangement.

Mr. HUNGERFORD: That is it.

The CHAIRMAN: Are there any further questions? If not, we will proceed to maintenance of way and structures expenses. Are there any questions? Or, do you want me to read the details?

Hon. Mr. STEWART: Was there any contribution by the unemployment relief appropriations involved in that expenditure?

Mr. HUNGERFORD: Not that I know of.

Mr. ARMSTRONG: Not this year.

The CHAIRMAN: Then, maintenance of equipment expenses? Shall the item carry? Carried.

Traffic expenses, page 16. Carried.

Transportation expenses.

Mr. HEAPS: There is one point I thought I might raise at this juncture which occurred to me. The railways have been running excursions at very low rates for some time now. I think they were inaugurated a number of years ago more or less as an experiment and evidently the experiment has been fairly successful, because the railways are continuing these low rates at fairly frequent intervals. I notice that recently there has been a tendency on the part of the railways to increase these low fares compared to what they were a few years ago. Could we have an explanation as to why these low rates have been increased by 25 per cent? Was it because the cost of carrying the traffic was too heavy, or was it because they thought they were popular and the traffic could stand the raise in rates; or, was it because the rates were too low in the first place?

Mr. HUNGERFORD: It was simply the decision of the management largely based upon the fact that expenditures were going up, wages had gone up, the cost of materials had increased, and we thought that this class of traffic would stand that very small increase.

Mr. HEAPS: Has it been profitable during the years these excursions have been in operation?

Mr. HUNGERFORD: On the whole I think so. Yes. We find that we cannot run these excursions too frequently and get sufficient patronage to make them pay, but experience has shown that we can run them at certain intervals.

Mr. HEAPS: May I ask a question arising out of that question? On the longer runs, say such as that between Ottawa and Toronto, you have a low rate; would it not be possible for the railways to provide say sleeping car accommodation on those runs so as to give people who want to use them still more comfort?

Mr. HUNGERFORD: There is provision for that, but the base rate is a little bit higher if they want to use the sleeping car.

Mr. HEAPS: Do you mean to say that if a person wanted to take an excursion between Ottawa and Toronto that he would be allowed to buy sleeping car accommodation on those tickets?

Mr. HUNGERFORD: Yes, but instead of paying a cent a mile—or, it is a little more than a cent now—under those conditions he would be charged a cent and a half a mile in standard sleepers.

Mr. HEAPS: That makes a big increase in the cost of transportation. I am just wondering if perhaps in that way the railways might not be able to use a lot of the equipment which is now probably lying idle, and by using that provide sleeping car accommodation for those who wanted it on these longer journeys.

Mr. HUNGERFORD: We haven't very much sleeping car equipment idle.

Mr. HEAPS: How about the tourist cars, you still have them?

Mr. HUNGERFORD: Yes, they are mostly on regular runs.

Mr. VIEN: Can we go back to maintenance of way and structures expenses—have we passed that?

The CHAIRMAN: We are now on transportation expenses.

Mr. VIEN: I suppose you won't object—

The CHAIRMAN: No, no, go ahead.

Mr. VIEN: What I had in mind to suggest in respect to maintenance of way and structures was whether or not that would be the appropriate item on which to ask the management what they intend doing with the Montreal terminal. In 1929 an Act of parliament was passed authorizing the Canadian National Railways—the Minister of Finance was authorized to guarantee a bond issue by the Canadian National Railways up to an amount of \$50,000,000. May I say that I do not intend to be as patient about waiting for a reply to this question as I have been with respect to the other questions which I have put; for I think this an appropriate place at which to urge that a city of the size of Montreal which is the headquarters of the Canadian National Railways, and the Canadian National Railways themselves are the largest railway system in Canada and at its headquarters it should have better accommodation than the accommodation that they have at the present time for passengers. I do not believe that anybody would contend Bonaventure station is an adequate facility for the passenger service of the Canadian National Railways at Montreal. Furthermore, I believe that everybody will bear with me if I suggest that no city of much smaller size than Montreal would tolerate conditions such as have been created in the very centre of the city by the digging of a hole which has been left unfilled for the last ten years. We have spent I understand \$16,000,000 to \$17,000,000 to acquire the land and excavate, to build a bridge over Dorchester street and to prepare the railway facilities from the Victoria bridge to the tunnel terminal. I would ask if we can look forward to some favourable answer in the near future? My reason for asking that is because I believe that the patience of the citizens of Montreal—and 29,000 of them are resident in my riding—is about at its limit, and I would urge that

immediate attention be given to this very important question. It is important not only from the standpoint of the city of Montreal, of which I am a citizen, but also for the Canadian National Railway system and as well for the public of Canada at large.

Mr. WALSH: Mr. Chairman, that is a very wide question and there are others interested. Probably we had better defer discussion and duly advise members of parliament such as the member for St. Henri, the Honourable Mr. Rinfret and Mr. Cardin—who vigorously discussed this question during the recent by-election—and invite their presence so that they can take part in the discussion and give us the benefit of their views as to how this might be done.

Mr. HEAPS: I have always been in favour of having the Montreal terminal completed. I think members of the committee will recall that I asked a good many questions as to how much it would cost to complete this terminal. We were told last year I think that it would probably cost between \$5,000,000 and \$6,000,000. I do not know whether there has been any change in the government policy in regard to that. What I can't understand is that for a number of years we have stood still, and the government has always opposed the completion of this terminal there.

Mr. VIEN: I do not believe that my friend is accurate, except under the old regime. I speak of the municipal regime.

Mr. HEAPS: I am speaking of the municipal regime.

Mr. VIEN: Under the regime of Mr. Camilien Houde I know that the municipal authorities for reasons unknown to me objected to the scheme. They wanted a different scheme to be adopted. I am not taking exception to the views that they then expressed; but after a very long dickering, from 1926 or 1927 for two or three years, the municipal authorities, the Harbour Board, the Board of Trade and other interested parties raised considerable objections to the scheme urged that there should be a terminal station at the tunnel. As a matter of fact, other people suggested that we should use the Windsor station for west and southbound trains and the Place Viger for east and northbound trains. But after due consideration the Minister of Railways of the time, the Hon. Mr. Dunning, with the approval of the Board of Management of the Canadian National Railways, brought down in parliament a scheme which provided for the construction of a terminal station at the tunnel, and parliament enabled the Canadian National Railways to carry on. Therefore, the objections of the municipal council were brushed aside by parliament in 1929, when parliament enacted the Canadian National Railways Montreal Terminals Act. Up to there two or three years were lost due to the dickering between the interested parties. But since 1929 this has been brushed aside and an enabling Act is now on the statute books; and the Canadian National Railway Company can issue its bonds and the government is authorized to guarantee them to carry out the project. I realize that the initial project was extremely ambitious. It was to cost at least \$50,000,000 and probably \$70,000,000 or \$80,000,000. I understand that this project has now been revised and that it would cost from \$10,000,000 or \$12,000,000 to \$15,000,000 to provide the Canadian National Railway with adequate terminal facilities and the City of Montreal with a terminal that would be an honourable monument for the city and for the railway system. Therefore I, as a member for Montreal, strongly urge that something should be done to correct an intolerable situation.

Mr. HEAPS: Just one word there, not in answer to but to add to what Colonel Vien has said. I happened to be a member of the committee at the time,—as other members were,—when the matter went through this committee. The reason why the committee approved of the plan in spite of the opposition

of some of the members from the city of Montreal was the fact that we had as consulting engineer at that time probably one of the most eminent engineers in the whole world on the question of railway terminals.

Mr. VIEN: Mr. Palmer.

Mr. HEAPS: Yes. I think we all felt that in a matter of this kind we should be guided not by what probably some aldermen of Montreal thought was desirable for his own particular ward interests, but by what an eminent engineer of world repute suggested. We thought we could be safely guided by him. I was guided by the plans and details which the engineer submitted to this committee. Of course, when 1931 came around and we had a change of government and a slump, of course the thing was stopped.

Hon. Mr. STEWART: The slump came first.

Mr. HEAPS: The slump came afterwards. The slump came first, yes. However, Mr. Chairman, the work was stopped and I was sorry to see it stopped. I would be quite in favour of the government undertaking work of that character as an unemployment project. I believe that money is going to be spent for public works, and I do not think they could do anything better than to undertake work of this character which would provide a useful kind of employment at least for mechanics and artisans in the Montreal area. Personally, after having heard this afternoon all this talk of how to save money, it comes almost as a shock to me to find those who have been advocating the saving of money for the Canadian National Railways now getting up at the end of the afternoon session and saying we should spend about \$15,000,000.

Mr. VIEN: It is a capital expenditure that will produce revenue.

Mr. HEAPS: Of course, I doubt very much if the expenditure of even the \$6,000,000 for which it was stated we could probably finish the terminal for and put it into reasonable shape for a number of years—I doubt whether that amount of money will, for the time being, unless there is an improvement in the economic conditions in the country, be reimbursed. But I do feel that the present C.N.R. terminals in Montreal are at least a disgrace not merely to Montreal but even to Rivière-du-Loup. If this had been in Rivière-du-Loup we might have heard a little more about it than we have under the present circumstances. But if the government will undertake a project of that character, particularly some plan of providing employment, and look upon it as an unemployment measure, I think it will have the support of every member of the house.

Mr. YOUNG: I am glad to support the suggestion made by Mr. Vien. I visit Montreal frequently, and I think everyone would agree that the facilities there are entirely inadequate. I feel this, Mr. Chairman, that in times such as we have now the government and the railways should spend whatever will be necessary to construct useful work; and surely the building of a terminal in Montreal and other points that I might mention would come under that category. I remember very well being a member of the Railway Committee, and in this very room, where this whole set-up was placed before us. The engineers were here for a week explaining the details of that plan; and after it was explained and those who opposed it were here, it was decided to go ahead with it; and for some reason or another, it was stopped at one point. Surely in times of depression such as we have now, there is a useful and necessary work which could be gone ahead with, and which, I believe, would be a paying investment in the long run. When I think of all the men that we have who have been out of work for many, many long years, I do suggest to the management of the Canadian National Railways that this certainly would be an opportune time to construct that work—and at other points too, where similar conditions would warrant it.

The CHAIRMAN: Well, as you all know, gentlemen, I think the government is fully seized of the situation; and I think, if it is the concensus of opinion of this committee, we can make a recommendation to that effect in our report.

Mr. HEAPS: Perhaps the minister might be able to give us some information on that question too.

The CHAIRMAN: He does not dare.

Hon. Mr. STEWART: Send for the other ministers.

The CHAIRMAN: Are there any other questions?

Hon. Mr. HOWE: Mr. Chairman, I may say that this is an exceedingly difficult question. We started a very large project in the boom days. The pressure of the government on the management is all for cutting down. We have the expenditures that we have made in regard to the maintenance of way that we used as an unemployment relief project, and we applied it to the other railway as well; I think it was a very useful project. We have spent quite a capital sum in replacing rolling stock which was badly needed to handle the traffic that we had last year and which will be perhaps inadequate to handle the big wheat crop, if we happen to get it this year, due to the fact of these reduced rolling stock requirements we have to meet the demand. The directors have been exceedingly careful about spending money either on operating or on capital works. Now whether, as the type of project that we had on maintenance of way in 1935—the fall of 1935 and 1936—this plan or project can be worked out for this terminal is a matter that is engaging the attention of the government now. But I think that we can hardly pass a vote of censure on the directors of our railway for having deferred this project. Other projects have been deferred. Every one here knows of projects that have been deferred simply because the earning statement is so bad. If we could ever see a return—this is one project that was started and is an eye-sore to Montreal. It is required in Montreal for terminal purposes and it must be built some day. But I hope this committee will not press the government or the railway too hard as to just exactly when they might build this, because I assure you the government is just as anxious about the situation there as this railway is. If possible, we would build this year to remove that one serious source of complaint.

Hon. Mr. STEWART: Keep it until the next election.

Hon. Mr. HOWE: That is all right.

Mr. HOWDEN: I would like to suggest to the minister that the Canadian National Railways is under a continuous disadvantage in having a trans-continental terminal like the Bonaventure station in Montreal. It is a blackeye to the system, as compared with other terminals of big railway companies elsewhere. I think it gives the travelling public a very bad impression of the railway before they ever get on a train at all.

Mr. VIEN: I know, as a matter of fact, Mr. Chairman, that a great number of people told me that they did not like to leave or arrive by the Bonaventure station, and I am quite sure the management is aware of that.

Mr. HEAPS: May I ask the minister not that he answer now, but would he not see that the government take this into consideration more as an unemployment project or public works project?

Hon. Mr. HOWE: I will pass your suggestion on to them.

Mr. HEAPS: It has been done not in this country but in other places. We have had buildings erected in this country as public works projects for the purpose of providing work for the unemployed; bridges have been erected in cities; buildings have been put up. In Winnipeg we had a sewer scheme as a public works project to provide employment and whilst I can see it perhaps might not be the correct proceeding in some ways to do something for a railway which is a utility and supposed to be a public project, to put up to the railway a scheme to provide employment, I think under the circumstances, in the situation we are in, it would be entirely warranted for the government to undertake the completion of the terminal in Montreal as an unemployment project.

The CHAIRMAN: Are there any further questions on transportation expenses? If not, it is carried.

(Carried)

The CHAIRMAN: Miscellaneous operating expenses. You have already gone through that.

(Carried)

The CHAIRMAN: General expenses.

Mr. WALSH: What is referred to there as relief department expenses, \$27,000?

Mr. COOPER: It is a payment which the railway makes to the Grand Trunk Insurance and Provident Society of \$12,500 and \$15,000 to the Intercolonial Relief and Insurance Association.

Mr. WALSH: On the question of pensions, someone gave me the information that there are certain pensions or annuities or retiring allowances being paid to retiring officials of the Canadian National Railways that run up to the neighbourhood of \$10,000 a year and in some cases more. I said that that seemed to me to be quite erroneous and impossible; but I wanted to ask the management if such a thing could be possible as a retiring allowance as far as the Canadian National Railways is concerned. Are there any persons getting \$10,000 or more a year as a retiring allowance?

Mr. HUNGERFORD: The only retirements coming within that category are those under The Grand Trunk and Intercolonial superannuation funds. Strictly under the rules some of them would have been entitled to more but they compromised on that amount.

Mr. HOWDEN: I would like a word of detail in connection with the item under traffic expenses, colonization, agriculture and natural resources, \$149,000. I would like some detail as to the activities of the railway with regard to colonization. Just what does that mean?

The CHAIRMAN: Do you want a report?

Mr. HOWDEN: I do not want the minute expenses, I just wondered what the activities were in regard to colonization because I understood we were not having any colonization.

Mr. HUNGERFORD: Oh, yes, we have. Our general colonization and agricultural department does all that work. They are developing settlements and improving farms, and all of those activities are being carried on.

Mr. HOWDEN: Is the railway colonizing any land at the present time?

Mr. HUNGERFORD: Yes.

The CHAIRMAN: Gentlemen, shall we sit to-morrow at 11 o'clock?

Mr. HEAPS: Yes.

The CHAIRMAN: The committee stands adjourned until to-morrow at 11 o'clock.

(At 6 p.m. the committee adjourned until 11 a.m. Wednesday, April 27, 1938.)

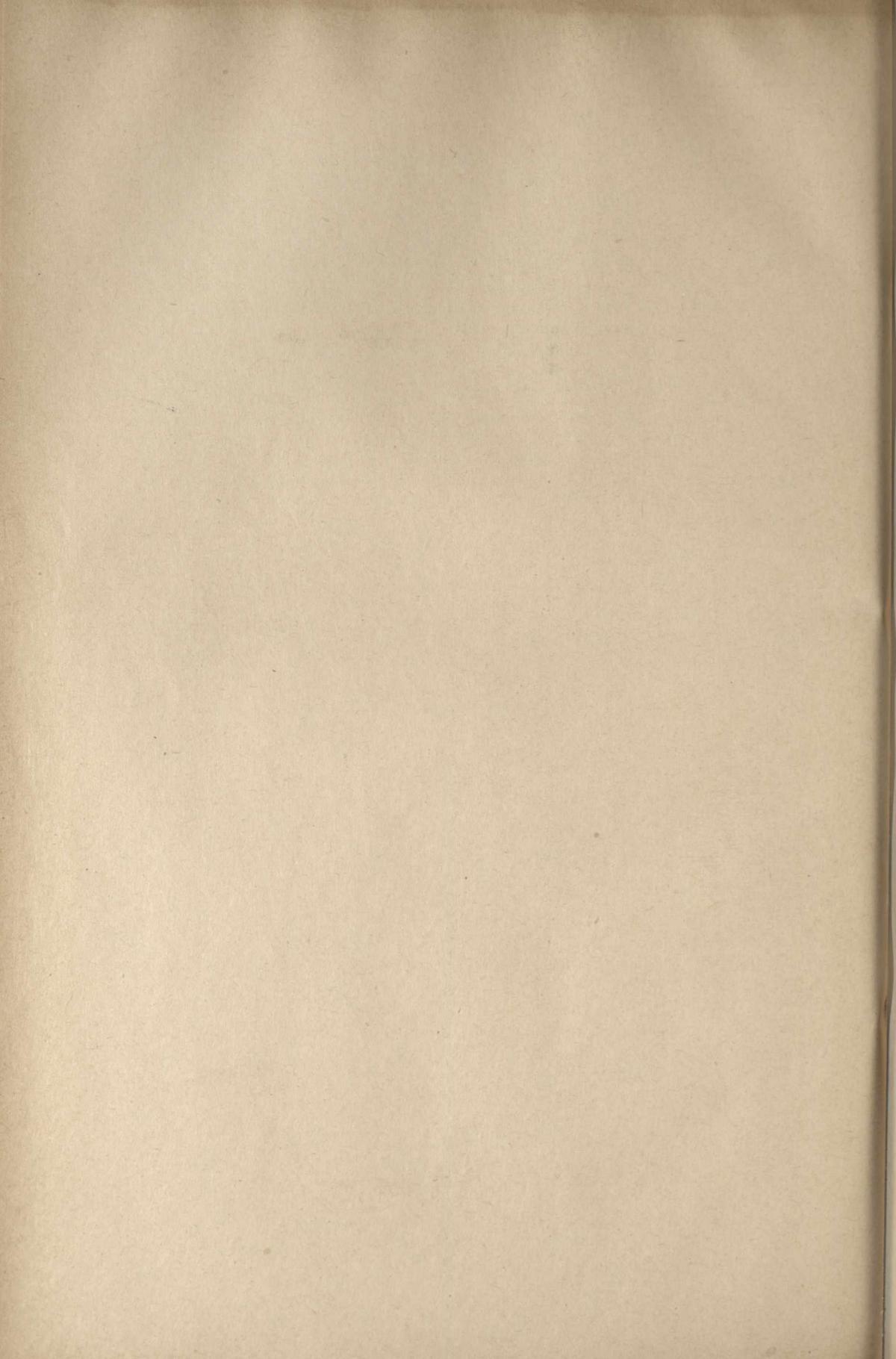


THE

# RAILWAYS AND SHIPPING

OF THE

WESTERN



SESSION 1938

HOUSE OF COMMONS

---

STANDING COMMITTEE

ON

# RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

---

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

---

WEDNESDAY, APRIL 27, 1938

---

## WITNESSES:

Mr. S. J. Hungerford, Chairman, Board of Directors, and President, Mr. R. C. Vaughan, Vice-President, Purchasing and Stores Department, Mr. T. H. Cooper, Comptroller, Mr. W. M. Armstrong, Assistant Director, Bureau of Economics, and Mr. D. R. MacLaren, Assistant to Vice-President, Trans-Canada Air Lines, Canadian National Railways, Montreal; Dr. W. C. Clark, Deputy Minister of Finance and Chairman, Canadian National Railways Securities Trust, Ottawa.

OTTAWA

J. O. PATENAUDE, I.S.O.

PRINTER TO THE KING'S MOST EXCELLENT MAJESTY

1938



## REPORT TO THE HOUSE

THURSDAY, April 28, 1938.

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

### SECOND REPORT

Your Committee has considered the following Items of the Estimates referred to the Committee on March 29, and approves of same, viz:—

Vote 427, Maritime Freight Rates Act, Canadian National Railways, Eastern Lines, 20 per cent reduction in tolls, \$2,278,000;

Vote 428, Maritime Freight Rates Act, railways other than Canadian National Railways, 20 per cent reduction in tolls, \$860,000;

Vote 437, Prince Edward Island Car Ferry and Terminals, capital, \$35,000;

Vote 438, Canadian National (West Indies) Steamships, Limited, capital, \$24,000.

All of which is respectfully submitted.

EUGENE FISET,  
*Chairman.*



## MINUTES OF PROCEEDINGS

WEDNESDAY, March 27, 1938.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government, met at 11 a.m., the Chairman, Sir Eugene Fiset presiding.

*Members present:* Messrs. Bothwell, Emmerson, Ferland, Fiset (Sir Eugene), Hanson, Heaps, Howard, Howden, Howe, McKinnon (*Kenora-Rainy River*), McLarty, Stewart, Walsh, Young.

*In attendance:* Mr. V. I. Smart, Deputy Minister of Transport and officials of the Canadian National Railways, including Mr. S. J. Hungerford, President, Mr. T. H. Cooper, Comptroller, Mr. R. C. Vaughan, Vice-President, Purchasing and Stores Department, Mr. W. M. Armstrong, Assistant Director, Bureau of Economics, and Mr. D. R. MacLaren, Assistant to Vice-President in charge of operations, Trans-Canada Air Lines; Mr. O. A. Matthews of George A. Touche & Company, Auditors of C.N.R. accounts, and Mr. A. V. Franklin, Railway Auditor, Department of Finance.

The Annual Report of the Canadian National Railway System was further considered and adopted.

At 1 o'clock the committee adjourned until 4 p.m.

### AFTERNOON SITTING

The Committee resumed at 4 o'clock and proceeded to the consideration of the Annual Report of the Canadian National Railways Securities Trust for the year ended December 31, 1937.

Dr. W. C. Clark, Deputy Minister of Finance and Chairman of the Securities Trust was called and examined on the above Report.

Witness retired and the Report adopted.

The Annual Report of the Canadian National (West Indies) Steamships, Limited for the year 1937 was considered and adopted.

The Annual Report of Trans-Canada Air Lines was considered and adopted.

The Committee then considered Items 427, 428, 437 and 438 of the Main Estimates, referred to the Committee on March 29. The said Estimates were adopted and the Chairman authorized to report same to the House.

On motion of Mr. Howden,

*Resolved,*—That the Chairman be authorized to prepare a draft report to be submitted to the Committee at its next sitting.

The Committee adjourned to the call of the Chair.

R. ARSENAULT,  
*Clerk of the Committee.*



# MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 277,

April 27, 1938.

The Standing Committee on Railways and Shipping met at 11 a.m. The Chairman, Sir Eugene Fiset, presided.

The CHAIRMAN: We have a quorum now.

Gentlemen, there are certain questions which were asked by Mr. Walsh yesterday. The answers to these have been prepared. Are you ready to hear them? Do you wish to have them read into the record?

Mr. WALSH: That would be all right.

Mr. ARMSTRONG: The first question asked by Mr. Walsh was with regard to hotels; capital cost to December 31, 1937 revenues, expenses, etc. Do you wish me to read the statement in detail, Mr. Chairman?

The CHAIRMAN: Yes, please.

Mr. ARMSTRONG: This statement reads

## REVENUES, EXPENSES AND TAXES—HOTEL OPERATION YEAR ENDED DECEMBER 31, 1937

	Capital cost to Dec. 31, 1937	Revenues	Expenses	Taxes	Net
Chateau Laurier . . . . .	\$8,669,832 66	\$1,161,918 88	\$ 926,873 54	\$ 63,360 37	\$171,684 97
Nipigon Lodge . . . . .	Sold 1937	80 56	143 99	....	63 43
Prince Arthur . . . . .	1,185,504 98	157,827 39	127,345 77	5,622 98	24,858 64
Minaki Lodge . . . . .	1,089,834 37	46,569 67	45,589 50	163 00	817 17
Fort Garry . . . . .	2,904,267 50	349,756 20	342,633 91	23,642 31	16,520 02
Prince Edward . . . . .	522,606 94	61,276 87	77,319 00	3,727 07	19,769 20
Macdonald . . . . .	2,264,903 34	379,183 78	332,025 21	15,557 06	31,601 51
Jasper Park Lodge . . . . .	2,627,070 05	268,484 81	237,959 59	4,311 05	26,214 17
Bessborough . . . . .	3,567,584 06	226,819 83	244,951 11	1,415 67	19,546 95
Pictou Lodge . . . . .	199,456 21	19,299 43	19,030 10	309 50	40 17
Nova Scotian . . . . .	2,447,745 50	295,322 10	277,021 20	10,807 41	7,493 49
C.N., Charlottetown . . . . .	856,708 74	79,259 05	82,619 26	3,282 97	6,643 18
	\$26,335,514 35	\$3,045,798 57	\$2,713,512 18	\$132,199 39	\$200,087 00

Mr. HEAPS: I would like to ask a question arising out of the statement which has just been presented. I wonder if we could have the dates at which these hotels were built, or authorized to be built.

Mr. ARMSTRONG: We could give you the dates on which they were opened.

Mr. HEAPS: Take the case of the Vancouver hotel, that was authorized some years ago and it has not yet been opened. Give us the best you can.

The CHAIRMAN: Have you got that information here, Mr. Armstrong?

Mr. ARMSTRONG: Yes, we have. We will look that information up for you.

Mr. HEAPS: I thought you might give it while the information was on the record; I would like to have it go down in the record consecutively.

Mr. ARMSTRONG: Here is the statement Mr. Hungerford prepared in connection with the Vancouver hotel arrangement. Copies of this statement have been made for the use of members of the committee. I understand it is to be considered as a confidential document.

Mr. HUNGERFORD: As was stated yesterday this arrangement is not yet completed, this is not the final or formal execution.

Mr. HEAPS: I am sorry, we were not able to hear what Mr. Hungerford said.

Mr. HUNGERFORD: I said that this is not the formal execution, this arrangement has not been fully completed.

The CHAIRMAN: The statement is going to be handed to each member of the committee as a confidential document; is that satisfactory?

Mr. YOUNG: I suggest that it be handed to each member of the committee and that we look into the matter. There is nothing confidential about anything in it so far as I am concerned.

The CHAIRMAN: "Confidential" perhaps is the wrong word.

Mr. YOUNG: I think it is.

Hon. Mr. STEWART: Pending completion of the work it ought to be kept confidential.

Mr. WALSH: To go back to the statement read by Mr. Armstrong in connection with the hotels; that operating profit represents less than 1 per cent on the capital investment. Is that right?

Mr. ARMSTRONG: That is correct.

Mr. WALSH: I presume the capital expense in the first place was looked after through loans or advances or bonds or something of that nature.

Mr. ARMSTRONG: Right.

Mr. WALSH: And, is interest charged against each hotel in each instance?

Mr. ARMSTRONG: No, the interest on this amount appears in the funded debt of the Canadian National system.

Mr. WALSH: Then you cannot say that the hotel system of the Canadian National has made even 1 per cent.

Mr. ARMSTRONG: I think that I can say that they made a return of approximately 1 per cent on their capital during the year 1937.

Mr. WALSH: But without any interest on the funded indebtedness being charged against the operation of the hotels.

Mr. ARMSTRONG: That is quite true.

Mr. WALSH: Yes. If a private corporation were running these hotels they would show an operating deficit at the end of the year.

Mr. ARMSTRONG: Not an operating deficit, but an income deficit.

Mr. WALSH: Yes, an income deficit.

Mr. HEAPS: Which in effect means that the hotels did pay.

Mr. WALSH: No. You had a hotel at one time known as the Highland Inn up in Algonquin Park district; has that been disposed of?

Mr. ARMSTRONG: Yes, that has been disposed of.

Mr. WALSH: When was that sold?

Mr. COOPER: In the beginning of 1937.

Mr. WALSH: Did the company realize the amount of their investment when they sold that hotel?

Mr. COOPER: No.

Mr. WALSH: Were tenders called for the sale of that hotel or was it arranged through a private arrangement between the purchaser and the company?

Mr. COOPER: I believe it was advertised for sale and the best bid was accepted.

Mr. WALSH: There was more than one bid?

Mr. COOPER: I do not know about that. I am pretty clear in my recollection that the sale of the inn was advertised in the press; but as to whether more than one bid was received or not, I do not know.

Mr. HEAPS: What was the original cost of the hotel?

Mr. COOPER: It was \$171,000.

Mr. WALSH: What was the reasons which influenced the sale? Had it been a losing proposition previously?

Mr. HUNGERFORD: For a number of years it had not been operated by the railway company. It had been leased to a private individual, and the conditions of that lease as I remember it required the railway to maintain it and it involved some annual cost; and by disposing of the hotel we cut ourselves off from those losses.

Mr. WALSH: But I thought the hotels in the Algonquin Park and the Muskoka Lake district were rather paying propositions from the operating point of view. I am wondering why this hotel, whether this hotel could not have been developed into an asset rather than a liability.

Mr. HUNGERFORD: This was a very old hotel which had been bought or built by the Grand Trunk and the patronage had definitely declined to a point where there was a loss involved in its operation. While it was owned by the company it was operated under a lease, and it was finally sold for a comparatively small sum of money which represented an improvement of the company's position in view of the liabilities that we were facing. The structure was in very bad shape. If we had retained ownership we would have had to spend a lot of money on it and without any apparent chance of getting the money back.

Mr. HEAPS: Perhaps, Mr. Chairman, we could have the times at which these hotels were opened?

Mr. ARMSTRONG: Might I mention in connection with hotels, particularly in connection with Jasper Park Lodge, that although we have not made a return on the investment there is a collateral advantage in having such a hotel to the passenger traffic revenue which we get to that particular point.

The CHAIRMAN: Could you give the opening dates at this time?

Mr. ARMSTRONG: I can give you the dates on which we opened them, if that would be sufficient for your purpose?

Mr. HEAPS: All right, let us have the dates on which they were opened.

Mr. ARMSTRONG: The dates of opening are as follows: The Canadian National at Charlottetown, in 1931—do you wish to have the day of the month?

Mr. HEAPS: No, just the year.

Mr. ARMSTRONG: The Nova Scotian at Halifax was opened in 1930; the Chateau Laurier at Ottawa in 1912; the Prince Arthur at Port Arthur in 1911; the Fort Garry at Winnipeg in 1913; the Prince Edward at Brandon in 1912; the Bessborough at Saskatoon in 1935.

Mr. McLARTY: In connection with the hotels—I have not had the advantage of hearing the preceding discussion—would it be possible for the committee to get a break-down—and I appreciate quite well that there are advantages apart from the apparent operation that either a profit or a loss, as the case may be, for each hotel—would it be possible to get a break-down of the various hotels showing us the loss or profit in each case?

The CHAIRMAN: That has already been placed on the record this morning.

Mr. McLARTY: I did not hear that, Mr. Chairman.

Mr. HEAPS: You should have been here at eleven o'clock.

Mr. ARMSTRONG: The Bessborough at Saskatoon was opened in 1935; the Macdonald at Edmonton was opened in 1915; Jasper Park Lodge was opened in 1923; Pictou Lodge was opened in 1926; Highland Inn Camp, so far as the railway was concerned, was opened in 1913; Nipigon Lodge was opened in 1916; Minaki Lodge was opened in 1923; and the Grand Beach at Grand Beach, Manitoba, was opened in 1920.

Mr. HEAPS: That is all of it?

Mr. ARMSTRONG: These are the dates at which the railway opened these hotels.

Mr. HEAPS: What I was trying to get at, Mr. Chairman, was the fact most of the hotels came with the railways themselves when they were taken over by the government in 1923.

Mr. ARMSTRONG: A large number of them did.

Mr. HEAPS: Of course, one or two have been built in comparatively recent times, and most of them are the smaller ones—with the exception of the one now under construction at Vancouver. You have a liability there acquired in the same way as the liability which came to us with the railways.

The CHAIRMAN: It is inherited.

Mr. HEAPS: Yes, and in some respects unfortunately.

The CHAIRMAN: Is that all?

Mr. WALSH: About the Vancouver hotel; I presume the taxes have been paid on that hotel even during the time when it was not in operation; is that correct?

Mr. HUNGERFORD: Yes.

Mr. WALSH: Was there any compromise arrangement between the city of Vancouver and the railway company in connection with these taxes, or was it on a straight assessment basis?

Mr. HUNGERFORD: There were negotiations carried on.

Mr. WALSH: And the taxes were arranged at what figure at that time?

The CHAIRMAN: It is rather awkward, Mr. Walsh, because there is no final agreement, negotiations have not been completed.

Mr. WALSH: What I am referring to is up to the present time. If my information is correct the railway company agreed with the city of Vancouver on a tax of \$50,000 a year, and that is the tax that has been paid. I was wondering if that information is correct or otherwise?

Mr. ARMSTRONG: We shall be glad to file a statement showing what has been paid and what will be paid in that respect.

Mr. WALSH: I was wondering about it, about what the situation would be now that the hotel is about to be completed and put into operation; and as to what the tax will be when the hotel is completed as compared with this amount of \$50,000 tax that has been paid at the present time.

Mr. ARMSTRONG: We could give you that information this afternoon.

Mr. WALSH: Could I ask the chairman if we will be honoured with the presence of the Minister of Transport some time during the course of the day?

The CHAIRMAN: I hope so.

Mr. WALSH: Because I asked that question in connection with the announcement that was made.

The CHAIRMAN: We will come back to that any time you like.

Mr. WALSH: He has been advised of that question, has he?

Mr. SMART: What question?

Mr. WALSH: In connection with the announcement made by the Minister of National Defence in Vancouver. I just wanted to find out why the Minister of National Defence is presuming to take the place of the President of the Canadian National Railways in a matter of this nature; because, after all, we have got to keep the Canadian National Railways running on a business-like basis, and not as a political institution.

Mr. HEAPS: It is so nice to hear that from Mr. Walsh.

The CHAIRMAN: It was nicely said. I admire the style as well as the voice.

Mr. McLARTY: Just in connection with my previous question, do I understand it is the intention to give a breakdown of the various hotels in the Canadian National System—their operating profits and losses?

The CHAIRMAN: Yes. The full details are there on record at the present time. Is there anything else, gentlemen?

Mr. ARMSTRONG: There was another question asked by Mr. Vien. That was in connection with express.

Mr. YOUNG: I want to ask one question about hotels before we leave that. I do not intend to ask anything further at the moment except this one thing. Who originated this proposal with regard to the Vancouver hotel—which company?

Mr. HUNGERFORD: It had developed out of a lot of discussion back and forth extending over months.

Mr. YOUNG: One company or the other must have started the negotiations.

Mr. HEAPS: Mr. Chairman, was it not in the original agreement between the city of Vancouver and the Canadian National System or the old Canadian Northern when they changed the site of the station that a new hotel would be built by the Canadian National System in Vancouver?

Mr. HUNGERFORD: There was an old obligation dating back to about 1912.

Mr. YOUNG: I asked a question which Mr. Heaps has sidetracked. I would ask to have it answered.

Mr. HEAPS: No, I did not sidetrack it.

The CHAIRMAN: Well, Mr. Young has the floor.

Mr. YOUNG: I am asking who originated this particular proposal—not who originated something away back twenty years ago.

The CHAIRMAN: That is what Mr. Hungerford is trying to answer.

Mr. HUNGERFORD: What was your question?

Mr. YOUNG: Which company originated the proposal about which we have a statement from you this morning?

Mr. HUNGERFORD: I really do not know that, because it has been the subject of discussion off and on for a long time. But it was approached under the provisions of the Canadian National-Canadian Pacific Act to see what could be done in connection with it. Negotiations were carried on for a good many months. There were all kinds of proposals discussed, pro and con. Finally we reached this basis.

Mr. YOUNG: You could not say whether this proposal emanated from the Canadian Pacific or the Canadian National?

Mr. HUNGERFORD: No, I do not think I could.

Mr. WALSH: It originated, did it not, in that committee you have formed of representatives of the Canadian National and the Canadian Pacific on the subject of co-operation? Is not that where it originated?

Mr. HUNGERFORD: No; it has been the subject of discussion between the executives of the two companies over a considerable period of time. I do not know at the moment who suggested it first. It has been a problem before us for a long time.

Mr. WALSH: I want to say that I have just glanced through the document that you put before us, and I think it is a very good, business-like, reasonable arrangement. I think the management of the Canadian National are to be congratulated on their foresight for entering into an arrangement of this nature which will prove to be to the advantage of the Canadian National, and I feel

possibly to the advantage of the Canadian Pacific. It is in the public interest; and I think the Canadian National management has done well. That is how this document appeals to me.

Mr. HUNGERFORD: Well, it is mutual effort, Mr. Walsh.

The CHAIRMAN: Do you want to pursue your question, Dr. Young?

Mr. YOUNG: I take it that it is not known which company originated the proposal.

Mr. HUNGERFORD: The present proposal was approached by a long process of negotiations—proposals and counter-proposals, discussions and modifications of all kinds, as far as that is concerned.

Mr. ARMSTRONG: There was a question asked by Mr. Vien in regard to express. That information is not available; but if it is satisfactory to you we will have it prepared and give it to Mr. Vien.

The CHAIRMAN: He will be quite satisfied with that.

Mr. ARMSTRONG: There was another question.

The CHAIRMAN: Wait a minute. Do the other members of the committee want to have a copy of this report that is to be given to Mr. Vien?

Mr. YOUNG: Mr. Chairman, this is a committee.

The CHAIRMAN: Yes.

Mr. YOUNG: There is no one member of this committee that is entitled to any report or anything of the kind. It comes either to the committee or does not come at all.

The CHAIRMAN: I know. But many times in this committee we have decided by unanimous consent that certain information that was to be used only by one member could be furnished to him.

Mr. YOUNG: Why so?

The CHAIRMAN: Why so? Because it was asked for.

Mr. YOUNG: I am not asking for it for myself. I am asking for it for the record.

The CHAIRMAN: I have no objection. That is exactly what I am asking you. Do you want a copy of the report? I am quite satisfied. Then you will prepare this report, Mr. Armstrong,—a copy for each member of the committee.

Mr. ARMSTRONG: Yes. There is one further question by Mr. Vien on rates paid by the post office department to railways for carriage of mails. I will read it into the record, if that is satisfactory.

	Cents per mile
60 ft. R.P.O. . . . .	35
30 " " . . . . .	20
60 " Baggage or Storage . . . . .	36
30 " " " " . . . . .	20
15 " " " " . . . . .	13
7 " " " " . . . . .	6½
3 " " " " . . . . .	4

The term "R.P.O." as we call it means "railway post office."

Mr. HOWDEN: These rates apply to the mail carrying and the matter of the distribution of the mail is a matter that the post office takes care of?

Mr. ARMSTRONG: Yes.

Mr. YOUNG: From the point of view of the railway, are these rates reasonably satisfactory?

Mr. HUNGERFORD: That is a difficult question to answer because it very difficult to segregate the expense in connection with the service—very, very difficult indeed.

Mr. HEAPS: Is there any fixed contract between the post office and the railway companies in connection with the carrying of the mails?

Mr. HUNGERFORD: Contracts? Yes.

Mr. HEAPS: To be a little bit more precise, I mean do they take so much space and pay for it whether they use it or not?

Mr. HUNGERFORD: Yes.

Mr. HEAPS: Then there must be some fixed arrangement?

Mr. HUNGERFORD: They arrange with us for a certain amount of space on certain trains and they pay us on the basis of the schedule.

Mr. HOWDEN: May I ask this question of the president: Has it at any time appeared that the mail is carried at a loss by the railway service?

Mr. HUNGERFORD: As I said before, that requires a very involved and difficult consideration.

Mr. HOWDEN: My purpose in asking that question is that I presume the railway service would cease carrying mail at a loss; that is all. It would not be fair to ask them to do so.

Mr. HEAPS: Have these rates remained stationary for any length of time?

Mr. HUNGERFORD: I do not think they have varied for some time. I think they have been in effect for several years.

Mr. HEAPS: Are these mutual arrangements as between the company and the post office department?

Mr. HUNGERFORD: No. These rates are fixed by the post office department.

Mr. HEAPS: Do they fix them or is it a mutual arrangement?

Mr. HUNGERFORD: No, it is not very mutual. I am just told by Mr. Armstrong that this scale of rates was established in 1922.

Mr. MCKINNON: The operating costs of the railway have gone up considerably since that time, have they not?

Mr. HUNGERFORD: In some respects.

Mr. MCKINNON: What might have been a good business deal at that time is a poor one to-day.

Hon. Mr. STEWART: They do not operate the cars.

Mr. MCKINNON: I beg your pardon?

Hon. Mr. STEWART: They do not operate the cars. They are in charge of the postal employees.

Mr. MCKINNON: But the railway operates the cars.

Hon. Mr. STEWART: No, the hauling of them. They do not pay for operating.

Mr. MCKINNON: But they haul them.

Hon. Mr. STEWART: Yes; that is all.

The CHAIRMAN: Have you any other answers?

Mr. HUNGERFORD: Mr. Walsh asked a long list of questions. Mr. Vaughan is here. Perhaps he could satisfy him.

The CHAIRMAN: Mr. Stewart and Mr. Walsh both asked certain questions—Mr. Stewart at the first day's committee sitting and Mr. Walsh yesterday—with regard to coal. The management object to making certain information public, but Mr. Vaughan is here to explain the circumstances, if you want to press your questions now, Mr. Stewart. The same thing applies to Mr. Walsh, Mr. Vaughan.

Mr. VAUGHAN: I only got these questions about four-thirty yesterday afternoon, and I have not had much time to spend on them. But I think I can answer most of them. Many I have answered in writing; and the others, with

Mr. Walsh's permission, I will answer verbally—if you desire to go over the questions.

SERIES ONE

Question 1: What tonnage of Canadian National Railways fuel coal has been delivered at Chipman, N.B., for the years 1936 and 1937, and the first two months of 1938?

Answer:

Year	Tons
1936 . . . . .	45,878
1937 . . . . .	46,075
1938 (Jan. and Feb.) . . . . .	4,515

Question 4: What is the total cost per ton, all charges included, of fuel coal delivered at Chipman?

Answer:

Year	Lump	Slack
1936 . . . . .	\$4 00	\$2 25 to \$2 50
1937 . . . . .	4 00	2 25 to 2 40
1938 (Jan. and Feb.) . . . . .	4 00	2 25 to 2 40

SERIES TWO

Question 8: What tonnage of C.N.R. fuel coal has been moved over this spur?

Answer: 963,484 net tons. (Commencing in 1924 and to February 28-1938.)

SERIES THREE

Question 1: During the year 1936-37 and January and February 1938, what tonnage of fuel coal was supplied the Canadian National Railways, by months, from each of the following districts: (a) Maccan, (b) Springhill, (c) New Glasgow, (d) Other Nova Scotia districts.

Answer:

	Maccan	Springhill	New Glasgow	Other Nova Scotia dists.	Total
1936					
Total . . . . .	45,525	140,978	172,383	63,027	421,913
1937					
Total . . . . .	31,528	100,483	307,071	75,272	514,354
1938					
January-February . . . . .	10,172	17,792	58,029	15,913	101,906
Waterborne					
1936 . . . . .	....	....	132,267	684,629	817,296
1937 . . . . .	....	....	132,295	693,212	825,507

SERIES THREE

Question 4: At what points in New Brunswick was the above-mentioned Nova Scotia coal used, and what tonnage of each? (1936-1937 2 months 1938).

Answer:

	1936	1937
Bathurst . . . . .	....	3,100
Campbellton . . . . .	33,000	38,000
Moncton . . . . .	56,000	77,000
Newcastle . . . . .	7,000	10,000
Saint John . . . . .	21,000	23,000
Edmundston . . . . .	....	4,000
Longley . . . . .	....	4,700
Napadogan . . . . .	....	2,700
Fredericton . . . . .	2,000	2,800
	<hr/>	<hr/>
	119,000	165,300
	<hr/>	<hr/>

## SERIES THREE

Question 8: How much C.N.R. fuel coal is purchased in Nova Scotia for use in: (a) New Brunswick; (b) Nova Scotia; (c) Quebec; (d) Ontario.

Answer:

RAILBORNE COAL		
	1936	1937
New Brunswick.. . . . .	119,000	165,300
Nova Scotia.. . . . .	285,991	322,354
Quebec.. . . . .	31,000	26,700
Ontario.. . . . .	nil	nil

WATERBORNE COAL		
	1936	1937
New Brunswick.. . . . .	nil	nil
Nova Scotia.. . . . .	nil	nil
Quebec.. . . . .	518,244	590,084
Ontario.. . . . .	299,052	235,423

Partly estimated.

Question 9: How much New Brunswick coal is purchased for use in each of the above Provinces?

Answer:

	1936	1937
New Brunswick.. . . . .	101,819	83,491
Nova Scotia.. . . . .	nil	nil
Quebec.. . . . .	28,719	33,276
Ontario.. . . . .	nil	nil

Figures for January-February, 1938, not fully available.

The CHAIRMAN: Does that apply both to Mr. Stewart's questions and Mr. Walsh's?

Mr. VAUGHAN: I have not got Mr. Stewart's questions. I do not know what they are. I did not know this was coming up before the committee, but I can answer these questions in a general way. We do not like giving prices because we think it hampers our business. If a company that gives us a special price knows or assumes that that price is going to be made public, we do not run much chance of getting subsequent preferred prices; and inasmuch as our competitors' prices are not made public, we do not feel that it is fair to ask us to make the prices that we pay public. In this particular case, I think I know what is behind this. I am only assuming this, though. There is a certain individual in Chicago who is not in the coal business who has been trying to get a lot of information from us about our prices, and we have declined to give it to him; I think this is perhaps one way he is taking of getting it.

Hon. Mr. STEWART: I do not know the gentleman at all.

Mr. VAUGHAN: I may be wrong there.

Hon. Mr. STEWART: Mr. Chairman, is Mr. Vaughan referring to the questions I asked?

Mr. VAUGHAN: I am referring to this Kentucky question.

Hon. Mr. STEWART: That is in the questions that were put in on the first day?

Mr. VAUGHAN: These are the only questions I have. I have just seen them.

Hon. Mr. STEWART: They are my questions?

Mr. VAUGHAN: Yes.

Hon. Mr. STEWART: I do not know any man in Chicago. I am not in touch with him.

Mr. VAUGHAN: All I am saying is—

Hon. Mr. STEWART: I do not want the management to go any further than they think it is in the interest of the railway to go. But I would like all the information along that line that they feel they can give. I understand this mine is owned by the railway itself?

Mr. VAUGHAN: No.

Hon. Mr. STEWART: That is what I was told.

Mr. VAUGHAN: No. This coal is all bought. We buy from several companies. We use western Kentucky coal on our line from Chicago to Battle Creek. We do not use any of our own coal there at all. We buy this western Kentucky coal at a very low price and there is a low freight rate to our line in the vicinity of Chicago.

Hon. Mr. STEWART: I understood the minister to say when the question was brought up that he understood the mine was owned by the Canadian National Railway.

Mr. VAUGHAN: No, that is not so. We buy from several western Kentucky mines; not from one mine, but from several western Kentucky mines.

Mr. HEAPS: Do I understand you to say that you do not consider it advisable to make public the prices at which you purchase this coal?

Mr. VAUGHAN: We would prefer not to do so.

Mr. HEAPS: I think that is quite reasonable.

Mr. VAUGHAN: We have had a preferred price on this coal and several people have been trying to find out what we were paying for the coal; even some of the railways in the vicinity of Chicago have been trying to find out what we have been paying for the western Kentucky coal. We have been buying it at a very low price, we think.

Mr. HEAPS: I think under these circumstances Mr. Vaughan should not be asked to divulge the price at which they buy their coal.

The CHAIRMAN: I think Mr. Stewart is perfectly satisfied with that answer himself.

Hon. Mr. STEWART: I say I do not ask the management to give anything further than in their best judgment they think they can give in the interest of the Canadian National Railways.

Mr. HOWARD: Hear, hear.

Hon. Mr. STEWART: I would like him to go just as far as he can in that direction, and make a general statement about it.

Mr. YOUNG: You are satisfied, however, that you are really getting a very low price?

Mr. VAUGHAN: There is no doubt about that at all. Some people imagine we are paying a higher price than we are, and they say, "We are willing to offer you coal at the same price." And when their price comes in it does not approach the price we are paying. We cannot tell them we are buying coal from their neighbor at a lower price or what that price is. But I can say, in a general way, Mr. Stewart, that the coal used from Battle Creek West to Chicago is Western Kentucky coal. It is purchased from several mines. The coal used East of Battle Creek is our own coal.

Mr. HOWDEN: That coal is naturally used on American roads?

Mr. VAUGHAN: Yes, and some of our own coal on Canadian roads too.

The CHAIRMAN: Does the same answer apply to Mr. Walsh's question?

Mr. VAUGHAN: So far as prices go, yes. I do not think we should be asked to furnish any prices, because there are some mines with whom we have preferred

prices. But there is a good deal of information about tonnage which Mr. Walsh asked and which I prepared, and I have given some information here in regard to the average price. In fact, I could say that I have answered Question number one.

Question number two will be a difficult question for me to answer. We would have to get our records from Moncton on that, and I do not think there would be much accomplished in giving the information because all these cars are interchanged under the usual car service rules.

The same thing applies in connection with Question number three. Those cars would all be interchanged under regulations of the Car Demurrage Bureau.

So far as Question four is concerned, I have answered it in a general way, giving average prices.

In regard to Question number one, series two, I have not that information. We can get that if it is desirable. I think I can say in a general way that it was built fourteen years ago. My recollection is that it cost about \$195,000. I think that figure is approximately correct, although I would like to check it.

In regard to Question number two, I have not got the cost of maintenance of that spur. Under an agreement the Minto Coal Company were to maintain that spur, so that I expect the cost of maintenance to us has been very small. Then there was the cost of supplying a locomotive and van. I have not got that in detail. I believe there was an old locomotive and an old van supplied. That is all we supplied in connection with the operation of the spur. The Minto Coal Company provides the men to maintain and operate the spur.

The answer to Question number five is that the usual per diem charges apply in that connection as well.

Mr. WALSH: That is Question number four.

Mr. VAUGHAN: Yes, that is question number four. Question number five is: "How long are these cars allowed to be kept without charge?" Well, the answer is the same diem rule and demurrage rules govern.

Question number six is: "What agreement was made for shipping commercial coal over this spur when it was built?" I am not just sure what is meant by that question. We had an agreement with the Minto Coal Company that they would develop a very substantial commercial traffic over that line, but I presume what is meant there is whether or not other concerns, if they were served by that spur, would have the privilege of shipping over the spur on a fair basis. I have not got the original agreement here, but, as I recall it, that was provided for. A reasonable rate was to be charged, and if the shipper and the Minto Coal Company could not agree upon a rate, the rate would be fixed by the railway company. I have given the information here as to the tonnage that has been shipped over the spur since its construction. Canadian National Railway coal was 963,484 tons. There is another question, number nine, the cost of this coal at Hardwood Ridge. I do not think we should divulge that, any more than I would say that the same general prices apply as those referred to in Question four.

Mr. WALSH: Question four of series one.

Mr. VAUGHAN: Yes. In regard to Question number one of series three, I have put in an answer for that here.

Number two has reference to the price of Nova Scotia coal. If Mr. Walsh is agreeable, we will not put in that price because there are a great many factors involved in connection with the price of this coal.

Mr. WALSH: A considerable number of these mines referred to in Question two, series three, I presume are situated on lines of the Canadian National; is that right?

Mr. VAUGHAN: No. In regard to Question one, all these districts are located on the Canadian National lines.

Question two was: "What price is paid for Nova Scotia coal f.o.b. cars Canadian National tracks at above districts?" All that coal originates on our own lines.

Then the question was asked: "What is the cost per ton mile for hauling coal from Nova Scotia to New Brunswick points?" There are so many factors that have to be taken into account, grades and things of that kind, that it would be very difficult to arrive at what was the actual cost of moving that coal between specific points.

Question four was: "At what points in New Brunswick was the above mentioned Nova Scotia coal used, and what tonnage of each?" I have given that information here.

In regard to Question number six, I am not just clear what is wanted, Mr. Walsh.

Mr. WALSH: Question number five.

Mr. VAUGHAN: I can answer Question number five in this way, by saying that all the coal that we use in the Maritime provinces is rated. The coal from various mines has been subject to service tests, and a percentage rating of efficiency has been given in connection with each one of those coals; and in buying these coals we fix a price which we think is fair based on the efficiency of the coal and the length of haul to destination.

In regard to Question number seven, I do not think that is a question which we should become involved in, viz the question of wages between the operators and the miners. That is purely something for them to deal with themselves.

Question number eight: "How much Canadian National fuel coal is purchased in Nova Scotia for use in New Brunswick, Nova Scotia, Quebec and Ontario?" We have answered that question.

Question nine: "How much New Brunswick coal is purchased for use in the above provinces?" We have already answered that.

If there is any more information you would like, Mr. Walsh, I would be very glad to try to give it to you.

Mr. WALSH: In connection with the purchase of coal, Mr. Vaughan, the natural course to follow would be as far as possible to secure that coal on your own line?

Mr. VAUGHAN: Yes. We do endeavour to do that. There have been complaints from some of the mines in New Brunswick that we were not buying sufficient coal from their mines, but five of those mines are located on the line of the Canadian Pacific railway and only two on our line. Naturally we prefer to buy our coal from mines on our own line, although we do buy quite a little coal from mines on the Canadian Pacific Railway in New Brunswick. As a matter of fact, notwithstanding that most of these mines are located on the C.P.R. in New Brunswick, I think we use more of their coal than the C.P.R. uses.

In connection with these figures I should like to make an explanation: The New Brunswick mines were on strike for about three months from about the beginning of October last year and the strike was not settled until January. So they lost quite a substantial tonnage of coal.

Mr. WALSH: You have also to take into account in the purchase of coal, as in the purchase of other bulk material, the business you might derive, directly or indirectly, from the mines and organizations from which you make your purchases?

Mr. VAUGHAN: That is quite true.

Mr. WALSH: That might be a governing factor?

Mr. VAUGHAN: We need to get all the business we can, and, naturally, we patronize those companies which patronize us, provided, of course, their prices and quality are always satisfactory.

Mr. WALSH: You do not have to call for tenders every time you need a ton of coal?

Mr. VAUGHAN: No. What we do is to fix a price which we think is fair. When we call for tenders on coal we find the prices are very much higher than we can afford to pay, and we find it more satisfactory to fix ourselves what we think is a reasonable price.

Mr. WALSH: It might vary in the different provinces according to the location of the mines?

Mr. VAUGHAN: And the quality of the coal.

Mr. WALSH: And the amount of business you might derive from that particular section?

Mr. VAUGHAN: We would not give any company more money just on account of the business they gave us, but we might give them a preference in the tonnage.

Mr. HEAPS: Is the coal you get from your mine in Virginia of as good quality as the coal you get from Nova Scotia?

Mr. VAUGHAN: Yes, it is better quality.

Mr. HEAPS: Might I ask you, without divulging the cost to the company, what the difference in the price is between the Virginia coal and the Maritime coal?

Mr. VAUGHAN: The average difference in the price taking the cost at the mine?

Mr. HEAPS: The cost at the mine mouth.

Mr. VAUGHAN: In connection with the coal we produce ourselves and the cost of the coal in Nova Scotia there is an average difference of \$2.50 in the price.

Mr. HEAPS: Per ton?

Mr. VAUGHAN: Yes.

Mr. HEAPS: Have you ever been able to find out why there is that tremendous difference in the price of the coal at the mine mouth?

Mr. VAUGHAN: We have tried to find out the reason for that difference, and we have had a good many discussions with the operators in regard to prices. We have had a number of them submit their costs to us, their detailed operating costs, when we considered their prices too high; but I do not know why the cost of that coal in Nova Scotia is quite as high as it is. There are unusual conditions there; a good many of the mines are under the sea, and they have a lot of water to pump. They operate under difficult conditions.

Mr. HEAPS: I have never yet been able to discover why there is such a tremendous difference in the price. Some of the mines in the maritimes are very easy mines from which to get coal.

Mr. VAUGHAN: Yes, some of them are. There is quite a difference in the cost of mining in the various districts.

Mr. EMMERSON: Are not the mines in Nova Scotia deeper than the mines in West Virginia?

Mr. VAUGHAN: Some of them are. Take, for instance, down in Sydney, some of the mines are two or three miles under the sea.

Mr. HEAPS: But there are other mines which are not under the sea, such as the mines around Stellarton, and the coal is easily mined there.

Mr. VAUGHAN: Well, some of them have a thin seam, and, of course, that always makes for difficult and expensive operation.

Mr. HEAPS: But you still cannot tell us why there should be that tremendous difference of \$2 per ton?

Mr. VAUGHAN: No. I have asked the operators in a good many cases to try to solve that problem, but they have not been able to do it.

Mr. WALSH: To what extent does the wage problem enter into that?

Mr. HEAPS: The wages in the States are higher than they are here.

Mr. VAUGHAN: Yes, I think so.

Mr. WALSH: What about climatic conditions?

Mr. VAUGHAN: There is not very much difference in the climatic conditions. Our mines are located in Ohio just across the river from Wheeling, West Virginia.

Mr. HEAPS: We have asked that question many times as to the difference in the price which you pay, and we have never yet been able to ascertain it.

Mr. WALSH: You made an analysis of the cost in West Virginia and Ohio, and you have the same information from Nova Scotia; just where did you find the radical difference?

Mr. VAUGHAN: We always had the explanation from the operators in Nova Scotia as to the difficult conditions under which they mined their coal, and they have given us in some cases their costs. For instance, their power in some cases costs them a lot of money down there. I do not know why, but it does. At any rate, we have gone over that situation with them on many occasions, and I have compared the detailed cost of mining in the States with Nova Scotia, Alberta and elsewhere. Very few of them, at any rate, seem to be making any money in Nova Scotia or New Brunswick.

Mr. WALSH: Despite the fact that they are getting \$2 more per ton, are they making money in the mines there?

Mr. VAUGHAN: There are very few mines in the United States which are making money to-day. As you know, there was a price fixed by the United States government under their Fuel Control last fall. It only lasted about sixty days. During that regime the price went up, but as soon as that was taken off the price went back again, so that I think a good many of the mines in the States are not getting the cost of operation out of their product to-day.

Mr. HEAPS: In regard to the mines which the railway owns, they are not losing anything there. You obtain coal from mines on the other side of the Ohio river, and you are not losing any money there.

Mr. VAUGHAN: No, we are not. We are able to produce coal cheaper than we can purchase it for elsewhere.

Mr. HOWDEN: What is the approximate differential?

Mr. VAUGHAN: Well, I would answer that this way. The price fixed by the fuel controller up until a month or two ago, for coal mined in our district was \$2.15 a ton, and our cost runs from 30 to 40 cents a ton cheaper than that, after everything is taken into account such as interest, depreciation, depletion and other factors entering into operation.

The CHAIRMAN: Is that all, Mr. Walsh? I have handed to the reporter the written answers so they will appear on the record.

Mr. EMMERSON: May I ask the management a question? On page 15 maintenance of equipment expenses, the item in regard to the repairs on steam locomotives and other locomotives, freight carrying cars and passenger cars appears. I should like to have a comparative statement of the number of men employed in the locomotive department and in the repair shops and in the car shops from 1929 down to 1937, in the different shops on the system.

Mr. ARMSTRONG: Do you require it for each shop or the total for the system?

Mr. EMMERSON: Each shop.

Mr. ARMSTRONG: We have not the information available here. We can only give it to you in the total for the shops. If we have to obtain it for you for each separate shop, we can do that.

Mr. EMMERSON: What you should say here is that in 1937 the employment of men in the car shops on the system was about 78 per cent of what it was in 1929 and in your locomotive shops 90 per cent. It is not possible to get the average in every shop?

Mr. ARMSTRONG: It would have to be the average number of employees over the year. I assume that is what you require?

Mr. EMMERSON: Yes.

Mr. HUNGERFORD: We can give you it in either one of two ways, the average number of employees throughout the year or the number of employees at any particular time in the year. For instance, December 31st—

Mr. EMMERSON: The average is what we want over the year.

The CHAIRMAN: The average for the year?

Mr. EMMERSON: Yes.

Mr. ARMSTRONG: That is for the main shops only, the larger shops.

Mr. EMMERSON: We will say London, Stratford, Montreal.

Mr. HANSON: Mr. Emmerson has asked for Montreal. When you are preparing that statement I should like to get it for the main shops west of Montreal.

Mr. EMMERSON: The whole system.

Mr. ARMSTRONG: All of the main shops of the system in Canada.

The CHAIRMAN: That will be prepared. Mr. Walsh, the Minister is here; if you want to fight with him go ahead.

Mr. WALSH: Is it necessary to repeat the question?

The CHAIRMAN: Yes.

Mr. WALSH: The point raised yesterday was in connection with the opening of the hotel in Vancouver. During the course of last year announcement was made in the city of Vancouver by the Minister of National Defence that the Canadian National Railway board had under construction the hotel that had been under construction since 1926 and that it would be opened for business in 1939. I raised the point yesterday as to why the Minister of National Defence, despite the fact that he is a member for one of the Vancouver seats, who occupies his attention in national defence, should be the instrument in making such an important announcement which in the usual course of events should be made—if the Canadian National Railway board of directors are an independent body, as they should be, and that is part of their work and part of their development—by the board of directors. I was wondering why that announcement did not come, as it would do in an ordinary business corporation, from the president or general manager of the corporation concerned and not from the Minister.

Hon. Mr. HOWE: One of the directors asked me the same question officially. The circumstances are these. As you know, we have had an agreement with the city of Vancouver for some years to build and operate an hotel. Naturally when a member of the government goes to Vancouver he is under very serious pressure from the city to implement that agreement. I have had it every time I have been there. Mr. Mackenzie has had it every time he has been there. He spoke to me before he went on this trip. I told him at that time I had no information but that whenever the information came through I would give it to him. After the election and before he left Vancouver I—I think I wired him late in the evening of the election day so that it could not possibly have any effect on the election, and I think it was published the next day in the papers.

Hon. Mr. STEWART: The Minister of National Defence was simply a victim of circumstances.

Hon. Mr. HOWE: No, not the victim of circumstances. Naturally, as he is the member for Vancouver he is the man that the city brings their pressure on.

Mr. HANSON: Not only that, he is the Minister for British Columbia as well.

Mr. WALSH: I was just afraid that we might have developed a system of—

Hon. Mr. HOWE: Incidentally, if you want to pursue that further, I will dig up a few files of Mr. Stevens' announcement at the time that the hotel was started.

Mr. WALSH: I am not very much interested in what Mr. Stevens said.

Hon. Mr. HOWE: You would have been had you been a member of the party at that time, Mr. Walsh.

Mr. WALSH: I presume if I had been sitting in opposition when Mr. Stevens was enjoying the fruits of office I would have taken the same attitude; but I am trying to prevent a development within the cabinet so far as the Minister of National Defence is concerned, such as developed between the Minister of Agriculture and the Minister of Trade and Commerce.

Hon. Mr. HOWE: Not the Minister of Transport.

Mr. WALSH: No; the Minister of Transport stands very high in my esteem.

The CHAIRMAN: Hear, hear.

Mr. WALSH: I would not want any other minister of the cabinet to be trespassing upon his prerogatives, as I know he, with his nature, would not fight back to the same extent as some of the other ministers may. I do not want the Minister of National Defence to presume on what should come from either the Minister of Transport or the management of the railway. I think the Minister of National Defence is fully occupied with his duties as such without trying to make a little political capital for himself out of what the government through the national railways decide to do in connection with the city of Vancouver. I think it is very bad form on the Hon. Mr. Mackenzie's part to make such an announcement and to take advantage of a situation for political purposes. It is not the first time he has done that and I hope it may be the last.

Hon. Mr. HOWE: I think you will find that other ministers in the history of government have done exactly the same thing, and every member has done the same thing.

Mr. WALSH: I should not like to go that far.

Hon. Mr. HOWE: I do not think you need to look on any one side of the house to find that situation.

Mr. YOUNG: As a humble member of parliament representing one of the constituencies in the west, my experience has been that I am asked questions about everything, and I think that is true of every member of this house. We endeavour to give our constituents information and I for one cannot see anything very strange or very irregular, or certainly nothing improper, in the minister for British Columbia giving the people of British Columbia some information which they desire. I cannot see that either Mr. Stevens, for whom Mr. Walsh has not a very high regard, apparently, or Mr. Mackenzie, should be criticized for giving the people of the country information in connection with important matters of the country.

Hon. Mr. HOWE: All he told them was the government was now prepared to carry out an agreement with the city of Vancouver which was several years overdue. That is about all. I think it was a very proper way to do it.

Mr. WALSH: If he had made the announcement in that way. The report in the paper, and I took the report not from a Conservative paper—

The CHAIRMAN: You know, all these speeches are very badly reported.

Mr. WALSH: These speeches are all very badly reported, yes, and I am glad to hear the suggestion that the paper has put words into the Hon. Ian Mackenzie's mouth that he did not intend to be there. But I should like to correct my hon. friend who describes himself as a humble member. I was glad to hear that term used. I did not pass any disparaging remarks in connection with Mr. Stevens. I just simply said I did not want to hold myself responsible for anything Mr. Stevens said in the past or what he might say in the future. He is a law to himself in that respect.

Mr. HANSON: I think we are absolutely out of order.

Mr. HOWDEN: Yes.

The CHAIRMAN: When we finished up yesterday we were considering page 18 of the report.

Hon. Mr. STEWART: Just one question, Mr. Vaughan. I did not have the copy of the questions I had filed when you gave your answers a while ago, and now I have them. Are you prepared to answer any part of the questions?

Mr. VAUGHAN: There is no objection, whatever, Mr. Stewart, to giving the quantity of purchases.

Hon. Mr. STEWART: There is no objection?

Mr. VAUGHAN: No. Then you asked: "what was the cost per ton of such coal at the Kentucky mine"? I would not like to give that. The next question was: "What was the freight rate per ton on such coal"? I would not like to have to give that for this reason, that what might be the tariff rate to a certain point might vary when you come to take into account the divisions existing between certain railways in that rate.

Hon. Mr. STEWART: I see.

Mr. VAUGHAN: Your next question was: "Through what agent or agencies or otherwise was the coal purchased"? We have no particular objection to giving that; we would just as soon not give it, but there is nothing secretive about that so far as it goes. Your next question was: "What was the name of the west Kentucky mine from which the coal actually was taken"? That would be answered really in the fourth question. There were several mines. The next question was: "Were bids asked for this type of coal"? At various times bids have been asked for on that type of coal and the lowest bid has been accepted. Frequently we have negotiated prices considerably lower than any bid we may have received. The next question was: "Does the company that actually supplied the coal provide traffic for the Canadian National system"?

Hon. Mr. STEWART: You answered that. Then, there is one general question I should like to ask, but perhaps it has been covered while I was looking up this copy. Do you find, Mr. Vaughan, that the cost of coal to the company is less when produced from these mines of your own than when purchased from outside?

Mr. VAUGHAN: For certain districts, we do, Mr. Stewart, and we confine that coal to the districts where it is economical to use it. I might answer this way, although I would not like it to go in the record.

The CHAIRMAN: Is that satisfactory?

Hon. Mr. STEWART: Quite.

The CHAIRMAN: Gentlemen, on page 18 appears a heading "Property Investment Account." Are there any remarks in regard to that, or do you want me to read the details?

The CHAIRMAN: Transactions during 1937 affecting proprietor's equity. I suppose this perhaps could be postponed until we are considering the report. Dr. Clark will be here this afternoon to give us a full explanation. Stands.

Funded debt—principal and interest. We have already discussed this question and the Clerk of the committee is taking a special note on the remarks made by the different members of the committee to be included in the report. Are there any further questions?

Mr. YOUNG: I suppose we covered it pretty fully yesterday, but I note here the date of issue of some of the debenture stock goes back as far as 1875; that is a 5 per cent perpetual debenture stock. Now, that was a stock issued by a private company. To-day this is a government owned railway and it does seem to me that we should have readjustment on an interest rate of this kind. The word "perpetual" means apparently that for all time this road would be burdened with an interest rate that is out of harmony with interest rates to-day, unfair to the railway; and more than that, in my judgment, too high a rate of interest all together. I sometimes listen to discussions about the word repudiation and while I am not one of those who would like to see that, I am not in favour of what is usually termed repudiation, yet I cannot help feeling that now that this road has become a government owned road there must be some way whereby this stock could be retired and money received from another source at rates which are current at the present time. There seems to me to be a situation which is entirely wrong, and where a situation is wrong I take it there must be some remedy. Surely we have not such a great bankruptcy of resources at the moment that no method may be found whereby this could be entirely removed. I do not think there is any man who would look at this thing but would be struck by a situation of this kind. The other day in the house we were discussing the question of laying off men. One member suggested that while the men were being made to suffer a lay-off the capital involved, and particularly in this way, was not being made to suffer in any way. These interest rates, as I have said already, are out of line with present day rates. I take it that there could be no reasonable objection from anyone if capital was obliged to conform to present day conditions. I for one would certainly urge that the matter be pursued to the limit to find some way, or some means, of having this stock retired and money obtained at a much more equitable rate of interest than prevails at the present time.

Some Hon. MEMBERS: Hear, Hear,

Hon. Mr. HOWE: Mr. Chairman, I might say that this involves a very large question of policy that only the Minister of Finance is competent to deal with. Canada to-day is borrowing its current requirements at the lowest rate of interest of any country in the world, with the possible exception of the United States; and the reason it is borrowing money at that very low rate is that it honours all its obligations exactly to the letter of the obligation. Now, what Dr. Young suggests, compulsory refunding, is a form of repudiation. I will admit at once that it is the mildest form of repudiation one could possibly find, but nevertheless it is a form which would have an undoubted reflection on the rate at which we are able to borrow money. Now, I do not know that this is entirely a question of morality. Morality is certainly involved, but there is also the question of good business. The Department of Finance would be the proper department to discuss this subject, but I do not think it is a discussion which should be carried on in this committee without the Minister of Finance being present to guide us in it. I doubt if this is a question which this committee can explore to very great advantage, because it is a question that involves not only railway financing but all the financing of the Dominion of Canada.

Mr. YOUNG: I think anyone will recognize that what the minister has said is certainly accurate, and I agree that probably the Minister of Finance would

be the proper person to further investigate this matter, having regard to the whole financial structure of the Dominion.

Hon. Mr. HOWE: Quite.

Mr. YOUNG: And my remarks are intended to be of a type and kind which will come to the attention of the Minister of Finance, with the thought that he with his very great ability and very sound knowledge of financial conditions generally will take this into consideration and see if he will not be able to find some solution to what in my judgment at least is something which should be remedied.

Mr. HEAPS: We discussed this matter yesterday and the thought that came to me was that when we consider our report would be the time to consider this particular item. I realize the point of what the Minister of Transport has said. There is a good deal of weight in what he has said. It is well, I think, for us to remember that all of these bonds are not in exactly the same position, they were not all bought in the open market. These are bonds which were inherited by the government, and they assumed an obligation there, it is quite true. When you see bonds to-day at  $6\frac{1}{2}$  per cent on a list of Canadian National Railway obligations, and also bonds bearing 5 per cent and so on, there is some force in the remark that we should perhaps get the interest rate which the railway system has to bear at the present time reduced.

Hon. Mr. HOWE: I think it would be a very suitable subject to mention in the report.

The CHAIRMAN: Instructions have been given to the Clerk to that effect.

We will now proceed to page 20, Dominion of Canada—loans.

Mr. HOWARD: Mr. Chairman, in connection with this funded indebtedness account of the Canadian National Railways, would it be possible to have put into the record the indebtedness in the hands of the public of the Canadian National, and alongside of that the bonded indebtedness of the Canadian Pacific Railway; that is, their bonds and their preferred stock, and the rate of interest they pay?

The CHAIRMAN: I am not sure but what we would be exceeding our powers if we were to do that. We could not give you any information with respect to the C.P.R., you could get in so far as the Canadian National Railway is concerned, but with respect to the C.P.R. you would have to get that information from somewhere else.

Mr. HOWARD: Supposing some of us got it and put it alongside of that would there be any objection to that?

Hon. Mr. HOWE: I doubt the propriety of that. This committee is concerned with Canadian National Railway affairs and has nothing to do with the C.P.R. I do not think it would be proper for this committee to publish the two side by side.

The CHAIRMAN: Dropped.

Mr. WALSH: On page 20 there: in last year's report the Dominion of Canada loans—some of those advances, as I pointed out yesterday, had interest bearing from 4 per cent to 5 per cent or  $5\frac{1}{4}$  per cent, and this year they are listed here at  $3\frac{3}{4}$  per cent. Have they been refunded or has the interest automatically been reduced; or what was the reason for the reduction from the per cent as reported and the per cent as reported this year?

Hon. Mr. HOWE: That is by agreement with the government. That was temporary financing carried out by treasury bills and the rate charged is indicated.

Mr. WALSH: It varies, in some cases the interest is 4 per cent and sometimes more.

Hon. Mr. HOWE: They got lower interest rates when the loans were made last year. I saw the Minister of Finance and told him that I did not think it was fair to charge the railway that price having in mind the current borrowing rate of the Dominion government, and by agreement he reduced it to  $3\frac{3}{4}$  per cent which he thought in view of conditions at the time a very reasonable rate.

Mr. WALSH: Are these amounts represented by bonds or what?

Hon. Mr. HOWE: I think they have all been repaid now. The Canadian National sold its own bonds for a trifle less than  $3\frac{3}{4}$  per cent.

Mr. WALSH: The interest on government loans amounted to \$1,744,550. That amount would have been higher had the interest remained the same as last year I presume?

Hon. Mr. HOWE: Undoubtedly.

Mr. WALSH: Which goes to show a very much better account than otherwise we might have had.

Hon. Mr. HOWE: That amount was not included in the balance sheet of last year. It was brought in this year for the first time. It was treated as a non-cash item last year.

Mr. WALSH: If the interest rate had remained the same as last year the \$42,000,000 of a deficit would have been higher this year?

Hon. Mr. HOWE: It would have been higher comparing the two deficits, but this item of \$1,700,000 odd should be struck out because it did not appear in the statement of last year.

Mr. WALSH: It was not in the statement at all last year?

Hon. Mr. HOWE: Right.

Mr. WALSH: It did not come under the heading of income statement?

Hon. Mr. HOWE: No.

The CHAIRMAN: Carried.

Investments in affiliated companies—carried.

Major contingent liabilities. Carried.

Mr. WALSH: I presume we will discuss the airlines, Trans-Canada airlines, when that report is reached?

The CHAIRMAN: We have a special report on that. Carried.

Schedule of companies comprising the Canadian National Railway system. Carried.

Statement of revenue tonnage by commodities for the years 1937-1936. Carried.

Hon. Mr. STEWART: Just as a matter of record, this is a schedule of the companies of the present Canadian National Railway system?

The CHAIRMAN: Yes.

Hon. Mr. STEWART: It just occurred to me that possibly there might have been included in this—the interest in the Trans-Canada airlines.

Mr. COOPER: That is shown on page 21.

Hon. Mr. STEWART: On page 21?

Mr. COOPER: Yes, affiliated companies.

Hon. Mr. STEWART: I was just wondering if it should not have been placed in this schedule.

The CHAIRMAN: It is dealt with under a special report.

Hon. Mr. STEWART: We have 99 companies now, why not take in one more and make it an even hundred. I do not know whether it should be there or not. What is the idea, Mr. Cooper; should it or should it not properly find a place in this schedule?

Mr. COOPER: It was desired to make a separate report for it and to exclude it from the consolidated account of the Canadian National Railways.

Hon. Mr. STEWART: Yes?

Mr. COOPER: The companies on page 22 are the companies which go into the consolidated system. The companies on page 21 are those in which we have an interest but which are excluded from the consolidated statement.

Mr. McKINNON: It is in there separately under Trans-Canada airlines.

Hon. Mr. STEWART: Yes, as a separate schedule.

The CHAIRMAN: Details of railway equipment. Carried.

Mr. HEAPS: Is there any new equipment being ordered for 1938?

Mr. HUNGERFORD: Yes.

Mr. HEAPS: I am just wondering, Mr. Chairman, if in ordering new equipment the government or the management of the railways could not take into consideration the question of providing their own shops with as much work as they possibly can instead of putting it out to private companies.

The CHAIRMAN: Including Mont Joli.

Mr. HEAPS: What was that you said?

The CHAIRMAN: I said, including Mont Joli.

Mr. HEAPS: Well, I don't know about that—

Mr. HUNGERFORD: I think we have done that, Mr. Heaps.

Mr. HEAPS: Well, there is continuous complaint, Mr. Chairman, coming in, I would suppose, to every member of the House in regard to the fact that a great many of the orders which are given to private companies could just as well and just as cheaply be produced in the railway shops themselves. I think there must be communications coming in almost every other day to members in that respect; and when we find that there are large quantities of equipment being farmed out, if I may use that term, to private companies, I often wonder myself why the railway shops in Transcona and the other shops down there should not have a larger share of the orders for the equipment that is necessary for the running of the Canadian National.

Mr. HUNGERFORD: There has been no change in the policy over a great many years.

Mr. HEAPS: It is not a case of change of policy. I would like to see a change of policy, and the change I would like to see is that there should be more of the orders placed in the government shops.

Mr. HUNGERFORD: There are many complications in connection with that.

Hon. Mr. STEWART: I should think so.

Mr. HUNGERFORD: We are following the general policy that is followed by railways, and we think it is a sound economic policy.

Mr. HANSON: Is it found that it would cost more to make these in the company's shops than it would by tender?

Mr. HUNGERFORD: It depends upon the suitability of the work for the particular shop. A certain plant can do a certain class of work advantageously, but it is not equipped to do other classes of work.

Hon. Mr. STEWART: Is there not also involved in that the wider principle, in these depressed times, of giving employment—relieving unemployment? For that reason it was thought well, as I believe in some instances, to give work outside of the company's shops because men who are unemployed by private companies are just as much a problem as men unemployed who would be working in the railway shops.

Mr. HUNGERFORD: They are not a problem to the railway company.

Hon. Mr. STEWART: I mean to the government.

Mr. HUNGERFORD: Well, that is another detail.

Mr. EMMERSON: Are the shops of the C.N.R. construction shops or repair shops?

Mr. HUNGERFORD: They are primarily repair shops.

Mr. EMMERSON: Then you cannot build in those shops as cheaply.

Mr. HUNGERFORD: As I said before, it is quite possible and feasible to construct certain classes of equipment in certain of our shops; but they are not well adapted to carry on other classes of work.

Mr. HOWDEN: I would like to get a statement from the president that the replacements on the railway have been procured in the most economical way. I come from St. Boniface, which embraces the Transcona shops which are probably as large as any shops that the company has. I do not know. That is their claim, at all events. I quite readily realize that the Canadian National Railways is in the transportation business, and that is its first business; that its business is neither the building of engines nor the building of box-cars. I also realize that the Canadian National Railways move a great deal of freight for these particular companies that do build engines and build box-cars, and that if these companies were entirely ignored they probably would ignore the Canadian National Railways on the other hand.

Hon. Mr. HOWE: I think we should correct that. It is not true.

Mr. HOWDEN: What is that?

Hon. Mr. HOWE: I think the freight we haul for these companies is not a factor. We create our own freight. I do not think I would imply that that is a factor. I do not think that it is.

Mr. HOWDEN: Taking the minister at his own word, that the hauling of freight is not a factor, if the shops of the Canadian National Railways System can assemble engines and build box-cars, refrigerator cars and coaches as cheaply or more cheaply than they could be secured from the contract shops, then I do not see anything that stands in the way of them building their own equipment. If there is no feature at all and if it is as economical for them to produce their own cars and their own engines in their own shops—perhaps the officials have no business to so tell me, but I am told that they could build these cars and these engines; and if it is not a matter of economy and if it is not a matter of business, then why should not they build them in these shops? That is what I want to know.

Mr. HUNGERFORD: My answer to that is this: As I said before, there are certain classes of equipment that the shops are adapted to build and can do so economically. In my judgment and in the judgment of the officials who have had experience in these matters they are not equipped to handle certain other classes of equipment.

Mr. HEAPS: May I pursue that one point a bit further. With regard to the equipment that they are in a position to produce, is any of that equipment being sent out or being ordered to be made by private concerns?

Mr. HUNGERFORD: There have been some in the past, yes. It has been divided up.

Mr. HEAPS: Could not that class of equipment be produced in the future in the railway shops themselves?

Mr. HUNGERFORD: It sometimes becomes a question of time. Time is an important element in the thing. By the time we get the necessary authority to produce or construct the equipment, the time is very short until the period that we may require it. A great many things have to be taken into consideration in regard to this matter.

Mr. HOWDEN: I would like to say this before I quit, that it is very hard to feel satisfactorily convinced by the president's remarks, because we have

a statement of the president on the one hand, which should certainly go; but, on the other hand, and this is the position in which a member finds himself, at all events—we are faced with these men in the shops and their officials, their foremen and superintendents and that sort of thing, who indicate that this work could be prosecuted very nicely in these shops. Naturally, we are looked to by our constituents to find out why more work is not given to these shops, considering that they are government shops, government undertakings, and that these men are working for the government indirectly.

Mr. HUNGERFORD: Well, it represents a difference in view.

The CHAIRMAN: Page 27.

Hon. Mr. STEWART: Mr. Chairman, I notice in the freight equipment, the additions during the year 1936 were 3,785 and in the year 1937 they were 852; and the retirements during the year 1936 were 3,401 and in 1937 apparently 1,407.

Mr. ARMSTRONG: I do not think that is correct.

Hon. Mr. STEWART: That is the total, is it?

Mr. ARMSTRONG: The facts are these: At the end of December, 1936, there were 95,993.

Hon. Mr. STEWART: I am not speaking about the total. I am speaking about the comparison of the new ones added and retired in those two years.

Mr. ARMSTRONG: One is additions.

Hon. Mr. STEWART: Additions, yes.

Mr. ARMSTRONG: The second column is additions during the year 1937.

Hon. Mr. STEWART: Take it during the year 1936. What were the total additions?

Mr. ARMSTRONG: They are not shown.

Mr. COOPER: There are no 1936 figures.

Hon. Mr. STEWART: I see added up here additions during the year—page 26—3,785. Is that the total additions during that year?

Mr. COOPER: That is correct.

Hon. Mr. STEWART: What are the additions during the year 1937,—852?

Mr. ARMSTRONG: No. Pardon me.

Hon. Mr. STEWART: It is the corresponding figure, is it not?

Mr. ARMSTRONG: No. The additions during the year 1937, were 3,785.

Hon. Mr. STEWART: Yes, I am right in that.

Hon. Mr. HOWE: This is during 1937, though.

Hon. Mr. STEWART: 1936 I am talking about.

Mr. COOPER: No. 1936 is not shown.

Hon. Mr. HOWE: It is at the end of December 31, 1936, and additions during the year 1937.

Hon. Mr. STEWART: That shows additions during the year.

Mr. COOPER: That is 1937.

Hon. Mr. STEWART: I took it to be the same there as follows 1936.

Hon. Mr. HOWE: The figure is as of December 31st, 1936.

Mr. ARMSTRONG: This report is for the year 1937.

Hon. Mr. STEWART: Exactly; and these additions are during the year 1937.

Mr. ARMSTRONG: Right. In the next column are retirements during the year 1937.

Hon. Mr. STEWART: What does it mean by "added"?

Mr. ARMSTRONG: These are conversions during the year. That is, they are converted from one class to another.

Hon. Mr. STEWART: Added to another class?

Mr. ARMSTRONG: Added to and retired from.

Hon. Mr. STEWART: The total number?

Mr. ARMSTRONG: The total number.

Hon. Mr. STEWART: They are practically the same.

Mr. ARMSTRONG: Yes.

Hon. Mr. STEWART: The total number in 1936 was 95,993 and in 1937 it would be 95,822.

Mr. ARMSTRONG: There was actually a reduction in the freight equipment at the end of 1937 as compared with 1936.

Hon. Mr. STEWART: Yes; the equipment at the end of 1937 is less.

Mr. ARMSTRONG: That is correct.

Hon. Mr. STEWART: Although a great many were added in 1936.

Mr. ARMSTRONG: You are speaking of freight equipment?

Hon. Mr. STEWART: Yes. It is freight equipment I am dealing with only.

The CHAIRMAN: Carried.

Mr. HEAPS: Before you leave that item, may I ask the management if they are short of any equipment at the present time?

Mr. HUNGERFORD: I beg your pardon?

Mr. HEAPS: If they are short of any equipment at the present time.

Mr. HUNGERFORD: Not at the present time, unfortunately.

Mr. HEAPS: Unfortunately? The reason that prompted my asking that question was the answer I got yesterday with regard to sleeping car equipment on the cheap excursion trains which run between the various points east and west. I know they have done that in the United States in the cheap trains; they have provided sleeping car accommodation, and if we are not short of equipment I am just wondering why we could not do the same here as they did in the United States. I think it would be conducive to encouraging people to travel more than they do at the present time.

Mr. HUNGERFORD: Well, that is a matter that is explored very carefully by the Passenger Department, not only our passenger department but all passenger departments; and we carry on that work more or less concurrently with the Canadian Pacific, and on the same basis.

Mr. HEAPS: Both companies came to the conclusion that it would be more convenient for the public to sit up all night than to take a sleeper at night?

Mr. HUNGERFORD: We quote a very low rate for those who want to sit up all night.

Mr. HEAPS: They might be prepared to pay a little extra if they did not have to do that.

Hon. Mr. STEWART: Some people sit up all night, anyway.

Mr. HEAPS: I am not in the habit of doing it. I do not know whether you are.

Hon. Mr. STEWART: Sometimes, but not always. It depends on who the company is.

Mr. HANSON: With regard to these business cars, 69—is that only railway business cars or does that include the government cars? Are they owned by the railroad or does that include the Prime Minister's car and the minister's car?

Mr. HUNGERFORD: We have nothing to do with that. The government has a certain number of cars.

Mr. HANSON: They are not included?

Mr. HUNGERFORD: No.

Mr. HANSON: How many government cars are there?

Hon. Mr. HOWE: Four.

Mr. EMMERSON: There is an item there of unit cars, 53. What are they?

Mr. ARMSTRONG: Those are self-propelled cars, either straight gasoline, gasoline-electric or Diesel-electric.

The CHAIRMAN: Is there anything else? If not, carried. Then we come to page 27, statistics. Do you want me to go all through this?

Mr. WALSH: I wanted to bring up a point here—I do not know whether it comes in here, but it will come in here as well as any other place,—in connection with the facilities for getting to and from Prince Edward Island. A number of us have had the privilege of spending our vacation on the island, and personally I would recommend that to more Canadians rather than going to the State of Maine.

The CHAIRMAN: You get too much information when you are there.

Mr. WALSH: There would be more travel to Prince Edward Island, I think, if the facilities offered were very much improved; and I feel, after certain experience, that those facilities could be improved. I invite the president and other officials of the railway to take that trip as occasion might offer in order to know where the improvement could be made. The travel is very satisfactory until we get to Moncton or even to Sackville; but from Sackville to Charlottetown it is abominable. There are two trains, I think, going from Sackville to the cape in the summertime, to reach the Ferry; and both are run, I presume, as locals. I have been on one, and I presume the other is the same. It stopped at every crossroad there is between Sackville and the cape. And then we hang around the Cape for an indefinite period, shunting backward and forward, instead of having the ferry ready to receive the cars as they arrive on and off without any delay. Then going from Borden to Charlottetown, it seems to me an indefinite road for such a short stretch of line.

I was wondering if we could not get better facilities for travelling from Sackville to Charlottetown in order to improve conditions on that island as far as travel is concerned. I feel that there would be more people travelling backward and forward from the island, the island population itself, also that there would be far more people interested in spending their summer vacations on the island, because, as most members know, the beach facilities on the island are admirable and the hotel accommodation is not bad and would be improved if the railway would improve the facilities to reach the island. There are no finer beaches on the continent than are to be found on the far shore of Prince Edward Island.

I am not attempting to advertise the island; I am not an advertising agent.

Mr. McKINNON: You are doing pretty good.

Mr. WALSH: I am merely dealing with it from the point of view of the railway. The facilities are there on the island to receive a tremendous amount of tourist traffic. Now that the government has undertaken to put a national park there with the presumption of road facilities from Charlottetown, Summerside and Georgetown to get into that park—the park is situated on the coast line where most of the beaches are located—they have everything possible on the island. It is the difficulty in reaching the island that is causing such an amount of inconvenience and, from the point of view of the natives of Prince Edward Island, grievance. I grant you that the population of Prince Edward Island is rather small, and probably commensurate with their size they are getting railway facilities which they could not pay for themselves. But I look at it from this point of view: Prince Edward Island is the cradle of Confederation; it was from there that the Dominion of Canada started. They are a province. They are not

just an island, they are a province, and I feel that we and the rest of Canada should give Prince Edward Island a better break in regard to railway facilities, both freight and passenger, than they are getting at the present time. I urge this while the officials are here, particularly while the president and general manager of the road are here. I urge it at this time in the interests of the railway to see if something can not be done to facilitate better service. I do not know how to run a railway; I do not know whether I am making suggestions that are beside the point; but I do feel in travelling down there that there can be something done that would improve facilities and bring something to that island which they have not enjoyed in the past. If it could be done, it would certainly eliminate any possibility of the necessity of relief so far as the island is concerned, and it would generally improve conditions for the railways.

Mr. HUNGERFORD: Is the service unsatisfactory?

Mr. WALSH: The service is not unsatisfactory; it is deplorably slow. It takes such an unearthly time to get from Sackville to Charlottetown.

Mr. HOWARD: You can save six hours by flying from Moncton.

Mr. WALSH: Yes, but there are some of us, unfortunately, who cannot fly, and it is not because of finances but because of physical reasons. We have got to keep on terra firma, and we have never been up in the air yet and do not intend to go up during our lifetime.

Is it necessary to run both those trains as locals between Sackville and Charlottetown, or could one of them be run through as an express stopping at only the most important points as you travel towards Charlottetown? I think a few hours could be saved, and certainly the accommodation in getting on and off the ferry at both ends could be very much improved. I cannot see the necessity of waiting such a long time to get on the ferry. I cannot see why they cannot have that ferry all ready waiting for the train, not the train to sit there and wait for the ferry. The ferry should be there ready to receive the train and in five minutes the train should be on the ferry on its way over, and the same thing getting off. I just make that suggestion in the interests of the railway, also in the interests of that island province whose tourist facilities can certainly be very much improved. It would be appreciated by the Canadian people if the facilities to reach those tourist places could be improved.

Mr. HUNGERFORD: I can assure you, Mr. Walsh, that a great deal of consideration has been given to these matters and a great deal of money has been spent in improving the tracks and other facilities on that service; but we would be glad to take another look at it.

Hon. Mr. Howe: I can say also that the government has taken this problem in hand and provided two ferries instead of one that was run last summer. We believe that we will give the island this year the best service they have had in their history and that it will adequately take care of tourists who wish to cross there by train or motor.

Mr. WALSH: I am glad to hear that from the minister. I did feel that that part had been neglected from the tourist point of view. The chairman has been there and he knows the facilities.

The CHAIRMAN: Lovely.

Mr. WALSH: He does not know the difficulties in getting there because he travels de luxe, but the rest of us have to travel by rail, and we would like to enjoy those facilities with a greater degree of comfort in approaching and getting back home again.

Mr. HOWARD: I hope the minister has already made that statement about the change in the ferries, because Mr. Walsh can make a speech in the summer down there like Mr. Mackenzie made in Vancouver.

Mr. EMMERSON: I think what Mr. Walsh was referring to was the passenger traffic on the railway, not the tourist traffic, because the bulk of the traffic in the summer time goes over there by motor cars, and I do not think anybody could wish for any better service than is given in connection with motor cars. It is true as far as the passenger traffic is concerned; that is, freight traffic as well as passenger traffic on that big steamer, as the freight cars have to be loaded on when the train comes in as well as passengers.

The CHAIRMAN: Carried.

Statistics of rail-line operation. Are there any questions?

Carried.

Hon. Mr. STEWART: I notice the average mileage of road operated is greater in 1937 than in 1936; what is the explanation for that? Is that a new line?

Mr. ARMSTRONG: There is the Seneterre-Rouyn line from Seneterre to Val d'Or and there are one or two branch lines in Western Canada.

Hon. Mr. STEWART: New lines?

Mr. ARMSTRONG: They were not classified as operated mileage, but they were re-classified as operated mileage last year. It is not new construction.

Hon. Mr. STEWART: Were there any lines abandoned as against those new lines?

Mr. ARMSTRONG: Yes; the abandonments included in that figure were about twelve miles during the year.

The CHAIRMAN: Carried.

Employees and their compensation.

Carried.

Distribution of the dollar.

Carried.

Canadian National Railways, condensed consolidated balance sheet at 31st December, 1936, and so on. That is the same balance sheet that you have examined.

Mr. HEAPS: Carried.

The CHAIRMAN: Carried.

Operated mileage, December 31, 1937. I think we have gone through that already in detail.

Carried.

Gentlemen, that disposes of the annual report of the Canadian National Railways system.

Mr. WALSH: Now, Mr. Chairman, before leaving this report, I think it is in order for me to bring up a point in connection with the annual report of the Canadian National system, a point of omission. As you know, last year I contended for a statement that would keep before the public the exact cost in dollars and cents of this national enterprise. In that, I was unsuccessful. There is nothing in this report that will tell the people of Canada exactly what their investment is in that railway; that is, exactly what it costs them in dollars and cents to operate that railway for a period of years, say, from 1922, when it was first commenced as a national enterprise, down to date.

In the Gazette of March 31, 1938, we had a statement showing in tabulated form official figures telling the story of the unchecked losses of the Canadian National system year by year since the various lines were amalgamated, commencing with the year 1922 and going down to the year 1936. This showed for each year the income deficit; the interest on government loans; that is, unpaid; the profit and loss debits, and the system net loss down to the year ending December 31, 1936. I have a copy of a clipping from the Gazette of March 31, 1938, and I presume I shall have to read the figures unless the members will take them as read, having already seen them in the Gazette.

Mr. HEAPS: Who was responsible for the publication of those figures?

Mr. WALSH: They were published in the Gazette and they were compiled from statistics obtained from Mr. Wrong in one of the departments in connection with government service.

Mr. HEAPS: Who compiled those statistics?

Mr. WALSH: They were compiled by the person who wrote this article.

The CHAIRMAN: Do you vouch for their accuracy?

Mr. WALSH: I would vouch for their accuracy, and I can refer to the government statements issued by the Bureau of Statistics for the figures that are concerned. I will read the figures—

Hon. Mr. HOWE: Just a minute. Do you recall this paragraph in The Capital Revision Act passed last year?

The Minister shall include annually as an appendix to the public accounts of Canada a detailed statement of the assistance, whether by way of grant or unpaid loan of money, undischarged guarantee, grant of land or otherwise given by the Dominion of Canada to every railway showing separately the assistance given (a) in aid of construction and (b) to meet losses in operation. Such statement shall, as far as possible, show separately for each item of assistance the name of the Company to which granted; the date upon which granted; the authority for the grant, whether by statute, contract or otherwise; the purpose for which granted, and the manner in which such assistance has been dealt with in the public accounts of Canada. The appendix shall also contain a similar statement in respect of loans which have been repaid and guarantees which have been discharged, showing the same details and also the dates of repayment or discharge. Grants to relieve unemployment shall not be considered as assistance to the railways.

Those are the instructions of the Statutes of Canada as to where material of the kind which your clipping contains shall be published, and I feel personally that a clipping with as little authenticity as that should not be included in the record of this committee.

Mr. HOWARD: Hear, hear.

Mr. WALSH: I shall withdraw it as a clipping, but I shall read into the record the information which I have received from the Bureau of Statistics in reply to my question asking year by year from 1922 to 1936 inclusive, for the income deficit, the interest on government loans, profit and loss debits and the net loss of the railway system over that period of time. The year 1922, income deficit \$33,211,945, interest on government loans unpaid \$24,748,152, profit and loss debits \$370,207, system net loss \$58,330,304.

Now, I will not read them all because I know these figures are familiar. The ones I have just given are for the year 1922. Then I come down to the year 1936 and under the same headings I find a net income deficit of \$43,197,346, interest on government loans unpaid \$36,428,874, profit and loss debits \$12,684,819—

Mr. HANSON: Sir Edward Beatty made the same speech over the radio.

Mr. WALSH: I should like if the hon. gentlemen did not intrude the suggestion that Sir Edward Beatty used these figures. I recognize him as an authority, but I should like to quote figures from the Bureau of Statistics rather than from any other person or body of persons in the Dominion of Canada.

Mr. HOWARD: What is the object of the quotation?

The CHAIRMAN: He is preparing a speech.

Mr. WALSH: I have quoted a figure for 1936 of \$36,428,874 interest on government loans unpaid, profit and loss debits \$12,684,819, system net loss \$92,311,038. Now, the total for the fifteen years of the net income deficit

amounts to \$459,979,453, interest on government loans unpaid \$492,691,400, profit and loss debits \$66,322,561, system net loss \$1,018,993,414.

Now we cannot have these figures for 1937 on account of the Act that was passed last year, known in this committee as Bill No. 12. What I maintain is this, and I maintained it last year, in the statement compiled by the auditor there should be a statement similar to the one that I hold in my hand that will show to this committee and to the public generally every item that the Dominion government has put into the Canadian National system so that the people in this committee could be fully informed from year to year as to the actual cost of this railway over a period of time.

Mr. HEAPS: What is the purpose of that?

Mr. WALSH: The purpose is that it would keep before this committee and before the public the possibility of further extravagance, and that will act as a curb, as well as a piece of information that has been eliminated from the records that previously up to this year you had.

Mr. HEAPS: Would you mind stating the extravagance?

Mr. WALSH: The extravagance occurred between 1922 down to 1930, without any political significance. That is when the boom period occurred in connection with our railway development in Canada. If you refer back to the figures when the Canadian National Railways were taken over in 1922 or organized as a government enterprise in 1922, and consider the figures today of what it has cost this country, you will readily see that we entered upon a period of extravagance following the year 1922 and that extravagance was only curbed with the advent of the depression.

Mr. HEAPS: Between 1930 and 1938 you have very little complaint to make?

Mr. WALSH: I have very little complaint to make from 1930 to 1938 as far as the management is concerned. From 1930 right down to date I feel the officials of the Canadian National Railways are doing their utmost to curb unnecessary expenses and to administer the road as economically as it possibly could be administered in the circumstances. I am not holding the present management or officials in any way responsible for the position in which we find ourselves with a debt accumulated of over one billion dollars. I should have liked to have seen in the report an additional page showing these figures so that they could be kept before us and in that way we would understand exactly what this railway means to us and to the people of Canada. It would act as a curb on any propensity that any officials in the future may have to enter upon a period of extravagance if they find times improving, which presumably they will do in due course.

Now, besides that it would furnish a tremendous amount of information. I contended that last year. That is the statement that I wanted in our records last year. Instead of that I got what the Minister has read this morning, an appendix added to the public accounts of Canada, showing something in which we are interested but, with which we were not too much concerned, because what is being added as an appendix is not a record that is read by very many people in this country and even by very many people present in this committee. Therefore it is a compilation of figures that is hidden away where you would not expect to find them. These figures, instead of being in the public accounts of Canada—if I may make a suggestion to the Minister—should also be included in the statement of the railway.

Hon. Mr. HOWE: May I suggest to my hon. friend that not very many people are interested in computing interest on money they lose. Those few who are can go to the public accounts for the information.

Mr. WALSH: When we lose money it is gone, but in this case the government has advanced money and they are still paying interest on that advance.

There are bonds outstanding representing this amount of money, on which the government is still paying interest.

Hon. Mr. HOWE: I question that.

Mr. WALSH: Now you have eliminated that book debt. As we call it merely a book debt, we have eliminated it. But the compilation of the interest on advances from the government has been eliminated and the people of Canada will no longer have a true picture of the actual condition of the Canadian National Railways from 1922 down to date.

Now, I am not saying that I was in accord with what was done in 1932 when certain figures were eliminated. If I had been present at that time I would have objected to that action on the part of the government of the day. I do not believe in that. I always believe in getting before the people who are interested a genuine picture of the situation. Today we have that account somewhat eliminated from our records, but with a statement such as I have here we could know as we sit around this board from year to year exactly what the actual outlay has been to the people of Canada for this railway. I feel that it is useful information and it is something that should be included in this statement. Then, I should also like to urge the Minister when he includes in the public accounts of Canada, as outlined in section 24, page 22, of the Capital Revision Act, a statement, that that statement should also be found in the records as passed before this committee. It is not here. Neither of these two statements is present in this annual report, and I feel that they should be. I should like to urge that before the committee and before the Minister in particular, so that he may take what action he may see fit in order to give us a more complete and more detailed picture of the Canadian National Railways next year.

Mr. HEAPS: On page 1 of the report to the committee appears practically all that Mr. Walsh is asking for except the interest on the accumulated deficits. Here in the report to the Minister, dated March 18, is shown the operating result in 1937 and 1936 complete, with the cash deficit shown as \$42,345,867.99 for 1937 and deficits for 1936 slightly more, about \$1,000,000 more. If that is not putting before the public the actual operations for the year, I do not know what it is.

Mr. WALSH: One year.

Mr. HEAPS: What he wants is to go back each year for a number of years.

Mr. WALSH: I want a complete picture put before the public from 1922 to 1936 inclusive.

Mr. HEAPS: We have been sitting here listening to talks that we have to operate the railway on a business basis, and I should like to know which business concern in this country, when it brings down an annual report to its directors or shareholders, gives a report back for nine or ten years.

Mr. HOWARD: None.

Mr. HEAPS: What Mr. Walsh wants is to operate our utility on a somewhat different basis.

Mr. WALSH: No.

Mr. HEAPS: What Mr. Walsh wants is to operate our utility on a somewhat different basis from that on which any well governed utility is operated.

Mr. WALSH: I want it on a business-like basis.

Mr. HEAPS: That is what I want to do. But he feels we should go back over a period of years, which is different from what any other concern does.

Mr. WALSH: Every concern does that.

Mr. HEAPS: No.

Mr. WALSH: Certainly they do.

Mr. HEAPS: They do not publish a balance sheet for nine or ten years.

The CHAIRMAN: It seems to me it is out of our hands entirely. If any member of the committee desires next year, when the report is considered, a copy of the public accounts which gives a true statement of the business of the railway, that can easily be done.

Mr. WALSH: If this committee decided to embody that in the report—

The CHAIRMAN: No, because parliament has decided otherwise.

Mr. WALSH: Parliament decided to publish this report, according to section 24, in the public accounts of Canada. It decided to do that which is being done. Parliament did not decide not to publish it in the report of the Canadian National Railways. We will not be contravening anything that parliament has done if we publish it in the Canadian National Railways report.

The CHAIRMAN: I think any judicial opinion—and there are some lawyers present—will tell you we will have to go back to parliament to secure the necessary authority to add to the present report each year the figures that are compiled and published in the public accounts of Canada in accordance with an Act of parliament called Bill No. 12.

Mr. WALSH: If the Minister would bring forward an amendment to section 24 along the lines I have suggested I would be glad to give him what support I can in parliament.

Mr. HEAPS: What time shall we meet this afternoon?

The CHAIRMAN: Four o'clock. First of all we shall consider the Canadian National West Indies Steamship Lines, and then Dr. Clark will be here.

Mr. YOUNG: Mr. Chairman, I understand that this report is not quite finished, that we have to hear Dr. Clark on it—

The CHAIRMAN: Not on this report. We have a special report.

Mr. YOUNG: I should like to say just one thing. There is one particular matter on which I have something to say.

The CHAIRMAN: You can refer back to it this afternoon.

The committee adjourned at 1 o'clock to meet this afternoon at 4 o'clock.

---

#### AFTERNOON SESSION

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

The CHAIRMAN: Order, gentlemen. We have now to consider the Canadian National Railways Securities Trust. Dr. Clark is here; and I wish you would take your report from the beginning, Dr. Clark.

Mr. CLARK: Mr. Chairman and gentlemen, I will read the report which has been printed and which I believe is before you.

#### THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

OTTAWA, ONTARIO, March 11, 1938.

The Honourable C. D. Howe, M.P.,  
Minister of Transport,  
Ottawa.

SIR,—In conformity with Section 23 of The Canadian National Railways Capital Revision Act, 1937, the Trustees submit the following report of the transactions of The Canadian National Railways Securities Trust for the calendar year 1937.

The Canadian National Railways Securities Trust was incorporated by Section 12 of The Canadian National Railways Capital Revision Act, 1937.

The first meeting of the Trustees was held at Ottawa on the 17th September, 1937.

Dr. W. C. Clark, Deputy Minister of Finance, was elected Chairman of the Securities Trust; Mr. F. M. MacLennan, Chief Treasury Officer, Department of Transport, Ottawa, was appointed Secretary, and the Comptroller of the Canadian National Railways, Montreal, was appointed Comptroller. George A. Touche and Company were appointed Auditors.

A Bylaw relating generally to the transaction of the business and affairs of the Securities Trust was enacted by the Trustees and approved by the Governor in Council.

The Minister of Finance transferred to the Securities Trust the Indebtedness to His Majesty together with the collateral securities held by the Minister in respect thereof as set out in Schedule A of The Canadian National Railways Capital Revision Act, 1937, and in exchange therefor the capital stock of the Securities Trust consisting of five million shares of no par value was issued to the Minister of Finance to be held on behalf of His Majesty.

The collateral securities transferred by the Minister of Finance were verified and have been deposited for safekeeping.

Interest accruing after December 31, 1936, on the principal of the loans included in the Indebtedness to His Majesty was waived by the Securities Trust until further ordered by the Trustees, and this action was approved by the Governor in Council.

The initial stated value of the Capital Stock of the Securities Trust has been reduced by \$711,732.21 due to capital losses from certain line abandonments made by the Railway during 1937 in respect of which His Majesty has not made cash reimbursement to the Railway.

The line abandonments in question were:—

Line abandonment between mileages 35.4 and 59.46 on the North Lake Subdivision. . . .	\$260,686 27
Line abandonment between mileages 36.13 and 42.21 on the Orono Subdivision. . . . .	196,405 00
Abandonment of Red River Bridge at Winnipeg.	194,398 58
Abandonment of Bethel Granite Railway. . . . .	60,242 36
	<hr/>
	\$711,732 21

The Trustees present herewith the Balance Sheet of the Securities Trust at 31st December, 1937.

For the Trustees,

W. C. CLARK,  
*Chairman.*

I believe, Mr. Chairman, there was a question which came up this morning in reference to the last point covered in the second last paragraph; namely, the reduction in the initial stated value of the capital stock of the Securities Trust, as the result of capital losses through certain line abandonments; and a question arose I am told as to whether there was authority to do that without a special parliamentary provision therefor. We all thought that there was such authority in the Act but we asked the Department of Justice for a specific opinion with regard to that point, and I have before me the legal opinion given by the deputy minister of Justice. It is dated at Ottawa, March 30, 1938, and I will read it.

J. R. 3507/38

"DEAR SIR,—I have had under consideration your letter of the 18th instant regarding the Canadian National Railways Capital Revision Act,

1937, in which you ask to be advised whether the Minister of Finance has power, without any additional parliamentary authority, to make yearly the appropriate changes in the public accounts of Canada to give effect to changes in the proprietor's equity, and beg to advise you that in my opinion the question submitted is to be answered in the affirmative. The annual changes which will occur in the item representing the proprietor's equity on the books of the Canadian National Railway System are, in that form, the result of the carrying out of the provisions of the Act. It seems to me, therefore, that the Minister of Finance has not only power to make corresponding changes in the public accounts of Canada, but that it is his duty to do so in order that the accounts may be shown as they stand after giving effect to the directions of Parliament.

Let me read that sentence again, because it is the crux of the legal opinion:—

It seems to me, therefore, that the Minister of Finance has not only power to make corresponding changes in the public accounts of Canada, but that it is his duty to do so in order that the accounts may be shown as they stand after giving effect to the directions of Parliament. In that connection see section 38, subsection 2, of paragraph (c), of the Consolidated Revenue and Audit Act, Chapter 27 of the statutes of 1931. I do not think that the provisions of section 8 are inconsistent with this view. The adjustment in relation to the value of the capital stock of the Canadian National Securities Trust to which you refer has been duly made in accordance with the provisions of the section.

Yours very truly,

(Signed) W. STUART EDWARDS,  
*Deputy Minister of Justice.*

The CHAIRMAN: Are there any questions you want to ask on that Mr. Stewart?

Hon. Mr. STEWART: No, thank you.

The CHAIRMAN: Are there any other questions on that point? Gentlemen, shall we consider the balance sheet of the Canadian National Railways Securities Trust which you have before you. You will notice that it is audited and certified to by George A. Touche and Company, chartered accountants. Shall that carry? Carried.

#### THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

Balance Sheet at 31st December, 1937

##### ASSETS

##### *Claims for Principal of Loans:*

Canadian Northern Railway.. . . .	\$312,334,805 10	
Grand Trunk Railway.. . . .	118,582,182 33	
Grand Trunk Pacific Railway.. . . .	116,006,599 08	
Canadian National Railway Company.. . . .	96,936,971 75	
		\$ 643,860,558 26

##### *Claims for Interest on Loans:*

Canadian Northern Railway.. . . .	\$309,702,897 65	
Grand Trunk Railway.. . . .	103,250,802 95	
Grand Trunk Pacific Railway.. . . .	107,326,622 84	
Canadian National Railway Company.. . . .	54,501,313 57	
		574,781,637 01

##### *Collateral Securities:*

As per Schedule A. 1. . . . .		
		\$1,218,642,195 27

## LIABILITIES

*Capital Stock Owned by His Majesty:*

5,000,000 shares of no par value capital stock, having an initial stated value of . . . . .	\$270,037,437 88	
Less—Capital Losses of the National Railway System subsequent to 1st January, 1937—not reimbursed by His Majesty . . . . .	711,732 21	
		\$ 269,325,705 67

*Acquisition Surplus:*

—being the amount by which the book value of claims and interest thereon—per contra—exceeds the book value of the capital stock as shown above . . . . .		949,316,489 60
		<u>\$1,218,642,195 27</u>

T. H. COOPER,  
*Comptroller.*

## CERTIFICATE OF AUDITORS

We have examined the books and records of The Canadian National Railways Securities Trust for the year ended the 31st December, 1937.

There have been produced for our inspection the Notes and Other Evidences of Indebtedness, the Collateral Securities and the Certificate of the Special Depository, as set out in Schedule A.1 attached hereto.

We certify that, in our opinion, the above Balance Sheet is properly drawn up so as to exhibit a true and correct view of the accounts of the Trust as at the 31st December, 1937, in accordance with the provisions of The Canadian National Railways Capital Revision Act, 1937.

10th March, 1938.

GEORGE A. TOUCHE & CO.,  
*Chartered Accountants.*

Schedule A.1

## THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

Summary of Indebtedness Transferred from the Government  
to the Securities Trust

*Loans Outstanding*

## CANADIAN NORTHERN RAILWAY—

3½ % Loan, Chapter 6, 1911 . . . . .	\$ 2,396,099 68
4 % Loan, Chapter 20, 1914 . . . . .	5,294,000 02
5 % Loan, Chapter 4, 1915 . . . . .	10,000,000 00
6 % Loan, Chapter 29, 1916 . . . . .	15,000,000 00
Temporary Loan, 1918, repaid . . . . .	.....
x6% Loan, Chapter 24, 1917 . . . . .	25,000,000 00
x6% Loan, Vote 110, 1918 . . . . .	25,000,000 00
x6% Loan, Vote 108, 1919 . . . . .	35,000,000 00
x6% Loan, Vote 127, 1920 . . . . .	48,611,077 00
x6% Loan, Vote 126, 1921 . . . . .	44,419,806 42
x6% Loan, Vote 136, 1922 . . . . .	42,800,000 00
6% Loan, War Measures Act, 1918 . . . . .	1,887,821 16
x6% Equipment Loan, Chapter 38, 1918 . . . . .	56,926,000 82
Indebtedness refunded by Government under Chapter 24, 1917, and Chapter 11, 1918 . . . . .	.....
xMortgage covering loans above . . . . .	.....
Total Canadian Northern . . . . .	<u>\$312,334,805 10</u>

## GRAND TRUNK RAILWAY—

6% Loan, Vote 478, 1920 . . . . .	\$ 25,000,000 00
6% Loan, Vote 126, 1921 . . . . .	55,293,435 18
6% Loan, Vote 137, 1922 . . . . .	23,288,747 15
4% Loan to G. T. Pacific, Chapter 23, 1913, guaranteed by Grand Trunk	15,000,000 00
Temporary Loans, repaid through subsequent issues of guaranteed securities and Loans . . . . .	.....
Total Grand Trunk . . . . .	<u>\$118,582,182 33</u>

## GRAND TRUNK PACIFIC RAILWAY—

3% Bonds, Chapter 24, 1913.. . . . .	\$ 33,048,000 00
6% Loan, Chapter 4, 1915.. . . . .	6,000,000 00
6% Loan, Vote 441, 1916.. . . . .	7,081,783 45
6% Loan, Vote 444, 1917.. . . . .	5,038,053 72
6% Loan, Vote 110, 1918.. . . . .	7,471,399 93
Receiver's Advances, P.C. 635, March 26, 1919.. . . . .	45,764,162 35
Interest Guaranteed by Dominion.. . . . .	8,704,662 65
Interest Guaranteed by Provinces of Alberta and Saskatchewan.. . . . .	2,898,536 98
Agreement with Government under Chapter 71, 1903.. . . . .	.....

Total Grand Trunk Pacific.. . . . . \$116,006,599 08

## CANADIAN NATIONAL RAILWAY COMPANY—

6% Loan, Vote 139, 1923.. . . . .	24,550,000 00
5% Loan, Vote 137, 1924.. . . . .	10,000,000 00
5% Loan, Vote 377, 1925.. . . . .	10,000,000 00
5% Loan, Vote 372, 1926.. . . . .	10,000,000 00
5% Loan, Vote 336, 1929.. . . . .	2,932,652 91
5% and 5½% Loans, Chapter 22, 1931.. . . . .	29,910,400 85
5½% Loans, Chapter 6, 1932.. . . . .	11,210,815 56
Temporary Loan 1930, repaid.. . . . .	.....
Temporary Loan 1930, repaid.. . . . .	.....
Less adjustment authorized.. . . . .	1,666,897 57

Total Canadian National Railway Company.. . . . . \$ 96,936,971 75

Total Loans.. . . . . \$643,860,558 26

*\*Notes and Collateral Held*

None. Charge is on premises mortgaged October 4, 1911.. . . . .	.....
None. Charge is on premises mortgaged July 15, 1914.. . . . .	.....
4% Can. Northern Stock and Bonds.. . . . .	\$ 12,500,000 00
Mortgages dated June 23, 1916.. . . . .	.....
6% Demand Notes.. . . . .	497,566 80
6% Demand Notes.. . . . .	33,012,414 32
6% Demand Notes.. . . . .	27,203,003 65
6% Demand Notes.. . . . .	40,031,122 27
6% Demand Notes.. . . . .	53,008,779 65
6% Demand Notes.. . . . .	50,259,312 47
6% Demand Notes.. . . . .	46,691,634 60
6% Demand Notes.. . . . .	5,700,000 00
4% Debenture Stock.. . . . .	1,975,866 00
3½% and 4½% Debenture Stocks.. . . . .	7,139,399 00
6% Demand Notes.. . . . .	56,858,496 44
Miscellaneous Bonds and Debentures.. . . . .	24,573,539 90
Miscellaneous Bonds and Debentures.. . . . .	668,000 00
Miscellaneous Bonds and Debentures.. . . . .	20,721,191 12
Mortgage dated November 16, 1917.. . . . .	.....
6% Demand Notes.. . . . .	25,479,226 97
6% Demand Notes.. . . . .	56,646,816 12
4% G. T. Pacific Mortgage Bonds.. . . . .	10,000,000 00
6% Demand Notes.. . . . .	23,288,747 15
4% Demand Notes.. . . . .	15,000,000 00
4% G.T.P. Debentures.. . . . .	15,000,000 00
4% Debenture Stock.. . . . .	60,801,700 00
6% 2nd Mortgage Equipment Bonds.. . . . .	1,693,113 33
3% 1st Mortgage Bonds.. . . . .	33,048,000 00
4% Sterling Bonds.. . . . .	7,499,952 00
Mortgage, June 28, 1916.. . . . .	.....
Mortgage, Oct. 18, 1917.. . . . .	.....
Mortgage, Oct. 18, 1917.. . . . .	.....
Receiver's Certificates.. . . . .	53,339,162 74
Cremation Certificate, coupons destroyed.. . . . .	8,698,170 42
Cremation Certificate, coupons destroyed.. . . . .	2,925,723 88
Grand Trunk Pacific Development Company Capital Stock.. . . . .	2,999,000 00
6% Canadian Northern Demand Notes.. . . . .	12,655,019 57
G.T.P. Receiver's Certificates.. . . . .	3,313,530 01
G.T.P. Interest coupons.. . . . .	1,925,706 96
5% Canadian Northern Demand Note.. . . . .	1,318,315 86

G.T.P. Receiver's Certificates.. . . . .	4,691,173	58
G.T.P. Interest coupons.. . . . .	1,925,706	96
5% Canadian Northern Demand Note.. . . . .	9,496,718	21
G.T.P. Receiver's Certificates—Cr.. . . . .	1,422,425	17
G.T.P. Interest coupons.. . . . .	1,925,706	96
5% Canadian Northern Demand Note.. . . . .	9,062,624	30
G.T.P. Receiver's Certificates—Cr.. . . . .	364,898	78
G.T.P. Interest coupons.. . . . .	1,925,706	96
5% Canadian National Railway Company Demand Notes.. . . . .	2,932,652	91
5% and 5½% Can. Nat. Ry. Co. Demand Notes.. . . . .	29,910,400	85
5½% Canadian National Ry. Co. Demand Notes.. . . . .	11,210,815	56
166,877-6376 shares of Capital Stock of Grand Trunk Western Railroad	4,171,940	94
5% 1st and General Mtge. Temporary Gold Bonds of Central Vermont Railway, Inc.. . . . .	8,609,000	00

\*The notes and Other Evidences of Indebtedness and the Collateral Securities are all held for safekeeping at the Bank of Canada, Ottawa, excepting Grand Trunk Pacific Railway 3% 1st Mortgage Bonds in the amount of £5,307,000 (\$25,792,020) which are held for safekeeping by the Bank of Montreal, London, England, as evidenced by the certificate of that depository.

There is a schedule appended to that balance sheet which gives a summary of the indebtedness transferred from the government to the Securities Trust. We all examined that last year. Do you think we need to go through it again this year?

Mr. CLARK: The second and third pages there cover the same point.

The CHAIRMAN: Yes, I notice schedule (A) goes on two pages.

Mr. YOUNG: I would just like to ask about the interest rate on all of these loans. I see a lot in connection with which 6 per cent is indicated as now being paid.

Hon. Mr. HOWE: There is no interest being paid or accrued on this.

Mr. YOUNG: Not on this?

Hon. M. HOWE: No.

The CHAIRMAN: Carried.

Mr. HOWARD: Might I ask as a matter of information where this mileage is between 35.4 and 59.46 on the North Lake sub-division?

Mr. ARMSTRONG: That is west of Port Arthur.

Mr. HOWARD: And on the Orono sub-division?

Mr. ARMSTRONG: That is just north of the main line between Belleville and Trenton. It is part of the old Canadian Northern trackage.

Mr. HOWARD: And on that Bethel Granite?

Mr. ARMSTRONG: That is on the Central Vermont Railway, in Vermont.

Mr. HOWARD: Down near Barre?

Mr. ARMSTRONG: Yes.

Mr. HOWARD: All right.

The CHAIRMAN: Carried.

Thank you very much, Dr. Clark.

Hon. Mr. HOWE: Just before Dr. Clark goes I would like to put on the record a statement relating to the remarks made by Mr. Walsh just before closing. Mr. Walsh left the impression—I am glad to see that he is coming in—he left the impression that through great extravagance in the years 1923 to 1930 a great load had been placed on the tax-payers of Canada. I just wanted to read the record of the public debt in those years. The net debt of Canada and the interest on it from 1923 to 1929 is as follows:—

## DEPARTMENT OF TRANSPORT

## CHANGE IN NET DEBT OF CANADA, AND INTEREST ON PUBLIC DEBT

Year	Net Debt of Canada	Interest on Public Debt
1923 . . . . .	\$2,453,776,869	\$137,892,735
1924 . . . . .	2,417,783,275	136,237,872
1925 . . . . .	2,417,437,686	134,789,604
1926 . . . . .	2,389,731,099	130,691,493
1927 . . . . .	2,347,834,370	129,675,367
1928 . . . . .	2,296,850,233	128,902,945
1929 . . . . .	2,225,504,705	124,989,950

You will see from that statement that in 1923 the net debt of Canada was \$2,453,000,000; in 1924 it was \$2,417,000,000; in 1925 it was \$2,417,000,000; in 1926 it was \$2,389,000,000; in 1927 it was \$2,347,000,000; in 1928 it was \$2,296,000,000 and in 1929 it was \$2,225,000,000, and in 1930 it was further reduced to \$2,177,000,000.

For the period from 1930 to 1937 the figures are as follows:—

Year	Net Debt of Canada	Interest on Public Debt
1930 . . . . .	\$ 2,177,763,959	\$ 121,566,213
1931 . . . . .	2,261,611,937	121,289,844
1932 . . . . .	2,375,846,172	121,151,106
1933 . . . . .	2,596,480,826	134,999,069
1934 . . . . .	2,729,978,141	139,725,417
1935 . . . . .	2,846,110,958	138,533,202
1936 . . . . .	3,006,100,517	134,549,169
1937 . . . . .	3,083,952,202	137,410,343

NOTE 1: Figures for "Net Debt" taken from Page 56 of Public Accounts for Canada for year ending March 31, 1937; figures for "Interest on Public Debt" from Annual Reports.

NOTE 2: Figures for the "Net Debt of Canada" are used rather than those showing the actual Funded Debt Outstanding as the latter does not include cash available from proceeds of bonds floated.

From 1931 up to 1937 the figures show an increase, I do not think anyone could say it was increased solely on account of the losses on the railway, because there were large relief expenditures in that period.

However, it is rather interesting to note—speaking of the load on the taxpayers—that the interest paid in 1923 was \$137,000,000 and the interest paid in 1937 was also \$137,000,000.

Mr. WALSH: What is the total in 1937?

Hon. Mr. HOWE: The total of the public debt?

Mr. WALSH: Yes.

Hon. Mr. HOWE: \$3,083,000,000. It has gone up steadily from 1931; but it went down steadily from 1923 to 1930, the years that you referred to as the extravagant years.

Mr. WALSH: Could the minister tell us what proportion of that national debt is represented by accumulated debt of the Canadian National Railways?

Hon. Mr. HOWE: No. But I have reason to believe that it is no very considerable proportion.

Mr. WALSH: It is not a very considerable proportion of the three billion dollars?

Hon. Mr. HOWE: No.

Mr. WALSH: Represented by government bonds?

Hon. Mr. HOWE: No. \$1,700,000,000 is represented by war expenditures directly and it is so stated in the public accounts. There is an increase of about \$800,000,000 in the years 1931 to 1937, but I have reason to believe that a great deal of that is due to relief expenditures and extraordinary public works brought on through relief expenditures.

Mr. WALSH: It would have been interesting if you had compiled those figures, and alongside them put the amount of that which the Canadian National Railways were responsible for; then we would actually see what it is.

Hon. Mr. HOWE: The reason is that the figures that you gave contained so much that was not real money—interest on interest and interest on losses back towards Confederation days, which is purely a paper charge, as I tried to point out last year and which you are still not ready to accept.

Mr. WALSH: No.

Hon. Mr. HOWE: This is real money we are talking about now that the Dominion owes.

Mr. WALSH: But the government hand money and all that that I was reading this morning, which is represented by money handed to the Canadian National Railways on which we are paying interest, even if we do write off the amount that we have paid.

Hon. Mr. HOWE: You cannot write off Dominion government obligations unless you pay them.

Mr. WALSH: We have written them off as far as the railways are concerned. You wrote off how much last year?

Hon. Mr. HOWE: We wrote off about one and a half million dollars of fictitious money.

Mr. WALSH: Well, fictitious amounts.

Hon. Mr. HOWE: But we added nothing to the national debt last year either.

Mr. WALSH: No, but all that is represented by cash.

Hon. Mr. HOWE: We just wrote off some figures we had on the books.

Mr. WALSH: But it was money expended, was it not?

Hon. Mr. HOWE: No.

Mr. WALSH: At one time?

Hon. Mr. HOWE: No. It was interest accrued on money lost. That is what it was.

Mr. WALSH: Interest accrued on money advanced—loans?

Hon. Mr. HOWE: Money lost. It was not advanced. It was lost. In any case, I would like to put that on the record so that the disconsolate taxpayers can get some comfort.

Hon. Mr. STEWART: Would the minister permit me to ask him a question and to ask him to amplify that statement somewhat. As I recall it, in the early days of public ownership on the Canadian National Railways, the deficits were advanced and put into the budget. All the money was raised directly for the purpose of meeting these deficits. Then as I recall it there was an amendment to the Act, probably about 1923 or 1924.

Hon. Mr. HOWE: In the early days it was advanced as an interest-bearing advance.

Hon. Mr. STEWART: Yes. It was advanced by the Dominion of Canada to the railway.

Hon. Mr. HOWE: Yes.

Hon. Mr. STEWART: For railway purposes.

Hon. Mr. HOWE: Yes.

Hon. Mr. STEWART: And then, as I recall it, about 1923 or 1924, an amendment was made which permitted the railway companies to go out and borrow and Canada guaranteed it.

Hon. Mr. HOWE: You mean for capital purposes?

Hon. Mr. STEWART: Yes, for capital purposes.

Hon. Mr. HOWE: Yes, for capital purposes.

Hon. Mr. STEWART: Now, parallel with the statement that the minister has given as to the reduction of debt over the period of years which he has mentioned, and which we have often heard about, it would be interesting to give a statement showing the extent—

Hon. Mr. HOWE: Of the increase of railway debt?

Hon. Mr. STEWART: —to which the increase in railway debt has taken place, that debt being guaranteed by the Dominion.

Hon. Mr. HOWE: But my point is that that debt is in the statement of the railways.

Hon. Mr. STEWART: In the old days it was, as I have said, dug up in cash. Then an amendment was made in the Act that permitted the railway company to go out and borrow money for capital purposes.

Hon. Mr. HOWE: Quite.

Hon. Mr. STEWART: And the dominion government guaranteed it; whereas if that change had not been made in the Act the dominion would have gone out and borrowed the money for railway purposes; and it would have shown an increase in the debt which would have to a very great extent, if not entirely, offset the reduction which the minister has properly pointed out took place under the changed circumstances.

Hon. Mr. HOWE: But you are not suggesting that the money so borrowed since 1923 was hidden from the public?

Hon. Mr. STEWART: No.

Hon. Mr. HOWE: Or that there is any deception in connection with these public accounts?

Hon. Mr. STEWART: No.

Hon. Mr. HOWE: I am simply meeting Mr. Walsh's charge of deception there, that we are not giving the public a true picture of the situation.

Hon. Mr. STEWART: My contention is still sound: if that change of policy had not been made, that money would have been borrowed by the Dominion of Canada direct and would have appeared in the public debt.

Hon. Mr. HOWE: Quite. The public debt would have been greater and the railway debt would have been less.

Hon. Mr. STEWART: Yes, exactly.

Hon. Mr. HOWE: Yes. But, in any case, even if they had done that, the two figures would have represented it.

Hon. Mr. STEWART: In the end, one largely offsets the other.

Hon. Mr. HOWE: I think that the hon gentleman has missed my point there. I am not trying to conceal anything which the books disclose.

Hon. Mr. STEWART: I am not suggesting that.

Hon. Mr. HOWE: I am trying to suggest that there is nothing concealed in the whole picture there. If you add the debt as shown in the public accounts and the debt of the railway, you get the combined debt of the Dominion of Canada and the railway; and the figures that Mr. Walsh is referring to are not real money as far as the debts of either are concerned.

HON. MR. STEWART: Would the minister give the combined debt of the railway and the Dominion at the beginning of the period when it starts and the combined debt of the railway and the Dominion at the end of the period to which he refers?

HON. MR. HOWE: I can do that very easily, if you like.

HON. MR. STEWART: That is what I would like to have, to make the picture complete.

HON. MR. HOWE: Would you do that at the next meeting.

THE CHAIRMAN: While you were away, Mr. Walsh, we dealt with the Securities Trust; and Dr. Clark explained the power and the legal opinion that he obtained from the Department of Justice that this item of \$711,732 was quite a proper charge. You will see that in the record.

MR. WALSH: Yes. The point I was making with Dr. Clark was this: In the public accounts of Canada, March 31, 1937, on page 6, there are certain items of write-down of assets, write-down of active assets and so on. I presume these amounts recorded there are voted in parliament—is that right—and that they appear in the public accounts of Canada?

MR. CLARK: Yes.

MR. WALSH: Here is an amount of \$711,000 that is being eliminated as far as an asset is concerned from the Canadian National Railways and the presumption is—I have been led to believe that that amount is not to be voted in parliament. There will be no record in the public accounts of Canada of \$711,732.21 that had been written off.

MR. CLARK: It is in the railways statement and the Securities Trust statement.

MR. WALSH: I am not strenuously objecting to the \$711,000 being handled in the way it is, providing the Minister of Finance enters it as he has entered other items on page 6 of the public accounts, and has it regularly voted in parliament, so that the members of parliament and the people of Canada will know about it. As you know, this book is the one that is generally held in newspaper offices and local libraries for reference, and there is no reference in this book at all to that write-off of \$711,000; and my contention was before this committee that that is what should be done and that the Minister of Finance should come not only for the \$42,000,000 odd cash deficit but should also come for an amount of \$711,000 as a write-off of active assets on the Canadian National Railways. It does not represent any cash. It would not make any difference in the cash statement; but the record would be there in the public accounts of Canada, and we would see it. That was the point I was trying to make. I do not know whether my point is well taken or not.

MR. CLARK: The write-offs of which you speak, Mr. Walsh, as shown on page 6 of the public accounts of last year, refer to write-offs of the items that are active assets in the public accounts already. If you go back to page 2 of the public accounts, you will see "Soldier and General Land Settlement Loans" as active assets. We cannot transfer those to consolidated fund or even to non-active assets without specific appropriation by parliament. In this particular case, what has been written down is not a specific asset in the active assets of the Dominion, the balance sheet of the Dominion; it is an asset in the railway's books. They are writing down their property account due to line abandonments. And that is to be reflected in the proprietor's equity, which is required to be shown in the railway's accounts as a result of the Capital Revision Act.

In regard to your last point, there will be a complete statement of all of these things in the historical cost appendix that will appear in the public accounts for the last fiscal year. It will be there, and it is already, of course, shown in the railway's accounts and in the Securities Trust accounts. You will

get it in the public accounts that will be published about the beginning of the new year.

Mr. WALSH: It is the first time it will appear in the accounts?

Mr. CLARK: Yes. As Mr. Walsh was not here when I read the legal opinion given by the Deputy Minister of Justice, I might say to Mr. Walsh that the Deputy Minister of Justice says that the Minister of Finance has not only the power, but it is his duty to handle this item in the way it has been handled in the accounts.

Mr. WALSH: Who gave that legal opinion?

Mr. CLARK: The Deputy Minister of Justice.

Mr. WALSH: The same gentleman that we hear referred to in the House of Commons?

Mr. HOWARD: Besides that, if you look on page 12 of The Canadian National Railway report, you will find the item right in there, "line abandonment as above charged to proprietor's equity, \$711,732.21."

Mr. CLARK: It is there and it is also in the Securities Trust.

The CHAIRMAN: It is shown in three places.

Mr. WALSH: It is well shown so far as the Canadian National is concerned, but it should be shown in the public accounts.

On the first page of your report it says:—

Interest accruing after December 31, 1936, on the principal of the loans included in the Indebtedness to His Majesty was waived by the Securities Trust until further ordered by the trustees, and this action was approved by the Governor in Council.

On what authority did the Securities Trust act in waiving the interest? Can they quote the authority?

Mr. CLARK: I think, Mr. Walsh, I might read the Order in Council passed in reference to that. It is P.C. 407, dated February 26, 1938:—

The committee of the Privy Council have had before them a joint memorandum from the Minister of Finance and the Minister of Transport stating:—

1. That pursuant to authority contained in The Canadian National Railways Capital Revision Act, 1937, the transfer to The Canadian National Railways Securities Trust of the indebtedness to His Majesty in exchange for the capital stock of the Securities trust has been duly made.
2. That section 21 of the said Act provides that the Securities Trust shall not sell, pledge, release or otherwise dispose of any of the indebtedness to His Majesty transferred to the Securities Trust or the collateral securities held in respect thereof, except with the approval of the Governor in Council.
3. That the trustees of the Securities Trust at a meeting held at Ottawa on January 25, 1938, passed a resolution reading as follows:—

Resolved that the interest accruing after December 31, 1936, on the principal of the loans included in the indebtedness to His Majesty, as defined in section 2 (c) of Chapter 22 of the Statutes of Canada, 1937, and transferred to The Canadian National Railways Securities Trust be waived until further ordered by the trustees.

4. That the Securities Trust was established for the sole purpose of preserving the priority rights of the Dominion, and for its protection against any contingencies of the future having to do with potential interest and other savings in respect of certain unguaranteed securities and subsidiary company capital stocks held by the public; that

the claims outstanding on December 31, 1936, namely, \$643,860,558.26 for principal and \$574,781,637.01 for interest appear to safeguard more than amply the position of the Dominion in respect of such contingencies; that interest on the Indebtedness to His Majesty referred to above has never been accumulated by the Dominion or appeared as an asset in the Public Accounts, and that the action proposed by the trustees is in complete accordance with the intent of the Act.

The committee concur in the foregoing and, on the joint recommendation of the Minister of Finance and the Minister of Transport submit the same for your Excellency's approval.

The committee concur in the foregoing and, on the joint recommendation of the Minister of Finance and the Minister of Transport submit the same for your Excellency's approval.

In other words, the authority is The Capital Revision Act, and the considerations of policy are the considerations which I have just enumerated, three or four of them, in Clause 4 of that order in council.

Mr. WALSH: Last year I presume your authority was based on The Capital Revision Act, Chapter 22, section 21, "The Securities Trust shall not sell, pledge," etc. It was not brought before this committee or before parliament that the Securities Trust had the privilege of doing what they have done in regard to interest. It does not mention any interest here, although I presume it might be inferred somewhat by the words "dispose of any of the indebtedness to His Majesty transferred to the Securities Trust..." Interest was not suggested there. It was certain collateral that was transferred. Section 21 continues, "or the collateral securities held in respect thereof, except with the approval of the Governor in Council." Of course, I am not a lawyer. We have one or two lawyers here who are very apt and who probably can read into this what I cannot read into it; but I cannot read into that anything in the way of interest that gives the Securities Trust authority to waive interest.

Mr. CLARK: Again I might quote the opinion of the Deputy Minister of Justice in respect of that point given under date of January 20, 1928:—

I have had under consideration your letter of the 17th of December, 1937, in which you ask to be advised whether the trustees with the approval of the Governor in Council may release the railway company for an indefinite period from its obligation to pay interest on the principal amount of the indebtedness transferred, and am of opinion that this question is to be answered in the affirmative.

I am unable to construe any of the section to which you have drawn my attention as being inconsistent with this view.

Mr. WALSH: That is his opinion, but just as a layman it should have been put in there. It should have been mentioned specifically.

Mr. McLARTY: Mr. Chairman, might I ask Mr. Walsh if any member of this committee assumed that the securities transferred to the trustees under the Act could possibly bear interest?

Mr. WALSH: They would not bear interest, but they could accrue interest.

Mr. McLARTY: Yes, but was it even contemplated that they might?

Mr. WALSH: No, but it was contemplated that the Securities Trust would show in their balance sheet from year to year the amount of interest. This year there should be added on Page 6 of the Canadian National Securities Trust balance sheet an item of roughly \$36,000,000.

Mr. McLARTY: Were they not equities?

Mr. WALSH: This was interest.

Mr. McLARTY: No equity bears interest, unless it might be guaranteed, funded or some other kind of debt. No interest accumulates. If it is purely a matter of equity, no interest accrues, it is a matter of dividends. Unless they are declared, no interest would accrue.

Mr. CLARK: Interest never accrued even in the public accounts of the Dominion. While the Minister of Finance held this indebtedness he never accrued interest in the accounts of the Dominion. When this trust was set up he merely transferred this indebtedness to the trust to be held in order to protect certain equities or claims against other security holders in case of anything that might arise in the future. You merely take this indebtedness out of the hands of the Minister and you put it in the hands of the Securities Trust to be still held, although no one regards it as having very much value. The indebtedness, when held by the Minister, on account of the Dominion of Canada, never accrued interest, and the Securities Trust is just following the practice which the Minister had followed. Are they not all equities that were transferred?

Mr. WALSH: No, loans.

Mr. CLARK: No.

Mr. McLARTY: Straight loans?

Mr. CLARK: Not equities in form at any rate, but they are now proprietors equity. They represent proprietors equity.

Mr. McLARTY: In other words they were not a definite debt which of themselves, if not transferred, would bear interest or had borne interest for some years before?

Mr. WALSH: They are bearing interest.

Mr. CLARK: In form, they were interest bearing, yes.

Mr. McLARTY: But not in fact?

Mr. CLARK: No. The government had never accrued interest on them.

Hon. Mr. HOWE: I might say in explaining the Act of last year I said: "As between the government and the railway the plan preserves in full all capital sums invested by the Dominion in the railway, preserves all capital sums, any amounts to be eliminated relate to losses in operation and interest charges." In other words the intention was to preserve the capital sum invested by the Dominion in the railways, which we did, of course, in the amount of the proprietors' equity as shown in the balance sheet; but we eliminated losses in operation and interest charges.

Mr. WALSH: While Dr. Clark is here I should like to refer to an item in the balance sheet of \$574,781,637.01, which represents claims for interest on loans as specified. They have been accumulating year by year. They now represent an amount of actual cash as paid out by the Minister of Finance for these loans. He cannot expect the Canadian National Railways, naturally, to pay them as they have no money to pay them with. So they are a debt that cannot be collected; nevertheless they represent a debt. Now, here in the Canadian National report we had the interest charges accumulated. Last year they came to something over \$36,000,000. This year, if you compute them, they would come to something in the neighbourhood of \$36,000,000. Now, that should be added to your \$574,000,000 odd in order to keep the account of the Securities Trust complete and up to date. I do not think personally, and I have to bow to the judgment of the Deputy Minister of Justice in this respect, but I am still not persuaded the Securities Trust had authority to waive the interest. I still feel they did not act wisely in waiving interest. It should have been shown in the form of paying that additional interest on your \$574,000,000 odd, and then your \$1,218,000 would have been increased by \$36,000,000, and then you would have had the real figure there representing what the Minister is actually paying out. The Minister this year, I understand, is paying out a

sum equivalent to about \$36,000,000 of interest for these various loans and bonds in the combination known as the Canadian National Railways.

Now, he is actually paying that out. The Securities Trust is waiving that.

Hon. Mr. HOWE: To whom did he pay it out? To whom did the Minister pay the \$36,000,000?

Mr. WALSH: As far as we are concerned, and as far as the government and the Securities Trust is concerned it is a book item pure and simple; but he is paying it to the people who hold these bonds, that is, the Canadian Northern Railway, the Grand Trunk Railway and the Grand Trunk Pacific, the Canadian National, bonds and loan and advances, for which he has borrowed money.

Hon. Mr. HOWE: He owns these bonds; he would be paying it to himself.

Mr. WALSH: He is paying it out of the public treasury.

Hon. Mr. HOWE: The Minister of Finance and the Securities Trust own these bonds themselves.

Mr. WALSH: Yes, he owns them, but they are accumulating interest. Interest is being paid on them.

Hon. Mr. HOWE: To whom?

Mr. WALSH: To the person who holds the bonds.

Hon. Mr. HOWE: The Minister of Finance holds the bonds.

Mr. WALSH: He does not hold the bonds on which interest is being accumulated, under this Act.

Hon. Mr. HOWE: Yes he does. He owns every security that is in the Securities Trust.

Mr. WALSH: I know he does. This is interest paid on outstanding loans.

Hon. Mr. HOWE: You mean direct loans to the Canadian National Railways shown in the balance sheet?

Mr. WALSH: Yes, this \$570,000,000 has an accumulation of interest over a long period of time.

Hon. Mr. HOWE: Quite so, to the Dominion government.

Mr. WALSH: When you refer to last year's report of the railway you will find interest \$36,000,000 odd.

Hon. Mr. HOWE: I know. That was owed by the railway to the federal government.

Mr. WALSH: Yes. The railway had borrowed through the federal government this amount of money.

Hon. Mr. HOWE: From the federal government, not through.

Mr. WALSH: It is only a bookkeeping item but nevertheless why not have it where we used to have it? We have kept it from year to year and this year it is waived. I shall leave that point for the moment. There is another point to which I should refer while Dr. Clark is here. I presume he has not computed the interest accrued on government loans for 1937, which was waived. How much actually was waived?

Mr. CLARK: I have not computed that figure. I have not that here. As I said before, we never set that up—

Mr. WALSH: Was it not in the account last year?

Mr. CLARK: In the railway accounts, but not in our account.

Mr. WALSH: The Securities Trust is a creation and result of the act of this committee last year through Bill No. 12. You are the creation of the action of this committee and of parliament. You took over certain outlays, and in the Canadian National report of last year we had that interest of \$36,000,000 odd, and it is not here this year. I was wondering how much it

amounted to this year. You waived the interest. Did you know how much you were waiving? Was it \$1 or thirty millions?

Mr. CLARK: I do not know what significance it would have, Mr. Walsh. It would be very easy to calculate the interest, but it seems to me to have no significance whatever. The reason why the government and why the Minister of Finance did not accrue it on their books was the reason that gave the justification for the action that was taken last year. The government has obtained the ownership of the Canadian National Railways and did that some years ago. For certain reasons, however, for some years the form of assistance given to meet deficits was given by way of interest bearing loans. No private owner or group of stockholders would account for their transactions in the way that the railway has had to account for it in the past.

Mr. HOWARD: Of course not.

Mr. CLARK: This Act last year recognized that the government was a proprietor and that its accounts and the railway accounts should be set up to give effect to that fundamental fact. Now, if you go on accruing interest on loans that were given for deficits and to which there is not a chance of the interest ever being paid, it is just ridiculous. It was regarded as being ridiculous from the government's point of view. When you make the Securities Trust hold the claims that the Minister was holding before, the Securities Trust, it seems to me, is entitled to follow exactly the same procedure as the Minister of Finance has followed in reference to the Dominion accounts.

Mr. WALSH: You know how the Minister of Finance met the obligation to the Canadian National Railways.

Mr. McLARTY: In other words, if you accumulated interest on which there was no chance of payment from year to year it would be merely writing it on the cuff, and the assets of the securities holding corporation would go up; but on the other hand there would be no prospect of ever realizing on those assets eventually. In other words, it would be unfair bookkeeping.

Mr. WALSH: It would be fair bookkeeping.

Mr. HOWARD: No, unfair.

Mr. McLARTY: You would be capitalizing assets that were not realizable.

Mr. CLARK: It would not be in accord with the action taken last year under this Act by parliament. The Act of parliament resulted in this fact, that from last year the government is to be recognized as the proprietor of the railway, and not as a lender to the railway and creditor of the railway in regard to loans made for deficit purposes. Now, if you made the railway in its accounts and the C.N.R. Securities Trust continue to accumulate interest in reference to those old claims then you would be retaining the fiction that the government is a creditor rather than a proprietor with reference to those loans made for deficit purposes.

Mr. HOWARD: And you do just the same thing in business.

Mr. CLARK: Yes.

Mr. WALSH: Probably that is why business is as it is to-day if they do it in that way to-day. I was always sorry for business.

Mr. McLARTY: If you could capitalize unrealizable assets as real assets I imagine business would not be as prosperous as it is to-day.

Mr. HOWARD: Those advances represent losses and you do not accrue interest on losses, is that the idea?

Mr. CLARK: Yes.

Mr. WALSH: The amount of money you actually waived according to my computation was \$36,428,873.

Mr. HOWARD: It was not any such thing at all. I take objection to that. These are the facts. It states plainly enough it was with interest accruing after December 31st, future interest. They decided they were not going to accrue it any longer.

Mr. WALSH: Why do you suggest that the figures are not the fact?

Mr. HOWARD: Because it is not accrued. It is the same thing. You do not like business, but let us look at the banking situation. Take a loan in a bank for payment inside of a year, if the debtor is not able to meet his interest payment the bank has no right to capitalize it as an asset and they cannot show it in their statement to the government; and it is business practice all over the country to do exactly what is being done in this case.

Mr. WALSH: I know that is not the way banks do business. I have had sufficient dealings with them to do that. In the light of the action taken cancelling interest accruing for 1937—this is a hypothetical question—have the trustees any intention of cancelling past accrued interest and principal on loans entrusted to them?

Mr. CLARK: No.

Mr. WALSH: Have you decided on any policy in that respect?

Mr. CLARK: No.

Mr. WALSH: Have you had any interpretation of the Act in that respect?

Mr. CLARK: No. We have no such policy and, therefore, have not raised the question of getting an opinion with reference to it.

Mr. WALSH: You have not cancelled the 1937 accrued interest?

Mr. CLARK: We have done exactly what the Minister of Finance did previously.

Mr. WALSH: You do not intend to cancel the accrued interest of the past nor the principal or any part of the principal of loans that have been entrusted to your care?

Mr. CLARK: There has been no consideration given to that point by the trustees of the trust.

The CHAIRMAN: Shall the item carry—  
Carried.

The CHAIRMAN: Mr. Armstrong, will you read the report of the Canadian National Steamships Limited.

Mr. ARMSTRONG: This is the annual report addressed to the Hon. C. D. Howe, Minister of Transport at Ottawa, and is as follows:—

SIR,—On behalf of the directors, I beg to submit the annual report of the Canadian National (West Indies) Steamships, Limited, for the year ended December 31st, 1937. The improvement in the company's business noted in the 1935 and 1936 annual reports continued during 1937.

The comparative operating results are as follows:—

	1937	1936	Increase	Per cent
Operating Revenues . . . . .	\$4,676,684 10	\$4,322,592 65	\$354,091 45	8.19
Operating Expenses . . . . .	4,018,146 35	3,765,194 10	252,952 25	6.72
Operating Profit . . . . .	\$ 658,537 75	\$ 557,398 55	\$101,139 20	

Operating revenues increased \$354,091. The number of completed voyages was 127, one less than in the preceding year. Freight revenue increased by \$220,932, reflecting better cargoes. The number of stems of bananas carried in 1937 by the vessels in the Eastern Service was 400,812, an increase of 15,672 stems over 1936. The vessels in the Western Service (Jamaica) carried 2,048,830 stems, an increase of 191,739 stems over 1936. Passenger travel was again exceptionally good, and passenger revenue increased by \$157,770.

Operating expenses increased \$252,952 or 6.72% as compared with an increase of 8.19% in revenue, due to a general increase in operating costs, the handling expense of additional traffic, and renewals and replacements necessary to maintain the vessels in a high state of efficiency.

After payment of bond interest, but before depreciation and interest on government advances, there is available \$188,537.75 which will be paid to the government in reimbursement in part of prior deficits and interest. The corresponding figure in 1936 was \$87,398.55.

The vessels of the fleet were operated without serious casualty. The self insurance fund now stands at \$1,424,292, an increase of \$48,975 during 1937.

Acknowledgement is made of the loyal and efficient service rendered by the company's officers and employees, both ashore and afloat.

For the Directors,

S. J. HUNGERFORD, *President*".

THE CHAIRMAN: Do you want to consider the balance sheet in detail? You might as well go on to the balance sheet, Mr. Armstrong.

MR. ARMSTRONG: (reads)

### CONSOLIDATED BALANCE SHEET

At 31st DECEMBER, 1937

ASSETS			
Investments—			
Vessels at 31st December, 1936 . . . . .	\$10,942	895	99
Additions during year . . . . .		11,796	95
		<u>\$10,954</u>	<u>692</u> 94
Plant and Equipment . . . . .		7,019	28
Office Furniture and Fixtures . . . . .		18,092	45
			<u>\$10,979,804</u> 67
Current Assets—			
Cash in Banks . . . . .	\$890,882	96	
Special Deposits . . . . .	8,025	00	898,907 96
			<u>152,397</u> 31
Accounts Receivable . . . . .			141,496 11
Agents . . . . .			22,437 63
Inventories of Stores and Supplies . . . . .			24,678 47
Advances to Captains, Crews and Agents . . . . .			
Amount due from Canadian National Railways Joint Insurance Fund . . . . .		107,263	53
			<u>1,347,181</u> 01
Insurance Fund . . . . .			1,424,291 99
Balance of Uncompleted Voyages . . . . .			32,130 72
Discount on Funded Debt . . . . .			53,122 19
Discount on Capital Stock . . . . .			40,000 00
			<u>\$13,876,530</u> 58

### LIABILITIES

Capital Stock:			
Authorized and Issued 400 Shares of \$100.00 each . . . . .	\$	40,000	00
Funded Debt:			
25 Year 5% Dominion of Canada Guaranteed Gold Bonds . . . . .		9,400,000	00
Dominion of Canada Account:			
Notes Payable secured by Mortgages on Vessels . . . . .	\$	933,071	83
Advances:			
Capital . . . . .	\$	682,542	70
Working Capital . . . . .		450,000	00
Deficits . . . . .		5,059,960	94
		<u>6,192,503</u>	64
Interest Accrued Unpaid . . . . .		1,925,286	49
			<u>9,050,861</u> 96
Current Liabilities:			
Dominion of Canada . . . . .	\$	188,537	75
Canadian Government Merchant Marine, Limited . . . . .		21,570	81
Accounts Payable . . . . .		315,416	34
Interest Matured Unpaid . . . . .		8,025	00
Unmatured Interest Accrued . . . . .		156,666	67
Passage Money paid in Advance . . . . .		210,454	43
Insurance Claims . . . . .		70,192	87
			<u>970,863</u> 87

STANDING COMMITTEE

Insurance Reserve . . . . .	1,424,291 99
Accrued Depreciation . . . . .	2,733,239 21
Profit and Loss—Deficit . . . . .	9,742,726 45
	\$13,876,530 58

Contingent Liability—No contingent reserve is accrued for Pensions. Actual pension payments are charged currently to operating expenses.

T. H. COOPER,  
Comptroller.

CERTIFICATE OF AUDITORS

We have examined the books and records of the Canadian National (West Indies) Steamships, Limited and Subsidiary Companies for the year ended the 31st December, 1937.

We certify that, in our opinion, the above Consolidated Balance Sheet is properly drawn up so as to exhibit a true and correct view of the affairs of the Steamships as at the 31st December, 1937, and that the relative Income and Profit and Loss Accounts for the year ended the 31st December, 1937, are correctly stated.

GEORGE A. TOUCHE & CO.,

10th March, 1938.

The CHAIRMAN: Any more remarks, gentlemen?

Mr. YOUNG: In what form was that insurance reserve carried?

Mr. COOPER: For the most part Dominion guaranteed securities and securities which are a direct obligation of the Dominion. There are some others but not any substantial amount.

Mr. YOUNG: Is the same true with regard to the depreciation fund?

Mr. COOPER: No, sir; there is no fund representing the depreciation reserve.

Mr. HOWARD: How many vessels are there in the service?

The CHAIRMAN: You will find that in the back of the report.

Mr. EMMERSON: I see that additions during the year amount to \$11,796.95. What does that consist of?

Mr. COOPER: \$9,525 spent for echo sounding machines; \$2,271 for air compressors and tube scalers.

The CHAIRMAN: Let us have the profit and loss account.

Mr. ARMSTRONG:

Balance at 31st December, 1936—Deficit . . . . .	\$9,078,880 63
Repayment to the government of the 1935 Cash Deficit . . . . .	\$269,969 17
Less repaid in 1936 . . . . .	87,398 55
	182,570 62
Loss as per Income Account year 1937 . . . . .	481,275 20
Balance at 31st December, 1937—Deficit . . . . .	\$9,742,726 45

Carried:

Mr. ARMSTRONG: Then there is the consolidated income account. Operating revenue—

The CHAIRMAN: Do you need to read all that? I do not think so.

Mr. ARMSTRONG (reads):

CONSOLIDATED INCOME ACCOUNT

	Year 1937	Year 1936
Operating Revenue:		
Vessels—Closed Voyages Freight . . . . .	\$3,160,986 66	\$2,940,054 69
Vessels—Closed Voyages Passenger . . . . .	1,271,921 71	1,114,151 78
Subsidies . . . . .	226,693 76	223,463 26
Other revenues . . . . .	17,081 97	23,028 05
Special Voyage Revenue . . . . .	.....	21,894 87
Total Revenue . . . . .	\$4,676,684 10	\$4,322,592 65

Operating Expenses:		
Vessels—Closed Voyages . . . . .	\$3,851,556 02	\$3,626,614 51
Vessels—Lay Up . . . . .	4,485 02	.....
Management and Office Salaries . . . . .	80,796 85	58,862 24
Rent and Taxes . . . . .	9,633 63	6,363 81
Office Supplies and Expenses . . . . .	19,389 78	16,081 02
Advertising . . . . .	50,119 52	50,353 34
Interest and Exchange . . . . .	2,165 53	6,920 18
Total Expenses . . . . .	<u>\$4,018,146 35</u>	<u>\$3,765,194 10</u>
	1937	1936
Operating Ratio . . . . .	85·92%	87·10%
Operating Profit . . . . .	\$ 658,537 75	\$ 557,398 55
Interest on Bonds held by Public . . . . .	470,000 00	470,000 00
	<u>\$ 188,537 75</u>	<u>\$ 87,398 55</u>
Other Charges:		
Amortization of Discount . . . . .	\$ 3,094 44	\$ 3,094 44
Interest due Government . . . . .	338,431 63	330,281 95
Depreciation on Vessels . . . . .	328,286 88	328,234 74
Net Income Deficit . . . . .	<u>\$ 481,275 20</u>	<u>\$ 574,212 58</u>

Page 10 shows the list of the vessels and their tonnages and the assignment of the fleet during the year 1937 and the voyages completed.

Mr. HOWARD: I was going to ask how many employees are concerned in connection with this service on land and water offhand?

Mr. VAUGHAN: I would say somewhere around 900 people.

The CHAIRMAN: Any further questions?

Carried.

Mr. ARMSTRONG: Page 11 shows the regular sailings during the year 1937.

The CHAIRMAN: Shall the report carry?

Carried.

The CHAIRMAN: Gentlemen, will you refer to your pamphlet entitled Trans-Canada Air Lines for the year ended December 31st, 1937? I shall refer you to page 4. Do you desire that the whole report should be read?

Mr. HOWARD: No.

Mr. ARMSTRONG: The first annual report of the directors of the Trans-Canada Air Lines, year ended December 31st, 1937—

Mr. WALSH: I move that we dispense with the reading of this report and accept it as read.

Mr. HOWARD: I second that motion.

The CHAIRMAN: Shall we go on to the balance sheet on page 10?

Mr. YOUNG: Perhaps we could have a statement as to just what the present situation is? When will this service be in operation?

Hon. Mr. HOWE: Mr. Chairman, we started actual operations from Winnipeg to Vancouver on an experimental basis on March 4th of this year. The planes have been flying on reasonably regular schedules since then and carrying ordinary mail. The efficiency of the service has been gradually stepped up, but the main purpose was to try out the personnel—to train the personnel under actual operating conditions. Regular trips are being made once each day in each direction between Winnipeg and Vancouver at the present time. At the present time in addition I think we are trying night flying between Winnipeg and Regina, are we not, Mr. MacLaren?

Mr. MACLAREN: Yes.

Hon. Mr. HOWE: That is part of the regular training, and especially in connection with night flying between Winnipeg and Regina when the mail is also carried; but the real purpose of these flights is to give the pilots experience

in night flying. It is expected, I believe, that the express will be carried on May 15th; is that not so?

Mr. MACLAREN: May 15th.

Hon. Mr. HOWE: May 15th is set for commercial express, and at that time the mail contracts will be on a commercial basis. That is, instead of carrying ordinary mail as at the present time the line will go into a commercial business and carry air mail from Winnipeg to Vancouver. The operation is being pressed east as rapidly as facilities will permit. There is some work being done on the principal airways east of Winnipeg, and it is expected very shortly there will be regular flights carrying ordinary mail between Winnipeg and Kapuskasing. The work from Kapuskasing east will be somewhat later, depending on the completion of facilities there. It would not be wise to say just at what date we will have a complete airmail service, particularly as deliveries of equipment have been somewhat delayed; and putting the complete service into commercial operation depends upon further equipment deliveries which have been promised before this but which have not materialized to date. At the start of our work, our original purchase was five planes of the light Lockheed 12 type. They are in constant service. In fact, they are being pressed beyond their limit. I believe we now have deliveries of two of the ten Lockheed 14's which represent the very last word in aviation equipment, and we expect further deliveries of these as the weeks go by. We expect to have all our equipment not later than the 1st of September. At that time we will have ample equipment to perform the full trans-continental service.

Mr. YOUNG: How many passengers will each plane carry?

Hon. Mr. HOWE: Twelve passengers and two pilots, I believe.

Mr. MACLAREN: It is our purpose, Mr. Chairman, to restrict the number of passengers. The smaller planes which we have—the Lockheed 10's, capable of handling ten passengers—we intend to carry eight; and in the Lockheed 14's which will accommodate eleven passengers and three of a crew we intend to accommodate only ten.

Mr. YOUNG: With regard to the service in the provinces of Saskatchewan and Alberta, I suppose that will be inaugurated about the same time as the trans-Canada to carry passengers?

Hon. Mr. HOWE: That is the intention, yes.

Mr. WALSH: Mr. Chairman, I want to ask one or two questions in connection with trans-Canada air lines; but I want to assure the minister that I do so in all sincerity, and I not only speak from my own observation—

The CHAIRMAN: That is a bad beginning, Mr. Walsh.

Mr. WALSH: —but I speak from personal knowledge from other individuals when I say that the minister is showing considerable signs of favourable progress in the art of giving us a transcontinental air service. I believe that the minister is to be commended, and I want to take this opportunity of saying so. I have sometimes been called a rather severe critic, but I always feel when I am criticizing that it is not the person but the policy or the detail I am criticizing. However, in this case I do feel that the minister is making a very excellent job of a rather difficult task and is pushing the work forward to good advantage.

I wanted to ask a question. I notice that the member for Halifax is one of the interested spectators, and I was going to ask the minister if any progress has been made toward connecting up the Maritime Provinces with the actual trans-continental system beyond the point arranged in New Brunswick?

Hon. Mr. HOWE: Mr. Chairman, I can answer that. Of course, we have not got the service even as far as Montreal yet, so it is a little difficult to press the service beyond Montreal until we reach Montreal; but we are improving. We negotiated with the cities to improve the airports in the principal cities in the

maritimes and we expect that when the service can be pushed beyond Montreal, which will be shortly after we arrive at Montreal, we will have facilities there for the planes to land.

Mr. WALSH: You are not attempting to run these planes further than the point in New Brunswick?

Hon. Mr. HOWE: You mean?

Mr. WALSH: Are you going to give government service beyond—what is that point in New Brunswick? Beyond Moncton?

Hon. Mr. HOWE: I may say that we will not run the mainline equipment beyond Moncton, but we will have a satisfactory service connecting with the principal cities in the maritimes, the same as on the prairies.

Mr. WALSH: I wanted to raise that point. There is no political significance in it because the member for Halifax happens to be a Liberal, but I think there is a tendency to pass up these sparsely settled districts, districts which cannot be expected to give an adequate return for the service they expect to get. The Maritime Provinces not being as well settled as some of the other parts of Canada the operating expenses there would be greater. Integrally they are an important part of the Dominion and we must give them the same consideration that we give to British Columbia and every other part of the Dominion.

Hon. Mr. HOWE: Just by way of interruption; could I get my honourable friend to spend his next holiday in Port Arthur?

Mr. HOWARD: I do not see Port Arthur on this map.

Mr. WALSH: I was looking through a small file which I have in my office in connection with postal arrangements on the Trans-Canada airlines. I do not know exactly what it is but that arrangement suggests that by 1941 the cost of carrying the mail by the Trans-Canada air service will vary directly with the deficit or surplus of the preceding year on the Trans-Canada airlines.

Hon. Mr. HOWE: In other words, if we get a surplus on the whole organization the post office will pay just the net cost of the carrying of the mail.

Mr. WALSH: That section of that Act then has no reference to the cost of running the Trans-Canada air service, it merely refers to the cost of transporting the mail; is that it?

Hon. Mr. HOWE: The cost of transporting the mail, as provided in the Act, is the cost of the service less the earnings from passenger, express or any other source.

Mr. WALSH: That is what I wanted to get at. What that means is that any deficit created in the operation of the Trans-Canada air service will be charged against the Post Office Department, and any surplus would be to their advantage.

Hon. Mr. HOWE: There would not be any surplus.

Mr. WALSH: I think that is what the Duff report told us in 1922; that in a year or two we would be getting such service from the Canadian National Railways that the debt of Canada would be vanished almost within our lifetime.

Mr. HOWARD: Sure, it might pay it off.

Mr. WALSH: And the minister is now suggesting that there will be a surplus in connection with the Trans-Canada air service after 1940, and the postal department will get the benefit of that surplus.

Hon. Mr. HOWE: How can there be a surplus or a deficit when the rates are based on the cost of the service?

Mr. WALSH: Well, there might be one year and not another. However, you do not anticipate being forced to increase rates at any time on account of a deficit after the year 1940; is that correct?

Hon. Mr. HOWE: I think we can maintain it.

Mr. MCKINNON: Does the Trans-Canada airline propose to operate anything outside of the mainline services?

Hon. Mr. HOWE: We propose to operate a service between Lethbridge and Edmonton, and we may or may not operate a service between Toronto and United States points.

Mr. MCKINNON: But you recognize the general principle now that what are known as the bush services will not be interfered with?

Hon. Mr. HOWE: Not at all.

The CHAIRMAN: Gentlemen, do you desire to have all the details of that balance sheet read?

Mr. WALSH: Could the minister give us some statement on the association of the Trans-Canada airlines with the proposed Trans-Atlantic Service Corporation or company that is being developed?

The CHAIRMAN: That is the service which is coming to Rimouski.

Mr. WALSH: I think this government has acquired stock or is going to acquire stock in that.

Hon. Mr. HOWE: The British government, the government of the Irish Free State and the Canadian government entered into an agreement by which the possibility of crossing the north Atlantic by plane is being explored. The British government agreed to stand all the cost of the experimental flights and up to the time that the planes are crossing on a regular schedule for a period of three months. After that the service is being taken over by the company. In that company the British government will own 51 per cent of the stock, the Irish Free State will own 24½ per cent and Canada will own 24½ per cent. Each country will designate the operating unit in their respective country to assume responsibility for the service, and Canada will designate for that purpose Trans-Canada Airlines. Trans-Canada Airlines will own the portion that is allocated to Canada. But I may say there again that it is a guaranteed service and under the arrangement entered into the cost of carrying the mail will be provided for on the basis of the cost of the service, so that the Trans-Atlantic venture could never be a financial load either on the Trans-Canada Airlines or on the Dominion of Canada.

Mr. WALSH: It is rather a dangerous policy isn't it, to enter into an agreement where one body to the agreement owns 51 per cent of the stock and could dictate policy?

Hon. Mr. HOWE: We think not in connection with Great Britain which is our mother country. We think that neither the Imperial Airways, who are the actual operating company, nor the government of Great Britain would take advantage of their position in that connection.

Mr. WALSH: But they are in a position to dictate costs and personnel.

Hon. Mr. HOWE: Well, possibly; but in view of the fact that they are standing all the expense of pioneering the route we thought that was an equitable arrangement.

Mr. HANSON: I would like to ask the minister if any consideration has been given to the question of issuing free passes to people to use these airlines.

Mr. WALSH: I have a statement to make in that connection, and I hope the minister will absolutely and positively put his foot down on anything that even approaches a practice of that sort.

Mr. HANSON: You don't want to pay any attention to him, Mr. Chairman, because he said he would not dare to go up in an aeroplane anyway.

Hon. Mr. HOWE: I do not think that is what he said.

Mr. WALSH: I said that I would never be up in the air in an aeroplane in my life; but at the same time I do feel that if the minister just budges one

inch in that direction he is only going to make trouble for himself and Trans-Canada airlines.

Hon. Mr. HOWE: As I said in the house, there will be no passes on this line. The difficulty is, of course, that these machines seat only 12 or 14 passengers at the most and if a party of parliamentarians came along and took all the seats in the plane and put out the regular passengers we would have a serious complaint. There will be no passes for ministers or members of parliament or officers of the line. May I say that officers of the line have already refused passes from United States and other lines, and in view of that they will receive no passes over this line.

The CHAIRMAN: Are there any other questions?

Item agreed to.

Income Accounts. I presume it will not be necessary to read all the details of that part of the statement in view of the very complete statement which has been given to us by the minister.

Item agreed to.

Shall the report carry?

Carried.

Gentlemen, there are four statutory items in the main estimates that the minister is very anxious to get to as soon as possible. The Clerk has distributed copies of the main estimates and if you turn to page 49, item 427—Maritime Freight Rates Act. Shall the item carry?

Item agreed to.

Then, further down on the same page is item 428; Amount required to provide for payment from time to time during the fiscal year 1938-1939 of the difference, estimated by the Board of Railways Commissioners and certified by the said board to the Minister of Transport as and when required by him, occurring on account of the application of the Maritime Freight Rates Act—

Shall the item carry?

Item agreed to.

Then at page 52, item 437, Prince Edward Island Car Ferry and Terminals. This also is a statutory item. Shall the item carry?

Item agreed to.

Then there is item 438: Advances to Canadian National (West Indies) Steamships, Limited. Shall the item carry?

Mr. HOWARD: There is a decrease there of \$74,500.

The CHAIRMAN: Yes.

Hon. Mr. HOWE: That is simply authorizing them to stand tropical.

The CHAIRMAN: Shall the item carry?

Item agreed to.

Will you authorize me in a special report to the house to report these four items?

Special report agreed to.

Mr. WALSH: Before the meeting breaks up, have you given any consideration to the report of the auditors themselves?

The CHAIRMAN: Well, every one of these schedules that we have taken up, and all the balance sheets that we have reviewed have been certified to by them.

Mr. WALSH: They make certain recommendations which I think ought to be given some consideration.

The CHAIRMAN: I am quite willing.

Mr. WALSH: They are on page 2 of the auditors' report.

The CHAIRMAN: Do you want me to read through it?

Mr. WALSH: No, I don't want you to. There are two or three recommendations. Here is one on page 2, near the centre of the page:—

Two simple facts emerge from the capital revision:—

(1) the 1937 published accounts of the National System when consolidated with the Public Accounts of Canada will, for the first time (as now stripped of obscurities and duplications) produce the true combined debt position of Canada. This is obviously of such vital importance to Canada, as a borrowing country in the financial markets of London and New York, as to need no further comment.

The question I have here is: When will this consolidation take place and in what way will it be published or placed before this committee or parliament?

Hon. Mr. HOWE: The consolidation, of course, is a matter of simple addition.

Mr. WALSH: I know, but to consolidate the two accounts—for instance, I could not do it; probably the Minister of Transport could do it.

Hon. Mr. HOWE: I put on record the figure for the net debt of Canada this year, and we have in the statement—

Mr. WALSH: Last year we had the consolidated account from the national system and the public accounts of Canada.

Hon. Mr. HOWE: Here it is: This is the combined statement of the public accounts combined with those of the Canadian National Railways: C. N. R. investments, \$1,934,782,260; other assets, \$467,389,226; balance of net debt, \$2,407,624,500; giving a combined statement of indebtedness, of consolidated indebtedness, amounting to \$4,809,795,986. That is all of the debts of the Dominion of Canada. The liabilities are: C.N.R. capital stock held by the public, \$4,584,100; funded debt outstanding, \$4,469,678,920; other liabilities, \$335,532,906, giving the same total of \$4,809,795,926.

Mr. WALSH: Then further, just at the end of the account, the second last paragraph on page 3, I find:—

We are preparing for the Board of Directors of the railways a brief memorandum in connection with inactive properties, equipment retirement quotas and certain other internal matters principally of a character requiring further legal consideration and subject to final accounting disposition at a later date. A copy of this memorandum will be despatched to the Minister of Transport in due course.

What is the significance of that statement?

Mr. HUNGERFORD: We have some inactive branch lines and certain other inactive properties and the auditors referred to that; they are before the directors for consideration now.

Mr. WALSH: In what way are they before the directors? What is the proposal?

Mr. HUNGERFORD: Well, this recommendation for action on the part of the auditors has been submitted to them, and we are furnishing the directors with all the detailed information in respect to the various items.

Mr. WALSH: It is not with a view to writing off additional items, is it?

Mr. HUNGERFORD: I think not, at the present time; but I cannot anticipate the decision that will be made

Mr. WALSH: There is no particular significance then to that statement; there is nothing we can anticipate further this year?

Mr. HUNGERFORD: I would think not.

Mr. WALSH: One last question that I missed during the course of our travels through. I wanted to get some information in connection with the Canadian National terminal at Halifax. Have the Canadian National ever paid

the Cunard White Star line and do they continue to pay that company any money in order to get them to call their ships at Halifax east or westbound?

Mr. ARMSTRONG: The answer to that, Mr. Walsh, is that some years ago such a subsidy was paid; that has been discontinued for some time, and at the present time there is an agreement with the Canadian Pacific Railway whereby, in our joint interest, certain space is reserved on their boats for our traffic. It is a joint arrangement.

Hon. Mr. HOWE: The Cunard boats go in because they want to go in.

Mr. WALSH: They are no longer paid for calling at Halifax. That subsidy has been discontinued.

Mr. ARMSTRONG: Right.

Mr. WALSH: That is satisfactory. Then one last question. At the harbour of Saint John, N.B., there is an investment there I understand of \$23,000,000. Is that correct? The figure does not matter very much. But all that equipment for which this country has paid is connected up with C.P.R. facilities. Of course, I understand the C.P.R. regard Saint John as their home port. But since the fire those facilities at Saint John are no longer available directly to the Canadian National Railway.

Mr. HUNGERFORD: They have never been.

Mr. WALSH: Before the fire you had available the facilities that were there.

Hon. Mr. HOWE: The facilities are just the same.

Mr. WALSH: I am given to understand—I am sorry that the member for Saint John is not here.

Hon. Mr. HOWE: He is here.

Mr. WALSH: Probably he can answer that question better than I could. It was something that I discussed on the train with his predecessor when we were on our way home last year. He was discussing that very item, and I took a mental note of it.

Mr. McAVITY: I am not a member of this committee, but may I ask a question? I would like to ask why it is that with \$23,000,000 invested at the port of Saint John, as has been said, more use is not made of that port? The Canadian National Railways spent in 1903 \$10,000,000. I think they spent more than that. They voted \$10,000,000 to build the Canadian National Railways transcontinental branch through the centre of New Brunswick in order to save forty miles. Saint John is 168 miles nearer to the centre than other points. I do not see why more use is not made of the port of Saint John, and I would like to ask that question. Why is it that approximately 750,000 tons is taken approximately 168 miles farther each year? I have another question along a similar line, but a much smaller one. Freight destined for American points coming through Saint John might be turned over to the Canadian Pacific Railway to be carried to these American points at the same rate as the freight which is now carried, I think it is 84 miles, to Fredericton and turned over to the Canadian Pacific. The Canadian National Railways gets nothing for that extra carrying. Why should the extra train haul be carried with apparently no advantage to the Canadian National Railways? That is my question.

Mr. HUNGERFORD: In regard to the first question, we carry the goods to the port that the people want them taken to. We have no control of that situation at all.

Mr. HOWARD: They carry them to the port the shipper indicates.

Mr. McAVITY: Is that the case in every instance? Is that specified in every instance? Is all the freight that goes to Halifax marked especially to go there rather than to Saint John? I mean, some of it is possibly free to go

wherever the railroad wishes to carry it. I would like to ask if it is all especially marked to go to Halifax?

Mr. HUNGERFORD: We have had to respect the consignor's instructions. The shipper of the goods says where he wants them to go and we take them there.

Mr. HANSON: I take it for granted that the member for Saint John wants to send them not to Halifax but to Saint John. But they must take them where they are asked to take them.

The CHAIRMAN: Well, gentlemen, this completes our task, and the committee will meet again when the estimates for the year 1938-1939 are presented to the House and submitted to this committee for consideration. In the meantime I would like to have your permission to prepare a tentative report for submission to the committee beforehand.

Mr. HOWDEN: I move accordingly.

Mr. ANDERSON: There was a question asked by Mr. Walsh in regard to the taxes on the Vancouver hotel. In 1936 they were \$50,000; in 1937, \$54,000; in 1938 they will be approximately \$55,000; and for 1939, after the hotel is opened, they are not yet decided. That is, we cannot say definitely what they will be.

Mr. YOUNG: What is the basis of rental of this new hotel?

Mr. ARMSTRONG: It is set out in the memorandum.

Mr. YOUNG: It says how much it is. How is that arrived at?

Mr. ARMSTRONG: It is the net earnings from the hotel up to a maximum amount of \$280,000 per year.

Mr. YOUNG: How is the \$280,000 arrived at?

Mr. HUNGERFORD: Arbitrarily.

Mr. ARMSTRONG: That is part of the arrangement.

Mr. YOUNG: What is the cost of the hotel up to date?

Mr. HUNGERFORD: It was \$9,000,000 to the end of last year, plus whatever has been spent since.

Mr. YOUNG: What is the estimated cost when it is completed?

Mr. HUNGERFORD: About eleven and one-half million.

Mr. HOWARD: A small hotel.

Mr. YOUNG: This rental will only take care of a very small portion of the capital cost.

Mr. HUNGERFORD: Yes. But under this arrangement we will have more net revenue than we otherwise would have to apply on the capital sum.

Mr. YOUNG: I notice that part of whatever accrues to the hotel in the shape of profits after this has been taken care of will go to the Canadian Pacific Railway.

Mr. HUNGERFORD: It will be a dividend on common stock.

Mr. YOUNG: Yes. I understood this morning or yesterday that they have not put anything into this hotel.

Mr. HUNGERFORD: No. That is right.

Mr. YOUNG: What interest will we have in the present Vancouver Hotel?

Mr. HUNGERFORD: Under this arrangement we will be entitled to half the salvage on the hotel.

Mr. YOUNG: If it is operated now, and if after the agreement goes into effect there are deficits in its operation, for any purpose, who pays any deficits?

Mr. HUNGERFORD: We share the deficits equally and get the ultimate salvage equally.

Mr. YOUNG: Under this agreement, how long would it be possible to carry on with deficits accruing? I notice there is some provision here for selling.

Mr. HUNGERFORD: There is a provision that if the hotel is not disposed of—if the property is not sold—it can be torn down within three years.

Mr. YOUNG: Torn down in how long?

Mr. HUNGERFORD: It will be torn down within three years if not leased or sold; if at the end of seven years the property has not been disposed of, then a valuation will be established by arbitration or otherwise. The C.P.R. will pay us interest on one-half of the amount.

Mr. YOUNG: What will the name of the new hotel be?

Mr. HUNGERFORD: The Hotel Vancouver.

Mr. YOUNG: The same name?

Mr. HUNGERFORD: The Hotel Vancouver, yes.

Mr. YOUNG: Has it been considered advisable to change the name of the hotel?

Mr. HUNGERFORD: No. There were a great many suggestions in regard to it, but the conclusion was that the present name had a certain value.

Mr. YOUNG: Will it be known as the international hotel or what?

Mr. HUNGERFORD: It will be known as the Hotel Vancouver. I think everybody will clearly understand that it is a jointly operated hotel but the ownership will remain with the Canadian National Railways.

Mr. YOUNG: When the name is not changed, it will be pretty difficult to dissociate that hotel from one which has been run by another company for a long time.

Mr. HUNGERFORD: I assure you that everybody in Vancouver and thereabouts understands this, anyway.

Hon. Mr. HOWE: The guests will notice the difference as they go into the lobby.

Mr. HOWARD: You bet they will, but they will not see it on the bill.

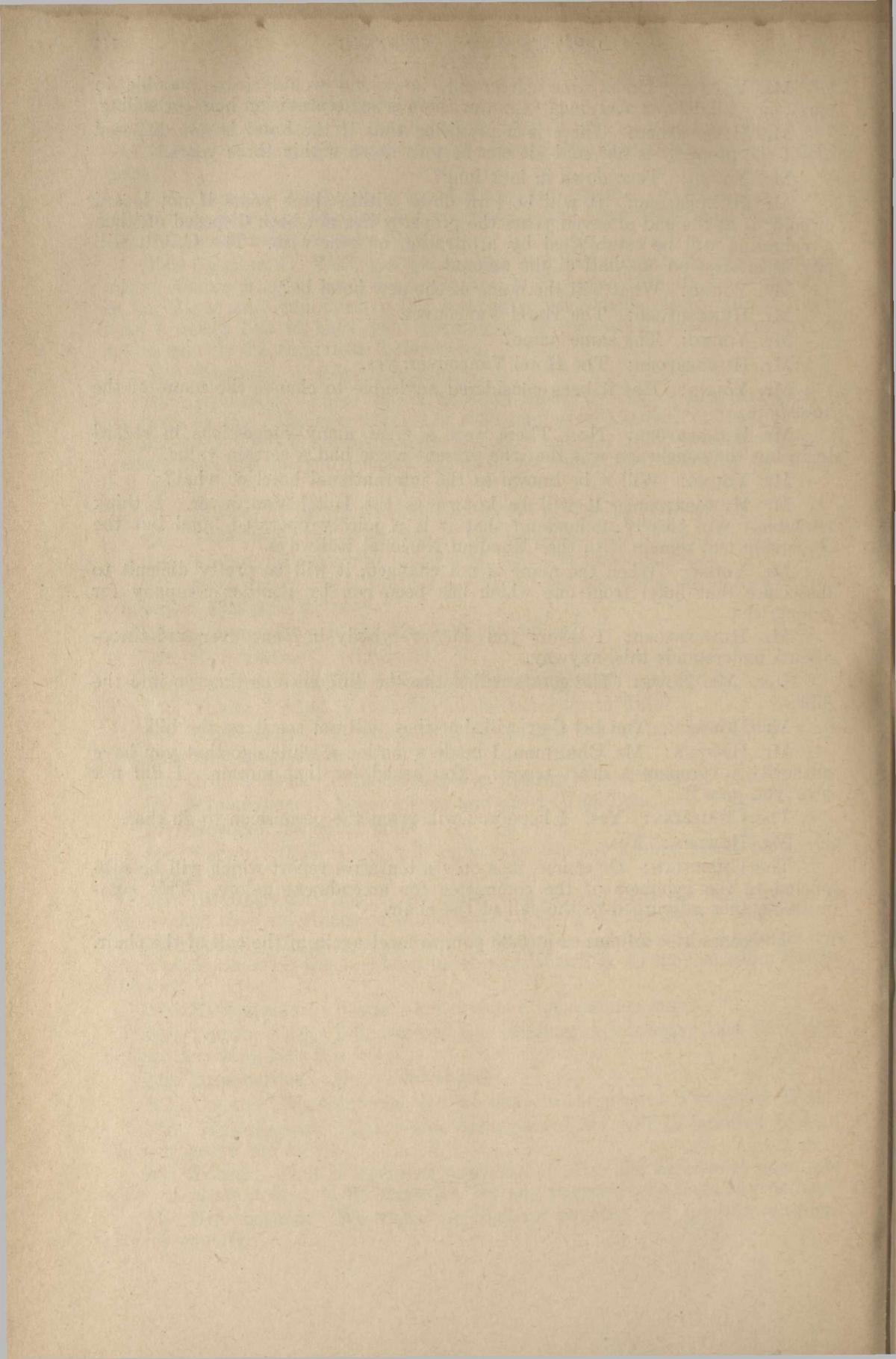
Mr. HOWDEN: Mr. Chairman, I made a motion a while ago that you have authority to prepare a draft report. You asked for that motion. I did not hear you pass it.

The CHAIRMAN: Yes. I hope you will grant the permission to do that.

Mr. HOWDEN: Yes.

The CHAIRMAN: Of course, it is only a tentative report which will be submitted to the members of the committee for amendment galore. This committee stands adjourned to the call of the chair.

The committee adjourned at 5.30 p.m. to meet again at the call of the chair.



Dist 58707  
SESSION 1938

HOUSE OF COMMONS

---

STANDING COMMITTEE

ON

# RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

---

MINUTES OF PROCEEDINGS AND EVIDENCE  
(Including Fourth and Final Report)

No. 3

---

WEDNESDAY, MAY 25, 1938

---

WITNESSES:

Mr. E. J. Mallory, Executive Assistant to the President, Canadian National Railways; Mr. T. H. Cooper, Comptroller, and Mr. W. M. Armstrong, Assistant Director, Bureau of Economics, Canadian National Railways, Montreal.



ORDERS OF REFERENCE

FRIDAY, May 20, 1938.

*Ordered*,—That the following items of the Estimates for 1938-39, presented to the House this day, i.e.

Vote 633, Canadian National Railway . . . . .	\$42,000,000 00
Vote 634, Prince Edward Island Car Ferry and Terminals . . . . .	327,000 00
Vote 635, Trans-Canada Air Lines . . . . .	830,000 00

be referred to the said Committee.

*Attest.*

ARTHUR BEAUCHESNE,  
*Clerk of the House.*

## REPORTS TO THE HOUSE

THURSDAY, May 26, 1938.

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

## THIRD REPORT

Your Committee has considered the following Items of the Supplementary Estimates for the fiscal year ending March 31, 1939, referred to your Committee on May 20, and approves of same, viz:—

Item No. 633, Canadian National Railway Company, \$42,000,000.

Item No. 634, Prince Edward Island Car Ferry and Terminals, \$327,000.

Item No. 635, Trans-Canada Air Lines, \$830,000.

All of which is respectfully submitted.

EUGENE FISET,  
*Chairman.*

## FINAL REPORT

THURSDAY, May 26, 1938

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

### FOURTH AND FINAL REPORT

Your Committee has considered the financial statements of the Canadian National Railways for the year ended December 31, 1937, including the Annual Report of the Canadian National Railway System, the Annual Report of the Canadian National (West Indies) Steamships, Limited, the First Annual Report of the Canadian National Railways Securities Trust and the First Annual Report of the Trans-Canada Air Lines.

#### *Canadian National Railway System*

A substantial increase of \$11,786,119.23 is shown in the operating revenues, this being reflected in both freight and passenger traffic as well as in telegraph, express and mail service. Although the operating expenses increased by \$9,311,168.02, it is to be noted that two thirds of this amount is accounted for in the two following items, viz: increase in prices of materials, \$3,000,000, and increased rates of pay to employees, \$2,800,000.

Whilst the vote of \$35,000,000 provided for cash deficit has been over-expended by approximately \$7,000,000, practically all of this over-expenditure, namely \$6,134,130 is reflected in the decrease of gross revenue from the transportation of grain grown in Western Canada. The situation in this regard is briefly summarized in the following paragraph of the Board of Directors' Report:—

The effect of increased productivity in Canada upon the future revenues of the National System does not require to be stressed. An increase in productivity in any form of industry, including agriculture, at once reflects itself in the earnings of the system; and decreases in the volume of production affect seriously the gross revenues of the railway. The gross revenues of the Canadian National from the transportation of grain grown in Western Canada in the years 1925-1934 inclusive averaged \$22,000,000 per annum, the tons of grain carried averaging 5,000,000 during that ten year period. . . . It will be noted that the gross revenues of the railway from the movement of Western Canada grain in 1937 were only 44 per cent of those obtained on the average during the ten year period ending in 1934.

One of the most acute problems in relation to the finances of the Canadian National Railways is undoubtedly the one reflected in the enormous amount of interest required to meet its funded debt. Of grave concern to your Committee is the comparatively high rate of interest charged on a portion of the securities involved in this indebtedness particularly on perpetual bonds and on others which are only callable in the very distant future.

Your Committee cannot urge too strongly that the whole funded debt structure of the Canadian National be thoroughly examined and that a determined effort be made to refund at a lower rate the issues bearing interest at a cost out of line with present conditions.

The situation created through the lack of terminal facilities in the city of Montreal was considered by your Committee. Inasmuch as the Statutes already contain an enabling Act in this regard, the consensus of opinion is to the effect that the project should receive further consideration.

*Canadian National (West Indies) Steamships*

The operating revenues of the Company indicate further improvement during the year 1937. Both freight and passenger traffic show increased revenue. It is to be noted that after payment of bond interest, but before depreciation and interest on government advances, there is available \$188,537.75 to be paid in reimbursement in part of prior deficits and interests as compared to the amount of \$87,398.55 available for this purpose in 1936.

*Canadian National Railways Securities Trust*

The first Annual Report submitted under the provisions of the Canadian National Railways Capital Revision Act, 1937, was duly considered by your Committee, the Chairman of the Trustees, Dr. W. C. Clark, Deputy Minister of Finance, being examined thereon. The report indicates that, as required under the Act, the Minister of Finance transferred to the Securities Trust the Canadian National Railways indebtedness to His Majesty together with the collateral securities held by the Minister in respect thereof, and that in exchange therefor the capital stock of the Securities Trust consisting of five million shares of no par value was issued to the Minister to be held on behalf of His Majesty.

Due to capital losses from certain line abandonments made by the Railway during the year 1937 in respect of which His Majesty has not made cash reimbursement to the Railway, the initial stated value of the capital stock was reduced by \$711,732.21, the authority provided in the Act for such action having been confirmed by an opinion of the Department of Justice.

It is also noted that with the approval of the Governor in Council, interest accruing after December 31, 1936, on the principal of the loans included in the indebtedness to His Majesty was waived by the Securities Trust until further ordered by the Trustees.

In accordance with section 24 of the Capital Revision Act, the 1937-38 Public Accounts will, for the first time, set out in a separate appendix, an historical record of the accumulated railway cost to the Dominion since Confederation, regardless of whether the Parliamentary Votes were in the form of loans, grants, subsidies, guarantees or otherwise.

*Trans-Canada Air Lines*

Most of the activities of the Trans-Canada Air Lines during the past year have been preliminary to operation. They indicate, however, that the objective of a first class air transport service across Canada will be achieved during the current year.

Assurance has been given your Committee that the service now operating in Western Canada will, in the near future, be extended to Montreal and from there to the Maritime Provinces, where a satisfactory service linking the principal cities in the maritimes is contemplated, the same as is being done for the cities in the Prairie Provinces.

*Estimates*

Items Nos. 427, 428, 437 and 438 of the Main Estimates, referred to your Committee on March 29, were considered, approved and reported to the House on April 28, and Items Nos. 633, 634, and 635 of the Supplementary Estimates referred on May 20, after being considered, were approved of and reported in the Committee's Third Report presented this day.

A copy of the Minutes of proceedings and evidence is annexed hereto.  
All of which is respectfully submitted.

EUGENE FISET,  
Chairman.

## MINUTES OF PROCEEDINGS

WEDNESDAY, May 25, 1938.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government, met at 4.00 p.m, the Chairman, Sir Eugène Fiset, presiding.

*Members present:* Messrs. Barber, Elliott (*Kindersley*), Emmerson, Fiset (Sir Eugène), Fraser, Hanson, Heaps, Howden, Howe, Kinley, Maybank, Stewart.

In attendance, Mr. V. I. Smart, Deputy Minister of Transport, Officials of the Canadian National Railways, including Mr. E. P. Mallory, Executive Assistant to the President, Mr. T. H. Cooper, Comptroller, and Mr. W. M. Armstrong, Assistant Director, Bureau of Economics, and Mr. A. V. Franklin, Railway Auditor, Department of Finance.

The Committee considered items 633, 634 and 635 of the Supplementary Estimates referred to the Committee on May 20.

The said Estimates were approved and the Chairman was authorized to report them to the House.

The Committee then proceeded *in camera* to the consideration of a draft report submitted by the Chairman, constituting the Fourth and Final Report of the Committee.

After consideration, the draft report was amended and, on motion of Mr. Heaps,

*Resolved*,—That the report, as amended, be adopted and that the Chairman be authorized to present same to the House.

The Committee adjourned *sine die*.

R. ARSENAULT,

*Clerk of the Committee.*

1. The first part of the document is a list of names and addresses of the members of the committee.

2. The second part of the document is a list of names and addresses of the members of the committee.

3. The third part of the document is a list of names and addresses of the members of the committee.

4. The fourth part of the document is a list of names and addresses of the members of the committee.

5. The fifth part of the document is a list of names and addresses of the members of the committee.

6. The sixth part of the document is a list of names and addresses of the members of the committee.

7. The seventh part of the document is a list of names and addresses of the members of the committee.

8. The eighth part of the document is a list of names and addresses of the members of the committee.

9. The ninth part of the document is a list of names and addresses of the members of the committee.

10. The tenth part of the document is a list of names and addresses of the members of the committee.

THE COMMITTEE ON THE STATE OF THE UNION

## MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 277,

May 25, 1938.

The Standing Committee on Railways and Shipping met at 4 o'clock. The Chairman, Sir Eugène Fiset, presided.

The CHAIRMAN: Now, gentlemen, we are here to consider the supplementary estimates of the Canadian National Railways which will be found at page 21 of the general supplementary estimates. I direct your attention to the first item, No. 633.

Amount not exceeding \$42,000,000 to be paid from time to time, under such conditions as the Minister of Finance may prescribe, to the Canadian National Railway Company (hereinafter called "the National Company") and to be applied by the National Company in payment of the deficit arising in the calendar year 1938, including such supplementary contribution to the Intercolonial and Prince Edward Island Railway Employees' Provident Fund as may be necessary to provide for payment in full of monthly allowances under the provisions of the Intercolonial and Prince Edward Island Railway Employees' Provident Fund Act, notwithstanding the limitation contained in section four of the said Act, and including such supplementary contribution to the Grand Trunk Railway of Canada Superannuation and Provident Fund as may be necessary to enable payment to be made of monthly allowances under the rules and regulations of the Fund, notwithstanding the limitation contained in section thirteen of chapter sixty-five of the Statutes of Canada, 1874, but not including amounts charged to proprietor's equity of the National Railway system as defined in chapter twenty-two of the Statutes of Canada, 1937—

Canadian National Railways, exclusive of Eastern	
Lines . . . . .	\$ 39,900,000 00
Eastern Lines . . . . .	2,100,000 00
	<hr/>
	\$ 42,000,000 00

Mr. ELLIOTT: Is there any place where we have a break-down showing the different amounts of the Provident fund?

The CHAIRMAN: No, there is no detail.

Mr. HANSON: The amount is to be paid from time to time.

Mr. HEAPS: This is the estimated deficit for the year 1938.

The CHAIRMAN: Do you want me to take those details one by one?

Mr. HEAPS: May I ask a question with regard to the item concerning eastern lines, \$2,100,000? Could I have what is actually implied by that item?

Mr. MALLORY: The difference between the earnings and expenses; the break-down between the system as a whole and the eastern lines. The eastern lines are that part of the territory east of Diamond Junction and Levis, separated under the Maritimes Freight Rates Act.

Mr. HEAPS: This is the estimated deficit only?

Mr. MALLORY: No, it is the total deficit after all income charges—cash deficit.

The CHAIRMAN: We might as well take the report as it stands. Take the first page, Mr. Heaps.

Hon. Mr. STEWART: With respect to these items, as I recall it, they are in practically the same wording as they were last year?

The CHAIRMAN: Exactly.

Hon. Mr. STEWART: If it is understood, as I believe it is, that our passing the item at present before us does not preclude further discussion of it in the House of Commons—

The CHAIRMAN: Oh, no.

Hon. Mr. STEWART:—and that any general statement as to the situation might be made there, I do not see any object in going too much into detail here.

Mr. HEAPS: We do not, as a rule, discuss these matters in any great detail once they have been passed by the committee here, and I was anxious to find out the position of the eastern section of the railway as compared with the rest of the country.

The CHAIRMAN: Now, will you take page 2 of the report that you have there, Mr. Heaps; you have the full details of that item of \$2,100,000. This is the budget for the year 1938, and there is a heading "Eastern Lines, System Excluding Eastern Lines, System All-inclusive," and you have the total there.

Mr. HEAPS: I do not see in that item any interest charges on the eastern lines. What I wanted to find out was whether that \$2,100,000 estimated here allowed for the interest charges on the eastern sections of the lines?

Mr. COOPER: Yes, it does.

Mr. MALLORY: \$333,000, interest due public on long term debt, and other fixed charges, \$1,197,000.

Mr. HEAPS: In that case, the eastern lines show better results than probably the rest of the country at the present time.

Hon. Mr. HOWE: Better comparative results. As against the other results you have the fixed charges of the railway, and in this the only fixed charges you have are chiefly the bonds on the Halifax and South Western railways. The Intercolonial was paid for direct by the government as it was built, so there are no fixed charges assessed against that line. The fixed charges there are hardly in proportion to the rest of the line. We estimate it will fail to meet operating expenses by \$700,000. It has to meet taxes of \$275,000 and interest of \$832,000. I think that is pretty well the story as shown there.

Hon. Mr. STEWART: Mr. Chairman, any contribution under the Maritime Freight Rates Act—is that taken into consideration?

Hon. Mr. HOWE: Yes, that is added in.

Mr. HEAPS: Added into this?

Hon. Mr. HOWE: Yes, the second item, schedule 2.

Mr. HEAPS: Is that added into the income? If so, should it go that way?

Mr. COOPER: Yes, sir.

Mr. HEAPS: If this amount were not in, which is really a direct subsidy, it would be a different story.

The CHAIRMAN: It is income for the railway.

Mr. HEAPS: It is expenditure from the national exchequer.

Hon. Mr. HOWE: Of course, the railway paid its freight cost, twenty per cent, with the understanding that that would be paid back. It was a bargain. It transferred that twenty per cent of the freight from the shipper to the federal exchequer.

Mr. HEAPS: I always opposed this twenty per cent because I do not like making favourites of any section of the country. If we did that all over the country we would be in a nice position.

Hon. Mr. HOWE: You have not heard much about maritime rights.

Mr. HEAPS: I was in the House when it was done, and I do not apologize for my vote.

The CHAIRMAN: Are there any other objections?

Mr. HEAPS: On this item?

The CHAIRMAN: Yes. That is the main item, \$40,000,000.

Mr. EMMERSON: Is there any break-down showing the amount of that Provident fund—the amount the government has to pay?

Mr. COOPER: It is shown on pages 1 and 2: \$1,421,000. It is in the note on the middle of the page.

The CHAIRMAN: Shall the item carry?

Carried.

Item 634: "To hereby authorize and provide for the payment from time to time during the fiscal year 1938-39 to the Canadian National Railway Company of the difference between the operating expenses and the revenue from the operation of the Prince Edward Island Car Ferry and Terminals (certified by the auditors of the Canadian National Railway Company to the Minister of Transport as and when required by the said Minister) in the calendar year 1938, \$327,000.00."

Mr. HEAPS: I might as well get a little information. I have been abused a great deal because I have asked for this information in the past. I might as well get a little more abuse now—not from the minister, but from other members of the House thinking I have no right to make these inquiries in regard to these questions. I would like to know what capital expenditure is involved in the ferry, and what the actual gross loss is in the operation of the ferry?

Mr. COOPER: The investment at the end of 1937 in the two-car ferries was \$2,893,000 and in the terminals \$4,987,000. That is the capital investment. The operating loss in 1937 is \$333,000.

Mr. HEAPS: And what is the cost of the capital investment in the ferries?

Mr. COOPER: \$2,893,000.

Mr. HEAPS: So that in addition to the \$327,000 there is also an additional loss of the amount you just mentioned?

Mr. COOPER: Of course, as far as the railway is concerned this capital is provided by the government as a part of the Canadian Government Railways and we ourselves do not have any interest charge.

Mr. HEAPS: Somebody has to pay it. I am not saying that it is up to the Canadian National system to pay it, but I would like to get a real picture of the actual loss in connection with these services.

Mr. SMART: There is no loss; it is capital invested—paid out of departmental estimates.

Mr. HEAPS: Yes, but the operations of the boats show a deficit of \$327,000, an estimated deficit; and on top of that has got to be added the interest charges on the boats.

Hon. Mr. HOWE: You can fix your own interest rate.

Mr. HEAPS: Say 3½ per cent or 4 per cent; and it comes to a loss of at least a million dollars a year.

Mr. COOPER: Four per cent would be \$315,000.

Mr. HEAPS: \$315,000 added on to this would make it about \$700,000. I would like to know the amount of revenue that comes in for the amount that was spent?

Hon. Mr. HOWE: Can you give him the revenue, Mr. Cooper?

Mr. ARMSTRONG: The revenues for 1937 were \$104,675; expenses \$431,679; deficit \$327,003.

Mr. BARBER: Does that include interest on the terminals?

Mr. HEAPS: I want to know the gross revenue.

Mr. COOPER: \$104,675. We should explain that that is merely a mileage pro rate of the traffic which moves over the land lines and the water ferries; it is not the revenue which you would assign to that service if it were completely separately operated and could negotiate with the railways for its own independent division of the through earnings on the traffic.

Mr. MALLORY: Mr. Cooper means that the rates charged for the service performed by that service are not on the basis they would be if it was an independent ferry; it is part of the through rail movement.

Mr. HEAPS: Part of the system. But it seems that we have spent an enormous amount of money for apparently a very small amount of traffic.

Hon. Mr. HOWE: That is part of the confederation bargain, that we should maintain continuous service.

Mr. HEAPS: I am wondering whether the service they have given is not, perhaps, a little too good for the amount of traffic.

The CHAIRMAN: Someone speaking from the standpoint of the Island said it was too bad.

Mr. HEAPS: He has a home there, or he goes there for his holidays.

Hon. Mr. HOWE: They had the best increase last year of any part of the system, and it is holding up wonderfully well this year—far better than any other class on the system—and we sincerely hope that within a year or two we will be able to get it out of the red.

The CHAIRMAN: You remember the case of Rimouski. Last year there was a revenue of \$580,000 as compared with \$90,000 five years ago.

Mr. HEAPS: I know; but you can perform miracles there. However, Mr. Chairman, I want to find out the actual standing of these particular ventures which we are entering into. It is not because I have anything in particular against any particular part of the country. I think, perhaps, we may go a little too extravagantly into these ventures, and they might give us just as good service if we did not put as much in.

Hon. Mr. HOWE: You have never found me making requests for heavy expenditures in the prairies and in other parts of the country at any time unless I am satisfied there is going to be an adequate return.

The CHAIRMAN: Shall the item carry?

(Carried).

Now, we come to item 635: Trans-Canada Air Lines:—

To hereby authorize and provide for payment from time to time during the fiscal year 1938-39 to Trans-Canada Air Lines, to be applied by the said Trans-Canada Air Lines in payment of the deficit (certified by the Auditor of the said Trans-Canada Air Lines to the Minister of Transport as and when required by the said Minister) resulting from the operations of the said Trans-Canada Air Lines during the calendar year 1938, \$830,000.

Mr. HEAPS: What are the prospects there?

Hon. Mr. HOWE: The situation this year is that the Trans-Canada run practically all the operating expenses while they are developing the system to the point of a revenue producing basis. For example, we are operating over a good deal of the line to-day, training pilots and establishing the service when we are not obtaining revenue therefrom. We have practically as much staff as we require for full operation, but this is just an interval which is inevitable in starting up a new service like this when we must collect our staff and train it.

Mr. BARBER: It was reported that the service would commence from Winnipeg west on the 15th of the month? Has that service commenced yet?

Hon. Mr. HOWE: Oh, yes, we have been carrying mail since early in March. We started to carry express on the 15th.

Mr. BARBER: That is a regular service now, is it? There was no regular service before, was there?

Hon. Mr. HOWE: There was a regular service every day, yes; but we have not started to carry passengers yet because facilities are not up to a point where we think we are justified in carrying passengers, but we will start by the 1st of July to carry passengers.

Mr. HEAPS: Do you think this will ultimately prove a satisfactory venture on the part of the government?

Hon. Mr. HOWE: I think it has progressed wonderfully well to date. We are well pleased with the result of carrying mail. We have operated for several months in bad weather without any injury to equipment, or any other kind of injury. We are proceeding on a sound basis, and I think those familiar with air transport feel we are developing a fine service.

The CHAIRMAN: Shall the item carry?

(Carried).

Mr. HANSON: I am interested in having a little information regarding page 3 on the budget for 1938, although we have already passed it. I want some information on hotels: \$1,800,000. I would like to know which hotels that covers, and what the deficit is to each hotel?

The CHAIRMAN: We had that on the main estimates. This information was furnished.

Mr. HANSON: It has not been furnished so far, has it?

The CHAIRMAN: Yes.

Mr. ARMSTRONG: \$1,800,000 in capital expenditure. That includes an estimated \$1,750,000 for the Vancouver hotel and \$50,000 for miscellaneous additions and betterments to other hotels.

Mr. HANSON: It is practically all the Vancouver hotel?

Mr. ARMSTRONG: Yes.

The CHAIRMAN: Is that all, gentlemen? Very well, we will close our sitting.

The Committee adjourned to resume *in camera*.

