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HOUSE OF COMMONS

Fourth Session—Twenty-fourth Parliament

1960-61

SESSIONAL COMMITTEE

ON

RAILWAYS, AIR LINES AND SHIPPING

Owned and Controlled by the Government

Chairman: HONOURABLE W. EARL ROWE

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

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THURSDAY, JUNE 15, 1961

Canadian National Railways Annual Report (1960)

WITNESSES:

The Honourable Léon Balcer, Minister of Transport. *From Canadian National Railways:* Mr. Donald Gordon, Chairman and President; Mr. R. T. Vaughan, Assistant to the Chairman; Mr. J. L. Toole, Vice-President, Accounting and Finance; Mr. H. C. Grayston, Vice-President, Transportation and Maintenance; Mr. J. D. Wahn, General Economist; Mr. E. L. Hewson, Chief, Budgets and Statistics.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1961

25453-2—1

SESSIONAL COMMITTEE ON RAILWAYS, AIR LINES AND SHIPPING

Chairman: Honourable W. E. Rowe

Vice-Chairman: Mr. Heber Smith

and Messrs.

Badanai	Creaghan	McFarlane
Brassard (*Lapointe*)	Fisher	McPhillips
Broome	Granger	McWilliam
Browne (*Vancouver-Kingsway*)	Grills	Mitchell
Campeau	Horner (*Jasper-Edson*)	Monteith (*Verdun*)
Carter	Howe	Pascoe
Chevrier	Kennedy	Robinson
*Chown	†McDonald (*Hamilton-South*)	Smallwood—26.

J. E. O'Connor,
Clerk of the Committee.

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* Replaced Thursday, June 15, 1961, by Mr. Forbes.
† Replaced Thursday, June 15, 1961, by Mr. Horner (*Acadia*).

REPORT TO THE HOUSE

THURSDAY, June 15, 1961.

The Sessional Committee on Railways, Air Lines and Shipping, owned and controlled by the Government, has the honour to present its

FIRST REPORT

Your Committee recommends:

1. That its quorum be set at 10 members.

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

3. That it be authorized to print, from day to day, 800 copies in English and 250 in French of its minutes of proceedings and evidence and that Standing Order 66 be suspended in relation thereto.

Respectfully submitted,

W. EARL ROWE,
Chairman.

25453-2—1½

ORDERS OF REFERENCE

HOUSE OF COMMONS,
MONDAY, May 15, 1961.

RESOLVED,—That a Sessional Committee on Railways, Air Lines and Shipping owned and controlled by the Government be appointed to consider the accounts, estimates and bills relating to the Canadian National Railways and Trans-Canada Air Lines, saving always the power of the Committee of Supply in relation to the voting of public monies, and to consider the pension rights of existing or retired Canadian National Railways employees with respect to anomalies which may have resulted from breaks in the continuity of service, and also to consider the arrangements for turn around benefits for employees of the Canadian National Railways, and the said Committee should be empowered to send for persons, papers and records and to report from time to time, and that notwithstanding Standing Order 67, the said Committee shall consist of twenty-six members.

SATURDAY, May 27, 1961.

ORDERED,—That the Sessional Committee on Railways, Air Lines and Shipping, appointed May 15, 1961, be composed of Messrs. Badanai, Brassard (*Lapointe*), Broome, Browne (*Vancouver-Kingsway*), Campeau, Carter, Chevrier, Chown, Creaghan, Granger, Grills, Howe, Horner (*Jasper-Edson*), Kennedy, McDonald (*Hamilton South*), McFarlane, McPhillips, McWilliam, Mitchell, Monteith (*Verdun*), Pascoe, Robinson, Rowe, Smallwood, Smith (*Simcoe North*), and Winch.

MONDAY, May 29, 1961.

ORDERED,—That the name of Mr. Fisher be substituted for that of Mr. Winch on the Sessional Committee on Railways, Air Lines and Shipping.

TUESDAY, June 13, 1961.

ORDERED,—That the Annual Reports for 1960 of the Canadian National Railways and of the Canadian National Railways Securities Trust; the Auditor's Report to Parliament in respect of the Canadian National Railways for the year ended December 31, 1960, tabled on March 28, 1961; the Budget for 1961 of the Canadian National Railways, tabled on April 19, 1961; the Annual Report of Trans-Canada Air Lines for 1960, tabled on March 14, 1961; the Auditor's Report to Parliament in respect of Trans-Canada Air Lines for the year ended December 31, 1960, tabled on March 28, 1961; and the Budget for 1961 of Trans-Canada Air Lines, tabled on January 16, 1961; be referred to the Sessional Committee on Railways, Air Lines and Shipping.

THURSDAY, June 15, 1961.

ORDERED,—That the quorum of the Sessional Committee on Railways, Air Lines and Shipping be set at 10 Members; that it be empowered to sit while the House is sitting; and that it be authorized to print, from day to day, 800 copies in English and 250 in French of its Minutes of Proceedings and Evidence and that Standing Order 66 be suspended in relation thereto.

ORDERED,—That the names of Messrs. Forbes and Horner (*Acadia*) be substituted for those of Messrs. Chown and McDonald (*Hamilton South*) on the said Committee.

ATTEST

Leon-J. Raymond,
Clerk of the House.

MINUTES OF PROCEEDINGS

THURSDAY, June 15, 1961.
(1)

The Sessional Committee on Railways, Air Lines and Shipping, owned and controlled by the Government, met at 9.35 a.m. this day for organization purposes.

Members present: Messrs. Badanai, Broome, Browne, (*Vancouver-Kingsway*), Chevrier, Creaghan, Fisher, Granger, Horner (*Jasper-Edson*), Kennedy, McFarlane, McPhillips, Monteith (*Verdun*), Pascoe, Robinson, Rowe, Smallwood and Smith (*Simcoe North*).—17

On motion of Mr. Creaghan, seconded by Mr. Browne (*Vancouver-Kingsway*), the Honourable W. E. Rowe was elected Chairman.

Mr. Rowe took the Chair and thanked Members for the honour extended to him.

On motion of Mr. Broome, seconded by Mr. Chevrier, Mr. Heber Smith was elected Vice-Chairman.

The Committee's Orders of Reference were read.

On motion of Mr. McFarlane, seconded by Mr. Badanai,

Resolved—That the Committee obtain permission to sit while the House is sitting.

On motion of Mr. Broome, seconded by Mr. Robinson,

Resolved,—That the Committee obtain authority to print 800 copies of its Minutes of Proceedings and Evidence in English and 250 copies in French.

On motion of Mr. Creaghan, seconded by Mr. Pascoe,

Resolved,—That the Committee request the House to set its quorum at 10 Members.

On motion of Mr. Smith (*Simcoe-North*), seconded by Mr. McFarlane,

Resolved,—That a Sub-Committee on Agenda and Procedure be established comprising 6 Members of the Committee and the Chairman; the Members of which to be designated by him.

The following Members were designated to serve on the Sub-Committee on Agenda and Procedure: Messrs. Howe, Smith (*Simcoe North*), Granger, McFarlane, Fisher and Creaghan.

Following a discussion of future business, and agreement to reconvene at 2.30 p.m. and 8.00 p.m. this day, at 10.00 a.m. the Committee adjourned.

AFTERNOON SITTING
(2)

The Committee reconvened at 2.33 p.m. The Chairman, Mr. W. E. Rowe, presided.

Members present: Messrs. Broome, Browne (*Vancouver-Kingsway*), Chevrier, Creaghan, Fisher, Forbes, Granger, Grills, Horner (*Acadia*), Honer, (*Jasper--Edson*), Howe, Kennedy,McFarlane, McPhillips, Monteith (*Verdun*), Pascoe, Robinson, Rowe, Smallwood and Smith (*Simcoe North*).—20

In attendance: The Honourable Léon Balcer, Minister of Transport. *From Canadian National Railways*: Mr. Donald Gordon, Chairman and President; Mr. R. T. Vaughan, Assistant to the Chairman; Mr. J. L. Toole, Vice-President, Accounting and Finance; Mr. H. C. Grayston, Vice-President, Transportation and Maintenance; Mr. J. D. Wahn, General Economist, and Mr. E. L. Hewson, chief, budget and statistics.

The Minister was questioned concerning Mr. Gordon's position with Canadian National Railways and the status of the Board of Directors of that Company.

Mr. Gordon read the Canadian National Railways Annual Report—1960, and reviewed a booklet containing charts, diagrams and graphs illustrating the Company's position in freight and passenger traffic, revenues, products carried and operating expenses.

Mr. Gordon was questioned concerning the implications of the charts, as related to statistical information contained in the Annual Report.

Assisted by Messrs. Wahn, Toole and Grayston, Mr. Gordon was questioned concerning the Company's Annual Report, and he read a statement reviewing the financial difficulties of the Company since 1950, making comparisons in certain areas with the Canadian Pacific Railway Company.

Questioning continuing, at 5.35 the Committee adjourned to meet again at 8.00 p.m. this day.

EVENING SITTING
(3)

At 8.10 p.m. the Committee reconvened. The Chairman, Mr. W. E. Rowe, presided.

Members present: Messrs. Broome, Browne, (*Vancouver-Kinkgsway*), Chevrier, Creaghan, Fisher, Forbes, Granger, Grills, Horner (*Acadia*), Horner (*Jasper-Edson*), Howe, McFarlane, McPhillips, Monteith (*Verdun*), Pascoe, Robinson, Rowe, Smallwood and Smith (*Simcoe-North*).—19

In attendance: The same witnesses as attended the afternoon sitting.

Mr. Gordon commented on a newspaper editorial introduced by a Member of the Committee suggesting that restrictions placed on him had made the task of the management of the Company impossible.

Assisted by Messrs. Toole, Grayston and Wahn, Mr. Gordon was further questioned concerning the Company's Annual Report and the statement of the Company's financial situation.

At 10.05 p.m. the Committee adjourned to meet again at 9.30 a.m., Friday, June 16, 1961.

J. E. O'Connor,
Clerk of the Committee.

EVIDENCE

THURSDAY, June 15, 1961.

The CHAIRMAN: Gentlemen, I observe a quorum. We will proceed on the basis set out at this morning's organization meeting. Following on that order, the first order of business is to deal with the Annual Report of the Canadian National Railways. I am glad to see we have the officials here in good numbers and a full representation on the committee.

Mr. CREAGHAN: Mr. Chairman, is the Minister of Transport going to be here?

The CHAIRMAN: As a matter of fact, I thought he was here. I see the Minister is arriving now.

Gentlemen, we can proceed, the minister is here.

Mr. CREAGHAN: Before we commence the examination of the Annual Report of the Canadian National Railways, I think either you, Mr. Chairman, or the Minister should make a statement. There has been a lot of press speculation on when the meeting would get started and whether or not we have officially appointed directors of the C.N.R. I think this point should be clarified by the chair before we proceed.

The CHAIRMAN: On this matter of high government policy, if the Minister cares to do so, I think he would be the proper person to answer.

Hon. Leon BALCER (*Minister of Transport*): Mr. Chairman, as I have said a few times in the house the policy of the government in this respect has been expressed previously. There is a bill increasing the number of directors of the C.N.R. This bill has been passed by both houses but has not yet been proclaimed. The intention of the government, when this bill is proclaimed, is to change completely the whole board. A new slate will have to be put forward. The government policy is to wait until proclamation of this bill to appoint and reappoint directors and president of the C.N.R.

So far as the president is concerned, everybody knows that the president of the C.N.R. is Mr. Gordon. It is in the act that the president and directors carry on until they are replaced. So at the present time the president of the C.N.R. is Mr. Donald Gordon.

Mr. FISHER: I would like to bring up a point which relates to the fact that a number of members of this committee, including myself, have made criticisms of the management of the C.N.R. and have expressed some doubts about the competence of the management. I think it would be fair to the president, so far as I am concerned—and I do not know how other members of the committee feel on this—to suggest that the president be given the latitude during the examination of the annual report to go beyond the actual position of the annual report at any time he wishes, if he feels that this is necessary in order to defend what many of us feel is compellable criticism of the C.N.R. management. I would just like to bring that up now, to see whether or not the other members of the committee feel the same way; that is, to give Mr. Gordon perhaps more latitude than he has had in the past.

The CHAIRMAN: I think Mr. Gordon has this latitude by right, and I certainly feel he should be allowed to express his viewpoint, in view of some of the statements which have been made. In fact, he has been at a disadvantage in not being able to answer the statements made on the floor of the house. I think this is highly desirable. If you care to make any statement now before we proceed with the Annual Report, Mr. President, I think it would be quite in order.

Mr. SMITH (*Simcoe North*): What has happened outside of the committee has nothing to do with the committee itself. Some members may have preconceived ideas or opinions, but this committee is starting de novo, and it seems to me we should not, at the outset, treat it as something extraordinary. We do not know what may develop during the course of the hearing but, at this stage of the committee hearing, it would seem to me it is just the beginning of another annual committee meeting, which has been going on for a great number of years. I do not think we should anticipate any preconceived positions.

Mr. HORNER (*Jasper-Edson*): I agree with Mr. Smith. I think we are here, Mr. Chairman, to examine the operations of the Canadian National, and I do not think we should take into account personality clashes or anything else, but get on with the job of examining the position of the Canadian National.

The CHAIRMAN: Well, of course, it is generally understood that it would be only appropriate and accepted that Mr. Gordon would make a statement as and when it was desirable. If it is your wish to proceed with the annual report, as such, we will do so.

Mr. BROOME: Let us proceed.

The CHAIRMAN: Mr. Gordon can make a statement later on.

Mr. SMITH (*Simcoe-North*): Agreed.

The CHAIRMAN: I think there is something that can be said for the remarks that have been made. What has been said in parliament, even though it has been said by some members of the committee, does not necessarily involve the committee's work.

Is that satisfactory to you, Mr. Gordon?

Mr. Donald GORDON (*President, Canadian National Railways*): Mr. Chairman, I am in the hands of the committee. Whatever you would like me to do will be satisfactory to me.

The CHAIRMAN: Mr. Gordon, as usual, is exhibiting a very genial manner. He does not want to set the plans of the committee.

Mr. GORDON: Is it your wish that I read the report now?

The CHAIRMAN: Yes. Would you proceed with the report?

Mr. GORDON: Before I begin to read the report, I would like to introduce to the committee, on my right, Mr. J. L. Toole, vice-president, accounting and finance; Mr. H. C. Grayston, vice-president, transportation and maintenance, and Mr. Ralph Vaughan, who will sit behind and whisper in my ear in order to keep me in a straight line in regard to my evidence before the committee. These three officers will be here to assist me in providing the committee with all the information they would like to secure.

I will proceed, now, with the reading of the report.

FINANCIAL HIGHLIGHTS

	1960	1959	Better or (Worse)
Railway operating revenues	$693,141,106	$740,165,041	$ (47,023,935)
Railway operating expenses	685,794,292	720,822,338	35,028,046
Net revenue from railway operations	7,346,814	19,342,703	(11,995,889)
Taxes and rents	20,024,018	21,029,922	1,005,904
Net railway operating *loss*	*12,677,204*	*1,687,219*	(10,989,985)
Other income	6,203,472	6,896,728	(693,256)
Deficit or surplus before fixed charges	*6,473,732*	5,209,509	(11,683,241)
Total fixed charges	69,088,803	52,512,649	(16,576,154)
Received from T.C.A.	8,065,758	3,714,850	4,350,908
Net fixed charges	61,023,045	48,797,799	(12,225,246)
Deficit	*$ 67,496,777*	*$ 43,588,290*	$ (23,908,487)

THE ANNUAL REPORT OF CANADIAN NATIONAL RAILWAYS FOR THE YEAR 1960

Financial Results

During 1960, the surface transportation industry on the North American continent suffered from an unexpected fall-off in traffic. Canadian National Railways was severely affected by the decline which closely paralleled a general slowing-down in the rate of economic expansion in the country. The pronounced drop in traffic began early in the second quarter and continued on a downward course until Fall before levelling off.

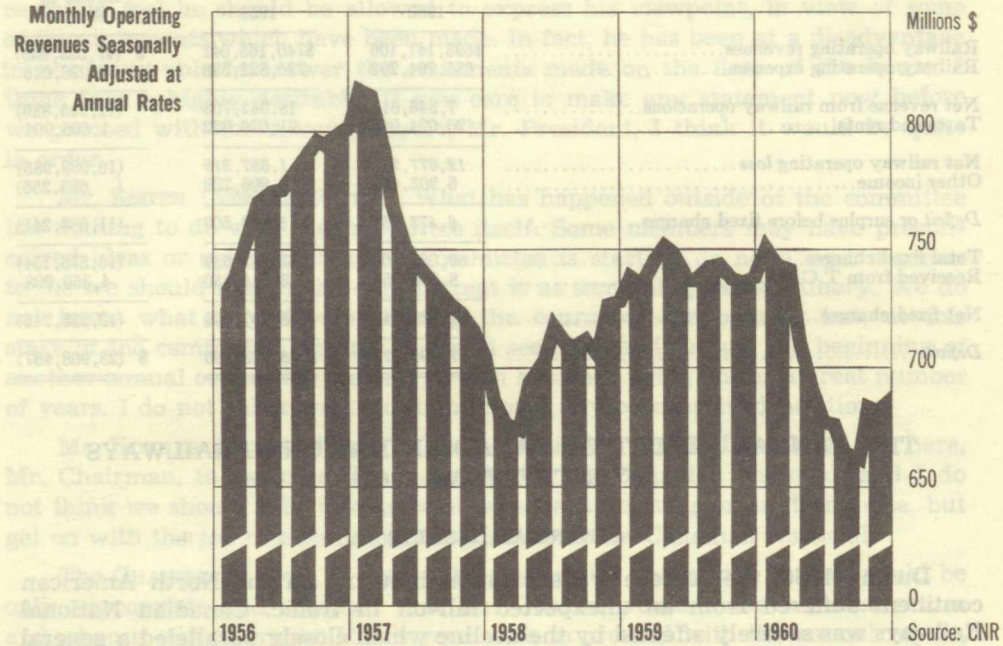
At the beginning of 1960, the management forecast a slight increase in revenue ton miles, which, coupled with a firm control on expenses, promised to provide a modest improvement in the System's net financial position. This prediction had to be drastically revised once the slackening in economic output and the associated downward trend in traffic was established in the third quarter.

Instead of the anticipated increase, revenue ton miles decreased 4.3 per cent from 1959. Operating revenues dropped $47.0 million, or 6.4 per cent, while a reduction of $35.0 million in operating expenses was achieved. At $7.3 million, net operating income was down $12.0 million from 1959. There was also a decrease in other income. Payments for equipment rentals were reduced due to lower traffic, but this saving was partially offset by increases in taxes. These factors, together with an increase in fixed charges, due in large part to the higher level of interest rates, resulted in a deficit of $67.5 million compared to $43.6 million in 1959.

Revenues from freight services declined 8 per cent to $541.9 million from $589.6 million in 1959. While there were increases in the shipments of ores and concentrates, pulpwood, manufactured iron and steel articles and auto parts, these were more than offset by declines in the movement of grain and grain products, lumber, building materials, coal and other mine products.

With major reductions in maintenance and transportation costs, operating expenses for 1960 amounted to $685.8 million, compared to $720.8 million in 1959. Remuneration to the System's work force continued to represent the major portion of the expense figure, with total compensation (including fringe benefits) chargeable to operating expenses amounting to $433.5 million. This represents 63.2 per cent of CN's 1960 expense dollar.

The financial record for 1960 dramatically illustrates the vulnerability of Canadian National to the varying levels of economic activity of its environment.



The very nature of the railway as a service industry, plus the magnitude of its operations, contributes substantially to its lack of resiliency in responding to changing conditions. However, the experience served to highlight the necessity of pressing forward with programs designed to mould the System into an instrument better able to adjust and respond to both the prevailing business climate and the shifts and new challenges of a highly competitive transportation market. In meeting this challenge, far-reaching changes continued to be reflected in many facets of the railway in 1960. They embraced organization, marketing, technology and methods, and all had their roots in the need for greater effectiveness, flexibility and efficiency in both sales and operations.

Mr. McPHILLIPS: On a point of procedure, Mr. Chairman, are questions to be asked as each heading is read, or will the whole report be read first, and then we will revert back and ask questions?

The CHAIRMAN: It was decided this morning that the whole report would be read initially.

Mr. McPHILLIPS: Then we can go back in the report and ask questions.

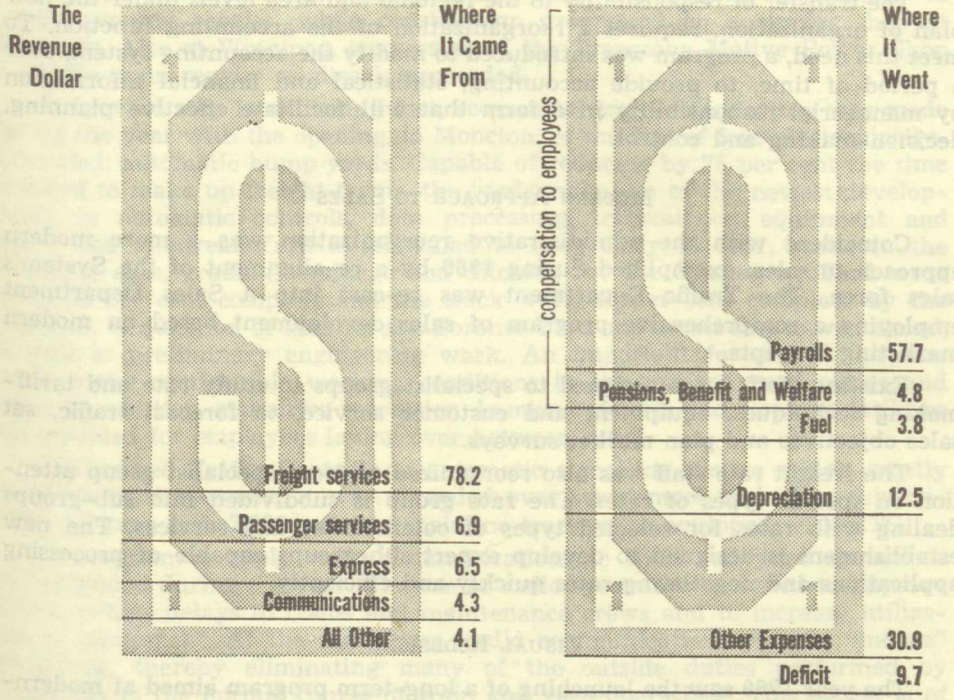
The CHAIRMAN: Yes, you then will be able to ask questions.

Mr. BROOME: May I also suggest, Mr. Chairman, that Mr. Gordon's voice will play out before he reads all of this, and it might be well if he is spelled off by somebody else reading it.

Mr. GORDON: No, thank you. I appreciate your consideration for me, but I will speak for myself.

Mr. BROOME: I was only trying to be helpful.

Mr. GORDON: Thank you. I have noticed that before.



Management Organization Structure

During 1960 the first stages of a new form of organization of the System's management and administrative structure were implemented. The result of two years of study and planning by System officers, the new structure is designed to decentralize authority, modernize administrative techniques and integrate sales and operation functions at all levels. The former levels of administration in the Operation Department (and their parallels in the Traffic Departments) comprising three regions, 10 districts and 31 divisions in Canada, were reconstituted into five regions subdivided into 18 management areas, or "business units", thus reducing the total number of administrative units below System Headquarters from 44 to 23.

Responsibility and authority is being decentralized to the regional and area management levels on a geographic, as distinct from a departmental, basis. Previously, operations, sales and other departmental functions were co-ordinated only at System Headquarters. Under the new plan, sales and operations are co-ordinated at the area and regional levels. Thus, Regional Vice-Presidents and Area Managers are to be responsible for all phases of marketing and operation of the company's rail transportation services in their territories. Headquarters activities will be concentrated on staff and service functions.

The objective of the new form of organization is to enable Canadian National to compete more aggressively and effectively in the transportation market and in so doing, improve its revenue position. The delegation of authority to the local levels where business originates, together with a streamlining of internal communication lines, provides a managerial frame-work capable of quick response to the changing demands of the market. At the same time it is expected that the new structure will contribute to efficiency which, combined with the reduction in the number of administrative units, will, in due course, improve the relationship between administrative costs on the one hand, and revenues on the other.

The transfer of responsibility to the regional and area levels under the new plan of organization, requires a reorganization of the accounting function. To meet this need, a program was introduced to modify the accounting system, over a period of time, to provide accounting, statistical and financial information by managerial responsibility in a form that will facilitate effective planning, decision-making and control.

Modern Approach to Sales

Coincident with the administrative reorganization was a more modern approach to sales, exemplified during 1960 by a re-alignment of the System's sales force. The Traffic Department was re-cast into a Sales Department employing a comprehensive program of sales development based on modern marketing concepts.

Existing staffs were assigned to specialist groups to study rate and tariff-making techniques, equipment and customer service, to forecast traffic, set sales objectives and plan market surveys.

The freight rate staff was also reorganized to focus specialist group attention on specific types of rates. The rate group is subdivided into sub-groups dealing with rates for selected types of commodities and services. The new establishment is designed to develop expert sub-groups capable of processing applications and negotiating rates quickly and efficiently.

Visual Redesign

The year 1960 saw the launching of a long-term program aimed at modernizing Canadian National's external appearances in the interests of increasing sales, helping to build employee pride in the company and improving the general public concept of the CN System.

As a first step, a new corporate trademark was introduced. Spelling out the letters "CN" in clean-flowing lines, the trademark symbolizes the movement of men, materials and messages across the country. By year-end, it had begun to appear on box cars, motor vehicles, advertising, credit cards and company forms. Work is continuing on the development of new designs and color schemes for trains, stations, offices, letterheads, telegram blanks and other applications. The changes will be introduced gradually in the normal course of maintaining and replacing property and stocks.

Plant and Equipment

During the year, CN made significant advances in achieving more efficient and economical operations through improvement and modernization of its plant and equipment. In general, these steps represent concrete rewards from the System's continuing research into new and improved methods of railroading.

An important accomplishment was the completion, in April, of the 10-year dieselization program and the subsequent retirement from service of all remaining steam locomotives. The delivery of 123 new diesel locomotives in 1960 completed the changeover and brought the total number of these units to 2,134.

To obtain maximum use of locomotives, regional motive power control bureaux were set up at Winnipeg, Toronto and Moncton, interconnected through the installation of a system-wide telephone network. These bureaux, through constant consultation, can co-ordinate the use and servicing of diesels with transportation requirements and repair shop loads. This enables the work load to be handled with fewer units and reduces the overall costs of locomotive repairs.

A new diesel locomotive maintenance shop was opened in Moncton to handle running repairs, while construction progressed on a similar shop at Winnipeg. Also at Winnipeg, conversion of the Transcona Motive Power Shop to handle main repairs on diesels proceeded.

A forward step in achieving fast, economical train classification was made during the year with the opening, in Moncton, of the first of four electronically-controlled, automatic hump yards. Capable of reducing by 75 per cent the time required to make up freight trains, the yards make use of the newest developments in automatic controls, data processing, transmission equipment and shops. The Montreal Yard is scheduled to open early in 1961, while in the Winnipeg area, grading, drainage and ditching for the Symington Yard were about 85 per cent complete and the track work 40 per cent complete by the year end. Acquisition of land for the Toronto Yard and access line moved ahead, as well as preliminary engineering work. An important feature of the new yards is the comfortable working conditions in the modern yard offices and shops. In addition, attractive recreation, lounge, cafeteria and sleeping facilities are provided for employees laying over between runs.

Centralized Traffic Control, an automatic signalling system which greatly expedites train movements, was extended over seven more main-line subdivisions. At year-end, 2,039 miles of mainline track were equipped with CTC.

A program to apply radio communications to train and yard operations was extended during the year. The use of radio systems is designed to improve safety, reduce delays to trains and maintenance crews and to increase utilization of equipment. At the same time, radio communications provide "indoor" operations, thereby eliminating many of the outside duties performed by employees in the normal course of train and yard operations. This aspect is of particular importance under severe weather conditions. An end-to-end train radio system was placed in operation between Edmonton, Winnipeg and the Lakehead, and by the end of the year, two-way radio or talk-back communication systems were in operation in 29 yards.

Considerable progress was made in the application of integrated data processing techniques to System operations. The automatic transmission of waybill and freight train consist of data between yard offices and car tracing bureaux at Moncton, Montreal, and Winnipeg was extended to a further 11 yards in 1960. The car reporting system, which now encompasses 19 principal yards, provides advance information on freight car movements in the area between Capreol, Ont., and the Atlantic coast.

New methods making use of operational research techniques were employed to determine optimum schedules for freight and passenger trains by simulating their operation on a computer. These simulations take into account a multiplicity of factors involved in train movements, including grades, curves, speed restrictions, and lengths and weights of trains. Computers were also used to determine the most appropriate location for passing tracks and signals on certain main lines.

During the year, concentrated effort continued to be made to obtain more effective use of men, materials and equipment through the use of personnel trained in the techniques of Work Study. These efforts have produced important economies in nearly every phase of the System's operations.

Freight Services

Changes were also reflected in the methods and equipment employed to transport freight. Increasing emphasis was placed on improving service to the customer and the development of special types of equipment for particular traffic requirements.

Progress was made in co-ordinating road and rail transportation. The first full year of operation under the "railhead" principle in the Maritimes produced marked improvement in more efficient handling of less-than-carload traffic. Railheads, or distributing points, are located at strategic places where train and piggyback services receive and discharge traffic. Highway carriers provide swift, flexible pick-up and delivery service to and from the railheads and points in the surrounding territory. Studies continued throughout the year to apply the railhead principle to other parts of the System.

Hand in hand with the progress in road-rail co-ordination of less-than-carload-freight handling, is an associated plan to combine Express and LCL service. The ultimate aim of the program is to provide one superior service featuring speed and service and employing the most efficient co-ordinated use of train, piggyback and highway carrier transport.

Indicative of the rising demand for road-rail service was the expansion of CN's piggyback operations, an essential segment of the overall co-ordination program. Piggyback tonnage rose 8.6 per cent over 1959, while revenues increased 23 per cent. Service was extended to include Oshawa, Kitchener, Guelph, Galt, Brantford, Belleville, Kingston and North Bay in Ontario, and Shawinigan and Sherbrooke in Quebec. In British Columbia, the movement of household goods by piggyback was extended to include Terrace, Kitimat, Prince George and Prince Rupert.

Deliveries of new rolling stock during the year were confined to specialized equipment required for certain types of traffic, while research and experimentation widened possibilities for further advances in this area.

Equipment received included 299 fifty-ton insulated heated box cars; 186 flat cars of various capacities, and 48 seventy-ton covered hopper cars.

In addition, two newly-developed covered aluminum hopper cars were bought. Designed to carry dry ground or powdered products, they were given stringent engineering appraisal and service tests.

Advances were made in the field of mechanical refrigeration with the leasing and testing of 20 low-temperature cars to carry frozen freight. They are being tested for mechanical reliability and sales potential. Meanwhile, a method was developed for the conversion of standard ice refrigerator cars to mechanical deep-freeze operation.

Equipment, capable of side-loading piggyback vans and containers, was tested and placed in operation in Edmonton. Providing flexible loading and unloading of piggyback trains, the machine reduces costs yet gives faster service to the customer.

Passenger Services

A number of steps were taken during 1960 to adjust passenger services to the changing patterns of the travel market. Transcontinental passenger service was altered to conform to the decreasing demand for long-distance rail travel. Facilities on the Super Continental were improved, while during the off-season the second transcontinental train, the Continental, was transformed to supply a local service, offering sleeping accommodation on certain portions of its run.

Two-hour passenger train service at convenient times was instituted between Ottawa and Montreal.

To meet the popular demand for economical meal service on passenger trains, six diner cars were converted into cafeteria service cars.

All-inclusive fares, originally introduced on an off-season basis, were made effective throughout the year. They were also extended to include service locally between Montreal and the maritimes, with group economy and incentive-loading features.

Station-to-station fares were replaced by zone fares on the Mount Royal tunnel commuter service in Montreal.

Trucking Services

Reacting to the changing demands of the transportation market in the area of rail-road co-ordination, Canadian National extended its highway services during 1960 through the purchase of four trucking companies operating across seven provinces. They are Sydney Transfer and Storage Limited, Eastern Transport Limited, Empire Freightways Limited, and East-West Transport Ltd. An option taken on a fifth company, Midland Superior Express Limited, was exercised in part. Offers of sale of certain other companies have been received and were under detailed examination at year end.

Telecommunications

The Telecommunications Department experienced a year of marked expansion of both commercial and railway services. Gross revenues increased 10.1 percent to a new high of $29.9 million. The growth in telex, private wire, broadcasting and telephone services resulted in increased revenues, while expansion of railway communications made a major contribution to greater efficiency in mainline and yard operations.

Approximately 80,000 miles of carrier telephone channels and 140,000 miles of carrier telegraph channels were added during the year to provide capacity for increased service.

Telex subscribers increased 11 percent from 2,800 to 3,100. Sarnia, Ont. and Medicine Hat, Alta., were added to the growing list of exchanges, bringing the coast to coast total to 35.

A public wirefax service was introduced, in conjunction with Canadian Pacific Communications, between Toronto and Montreal, to provide rapid facsimile transmission of typed or hand-written letters, drawings and documents. The service will be extended to other centres as the market develops.

Canadian National continued to push back the country's northern frontiers through the extension of telephone and telegraph facilities to settlements in the Yukon and North West Territories. Construction of a telephone, telegraph and broadcast system was completed from Whitehorse to Dawson City, Mayo and Elsa in the Yukon, providing long-distance telephone communication between these centres and the rest of the world. Similar facilities are under construction in the Great Slave Lake area. The most northerly public telephone system in Canada was inaugurated in November at Inuvik, N.W.T., where 100 subscribers now have dial telephone service.

Construction moved ahead steadily on the $25 million microwave system between Grand Prairie and the Alaska-Yukon border. Scheduled to be placed in operation July 1, 1961, the system is being provided by Canadian National under contract with the Alaska communications system, representing the government of the United States.

In eastern Canada, another link in Canadian Broadcasting Corporation's French language television network was provided through the extension of Canadian National-Canadian Pacific microwave facilities from Rimouski to Carleton, Que. An additional extension to Moncton was completed and went into service after the year end.

In Newfoundland, a new automatic telephone exchange was opened at Gander, expanding dial telephone service to approximately 1,260 subscribers. Meanwhile, subscriber capacity was expanded at seven other communities, and new dial telephone exchanges established at Musgrave-town and Port Blandford.

Hotels

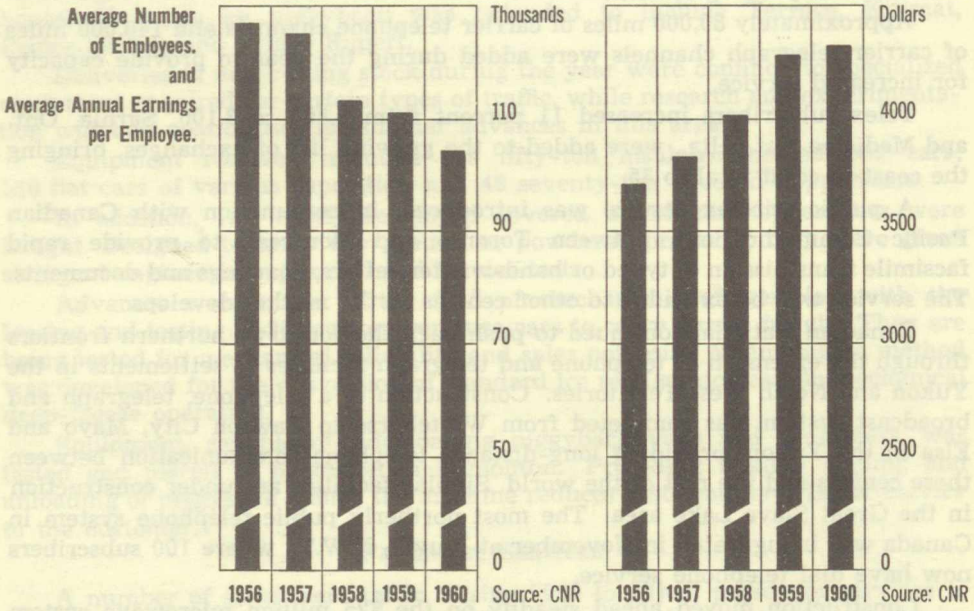
Hotel operating income amounted to $1.9 million before interest, compared with $2.4 million in 1959. The decrease was mainly due to higher wages, depreciation and pension charges.

The management arrangement for the operation of The Queen Elizabeth continued to be highly successful. In 1960, the CN's return, after deducting depreciation, was $1.4 million compared to $1.3 million in 1959.

An extension to the Nova Scotian Hotel at Halifax was opened in 1960, making available the largest tourist and convention facilities in the Atlantic Provinces. It provides 160 additional bedrooms, as well as spacious public rooms. Rehabilitation of the original wing will proceed in 1961.

The refurnishing of bedrooms at the Bessborough Hotel, Saskatoon, was completed, while a similar program to improve accommodation in the west wing of the Chateau Laurier, Ottawa, will be completed in 1961.

Improvements are also underway at Jasper Park Lodge where nine guest cabins are being replaced.



Personnel and Employee Relations

Through retraining and internal transfer, every effort was made to ensure that continuing modernization and reorganization occurred with a minimum of dislocation for the employees. In addition to established training programs which are carried out on a regular basis, numerous retraining programs were conducted to develop new skills in displaced employees, and to upgrade existing skills in others.

More than 3,000 employees in the mechanical and engineering departments received training to upgrade their skills. Retraining programs were held for 108 employees in machine bureaux operations and for 184 others resulting from the mechanization of yard offices. Other retraining courses conducted in methods study, work measurements, diesel maintenance and handling, air conditioning and refrigeration and instructional techniques were attended by nearly 300

employees. New employees were recruited only where no laid-off employees were available who qualified, or who could be retrained or were willing to fill vacancies which occurred.

A wage dispute between Canada's railways and employees represented by the 15 non-operating unions culminated in the unions calling a strike for December 3, 1960. Before that date parliament enacted the Railway Operation Continuation Act. The unions have since announced that they will withdraw from service at the expiration of the act on May 16, 1961.

A strike by the brotherhood of railroad trainmen closed down the Grand Trunk Western Railroad from September 1 to September 9. The terms of settlement were essentially the same as offered to the brotherhood prior to the strike.

In the United States, a dispute with operating employees over requests for changes in working rules made by United States railroads remained unresolved. The unions agreed to submit the requests, which include the elimination of firemen from freight and yard diesels, to a presidential commission. The commission has been instructed to report (non-binding) by December 1, 1961. Employees on Canadian National's United States lines are involved in the issue.

In Canada, the modernization of working rules and arrangements was given special attention by both management and unions. Meetings were held with union representatives to discuss areas where collective agreements might be changed to bring them into conformity with modern methods, new kinds of jobs and the changing patterns of railway transportation requirements. These preliminary steps proved encouraging and the management is optimistic that progress in this field can be accomplished in a cooperative manner.

Pension Funding

During the year the funding of the Company's liabilities under the C.N.R. pension plan was changed from the previous terminal funding method to a form of current funding under which the company makes its pension contributions concurrently with those of employees in service rather than deferring its contributions until the employees' retirement. This resulted in a reduction of $10.2 million in pension costs charged to 1960 operations compared with 1959. The company has given a written acknowledgement to the trustee of the pension funds of its outstanding liability in respect of the prior service of active employees.

The revised method of funding in no way affects pension benefits but more accurately reflects the pension charges properly attributable to each year's operations. It also enables the company's actuaries to certify each year as to the adequacy of the pension trust fund for the provision of pensions both to existing pensioners and employees currently in service. Previous actuarial certificates related only to pensions actually in course of payment.

Pensions under plans other than the 1935, 1952 and 1959 C.N.R. plans continue to be charged on a "pay-as-you-go" basis. Statements of the C.N.R. pension trust funds for the year 1960 are included among the statements appearing later in this report.

A summary of the charges for pensions on the new basis in 1960 compared with 1959 follows:

	1960	1959	Increase or (Decrease)
	(Millions of Dollars)		
1935, 1952 and 1959 Pension Plans	$20.4	$31.4	$(11.0)
Pre-1935 Plans, etc. (including I.C. and P.E.I. Railways Employees' Provident Fund)	6.8	6.0	.8
Total	**$27.2**	**$37.4**	**$(10.2)**

Other Developments

New Branch Lines

A 52-mile branch line in Northern Manitoba, between Optic Lake and Chisel Lake, was opened in September to serve mines of the Hudson Bay and Smelting Company.

A survey was completed for a 60-mile branch line to serve Mattagami Lake mines in Northwestern Quebec. Parliamentary authority for construction of the new line has been granted.

As agent of the federal government, Canadian National is carrying out a branch line location survey from the vicinity of Grimshaw, Alta., on the Northern Alberta Railways, to Great Slave Lake, a distance of about 400 miles.

Industrial Promotion

In addition to the attention directed toward major resourse developments, added emphasis was given by CN's industrial development organization to the encouragement of new manufacturing developments along its lines. Economic opportunities, particularly in manufacturing, are brought to the attention of industrial and financial interests with a view to expanding the variety and volume of Canadian products, and achieving greater diversification of CN traffic. During 1960, more than 360 plants were located along Canadian National lines, and a total of 41 miles of new industrial trackage, spurs and private sidings were constructed.

Moncton Real Estate Project

Negotiations between Canadian National and private developers were advanced for the redevelopment of real estate occupied by the railway in downtown Moncton. The plan envisions the transformation of 10 acres of property into a multi-million dollar transportation, commercial, business and entertainment centre. The plan was submitted following an invitation by CN for proposals from private capital on how the land could be developed to realize its fullest commercial potential. Included in the scheme is a new regional headquarters building to accommodate the railway staff now working in a number of different locations.

Montreal Terminal Development

The system's 17-storey headquarters building in Montreal neared completion during 1960 and is scheduled for occupancy early in 1961. Located south of the Queen Elizabeth Hotel, the building is an integral part of the development of 20 acres of company-owned property in the Central Station area. The Place Ville Marie project on the north side of Dorchester Boulevard took shape with the completion of foundations and the commencement of the erection of steel for the main 42-story building. The project is being carried out by the Place Ville Marie Corporation under an agreement with Canadian National.

Marine Services

A new passenger-cargo ship, the M.V. "Hopedale" was placed in operation in the Newfoundland costal service.

St. Lawrence Seaway Project

At Montreal, a divisionary rail-road span on Victoria Bridge was completed to provide for an uninterrupted flow of train and vehicular traffic over the St. Lawrence Seaway. The alternate route diverts bridge traffic around St. Lambert Lock when the lock is in use.

Royal Commission

The CN completed its submissions and representations to the royal commission on transportation which conducted hearings throughout the year.

Co-Operation Under CN-CP Act

Discussions were held during the year to explore areas where co-operative action could be undertaken by the railways.

Corporate Structure

The program to simplify CN's corporate structure was advanced by the amalgamation with Canadian National Railway Company of five subsidiary railway companies and the dissolution of two land companies.

It is with pleasure that the board of directors once again expresses its appreciation for the loyal services rendered by officers and employees throughout the system.

I should point out that the report is completed by the financial and statistical statements which are shown in the report. Our practice is to take these as read and they will be included in the record, if that is agreeable to the committee.

The tables are as follows:

CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 1960

ASSETS

CURRENT ASSETS		
Cash	$ 24,239,062	
Accounts receivable	67,029,004	
Material and supplies	84,605,144	
Other current assets	15,282,892	
Government of Canada–Due on deficit account	2,496,777	
		$ 193,652,879
INSURANCE FUND		15,000,000
INVESTMENTS IN AFFILIATED COMPANIES NOT CONSOLIDATED		262,368,504
PROPERTY INVESTMENT		
Road	2,319,010,276	
Equipment	1,342,648,068	
Other physical properties	105,658,286	
	3,767,316,630	
Less recorded depreciation	647,462,210	
		3,139,854,420
OTHER ASSETS AND DEFERRED CHARGES		
Other investments	2,256,859	
Prepayments	2,697,728	
Unamortized discount on long term debt	26,762,278	
Other assets	26,680,102	
Deferred charges	12,379,318	
		70,776,285
		$3,681,652,088

LIABILITIES

CURRENT LIABILITIES		
Accounts payable	$ 58,148,244	
Accrued charges	22,972,946	
Other current liabilities	2,163,776	
		$ 83,284,966
PROVISION FOR INSURANCE		15,000,000
OTHER LIABILITIES AND DEFERRED CREDITS		29,394,733
LONG TERM DEBT		
Bonds, debentures and equipment obligations.	1,680,308,243	
Government of Canada loans and debentures.	148,021,700	
		1,828,329,943

SHAREHOLDERS' EQUITY

GOVERNMENT OF CANADA		
6,000,000 shares of no par value capital stock of Canadian National Railway Company	359,963,017	
925,585,264 shares of 4% preferred stock of Canadian National Railway Company	925,585,264	
Capital investment of Government of Canada in the Canadian Government Railways	435,594,881	
	1,721,143,162	
CAPITAL STOCK OF SUBSIDIARY COMPANIES OWNED BY PUBLIC	4,499,284	
		1,725,642,446
		$3,681,652,088

The "Notes to Consolidated Financial Statements at December 31, 1960" are an integral part at this balance sheet.

L. J. MILLS,
Comptroller.

Auditor's Report

To The Honourable The Minister of Transport,
Ottawa, Canada.

I have examined the consolidated balance sheet of the Canadian National Railway System at December 31, 1960 and the consolidated income statement for the year ended on that date. My examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as I considered necessary in the circumstances.

In my opinion, subject to the position with regard to depreciation accruing prior to the adoption of depreciation accounting as referred to in Note 1, the accompanying consolidated balance sheet and the related consolidated income statement are properly drawn up so as to give a true and fair view of the state of the affairs of the System at December 31, 1960 and of the results of its operations for the year ended on that date according to the best of my information and the explanations given to me and as shown by the books of the System, and in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change in the method of funding of liabilities under the Company's Pension Plans as referred to in Note 4.

I further report that, in my opinion, proper books of account have been kept by the System and the transactions that have come under my notice have been within the powers of the System.

J. A. de Lalanne,
Chartered Accountant. February 27, 1961

Notes to Consolidated Financial Statements at December 31, 1960

Note 1: Property Investment

Additions since January 1, 1923 have been recorded at cost and properties and equipment brought into the System at January 1, 1923 are included at the values appearing in the books of the several railways now comprising the System to the extent that these have not been retired or replaced.

Depreciation on Canadian Lines: Depreciation accounting as adopted for equipment in 1940, for hotel properties in 1954 and for track and road structures and all other physical properties except land in 1956 has been continued in 1960. The depreciation rates used are based on the estimated service life of the properties but do not provide for depreciation which was not recorded in prior years under the replacement and retirement accounting principles then in force, nor for extraordinary obsolescence resulting from the introduction of more efficient equipment. Consistent with the policy adopted in the year 1958, capital losses of $26,651,968 sustained in 1960 on the early retirement of steam locomotives have been charged against Shareholders' Equity. The total of such losses charged to Shareholders' Equity up to December 31, 1960 amounted to $36,555,118.

Depreciation on U.S. Lines: Replacement accounting for track and depreciation accounting for equipment and other physical property except land has been continued in accordance with the regulations of the Interstate Commerce Commission.

Note 2: Material and Supplies

The inventory has been priced at laid down cost based on weighted average cost for ties, rails and fuel and latest invoice price for new materials in general stores, and at estimated utility or sales value for usable second hand, obsolete and scrap materials.

Note 3: Capital Stock

The capital stock of the Canadian National Railway Company (other than the four per cent preferred stock) and the capital investment of Her Majesty in the Canadian Government Railways are included in the net debt of Canada and disclosed in the historical record of government assistance to railways as shown in the Public Accounts of Canada.

Note 4 Pensions

The funding of liabilities under the Company's 1935, 1952 and 1959 Pension Plans has been changed from a terminal funding method to a form of current funding. This resulted in a reduction of $10.2 million in pension costs charged to 1960 operations compared with 1959. The Company has given a written acknowledgement to the Trustee of the Pension Funds for the outstanding liability amounting to $325,000,000 in respect of prior service of active employees. No change has been made relative to pensions granted under prior plans. The Reserve for Pensions (including members' contributions) at December 31, 1960 amounted to $703,839,892.

Note 5 Major Commitments

(*a*) Chicago & Western Indiana Railroad Company:

Pursuant to a joint supplemental lease dated May 1, 1952, the Grand Trunk Western Railroad Company and four other proprietary-tenant companies are obligated to pay, as rental, sinking fund payments sufficient to retire bonds at maturity and interest as it falls due with respect to First Collateral Trust Mortgage 4⅜% Sinking Fund Bonds Series "A" due May 1, 1982. The Grand Trunk Western's proportion is one-fifth in the absence of default of any of the other tenant companies. The bonds outstanding at December 31, 1960 total $51,311,000.

(*b*) Detroit & Toledo Shore Line Railroad Company:

The Grand Trunk Western Railroad Company is jointly and severally liable as guarantor of principal, interest and sinking fund payments with respect to $2,713,000 First Mortgage 3¼% 30 year Series "A" Bonds, due December 1, 1982, of the Detroit & Toledo Shore Line Railroad Company.

CONSOLIDATED INCOME STATEMENT

	1960	1959
RAILWAY OPERATING REVENUES		
Freight services	$541,908,517	$589,567,242
Passenger services	48,208,561	49,954,770
Express	44,835,020	44,939,513
Communications	29,933,930	27,195,071
All other	28,255,078	28,508,445
Total operating revenues	693,141,106	740,165,041
RAILWAY OPERATING EXPENSES		
Road maintenance	157,098,674	163,766,953
Equipment maintenance	150,727,161	154,612,382
Traffic	15,497,178	15,633,771
Transportation	308,700,262	322,251,617
Miscellaneous operations	6,299,386	6,083,149
General	47,471,631	58,474,466
Total operating expenses	685,794,292	720,822,338
Net Revenue from Railway Operations	7,346,814	19,342,703
TAXES AND RENTS		
Railway tax accruals	20,252,512	18,945,938
Equipment and joint facility rents	*228,494*	2,083,984
Total taxes and rents	20,024,018	21,029,922
Net Railway Operating *Loss*	*12,677,204*	*1,687,219*
OTHER INCOME		
Miscellaneous rents	1,604,065	1,510,728
Income from non-rail properties	1,066,949	1,425,791
Hotel income	1,859,852	2,428,435
Dividend income	239,166	233,866
Interest income	1,695,224	708,072
Miscellaneous	*261,784*	589,836
Total other income	6,203,472	6,896,728
Deficit or Surplus before Fixed Charges	*6,473,732*	5,209,509
FIXED CHARGES		
Interest on bonds, debentures and equipment obligations	60,349,530	38,691,827
Interest on government loans	6,538,714	12,533,180
Amortization of discount on bonds	2,200,559	1,287,642
Total fixed charges	69,088,803	52,512,649
Received from T.C.A.	8,065,758	3,714,850
Net fixed charges	61,023,045	48,797,799
Deficit	*$ 67,496,777*	*$ 43,588,290*

PROPERTY INVESTMENT STATEMENT

Property Investment at December 31, 1959			$3,709,079,052
ADDITIONS TO ROAD AND EQUIPMENT			
Roadway improvements	$ 45,550,625		
Large terminals	19,059,650		
Communications facilities	26,611,910		
Roadway buildings	16,884,278		
Yard tracks and sidings	2,378,936		
Roadway and shop machinery	4,035,297		
Signals	4,078,856		
Highway crossing protection	580,758		
Line diversions	6,682,480		
Other facilities	1,342,869		
	127,205,659		
Branch Lines	1,171,743		
Equipment	33,656,330		
Government of Canada expenditure on Canadian Government Railways	2,789,407		
	164,823,139		
Less retirements	113,124,302	$51,698,837	
ADDITIONS TO OTHER PHYSICAL PROPERTIES			
Hotels	3,228,330		
Highway transport facilities	4,088,492		
Other	472,623		
	7,789,445		
Less retirements	1,250,704	6,538,741	58,237,578
Property Investment at December 31, 1960			$3,767,316,630

RECORDED DEPRECIATION STATEMENT

Recorded Depreciation at December 31, 1959			$ 605,939,177
Add Provision for depreciation for the year			
Road property	$ 41,841,368		
Equipment	45,123,120		
Other Physical Properties	1,747,151	$88,711,639	
Recorded depreciation of companies acquired		1,140,701	
		89,852,340	
Deduct Charges in respect of property retirements	94,981,275		
Less Capital losses charged to Shareholders' Equity—steam locomotives	26,651,968	68,329,307	21,523,033
Recorded Depreciation at December 31, 1960			$ 627,462,210

LONG TERM DEBT

Rate %	Maturity (See Note)		Currency in which payable	Outstanding at Dec. 31, 1959	Transactions Year 1960 Increase or *Decrease*	Outstanding at Dec. 31, 1960
BONDS, DEBENTURES AND EQUIPMENT OBLIGATIONS						
3½	May 4, 1960	Canadian Northern Alberta Debenture Stock	Sterling	$ 550,727	*$ 550,727*	
3½	May 19, 1961	Canadian Northern Ontario Debenture Stock	Sterling	3,597,518		$ 3,597,518
3	Jan. 1, 1962	Grand Trunk Pacific Bonds	Can.-U.S.-Stg.	26,465,130		26,465,130
4	Jan. 1, 1962	Grand Trunk Pacific Bonds	Can.-U.S.-Stg.	7,999,074		7,999,074
2¾	Feb. 1, 1963 a	Canadian National 8 Year 1½ Month Bonds	Canadian	250,000,000		250,000,000
5½	Dec. 15, 1964 h	Canadian National 5 Year Bonds	Canadian	200,000,000	*1,000,000*	199,000,000
3	Jan. 3, 1966 h	Canadian National 17 Year Bonds	Canadian	35,000,000		35,000,000
2⅞	Jan. 2, 1967 c	Canadian National 20 Year Bonds	Canadian	50,000,000		50,000,000
4½	Apr. 1, 1967 h	Canadian National 6½ Year Bonds	Canadian		73,500,000	73,500,000
5	May 15, 1968 h	Canadian National 9 Year Bonds	Canadian	57,600,000	*1,200,000*	56,400,000
2⅞	Sept. 15, 1969 d	Canadian National 20 Year Bonds	Canadian	70,000,000		70,000,000
2¾	Jan. 16, 1971 e	Canadian National 21 Year Bonds	Canadian	40,000,000		40,000,000
3½	Feb. 1, 1974 f	Canadian National 20 Year Bonds	Canadian	200,000,000		200,000,000
2¾	June 15, 1975 g	Canadian National 25 Year Bonds	U.S.	6,000,000		6,000,000
5	May 15, 1977 h	Canadian National 18 Year Bonds	Canadian	88,200,000	*1,800,000*	86,400,000
4	Feb. 1, 1981	Canadian National 23 Year Bonds	Canadian	300,000,000		300,000,000
5¾	Jan. 1, 1985 h	Canadian National 25 Year Bonds	Canadian		99,500,000	99,500,000
5	Oct. 1, 1987 h	Canadian National 27 Year Bonds	Canadian		173,250,000	173,250,000
4½	Sept. 15, 1979	Grand Trunk Western Note	Can.-U.S.	400,000		400,000
5½	Perpetual	Buffalo and Lake Huron 1st Mortgage Bonds	Sterling	795,366		795,366
5½	Perpetual	Buffalo and Lake Huron 2nd Mortgage Bonds	Sterling	1,228,399		1,228,399
5	Perpetual	Debenture Stocks—Various	Sterling	88,972		88,972
4	Perpetual	Debenture Stocks—Various	Sterling	8,784		8,784
2½	Mar. 15, 1960	Equipment Trust Certificates—Series "U"	Canadian	1,100,000	*1,100,000*	
2¾	Jan. 15, 1961	Equipment Trust Certificates—Series "V"	Canadian	2,025,000	*1,350,000*	675,000
Total Bonds, Debentures and Equipment Obligations				1,341,058,970	339,249,273	1,680,308,243
GOVERNMENT OF CANADA LOANS AND DEBENTURES						
Capital Revision Act: Jan. 1, 1972 Debenture			Canadian	100,000,000		100,000,000
Canadian Government Railways: Advances for Working Capital			Canadian	16,983,762		16,983,762
Financing and Guarantee Acts: Temporary Loans			Canadian	188,695,267	*157,657,329*	31,037,938
Refunding Act, 1955: Loans for Debt Redemption			Canadian	40,005,023	*40,005,023*	
Total Government of Canada Loans and Debentures				345,684,052	*197,662,352*	148,021,700
Total Long Term Debt				$1,686,743,022	$141,586,921	$1,828,329,943

Note: a Callable at par on or after Feb. 1, 1961
b Callable at par on or after Jan. 3, 1961
c Callable at par on or after Jan. 2, 1964
d Callable at par on or after Sept. 15, 1964
e Callable at par on or after Jan. 16, 1966
f Callable at par on or after Feb. 1, 1972
g Callable on or before June 14, 1962, at 101½; thereafter at varying redemption premiums.
h Amounts of ½% or 1% of the original issues may be purchased quarterly through Purchase Funds operated under the conditions of each issue.

SHAREHOLDERS' EQUITY

GOVERNMENT OF CANADA			
No par value capital stock of Canadian National Railway Company	$ 386,614,985	$ *26,651,968*	$ 359,963,017
4% Preferred stock of Canadian National Railway Company	904,489,263	21,096,001	925,585,264
Capital investment in Canadian Government Railways	432,805,474	2,789,407	435,594,881
Total Government of Canada	1,723,909,722	*2,766,560*	1,721,143,162
CAPITAL STOCK OF SUBSIDIARY COMPANIES OWNED BY PUBLIC	4,503,549	*4,265*	4,499,284
Total Shareholders' Equity	$1,728,413,271	$ *2,770,825*	$1,725,642,446

INVESTMENTS IN AFFILIATED COMPANIES NOT CONSOLIDATED

	Percentage Held	Investment at Dec. 31, 1959	Transactions Year 1960 Increase or *Decrease*	Investment at Dec. 31, 1960
THE BELT RAILWAY COMPANY OF CHICAGO				
Capital Stock	7.69	$ 240,000	——	$ 240,000
Advances	—	53,032	$ 19,312	72,344
CHICAGO & WESTERN INDIANA RAILROAD COMPANY				
Capital Stock	20	1,000,000	——	1,000,000
Advances	—	5,999,548	390,304	6,389,852
THE DETROIT & TOLEDO SHORE LINE RAILROAD COMPANY				
Capital Stock	50	1,500,000	—	1,500,000
DETROIT TERMINAL RAILROAD COMPANY				
Capital Stock	50	1,000,000	—	1,000,000
NORTHERN ALBERTA RAILWAYS COMPANY				
Capital Stock	50	8,255,500	184,500	8,440,000
Bonds	50	16,337,000	365,500	16,702,500
Advances	—	—	300,000	300,000
THE PUBLIC MARKETS, LIMITED				
Capital Stock	50	575,000	—	575,000
RAILWAY EXPRESS AGENCY, INC.				
Capital Stock	0.6	600	—	600
Advances	—	173,493	—	173,493
THE SHAWINIGAN FALLS TERMINAL RAILWAY COMPANY				
Capital Stock	50	62,500	—	62,500
THE TORONTO TERMINALS RAILWAY COMPANY				
Capital Stock	50	250,000	—	250,000
Bonds	50	11,427,200	*140,000*	11,287,200
Advances	—	90,015	110,000	200,015
TRANS-CANADA AIR LINES				
Capital Stock	100	5,000,000	—	5,000,000
Debentures	100	68,194,000	113,906,000	182,100,000
Advances	—	66,906,000	*39,906,000*	27,000,000
VANCOUVER HOTEL COMPANY LIMITED				
Capital Stock	50	75,000	—	75,000
Total		$187,138,888	$ 75,229,616	$262,368,504

SOURCE AND APPLICATION OF FUNDS FOR THE YEAR 1960

SOURCE OF FUNDS		
Amount recoverable from Government of Canada in respect of deficit for the year (including Amount recoverable from Government of Canada in respect of deficit for the year (including $65,000,000 received on account prior to December 31, 1960)		$ 67,496,777
Increase in long term debt		141,586,921
Provision for depreciation		88,711,639
Issue of 4% preferred stock		21,096,001
Other		13,800,990
Total		$332,692,328
APPLICATION OF FUNDS		
Deficit for the year		$ 67,496,777
Additions to property investment—Road and equipment	164,823,139	
Other physical properties	7,789,445	
		172,612,584
Advances to Trans-Canada Air Lines		74,000,000
Increase in working capital		18,582,967
Total		$332,692,328

INVENTORY OF RAILWAY EQUIPMENT

		On Hand Dec. 31, 1960
Motive Power Equipment	Diesel Electric Units	2,134
	Electric Locomotives	27
	Steam Generator Units	108
Total		2,269
Freight Equipment	Box, Flat and Stock Cars	82,818
	Refrigerator Cars	5,679
	Gondola and Hopper Cars	24,139
	Caboose and Other Cars	1,757
Total		114,393
Passenger Equipment	Coach Cars	887
	Sleeping, Dining, Parlour, and Tourist	669
	Baggage, Mail and Express	1,436
	Other Cars in Passenger Service	341
Total		3,333
Work Equipment	Units in work service	9,752
Floating Equipment	Car Ferries	8
	Steamers	13
	Barges, Tugs and Work	13
Total		34

REVENUE TONNAGE BY COMMODITIES

	Year 1960 Tons	Year 1959 Tons	Increase or Tons	*Decrease* %
Agricultural Products	13,637,537	15,111,452	*1,473,915*	*9.8*
Animals and Animal Products	761,707	749,557	12,150	1.6
Mine Products	28,076,013	30,636,330	*2,560,317*	*8.4*
Forest Products	8,772,268	8,664,543	107,725	1.2
Manufactures and Miscellaneous	25,598,967	25,980,874	*381,907*	*1.5*
Total Carload Freight	76,846,492	81,142,756	*4,296,264*	*5.3*
All less than carload freight	842,434	892,783	*50,349*	*5.6*
Grand Total	77,688,926	82,035,539	*4,346,613*	*5.3*

PENSION TRUST FUNDS BALANCE SHEET AT DECEMBER 31, 1960

ASSETS

CURRENT ASSETS		
Cash	$ 209,390	
Accrued interest on investments	3,258,613	
Accounts receivable—		
Banks, Insurance and Trust Companies re Mortgages	207,053	$ 3,675,056
INVESTMENTS		
Bonds—at amortized value (Market value $225,211,996)	255,498,262	
Mortgages—at amortized value	100,971,229	
Stocks—at cost (Market value $22,876,936)	23,001,164	379,470,655
CANADIAN NATIONAL RAILWAYS		
Acknowledged liability in respect of past service of employees		325,000,000
		$708,145,711

LIABILITIES

CURRENT LIABILITIES		
Accounts payable—		
Refunds to employees	$ 67,968	
Canadian National Railways—current account	4,237,851	$ 4,305,819
RESERVE FOR PENSIONS		
In respect of pensions in force and pensions accruing to active employees under the 1935, 1952 and 1959 Pension Plans		703,839,892
		$708,145,711

NOTE: The Reserve for Pensions includes the accumulated contributions of certain employees in service, with interest thereon, which are held in trust under the rules of the 1935 Pension Plan as follows—

Annuity Trust Fund	$ 8,553,112
Supplemental Annuity Trust Fund	2,151,182
	$ 10,704,294

L. J. Mills,
Comptroller

PENSION TRUST FUNDS STATEMENT OF RESERVE AT DECEMBER 31, 1960

Reserve at December 31, 1959		$229,890,244
ADDITIONS TO RESERVE RESULTING FROM CHANGE IN METHOD OF FUNDING:		
Unfunded liability in respect of past service, acknowledged by Canadian National Railways	$325,000,000	
Accumulated contributions of employees in service at December 31, 1959, including interest	117,707,883	442,707,883
		672,598,127
ADDITIONS TO RESERVE DURING THE YEAR:		
Contributions from employees in service, less refunds on termination of service, etc.	18,842,542	
Contributions by the Company	20,357,055	
Interest earned on contributions made by the Company and employees	15,585,234	54,784,831
		727,382,958
DEDUCTIONS FROM RESERVE DURING YEAR:		
Pensions paid		23,543,066
Reserve at December 31, 1960		$703,839,892

AUDITOR'S REPORT

To the Trustee,
Canadian National Railways Pension Funds.

I have examined the balance sheet of the Pension Trust Funds of the 1935, 1952 and 1959 Pension Plans of Canadian National Railways at December 31, 1960 and the statement of reserve for pensions for the year ended on that date. My examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as I considered necessary in the circumstances. In my opinion, the accompanying balance sheet and related statement of reserve for pensions are properly drawn up so as to give a true and fair view of the state of the affairs of the Funds at December 31, 1960 and of the results of their operations for the year ended on that date according to the best of my information and the explanations given to me and as shown by the books of the Funds, and in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change in the method of funding of liabilities under the Company's Pension Plans as referred to in Note 4 to the System's consolidated financial statements. I further report that, in my opinion, proper books of account have been kept by the Trustee and that the transactions that have come under my notice have been within the powers of the Trustee.

J. A. deLalanne,
Chartered Accountant

February 27, 1961

ACTUARIAL CERTIFICATE

This is to certify that, on the basis of the information made available to us, the Reserve for Pensions shown in the Balance Sheet of the Pension Trust Funds of Canadian National Railways, amounting to $703,839,892 as at December 31, 1960, in our opinion, represented adequate provision for the accumulated liabilities of the pensions then approved and in force and the pensions accrued to the above date in respect of employees then in service under the 1935, 1952 and 1959 Plans, excluding pensions granted under prior Plans.

Denis R. J. George,
Dudley Funnell,
Fellows of the Institute of Actuaries.

William M. Mercer Limited

Montreal, February 17, 1961

STATISTICS OF RAIL-LINE OPERATIONS

	1960	1959
TRAIN-MILES		
Freight service	34,379,411	37,754,181
Passenger service	21,292,408	22,394,255
Work service	1,854,116	2,407,865
Total train-miles	57,525,935	62,556,301
LOCOMOTIVE-MILES		
Freight service	34,668,264	38,171,798
Passenger service	18,889,759	19,830,190
Train switching: Freight	2,277,620	2,562,579
Train switching: Passenger	56,924	68,210
Yard switching: Freight	15,150,381	15,945,034
Yard switching: Passenger	1,751,959	1,785,950
Work service	1,884,559	2,504,057
Total locomotive-miles	74,679,466	80,867,818
CAR-MILES		
Freight Service:		
Loaded freight cars	1,096,828,191	1,169,701,119
Empty freight cars	640,637,859	641,428,080
Passenger coach and combination cars	3,335,585	4,187,391
Other cars	12,905,532	13,039,164
Caboose cars	34,694,729	37,798,300
	1,788,401,896	1,866,154,054
Passenger Service:		
Loaded freight cars	2,637,008	2,068,552
Empty freight cars	174,313	196,205
Passenger coach and combination cars	46,282,768	47,495,183
Sleeping, parlor and observation cars	48,136,271	50,662,550
Dining cars	9,062,681	8,562,967
Motor unit cars	3,913,225	4,153,329
Other cars (baggage and express cars, etc.)	88,302,987	89,626,547
	198,509,253	202,765,333
Work service	4,391,784	5,042,176
Total car-miles	1,991,302,933	2,073,961,563
AVERAGE MILEAGE OF ROAD OPERATED	24,944.53	24,887.81

STATISTICS OF RAIL-LINE OPERATIONS (*Continued*)

	1960	1959
FREIGHT TRAFFIC		
Tons carried: Revenue freight	77,688,926	82,035,539
Ton-miles: Revenue freight	34,011,491,932	35,542,136,785
Revenue per ton	$6.77332	$6.98773
Revenue per ton-mile	$0.01547	$0.01613
Average haul (miles)	437.79	433.25
Ton-miles: Revenue freight per mile of road	1,358,680	1,423,304
Ton-miles: All freight per mile of road	1,400,758	1,473,014
Gross ton-miles of cars, contents and cabooses	77,651,094,764	81,242,327,191
Net ton-miles of freight (revenue and non-revenue)	34,578,461,593	36,422,957,318
Train-hours in freight road service	1,663,290	1,890,372
Gross ton-miles per freight train hour	46,628	42,937
Average speed of freight trains (miles per hour)	20.7	20.0
Average gross load: Freight trains (tons)	2,256	2,150
Diesel unit miles per serviceable day (excluding stored)	204	215
PASSENGER TRAFFIC		
Passengers carried	12,023,530	12,693,777
Passenger-miles	1,201,314,291	1,272,152,625
Revenue per passenger	$3.18734	$3.16544
Average passenger journey (miles)	99.91	100.22
Revenue per passenger mile	$0.03190	$0.03159
Passenger-miles per mile of road	48,159	51,115
Percent on time arrival principal passenger trains	68.1	71.6
Diesel unit miles per serviceable day (excluding stored)	379	399
NET RAILWAY OPERATING INCOME		
Gross revenue per mile of road	$27,787	$29,740
Gross railway operating charges per mile of road	$28,295	$29,808
Net railway operating *deficit* per mile of road	*$508*	*$68*

OPERATED MILEAGE AT DECEMBER 31, 1960

	Owned	Leased	Trackage Rights	Total
First main track in Canada	23,010	36	195	23,241
First main track in United States	1,435	182	121	1,738
Total first main track	24,445	218	316	24,979
Other main track	1,152	—	83	1,235
Spurs, sidings and yard tracks	7,076	72	1,636	8,784
Total all tracks	32,673	290	2,035	34,998

COMPANIES INCLUDED IN THE CANADIAN NATIONAL RAILWAY SYSTEM

Canadian National Railways Company
Canadian National Express Company
Canadian National Hotels, Limited
Canadian National Railways (France)
Canadian National Realties, Limited
Canadian National Rolling Stock Limited
Canadian National Steamship Company, Limited
Canadian National Telegraph Company
Canadian National Transfer Company
Canadian National Transportation, Limited
The Canadian National Railways Securities Trust
The Canadian Northern Quebec Railway Company
The Central Counties Railway Company
Eastern Transport Limited
East-West Transport Ltd
Empire Freightways Limited
The Great North Western Telegraph Company of Canada
The Minnesota and Manitoba Railroad Company
The Minnesota and Ontario Bridge Company
Montalta Holdings Limited
Montreal and Southern Counties Railway Company
Montreal Fruit & Produce Terminal Company, Limited
The Montreal Stock Yards Company
The Montreal Warehousing Company
Mount Royal Tunnel and Terminal Company, Limited
The Quebec and Lake St. John Railway Company
Sydney Transfer and Storage Limited
Wacos Holdings Limited
Yukon Telephone Company Ltd.
Central Vermont Railway, Inc.
Central Vermont Transportation Company
Duluth, Rainy Lake & Winnipeg Railway Company
Duluth, Winnipeg and Pacific Railroad Company
Duluth, Winnipeg and Pacific Railway Company
Grand Trunk-Milwaukee Car Ferry Company
Grand Trunk Western Railroad Company

In addition, the property of the Canadian Government Railways is entrusted to the Canadian National Railway Company as part of the System.

A 25-YEAR SYNOPTICAL HISTORY OF THE CANADIAN NATIONAL RAILWAYS

Year	Operating Revenues	Operating Expenses	Net Operating Revenue	Taxes Rents and Other Income	Surplus or *Deficit* before Fixed Charges	Fixed Charges	Surplus or *Deficit*	Freight Revenue Ton Miles	Freight Revenue per Ton Mile	Revenue Passenger Miles	Revenue per Passenger Mile	Average Number of Employees	Average Hourly Earnings per Employee
	Thousands	Thousands	Thousands	Thousands	Thousands	Thousands	Thousands	Millions	c	Millions	c		$
1936	$186,611	$171,478	$ 15,133	$ 6,264	$ 8,869	$52,172	*$43,303*	14,814	.982	831	2.048	83,506	.590
1937	198,397	180,789	17,608	6,684	10,924	53,270	*42,346*	15,165	1.014	953	1.987	84,363	.613
1938	182,242	176,175	6,067	6,929	*862*	53,452	*54,314*	14,505	.964	892	2.030	79,940	.653
1939	203,820	182,966	20,854	7,461	13,393	53,488	*40,095*	17,084	.938	875	2.035	81,672	.652
1940	247,527	202,520	45,007	8,667	36,340	53,305	*16,965*	21,532	.904	1,125	1.929	86,366	.650
1941	304,377	237,769	66,608	9,430	57,178	53,162	4,016	27,200	.881	1,762	1.810	95,362	.682
1942	375,655	288,999	86,656	9,923	76,733	51,670	25,063	31,729	.909	2,708	1.784	100,651	.730
1943	440,616	324,476	116,140	28,311	87,829	52,190	35,639	36,327	.894	3,619	1.848	106,893	.763
1944	441,147	362,547	78,600	5,099	73,501	50,474	23,027	36,016	.893	3,697	1.888	108,278	.827
1945	433,773	355,294	78,479	4,713	73,766	49,010	24,756	34,600	.915	3,338	1.953	110,591	.832
1946	400,586	357,237	43,349	5,626	37,723	46,685	*8,962*	30,812	.975	2,289	2.190	109,809	.898
1947	438,198	397,123	41,075	11,034	30,041	45,926	*15,885*	32,945	1.040	1,845	2.332	112,801	.927
1948	491,270	464,740	26,530	13,721	12,809	46,342	*33,533*	32,943	1.195	1,755	2.368	115,395	1.064
1949	500,723	478,501	22,222	15,633	6,589	48,632	*42,043*	30,922	1.276	1,621	2.671	116,057	1.104
1950	553,831	493,997	59,834	15,673	44,161	47,422	*3,261*	31,988	1.394	1,408	2.834	116,347	1.133
1951	624,834	580,150	44,684	11,539	33,145	48,177	*15,032*	36,435	1.369	1,611	2.947	124,608	1.294
1952	675,219	634,853	40,366	14,809	25,557	25,415	142	38,430	1.397	1,635	2.964	131,297	1.425
1953	696,622	659,049	37,573	7,953	29,620	29,376	244	36,678	1.509	1,539	2.984	130,109	1.525

1954	*640,637*	*626,465*	*14,172*	*10,403*	*3,769*	*32,527*	*28,758*	*32,882*	*1.529*	*1,472*	*2.973*	*122,237*	*1.550*
1955	*683,089*	*629,013*	*54,076*	*10,354*	*43,722*	*33,004*	*10,718*	*35,677*	*1.511*	*1,464*	*3.001*	*119,430*	*1.560*
1956	774,801	703,304	71,497	13,637	*57,860*	31,783	26,077	41,935	1.461	1,501	3.054	126,639	1.645
1957	753,166	734,556	18,610	11,211	7,399	36,972	*29,573*	36,674	1.601	1,499	3.124	124,620	1.716
1958	704,947	700,021	4,926	9,996	*5,070*	46,521	*51,591*	35,077	1.554	1,269	3.270	113,086	1.798
1959	740,165	720,822	19,343	14,133	5,210	48,798	*43,588*	35,542	1.613	1,272	3.159	111,538	1.905
1960	693,141	685,794	7,347	13,821	*6,474*	61,023	*67,497*	34,011	1.547	1,201	3.190	104,155	1.945

Perhaps Mr. Chairman if I may make a short preliminary statement on this, you remember that last year for the first time we made a screen presentation of the charts which dealt with our capital and operating budgets, to show you the highlights of some of the capital and investment planning and the yardsticks of performance. The committee were kind enough to indicate in its report that it was pleased with the form of presentation. However, this year we have come to the conclusion that the one we now offer is a more convenient form, and after consultation with the chairman, I understood that you feel that it would be appropriate for each member of the committee to have the charts in front of him. We have adopted the suggestions, made following last year's meeting, from several members of the committee, and we have altered this form of presentation so you will not have to worry about trying to follow the charts on a screen.

These charts are for your information, and of course you may retain them so that you can make any notes you like on them as you go through them. Perhaps as I go along if you would prefer to ask some questions on them, you could do so, or you may wait until we complete them. I will try to deal with them in any way you like.

I have here Mr. J. D. Wahn, who is our general Economist, and Mr. Lorne Hewson, who is the Chief of Canadian National's Budgets and Statistics Department. They will follow the discussions on a large form of the charts so that they can point out any of the particular lines I may be mentioning. It is the same chart exactly as the one you have in front of you. If there is any point they think is particularly significant, they will point to it with a pointer.

The first group of three charts depicts the trends in our traffic related to the Gross National Product and the Canadian transportation market. The second group of four charts is concerned with 1960 operations and how they related to the decline in traffic which occurred; and the third group of nine charts refers to the 1961 capital and operational budgets. The last group also includes certain highlights of our capital expenditure programmes as well as developments in our rail head and piggyback operations.

Now if you will please turn to chart number one in your book.

This chart is headed: *Gross National Product and CNR-System Revenue Ton Miles*

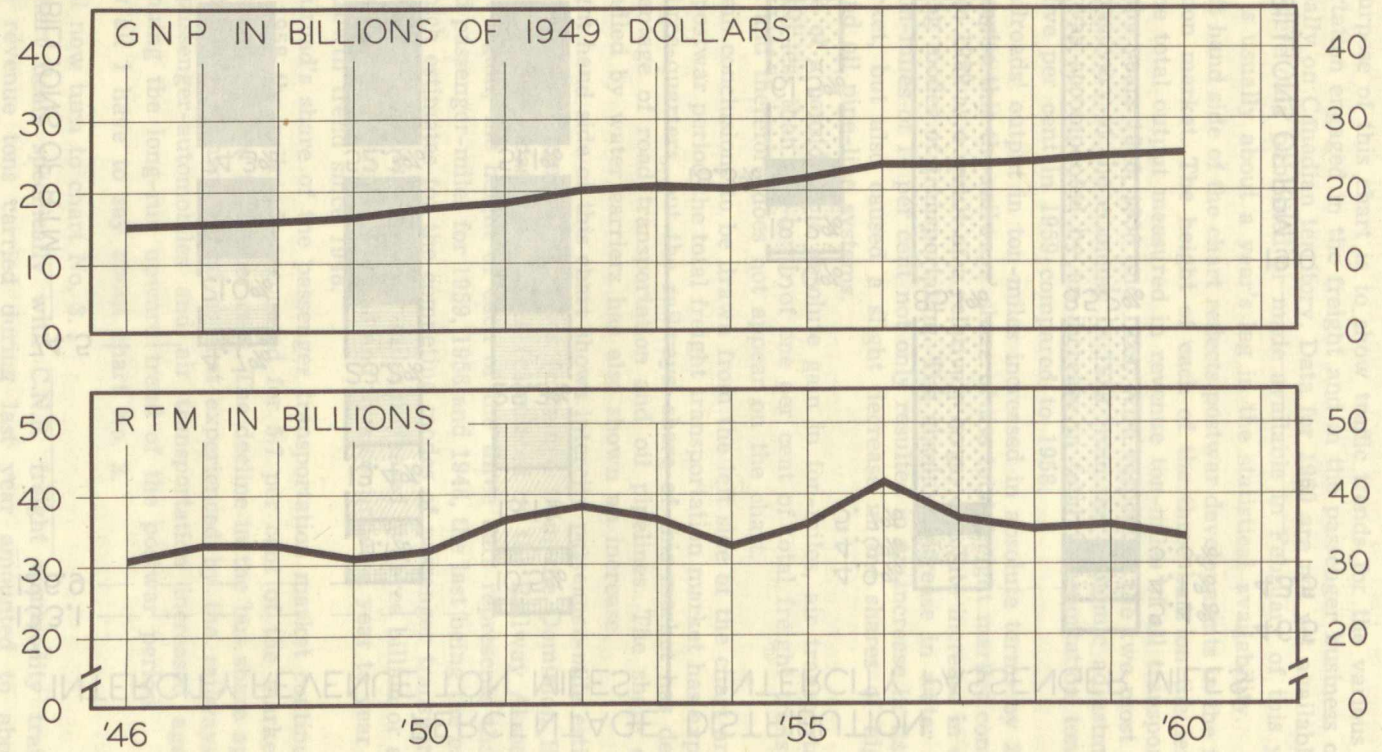
Chart No. 1 shows the postwar growth in the economy as measured by Gross National Product in constant (1949) dollars and the trend in C.N.R. ton-miles. During the period 1946 to 1960, G.N.P. in 1949 dollars increased from $15.3 billion to $25.4 billion or by about 66 per cent. This represents a compound annual rate of increase of 3.17 per cent.

Historically, the C.N.R. ton-mile curve, shown on the lower graph of Chart No. 1, has tended to reflect the growth of real output in the country. However, since the end of World War II the economy has grown at a more rapid rate than the demand for our railway services. One reason for this is that certain industries which do not use railway services have expanded very rapidly during the postwar period. For example, the service industries which include such activities as education, health, and recreation, have expanded rapidly in recent years. Those industries providing financial, legal and other business services have also expanded greatly.

The major reason why our volume is growing at a less rapid rate than G.N.P. is because of increased competition from other modes of transportation.

You may now turn to chart number two.

GROSS NATIONAL PRODUCT AND CNR SYSTEM REVENUE TON MILES

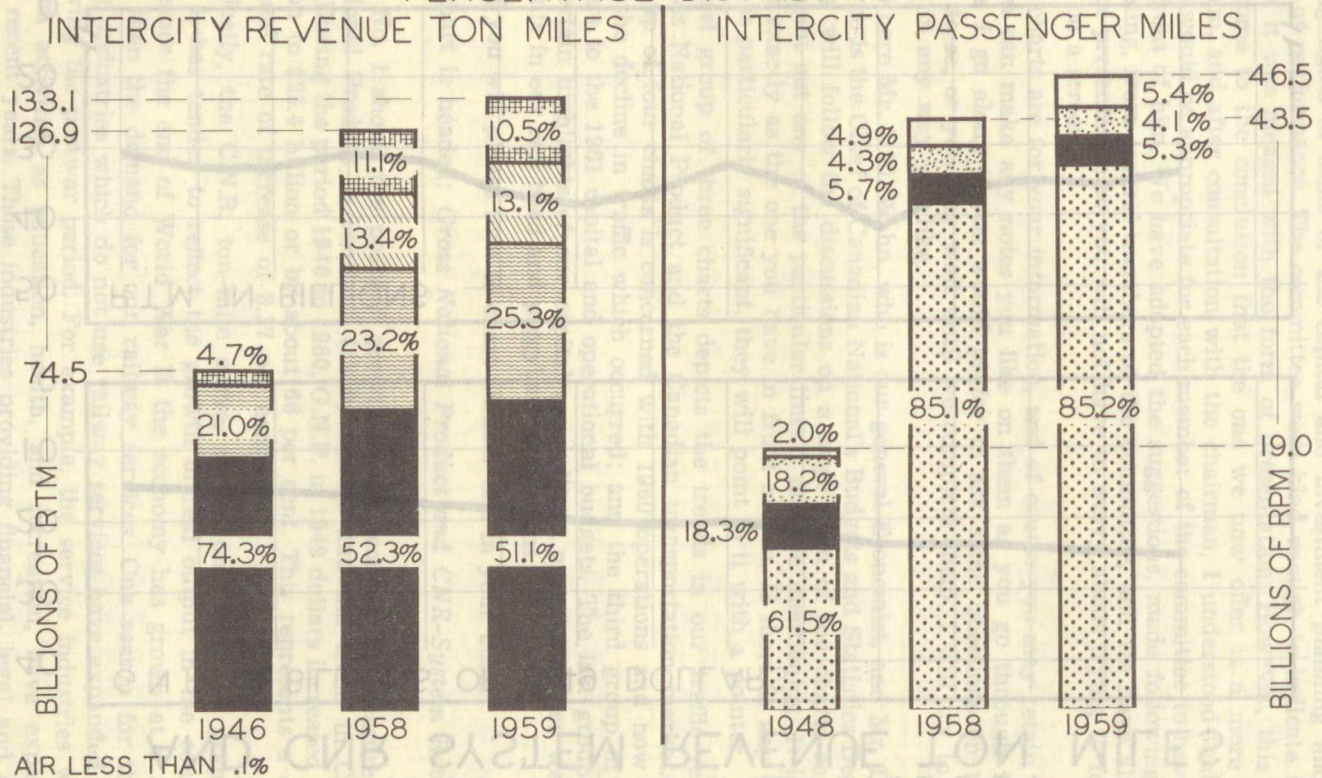


SOURCE: DBS, OTTAWA, NATIONAL ACCOUNTS, INCOME AND EXPENDITURES.
CNR

SHARE OF THE TRANSPORTATION MARKET - CANADA

RAIL WATER AIR OIL PIPELINES TRUCK BUS AUTOMOBILE

PERCENTAGE DISTRIBUTION



AIR LESS THAN .1%

SOURCES: DBS, OTTAWA, PUBLIC FINANCE AND TRANSPORTATION DIVISION
THE RAILWAY ASSOCIATION OF CANADA

Chart number two is headed: Share of the Transportation Market—Canada

The purpose of this chart is to show traffic trends for the various media of transportation engaged in the freight and in the passenger business operating principally on Canadian territory. Data for 1960 are not yet available. The 1959 data were only published or made available in February of this year.

There is usually about a year's lag in the statistical availability.

The left hand side of the chart reflects postwar developments in the freight transportation market. The height of each of the three bars on the left side indicates the total output measured in revenue ton-miles of all transportation modes for the years 1946, 1958 and 1959. With respect to the two most recent years, the recovery of the economy in 1959 from the economic adjustment of 1957-1958 was accompanied by an increase in total transportation ton-miles of almost five per cent in 1959 compared to 1958.

The railroads' output in ton-miles increased in absolute terms by 2.4 per cent, but despite this the railways' share of the total freight market continued its decline in 1959 as a result of a relatively larger absolute increase in output by competing modes of transportation. The absolute increase in water transportation ton-miles of 14 per cent not only resulted in an increase in its share of the market, but also caused a slight decrease in the shares of highway transport and oil pipe-line systems.

In spite of a considerable absolute gain in ton-miles, air transportation's output is still less than one-tenth of one per cent of total freight transportation output and therefore does not appear on the chart.

The main conclusions to be drawn from the left side of the chart are that during the postwar period the total freight transportation market has expanded by about three-quarters, but the railways' share of this market has declined to the advantage of road transportation and oil pipelines. The share of the market handled by water carriers has also shown an increase.

The right hand side of this chart shows intercity *passenger-mile* estimates for rail, air and passenger automobiles (obtained from the Dominion Bureau of Statistics) and bus-passenger-miles (calculated by the Railway Association of Canada). Again, the height of each of the three bars represents the total of estimated passenger-miles for 1959, 1958 and 1948, the last being the earliest year for which estimates for the competing modes of passenger transportation are available. In 1959 total passenger-miles increased by three billion or almost seven per cent as compared with 1958 and thus continued a year to year uninterrupted growth trend since 1948.

The railroad's share of the passenger transportation market continued to decline. In 1958 the railroads accounted for 5.7 per cent of the market, but in 1959 this was reduced to 5.3 per cent. The decline in the bus share appears to follow the same general trend as that experienced by the railways. The shares of passenger-automobiles and air transportation increased again in 1959, continuing the long-run upward trend of the postwar period.

That is all I have to say about chart No. 2.

We will now turn to chart No. 3.

This chart deals specifically with C.N.R. freight commodity traffic in 1960. Total revenue tons carried during last year amounted to about 78 million tons, which is indicated by the height of the bar on the extreme right side of the chart. In 1959, 82 million tons were handled and thus freight offered for transportation by C.N.R. customers during 1960 was 5.3 per cent less than in the previous year.

You will be interested in the sectors of our traffic which showed increases or decreases in 1960 as compared with 1959. Slight tonnage increases were obtained in the animal and animal products, and in the forest products commodity groups, which are represented by the first two bars. However, these increases of two and one per cent respectively were more than off-set by substantial decreases in the agricultural products, mineral products and manufacturers and miscellaneous commodity groups. Decreases in these last three groups, which are clearly noticeable in the next three bars, amounted to ten, eight and two per cent.

The decrease in agricultural products traffic reflects mainly a drop of roughly 12 per cent in Canadian grain exports in 1960 as compared with 1959. In the mineral products group our decline in traffic coincides with a considerable decline in 1960 iron ore production in Canada, which when compared with 1959 on the basis of preliminary data amounted to a fall of more than 12 per cent. Ontario iron ore especially is carried to a large extent by Canadian National. A fall of nine per cent in coal imports in 1960 as compared with 1959 undoubtedly was of major influence on our sharp decline in coal and coke traffic. The decline in traffic of manufactured and miscellaneous products reflected easier conditions in the economy and stiff competition from competitive media.

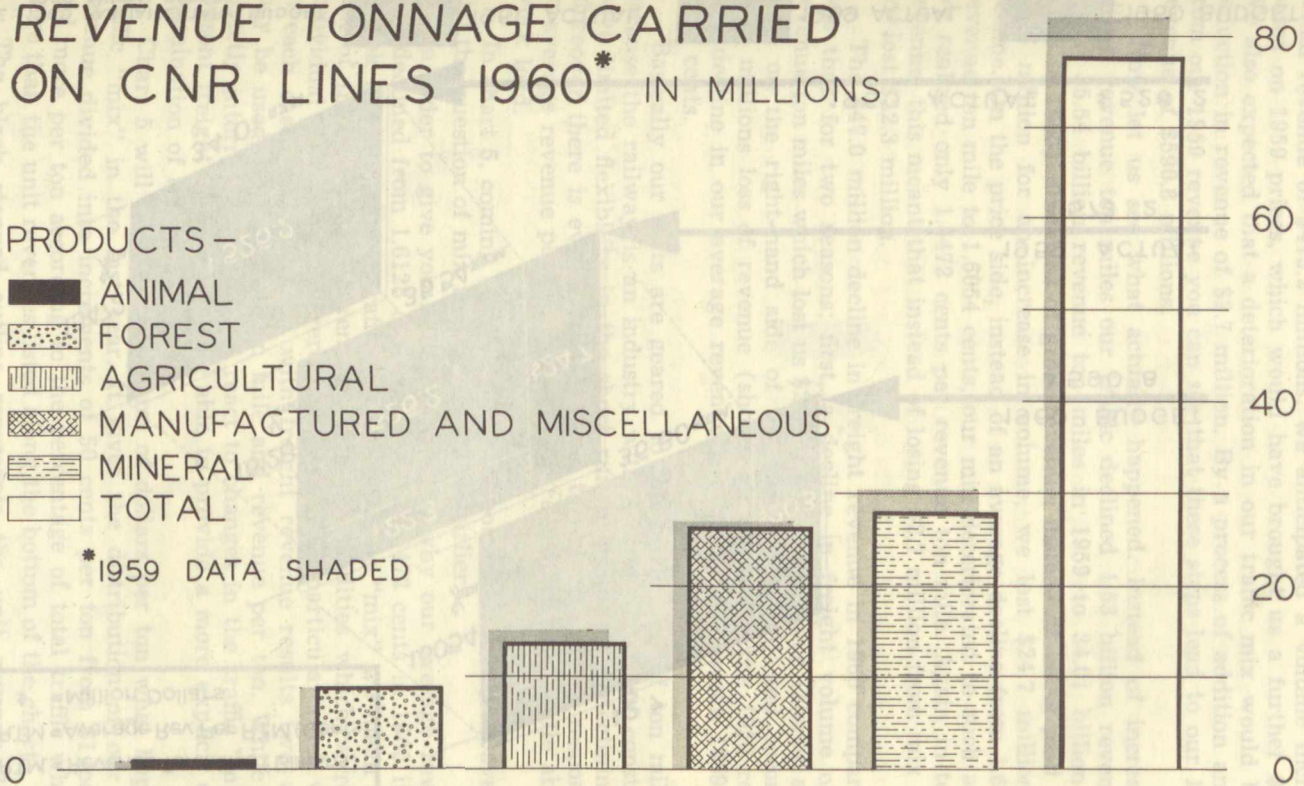
We now have chart No. 4, system freight revenues.

The first group of charts gave an outline of general economic trends affecting transportation. We now propose to present a series of four charts which will deal with the impact of 1960's economic conditions on our operations and show how we reacted to the decline in revenues which occurred. Our annual report records that in 1960 we sustained a loss in total revenues of $47.0 millions compared with 1959. If you will glance for a moment at our consolidated income statement on page 19 of the annual report you will see that, with the exception of freight services, the increases and decreases between 1959 and 1960 in the various railway operating revenue categories tend in the overall to balance out. Freight services are our most profitable source of revenue. As you know, the MacPherson commission has recognized that on balance we lose money on passenger operations. A decline in our freight business, therefore, tends to have a more than proportional adverse effect on our net position because freight revenue helps carry part of our passenger deficiency. Although there was some evidence earlier in the year of a slackening in economic activity, it was not until July that we became convinced that business was not going to recover sufficiently to make up our freight revenue shortfall.

Chart 4 provides a picture of how the loss in freight revenue occurred. The black rectangle at the bottom of the chart represents our actual 1960 freight revenues of $526.2 million as indicated along the arrow at the right. This freight revenue was derived from carrying 34.01 billion revenue ton miles (shown at the bottom of the rectangle) at an average price of 1.5472 cents (shown on the left of the rectangle). By comparison, in 1959 we carried 35.54 billion revenue ton miles at an average price of 1.6128 cents which, as the arrow at the right indicates, grossed us $573.2 million.

In our 1960 budget (represented by the top rectangle) we anticipated a freight traffic increase to 36.08 billion revenue ton miles at a slightly lower average price of 1.6054 cents. As the arrow at the right shows, this volume would have brought in gross revenue of $590.8 million. We were looking for an increase in 1960 of 1.26 billion revenue ton miles which at the 1959 unit revenue of 1.6128 cents would have returned additional gross revenues of $20.3 million. On the unit price side, we estimated that there would be a decline of .0075 cents due to a deterioration in our traffic mix about which I

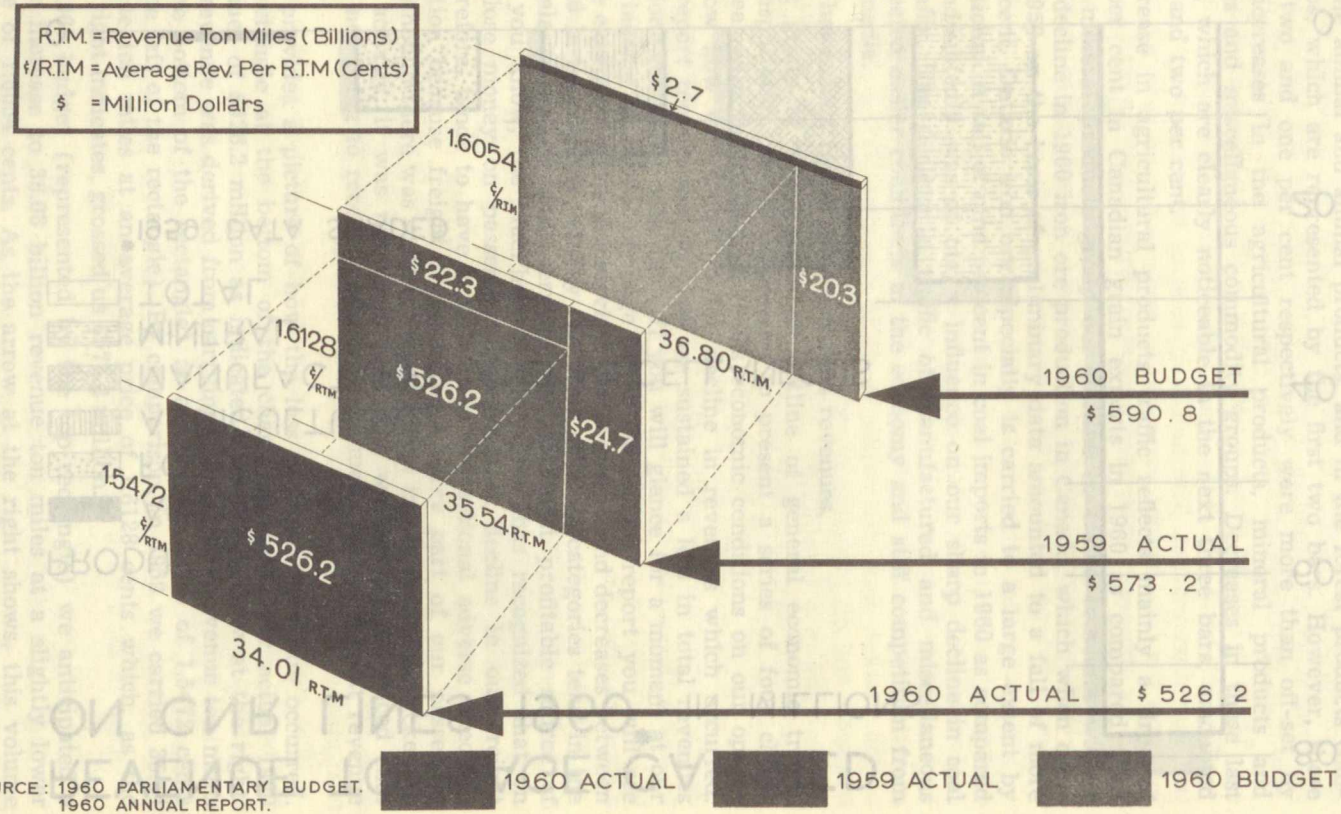
REVENUE TONNAGE CARRIED ON CNR LINES 1960* IN MILLIONS



SOURCE: CNR

SYSTEM FREIGHT REVENUES

EFFECT OF UNIT REVENUE AND VOLUME



SOURCE : 1960 PARLIAMENTARY BUDGET.
1960 ANNUAL REPORT.

will say more later on. We calculated that this unit price decline would cost us $2.7 million in potential revenue. In summary, starting from our 1959 actual revenue of $473.2 millions, we anticipated a volume increase in 1960, based on 1959 prices, which would have brought us a further $20.3 millions. We also expected that a deterioration in our traffic mix would bring about a reduction in revenue of $2.7 million. By a process of addition and subtraction from our 1959 revenue you can see that these steps lead to our 1960 budgeted revenue of $590.8 millions.

Now let us see what actually happened. Instead of increasing by 1.26 billion revenue ton miles our traffic declined 1.53 billion revenue ton miles (from 35.54 billion revenue ton miles in 1959 to 34.01 billion revenue ton miles in 1960). In terms of gross revenue, instead of being paid an additional $20.3 million for an increase in volume, we lost $24.7 million due to the decline. On the price side, instead of an average decline from 1.6128 cents per revenue ton mile to 1.6054 cents, our mix deteriorated to such an extent that we realized only 1.5472 cents per revenue ton mile. Again in terms of gross revenue, this meant that instead of losing $2.7 million from mix deterioration, we lost $22.3 million.

The $47.0 million decline in freight revenue in 1960 compared with 1959 was thus for two reasons; first, a decline in freight volume of 1.53 billion revenue ton miles which lost us $24.7 million of revenue (shown as the vertical piece on the right-hand side of the 1959 rectangle) and second, a further $22.3 millions loss of revenue (shown at the top of the 1959 rectangle) due to a decline in our average revenue per ton mile between 1959 and 1960 of .0656 cents.

Basically our costs are geared to the production of ton miles. However, because the railway is an industry with a high content of constant costs, we have limited flexibility in the short run to adjust to a declining work load. Moreover there is even less we can do to reduce costs in response to a drop in average revenue per ton mile, if we are required to handle about the same work load.

In chart 5, coming up next, we will look more closely at average revenue and the question of mix that I referred to earlier.

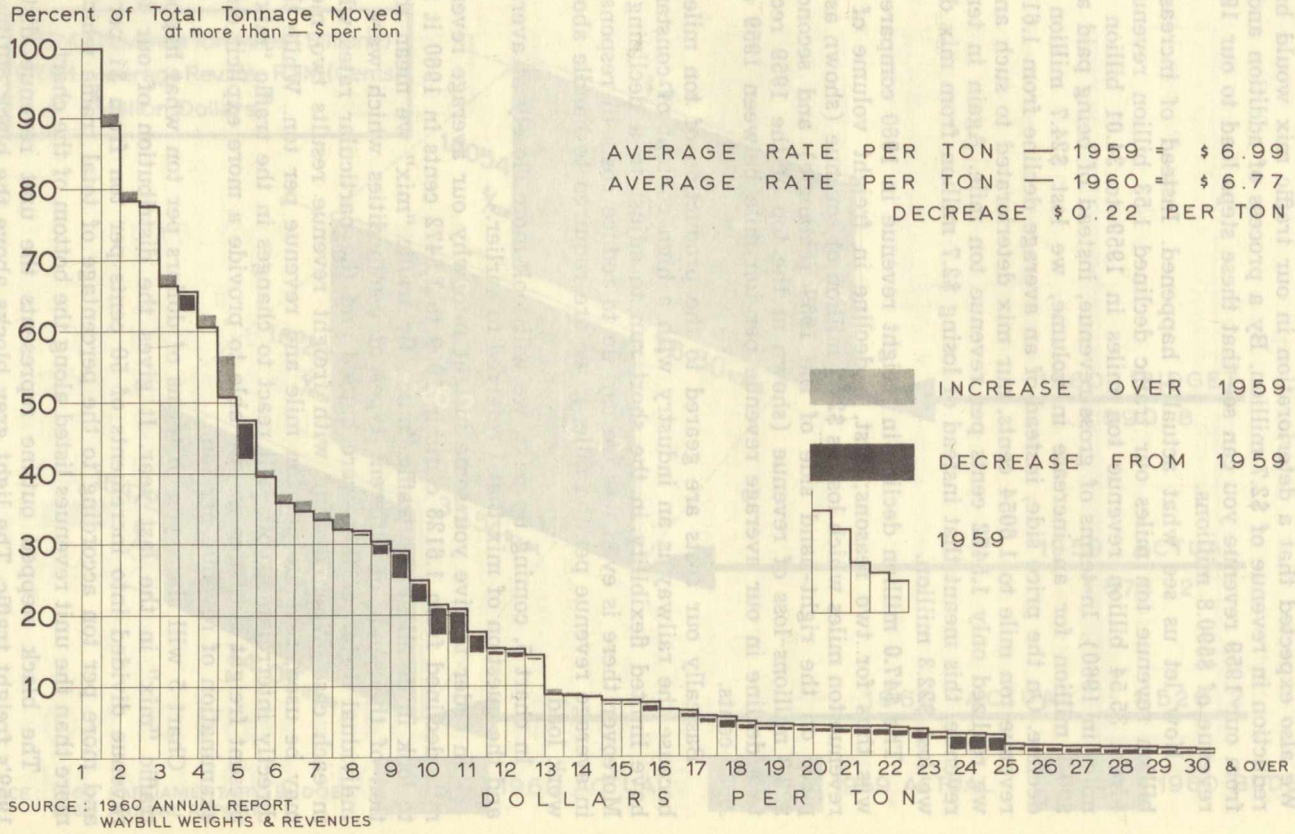
In order to give you some insight into why our average revenue per ton mile declined from 1.6128 cents in 1959 to 1.5472 cents in 1960 it is necessary to look in detail at our traffic "mix". By traffic "mix" we mean the combination of thousands of different types of commodities which were moved, the individual distances they were hauled and the particular rates which applied in each case. When dealing with freight revenue results two measurements may be used, revenue per ton mile and revenue per ton. While they are not directly interrelated, both will react to changes in the traffic "mix". With our present freight statistics we are able to provide a more explicit chart through examination of revenue per ton.

Chart 5 will show you in terms of dollars per ton what happened to our traffic "mix" in the last year. It gives the distribution of our total freight revenue divided into increments of 50 cents per ton from $1 per ton to $30 and more per ton according to the percentage of total traffic which moved at more than the unit revenues listed along the bottom of the chart.

The black stepped outline represents the unit revenue distribution of 1959's freight traffic. The light grey blocks above the black outline show 1960 percentage increases over 1959 in each 50 cent group. The dark grey blocks show percentage decreases during the same period. For example, looking at the left side of the chart you can see that in 1959, all of our traffic returned us at least $1.00 per ton, 89 per cent moved at more than $1.50 per ton, 78 per cent at more than $2.00 per ton and so on. It is interesting to note further down

DECLINE IN UNIT FREIGHT REVENUE DUE TO CHANGE IN TRAFFIC MIX

1960 COMPARED WITH 1959



SOURCE : 1960 ANNUAL REPORT
WAYBILL WEIGHTS & REVENUES

the graph to the right that 3 per cent of our traffic moved at more than $24.00 per ton. These unit freight revenues, of course, reflect both the types of commodities moved and the length of haul.

Looking from the $8.00 point on the bottom line in this chart in 1960, it is apparent that we made relative gains in low-revenue traffic, as shown by the preponderance of light grey blocks at the left-hand side of the chart. To the right you can see from the large number of dark grey blocks that we lost traffic at the high-value end of the scale. For example, in 1960 42 per cent of our traffic moved for more than $5.00 per ton compared with 48 per cent in 1959. Looking at random across the chart, 18 per cent moved at more than $10.00 per ton in 1960 as against 22 per cent in 1959. Both these examples illustrate the 1960 relative increase in the handling of low-revenue traffic. As you go further along 29 per cent moved at more than $9.00 per ton in 1959 and only 26 per cent in 1960. 3 per cent moved at more than $24.00 per ton in 1959 compared with 1 per cent in 1960. The impact of this type of change in our traffic mix from higher to lower average revenue per ton can be readily appreciated if you consider, that in any year, the loss of 1 per cent of our traffic at $24.00 per ton has the same effect on total revenues as a loss of 12 per cent at $2.00 per ton.

The net effect of these changes in mix has been to produce a decrease in our average revenue per ton of 22 cents, going from $6.99 in 1959 to $6.77 in 1960. This change in mix when adjusted for the small change in average haul accounts for $22.3 million in loss of freight revenue for which we did approximately the same amount of work as last year.

We now come to consideration of our 1960 operating expense performance. Being a high constant cost content industry, the railway is limited in its ability to react quickly to a decline in work load. However, let us look at what we were able to do in 1960.

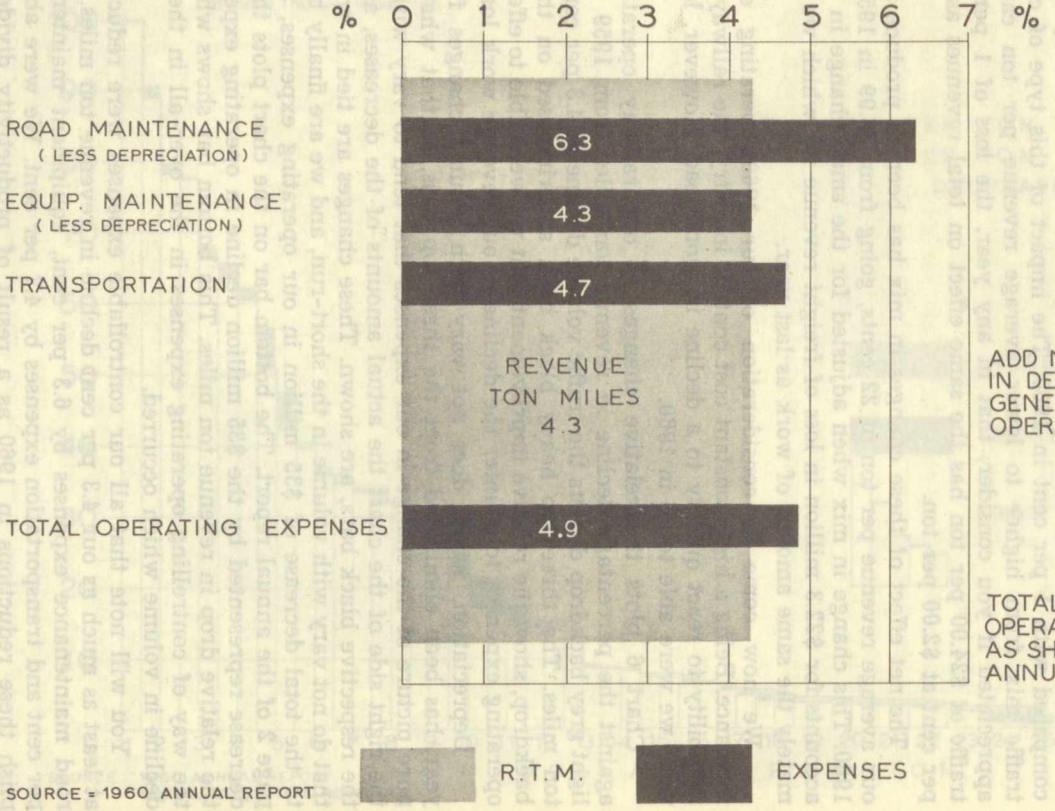
Chart 6 plots the relative changes in our railway operating expenses against the percentage decline in revenue ton miles from 1959 to 1960. The light grey backdrop depicts the traffic volume decline of 4.3 per cent in revenue ton miles. The three top heavy black bars, superimposed on the light grey backdrop, show the relative improvement that we were able to effect in railway operating expenses to counter the decline in our revenue work load.

Depreciation, which does not vary with volume changes from year to year, has been eliminated from the three top bars, so that what is left is a pure picture of the change in our expenses that tend to vary with volume. At the right side of the chart the actual amounts of the decreases, as depicted in the respective black bars, are shown. These changes are tied in with the items that do not vary with volume in the short-run, and we are finally brought down to the total decrease of $35 million in our operating expenses, as shown on page 2 of the annual report. The bottom bar on the chart plots the percentage decrease represented by the $35 million decline in operating expenses, against the relative drop in revenue ton miles. This bottom bar shows what we did in the way of controlling operating expenses in the over-all in the face of the decline in volume which occurred.

You will note that all our controllable expenses were reduced relatively at least as much as our 4.3 per cent decline in revenue ton miles. We reduced road maintenance expenses by 6.3 per cent, equipment maintenance by 4.3 per cent and transportation expenses by 4.7 per cent. We were able to accomplish these reductions in 1960 as a result of productivity dividends realized from mechanization of road maintenance methods, dieselization, siding extensions, Centralized Traffic Control and other capital improvements. Also when we began to get some fairly firm indications of the magnitude of the 1960 traffic decline, certain of our road maintenance capital programs, such as

OPERATING EXPENSES

PERCENT DECREASE 1960 OVER 1959



DECREASES	$ MILLIONS
	7.8
	4.7
	15.0
	27.5
ADD NET CHANGE IN DEPRECIATION, GENERAL AND OTHER OPERATING EXPENSES	7.5
TOTAL DECREASE IN OPERATING EXPENSES AS SHOWN IN ANNUAL REPORT	35.0

SOURCE = 1960 ANNUAL REPORT

installation of crushed rock ballast, were replanned to spread them out over a longer period of time thus reducing the impact of the operating expenses which accompany these programs. In addition, during all of 1960 we kept a very close eye on expenses generally to head off any increases that were not absolutely essential to the conduct of our operations.

In total then, as shown in the bottom bar of the chart, our operating expenses, including depreciation and all other operating charges, were reduced 4.9 per cent. This reduction, totalling $35 millions, was sufficient to more than offset the revenue erosion due to loss in volume and went nearly halfway towards offsetting the effect of the .0656 cents decline in unit revenue to which I referred when we were looking at chart 4.

Reconciliation of 1959 and 1960 Deficits

You will recall that when we were looking at chart 6 I referred to the relatively high constant cost characteristic of the railway industry and the restraint that this places on the railways' ability to respond in the short-run to a decline in traffic. We dealt with the adjustments that we were able to make in operating expenses to meet the 1960 traffic decline and chart 7 summarizes the relative impact of all the factors in play, including fixed charges, which led to the increase in our 1960 deficit over 1959.

Starting at the left-hand bar on the chart, the level of our operations during 1959 produced a deficit of $43.6 millions which can be attributed in full to disabilities recognized by the MacPherson commission. Adding the adverse factors and subtracting the favourable ones produces the 1960 position shown on the bar at the right side of the chart. You can see that we were able, by trimming expenses and increasing productivity, (in the third bar from the left) to counter $35.3 million of our revenue erosion leaving us $11.7 million short of meeting the actual revenue decline of $47 millions. To this $11.7 millions must be added $7.3 millions of increased fixed charges because we had to refinance, at higher rates, earlier loans which matured in 1960. A further increase of $4.9 millions in fixed charges represents interest on new borrowings. The result of all these factors is an increase in our deficit in 1960 compared with 1959 of $23.9 millions. This amount, you will observe, corresponds very closely to what we lost due to the decline in our unit freight revenue which came about in consequence of the deterioration in our traffic mix.

The next series of charts is concerned with the 1961 capital budget, and I am wondering, Mr. Chairman, if this would not be a good place to retrace our steps on the annual report, as this next part would take us right into our capital budget.

The Chairman: I think the charts thus far are really dealing with the annual report.

Have the members any questions to ask in reference to the report?

Mr. Broome: Mr. Chairman, I would like to ask a couple of questions in connection with the charts.

On chart No. 4, it says: "1960 actual—$526.2". Mr. Gordon referred us to page 19, and the freight services for 1960 was $542 million. I wonder if Mr. Gordon would explain that.

The Chairman: What page are you referring to?

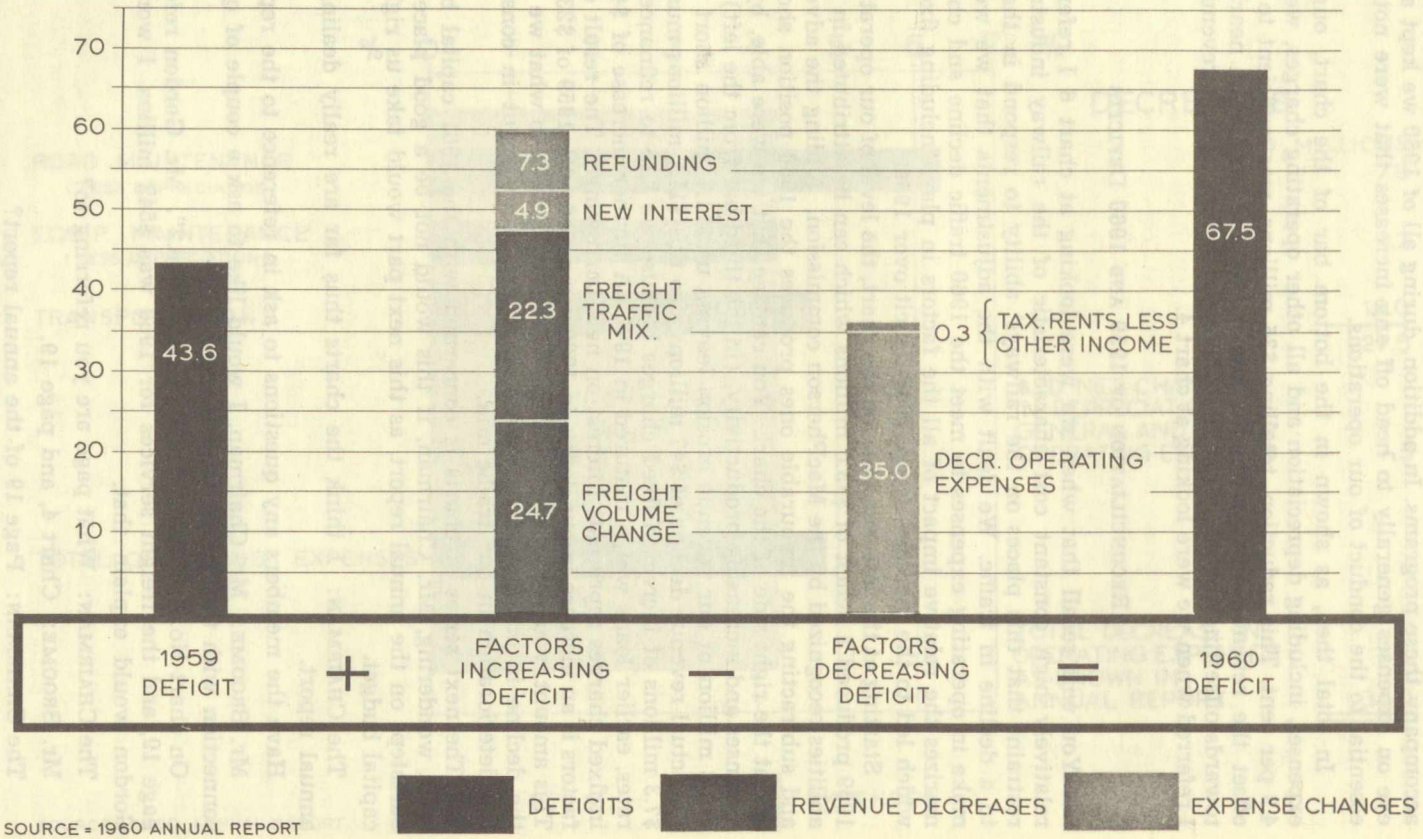
Mr. Broome: Chart 4, and page 19.

The Chairman: Page 19 of the annual report?

Mr. Broome: Yes, where it shows railway operating revenues, 1960 and 1959. I could not reconcile the two figures, and I would like you to explain the

RECONCILIATION OF 1959 AND 1960 DEFICITS

IN MILLIONS OF DOLLARS



SOURCE = 1960 ANNUAL REPORT

discrepancy. Unless I am mistaken, it is my understanding that the 1960 freight revenues, actual, are $526.2 million on the chart, and on the statement it is $541,908,517.

Mr. HEWSON: The chart deals with revenue from freight alone, whereas the annual report gives the revenue from freight services, which includes switching charges, elevators, icing, and that sort of thing. That accounts for the difference.

Mr. BROOME: Then, on chart 5, would these figures include all revenue income or do they refer only to rail income and leave out your truck piggyback income? In other words, I am wondering whether the decline in the higher levels could be because of switching all your traffic to trucks.

Mr. HEWSON: This is rail freight.

Mr. BROOME: Well, then, some of this reduction in your higher-priced commodities in regard to freight rates could well be because of an internal switch from rail to your own trucking system?

Mr. GORDON: No. There would be very little of that. However, freight revenue includes piggyback traffic. It includes piggyback carriers, but does not include truck carryings as such, and the amount of our truck carryings would not affect the figures very much.

Mr. BROOME: You have said, Mr. Gordon, that this is attributable to what you have described as a change in traffic mix. Would there be some part attributable to a reduction in the rate? In other words, were some of the commodities carried at lower rates?

Mr. GORDON: That could be, yes. And, it may also be representative of some agreed charge arrangements for example.

Mr. BROWNE (*Vancouver-Kingsway*): And, also your competitive rates?

Mr. GORDON: And competitive rates.

Mr. BROWNE (*Vancouver-Kingsway*): They may have been competitive, and it would not necessarily mean that traffic was lost to the railway, but that it simply had to be carried at a lower rate?

Mr. GORDON: Yes.

Mr. HORNER (*Acadia*): And that could have brought about a reduction in the $11 or $10 rate, and caused some of the increase in the $7 or $8?

Mr. GORDON: Yes. What I was trying to say was that it was the traffic mix, as such, that caused the significant changes. These items you mentioned would be included in it, but would not affect the trend line to the same extent.

Mr. BROOME: I have one other question on chart No. 7.

Mr. CREAGHAN: I have a supplementary on chart No. 5. I am wondering if you could look at chart No. 5 and see any evidence of the Freight Rate Reduction Act. Has it had any effect on the drawing on the big board?

Mr. GORDON: That would not affect it. The Freight Rate Reduction Act does not affect what we get for carrying the traffic. It is not a subsidy, but a payment for part of the freight rate.

Mr. CREAGHAN: Is the payment authorized by the board of transport commissioners and received by the C.N.R. allocated to the particular type of traffic?

Mr. GORDON: Oh, I see what you mean.

Mr. CREAGHAN: Or, does it go into general revenue?

Mr. GORDON: It would be treated as part of the freight collections.

There is one other factor I thought about while you were talking. I am not sure about the timing. However, I understand there is about a three months'

time lag, so the revenue would be taken up in the amounts to the extent we had actually received it.

Mr. CREAGHAN: And, if it has been in existence a full year, you are all right?

Mr. GORDON: Yes.

Mr. FORBES: Does that apply to all classes of freight, or just to what the subsidy applies to?

Mr. GORDON: Yes. What I am saying is that the payments we receive are taken up as freight revenue regardless of who pays the actual freight, the shipper or the government.

Mr. SMITH (*Simcoe-North*): I have a question relating to chart No. 2, and the last line on the first page of the annual report, where it says that the increase in certain shipments was more than offset by the movement of grain and grain products. Do you have any figures as to whether or not the decline in the movement of grain products took place mostly east or west of Fort William and Port Arthur. The thought I have in mind is what effect the development of the seaway and the bulk carriers in the Great Lakes had on the movement of grain, and whether you lost most of your grain shipments east of Fort William.

Mr. GORDON: I am sure that we have that breakdown here. Have you the east-west breakdown?

Mr. TOOLE: Just the west.

Mr. GORDON: Well, if the west went up relatively, we will know the east went down.

Mr. TOOLE: The western region grain, in tons, went up slightly.

Mr. GORDON: I do not think that I can answer that question precisely. We have a record showing that our western region carryings, that is, the root grain to which the Crownsnest pass rates applied, declined over the year; but I do not have the eastern figures over the year.

Mr. SMITH (*Simcoe North*): I would be interested to see whether the decline was greater in the eastern region.

Mr. GORDON: I am not sure about that. I would not like to commit myself. My impression is that it did change, but I would like to have a look at it and let you know.

Mr. FISHER: Your agreed charges continued to increase in number this past year?

Mr. GORDON: Yes, they did.

Mr. FISHER: Your running times of your trains continued to increase during the past year?

Mr. GORDON: "Your running time continued to increase?" Do you mean running longer?

Mr. FISHER: Decrease. You put more traffic over the road faster.

Mr. GORDON: Yes, that was our experience.

Mr. FISHER: You have been designing general improvements in your yards and in your traffic service handling, that is, the administrative handling of traffic, in the past year or two?

Mr. GORDON: That is correct.

Mr. FISHER: With all these changes, it would seem to indicate you can give a better and faster service and that you are getting in effect more tied traffic which is probably in the higher revenue group.

I cannot understand why we have had this drop as indicated in chart five, of the higher income traffic. Why are you losing in this area when all your

trends in the last few years would lead one to think you could recapture some of that traffic from your competitors?

Mr. GORDON: Well of course I do not think you can take that kind of comparison from it. To answer your question properly we would have to see what our competitors have done, too. In other words, we would have to know the total transportation market. As there was a very substantial decline over the past year, there is less traffic to share. The question is whether this indicates that our decline was more relatively down than our competitors'. I can not answer that at the moment.

Mr. FISHER: Could you give us any indication statistically that the amount of money which is being poured into these changes is going to be justified, when here is an indication that despite these changes the loss in high revenue traffic is increasing?

Mr. GORDON: Yes, I have a general statement on our financial position. I am not sure that it is wise to take the time to deal with it right now. However, I can give you one figure that comes to mind, and I can deal with this subject in more detail later. Take, for instance, the advantages of our dieselization program alone. I can trace right now, from the benefits of efficiency produced by diesel locomotives that we have effected savings at a rate of roughly $100 million per year. That is one answer to your question. There are others, but that is one example. The short answer, the better answer, I think, is to say that if we had had the traffic volume that we confidently expected we would be able to show a surplus. In other words our plant is built and ready to handle a much larger volume than we got last year or than we are expecting this year for that matter. Our volume depends to a large extent on general economic conditions, if those conditions improve sufficiently we will get the traffic on which we based our capital expenditure program.

Mr. FISHER: This is surely the crux of your capital spending program. If this is just a one year matter—fine; but how can we look at the picture in the last three or four years, and not assume that this may be developing into a permanent characteristic?

Mr. GORDON: That is a matter of opinion. I do not think anyone can be precise about that. I, myself, speaking purely personally, retain a stubborn confidence in the future of Canada. I believe Canada will develop and as it develops I think it follows that the economic factors of that development will benefit transportation as well as other things. Of course, when one is planning for capital expenditure on the railroad particularly, where you have to deal with long term expenditure, you cannot spend capital moneys for next year's traffic only. You have to build the railway plant on the basis of 10 or 15 years ahead, and perhaps in some cases for longer than that. We have lots of equipment with a depreciation life up to 33 years. Therefore, we have to take calculated risks in regard to the size of what I might call our plant, and by plant I mean our whole operation—equipment, roads and services of every kind.

Mr. FISHER: Are the changes you are making, for example in your traffic arrangements, in your agreed charges, in your new yards, in the central traffic control changes, these general speed-ups—are they increasing or decreasing your flexibility in so far as operation expenses are concerned?

Mr. GORDON: They are very much increasing our flexibility and making us ready to respond to an upsurge in traffic quickly.

Mr. FISHER: What about the response to a downturn such as that?

Mr. GORDON: That is a more difficult question. Capital expenditures have to be made on the basis that higher constant cost will likely be involved. However, we can be more flexible on the matter of equipment because we can get equipment built pretty quickly. But if we build a roadbed; if we build

a rail line or if we establish a freight shed, we have to make certain assumptions in regard to basic costs. If the traffic does not eventuate, then we have either overbuilt or underbuilt. Our experience has been, during my time with the railway, that generally speaking the tendency had been to underbuild. Therefore we were faced with a very difficult situation at the end of world war II, at the commencement of 1950, and in proceeding with our capital program. However, as I said at the beginning, I have a complete statement on which I burned a lot of midnight oil, and, with the pride of authorship I would prefer to give it as a proper presentation rather than piecemeal, if that would be satisfactory?

Mr. FISHER: There is one last question. Have you any information which you can provide for us in chart form on this point I am about to mention? In your budgeting of the change in your operations and your attempts to cut down on your operating expenditures, how has this affected employees and employment?

Mr. GORDON: Yes, I think we can show that. I do not know what you mean by "chart form". Let me see if I have got your question correctly. You say you want to know what our capital program—

Mr. FISHER: Let me start with the final point. I am interested in your reaction to a decline in traffic, obviously going to mean less work for employees.

Mr. GORDON: Yes.

Mr. FISHER: I would like to see that charted somehow in relation to the information you have given us in chart six, for example, which shows, it seems to me, your adjustments to that. In other words, it is quite simple. I want to know how the employees were affected by your response to changing conditions.

Mr. GORDON: Well, I can give you figures on that. I think I see what you are getting at and I would like to think about how those two things can be put together. I could give you this.

Mr. CHEVRIER: Mr. Chairman, I have some questions on that which I was reserving for the consideration of the report. I do not know whether it is intended to go into the charts or the reports at this time.

Mr. FISHER: I am sorry. The question grew out of the way I started and I am quite willing to let it go and come back to it later.

Mr. MCPHILLIPS: I have some questions on this first item, marked "financial results" on page 3 of the report. You recite there in the third paragraph this reduction of $35 million in operational expenses, which is a highly commendable accomplishment. I am wondering if the saving of $10.2 million in pension claims is included in that?

Mr. GORDON: Where do you get the saving of $10.2 million?

Mr. MCPHILLIPS: Page 12.

Mr. GORDON: If you turn to the statistical pages, page 19, I think it is displayed more clearly.

Mr. MCPHILLIPS: I want to ask these questions. I have asked a question, does it include the saving which is shown in page 12, in the fourth paragraph, under the heading "Pension Funding", which states:

> This resulted in a reduction of $10.2 million in pension costs charged to 1960 operations...

Mr. GORDON: Yes, I will show it to you if you would not mind turning to page 19. This shows our consolidated income statement. You will observe that the $35 million to which reference is made there is shown in the two figures between 1959 and 1960. In 1959 the total was $720 million and in 1960 it was $685 million. The reduction in the pension costs is shown between the two

figures, headed as "general". You see that in 1960 the general expenses were $47 million and in 1959 they were $58 million. Therefore, the answer to your question is that the $10 million in pension costs is part of the $35 million reduction.

Mr. McPHILLIPS: Very well. The other question I wanted to ask is this. We are dealing in this "financial results" paragraph with revenue ton-miles received and you stated a moment ago in answer to a question by Mr. Fisher that if you had the volume everything would be all right, so to speak. But if you have the volume, and have agreed charges, you are not getting the return that you might get; the volume will not do you.

Mr. GORDON: Oh yes, because we do not make any agreed charge—and I know now I am making a controversial statement at once—we do not make any agreed charge that we do not make money on.

Several Hon. MEMBERS: Oh, oh, oh.

An Hon. MEMBER: You are really leading with your chin.

Mr. GORDON: The reason for agreed charges from the railway point of view is to hold traffic to the railways which we feel we would otherwise lose. Therefore, when we add the second point that we are prepared to satisfy ourselves that any rate which we quote in an agreed charge will give us a profit, then it is obvious that benefits flow to our income.

Mr. McPHILLIPS: But you are in effect saying that all your agreed charges are compensatory?

Mr. GORDON: That is right.

Mr. McPHILLIPS: But they might be compensatory to a very slight degree?

Mr. GORDON: True but, even a nickel is better than nothing.

Mr. McPHILLIPS: I agree; but you seem to think if you had the volume you would be all right. What I am saying is that if you have the volume you are still not all right if the profit is too low.

Mr. GORDON: It is a question of getting more volume, is it not? If we get enough volume and given enough margin of profit, we will be all right.

Mr. MCPHILLIPS: But you might not have a large margin of profit out of these agreed charges?

The CHAIRMAN: If you have that margin and a greater volume, you could do with a lesser margin.

Mr. BROWNE (*Vancouver-Kingsway*): On the one point of agreed charges and in connection with what Mr. McPhillips has said, I heard some mention made here on two or three occasions that agreed charges do not in fact have to be compensatory to the railroad; and I was wondering if Mr. Gordon would have any objection to that legislation being amended to require that they be compensatory to the railroads, as all other rates are?

Mr. GORDON: I would not want to express an opinion on that, but I would like to express an opinion that I would like to see the legislation extended so that the truckers would be asked to charge competitive rates. What is good for one is good for the other.

Mr. BROWNE (*Vancouver-Kingsway*): I do not know why you are bringing the trucking companies into this. What I asked was a simple question. It is said that all rates are compensatory to the railroads under agreed charges. I am asking now if you would have any objection to that being made a stipulation in the Transport Act, which it is not at the present time, as there is no requirement that they be compensatory.

Mr. GORDON: I would have objection on the general ground that I see no reason why more and more controls should be placed on the railway business. If that stipulation were made so as to apply to all railway competitors, then I would have no objection.

Mr. BROWNE (*Vancouver-Kingsway*): Then you think the railway should be allowed to charge rates which are not compensatory to the railroad?

Mr. GORDON: No, I did not say that. I said the exact opposite.

Mr. BROWNE (*Vancouver-Kingsway*): Then there could be no objection to that being in the legislation, unless it were for the purpose of charging rates which are not compensatory.

Mr. GORDON: You might as well say I would have no objection to getting up at 7 o'clock in the morning, so there should be legislation to compel me to do so. One would be as reasonable as the other.

Mr. BROWNE (*Vancouver-Kingsway*): If you say that all your rates are compensatory, I cannot see what conceivable objection you can have. The other people are protected by the Combines Investigation Act and loss leader provisions.

Mr. CHEVRIER: We are now getting into questions which the government refuses to answer. These are matters for government policy to be announced in the house. Surely we are not getting government policy now from this.

The CHAIRMAN: I do not know whether the question is designed to proceed to railways as an objective.

Mr. BROWNE (*Vancouver-Kingsway*): What I am asking now is a direct question about the railways.

Mr. CHEVRIER: You first asked what his views were about amending the legislation.

Mr. BROWNE (*Vancouver-Kingsway*): I asked if he had any objection to legislation which would be compensatory to the railways.

Mr. CHEVRIER: That is exactly the kind of question which the government refused to answer in the house.

Mr. SMITH (*Simcoe North*): If there were such a provision as has just been suggested, that railway rates had to be compensatory towards the railways, would it not put the railroads in the position of having to prove their costs on each application, whereas other shippers would not be in the same position?

Mr. GORDON: That is exactly the line of my objection to it. You are placing requirements on the railways and not elsewhere. While I am talking, I might as well say this—if there is any legislation, and I know nothing of it, it has not been discussed with me. Naturally the usual procedure is that if there is legislation affecting railways in any way then the committee which considers that legislation is usually invited to express an opinion. We should be asked to express an opinion only through the proper officers; and I could not, until we see what the legislation is. Right now we are dealing only with theories.

Mr. BROWNE (*Vancouver-Kingsway*): Then I may say you do not feel that any rates on the railroads should not be compensatory rates?

Mr. GORDON: I have just said that.

Mr. CHEVRIER: I had a question on the first sentence in your report which states:

> The surface transportation industry on the North American continent suffered from an unexpected fall off in traffic—

—and a similar reference is made in the third sentence. Apropos the question I raised earlier, I wonder if Mr. Gordon could give the committee the employment position in the C.N.R., what reduction there has been and where it is taking place in the various regions.

Mr. GORDON: If you turn to page 28 you will see the overall reduction, that is the last page in the report.

Mr. CHEVRIER: I take it employment has dropped from a high of 113,000.

Mr. GORDON: I can give you the breakdown right here if you would like to jot the figures down, or I shall table them if you so prefer. This is based on a mid-month count. In 1959 the figure was 111,538 and in 1960 it was 104,155. In the classification called "general" the 1959 figure was 20,448 and in 1960 it was 19,752. Weigh and structures in 1959 was 22,507 and in 1960 it was 20,391; equipment was 21,768 in 1959 and 19,503 in 1960; transportation, non-train was 13,474 in 1959 and 12,804 in 1960; transportation, train, in 1959 was 18,082 and in 1960 it was 16,886; the figures for communications in 1959 were 5,827 and in 1960 they were 5,621; for express they were 6,091 in 1959 and 5,956 in 1960; and in highway transport outside operations the figure in 1959 was 3,341 and in 1960 it was 3,242.

Mr. CHEVRIER: Mr. Chairman, is there a breakdown by regions? I do not want to delay the committee but, if there is, could we have it?

Mr. BROOME: How about filing it, to be incorporated in the report?

Mr. CHEVRIER: I was about to suggest that. Perhaps we could have it put on the record.

Mr. GORDON: I have it here by regions. Shall I do the same thing? The first figure I mention will be 1959 in each case. The figures are as follows: headquarters 3,784 against 3,737; Newfoundland 4,550 against 4,397; Atlantic 13,693 against 13,035; central 36,321 against 33,218; western 29,320 against 27,021. These are the total Canadian figures and I am now going into other departments. The comparisons are: road transport 864 against 886; express department 6,091 against 5,956; communications 5,827 against 5,621; hotels 2,117 against 2,082; non-railway subsidiaries 360 against 274, which shows a total Canadian figure of 102,927 against 96,227. In the United States the figure is 8,611 against 7,928. Through reading the totals you get 111,538 against 104,155 in 1960. That will balance with page 28 of the report, which is an amazing fact.

The CHAIRMAN: Any other questions?

Mr. CHEVRIER: May I add one final question to this? What is the outlook with reference to these figures for employment in 1961?

Mr. GORDON: It would depend entirely on traffic, sir. Our traffic figures generally have been disappointing and the upturn we had rather expected in the second quarter of the year has not eventuated. Indeed, it is only within the last week or ten days I have seen some gleam that the upturn is coming.

Mr. BROOME: Would the 1947 reduction in headquarters be partly taken care of by transfers because of the new set-up in regional control?

Mr. GORDON: Yes, I would say in part, but I would have to analyze it further.

Mr. BROOME: You transferred some of these in 1947?

Mr. GORDON: Yes, to regional breakdowns. I would have to answer the question precisely and, to do that, would have to analyze the figures more. However, it would have been an influence.

Mr. BROOME: There is one question I should like to ask on financial results, and I hope Mr. Gordon will not think it is unfair. In comparing freight services where there is a drop almost of $48 million, or 8 per cent, I was interested to note that the C.P.R. reports just a $16 million drop, or four per cent. Since the economic conditions should be the same across Canada, with slight variations between points which are C.N.R. points as against C.P.R. points, could Mr. Gordon give us some indication, or tell us why the revenues for the C.N.R. have twice the drop that the C.P.R. had?

The CHAIRMAN: You mean freight revenues?

Mr. BROOME: Freight services. According to the C.P.R. report their freight revenue decreased $16 million, or four per cent, and according to this statement C.N.R.'s revenues decreased almost $48 million, or eight per cent, which is just exactly double.

Mr. GORDON: You are talking dollar figures there?

Mr. BROOME: Yes sir, dollars and percentages. Actually, of course, the C.P.R. shows only one third of your loss, but you have a larger operation and the percentages are four per cent and eight per cent.

Mr. GORDON: You would have to get the tonnage figures before you got the proper picture. A great deal of the explanation will lie in the analysis of the traffic mix to which I was referring. Generally speaking, the C.P.R. has much more of the type of traffic that would not be as vulnerable to the drop as the type we have. As I referred today on the chart, we handle a large amount of the Ontario iron ore, and it has fallen very greatly. Mr. Wahn, have you the breakdown there?

Mr. D. WAHN: The point Mr. Broome has made is quite correct. The C.P.R. is a corporation across the country, like ourselves, but the comparison between the two operations depends on a mix in the traffic. Generally, we are the more northern line and our traffic is connected much more with mineral products. In mineral products in 1960 we had a fall of eight per cent, and the C.N.R. lists a drop of 11 per cent in iron ore, as Mr. Gordon mentioned. There is another factor in that, last year, we had quite a reduction in construction in this country. I believe since then it has started up very substantially, but last year construction fell off by something like 15 per cent and a great deal of our fall-off was associated with a reduction in the loadings of such things as cement, crude gypsum, lumber, paperboard and wallboard products. Lumber traffic was down 14 per cent and that was associated with this construction reduction.

Mr. BROOME: These are comparable items for both railways?

Mr. WAHN: But the point is that the traffic mix does vary between the railroads. A higher percentage of C.P.R. traffic is in manufactured goods, whereas ours is more in mining products.

Mr. BROOME: At the same time, last year the C.P.R. had far the greater percentage of grain traffic, which might offset your iron ore, both being very low.

Mr. GORDON: The point I am making here is that you cannot give an offhand answer and assume our mix of traffic is about the same as the C.P.R. Actually it is not. Our mix varies considerably and you have to analyze the C.P.R. in detail, as compared to ours in detail.

Mr. BROOME: Have you done that?

Mr. GORDON: No, we have not. Whenever an upsurge occurs our traffic goes up more quickly than the C.P.R., and whenever we are in a down-turn our traffic swings downwards quickly and this is associated with the mix in the traffic. We made no attempt to go into it item by item and there are some 200 items we can study. Generally speaking, on an upswing we go up faster and on a downswing we go down faster.

Mr. HORNER (*Acadia*): Is it not a fact that C.P.R. over the year was the larger grain hauler of the two railroads?

Mr. GORDON: Possibly it is, as a percentage of its total traffic.

Mr. HORNER (*Jasper-Edson*): I have a further question on traffic. You have stated that one of the reasons for the decrease in revenue was because of the traffic mix, and the change in that mix. I also note at page 23 of the annual report, with regard to commodities, the commodities which have decreased the most are agricultural products, and going back to the 1959 report the great

majority is wheat and grain. It is rather interesting to note that because of the traffic mix there was a decrease in grain shipments and I would ask Mr. Gordon this question: was the decrease in grain shipments the thing that altered the tonnage mix so that you did not make as much revenue?

Mr. GORDON: You are talking here about net revenue. I shall start again. You are comparing here the 1959 tonnage against the 1960 tonnage, and you are talking about a decrease in agricultural products.

Mr. HORNER (*Jasper-Edson*): No, I am talking on page 23, which shows a decrease of 9.8 per cent in the tonnage of agricultural products. It is not the some comparable chart as it was in 1959 and before that. The majority of that was wheat and grain?

Mr. GORDON: Yes. What is your point?

Mr. HORNER (*Jasper-Edson*): My point is simply that you claim the change in traffic mix was one of the reasons your revenue has decreased?

Mr. GORDON: That is right.

Mr. HORNER (*Jasper-Edson*): I am simply showing that if there was a change in the traffic mix, if it was a change in the traffic mix which caused a decrease in your revenue, this is due to the fact you are not hauling as much grain as you usually do.

Mr. GORDON: We are talking about two different things. We are talking about comparisons between the C.N.R. and C.P.R. and you are talking about something different.

Mr. SMITH (*Simcoe North*): Are we off the C.P.R. now?

Mr. GORDON: If we are talking now purely about our own situation, the table on page 23 shows that mining products went down very substantially.

Mr. HORNER (*Jasper-Edson*): Percentagewise?

Mr. GORDON: But it is tonnage we count on for the amount of dollars we get.

Mr. HORNER (*Jasper-Edson*): I was pointing out, on these recent figures you gave a moment ago, where the decrease was, and most of the decrease was in the shipments of grain.

Mr. GORDON: Certainly our grain revenues went down, but I do not see what bearing that has on the point you are making.

Mr. HORNER (*Jasper-Edson*): The point I am making is that you claim the change in the traffic mix had a lot to do with a decrease in your revenues.

Mr. GORDON: Compared to the C.P.R.

Mr. HORNER (*Jasper-Edson*): Yes.

Mr. GORDON: Perhaps the best way to tell the story is to give the actual figures.

Mr. J. L. TOOLE (*Vice-President, C.N.R.*): I was going to point out the revenue from western grain, which moved at statutory rates, decreased only 200,000 tons in the year. While there is a drop in the number of tons, the decline in revenue was small and this therefore affected the traffic mix. This has come about in other products as well.

The CHAIRMAN: What was the drop in minerals, iron ore and coal?

Mr. GORDON: Coal was down about 15 per cent, about 1,220,000 tons.

The CHAIRMAN: What about iron ore?

Mr. GORDON: It went down about 398,000 tons in the mining products drop.

Mr. TOOLE: That is the decrease in tonnage not in dollars.

Mr. GORDON: The decrease in tonnage,—and this may shock you,—was 2,560,317 in mine products and in the agricultural products it was 1,473,915. Have you got the dollar figures, for these groups?

Mr. TOOLE: No.

Mr. GORDON: That is the figure we really need.

Mr. FORBES: How do you account for the decrease? Are you losing this traffic to your competitors?

Mr. GORDON: It depends entirely on what the wheat board places through us, to ship.

Mr. FORBES: I often heard reports that farmers were better off to have delivery points on the C.P.R., because the C.P.R. could get cars for them when the C.N.R. could not. Is there any truth in that?

Mr. GORDON: Absolutely not.

Mr. HORNER (*Acadia*): Following up with a supplementary question on the 200,000 tons mentioned a moment ago, is that all was involved?

Mr. GORDON: We were talking about the grain that moved at statutory rates. Western grain statutory rates went down. There was one figure I quoted earlier in tons, it was a reduction from 6.8 to 6.6 million tons, which represented 200,000 tons; but when you get to the dollars it is from $28.4 million down to $27 million, $1.4 million down in our revenue in regard to grain moved under statutory rates.

Mr. HORNER (*Acadia*): In explaining chart three I think the president said that grain for export was down 12 per cent. Am I right?

Mr. GORDON: Grain for export covers grain of all types.

Mr. HORNER (*Acadia*): I realize that. I just wanted to make sure this was all correlated.

The CHAIRMAN: It seems to me we should try and stay within principles or we shall be getting into detailed accounts, and I think we should keep our questioning on general matters.

Mr. MCPHILLIPS: The statute does not say we are to consider the annual report. It says we are to consider the accounts. The statute says we are to consider the details of the accounts.

Mr. GORDON: I am not afraid of the committee's questioning.

Mr. FISHER: I have one or two questions I should like to ask on the first part of the report, the financial results, if I may.

The CHAIRMAN: Very well.

Mr. FISHER: I understand, Mr. Gordon, you have been more than ten years as head of the C.N.R.?

Mr. GORDON: That is right. I started on January 1, 1950.

Mr. FISHER: You had a free hand in running the railway?

Mr. GORDON: You mean personally?

Mr. FISHER: I mean have you any qualification about the fact that you have been in charge of it and in direction of its policy?

Mr. GORDON: That is correct, I have been in charge.

Mr. FISHER: We have here financial results which are very unsatisfactory, and we have a picture in the last four years that is a bleak one in terms of deficits. I am wondering what you can tell us to assure us the management of the C.N.R. is efficient, since these returns show we are getting deeper and deeper into the box. In view of these results, and in view of the fact that you have had control for this length of time, and have had a free hand in making changes and alterations, why should not we have a complete lack of confidence in the management of the C.N.R.?

Mr. GORDON: I shall be happy to give you a memorandum which I have had prepared on the financial situation, because that question you asked is not something that can be disposed of in a single sentence. It is a very complex subject indeed. If you will permit me, Mr. Chairman, I think the time has

come now for me to give this statement. It will take a few minutes but it will, nevertheless, permit the members to see it between now and tomorrow. Have we copies of this statement?

I think, perhaps, I had better present this statement, Mr. Fisher, if you are agreeable, and then we could give you a copy. You may want to look at it overnight, and there may be some questions arising out of it which you would like to ask. It is a lengthy statement, and will have to be followed closely.

Mr. CREAGHAN: It is not confined to the financial results?

Mr. GORDON: Yes; I am dealing with the financial situation and the report generally.

Let me put it this way. The earning capacity of the Canadian National Railways may be considered in the light of the following summary of the 1960 results. If you would not mind putting these figures down, so that you would have them before you, I think you will find them significant.

Profit from operations, $82,237,907; less depreciation, $88,711,639; less interest on debt, $61,023,045. The total of the last two figures I mentioned is $149,734,684, and deducting the profit I have just mentioned from that, produces a deficit of $67,496,777. Therefore, you will see from that that the condition of the C.N.R. is that while we made a profit from operations of $82 million, we have not been able to provide for our depreciation of $88 million, plus our interest load of $61 million.

To appraise the financial condition of the company, I refer, first, to the conclusions reached by the MacPherson royal commission on transportation, in which are recognized certain disabilities attributable to tradition, law and public policy. I shall refer to some features of this report later on in my remarks but before doing so a much better perspective of the situation can be had if we look at the circumstances and conditions of 1952 as they affected Canadian National Railways. You may recall that at that time the company's financial structure had been the subject of a major capital revision and that year also marked the beginning of a large-scale programme of rehabilitation and modernization. It was the considered judgment of 1952, on the basis of facts and forecasts, that assuming the same order of relativity between freight rates on the one hand and wages and prices on the other that Canadian National, on the average, out of its revenues should have been able to cover its operating costs, interest on its outstanding debt, income tax and have something left for a dividend on the preferred stock. The outlook at that time took into account that since 1946, the first post-war year, the railway had experienced a regular growth of traffic thus reflecting increases in the gross national product. Then too there seemed no reason to suppose that wage increases could not be met by offsetting price increases, nor that even our contemplated capital expenditures, large though they might be, could not be offset by the economies to be obtained from them.

What has actually happened is that competition from pipe lines, trucking, the seaway and airlines has been intensified to such an extent that the railways' traditional share of the transportation market has fallen from about 63 per cent in 1952 to 51 per cent in 1959 (the latest figure available). In a period which saw the volume of the gross national product increase by some 27 per cent (measured in 1949 dollars) not only did the C.N.R. average traffic level fail to rise but results for 1960 show a (11.5 per cent) decline in revenue ton miles from the 1962 level.

This competition has also seriously restricted the Railway's ability to increase rates on all but the very low-rated commodities, with the result that the revenue derived from such increases as was secured has fallen far short of meeting the continuing increase in costs. Between 1952 and 1960, for example, the average per ton-mile rose from 1.40¢ to 1.56¢ (11.4 per cent while the average hourly rate of wages and fringe benefits per employee increased from $1.59 to $2.31 (45.3 per cent).

The Capital Programme

I should now like to refer to the program of capital expenditures and in this connection I do not think that it is any exaggeration to say that the year 1950 found the C.N.R. in a severe state of physical exhaustion consequent upon the strains of the war. Accordingly, in the 1960's a major rehabilitation and modernization programme was commenced which had to recognize a compelling need to quickly restored the property and also to meet the challenges of new forms of competition. In light of the magnitude of the program I think it is remarkable that in 1960 it can be said that the objectives have either been accomplished or are in sight. Starting in 1960 there was not in existence even a paper plan to recognize the advent of the diesel electric locomotive. Last year we ran our last steam engine and the Canadian National system as a whole is completely dieselized. In addition, large sums were spent on machinery and equipment to improve productivity, particularly in the shops and in the maintenance-of-way department. Further substantial capital expenditures were undertaken to provide a plant that would permit the operation of trains faster and with less terminal delay in order to provide a service that would match competition, and at the same time increase the efficiency of labour performing this higher quality service. Large amounts of capital were also required for rehabilitation purposes to finance replacements of rail, ties, ballast, bridges, buildings and freight equipment. Advantage was taken of new technology so that there was an improvement factor built into these replacements. On the administration side there has been implemented a new form of organization which is designed to enable the Company to compete more effectively in the transportation market and adapt itself more readily to changing conditions.

The capital expenditures totalling some $1.7 billion, were required during a period marked by continued inflation and at a time which saw interest rates rise from 3¾% to 6 per cent. Fixed costs for the capital programme thus proved much higher than could be either foreseen or controlled by management. Refinancing of earlier bond issues in recent years has aggravated the fixed cost burden even further.

The natural query is what benefit have we obtained from these large capital expenditures? My answer is that in traceable economies they are yielding some $100 million annually and that more will be achieved as we complete the programmes. In other words, the deficit in 1960 if these capital improvements had not been made would have been close to $167 million as compared to the actual deficit of $67.5 million.

Additional economies attributable to, say the installations of treated ties, heavier rail, etc., are still to be derived in the future. The disappointment has been that, although some success has been achieved in reducing the number of man hours per unit of output to the extent originally anticipated, the growth in the average hourly earnings of employees has been such that the cost of operation has continued to increase. When dollar figures alone are looked at, the benefits obtained from the capital programme are therefore obscured completely.

As I have said on other occasions, I am confident that the capital programme has been prudent and necessary and that the new direction which the company is now taking will be beneficial in both the broad public interest and to the Canadian National as a business enterprise. In the administrative and capital works programme we have endeavoured to take the long-range view and have not sacrifice an over-all plan of development for short-term expedience.

The capital programme has been of some magnitude, approximately $1.7 billion as I have indicated. A disproportionate amount of it, however, approximately 55 per cent, has had to be financed from borrowed capital. As near as we can calculate from Canadian Pacific published statements, their borrowings in the same period were roughly 9 per cent of the capital expended. This

brings up a point that is usually overlooked, namely that the depreciation practices of the two railways were quite dissimilar in the period before 1950. As a result, the recorded depreciation as accumulated by C.P.R. shows in their balance sheet of December 31, 1960, a total of $953.9 million against a property investment of $2,360.4 million. Whereas, C.N.R. shows total depreciation of only $627.5 million against property investment of $3,767.3 million. Had depreciation been accrued by C.N.R. on the same basis as C.P.R., its depreciation reserve would have approximated $1.5 billion and, consequently, our funded debt would have been reduced by about $900 million representing a saving of some $45 million annually in our fixed charges.

The MacPherson Royal Commission Report—Volume I

Against the background then, I should now like to make brief reference to volume I of the MacPherson royal commission on transportation. The summary of chapter II of that report, which appears on page 52, reads as follows:

> This chapter contains the analysis necessary to establish the principle which we believe to be basic to achieving any long-run solution to the problems which beset railways in Canada and to the establishment of a greater degree of equity amongst the users of rail transport. *The principle developed in that burdens, which are the result of obligations imposed upon railways by tradition, law and public policy, be lifted.* The increasingly competitive transportation environment, aggravated by price increases, occasions losses to railways because obligations to perform cannot be escaped even when the conditions which initiated these obligations have passed. The obligations make it necessary to pass on to the users of rail services the associated costs. The railways, to survive as an active component of the transportation environment, must meet their competition by price and service. This is only possible where national obligations do not distort their ability to do so. Insofar as they can be discerned, these national policy obligations should be removed in the long run by adjustments to plant and services. Where these national obligations cannot be removed, remuneration should be found for the services performed to prevent distortions in resource allocations and distortions in pricing of rail services.

The report then goes on, as you know, to recommend certain subsidies to take cognizance of disabilities incurred by reason of:

(a) passenger operations
(b) light density lines
(c) carriage of grain at statutory rates.

If the subsidies suggested by the commission for payment in 1961 had actually been paid to the Canadian National on their recommended basis in 1960, the Canadian National would have fallen short of breaking even by $9.7 million. Looked at in this light, it does seem that it may be possible to produce a viable financial environment for C.N.R. operations and that the deficit situation is by no means inevitable or chronic. In future appraisals of the C.N.R. financial structure, the deficiency which exists in depreciation reserves and the interest burden it represents could be an area for study in dealing with the problem of the large funded debt of the company.

Comparison With C.P.R.:

I have heard of late many references to the Canadian Pacific and comparisons of performance of the Canadian National with the Canadian Pacific. As I have stated before, the Canadian National, an amalgam of existing railroads, began with a polyglot inheritance of government lines built or acquired without hope of profit, while, on the other hand, the Canadian Pacific grew

according to plan as a cohesive and integrated unit. The Canadian National system as it is today owes its existence to the consequences—whether deliberate or accidental—to a national policy that can be consistently traced through the economic history of Canada over the past century or more. This policy had as its end objective the bringing into being of transportation facilities that were vitally needed to exploit the natural resources of the nation. A great deal of money has been expended since 1923 with the objective of making the C.N.R. an integrated railway. While much progress has been achieved, the difficulties ascribable to the circumstances in which the lines were built originally can never be overcome completely and, according to the best operating advice I can obtain, will always mean a handicap for the Canadian National when it is compared with the Canadian Pacific. For example, in the main categories of operating expenses such as road maintenance, equipment maintenance, transportation, the Canadian National expenses are relatively higher than those of Cantadian Pacific. At the same time, I have had under way for some time now extensive studies the objective of which is to endeavour to arrive at a valid comparison of our numbers of employees with those of the Canadian Pacific. I may say that indications are unmistakably that we have relatively more employees than the Canadian Pacific. That is to say, it would appear at this juncture that for a given amount of work the Canadian National tends to employ more men than the Canadian Pacific. It is difficult to make exact comparison but I shall summarize a few reasons for this:

(1) I mentioned a moment ago the differences in the basis of original composition of the two railroads. Duplicate lines still exist which must be retained to serve the areas they pass through. For example, the C.N.R. operates two transcontinental main lines from Moncton to the Pacific coast. To some extent this pattern has continued and in recent years the Hudson Bay Railway and the Newfoundland Railway have become part of the Canadian National system. Neither of these lines is self-sustaining but must be retained in the public interest.

For the same reason, duplicate terminal facilities exist which are not suitable to integrated operation. For example, there are three separate yards at Winnipeg resulting in extensive terminal handling of traffic. At the terminal facilities in Moncton, Montreal and Toronto, the C.N.R. has had to pay a penalty for handling traffic through these key points, both in terms of additional expense and the service which we could offer to our customers. The increased cost has shown up in the C.N.R.'s transportation expense and is reflected in its transportation ratio. To overcome this situation it has been necessary to undertake a programme to provide co-ordinated yards at modern-day costs which are much higher.

(2) *Traffic Density*—For the year 1960 C.N.R. revenue ton miles per mile of road operated were 10 per cent below that of the C.P.R. (1,358,680 versus 1,505,324). This would indicate that the C.N.R. has a larger proportion of low density traffic lines. There is an irreducible minimum of cost beyond which expenses cannot be adjusted to traffic. For example, when we are forced to maintain an agency in the face of falling traffic, unit costs of transportation must inevitably show a substantial rise. Similarly, when train service is at or near a minimum there is little or no room to make adjustments for traffic reduction. This also holds true for maintenance of track and structures. On low traffic lines road maintenance expenses are related to the effect of weather conditions much more than to the wear and tear of traffic, so the area of adjustment of these expenses with traffic is strictly limited. The combination of these things on light traffic lines in the face of

dwindling business has a very serious effect on transportation performance and operating ratios. In this respect, the C.P.R. is in a much better position.

(3) *Geographical distribution of traffic*—A greater proportion of C.P.R. traffic is handled in western Canada where transportation costs are lower due to:

(*a*) longer average haul
(*b*) higher train loading and average speed due to terrain
(c) less industrial switching per carload originated or terminated.

For the year 1960, Canadian National transportation costs on the Western Region per thousand gross ton miles were 42 per cent less than on the Central and Atlantic (excluding Newfoundland) Regions combined. In 1960, 60 per cent of C.P.R. freight gross ton miles were generated in Western Canada against 46 per cent for C.N.R. In eastern Canada the concentration of industry in and around large cities and urban centres has increased the cost of serving this type of customer, so that C.P.R. enjoys an advantage through this in the field of transportation costs.

In spite of this, Canadian National freight train performance over the past decade, measured in gross ton miles per freight train hour, an acceptable and overall measure of transportation performance has consistently been on a par or better, than the C.P.R. as is demonstrated by the following figures:

Gross Ton Miles per Freight Train Hour

1950	
C.N.R.	*C.P.R.*
27,300	27,000
1960	
C.N.R.	*C.P.R.*
46,600	46,200

So you see from that that we are as good as and slightly better than the C.P.R. in that performance record.

(4) *Differences in C.N.R.-C.P.R. Motive Power Inventories.*—The C.N.R. has some 4500 miles of track laid with light rail which restricts the class of diesel power that can be operated by reason of axle loading. Our information is that C.P.R. has less than 100 miles of track laid with light rail, which requires restriction of certain diesel units. Because of the weight restrictions brought about by rail and bridge conditions, the C.N.R. requires over 200 light axle road diesel units to handle traffic on these branch lines. C.P.R. have only six light axle road diesel units. While these light axle units must be available for use on the branch lines with minimum service the utilization of the units is very low. Because of their nature they cannot be packed with the main line power and this restricts the flexibility of C.N.R. motive power to a greater degree than C.P.R.

The cost of upgrading these branch lines to make them fit for main line power is prohibitive (approximately averaging 30 to 50 thousand dollars per mile).

The additional diesel units required, because of weight restrictions, are reflected in the C.N.R.'s operating expense as higher equipment depreciation than the difference in traffic handled by the two railways would indicate.

(5) *Environment.*—As a publicly-owned enterprise, the Canadian National is subject to pressures from the public to a much greater extent than the Canadian Pacific and this form of pressure does distinguish the Canadian National from the ordinary private corporation. It arises because every Canadian citizen feels instinctively, and of course rightly so, that he has a proprietary interest in its operations. The scope of the railway operations is nationwide and is of such diversity and of such intimacy that it touches the lives of Canadians in every province of Canada. When, for example, the requirements of changing technology or the need to meet new and developing types of competition make action necessary to keep our operations modern and efficient, a stream of comment is directed towards the C.N.R. by members of parliament and newspaper editorials, by labour or other special interests, by community representation and so on; to approve and to object; to co-operate and to resist. Needless to say, this adds to the problems of management and I am convinced that both our cost of operations and capacity for accomplishment are influenced by such considerations.

It is our established managerial policy that Canadian National be in every way a considerate employer. We have endeavoured to avoid the radical changes in maintenance forces to meet short-term traffic volume fluctuations which could have a serious dislocating effect on community life. When substantial lay-offs are indicated at any point and the effect may seriously upset a community which has relied on the railway for employment over a number of years, C.N.R. takes special cognizance of the situation and plans staff reduction over a period of time. With the assistance of the railway's personal staff, this permits laid off employees to seek other employment or relocate elsewhere with the railway and dislocation of community life is minimized. The progressive staff reduction that preceded the closing of the Stratford motive power main shop is an example of this policy. In the main passenger and freight car repair shops, major staff reductions have resulted largely from improvements in machinery, methods or from changes in operating requirements. Apart from this we have planned major car repairs with the objective of maintaining the condition of our car inventory in keeping with the long-term requirements. Even in the implementation of staff reductions resulting from technological changes or change in repair requirements lay-offs aer made over extended periods. It is difficult to say just what a policy of gradual reduction in maintenance forces has cost the C.N.R., but there is no doubt that expenses have been higher than if all employees were laid off or relocated within a short period of time.

The foregoing covers some of the differences between the Canadian National and Canadian Pacific. I should like to conclude by saying that I am convinced of the wisdom of the concept of the Canadian National as a commercial undertaking. However, I recognize that the C.N.R. cannot escape the obligations of the past, some of which are a blend of the developmental and confederative functions. To say that C.N.R. cannot be judged by the usual standards of profitability and financial return to shareholders does not by any means imply that the profit motive is irrelevant to the conduct of its business. This means, in ordinary circumstances, that the justification for any particular service must be tested by whether the public is willing to pay for at least the direct costs involved in producing it: that

capital expenditure must be rationed in such a way as to favour those projects which show the highest rate of return, etc. Thus C.N.R. management has a clear duty to employ the dollar as the measuring stick in much the same fashion as private corporations and must forever strive for profit even though the goal may at times seen unattainable.

The objectives of the Canadian National organization may be simply stated as follows:

(*a*) To make available modern, efficient and safe transportation services that meet the requirements of shippers and the travelling public;
(*b*) To sell these services aggressively;
(*c*) To charge rates that are competitive and fair to the users of the services;
(*d*) To so conduct the affairs of the company that all costs of the enterprise are completely recovered from earnings;
(*e*) To employ personnel who will work capably, diligently and loyally in the company interest;
(*f*) To treat employees fairly, providing them with opportunities for advancement and compensation commensurate with that paid generally for equivalent skills and responsibilities;
(*g*) To act at all times in such a way as to retain and extend public confidence and goodwill;
(*h*) To expand the company as necessary to meet new needs and opportunities created by industrial growth and enterprise in Canada and to facilitate that growth wherever possible.

The CHAIRMAN: I think Mr. Gordon has given us a very fine statement. I believe he should be highly complimented for preparing such an exhaustive statement for the committee. If you do not mind, Mr. Gordon, I would like to see a copy of this statement in the hands of each member of the committee.

Mr. GORDON: I would be glad to arrange that.

Mr. BROOME: Having brought up this C.N.R.—C.P.R. comparison last year and again at this meeting, I am very grateful to Mr. Gordon for having given some of the background which we as members could not possibly know. All we can do is compare balance sheet against balance sheet. This does explain a lot, although it does not completely satisfy me. There is one thing in the report. The $100 million is taken as being a saving, but you have not considered the offset cost of the $1.7 billion which, at the five per cent figure would be eightly-five million. The same thing applies in the case of the $35 million saving; the cost of money is set off as an operating expense. I think in all these things you must take into account the cost of the money being used to make the saving.

Mr. GORDON: But the cost of the money is in my present deficit. A substantial proportion of the $1.7 billion has been financed, as you know, by selling bonds to the public. That is charged in my expense account now.

Mr. BROWNE (*Vancouver-Kingsway*): May I follow up on a question which was raised earlier by Mr. McPhillips, having to do with the amount of the deficit, as found on page 3 and relating that to your pension fund on page 12. Am I correct in understanding that had the pension fund been on the same basis as it was last year, the deficit of the railways would have been $10.2 million higher than this year?

Mr. GORDON: That is correct. If you would like a statement on the reasons for that, we can hand you that now.

Mr. FISHER: We could consider it when we come to pensions.

The CHAIRMAN: We have to try to keep it in order.

Mr. FISHER: We have had a statement on the finances of the C.N.R., and we certainly welcome it, but I cannot read from it any assurances. The two things I want to know are: first, the wisdom of some of the decisions that have been made in terms of capital expenditures in the light of the trends. In other words, in the last ten years you have made a number of wrong estimates.

Mr. GORDON: I would not agree with that. You must remember that we started, in 1952 or thereabouts, with, a detailed program for the rehabilitation of the railway. Now, we either had to do that or we would not have had a railway. It was not a matter of making a choice between diesel locomotives and steam locomotives. If we had still been running steam locomotives today, our business would have been away down because we could not have given service, and our expenses would have been way, way up over what they are today. So we had to make a managerial decision: are we winding up the railway, or are we going to continue in the railway business? When we produced the capital program, as we did in 1952, to dieselize the railway, it was made quite clear that it was a program that was going to cost $500 million to $600 million for the simple reason that steam locomotives were no longer being built.—We could not have bought them. So we had to make up our minds. Are we in the railway business? The answer to that of course was an unqualified yes, both by the government and the public.

Now, with regard to the outlook for the future, I can say this. We are not overbuilt in terms of the number of diesel locomotives we now have on hand. With the present volume of traffic, we have a small surplus diesel locomotive power.

Mr. H. C. GRAYSTON (*Vice-President, Transportation and Maintenance, Canadian National Railways*): Very few, Mr. Gordon, maybe 50 or 75.

Mr. GORDON: Fifty or 75 locomotives overestimated as of today's traffic, out of about 2,000.

Mr. SMITH (*Simcoe North*): Fifty out of how many?

Mr. GORDON: 2,134.

Mr. FISHER: Let us take two aspects of the report that you just made, or the opinions you just expressed. You had a re-organization of the debt structure in 1952. It seems to me that in your report you were suggesting that should be looked at again.

Mr. GORDON: I agree, and may I give you the reason? When we talked in 1952 we did not include in our analysis at that time, in my opinion—mind you this thing was started really before I got there, the actual build-up on it came to a head shortly after I got there—a matter of the rehabilitation program, and what we were interested in at that time was how we could get out of the burden of inherited debt that then existed in the books. But when we got down to a close analysis to determine where we stood in respect of our new equipment they were taking in on depreciation policies, we very soon discovered we were way under-depreciated. In the period from 1923 to 1950 the railway did not accrue anything like enough depreciation to write off the expired lives of the steam locomotives, for example, and other parts of the railway. The best example of that I gave you in the C.P.R. report. The C.P.R. report shows that if we had recorded depreciation and retained funds out of earnings or out of deficits as the situation may have been before 1950, then the debt structure that I am struggling with would be nearly $900 million less, if we had done the same thing as the C.P.R. and nothing more. So we are paying interest under my management on borrowings to provide equipment for which funds should have been retained out of operations in the period 1923 to 1950.

Mr. FISHER: I have read the report of the Turgeon commission, I have gone back to the committee's reports at that time. This was not an issue in 1952, as I recall.

Mr. GORDON: That is quite right. The method of depreciation, when was it changed?

Mr. TOOLE: In 1956.

Mr. GORDON: You will find this, and of course you have to know about it before you realize what the report meant. The Turgeon commission did require an examination of the accounting procedures of the railway so as to get on to a uniform accounting basis. They pointed out that no comparisons could properly be made because the accounting procedures were so different. It took years to get this down because it is a very complex and difficult subject. By 1956 the board of transport commissioners brought in a ruling in respect of what was known as uniform accounting, and at that time we started to accrue depreciation on the basis of uniform accounting. That is when it became obvious how underdepreciated we were.

Mr. FISHER: No one knew of this before?

Mr. GORDON: It was never brought to the surface in that way.

Mr. SMITH (*Simcoe North*): To use a term other than depreciation, in effect the stock and equipment of the railway when it was considered in 1952 must have been substantially overvalued.

Mr. GORDON: That is another way of putting it.

Mr. FISHER: But to put it also from the point of view of the C.P.R., they gave up the alternative of what might have been bigger dividends in order to have a sound depreciation structure.

Mr. GORDON: Absolutely right.

Mr. FISHER: In other words, if we are transferring criticism, we have to go back to C.N.R. management in the 1920's, 1930's and 1940's when they missed out on this situation.

Mr. GORDON: I do not like to criticize my predecessors. What they did in those years was accepted and recognized as being all right. That was the accounting practice of the day. Moreover, Mr. Toole reminds me that the same procedure is still followed by railways in the United States. It is not necessarily wrong. It is merely a point of view. In the case of the C.N.R. I assume that the thinking of the day was, in effect, "it does not matter because we have no shareholders in the usual sense that are being affected by payment of dividends or otherwise". The financial results in the years between 1923 and 1950 should have been much worse, we estimate to the tune of $900 million, spread over that period.

Mr. FISHER: What?

Mr. GORDON: Yes, that is what we are saying.

Mr. SMITH (*Simcoe North*): I would like to ask another supplementary question to Mr. Fisher's point on depreciation.

Mr. GORDON: I will jump in quickly and underscore this. I have sweated so much on this, I may get a little incoherent about it. We are struggling with the debt structure now in which we are paying $61 million of interest. That is damned nearly my deficit, and that did not apply to my management. I am not responsible for it. The reason that that is so is that depreciation was not set up on anything like an adequate scale to provide for the rehabilitation of equipment when it came due, plus another factor that inflation has come in and the purchase of new equipment to replace old equipment which is being written off has been at a much higher price.

Now, I would have been prepared to take that in my stride as one of the hazards of the game. Every industry has to do so. That is one of the great quarrels in the accounting procedure now. You can take any balance sheet and have the accountants quarrel as to whether or not depreciation has taken account of the inflation factor. I take that as a normal circumstance. I am suggesting to you that the other thing is not a normal circumstance.

The CHAIRMAN: I want to ask one question, Mr. Gordon.

If for 20 years you had been on the same basis as the Canadian Pacific Railway as a private enterprise, do you think the CNR would be in any better condition today than it is?

Mr. GORDON: With the same conditions?

The CHAIRMAN: That is right.

Mr. GORDON: At the same salary? You know, that is important?

The CHAIRMAN: I am serious.

Mr. HORNER (*Acadia*): That is a hypothetical question.

Mr. GORDON: I would say this, Mr. Chairman: that you can never find a point in time in which you can compare the Canadian National Railways with the Canadian Pacific Railway. When you pick up a derelict group of railways which were by definition bankrupt before they ever came into being; by definition they were never intended to make money; they could not make money. They were to be run by public ownership. If bankruptcy proceedings which would normally have followed for a private enterprise in 1923, had taken place, and if those lines had had to go through ordinary bankruptcy proceedings, and if the railways had started all cleaned up, I would say that the Canadian National Railways could run as a profitable railway, certainly.

Mr. CREAGHAN: You mean you would have inherited an organization without any debts.

Mr. GORDON: I mean I would have inherited it on the basis that it could make money; but it started off with a burden of debt so that it could not make money.

Mr. FISHER: I am stunned by the fact that in 1961 this bombshell has dropped on the whole thing. You are suggesting something which I can only see in terms of refinancing of the Canadian National Railways, which is going to be in terms approaching one billion dollars.

Mr. GORDON: I am speaking consistently from the standpoint of the Canadian National Railways with the sort of expectancy that has developed in the last two or three months, when I thought I might have to defend my management. I got that impression somewhere—maybe it is just a foggy thought. But if you examine it from the standpoint of national interest, to see what it really means, you will find that it really means that this cost of money, so to speak, would be transferred from the Canadian National Railways to the public debt, and the actual savings would be the difference in the market rate of borrowing by direct government financing, and borrowing by the Canadian National Railways, and there would be a margin of about one quarter of one per cent.

Mr. FISHER: In the last couple of years the government loans and debentures to the Canadian National Railways have been reduced, while your interest-bearing debt has been increasing. Is that not true?

Mr. GORDON: I do not understand.

Mr. FISHER: Did the government not reduce its outstanding loans to the Canadian National Railways last year?

Mr. GORDON: This last year, as in the past, we got our deficit from the government. We always go to the government in the first instance to borrow.

The government acts as our banker, and it will lend to us so that we may have a current account for about a year, but not more than that. Our general borrowing is thus financed temporarily, and when the government says in effect that they call their loan, we sell Canadian National Railways bonds to the public.

Mr. FISHER: Are you not introducing a principle which would indicate that almost all your borrowing should be done on the basis of some relationship to a government loan, with the charges going into the public debt?

Mr. GORDON: No. Our Canadian National Railways loans are in the form of a bond issue which is guaranteed by the government, with a market differential in respect of interest cost by way of a guaranteed loan and a direct loan, and that usually runs to about one quarter of one per cent. That is to say, I borrow from the government just as I would borrow from the bank. It is exactly the same as if I got a temporary loan from the bank and paid the rate of interest which has reference to a short term loan.

Mr. FISHER: How can we separate the two? It seems to me you have put forward a suggestion that the public should be responsible for this debt that is actually interest bearing, and that is actually resting on the shoulders of the Canadian National Railways.

Mr. GORDON: All right. I think you are moving towards the point of saying that I should be making representations in regard to a new form of recapitalization in order to recognize this un-requited depreciation which is under discussion now, and it is under discussion for the simple reason that our recapitalization legislation which was issued in 1952 had a number of provisions in it which will expire at the end of this year. In fact one of them expired last year, and you extended it in legislation in the house, just this year, until we could get them all together. One was for a $100 million interest-free debenture and the other was for stock purchases, based on the formula whereby the government bought our preferred stock accounting to a formula based on our revenues each year. But that whole thing is under revision right now.

Mr. FISHER: So a solution to this particular problem is really the question of shifting the account from the debt of the Canadian National Railways over to the public debt.

Mr. GORDON: In connection with this particular point, yet; but that is only one point.

Mr. BROOME: How much was shifted in the former recapitalization in 1956, or whenever it took place?

Mr. GORDON: What was that?

Mr. BROOME: How much was shifted in 1952?

Mr. GORDON: There was roughly about $736 million, and it relieved us of interest to the cost of about $25 million.

Mr. BROOME: What was it?

Mr. GORDON: The actual recapitalization in essence was this—and please do not hold me to any more than round figures. It was $736 million of the old interest bearing debt. We issued the government our capital stock, with which they retired the loans. The loans of course, were all in government hands at the time, and they simply exchanged their position as creditor for one as proprietor.

Mr. BROOME: You were responsible for the payment of interest on this money?

Mr. GORDON: That is right; and this was recognized to be a burden of the debt of the former bankrupt companies which had been carried over during the years.

Mr. BROOME: This was $736 million at that time?

Mr. GORDON: Yes.

Mr. BROOME: I have one more question: I do not expect you to answer it at this sitting, but could you possibly have somebody develop as to how your United States lines are going, whether they carry all expenses or not?

Mr. GORDON: I could give you the answer right away, because we have been giving them very close scrutiny over the past few years. We show a deficit on our United States lines, a large deficit, but let me speak with some care here. These deficits are absolutely legitimate from the standpoint of the operating returns that we file with the United States government, and by reason of the deficits we do not pay any income tax. I want to stress that these reports are completely accurate. They show that we are losing money in the United States. Therefore we pay no income tax on those lines. But if we stop to analyse the traffic that originates from those lines from the points that they enter Canada, we value that traffic for what it is worth to us, and our first conclusion is that from the point of view of their feeder value, those lines are worth while.

Mr. FORBES: Do you pay property tax in the United States?

Mr. GORDON: We are liable to pay property tax, yes.

Mr. FORBES: Are you paying it on a mileage basis?

Mr. GORDON: I was talking about income tax. We are liable for income tax, but since we show a loss, we are not paying it.

Mr. FORBES: You are not paying property tax?

Mr. GORDON: But we have other property taxes.

Mr. BROOME: What would the loss be on the United States lines?

Mr. GORDON: I just returned on Monday from a board meeting of the Grand Trunk Western Railroad, and they showed a loss of a little over $5 million before interest.

Mr. CREAGHAN: I want to ask one question concerning the deficit of $67 million, I mean the current deficit. What does the government do to turn that money over to the railway? First of all, has it been done so far for the year 1960?

Mr. GORDON: I do not know if it has been received yet.

Mr. TOOLE: I think it has all been received for the last year.

Mr. GORDON: Under the provisions of the act, the government is required to pay our deficit to us in cash.

Mr. CREAGHAN: I realize that they have to do that.

Mr. GORDON: As a matter of fact, we anticipated the deficit by borrowing during the year.

Mr. TOOLE: That is right. We borrow throughout the year and we normally collect it during the month of February.

Mr. CREAGHAN: After the government pays you the $67 million to clear up last year's deficit, how does the government deal with that item? Is that amount written off?

Mr. GORDON: Yes, it is written off.

Mr. CREAGHAN: If you had not brought in a new depreciation formula in 1956, or if you had no depreciation, or a much lesser amount of depreciation, the government deficit would have been substantially reduced, would it not?

Mr. GORDON: That is right.

Mr. CREAGHAN: So, by having a modern bookkeeping type of depreciation, in case you do not have a good operational year, the only one who suffers is the government, rather than the railway?

Mr. GORDON: I am partial about this question, because there are an awful lot of quirks to it.

Mr. CREAGHAN: I am not just certain what I asked you.

Mr. GORDON: Neither am I.

Mr. CREAGHAN: You told me a moment ago that the deficit, whatever it might amount to, was paid off out of the treasury vote?

Mr. GORDON: That is right.

Mr. CREAGHAN: And it is never repaid to the government?

Mr. GORDON: That is right.

Mr. CREAGHAN: And that the deficit this year, according to your memorandum of financial circumstances, was in great part brought about because of the $88 million worth of bookkeeping depreciation?

Mr. GORDON: That is right.

Mr. CREAGHAN: It is proper that you have to provide for it; but if you did not have this system of depreciation that you presently have, and if you had the out of date system such as you had in the 20's, you might not have had this deficit?

Mr. GORDON: The $88 million which I was talking about taking over last year to current depreciation is something, I admit; I accept it. But what I am complaining about is the $61 million which is shown there as interest, and which is largely brought about by reason of the fact that our depreciation reserve had not been built up sufficient prior to 1950; so that if there was to be an adjustment made, what it meant again was that as a matter of bookkeeping, the government would take over the responsibilty for the interest from the railways. This would reduce the deficit of the railways, with the result that the public accounts would break even. That is all. It is just a matter of bookkeeping between the Canadian National Railways and the government, plus the additional factor that if the government took over that amount, and itself borrowed in the market, it can do it at a slightly cheaper rate than we can.

Mr. CREAGHAN: If next year's operation is no worse or no better than 1960, and if your representations are implemented, it will not cost the government anything; that is to say, there will be no deficit?

Mr. GORDON: If they make this adjustment—and that is far from sold.

Mr. FISHER: Is that why Mr. Crump calls it just a transfer payment?

Mr. GORDON: I do not know what transfer payment he is talking about.

Mr. SMITH (*Simcoe North*): $736 million that C.N.R. was relieved of in 1952—was any portion of that accumulated deficits, or was it all old bonded stock?

Mr. GORDON: There was no accumulated deficit in that figure. There was an act in 1957 which provided for accumulated deficits up to that time. That was written off, and from then on the yearly deficits were written off annually.

Mr. SMITH (*Simcoe North*): The rate of depreciation affects the profit and loss statement of the railway?

Mr. GORDON: Yes.

Mr. SMITH (*Simcoe North*): So that if during the period 1923 to 1940 the rate of depreciation was uneconomically low, had it any effect in the result, in reducing the deficit during those years?

Mr. GORDON: That is right.

The CHAIRMAN: You would not have had any more money, but you would now feel better about it.

Mr. FISHER: I have a quotation here on the economics of railway transport and it states, from the C.N.R. current report:

> One-half the long-term debt was changed into four per cent preferred stock, to be held by the government, on which payments by the system were contingent on earnings after income tax. The remaining half ($736 million) of the former long-term debt was owed, $615 million to the public and $121 million to the government. On both of these sums, interest must be paid regularly. In addition, $100 million is interest free until 1962.

I could go on. What about this $100 million that is interest free until 1962?

Mr. GORDON: That was in recognition of the fact that the Newfoundland railway was taken over by the C.N.R. and was a deficit operation. In the 1952 recapitalization, they said: "All right, we will give you $100 million interest free, and have a look at it in ten years". That is due to be looked at again. I thought it was 1961? Is it 1962? It was extended. It was the ten years' end, and that is the reason I say it was $100 million; and the question of its continuing to be interest free, and the contribution in the way of 3 per cent deferred stock is part of the thing under consideration and review by the government now.

Mr. FISHER: That is part of it. Regarding the other part of it, the $736 million, is consideration being given to switching that into deferred stock?

Mr. GORDON: It is already in deferred stock, and stays put.

Mr. FISHER: What is your suggestion as far as that is concerned?

Mr. GORDON: Leave it alone and we will be paying 4 per cent on it if and when we earn it. At the moment we do not pay it, because we do not earn it.

Mr. FISHER: In other words, it is static.

Mr. GORDON: Until we earn money. We have paid some on it. In fact, we have paid in four years, 1952, 1953, 1955 and 1956.

Mr. FISHER: In the recent increases in interest, as a result of your capital investment program, have you been inhibited at all by government fiscal policy?

Mr. GORDON: No. In other words, I can say this, that every capital budget that I have put forward has been approved by government and approved by this committee and finally by parliament, and there has been no criticism of any recommendation that we have made.

Mr. FISHER: If we could bring the C.P.R. in again, I understand their capital investment program has not been so ambitious.

Mr. GORDON: "Ambitious" is a rather questionable word. I do not know what you mean by that.

Mr. FISHER: Let us put it this way. Is it possible that you have been pursuing an ambitious capital investment program?

Mr. GORDON: I would rather put it this way, that we had much more to do than C.P.R. Starting from a point—take 1950 if you like—the requirement of capital expenditure on the C.N.R. was much greater than on the C.P.R. They had a railway which was in good condition. There was capital expenditure required for the C.N.R. which was not required for the C.P.R. I can give you an example of that. When we get down to the matter of cases, in the matter of diesel locomotive operation I was stunned one day to find that all of our western railway lines were below grade in the matter of being able to take diesel operations. Therefore we had to embark on a collateral program of upgrading the line, renewing the line, in the form of drainage, heavy rails in some cases, better ties in some cases, and so on. This was in order to handle the diesel locomotives. However, Mr. Grayston would know more about this than I would—perhaps he will deal with it.

Mr. GRAYSTON: We embarked on that program a few years ago and it had relation as Mr. Gordon says to dieselization of the railway. Of course it also had relation to the general need for rehabilitation of that portion of the railway along with the rehabilitation of the other portions of the railway which already were underway or had been completed. I think it is quite safe to say that if rehabilitation had not taken place in the west we in due course would have had to spend a great deal more money on it than we did, and would have found ourselves completely unable to compete in the way that we are starting to do with faster, long distance freight trains, and things of that kind.

Mr. GORDON: Let me put it to you in the form of a simple little story. When I made my first inspection trip out west I remember very well standing at the end of the train with the superintendent of the day. It was raining. I knew very little about railroading then. I underline "then". As I stood looking there I could not understand why, in looking at the track as we went over it, the mud came squishing out underneath the ties. We were doing about 20 to 25 miles an hour. It seemed to me a little odd and I said to this fellow: "How do you explain that?" He replied: "Well, Mr. Gordon, we have not got a railroad. We have not spent any money on it. If we take a chance here we will probably derail".

About two or three years ago I went over the same track. By then this fellow had reached about retirement age and he said: "By God, Mr. Gordon, we have got a railroad!" We were doing 60 to 70 miles an hour and we had a good track.

Mr. FISHER: Let me ask you one other question in relation to the financial statement. You would agree the C.P.R., in so far as wage costs are concerned, has been operating under the same terms as the C.N.R.

Mr. GORDON: If you are talking about wage rates, I would agree. I would not agree in regard to the number of employees.

Mr. FISHER: But in this instance the C.P.R. has no particular advantage so far as wage rates are concerned. There is a direct parallel?

Mr. GORDON: Pretty well, but they have a different form of wage costs.

The CHAIRMAN: In his report he showed there were more men employed for the same work in the C.N.R. because of certain commitments.

Mr. FISHER: I know the details of the break-up of the C.N.R. revenue dollar. I have one last question in relation to the statement dealing with reorganization on an area-management basis. If this is going to be the answer to the situation I imagine it is going to be an expensive change. I know the reorganization which was carried out at the Lakehead and how a lot of chiefs went into the headquarters there. Why delay this reorganization to this late date if it is the answer to your problem?

Mr. GORDON: I think that is very easily explained. However, I am not going to let you get away with your implication of too many chiefs. I can deal with that later. Rome was not built in a day and we have done a lot of this in the C.N.R. during the last ten years. A reorganization of the size and magnitude we have accomplished was a fearsome thing to contemplate and we did not go into it on anything but a very gradual basis.

It took four years of examination and study before we became convinced as to the kind of organization that would fit. Then, in the matter of implementing it, again it is a very gradual process. I do not suggest there is any magic at all this year rather than last year or the year before. It is just a matter of when we were finally able to get it done.

Mr. FISHER: It certainly seems to me you have presented this change and alteration in your whole management structure as being one of the answers to the situation. Surely it is fair to ask why this answer was not obvious earlier, and why reorganization was not introduced sooner?

Mr. GORDON: Things change, circumstances change and make it possible to do things this year that might not have been possible seven years ago. As I said before, we cannot do everything at the one time and it has taken time to get around to the question of reorganization. It has taken a great deal of time.

There were two elements in it which had a very definite bearing, the first being the dieselization program itself. I felt myself, and all my officers agreed, it would not be advisable to start on a reorganization before we got the dieselization program finished, and the dieselization program only finished last year. It has taken us close to ten years to complete the dieselization program and the dieselization of the railway was a great change in the technology of railroading.

It made a great many things possible that were not possible with steam locomotives. A steam locomotive needed servicing about every 300 miles. We had to set up servicing points every 300 miles, and in some cases less than that because of heavy traffic; but with a diesel loco you can run it from Montreal to Vancouver and back, only giving it the kind of service you give an automobile with oil and gas.

We also got into other technological developments in communications. Some ten years ago we did not have anything like the centralized traffic control which we have now. We did not have anything like the developments in the communications field where, as I say, within five seconds we can be in touch with Vancouver, Winnipeg and other points. I have referred to how this has made possible the pooling of motor power which is available to the whole of Canada. At one time engines were tied to a particular division and they never left it. There was no fast way of keeping in touch with their movement; but now these changes in railroading have brought us to the question of being able to consider what kind of organization we should have. I am sure you all know the amazing developments that have taken place in telecommunications in recent years; these have brought us to a realization that we could afford to centralize. Through rapid communication we could put more responsibility upon local areas and that is one of the benefits we got through capital expenditure.

Mr. FISHER: What is the benefit going to mean in terms of your financial position?

Mr. GORDON: I am afraid we shall have to wait for time to show us that. The benefits should be quite definite, in my view, but it will take a few years before the benefit of what we are doing becomes fully apparent.

The CHAIRMAN: Gentlemen, it is 5.30 and I think it would be better if we adjourned to 8 o'clock, especially since you are all in such good humour.

EVENING SITTING

THURSDAY, JUNE 15, 1961

The CHAIRMAN: Gentlemen, I am sorry I am late.

Mr. BROOME: Mr. Chairman, I would like to read out an excerpt from the *Financial Post* editorial of June 17th, and ask Mr. Gordon if he might be able to comment on this editorial, which seems to try and set out what is wrong with the C.N.R.

The editorial states as follows—and it is quoting the Toronto *Globe & Mail,* to start off with:

> "In fact," as the Toronto *Globe & Mail* points out, "far from being a dictator over the CNR, Gordon does not have the authority that normally belongs to any corporation president. He and his executive team do not run the railway. The most that they are allowed to do is to attempt,

with one hand, to maintain sound operating procedures, while with the other, they attempt to satisfy the conflicting demands of the Board of Transport Commissioners, the railway unions and the politicians."

Those words are all in quotes, and it is followed by this paragraph:

> The things wrong with the CNR stem almost entirely from the absurd, ridiculous and impossible set of strictures with which Parliament ties the hands of the CNR management and limits its powers to manage.

The CHAIRMAN: What is your question, Mr. Broome?

Mr. BROOME: Whether it is true that the hands of management are tied in the manner outlined by this editorial and, therefore, the management of the C.N.R. have no room to maneuver in the operations of the railroad.

Mr. FISHER: That is a fair question.

Mr. GORDON: May I see it? I have not seen it, yet.

Mr. BROOME: Yes, it is right here.

Mr. GORDON: I could say this at once: I am learning,—it has taken me a long time, but I am learning—not to make quick replies to statements that are made in the course of this comimttee. I have not seen this statement until now, and I am sure it opens up a very, very wide series of considerations.

I presume the editorial is intended to be friendly and, therefore, I am glad to read it. It is unusual enough for me to see a friendly comment that I would like to read it, if I might.

Well, I would be glad to confirm the first statement, that I am not a dictator. I will be glad to confirm that.

> —does not have the authority that normally belongs to any corporation president. He and his executive team do not run the railway. The most that they are allowed to do is to attempt, with one hand, to maintain sound operating procedures, while, with the other, they attempt to satisfy the conflicting demands of the Board of Transport Commissioners, the railway unions and the politicians.

I would read this to mean that they are referring here to the situation that belongs generally to the railway business. They are pointing out that there are severe restrictions on management of railways generally by reason of the controls that are exercised by the board of transport, railway unions and the politicians. I think that is a fair enough statement. Yes. There are very severe restrictions on management's discretion by reason of the rules of the Board of Transport Commissioners, and the general control of setting freight rates that has been exercised by the board and by the government. I think that is clear. I need not comment any further—that these rules do restrict management in the sense that they are not allowed to be flexible in meeting the competitive demands of the transportation business. But, this applies to the other railways in the country as well as the C.N.R.

> The things wrong with the CNR stem almost entirely from the absurd, ridiculous and impossible set of strictures with which Parliament ties the hands of the CNR management and limits its powers to manage.

I take it this is your question?

Mr. BROOME: That is the point.

Mr. GORDON: My reply to that would be that there are no absurd, ridiculous and impossible set of strictures that apply to the C.N.R. as such, and limits its power to manage, and that the restrictions that are in play in the railway business apply with equal force to the other sections of the railway business.

Mr. BROOME: In regard to the control of freight rates?

Mr. GORDON: Yes, and other controls which are exercised by the board of transport commissioners.

Mr. BROOME: But it is true, in regard to the operations of the C.N.R., that it is independent and that although you report to parliament through the minister, the minister has no control over the C.N.R., as such, according to the statement that was made last year in this committee.

Mr. GORDON: The minister has never at any time in my experience, nor has any branch of government at any time in my experience, attempted to interfere with the management of the C.N.R.

The other things that are referred to in this editorial, I take it, have to do with other matters. Now, it is true, and I might as well be completely honest on this, that there are forms of pressure on the C.N.R. that do not attach to the other railways, and that arises out of the fact that because of its nature there are agitations that arise through politicians, through mayors of cities, through parish priests, if you will, that apply pressure on the C.N.R., which are not applicable in the case of the C.P.R. or other railways. That is because the C.N.R. is a publicly-owned corporation, and everybody feels they have a right to complain. Where it touches us most—and Mr. Fisher and I discussed it in part this afternoon—is, and as I said in my memorandum, it is true and perfectly obvious that when the C.N.R. does take any action to control its expenses, which results in layoffs of labour or rearrangements in regard to matters which affect communities and so forth, then there will be protests made to the C.N.R. management of an entirely different character than take place in the case of the C.P.R.

The C.P.R. will close down its shop, if you will, and nothing is said about it, because labour recognizes the right of the C.P.R. to do as they choose in regard to their shops. However, if we decided to close a shop or transfer a shop, or take other action which frequently affect labour, then it is quite true that a storm of protest arises, and we have to deal with it. I do not complain particularly about that, so long as it is done within reason and so long as the C.N.R. management has an opportunity to explain what is taken place.

Mr. BROOME: That is what you really are asking for, an explanation in nearly every case. A question is asked in parliament and the minister says he will check, but then he reports back and says he has been advised nothing can be done.

Mr. GORDON: I think it must be admitted that human nature being what it is, and having to defend themselves in respect to all sorts of questions, it tends to make the management of the C.N.R. perhaps a little more cautious and a little slower in doing things they might do. We recognize our obligation to approach matters in a more critical manner than perhaps private enterprise.

Mr. BROOME: That is the point you made this afternoon regarding transitional changes worked out in cooperation with communities and employees concerned, so that less dislocation will take place and at the same time achieve the desired results you want.

Mr. GORDON: That is right. I say if these things are done on a reasonable basis I am enough of a realist to recognize that is the environment in which we live. It is only when you go to extremes that something happens.

Mr. BROWNE (*Vancouver-Kingsway*): I wonder if Mr. Gordon would clarify what he meant in this statement regarding private enterprise and restrictions on rate making.

Mr. BROOME: Before that, I should like to put one final question. Do you agree the newspaper people who wrote that knew as little about railroading as the politicians they are complaining about?

Mr. GORDON: I have no idea who wrote that, and therefore pass no judgment.

The CHAIRMAN: Could we get on to the report?

Mr. BROWNE (*Vancouver-Kingsway*): I should like to have Mr. Gordon clarify what he said in regard to restrictions on rate making. What does he feel are onerous restrictions?

The CHAIRMAN: I suggest that comes under another heading.

Mr. FISHER: In the light of the high charges?

Mr. GORDON: Of course I recognize the board of transport has an overriding jurisdiction in respect to any freight rates.

Mr. BROWNE (*Vancouver-Kingsway*): There is no restriction on the railroad to reduce rates?

Mr. GORDON: "There are no restrictions on the railways to reduce rates"? Let me examine that. I think there are. As I remember the act it says that rates must not be discriminatory and must be just and reasonable. At any moment we have to be in a position to defend our judgment that a rate is just and reasonable.

Mr. BROWNE (*Vancouver-Kingsway*): In other words, you are not in any way hampered so far as your competition is concerned?

Mr. GORDON: Vis-a-vis the C.N.R. and C.P.R. I would agree.

Mr. BROWNE (*Vancouver-Kingsway*): Or any other form of competition, for that matter? You can set a competitive rate to meet competition from any form of carrier?

Mr. GORDON: I am talking now only of railway competition. In regard to the competition which exists between ourselves and the C.P.R., we are on an even-stephen basis. We are not, however, on an even-stephen basis at the moment with regard to other forms of competition.

Mr. BROWNE (*Vancouver-Kingsway*): I understand the railways could set a competitive rate to meet other forms of transportation. If there is competition from trucks I understand the railway sets a rate known as a competitive rate or incentive rate.

Mr. GORDON: It all depends on what you define to be a restriction. I am perfectly well aware that if I have to set a rate to compete with a trucking rate, I have no means at all of finding out about the trucks. There is no authority to control truck rates, but there is authority regarding the control of railway rates.

Mr. BROWNE (*Vancouver-Kingsway*): All I am getting at is that you are in a position to meet this competition. All I am trying to define is whether you are in a position to be able to meet this competition or whether you are hampered in doing that by restrictions on rate making. Are you in a position to set whatever rates you like to meet that competition?

Mr. GORDON: No, I would not agree because we are always under the challenge as to whether or not a competitive rate is compensatory.

Mr. BROWNE (*Vancouver-Kingsway*): How many times has the railroad been challenged?

Mr. GORDON: I cannot say that, but it is always under the challenge.

Mr. BROWNE (*Vancouver-Kingsway*): As I recall the evidence given before the royal commission on transportation, it had not happened a dozen times in over 10,000 rates.

Mr. GORDON: But that does not give the solution. The power of challenge is there. The railways have to consider if the rates they are making can withstand a challenge if it is brought before the board of transport.

Mr. BROWNE (*Vancouver-Kingsway*): I think this is a very important point, and I want to be absolutely clear whether the railway can set a rate that is competitive with the trucking industry. If the railways are not in that

position I assume they could not do it on a compensatory basis. The railways have the outlet of agreed charges which do not need to be compensatory, and therefore you could enter into an agreed charge. I do not see how the railways are hampered in regard to restrictions in meeting competition.

> State enterprise tends to operate without regard to cost or return on investment, thus escaping the discipline of the market and contributing to uneconomic allocation of resources and to lower productivity than otherwise would be obtained.

It is well down the page.

> State enterprise in certain instances, enjoys access to interest-free capital and also escapes its share of the tax burden to which other businesses and individuals are subject. In the long-run . . .

I do not need to go on as he is sounding off about is philosophy of state enterprise. This is to answer a criticism that will be put up in regard to the point you were making about the debt structure under which the C.N.R. operates, that is, that you enjoy access to interest free capital and you also escape your share of the tax burden. How do those of us who are interested in the C.N.R. answer a charge or an analysis such as that from your financial statement?

Mr. GORDON: Well, my first comment is that Mr. Crump appears to be making a general statement in regard to state enterprise. He is not referring in particular to the C.N.R. He is not even refering in particular to the railway business. He is making a statement of his philosophy in respect of what he chooses to call private enterprise versus state enterprise.

Mr. FISHER: I think the C.N.R. certainly is a state enterprise.

Mr. GORDON: I agree, but he says in a statement that state enterprise is much less subject to the discipline of the market than private enterprise. That is a general statement affecting state enterprise, but it does not attach to the C.N.R. because we are subject to the discipline of the market and to the discipline of trying to get a return on our capital. Mr. Crump states there that state enterprise tends to operate without regard to cost or return on investment, and I say in connection with the C.N.R. that is not so.

Mr. GORDON: No, because what I was suggesting this afternoon was that we would remedy the errors of the past in dealing with the public enterprise. I was merely trying to point out that when you were talking about the record in terms of present day management, the present day management should not be held guilty for the burden of the debt or the burden of interest which is charged to our current account. That burden originated in the period between 1923 and 1950, or whatever the date may be, by reason of what we regard now to be a faulty method of providing for depreciation; if this enterprise by the Canadian National had accumulated depreciation reserves on the same ratio as the C.P.R., then our current results would be far better than they are.

Mr. FISHER: Would you agree this is the first time that this particular analysis has been projected publicly, or at least in this committee?

Mr. GORDON: Yes.

Mr. FISHER: This is what I just cannot understand, how it comes out only now, in 1961, at this late date.

Mr. GORDON: I thought I tried to explain that this afternoon. Let me try to repeat then. Let us hope I will say the same thing. If I do not, let me have a chance to correct it.

The situation was that in 1952, when the capital revision was then in hand—that had originated two or three years before by a series of analyses which finally came out of the Turgeon royal commission report—it was proceeded with on the basis of dealing with the unfairness of loading the existing C.N.R. system with the debts that really belonged to the previous bankrupt company.

That was accomplished, and a collateral item that the Turgeon commission called attention to was that there was not a comparability in the manner of the accounting methods of the two great railways. Their suggestion or recommendation was that the board of transport commissioners should be required to make an analysis of the accounting methods of the two railways in an effort to get a uniform system of accounting. That analysis took the board of transport commissioners several years, because it is a very complex subject, and it was not until 1956 that they emerged with rules in connection with the uniform accounting. We then started, after we saw the impact of the uniform accounting, to make an analysis of our accounts in an endeavour to discover what was involved in our depreciation account. I do not want you to misunderstand me, that the system had not been taking any depreciation. We had, but we had been doing depreciation on a replacement basis, a retirement basis—how many bases are there?

Mr. TOOLE: Principally retirement and replacement basis and the straight line.

Mr. GORDON: In any event it was a most complicated set-up. We then decided that we would review our whole structure of depreciation to see where we stood. It was around about that time that we began to see that the costs of new equipment, new capital expenditures, and so forth, were such that we were threatened once again with building up a very heavy interest burden, and we said "What is wrong with this? Let us get at it". It has taken us a lot of time to make the necessary analyses. That is why it has come out this year. Maybe it is a valid criticism that we might have done it last year or two years ago. Nevertheless, we did not; we finally managed to get the necessary analysis now.

To do this analysis means going back over the books and taking each item of the kinds of equipment and the kinds of capital expenditure, and tracing it through to see what the actual accounting has been. When I said to you this afternoon that if you take the C.P.R. balance sheet and the C.N.R. balance sheet you find on the same ratio of depreciation, in terms of the property investment account, our depreciation reserve would be $900 million higher, I am not arguing it ought to be that. I am only saying that if you took the same ratio, you would see what a difference there is between the C.N.R. and the C.P.R.

Before we can argue what is the actual amount of unrequited depreciation, you still have to do a further analysis in terms of actual happenings, because that $900 million can be swung $150 million one way or the other depending on the analysis you get, when you take replacement accounting or retirement accounting and set it against straight line accounting. I am not an accountant, but tell me, Mr. Toole, how did I do?

Mr. TOOLE: Very well.

Mr. FISHER: In terms of the new hump yards or your yard facilities, in terms of central traffic and control, in terms of dieselization, are not these new expenditures in which the old depreciation would have no relevance?

Mr. GORDON: They have relevance to the extent that the depreciation that came into being by reason of the steam locomotive would be inadequate to offset against the purchase of the new diesels.

Mr. TOOLE: That is right.

Mr. GORDON: It is inadequate, you see. Suppose we take another example. Let us say we had a steam locomotive that cost us $150,000. You then get a diesel locomotive to replace it, and that would cost us $250,000. Now, you have to arrive at a determination as to whether the period of life that you had in that steam locomotive and the period of depreciation write-off you have had is fair enough in terms of the new diesel, or does the new diesel

at $250,000 represent an inflation in price? Are you buying the same thing? You get two different factors. You get an inflation factor which, as I said before, is something that the accounting profession is still quarrelling about. When I pay $250,000 for a diesel locomotive, am I not buying the same thing as the steam locomotive I bought or am I buying for that $250,000 the cost of the depreciated value of money?

Now, I will give you a stock market tip. If you ever get around to setting up your old age pension, Mr. Fisher, you try to buy some stocks, you get your balance sheet and investigate in terms of the kind of business that the company is doing and ask them the question as to how they are setting up the depreciation; are they renewing their equipment; are they renewing it on the same basis of the depreciation of the new cost or the old cost, because it makes a tremendous difference in regard to reserves that that company will have in its depreciation, and it will make a big difference in the earning capacity of that company.

Mr. CREAGHAN: Which is the C.N.R. using, the new cost or the old cost?

Mr. GORDON: We are writing off the old, and we are doing it on the basis of what we call "lives". This is another thing that we have—a whole series of lives. Have you got those lives, Mr. Toole? We use different lives depending on different items. I have to have a working understanding of all these things and I still do not know whether that makes me a railroader, but I am trying.

Mr. CREAGHAN: You are very good today.

Mr. GORDON: As I say, maybe I am learning. If you take a write-off for a diesel locomotive, it is on the basis of 4.65 per annum which gives you a life of 23 years roughly, but when you come to an electric locomotive, we are writing that off at 2.85 per cent per annum which is a life of about 33 years. Freight train cars go at about 33 years, and passenger train cars go at 2.30 per cent, work equipment at 3.50 each year. The old steam locomotive went at a depreciation rate of 3 per cent per annum which is 33⅓ years. Those rates are approved by the board of transport commissioners. We do not set them ourselves. They have told us what their formula is.

Mr. CREAGHAN: Does the C.P.R. use them?

Mr. GORDON: They do now. This is again another factor that makes it impossible to make an exact comparison between C.N.R. and C.P.R. I want to be fair about it, but the C.P.R until 1956 engaged in what was called user depreciation. That is another form of depreciation which is based roughly on this, that you write off the particular piece of equipment in relation to its usage during the particular year, and it has this satisfactory effect that you charge to your expenses the depreciation of a high amount when your earnings are high, because by definition when your traffic is high you are using your equipment more. Therefore you set up your reserves in years of good earnings and then when your traffic goes down you set up your reserves on a much smaller dollar basis than before. The effect of that is that it gives a company, which has a dividend to pay, a much better chance of maintaining the dividend at a steady rate because the fluctuations in earnings are taken up in part by the fluctuations in depreciation.

Mr. HORNER (*Jasper-Edson*): In your synoptical history of the railways with regard to surplus or deficit, in fact the last four years are not a true comparison with the previous years.

Mr. GORDON: The last four years are not a true comparison with the previous years? Is that a statement or a question?

Mr. HORNER (*Jasper Edson*): It is a question. Do you agree with that?

Mr. GORDON: Yes, to this extent that our depreciation charges did change in 1956, did they not?

Mr. TOOLE: That is right.

Mr. GORDON: Have you got any estimate of the impact of that change?

Mr. TOOLE: No, other than to say that in the year 1956 itself we did calculate that the impact of depreciation in the accounting that would otherwise have taken place in that year was practically nil. It brought about a drop in results in that year. We did not trace it to any one year.

Mr. HORNER (*Jasper-Edson*): If you continued on in your accounting system, what difference would it have made?

Mr. GORDON: We would have to make a detailed study of that, which we did not think worthwhile or would prove anything. However, I will say this, and give my own impression of it. My own impression is that we are charging more to our operation today, we are charging more by reason of our amended depreciation.

Mr. HORNER (*Jasper-Edson*): In what year was that?

Mr. GORDON: I do not like to make a positive statement that is not analyzed.

Mr. HORNER (*Jasper-Edson*): I thought it was 1956.

Mr. GORDON: The only time when we would have a proper appreciation of it was the one year when it changed. After that it gets lost.

Mr. HORNER (*Jasper-Edson*): I would like to know whether, in fact, a change in accounting had increased the deficit which you showed last year.

Mr. GORDON: My judgment is yes, but I would not like to say how much. Have you by any chance got the depreciation figure for 1956?

Mr. CREAGHAN: I have for 1957.

Mr. GORDON: Have you got the depreciation figure?

Mr. CREAGHAN: Yes, the total depreciation was something like $78 million. That was the first year of the scheme.

Mr. GORDON: Have you got the annual report?

Mr. HORNER (*Acadia*): The Auditor's report to parliament?

Mr. GORDON: Then, as you see, we are taking $88 million today, plus another figure. To show that it is still more complex, we have a figure that goes into the depreciation account which consists of salvage. We have a great deal of salvage in the last few years by reason of the turnover from steam locomotives to diesel locomotives. We get salvage, and last year about $20 million of it. Was that figure reached?

Mr. TOOLE: Yes.

Mr. GORDON: And that was credited to depreciation?

Mr. CREAGHAN: That was called "property".

Mr. GORDON: It comes from that. That $20 million was credited to our depreciation account. One could have argued there that that $20 million should have been credited to revenue, or reduced our expenses. But we have not done so. It has built up our depreciation account.

Mr. MCPHILLIPS: It was the sale of scrap.

Mr. GORDON: Yes, pulling down water towers and all the rest of it.

I am sorry to be so verbose, but this is extremely interesting. That is constantly affecting our accounts and bringing about a judgment as to what is good accounting and what is not. I am constantly after Mr. Toole and we argue all the time as to what is good accounting. I want to show a result and he wants to be—I was going to say "honest"—he wants to be a good accountant, so he insists on charging to our operating expenses the cost of producing the salvage. When we tear down a water tower or break up a

locomotive, the cost of doing that is charged to our operating expenses, but the yield that they get from it, though we sell the metal and sell the salvage of various kinds, is credited to the depreciation revenue and our current year's expenses do not get any benefit at all. I discovered some years ago that our operating people—and we are after them all the time, asking why they are not making some money—have an awful lot of equipment around the railways which was being allowed to lie and rust and deteriorate, because the various divisional superintendents would say: "Why should I tear down a water tower and do this and that when the demolition is charged to me and I get nothing for the scrap?" However, that was shortsighted, because we were giving up an opportunity of producing saleable scrap which, if we let it alone for several years, may be worth nothing. Therefore, I went along with Mr. Toole and said: "Now, if you must be so pure, we will all be pure and do it in the right way, and we will sell the scrap and get the money." The end result of it—and here is the irony of it—was that because we are doing it in this legitimate way, it will be successor managements of the C.N.R. who will get the benefit; I am getting it right in the neck so far as my operating expenses are concerned.

Mr. HORNER (*Acadia*): I have a supplementary question. I wonder if we could have some of the amounts charged off for depreciation for the years previous to 1956?

Mr. GORDON: Yes it appears in our annual report for each year, if they are available.

Mr. TOOLE: They are in the office.

Mr. GORDON: It is shown in the annual report of each year.

Mr. HORNER (*Acadia*): I would have to go back and look at each year.

Mr. GORDON: If you look at page 20 you will find a similar statement to this in each annual report. If you would like it, I will have a statement prepared for you.

Mr. HORNER (*Acadia*): I can look it up without any trouble, but I wonder if you had it here so that we could compare it, and it would give the committee some idea as to what this accelerated rate of depreciation has meant over the years.

Mr. GORDON: We will get one of our people working on it tonight.

Mr. GRILLS: This sounds like an old-fashioned question—

Mr. GORDON: I would be glad to hear one.

Mr. GRILLS: Mr. Gordon may accuse me of being of the old-fashioned school. We are here to examine the report of the C.N.R. and we make a comparison with the C.P.R. That is our privilege. I would like to inform Mr. Gordon—I had a little difference with him last year about being a politician, and he is president of the C.N.R.—

Mr. GORDON: And I am not a politician.

Mr. GRILLS: —and he attacked me and asked me what I knew about running a railroad, and I told him that about running a railroad I knew nothing, but I represented people who did.

Mr. GORDON: Let me take you up on that. I said I did not know anything about the milk business—and you knew what I had in mind.

Mr. GRILLS: At least I may say this—

Mr. GORDON: That is what I said. I remember.

Mr. GRILLS: I tried to indicate that our milk business may not always be a profit—it may be due to organization—it is intended to be that way so I think you should consider that also. But, I would like to ask how many

times it was stated in your judgment and in your board of management's judgment you should dieselize the C.N.R. completely? The C.P.R. did not do it as quickly. They were not as ambitious in the change-over program. I have questioned your judgment and that of the board of management, whether your judgment was correct, that you destroyed or scrapped a lot of good steam power and I have wondered whether one division of the railway somewhere in Canada could not have been continued, whether you could have continued to use steam power economically. Was it practicable to change it over as fast as you did?

Mr. GORDON: Well, I think that is a very good question and a question on which I might say there can be endless differences of opinion. All I can tell you is what we did or what we did not do, and you can form your own judgment.

Mr. GRILLS: I will be glad to hear that.

Mr. GORDON: In the first place, when we started out to dieselize we followed a different method from the C.P.R. We decided to dieselize on the basis of the services which were being operated rather than on a geographical basis, and we put our diesel locomotives into that service which produced the greatest return in the first instance. The Canadian Pacific did not. They decided to dieselize on a geographical basis. They took certain sections of the country and completely dieselized them. That was a matter of judgment. We analyzed our particular circumstances and came to the conclusion that the best way to do it was by services. That is, where we got the quickest early return. As time went on, however, we had to decide, as we approached the dwindling stage whether or not we should completely dieselize. We found as our dieselization program went on as we expected to find, of course, that we would come to a point where maintenance facilities necessary to operate a steam locomotive would become too expensive. In other words, if you are running a service and running it in a section or a part of the country, you get to the point where it is 80 to 90 per cent dieselized. At no point the cost of running a few steam locomotives will be away out of proportion to what it was before.

Mr. GRILLS: Would it not be possible in one region to maintain a larger percentage of them in steam, and dieselize one section?

Mr. GORDON: Yes, that would have been perfectly possible, but whether or not it would have been better, is a matter of opinion. From the viewpoint of our particular economies, we did not think that it was. And there was another important factor. We rapidly saw that the time was going to come when the purchase of diesel locomotives by the Canadian Pacific and by ourselves would very rapidly become reduced and we would lose the advantage of the price that we were getting for placing large orders for diesels. In other words, we would buy 1,000 diesels for a much smaller unit price than we could buy 100. As we got down to the point with the number of diesels we would be buying to complete the program we found we would be paying a very substantially smaller price per unit than you would have to pay today, right now, because the manufacturing capacity for diesel locomotives in Canada today is very much reduced.

Mr. GRILLS: That might sound all right, but it does not seem practical to me. Why would you buy more if it is not practical to use them?

Mr. GORDON: No, no, I did not say that. The reason we buy more has to do with our rate of conversion.

Mr. GRILLS: You are still paying interest on the money you borrow?

Mr. GORDON: That is right, but the economic analysis showed two things: that the economy we get from the operation of a diesel locomotive, plus the economy that we get for buying them in large quantities was considerably more than the overall loss we were suffering through keeping in use what life there was in the steam locomotive. Do you follow me?

Mr. GRILLS: You are sure it was not an empire building scheme?

Mr. GORDON: I am absolutely positive of that. Do not think for one minute that this decision was taken by one man, namely, Donald Gordon. No, no. These decisions were taken after very careful analysis by all the responsible officers and I can produce report after report on the economics of it, which I have studied carefully myself, and which have been studied by other officers whose job it was to do it; and the result was that the policy we followed showed the best results from the standpoint of economics. Mr. Grayston had a great deal to do with the program. I wonder if he would care to add something to what I have said.

Mr. H. C. GRAYSTON (*Vice-President, Transportation and Maintenance*): I think you have covered it very well. You do get to the point in the tail-end of a program like dieselization where there is a residual advantage which makes it very plain that you must complete that program in the shortest possible space of time.

Mr. GRILLS: I can understand that fact, but you had the maintenance service for all these types of locomotives across the country, and I have wondered; I have been asked whether it would not have been practical in one region to use these steam locomotives that were in perfect condition and which had years of service in them, but which apparently were absolutely wasted, in order that you could say that the Canadian National Railways was a completely dieselized railroad.

Mr. GRAYSTON: Well, there is the question of economics as Mr. Gordon has said, and economics showed us what we should do.

Mr. GORDON: Let me give you an example of that.

Mr. CREAGHAN: I was wondering whether there might not be some question of resentment in various regions. I can see that if you dieselized western Canada and left central and eastern Canada behind, there might be some feeling of resentment.

Mr. GORDON: No, that was not a factor. But let me give you two examples. In the first place, you must realize that this was not a sudden program. After all, we have been ten years at it, so that the matter of a year or two, while arguable, is not so important, because after all it has taken us ten years to do it; so it has been a gradual program by any standards.

Mr. GRILLS: The Canadian Pacific Railway did not do it in the same manner.

Mr. GORDON: That is right.

Mr. PASCOE: I would like to come back to this report at page three.

Mr. GORDON: Let me give you an important example on the matter of economics. In the course of this program, as Mr. Grayston will remember, we had a program to buy diesels for the western region by a certain date. But we discovered it as we watched the market that the price of diesel oil and the price of bunker C oil suddenly went very much lower than we had estimated in our economics. Because of that, when we found it out, we learned that the oil burning locomotives in western Canada could match the economics of the diesel. Therefore we stopped that program. I think we held it up for three years.

Mr. GRAYSTON: Yes, for nearly three years.

Mr. GORDON: As long as we could establish that our oil burning steam locomotives, with the cost of oil and so on in our economics, approached a comparable cost in the matter of diesels we held on to those locomotives. It was only after we had got the program to the point where we were able to show actual savings that we dieselized this particular region. We did not go bull-headed at it, just for the sake of dieselization.

Mr. GRILLS: It does not seem practical. And if there is that high competition with the Canadian Pacific, why do we not carry it over and solicit business? It seems to me that the two things do not tie in together.

Mr. GORDON: Are you suggesting that we do not solicit business?

Mr. GRILLS: In the way I think it should be done.

Mr. GORDON: I would be very happy if you would give me some examples.

Mr. GRILLS: I will take my own example. I use a lot of freight cars out of Belleville, but I have yet to have a Canadian National freight agent ever solicit my business. I do give business to the Canadian National Railways, but it is not through solicitation.

Mr. GORDON: I would be very happy to hear more about this. My impression is that that is one of the reasons for our re-organization. We have a very important operation in our sales solicitation, and over the last six months we have revamped our whole department. We are going at this thing now with all the "umph" that we can muster. And if you tell me that it is still not having an effect, I shall have something to say to our sales department when I get home.

Mr. GRILLS: I have never had a solicitation from a C.N.R. freight agent.

Mr. GORDON: Have you had one from the C.P.R.?

Mr. GRILLS: Very definitely. And I am a C.N.R. man.

Mr. GORDON: When are you going to be back in Belleville?

Mr. GRILLS: Whenever you want to meet me there.

Mr. GORDON: I will have a traffic solicitor there the same morning.

The CHAIRMAN: On page six there is a modern approach to sales. Let us stick to some order of business now.

Mr. HORNER (*Acadia*): With regard to the president's statement about large purchases, what does he mean by large purchases? I understand that the Canadian National Railways has something like 2,100 diesel units. Am I right?

Mr. GORDON: Yes.

Mr. HORNER (*Acadia*): You surely would not purchase them all in one large order?

Mr. GORDON: The day for our large purchases of diesels is over. What was our total? We got from 200 to 300, in that range.

Mr. GRAYSTON: I think so.

Mr. GORDON: I think we got up to about 300 or 350 units in a year.

Mr. HORNER (*Acadia*): In other words when you were speaking about getting reduced prices for large purchases, this would constitute a large purchase.

Mr. GORDON: Yes. Three hundred units of diesels at a unit cost of about $180,000 would involve a figure of around $55 million.

Mr. HORNER (*Acadia*): That is a whole lot of money. I just want to follow this up further, if I may. I see recently in the *Track* magazine where you were just delivered 123 new diesels. I see here in the report of the C.P.R. that they still have 364 steam locomotives in operation and only 1000 diesel units. How does it compare? Is the C.P.R. moving that much less freight, that it can get along with that much less diesel units?

Mr. GORDON: At the time of this report the C.P.R. had not completed its dieselization program. It is just a matter of when they are going to complete their program.

Mr. HORNER (*Acadia*): Earlier you said that you perhaps were overstocked in diesel units; that is, you were oversupplied about 75 or 50 for the present traffic, or about that.

Mr. GORDON: You must remember the C.N.R. is a much bigger railroad than the C.P.R. The relationship is about 60-40. As of the end of the year I think we have 2,134 diesel units. Now I would say, at the present level of traffic, we have I suppose 32 to 40 diesels which are not being fully utilized; but that situation could change in a couple of months. It would not take much to use those twenty or thirty diesels.

Mr. HORNER (*Acadia*): Yes; but I think there is some merit to the suggestion that some of the newer steam locomotives could have been worked off in a particular area with greater utilization of that investment.

Mr. GORDON: Not if you look at the entire economics. It is not only a matter of running a steam locomotive; there also are other things which go with it. You have to maintain water towers, coal chutes or oil dispensers and other things.

Mr. GRILLS: What about the interest on the investment?

Mr. GORDON: It is figured in the economics.

The CHAIRMAN: I think, if we agree that the change from steam to diesel is sound, then over the years we have to pretty well trust the economic advisors of the railroad who give a lot of study to it. I do not think we as a committee should be questioning too severely the procedure. I know I am too much of a politician to know much about railroading in that sense. If we decide that the dieselization principle in general was not sound, then that is another question; but if it is sound, and the president's advisors have proven it is—they have studied the economics and all of the different factors which have been mentioned—then I think we have to pretty well take it that this procedure is pretty efficient.

Mr. PASCOE: Mr. Chairman, to keep us on the track in respect of the program, I will keep my main question until later. Following up on the subject of replacement of steam locomotives by diesels, what is happening to the old round houses? Are they out completely? In Moose Jaw now, the C.P.R. has its big round house rented out for the storage of wheat. What is the situation in respect of the C.N.R.?

Mr. GORDON: They are disappearing until we can change them into other uses.

Mr. PASCOE: Are you selling them?

Mr. GORDON: We will certainly make them available for sale if we cannot use them. Did you say the C.P.R. is renting a round house?

Mr. PASCOE: They are leasing it for storage of wheat. I am wondering if that is on a long term basis?

Mr. GORDON: I could not say, but if it is surplus I would imagine they would lease it on any basis they could.

Mr. PASCOE: Have you any rented out.

Mr. GRAYSTON: We have had several enquiries from various sources in regard to rental. I believe we have one or two which are partially rented.

Mr. FORBES: You have one rented at Dauphin to the United grain growers for the storage of grain. Would you indicate what rental you get for that building?

Mr. GORDON: I do not have that available here.

Mr. FORBES: It is a transaction which took place last fall.

Mr. GORDON: It would be in our records. I am not familiar with it myself. It would be at the going market price, whatever might be the rental price for an item of that kind.

Mr. FORBES: We know the rate the grain companies get per bushel for storage, but we were wondering what you get for the rental?

Mr. GORDON: I am not too sure that the grain company would wish us to reveal what we are getting for it.

Mr. FORBES: It is part of the C.N.R.'s operations, is it not?

Mr. GORDON: Oh, yes.

Mr. FISHER: Mr. Chairman, I would like to return to the financial memorandum which Mr. Gordon gave us. It seems to me that you indicate there one of the factors which altered the situation since you took over the railroad was the increasing competition from other transportation media. It also seems to me you indicate that in the last few years your judgment of the business prospects has not been realized; that is, your forecasted estimate of the economy has fallen short. Are both things generally true?

Mr. GORDON: Well, yes. Of course we have to examine what we are talking about there.

Mr. FISHER: There are different things.

Mr. GORDON: Yes. The estimates we made in regard to the rate of growth in the Canadian economy is based on other forms of estimates. I think I could say, in a general way, that we have not been any more wrong, and in fact have been less wrong, than many others who made those estimates.

Mr. FISHER: Who makes the estimates?

Mr. GORDON: Mr. Wahn will speak on that.

Mr. WAHN: We make the estimates on the gross national product for a year ahead. For the particular year ahead we make estimates in four main sections; first of all, we make estimates about all consumer spending; we make estimates of what business will spend on capital investment both in terms of fixed assets and inventory; we also make estimates of the housing program; we make estimates of what the expenditures of the three levels of government will be for the coming year; and finally we make estimates of what exports will be—expenditures by foreigners for our goods. We have only a limited number of economists and therefore rely on information from other organizations such as government and other sources. Last year we estimated that the gross national product would be six per cent greater than it was in 1959. I think this error was shared by our colleagues in the government and banks, and so far as I can judge in the pulp and paper industry and by some of the larger corporations in the country as well.

We have tried to analyze what went wrong. Part of it was tied up with the capital investment program. As you may know the Department of Trade and Commerce, in conjunction with D.B.S. makes a capital investment survey at the end of every year. They go around and interview the major firms and try to find out what the capital spending will be for the coming year. Business men, in general, thought that 1960 would be a good year for capital investment. Of course, no one foresaw the falling off in spending, either for plant and equipment, or in the house-building field. However, as I mentioned earlier, house-building fell off 15 per cent and, if you take out the price factor, 17 per cent, spending on equipment also fell off slightly.

We combined these estimates which have been made by impartial authorities into our economic models, and we got a level of G.N.P. and C.N.R. revenues higher than actually occurred. If you look at the chart on the second or third

page, in front of you, you will see in the second quarter of the year our revenues fell off very substantially. This was due to a number of things. The house-building program fell off; our haulings of lumber, building materials, sand and gravel fell off. Our cement hauling fell off very substantially; I think it was something like 20 per cent. None of these things could be foreseen when we made the forecast.

Another thing which added to the problem was the fact that business inventory was generally allowed to run down and, when it is, a transportation agency generally suffers in a three-fold way. Goods are not transported from the primary producer to the wholesaler, from the wholesaler to the retailer, or from the retailer to the consumer, as the case may be. So, at a time of inventory liquidation, a transportation agency suffers very substantially. Conversely, when we have an addition to inventory in the country, our business booms up very quickly.

All I am stating, gentlemen, is what we had a recession which, I do not think, was foreseen in this country, and in the United States, to the best of my knowledge. Another of the root causes was tied in with the steel strike in the United States in the preceding quarter up until the forecast was made, and its effects were not reflected in our projections.

Mr. FISHER: Mr. Gordon has told us, in contrast to the C.P.R., the C.N.R. is peculiarly vulnerable to economic downturns, and when there are economic upturns, it is more flexible than the C.P.R. In the light of this, is it not possible that criticism could be made of your forecast, looking at the experience of the last few years, in that it is generally too optimistic?

Mr. WAHN: No, sir.

Mr. GORDON: I do not think so. I would say at once, we are no better forecasters than anybody else. I am not claiming any better wisdom in reading the crystal ball than anybody else. We do get into spotty situations like this. In addition to the factors which Mr. Wahn has indicated, I have one of the latest reports on this situation. We have a whole series of charts here—anybody can take a chart, sit down and study it, and come to a conclusion. It depends on what your general attitude may be, or what your knowledge may be. However, you can read anything you like into that; all you get there are trends. No one can make a firm judgment as to what it is. That is what stock markets are all about. If we could do that accurately, we would not be in the railway business. You have to do the best you can.

What I started to say was that we, in the railway business, have also this other factor. We make an appraisal by enquiry from our own shippers; we try to reach with them an agreed idea of what they are likely to do. Take, for instance, in preparing ourselves for the movement of iron ore. We had quite a good figure from our iron ore shippers. It turned out to be grossly in excess of what happened. As I say, we have to prepare ourselves for it, because we must give the service. They are depending on us. We depend on their estimates, and sometimes they are wrong. The same is true of wheat. We prepare for wheat, and sometimes the good Lord does not give sufficient sunshine and rain, and we do not get the wheat we anticipated. Then, on the other hand, sometimes He gives us too much. But, the best we can do is make a forecast as to how we are going to handle it. We can tie up 2,000, 3,000 or 4,000 cars on wheat, and we may be grossly wrong on that. However, we do our best with the information we can obtain. This is one of the business hazards.

Mr. FISHER: Your thesis is that the C.N.R. has been no more wrong than the other forecasters, including the government?

Mr. GORDON: I can certainly prove that. In fact, I am prepared to say, in some of our forecasts we were better. But we have been worse, as well. However, I think our average is pretty good.

Mr. FISHER: What about the fact that competition is moving in on you, as indicated in the change of your mix?

Mr. GORDON: Yes.

Mr. FISHER: How good are you in forcasting that?

Mr. GORDON: Not as good as I would like to see ourselves.

Getting back into the business of trucking, I think we underestimated the ingenuity and forthrightness of our trucking friends. If we had started ten years ago, we would have had more trucking business than we have. We underestimated the tremendous development in air lines travel. Ten years ago, nobody would be prepared to tell us about jet airplanes and what they would do. But, we were no further short in that than others. We did not expect it would knock hell out of our passenger business to the extent it has.

Mr. FISHER: Now, we are in a situation where you have given us a fairly complete and fair analysis of your financial position, the weaknesses you have, vis-a-vis the C.P.R., and you have indicated you want the debt structure of the railway changed, or you think it should be. How can we have confidence in the accuracy of what the C.N.R. is planning right now in both these fields, in the light of the record?

Mr. GORDON: I think you have to have confidence in management, the same kind of confidence that you would have to decide on in connection with the Bell Telephone, the C.P.R., the pulp and paper industry, or any other industry. You have to decide whether or not you think you have adequate, capable and efficient management.

Mr. FISHER: Well, we have our views on that.

The CHAIRMAN: In the matter of competition—and just speaking as a member of the committee, and not the chairman—would it not be a more serious handicap to you in competition if you took too much of a pessimistic view, instead of being criticized for optimism? I can recall when I was in business, we had a terrible time trying to get cars to ship newsprint in. I can recall on many occasions—and I am sure other members here, as well—over the years when there was an awful howl in parliament because there were not enough cars. I can well recall instances when the two railways had not been optimistic enough and, because we had a bumper crop and conditions demanded heavy shipments of newsprint and iron ore, we had to bring in 150 cars from the United States. We were in a desperate position, and in fact many companies changed from the C.P.R. to the C.N.R. and from the C.N.R. back to the C.P.R., depending on which company could give them enough cars at that time. I was through this myself and I ask, as a member of the committee, if it is not in the nature of railroading in providing services and preparing for competition?

You have to be prepared to give service if you are going to hold your competitive place with the other methods of transportation, and you have to have a little standby. It is the same as the hydro electric power business. You cannot figure exactly what you are going to use. If all of us were wise enough to do that we would be just wasting our time sitting around in parliament if we wanted to make money. We would be very good forecasters, but I have heard M.P.'s making speeches at election time, forecasting the wonderful conditions that were about to come, the bumper years and the great prosperity, and then apologize during sessions in the following years because their forecast was wrong. I do not suppose we would expect any more from a human being in business than from a human being in politics. Regarding the advisability of having some surplus I myself would be very much disturbed if the C.N.R. got itself into the position that it could not supply its services and competition.

Mr. FISHER: But here we have a railroad which is losing out to competition right along the line despite great expenditures. I am sure in the Great Lakes situation you did not keep piling up deficits each year.

Mr. GORDON: When you say we are losing out to competition, relatively we are not losing out more than any other railway. Our share in the transportation market is better than the average, especially if you look at the United States record, and is just as good, if not better, than the C.P.R. Touching on Mr. Rowe's point, I can remember in 1955 or 1956 when the shortage of box cars grew so acute that the late C. D. Howe ordered a national emergency and appointed a transport controller in the west. He went to the west and made a proper mess of it; but that is history.

Mr. FISHER: That is all very well as a defence of the position of the C.N.R., but your management over the last four years has managed to build up huge deficits.

The CHAIRMAN: I can go back a lot further than that. I can remember 35 years ago in the House of Commons when we were building up a deficit of $1 million a week, at that time, before you were in parliament.

Mr. FISHER: Long before.

The CHAIRMAN: At that time we were building up a deficit of $1 million a week, and a dollar then was worth two or three now.

Mr. GORDON: What we are discussing, Mr. Fisher, is whether or not the capital expenditures made in the years you are talking about have been prudently made?

Mr. FISHER: Exactly.

Mr. GORDON: I think this is a perfectly valid inquiry and I have no objection to trying to answer it. I am not for a moment trying to say the C.N.R. management is in a state of perfection. I would not want it to be, because with perfection commences decay.

You have always to keep struggling and do the best you can in the matter of judgment, and I believe our judgment has been just as good as our competitors'. If you want to know if the C.N.R. is an efficient railway, I suggest you do not ask me; ask our competitors. Ask the C.P.R. Bring Mr. Crump here and ask him if I am efficient.

Mr. FISHER: I should like to.

Mr. GORDON: There is nothing to stop you.

Mr. FISHER: He fears state enterprise.

Mr. GORDON: If you want evidence as to whether or not the C.N.R. is an efficient railway, and is as efficient as its competitors, please ask Mr. Crump.

Mr. FISHER: He says state enterprise is working a grave disservice to the people of Canada.

The CHAIRMAN: He might be right regarding the state enterprise principle, but we have a railway to run.

Mr. GORDON: I wish members of the committee would bear in mind that I did not invent the diesel locomotive. I did not produce the competition. I did not produce the financial mess that the C.N.R. was in when I took control. I inherited it, and what I have been doing and the management of the C.N.R. has been doing, has been to struggle to adjust the system to the environment.

The diesel locomotive is a fact, and if I had anything to do with it in 1950 I would have taken the diesel locomotive and sunk it in the Atlantic ocean. But we had to face the fact that the diesel locomotive was going to revolutionize the whole of the industry. We had also to face the fact that the airlines were developing improved techniques, and were going to cut the heart

out of the passenger business. Airlines went on to build aircraft costing $6 million, $7 million and $8 million for one plane. Who ever thought of that kind of competition? I did not, and I do not think anyone else did.

What I have been trying to do, and what the management has been trying to do, is to adjust ourselves to living with all the changes that have been brought about. We had to adjust ourselves to the fact of the diesel locomotive, and along with that went endless complications in numerous fields, new kinds of track, a new kind of signalling system, a new kind of despatching system and a new kind of communications. What we have tried to do is make that adjustment with the human factor and the community factor on as a considerate a basis as possible. I think we have done that, and I am prepared to argue we have done it as well as could be done by anyone else. I am talking not about myself but about the management team in the C.N.R., and I am prepared to state here definitely that there is no better group of railroaders in this continent than you will find in the Canadian National Railways system. I am talking about the supervisory staff and employees right down to the fellow who is working on maintenance. There is no better kind of railroader in this continent, and you cannot judge them but our competitors can. That is where I am forming my judgment. I know how they regard us.

Mr. FISHER: In your past appearances before this committee you always asked to be judged on the basis that while you might be a public corporation you should be judged by private enterprise yardsticks.

Mr. GORDON: No such thing. What I always said was that the C.N.R. is in fact set up by legislation, and the legislation that produced the C.N.R., produced an organization that is based and patterned on private enterprise models. It has its own board of directors, and to those directors the properties are entrusted for business management on the model of private enterprise. That is not my decision either. That is my job. I have handled the railway, along with the management team and the board of directors, with the legislative instruction to run it as a private enterprise. By private enterprise I mean, as I say in my memorandum, that the profit motive is a proper yardstick, all things considered, and we have to have regard for the dollar and think about the return on our investment just as well as anyone else. That is what I am trying to do.

Mr. FISHER: We still come back to the fact that in the last few years you are not producing a profit.

Mr. GORDON: Let me give you one reason. I remember a certain instance in northern Ontario when we sat down to figure out how we could put on a fast freight train. We felt that we reached the stage in our technology in the matter of dieselization, signalling system, track, all the things at which we spent money for many years, and our officers finally came to the conclusion we could capitalize on it in a competitive way. So we sat down to find out how we could do this. We thought the best thing we could do was to see whether we can get a jump on our competitors by showing we have a faster service than anyone else, and we figured that by careful management we could perhaps cut 24 hours off. We developed what we call the "hot shot freight train". Now, what happens? We sat down to talk to our operating crews for the purpose of explaining to them what had to be done, because we had to change our running time, we had to arrange our trains to run faster and we had to get our crews to adjust to that. We talked to them. All this happened in northern Ontario. At the same time while we were talking to them at the top level, which is the general chairman in Toronto, a certain gentleman encouraged the labour people involved to pull a wildcat strike. He stood up in the House of Com-

mons and bragged about it, with the result that we lost our advantage. The C.P.R. got wise to what we were doing, and instead of being able to give more jobs and get more traffic, the whole thing fell flat. That is one reason why we have difficulty, Mr. Fisher.

Mr. FISHER: I would like to point out to you that at the committee last year you gave the undertaking that whenever there was going to be any dislocation or any change that would affect primarily railway communities, that both the communities and the employees would have some notice in connection with it.

Mr. GORDON: Which is exactly what we were in the process of doing.

Mr. FISHER: How much notice are you giving?

Mr. GORDON: The practical notice is that which is involved in the circumstances. The discussions were still in force and the practical notice, as I told you in the last committee, is a notice that is called for in our agreements with labour. In our agreements with labour we have worked out a system which quite clearly states that the notice must be given in connection with any changes. These different arrangements are complex; they vary from trade to trade; they vary from condition to condition. We have found from experience that it is not until we have actually given the notice we can assume that the labour organization recognize it as valid. That is as it should be. That is our agreement. But when we start advance discussions with them, and someone else gets mixed up in this, there is always difficulty, as I told you last year.

The CHAIRMAN: I think we are on personnel and employee relations.

Mr. FISHER: I know, but Mr. Gordon introduced this element.

Mr. GORDON: I beg your pardon, I answered your question.

Mr. FISHER: But you took a specific case in the labour situation. In so far as bragging in the House of Commons is concerned, Mr. Chairman, to put it flatly, you gave us in the House of Commons an undertaking you would give nine days' notice to the communities and to the group of employees.

Mr. GORDON: What community are you talking about?

Mr. FISHER: Capreol.

Mr. GORDON: What effects are you talking about? Your figures are wildly exaggerated. I can produce the evidence page after page.

Mr. FISHER: Those are figures I received from the representative of the employees in the area and the communications I received from the town.

Mr. GORDON: Why did you not talk to management?

Mr. FISHER: Why did not management talk with those employees?

Mr. BROWNE (*Vancouver-Kingsway*): We are getting off the point.

The CHAIRMAN: Gentlemen, I think you are getting a little off the point.

Mr. BROWNE (*Vancouver-Kingsway*): I have some questions I would like to ask on that point.

The CHAIRMAN: It is going to take us a lot of time. We have had five hours on this page.

Mr. HORNER (*Acadia*): A lot of time was spent reading the statement.

Mr. BROWNE (*Vancouver-Kingsway*): I have a number of questions in connection with deficit.

Mr. Gordon, in the financial statement that you have given us, which incidentally was a very good one and it was welcomed by the committee, you referred to the royal commission on transportation. I raised earlier the question of whether in fact certain rates were compensatory to the railroad. At that

time the question of trucks arose, but I want to state now why I raised that and draw that to your attention. This is from the royal commission on transportation, page 30, in which the following statement is contained:

> There has been, in our view, an excessive preoccupation on the part of the railways with the problem of increasing the level of revenues obtainable from their present traffic—a preoccupation which, among other things, has hampered the development of a broadly based, cost related program of rate adjustment which would enable the railways to secure the kind of traffic for which they have an inherent cost advantage and relinquish that traffic which might better be transported by other carriers. While we recognize the complexity of the rate structure issue, we cannot help but believe that railway resistance to the adoption of a more cost oriented basis for rate-making is essentially unrealistic and reflects a degree of institutional rigidity which is out of place in the transportation environment of today.

In the light of that statement by the royal commission, and in view of the fact that this $67 million deficit is in effect a subsidy to the railroad, and because of the fact that there is a further $50 million subsidy in the estimates at the present time the bulk of which I assume will go to the C.N.R., and because of the Maritime Freight Rates Act, and because of the bridge subsidies and because of the Freight Rates Reduction Act, I believe the public need to be assured that the railroad is not moving traffic at less than it need to, and perhaps we may be subsidizing a shipper when we are not aware of it. I think other forms of transportation will want to be assured, and employees of other forms of transportation will want to be assured that competitors are not being subsidized, and that employees of competitors are not having their wages subsidized by the use of unfair competition against them. That is why I have raised this question with regard to rates which are compensatory to the railway. I have pointed out that under the Transport Act there is no obligation on the railroad to have them compensatory. Because of that subsidy, and because of the deficit, I feel it is most important that people in other forms of transportation should know and that the general public should know, and I feel they would not want to have to pay a subsidy for a competing move by some shippers at lower rates than they should be.

Mr. GORDON: Would you find some answer to your remarks if you were to finish the quotation from the royal commission report?

Mr. BROWNE (*Vancouver-Kingsway*): That was the part I read out of it, and I think that statement speaks for itself.

Mr. GORDON: Would you add the one sentence following, on page 31?

Mr. BROWNE (*Vancouver-Kingsway*): It reads:

> However, as we have said earlier, there are also indications that a fundamental reorientation process is going on at the policy level within railway management—a process which, if carried through, holds forth much promise for the future.

I do not think that changes any of the facts as I related them in the statement I made, and in the light of the subsidies and other considerations I mentioned.

Mr. GORDON: As we all know, this question of the freight rate structure of this country was exhaustively examined by the royal commission. We have put before the royal commission page after page of evidence, and so have other people, including yourself, and I do not feel really competent to take up that argument in capsule form at this stage. I am quite prepared to agree there may have been too much rigidity in the railway approach and I am quite prepared to agree that a cost-oriented approach to the freight rate structure

may hold some promise, as is said here. However, after all, having read this statement as you have done, as it is there, this to my mind would seem to suggest that the railway itself should have been in the trucking business a long time ago.

Mr. BROWNE (*Vancouver-Kingsway*): With that interpretation of it now, Mr. Chairman, I would like to ask further. Mr. Gordon did refer to the royal commission report which also had some favourable things to say to the railway in that regard and recommended some subsidies for them, and in particular for passenger traffic which appeared to be a large part of the deficit. I wonder whether Mr. Gordon concurred in the view that that was responsible for a large part of the deficit—for passenger transportation.

Mr. GORDON: Yes, we made representations to the royal commission along that line.

Mr. BROWNE (*Vancouver-Kingsway*): Then I would like to ask what your feelings are in regard to the recommendation of the royal commission, as to whether or not the railways should get out of the passenger transportation business and how long a period would be required to do so without unduly disrupting the public in the country.

Mr. BROOME: Just on a point of order, I had a question on passenger traffic and was waiting for that section.

The CHAIRMAN: I would like to keep it in order.

Mr. BROWNE (*Vancouver-Kingsway*): Mr. Chairman, this question is directly related to the deficit we are discussing at this stage. This is just one portion of it.

The CHAIRMAN: But there is an item further on which deals particularly with passenger traffic, and also an item dealing with personnel relationship, and we have been putting them all into the financial paragraph. We have not been following very good order. That is probably my fault, but you are helping in it.

Mr. BROWNE (*Vancouver-Kingsway*): I do not think I have gone as far from the point as others. This is directly related to the deficit and is a major portion of the deficit.

The CHAIRMAN: You are putting everything into it. I was thinking of your freight rates questions.

Mr. BROWNE (*Vancouver-Kingsway*): Also, I may point out that Mr. Gordon has raised this in the financial consideration which he gave, which is related to the very clause under discussion.

Mr. GORDON: Does that not give you an answer to the question? It seems to me the findings in respect to passenger traffic do so.

Mr. BROWNE (*Vancouver-Kingsway*): I was asking for your own view. Do you think you can get out of the passenger transportation in that time, or in less time?

Mr. GORDON: It is a question of degree. We have never said we were going to get out of passenger business.

Mr. BROWNE (*Vancouver-Kingsway*): Do you feel you should, in the light of the royal commission recommendation?

Mr. GORDON: No, we said we would like to get out of the unprofitable business—which is quite a different thing.

Mr. BROWNE (*Vancouver-Kingsway*): Then I stand corrected on that point. How long do you feel it would take to get out of that unprofitable portion?

The CHAIRMAN: Now we are getting into the realm of theory.

Mr. GORDON: You are asking me to guess the reaction of the board of transport. There is no part of it which we can get out of unless the board of transport permits it.

Mr. BROOME: Could you table the applications you had made to the board of transport commissioners showing those which were granted and those which were not granted?

Mr. GORDON: Over what period?

Mr. BROOME: Perhaps the last two years, or the last year, if that is too much.

Mr. GORDON: It would be simply a matter of tabling what we put before the royal commission. We could do that. It is already before the royal commission.

Mr. BROOME: I believe this is one area where members of parliament can give support to the railroad, and where support is needed.

Mr. GORDON: In a nutshell, we are working with all the initiative and imagination that we can summons to maximize our traffic of passengers wherever we have an opportunity to do so. We have a very aggressive policy in that respect in trying to pick up passenger traffic. If and when we reach a conclusion that a certain line is hopeless, then we still have to go before the board of transport commissioners and even under the suggestion they made in their recommendations, we will have to persuade them to let us abandon a service, or they may say to us that they consider it is in the public interest that that line should continue. It is only at that point that the suggestion is made that there is a subsidy.

Mr. BROOME: Yes.

Mr. GORDON: It is only if they ask us to continue, notwithstanding that we have proven that it is a burden; so that means we must be able to prove it in regard to each one. When you ask me how long—I do not know.

Mr. BROWNE (*Vancouver-Kingsway*): Is it the feeling then that the railways should be free from these restrictions and that you should be allowed to get out of that passenger traffic which is not profitable to the railroad?

Mr. GORDON: Yes, we feel so. We feel that when we have made a case we should be allowed to get out.

Mr. BROWNE (*Vancouver-Kingsway*): I do also.

The CHAIRMAN: I hope you do not get out of it across Canada any faster than you did in Simcoe county, and Dufferin.

Mr. FISHER: On the financial point, at page 10 of that memorandum which you read, you set out this question of when, for example, the requirement to change your technology would operate, under the need to meet new competition. Extra comment is directed outside to that. Then you say at the bottom paragraph:

> Needless to say this adds to the problem of management and I am convinced that both the cost of operation and capacity for accomplishment are influenced by such considerations.

Now, could you give us any indication? Have you even a vague figure in your mind of how this affects the cost of operations?

Mr. GORDON: No, I would not like to pin-point that. It is something which would need a lot of analysis. In the first place, some of it I admit is rather hard to define—the fact that these pressures arise, and knowledge that they are going to arise, produces in the mind an uncertainty on the part of officials who may have ideas about amending this and that and decide: "Well, it is not worthwhile fighting or struggling", and therefore they may not recommend it, or it

may never reach headquaters. I am sure there is that element in it. However, it cannot be valued, but it produces an uncertainty, I am certain. Then we have several examples lately in connection with equipment—which is an essential part of our capital expenditure vis-a-vis diesel, in regard to the centralizing of shops and the giving up of shops in certain areas, or changes of equipment, and things of that kind. All that takes time. Under the process that I have described here, we have definitely had a policy of gradualness, but it is costly. There are places where we could have done the job in a matter of months, but we have taken a matter of years to do it, and that costs money.

Mr. FISHER: I am not critical of your making this statement. I think it is important. You are suggesting that humane consideration come into effect. Surely I think it would be worthwhile to give some indication of just what is involved here on a percentage basis. Does it reflect any sizable part of your deficit?

Mr. GORDON: Well, of course, the number of studies that could be made in regard to railway operation is endless, and we try to confine our studies as much as possible to things which will produce results. I do not think that such an estimate as you mention would accomplish anything. I do not think it would change the psychology of it.

Mr. FISHER: It is the psychology of it which you think is important?

Mr. GORDON: Yes, I think it is the psychology; and when I say that, I think it is pretty largely in the environment in which we must live. We know it is there, and we just have to do the best we can with it.

Mr. FISHER: But if this is a factor in blocking your operations and making it difficult to show a better financial statement, would it not be illuminating if you could give us an example, let us say, in the changes that you made that were delayed at Moncton, or at some place like that—to give us some idea of the cost factor involved so that we can say to people who criticise the Canadian National Railways for inefficient operation, that here is an example where, in the light of public interest, certain economies were achieved.

Mr. GORDON: We could do that, we could take type cases; I will take a case which is over now, namely, our London shops. We did what you suggested there. We gave advance notice and it was a mistake. We knew it was a mistake at the time, but we did it to test it out. All that happened in the advance notice was that it stirred up all sorts of agitation, which would not otherwise have been very large. The city council became exercised, and there were various other people who got all mixed up in regard to what we were trying to do; and we found that it had set up a new series of agitation. Our experience was that the advance notice itself had not accomplished anything beyond stirring up constant agitation, and that it is only when the thing is done that the agitation begins to dry up.

In the case of the London shops, how long it took us to meet that situation, and how long it took to get it over, whether it was six months, a year, or a year and a half, I do not know. But I do know this—that if we could have acted as our competitors, we could have done it in a month or two months at the outside. But we did not, and we had meetings with the city council more than once. We also had meetings with the press, and showed them the results; we met the union people and talked to the workers. I visited them personally and we talked to their wives and tried to show them that Montreal was not such a bad place to locate after all. Some of them have found that out, but some still do not like it. But there is an interesting point in regard to the labour agreements. When we decided to close the London shop for various reasons,—but let us just say it was necessary—if we had closed the shop and just closed it as we had a perfect right to do, a certain number of men would have been out of work. But many of them were men who had from 30 to 35 years seniority.

Watch my statement now, because I am relying on my memory in this one; but because London was one of the oldest shops, many of those men had very long seniority; and if we closed the shop they would have been out of work. Instead of that, management chose to take advantage of a clause in the agreement which said that when the work is transferred from one shop to another, then the seniority provision prevails, and the men with the longest seniority have the right to follow the work. That being the case, in London from 75 to 80 per cent of them had the right to follow the work, which gave them the alternative of leaving London and going to Montreal. It is true that they bumped lower seniority men in Montreal, but Montreal is a bigger market and it did not cause as much trouble, and anyway it was within the terms of the agreement.

Those men were entitled to move to Montreal or to Toronto as the case may be, because there were three shops which were involved. But all this takes time, and it takes a lot of patience. We had not only to deal with the local community, but we also had to deal with the other unions. We had to meet representatives of the men in Montreal who were going to be laid off, and who would say "to hell with it, you cannot do that to us"; and we had to argue with them about the wage agreement. You might finally get into a situation where you got from ten to 15 union employees all looking after their particular groups, which is something they should do; that is, a union official's job; he is entitled to do it, but it all takes time.

Mr. FISHER: You are just not in a position to indicate what the percentage is?

Mr. GORDON: No, I could not; it would require an analysis that would take a lot of time, and besides that, it would have to be based on assumptions as to the time factor, and that is something we could not pinpoint.

Mr. FISHER: But it is an important factor?

Mr. GORDON: I would say it was very definitely a factor, yes sir.

Mr. BROWNE (*Vancouver-Kingsway*): I believe Mr. Gordon has brought to the attention of the committee a very, very important point, and I hope the committee will consider it and recommend that the railway be relieved from a lot of these restrictions and interferences in running their affairs, so that they may get rid of the deficit that everybody complains about. I think we are right on one of the major points of it now, and the committee has it in its power to make recommendations which will help the railway to get away from some of these onerous restrictions.

Mr. GORDON: I do not want to get myself into trouble over a point which I think is basic to the operation of a perfectly valid wage agreement. I am not criticising the union officials at all.

Mr. BROWNE (*Vancouver-Kingsway*): You should be allowed to make your collective agreements with labour, and there should be no further restriction put on the railroad.

Mr. GORDON: If you know how to stop the mayor of London from wiring me, I wish you would do it, but I think you will never stop him.

Mr. BROWNE (*Vancouver-Kingsway*): You still have to make application to the board of transport commissioners to discontinue some passenger services.

Mr. GORDON: I would like this committee to make an expression of sympathy. That would help me.

Mr. BROWNE (*Vancouver-Kingsway*): We would like them to make a recommendation that you did not have to go through all that.

The CHAIRMAN: Are there any other questions on the first item?

Mr. CREAGHAN: Mr. Browne is suggesting to Mr. Gordon how to quiet down the mayors; but in the last month or so I received hundreds of letters con-

cerning lay-offs at the Moncton shops. I do not think this is an example of what agitates management, because the financial report Mr. Gordon used today certainly indicates that when interest is aroused realistic people seem to think they have a proprietory interest in the operation. Earlier, in answer to Mr. Broome, you said you expect that sort of enquiry from members of parliament and other elected representatives and you did not object too much so long as they did not go to extremes.

Mr. GORDON: Yes.

Mr. CREAGHAN: And I think you gave an example of what you meant when you spoke to Mr. Fisher about Capreol.

Mr. GORDON: No; I did not mention any names.

Mr. CREAGHAN: At the present time there is a great deal of agitation in the greater Moncton area as you know and as several members of the house know. In May about six elected spokesmen, the secretaries or presidents, of various crafts came to Ottawa. I do not want you to think I invited them, although I was very glad to receive them when they came to explain their brief. Following their visit to Ottawa, I asked the minister if he would ask management to consider that serious move at a recent meeting of the board of directors. I understand the directors did consider that management decision. I wonder if you would explain today just what action the directors did take concerning the transfer of repairs to heavy passenger equipment from Moncton to Montreal and Winnipeg. It has been suggested by railroad men, not me, that gradually the Moncton shops will be closed down entirely. Does it mean that, or is there no intention of going that far?

Mr. GORDON: You are talking only of our passenger car shop there?

Mr. CREAGHAN: Yes.

Mr. GORDON: The need for main shop repairs for passenger equipment has been substantially reduced over the last number of years. The reasons for that are obvious. First, we have had a considerable reduction in our passenger miles operated. Second, there has been a substantial reduction, as a consequence of that in our passenger train car inventory. Third, we have great technological improvements in the passenger coaches themselves which reduce the cycle of repairs; we do not have to repair or maintain them as often.

Mr. CREAGHAN: You have given me that answer three times.

Mr. GORDON: That is the background which we discussed at Moncton with the unions I think last month. We pointed out what was involved. We said to them that we would cushion the shock by transferring as many men as we could to freight car repairs—we would put in a program for freight car repairs at Moncton. The effect of the decision meant that approximately fifty men would be retained on passenger cars for light ordinary running repairs, forty-one men would be offered the opportunity of transferring to other shops and fourteen employees would be laid off. Also alternative work was provided for seventy-nine employees on transfer to freight cars, improving material and other things. That decision at Moncton was discussed at the board of directors meeting and they confirmed, eventually, the recommendation of management as it had been explained to them. As I say, we had words with the unions back in March when they knew full well what was in hand.

Here is where I come to the point which is very difficult for me to express, because believe me I do not want to get into controversy. You may think I do, but I do not. I do not like controversy; I like to keep out of it. The only reason the union officials came to you is they knew they could do it and get a hearing, through you, with the Minister of Transport. If that had been the C.P.R. nothing would have happened.

Mr. CREAGHAN: That is why I want to disagree with you. You made a statement to Mr. Gonder immediately following their visit which was printed in the Moncton press. Perhaps it was not taken down correctly by the newspaper. The press report indicated that I invited them. It also said, or inferred, that the union people, who represent thousands of workers, have not a right to come to see their member.

Mr. GORDON: No.

Mr. CREAGHAN: That is the point with which I disagree. It is contrary to a member's duty.

Mr. GORDON: What we are speaking about is the difference between us and the C.P.R. Those union officials in Moncton when faced with that situation obviously were under pressure from their members. Those members naturally expect the union officials to go to the member. They know they can insist on their officials going to you and they know you are bound to see them if they can get a delegation from Moncton. You have to see them. I appreciate that, but I say that does not apply in respect of the C.P.R.

Mr. CREAGHAN: I think it does. I think any elected member will see any delegation.

Mr. GORDON: How many delegations have there been from the C.P.R.?

Mr. FISHER: What do you call a delegation?

Mr. GORDON: Seven union members protesting the closing of a shop.

Mr. FISHER: I have had delegations from C.P.R. employees.

Mr. BROWNE (*Vancouver-Kingsway*): We now have a very important point. We are now seeing a perfect example of where the C.N.R. is not in the same position as the C.P.R. We will not see any more important one than we have seen right here, this minute, in this committee.

Mr. GORDON: Now, Mr. Creaghan—and I am not pointing my finger at you; I did not intend to. I am just talking, and I am not lecturing you—I am telling you what happened in regard to the statement, and it is this: These union members had met and, unfortunately, one of them quite wrongfully and ill advisedly made a statement that he believed we were going to close all the Moncton works.

Mr. CREAGHAN: But the man that made that statement came from Toronto, and he was not a C.N.R. workman.

Mr. GORDON: Well, I will call him what I think of him mentally, in a minute, because he did a great deal of harm.

Mr. CREAGHAN: That is right, a great deal of harm to you, a great deal of harm to me, to this company, and to the people of Canada.

Mr. GORDON: It did harm to both of us, and to Moncton as well, because that started a wild rumour that the C.N.R. shops in Moncton were being closed. That was never thought of, or even discussed; we had no intention of doing that. We were only talking about the segment of the shops which affected this passenger main repairs. The end result is that 14 men are involved.

Mr. CREAGHAN: And 41 are transferrable.

Mr. GORDON: We have already moved 79 to other work in Moncton, and we gave an opportunity of transfer to other shops to 41 out of Moncton.

Mr. CREAGHAN: Montreal and Winnipeg?

Mr. GORDON: Well, wherever it may be.

Mr. CREAGHAN: At their own expense.

Mr. GORDON: No.

Mr. CREAGHAN: That is what I have been told.

Mr. GORDON: There is a regular arrangement under the wage agreement. Our wage agreement has a provision in it that when a man is moved, he is moved under certain circumstances. I cannot recollect the particular arrangement.

Mr. CREAGHAN: It is rule 28, or whatever it is.

Mr. GORDON: Whatever it is, yes. But, the rule has been negotiated between labour and management. You must remember that part of the railway business is the hazard of change. They come into that with their eyes open, assuming that the process of movement is part of the railway business. That is why the union stipulated conditions when they made an agreement, and these conditions are very rigid.

Mr. CREAGHAN: I have no complaints with the rules. I think they are proper, as they were negotiated.

The CHAIRMAN: Gentlemen, it is ten o'clock. I think you now have aired pretty nearly all your grievances, and we might conclude for the day. I do not think it is anyone's desire to sit until ten thirty.

Mr. HORNER (*Acadia*): Before we adjourn, Mr. Chairman, may I put the question, in connection with this first page, and perhaps the figures could be assimilated for another meeting.

My question relates to the loss in freight movement of $47 million. You suggest at the bottom of page three, under "Financial Results", that it was because of grain and grain products, lumber, building materials, coal and other mine products. You told me earlier that grain products accounted for $1.4 million, and I am wondering if, later on, we could not have a breakdown of this, and spread the $47 million over these various products.

The CHAIRMAN: Did you get that question?

Mr. GORDON: I think it is in here. However, we will get a statement for you.

The CHAIRMAN: Are you satisfied, Mr. Horner, that Mr. Gordon obtains it?

Mr. HORNER (*Acadia*): Yes.

The CHAIRMAN: Gentlemen, what about adjournment?

Mr. BROOME: The house is sitting until ten thirty tonight. Should we not continue on until fifteen or twenty minutes after ten o'clock?

The CHAIRMAN: I think Mr. Gordon has put in a very long day, and that we should adjourn at this time. Is that agreeable?

Some Hon. MEMBERS: Agreed.

The CHAIRMAN: I do not know. Mr. Gordon is satisfied to carry on but I think he has been given a pretty exhaustive day today. He has undergone a lot of hard pressure, but it is up to the committee. We can sit to-morrow from 9.30 to 11.00 when the house meets, and then from 2.30 or 2.00 o'clock to 6.00 o'clock.

Mr. SMITH (*Simcoe North*): The notices have been sent out for 2.30.

The CHAIRMAN: Then we shall meet from 2.30 to 6.00 o'clock.

Mr. CREAGHAN: The notice also says 8.00 o'clock to-morrow night.

The CHAIRMAN: That shows we are hard at work.

HOUSE OF COMMONS

Fourth Session—Twenty-fourth Parliament

1960-61

SESSIONAL COMMITTEE

ON

RAILWAYS, AIR LINES AND SHIPPING

Owned and Controlled by the Government

Chairman: HONOURABLE W. EARL ROWE

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

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FRIDAY, JUNE 16, 1961

CANADIAN NATIONAL RAILWAYS ANNUAL REPORT

(1960)

WITNESSES:

The Honourable Leon Balcer, Minister of Transport; *From Canadian National Railways:* Mr. Donald Gordon, Chairman and President; Mr. D. B. Hanna, Assistant to the Chairman; Mr. J. J. Pigott, Vice-President, Accounting and Finance; Mr. H. C. Grimston, Vice-President, Transportation and Maintenance; Mr. J. B. Wyatt, General Freight Traffic Manager; Mr. J. W. G. Macdougall, General Counsel; and Mr. G. Harris, Director, Public Relations.

EDMOND CLOUTIER, C.M.G., B.A., L.Ph.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1961

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ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1961

25455-7—1

SESSIONAL COMMITTEE ON RAILWAYS, AIR LINES AND SHIPPING

Chairman: Hon. W. Earl Rowe,

Vice-Chairman: Mr. H. Smith (*Simcoe North*)

and Messrs.

‡Badanai
Brassard (*Lapointe*)
Broome
Browne (*Vancouver-Kingsway*)
†Campeau
Carter
Chevrier
Creaghan
Fisher
Forbes
Granger
Grills
Horner (*Jasper-Edson*)
Horner (*Acadia*)
Howe
*Kennedy
McFarlane
McPhillips
McWilliam
Mitchell
Monteith (*Verdun*)
Pascoe
Robinson
Smallwood—26.

J. E. O'Connor,
Clerk of the Committee.

* Replaced on Friday June 16, 1961 by Mr. Crouse.
† Replaced on Friday, June 16, 1961 by Mr. Cathers.
‡ Replaced on Friday, June 16, 1961 by Miss LaMarsh.

ORDERS OF REFERENCE

FRIDAY, June 16, 1961.

Ordered,—That the names of Messrs. Crouse and Cathers be substituted for those of Messrs. Kennedy and Campeau respectively on the Sessional Committee on Railways, Air Lines and Shipping.

Ordered,—That the name of Miss LaMarsh be substituted for that of Mr. Badanai on the said Committee.

Attest.

LÉON-J. RAYMOND,
Clerk of the House.

25455-7—1½

MINUTES OF PROCEEDINGS

FRIDAY, June 16, 1961.
(4)

The Sessional Committee on Railways, Air Lines and Shipping, met at 9.32 a.m. this day. The Chairman, Mr. W. E. Rowe, presided.

Members present: Messrs. Broome, Browne (*Vancouver-Kingsway*), Chevrier, Creaghan, Fisher, Forbes, Granger, Grills, Horner (*Acadia*), Horner (*Jasper-Edson*), Howe, McFarlane, McPhillips, Monteith (*Verdun*), Pascoe, Robinson, Rowe, Smallwood and Smith (*Simcoe-North*)—19.

In attendance: The Honourable Leon Balcer, Minister of Transport, *From Canadian National Railways:* Mr. Donald Gordon, Chairman and President; Mr. R. T. Vaughan, Assistant to the Chairman; Mr. J. L. Toole, Vice-President, Accounting and Finance; Mr. H. C. Grayston, Vice-President, Transportation and Maintenance; and Mr. J. D. Wahn, General Economist.

Agreed,—That meetings of the Committee be scheduled for 2.30 p.m. this day and 9.30 a.m. and 2.30 p.m., Saturday, June 17th.

The questioning of Mr. Gordon, assisted by Messrs. Toole, Grayston and Vaughan, on the subject of the Company's Annual Report and financial situation was resumed.

A copy of the "Submission to The Senate Special Committee on Manpower and Employment by The Railway Association of Canada", was tabled.

At 11.00 a.m., the Committee adjourned to meet again at 2.30 p.m. this day.

AFTERNOON SITTING

At 2.33 p.m. the Committee reconvened. The Chairman, Mr. W. E. Rowe, presided.

Members present: Miss LaMarsh and Messrs. Broome, Browne, (*Vancouver-Kingsway*), Cathers, Chevrier, Creaghan, Crouse, Fisher, Forbes, Granger, Grills, Horner (*Acadia*), Horner (*Jasper-Edson*), Howe, McFarlane, McPhillips, Monteith (*Verdun*), Pascoe, Robinson, Rowe and Smallwood—21.

In attendance: The Honourable Leon Balcer, Minister of Transport. *From Canadian National Railways:* Mr. Donald Gordon, Chairman and President; Mr. R. T. Vaughan, Assistant to the Chairman; Mr. J. L. Toole, Vice-President, Accounting and Finance; Mr. H. C. Grayston, Vice-President, Transportation and Maintenance; Mr. J. D. Wahn, General Economist; Mr. J. W. G. Macdougall, General Counsel; and Mr. C. Harris, Director, Public Relations.

Mr. Gordon, assisted by Messrs. Grayston, Macdougall, and Harris, was further questioned concerning the Annual Report of the Company with regard to those sections relating to financial results; management organization structure; modern approach to sales; visual redesign; and plant and equipment.

A document entitled "A New Plan of Organization—C.N."—was tabled and copies distributed to Members of the Committee.

Mr. Gordon's questioning continuing, the Committee adjourned at 6.00 p.m. to meet again at 9.30 a.m., Saturday, June 17, 1961.

J. E. O'Connor,
Clerk of the Committee.

EVIDENCE

FRIDAY, June 16, 1961.

The CHAIRMAN: Gentlemen, I see a quorum so we will proceed.

Mr. FISHER: Mr. Chairman, I want to raise a point. I do not know whether it is a question of privilege, but certainly I want to make a correction. There is a little story which went out to the Canadian Press. I have not got a verbatim copy of it, but I have some quotations. It seems from Mr. Gordon's statement yesterday that a member stood up in the house and bragged about—I do not know whether it was advocating a wildcat strike or not, but the actual words used by the dispatch were the C.N.R.'s change in operation—or that I had scuttled it by a speech in the House of Commons. This was the first inaccuracy; and the second thing is that a wildcat strike developed. It was in the news report. I think Mr. Gordon will agree with me that first of all my speech in the House of Commons did not take place until after the incident had happened. This is the first point—and secondly, that no wildcat strike ever did take place.

Mr. DONALD GORDON (*President, Canadian National Railways*): Yes, I quite agree with that. I did not say that the plan which we developed did not eventually mature. What I was pointing out was that we were endeavouring to get the plan in at the time we did, and the reaction that followed the threat of the wildcat strike stopped us from putting it in at that time. But we did put it in later. It is working well and the men are quite happy with the arrangement. The second point is that you say here that the wildcat strike did develop. No, in fact, it did not.

Mr. FISHER: I did not say it did. The newspaper report said it did. I did not say it did.

Mr. GORDON: The wildcat strike did not develop. It was only threatened and the statement about the House of Commons was that you had advised the men to pull a wildcat strike. I am quoting here your own language.

Mr. FISHER: I want to make that perfectly clear in relation to the way that it is mixed up. A wildcat strike did not take place and my remarks in the House of Commons could not scuttle the plan. My speech to the House of Commons was away long after that. It could not have scuttled the plans because the plans had already been made before the speech was made.

Mr. GORDON: The plan went into operation before you made your speech. That is quite correct.

Mr. FISHER: Fine. One point I feel I must make clear is in regard to this question of a wildcat strike. The situation was that the local chairman and several of the general chairmen of the unions involved were here in Ottawa, and they came to see me. They asked me in this particular case what could they do and the local chairmen, as I can imagine, were more concerned about it than the general chairmen. I said: "I do not know what you can do; if the railway intends to go ahead with this, it is up to you to come to a decision." They said: "What could we possibly do?". And I said: "The only thing I can see you could do is to call a wildcat strike". When I said this, the general chairman said—I think it was the general chairman of the firemen's union who was there—"You cannot do that, that is illegal." I said: "If you really feel strongly enough about this, if you really feel something is being put over on you, you should be prepared to go to jail."

Mr. GORDON: In other words, you as a member of parliament advised them to break the law. That is what you are saying now. You yourself advised them to break the law.

Mr. FISHER: I am giving this here, Mr. Chairman, as a point. I said: "If you really feel strongly enough about it". Well, I think the local chairman felt that strongly about it, because he gave the statement to the press. That is all I have to say.

Mr. GORDON: You confirmed exactly what I have said, then.

Mr. FISHER: I confirmed what?

Mr. GORDON: That you did advise them to pull a wildcat strike.

Mr. FISHER: Yes, I only advised them to do that if—

Mr. GORDON: You broke the law in doing that.

Mr. FISHER: I did not. The judgment was up to them. I did not go around saying—I have no rule with these men—they made the decision on their own.

Mr. GORDON: May I quote your own words?

Mr. FISHER: Yes, go ahead.

Mr. GORDON: This paragraph is from *Hansard*, February 27, 1961, at page 2480.

Mr. FISHER: When was your plan to be brought into operation?

Mr. GORDON: It was to go into operation the first week of December. It was held up.

Mr. FISHER: So this underlines the fact that there was a considerable interval between my "exaggerated speech" as it was called. Is that not right?

Mr. GORDON: No, no, no. You made this statement in the house on February 27, but you told them back at the time the plan was scuttled, as you say; it was scuttled at that point.

Mr. FISHER: But Mr. Gordon, the point I started with today is this, that I want to make it perfectly clear that the way that the story was reported in the press, or the way it read was that I had scuttled this plan by a speech in the House of Commons.

Mr. GORDON: I have not seen what the Canadian Press said.

Mr. FISHER: That is what it said.

Mr. GORDON: Then, may I put it this way, you did not suceed in scuttling it.

Mr. FISHER: Well—

Mr. GORDON: I confirm that. You did not succeed.

Mr. FISHER: —and my speech in the House of Commons had nothing to do with it.

Mr. GORDON: I am going to read what you said in the House of Commons. It is as follows:

> I remember asking these railroaders from North Bay, Nakina and Hornepayne what their unions were going to do about this situation. They replied that there was nothing that could be done because this service was to be introduced very quickly. They asked me what I would advise them to do. I advised them to pull a wildcat strike. I told them that was the only thing to do in a situation like this. They did not have to pull a wildcat strike. All they had to do was to threaten to do so. The proposed change was postponed and a more satisfactory basis was worked out. I should like to inform hon. members why I advised these people to pull a wildcat strike. I advised them to do so because I felt it was the only way in which they could get the attention and action of the officials.

Now, that is your statement.

Mr. FISHER: That is the statement.

Mr. GORDON: That is what I was referring to yesterday. I did not name you by name. I now say I was referring to you.

Mr. FISHER: It was obvious that members of the committee would be aware.

The CHAIRMAN: What is the point of order?

Mr. FISHER: There is no point of order. I think it is a legitimate question of privilege. An interpretation went out of this committee to the Canadian Press that there was an exaggerated speech of mine in the House of Commons which cost the C.N.R. some money.

Mr. GORDON: No, no.

Mr. FISHER: My speech in the House of Commons had nothing to do with it.

Mr. GORDON: That is another interpretation. You have used the words "cost the C.N.R. some money". Yes, it did cost some money. It delayed the putting in of the plan.

Mr. FISHER: My speech?

Mr. GORDON: No, no; your advice.

Mr. FISHER: It is thrown out here.

Mr. SMITH (*Simcoe North*): On a point of order, as I understand a point of order it is something brought by a member to correct some misinterpretation.

The CHAIRMAN: Perhaps we could—

Mr. SMITH (*Simcoe North*): We have heard now what he said and what has been done. It would seem to me at this stage that all this has been fully rehearsed, that every person in this room is now at one as to what was said and as to the follow-up of events. I think now that we should move on.

Mr. FISHER: I am quite prepared to do so, but I wanted to make this perfectly clear.

Mr. SMITH (*Simcoe North*): Before we start the proceedings, Mr. Chairman, do you think the committee might have some indication as to what sittings are to be held again tomorrow?

The CHAIRMAN: Yes, I think it would be well for everyone concerned, as we are now near the end of the week. I think we should determine what the hours of sitting shall be and whether we will sit tomorrow or not. It has been suggested that we sit today until 11 o'clock; again at 2.30 and adjourn at 6 p.m.; and not sit tonight. Is that satisfactory?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: As far as tomorrow is concerned, several members would prefer not to sit tomorrow. I am satisfied to stay and I think Mr. Gordon and his staff would be quite able to stay tomorrow, but I do not know whether or not the committee would wish it. Perhaps we would be in such good mood that we might finish up tonight.

Mr. BROOME: The house is sitting tomorrow, so while we are sitting, I move that we sit today and again tomorrow.

Mr. PASCOE: I second that.

The CHAIRMAN: Then it is agreed that we should sit the same hours as today, that we would not sit tonight or tomorrow night. Eeveryone will understand that, so that there will be no need to be confused. I must confess I was hardly sure as to the time which we would meet here this morning; I thought it was 9.15.

Now it is definite. We are sitting today 9.30 to 11 a.m. and 2.30 p.m. to 6 p.m. We are sitting tomorrow from 9.30 a.m. to 11 a.m. and from 2.30 p.m. until 6 p.m.

Mr. CREAGHAN: If necessary.

The CHAIRMAN: If necessary, yes.

Mr. BROOME: Yesterday I asked if the C.N.R. officials could prepare a statement in regard to U.S. operations showing the total cost and the deficit that occurred on the U.S. operations. I do not know whether they have had a chance to prepare that statement as yet. I wonder if they could advise me when it would be available?

Mr. GORDON: We have been guilty of catching some sleep, I am afraid. You will have the statement this afternoon.

Mr. BROOME: I was just wondering when it would be ready.

Mr. GORDON: Mr. Toole says it is being typed and that he will have it available for the first afternoon sitting.

Mr. BROOME: Will it include all costs applicable to that portion of your system as against all revenue?

The CHAIRMAN: Is there any question left over from last night? I think Mr. Horner had one.

Mr. GORDON: I think that will also be ready this afternoon.

Mr. BROOME: There was a list of applications for discontinuance of passenger services.

The CHAIRMAN: That is over on the passenger item. I thought it would be better now to clear up your point and Mr. Horner's, and when those have been dealt with satisfactorily, we could then get a little more order in our procedure. We could take the Financial Results, and having dealt with that, we could go on to the Management Organization Structure; then we could deal with Modern Approach to Sales. Someone mentioned as to whether C.N.R. were advertising their services enough, and that could be dealt with under this. There is plenty of latitude under each item. I am not going to be too rigid and if someone has forgotten something, I will not prevent him from referring back. However, I should like to get all this in order, so that we would make some more progress, and at least know when we are making progress.

Mr. BROOME: This is on a point of order which you have raised. The traditional way of handling the estimates is that under item number one, a member is able to refer to all phases of the operations of the department and it usually happens that item one takes a fairly long time. It seems to me that the committee is automatically treating this in that way.

The CHAIRMAN: Dealing with other items under number one.

Mr. BROOME: Treating them under item number one, the first item. On that item we are dealing with all points of railway operations, and it is one which is broad enough that you can say it is departmental administration, because it says Financial Results and everything in regard to railway operation would come under it.

The CHAIRMAN: Provided the committee understands this.

Mr. BROOME: When we have finished with item number one, we can go to the details, and do not refer back again. It seems to me that the committee has automatically picked the best method of procedure.

The CHAIRMAN: Very well. I just want to see that that is understood—as long as members are aware that we are doing the same as in the House of Commons.

Mr. MCPHILLIPS: I am not in favour of that, as we would just get into a morass, because it has no relationship to the first item one in the minister's departmental estimates. If we start this we will have to bring all matters forward on item one, and we will be in a morass.

The CHAIRMAN: There has been considerable latitude on item one, as Mr. Broome has pointed out. It has been more or less the customary practice in the House of Commons in an item of estimates coming up, that you are given a lot of latitude on item one and very often it does come up, and as you come to the other items you can deal with them. However, I think that as soon as possible we should get out of item one and then deal more concretely with each of the following items, and stick to them as closely as possible. In that way I think we would make more progress.

Mr. BROOME: That suits me.

The CHAIRMAN: Probably we should proceed along that line, and recognize all that has been said now.

Mr. FISHER: On item one, I would like to ask Mr. Gordon about the last sentence on page 4 of the memorandum we had yesterday. It says:

> Had depreciation been accrued by C.N.R. on the same basis as C.P.R., its depreciation reserve would have approximated $1.5 billion and, consequently, our funded debt would have been reduced by about $900 million representing a saving of some $45 million annually in our fixed charges.

The question I want to ask is this. Am I correct in saying that partly as a result of this situation as explained here, the C.N.R. is considering asking for a change in its debt structure?

Mr. GORDON: Let me put it this way: The provisions of the Capital Revision Act, which were passed in 1952, are due to expire on December 31, 1961. Having to do with that expiry, we are making representations to the Minister of Finance. Discussions are going forward now in regard to the whole matter, and this point will be included in our representations.

Mr. FISHER: Would the figure of $900 million have any currency or relevancy to it, in your presentations, in terms of bringing your fixed charges into line?

Mr. GORDON: Yes, if the Minister of Finance will listen to us. But, mind you, as I said yesterday, I am not advancing this $900 million figure because, as a matter of principle, the $900 million is only taking the contrast between the C.P.R. report and our report. What I said here is, that had we done it at the same rate as the C.P.R., then our figure of depreciation would have been thus and so. And, if we establish the principle that we should have our depreciation in the same order of magnitude as the C.P.R., then we will analyze the theoretical $900 million against an analysis of what actually took place. I cannot tell you at the moment what the differential would be. However, I would not mind saying it is somewhere in the area between $700 million and $900 million. Is that figure about right?

Mr. J. L. TOOLE (*Vice-President, Accounting and Finance, Canadian National Railways*): That is about right. We are somewhere in the middle of these two figures, after the very careful calculations we have made to date.

Mr. FISHER: I wanted to get that point very clear.

Mr. BROOME: Mr. Chairman, I would like to ask Mr. Gordon a question, which has an implication that you are considerably overstocked with diesels. In comparing the C.N.R. and C.P.R. in regard to the rolling stock, your rolling stock does follow the formula of 60-40, that is 60 per cent for the C.N.R. and 40 per cent for the C.P.R. So, your rolling stock is approximately not quite 50 per cent more in number than the C.P.R. However, your diesels are about 100 per cent over and, if it followed the same formula, there would be something in the neighbourhood of 500 less diesels. However, against this it must be said that the C.P.R. have 300-odd steam locomotives. If one diesel is equivalent, in working capacity, to two steam locomotives, it represents well over

200 diesels in excess. If this comparison is true all the way along the board this would represent perhaps $50 million to $75 million worth of equipment. A factor might be the trackage—the lightweight trackage you have on a lot of lines, and this may be a factor which is much more important than we can assess, because you have to have certain types of diesels for that, with the result you cannot have the flexibility of the same type over the whole system, as in the case of the C.P.R. It does seem to me that in just comparing the figures, one against the other, that diesels stand out as not being in the same relationship as other stock, to a very considerable extent.

Mr. GORDON: Well, I think that is a very pertinent question. I have my answer to that, but I would like to pass the question along to our Vice-President of Transportation, who is the officer responsible for determining the size of over-all inventory. You can hear what he has to say, and then I may have something further to add.

Mr. H. C. GRAYSTON (*Vice-President, Transportation and Maintenance, Canadian National Railways*): In the first place, the studies that were made prior to embarking upon the purchase of our diesel inventory were very complete. They represented months and, in fact, years of study, and this is the answer we came up with.

Mr. Gordon has already referred to the difference in the inventory occasioned by the light traffic lines. Also, we have a difference which is, in comparison with the C.P.R., just a little difficult to evaluate in terms of locomotives, but we do operate, as indicated in Mr. Gordon's statement of yesterday, to a much larger extent in the highly industrialized areas. We serve more of them in eastern Canada and this, of course, will account for some of the difference in the inventory of the C.P.R. and the Canadian National in the area of yard switchers.

There is another factor which entered into the studies that were made. Of course, if you are in the process of carrying out a large-scale track rehabilitation program, such as we were, you must have motive power for that sort of work, and this motive power must be virtually assigned to the track work for hauling ballast, fill, and so on.

Mr. BROOME: Would not your steam locomotives have filled that area about which you are talking?

Mr. GRAYSTON: You get, then, Mr. Broome, into the area that was discussed yesterday. There is a point at which you must make the decision to completely dieselize. The decision to complete it is to some extent forced upon a railway. You get to the point where you are operating dual repair facilities and where your skilled tradesmen have been shifted from here to there. By virtue of the type of dieselization that we did, that is the selective method in which we did our dieselization, we got to the point that we simply had to complete the program in order to obtain these fairly substantial residual benefits which were mentioned yesterday.

Now, there is another thing to bear in mind as well, and that is that the use of a diesel locomotive in work service is a much more efficient proposition than the use of steam. You can get far more service out of them in work service than you can with steam.

Mr. BROOME: May I make two comments in that connection? The one is that for a definite work program, it was necessary to dieselize 100 per cent and, secondly, the problem of light density lines, with which the C.N.R. is plagued, is the same problem you will be bringing before the transport board and for which you will be asking a reduction in service. So, if you are successful in reduction of service on light density lines, then you will certainly—if not now, in the future—if you are successful, have a redundance of the locomotives you purchased for that reason. The more successful you are in consolidating

your operations and becoming a cohesive railway, along the pattern of the C.P.R., the more your operations will tend to follow a straight 50 per cent, as compared with the C.P.R.

Mr. GRAYSTON: This undoubtedly will have an effect. But, of course, we must take into consideration last year's cut in the general level of traffic. Our present inventory of diesel power is tailored to the expectation of traffic now and, as it increases, you must have inventory to meet the increase. As these programs increase, they will tend to have an effect in taking up the increased requirements based on the expected increase in the level of business.

Mr. GORDON: There is another factor in connection with our operations. In Newfoundland we use narrow-gauge locomotives. The locomotives there are captive to Newfoundland and, therefore, cannot help us with the mainline work. That tends to make us larger in terms of numbers. This is particularly true. Mr. Broome, in regard to our diesel program.

I do not mind telling you that in our program we learned as we went along, that we got better results out of the diesel operation than we had anticipated, and as it came closer and closer to full implementation it became more clear, and if I remember correctly, Mr. Grayston, we reduced our last budget by about 200 locomotives.

Mr. GRAYSTON: We made a substantial reduction, which came about from the traffic drop.

Mr. BROOME: That would have meant $50 million.

Mr. GRAYSTON: Yes. We reduced it.

Mr. BROOME: And if you have 200 extras now, you would be $50 million over-capitalized.

Mr. GORDON: We have not 200 extra. Also, we have the United States operations, as well.

Mr. BROOME: I was taking rolling stock in the same percentage—rolling stock, too, in both railroads.

Mr. CREAGHAN: On the same point, Mr. Chairman, I was wondering if Mr. Gordon could file for the record a breakdown of the 2,134 diesel units. In previous years we have known how many were used for such things as passenger service and so on. Also, I would like to know how many were replaced in service, in 1960.

Mr. GORDON: We can get that for you.

The CHAIRMAN: He will calculate that.

Mr. CREAGHAN: In previous years we had a detailed report.

Mr. GORDON: Yes; that is easy to get. We have it. We could file it after the lunch hour if that would be suitable.

Mr. CREAGHAN: Yes.

Mr. HOWE: On page 3 of your memorandum the statement is made that there is $100 million in traceable economies. I would like to see the breakdown of these traceable economies. I would like to know whether it is in respect of fuel for diesels, whether it is due to technological changes, or where these economies were effected.

Mr. GORDON: What you wish is a breakdown of the $100 million. We can give you that. Remember that these figures are estimates.

The CHAIRMAN: Are you satisfied to have this after lunch?

Mr. HOWE: Yes.

Mr. CHEVRIER: I have several questions on another field which has to do with the hump yard in Montreal. I would like to know when it was opened, what it costs and how it was operating.

Mr. GORDON: It is practically completed now but there is finishing work to be done. The estimated cost when it is all completed is $28,500,000. The yard went into operation on June 4. What was your other question?

Mr. CHEVRIER: The other question is, how is the operation progressing?

Mr. GORDON: It went into operation on Sunday. We were delayed and partly handicapped toward the end of the operation by the serious sleet storm in Montreal prior to the opening. That storm caused a great deal of damage to the electronic equipment, some of which we have not been able to replace; so, at the moment, it is operating under some handicap. We are, however, quite satisfied with the basic functioning of the yard and are confident it will work effectively in a short time.

Mr. CHEVRIER: Recently you have changed the routing of the train at Dorval to avoid these highway crossings. You follow a new route.

Mr. GORDON: That is the Lachine line.

Mr. CHEVRIER: Yes. I would like to know why the trains have been delayed from the time they leave Dorval until they get into the central station. There has been a delay of fifteen minutes or more. Is that because it is a new route?

Mr. GORDON: I think it is a slow order as laid down by the board of transport commissioners.

Mr. GRAYSTON: I believe these delays are due to signalling difficulties.

Mr. CHEVRIER: When will they disappear?

Mr. GRAYSTON: I would hope the delay has disappeared.

Mr. CHEVRIER: It had not disappeared this week.

Mr. GORDON: It is part of the breaking-in problem. In part it is this, and I am not sure whether or not the slow order is still in force. The signalling equipment was not quite complete, and getting it functioning is almost a momentary matter.

Mr. CHEVRIER: I take it that the time from Dorval to the central station will be reduced. Will you always follow the route which crosses the canal on two occasions.

Mr. GRAYSTON: With our present track location we cannot avoid crossing the canal at two locations.

Mr. CHEVRIER: Then do you anticipate that at any future time the length of time it takes to go from Dorval to the central station will be reduced?

Mr. GORDON: As compared with the previous time?

Mr. CHEVRIER: Yes.

Mr. GORDON: It will.

Mr. GRAYSTON: Instead of dipping down into Lachine through that industrial area, now we simply follow the highway.

Mr. GORDON: But it avoids the level crossings and that will help the speed.

Mr. GRAYSTON: It is only a question in time of the lesser distance; this is about the only difference in time.

Mr. CHEVRIER: Is there any difference in mileage as between the old route and the new one.

Mr. GRAYSTON: .7 of a mile.

Mr. CHEVRIER: A suggestion has been made that in order to move airline passengers in and about Montreal more quickly—I think the minister mentioned this in the house—that the railways had been asked to give consideration to whether or not a belt line could be constructed or that the railway facilities which already exist could be used to move passengers from the Dorval airport into downtown Montreal more quickly than they now move by taxi.

Mr. GORDON: The matter has been under examination. From the standpoint of the C.N.R. it does not look very likely. It would mean we would have to cross a number of highway crossings. As a matter of fact the C.P.R. is in a better position to do it than we are in terms of maintaining a shuttle service; but I do not think they would have any enthusiasm for it. I do not believe it is practical from our point of view in the sense that it would provide a more satisfactory service.

Mr. MCFARLANE: Some reference was made to the C.P.R. statement that 364 steam locomotives are used. This is shown as rolling stock inventory and does not agree with their statement that locomotive repair expenses were down markedly, reflecting the completion during the year of the program of substituting diesel for steam power and the beneficial effects of certain modifications made in diesel power design. I thought I should bring to your attention that possibly these 364 steam locomotives they show in inventory are not in use.

Mr. GORDON: Thank you; that is helpful.

Mr. BROOME: It makes the picture worse. Then they only have one thousand diesel locomotives and I was including the 300 steam locomotives to give the fifty per cent.

Mr. GORDON: They have 364 steam locomotives in reserve. Therefore if they got to a peak load of traffic, they would put that reserve into use. We have nothing but diesel locomotives, so our reserve must naturally be applicable to our existing diesel stock. A railroad, at any given point in time, is very seldom working at peak capacity. If it gets to peak capacity, then we will be short of locomotive power. In 1956, we had a peak capacity and were very short of locomotive power.

Mr. GRAYSTON: We actually had a peak this winter.

Mr. GORDON: We do get peak periods even in times of low traffic where we are short of locomotive power; so you have to provide for a reasonable reserve. It would appear that the C.P.R. in this case, not being fully dieselized, is leaning on the remnant of its steam power for reserve. However, once it is fully dieselized it will have to use the diesels.

Mr. FISHER: On this point, is it true on the main line route west, that because of the different kind of diesels—that is your greater flexibility in the kind of diesels—you are able to run consistently better times in the freight service than the C.P.R. I am thinking particularly of between Toronto and Winnipeg.

Mr. GORDON: The general suggestion of a speed war is something I keep away from. There could be actual instances in which our time is better, but my impression is that it is on about a 50-50 basis. I do not think we have an advantage in speed.

Mr. FISHER: Yesterday when you were giving your reference to the introduction of the hot shot service it was strictly a jump on the C.P.R. and not a competitive jump in terms of time.

Mr. GORDON: Partly; it also had to do with the routing of the trains. There are places we do get an advantage in time because of the routing and the fact that our line may be running through less congested areas. On the whole, however, we were hoping to be able to make our time so spectacularly better in the first instance to get the jump you referred to. What are the times, Mr. Grayston?

Mr. GRAYSTON: The times now are similar. The actual benefit is not necessarily in the over-the-road time but in the time in which delivery is made at the destination. Of course, the speed of the train in between the departure and the destination point is quite a factor, but the delivery time is the important thing.

Mr. FISHER: May I ask Mr. Gordon if one of the most expensive aspects of the program has been the yard program?

Mr. GORDON: Yes.

Mr. FISHER: In your plans have you worked out capacities for these yards, such as Moncton and Montreal.

Mr. GORDON: Yes.

Mr. FISHER: How close are you coming to capacity in respect of the Moncton yard situation?

Mr. GORDON: I do not know at the moment. Mr. Grayston may have those figures. I can say, generally, that the yards which are completed are built with an excess capacity in mind. We are building for tomorrow by making provision for ready expansion. But, you are thinking now of the present day traffic in the light of the capacity already available.

Mr. FISHER: I am suggesting it might be conceivable that you have overspent?

Mr. GORDON: You want to know whether we have overspent in the light of present day traffic?

Mr. FISHER: Yes; in the light of your deficit and fixed debt.

Mr. GORDON: Offhand, I would say that our Moncton capacity is greater than the need for present day traffic, but that represents a prudent provision for growth. What is the capacity of the Moncton yard now, Mr. Grayston?

Mr. GRAYSTON: The standing capacity, that is, capacity of Moncton yard to hold cars is slightly over 5,000 cars. There is provision in the design of the yard, although not in the actual construction at the present time, for an increase to some 7,600 cars.

Mr. FISHER: Do you ever use more than 3,000 cars of that capacity at the present time?

Mr. GRAYSTON: The yard is designed at the present time to handle in the order of 3,500 cars per day. We have not reached that point.

Mr. GORDON: Again, you are into the question of the peak load. We have not gone through a full year yet. There is no use in having a yard which will not handle your peak load. You have always to think of a peak load at any given point of time. This has been only a short time in operation and we have not been through a full season or full year.

Mr. GRAYSTON: It has not been in operation a full year yet.

Mr. FISHER: A number of years ago you mentioned there would be these three. One of them is in embryo, the Toronto one.

Mr. GORDON: That is right.

Mr. FISHER: There has been a downturn in the growth or the volume carried, I take it. I want to know what is your ability to adjust to this, because your expansion of the plan cost money. Are you adjusting your plan, reducing it, in the light of the fact that you have not got the growth factor you expected.

Mr. GRAYSTON: That has been done.

Mr. GORDON: I think Mr. Grayston you will find a memo in my file to you about six weeks ago asking for a complete review of the whole Toronto plan, and that was the thing that was in mind. But when we are talking about estimates of traffic, it is a very complex problem, to get definite appraisals of that. All we could get was a prudent estimate in respect of the total traffic that might be developed in the Toronto area. I think at the moment that our original plan for Toronto is probably over-estimated, but that does not mean that we are in any way regretting the property that we have acquired and the expansion possibilities that we will continue to reserve, because I am thoroughly convinced that over the years the Toronto traffic will grow.

Mr. FISHER: We will see about that. As you can appreciate, we have not the expertise or the knowledge of this to come to grips as to whether your plans are over-ambitious.

Mr. GORDON: No, I think that is a matter for management.

Mr. FISHER: It is a matter for management, but you can give us an assurance that you are trying, particularly in the Toronto one, which I imagine will be one of the most expensive, if not the most expensive, to adjust to the downturn.

Mr. GORDON: Oh, absolutely; there is no question about that. As a matter of fact we have gone further than that. Now that you have raised the point, I may say that we learn from each of our yards built. The Moncton yard was the first to be completed. Now, remember that this is a very, very new technology in the railroading business, these hump yards, so-called, and Moncton was the first one. We learned from that. There were some things done in Moncton that we would not do again and that would not be found in the Montreal yard and will not be found in the Toronto one. They are not major things, but I say we learn from actual experience.

One thing, for example, is that I think in Toronto we will not build our buildings with the degree of life in them that we have done, say, in Moncton. It may be better management to erect some of these buildings having in mind 15 or 20 years life rather than 30 or 40 years life, because we have seen so many rapid changes in the matter of materials and so forth, and we are considering taking a calculated risk that perhaps we could replace these buildings in 15 or 20 years which would result in a cheaper form of construction than we have been in the habit of using. The habit has been in the railway business generally, and I think this is a valid comment—not criticism but a statement that the railways tend to build too substantially and that perhaps we would be better off to build with an eye to less permanence and take the chance that we will rebuild in an earlier period of time.

Mr. FISHER: How is this going to affect the timing of the Toronto development?

Mr. GORDON: It will not affect the timing.

Mr. FISHER: You say this is a question for management, for management judgment. If we have doubts about the adjustments to make, or if you yourself have any doubts, is there any outside source which could readily give you an analysis and opinion as to the wisdom of your plans and the adjustments to the altered circumstances which are developing?

Mr. GORDON: Not in relation to railway business as such. I think there are checks which we can make in the form of technical approaches, and we do use those. That is in respect to the capacity of the yard, and so forth. However, the analysis and the estimate as to the total amount of traffic or the size of the yard has got to be pretty much a matter of railway management judgment.

Mr. FISHER: You do not hesitate at all, Mr. Gordon, in certain other aspects of your railway operations to call in consultants, such as Price Waterhouse and Company, or Woods Gordon and Company, or people like that. There is no outside source of a similar kind in a situation such as this that you might call in to give you advice as to whether your plans have been too grandiose?

Mr. GORDON: Yes, we have to this extent already made use of the de Leeuw-Cather report which has been referred to before, but it was largely a check on our own judgment, so to speak. There is no way that we can find anybody—let me put it this way—there is nobody that I know of outside the railway business better able to form a judgment about the railway business than the railway officers themselves.

Mr. FISHER: That is all I have at the moment.

Mr. CREAGHAN: To follow this up, to prove that either management has been prudent or otherwise. Mr. Grayston said that the Moncton capacity was 3,500 per day and that you had not reached peak because you did not have a full year of operation and did not have a real chance to prove it. How many cars have you now per day there?

Mr. GRAYSTON: I do not think I have those actual figures here, sir.

Mr. CREAGHAN: Have you any idea?

Mr. GRAYSTON: I can get them, certainly.

Mr. CREAGHAN: Would there be 2,500? Would it be in excess of 2,500, in the winter months?

Mr. GRAYSTON: Something like that. I would say nearer to 2,000.

Mr. FISHER: In other words, there is so far an excess capacity of over 75 per cent, or about 75 per cent?

Mr. GRAYSTON: I would not care, Mr. Fisher, to say yes or no to that. I think we could produce the figure on the peak. There is another point in connection with the hump yard operation which I think might be mentioned here, that is, that the capacity of a major hump yard at a major centre is determined to some extent by the extent to which marshalling of freight cars at outlying points can be eliminated. If you restrict the capacity of the new facility you also then reduce the opportunity of dispensing with smaller outlying yards at which this marshalling must be done.

Mr. CREAGHAN: You have located quite a lot of traffic in Moncton in the last month or more, which was used during the last year, and consequently salvaged some very valuable real estate on what was considered to be the main street. I assume that next winter the freight usually handled in the Toronto district will all be in the hump yard and this land you have captured will be either developed or sold, which would reduce the expense of the hump yard.

Mr. GORDON: That has not got a relation to the hump yard. It will be an off-set, yes.

Mr. CREAGHAN: Certainly it will be a credit, because you are going to recapture some very valuable real estate.

Mr. GORDON: Yes, but that is not recaptured by reason of the hump yard.

Mr. CREAGHAN: It would reduce for ever and ever, if you did not.

Mr. GORDON: I see what you mean—because we are able to carry it into the hump yard.

Mr. CREAGHAN: Yes.

Mr. GORDON: There is a factor in this which Mr. Grayston has not mentioned, that Moncton is the hub of the Maritimes. Whenever they run into serious weather problems, as they do in the winter, that peak load can increase enormously. It then becomes a hold yard for the traffic en route to Newfoundland for example. What we were in trouble with in the past was that when traffic getting towards Newfoundland got backed up for some weeks by reason of weather conditions, we were in great difficulty by reason of this backing up along the line. Now we have a flexibility by being able to handle that in Moncton on an efficient basis.

Mr. CREAGHAN: The news this morning, in fact was of a very serious tie-up of shipping in the United States, and if that has any duration at all I presume that Halifax and Saint John ports may be used and Moncton yard will be used to its full capacity during that period.

Mr. GORDON: That is what I maintain. Each one of these yards has different characteristics. For example, look at the Moncton yard and compare it with the

Toronto yard in terms of capacity and you could jump to the conclusion right away that Moncton was overbuilt, but the characteristics of Moncton are different. The need of the type of yard in Moncton has to do with that shipping traffic and the great swing in traffic which could take place both in respect of weather conditions and in respect of changes in relation to shipping and a lot of other things which affect the maritime traffic, that of course does not affect the Toronto traffic. Therefore, we have deliberately built in a flexibility of capacity in the Moncton yard that in one point of time may look to be overbuilt; but that is not the case.

Mr. CREAGHAN: I have gone through the yard with you, Mr. Gordon, on several occasions, and although I know very little about rail traffic, I do not believe Moncton yard is overbuilt.

Mr. GORDON: I am glad to know that. That will answer Mr. Fisher's question as to whether we have got confirmation of our judgment.

Mr. FISHER: In regard to this, neither Montreal nor Moncton has been in operation long enough to give you a real indication.

Mr. GORDON: No, these are new developments and will take time to break in—and we learn from experience.

Mr. FISHER: Would management be prepared then next year at this time, or next year when appearing before the committee, to give us an analysis of how correct your projections of the use of the yard have been in the light of the year's experience? We cannot apply any sort of judgment now to the matter, but I think we deserve to know, or the committee deserve to know, within the year, as to whether you have been justified in the scope of this.

Mr. GORDON: Yes, I do not know that a year is sufficient, but I know we will be able to give some idea. I am very glad to know also that you expect me to be here next year.

Mr. FISHER: I said very carefully "the management" of the C.N.R., Mr. Gordon.

Mr. GORDON: I would certainly be able to give you the facts up to that date, and we will be able to form some judgment on that in respect to operations of the yard generally.

The CHAIRMAN: It may not be big enough.

Mr. GORDON: I may say that the planning and construction of these yards is a very technical matter, and we are pioneers in many respects in regard to that. We are the pioneers and other people will be learning from us too.

Mr. FISHER: And the Canadian taxpayer, of course, is providing you with your funds.

Mr. GORDON: No, not the Canadian taxpayer, in this instance. We are operating on funds from the people who are investing in the Canadian National Railways bonds and the Canadian taxpayer only comes into the matter in connection with what deficit there may be in the over-all operation. The taxpayer is not providing the capital.

Mr. FISHER: If the Canadian government were not standing behind these bonds, do you think there would be much chance of selling them on the open market?

Mr. GORDON: Yes, if I were selling bonds to the open market with the kind of railway that is based on the C.P.R. basis, yes.

Mr. SMITH (*Simcoe North*): Of course Mr. Fisher suggested that probably it might leave an unfair and incorrect impression about the Canadian taxpayer. These capital projects, or the product of them, is largely of Canadian origin and they have provided a certain impulse to the Canadian economy in various parts of Canada, have they not?

Mr. GORDON: Oh, indeed they have.

The CHAIRMAN: Are there any other questions on this item now?

Mr. BROOME: There is one on general policy which I should like to ask. Has the C.N.R. any purchasing policy which gives a Canadian preference?

Mr. GORDON: Yes, indeed it has. I have a note on the purchasing policy which I think I might as well give you, as I have it here. Just one moment; I want to find the clauses which deal with this situation. There are some standard clauses and, I presume, that is what you have in mind.

Mr. BROOME: I was wondering whether there was a preference for Canadian purchasing, as there is for government purchasing.

Mr. GORDON: Yes. It is similar, but different, of course, because of different requirements.

Here are three samples. Here is the clause that goes into an equipment contract:

> "The contractor shall purchase all materials and supplies required for the equipment from Canadian producers, if such materials and supplies of suitable quality are procurable in Canada upon terms as favourable as elsewhere. Under no circumstances shall the contractor purchase outside of Canada any materials or supplies required for the equipment which are procurable in Canada, without the written consent of the company's representative.

The clause that goes in for general materials reads as follows:

> "Materials and articles produced or manufactured in Canada shall be used exclusively in the work covered by this contract, provided that the same are obtainable in Canada and that the quality and cost f.o.b. the work are substantially equal to those obtainable outside of Canada.

Then, a general purchase order will read:

> "This order is placed on the understanding that all materials and supplies used in the production thereof shall, as far as possible, be of Canadian origin.

I have some figures as well, if you want to go into that, which gives the results.

Mr. BROOME: Perhaps if the table is interesting, it might be well to file it so that it would appear as an appendix. In this way you would not need to take the trouble of reading it.

Mr. GORDON: The figures show our performance.

Mr. BROOME: It would be interesting to have that in the minutes of the committee.

Mr. GORDON: It is as follows:

SEGREGATION OF 1959 SYSTEM PURCHASES BY COUNTRY OF ORIGIN AS INDICATED BY INVOICES HANDLED

(Exclusive of Foreign Freight, Duty, Fuel Handling and Dockage Charges)

Canadian National Railways	For Use in Canada				For Use in U.S.A.		
	Canada	United States	Great Britain	Other Countries	Canada	United States	Total
	$	$	$	$	$	$	$
General Materials							
Purch. Agents Commodity Statements	132,228,698	14,289,225	3,820,462	1,661,370	63,417	8,398,206	160,461,378
Public Relations Department	2,210,703	—	—	—	—	105,480	2,316,183
All other Miscellaneous Departments	414,246	—	—	—	—	24,299	438,545
Sub Total	134,853,647	14,289,225	3,820,462	1,661,370	63,417	8,527,985	163,216,106
Equipment	82,869,907	50,000	—	—	—	2,428,160	85,348,067
Ties and Other Forest Products	15,198,032	45,119	—	—	279,821	780,864	16,303,836
Fuel	29,616,785	1,678,797	13,650	—	95,722	3,213,152	34,618,106
	262,538,371	16,063,141	3,834,112	1,661,370	438,960	14,950,161	299,486,115

Mr. BROOME: Does this represent a change in policy at all?

Mr. GORDON: No, Here are the figures in regard to purchases of all sorts of things for use in Canada.

Mr. BROOME: These are direct purchases by the railway?

Mr. GORDON: Yes, for use in Canada. $262,538,371 is bought in Canada; $16,063,141 is purchased in the United States; $3,834,112 is purchased in Great Britain, and $1,661,370 in other countries. So, the total for Canada is $262 million as against $16 million in the United States, $4 million in Great Britain, and $1.6 million in other countries.

Then, for use on our lines in the United States, the figures are as follows: $14,950,161 was bought in the United States and $438,960 was bought in Canada. Therefore, the grand total of our purchases is $299,486,115. I will give you this table; it will be interesting to have it in *Hansard*.

The CHAIRMAN: Have you a question, Mr. Grills?

Mr. GRILLS: Mr. Gordon, there seems to be a general opinion amongst railway employees in my area that there are more superintendents than are necessary; in other words, that there are more bosses on the job and less employees, and this is sometimes referred to as more chiefs and less indians.

Mr. GORDON: That is a phrase that seems to have stuck pretty well, hasn't it?

Mr. GRILLS: Yes, I wonder what your opinion is. It seems to me it is the general feeling, and that it has had some effect on the railway employees. I must add that I am not suggesting that it is wrong.

Mr. FISHER: I take it we are on management organization structure now, are we?

Mr. HORNER (*Acadia*): I have one question before we proceed to that.

The CHAIRMAN: I certainly think the field has been covered pretty well. We will deal with Mr. Grills' question but, after that, I would ask that you try to keep in order.

Mr. CREAGHAN: That answer, Mr. Chairman, was more or less anticipated when we changed the subject yesterday. Mr. Fisher raised a question in connection with chiefs.

Mr. GORDON: I think I can answer your question this way—and this is the short answer: The proportion of supervisory employees in the railway labour force in 1959 was as follows: the Canadian National, 12.2; on the Canadian Pacific, 11.7, and on the United States, class 1 railroads, 12.4. Therefore, you will see that our records show almost the same percentage as the United States class 1 railways. They are slightly higher than we are, and the C.P.R. is slightly lower than we are. However, the percentage, by and large, is about the same.

Mr. FISHER: Does that take into account the change in your organization structure?

Mr. GORDON: I am giving the figures now for 1959.

The 1960 figures show Canadian National, 12.6, and the Canadian Pacific, 11.9. I have not the class 1 United States raiways for 1960. But, again, the percentage is fairly close.

Now, that is in regard to what you call supervisory forces. If you take the proportion of white-collar employees in the total labour force—and I would like to give you these figures, which I have only up as far as 1959 at the moment—you will find that Canadian National is 25.8, Canadian Pacific 26.1, and the United States, class 1 railways, is 27.3. Then, I have a couple of other figures from outside industries and, if you take the index for all manufacturing, it runs 23.6. In taking the index for durable goods, it is 23.7. How-

ever, in respect of the white-collar employees in the railway business, the Canadian National percentage is somewhat lower than the C.P.R., and considerably lower than the United States, class 1, railways.

Mr. FISHER: You like that durable goods standard.

The CHAIRMAN: We should keep that in mind. We all hear that discussed in different places, and in fairness to the railways, we should keep in mind that we have a fair ratio compared with other industries.

Mr. GRILLS: Another comment you hear occasionally is that some younger men are coming into the railway business who have not railway background and, in some cases, there is objection to that.

Mr. GORDON: I missed the first part of your comment.

Mr. GRILLS: I have heard comments that many of the superintendents or white-collared bosses have not a railway background, and that they have not come up through the ranks, so to speak. As a result of this, their knowledge of their position, on occasion, is questioned.

Mr. GORDON: Yes.

Mr. GRILLS: Also, as to how they got there.

Mr. GORDON: Of course, this general statement about railway background is subject to a good deal of definition.

In my judgment, a railroader is not confined to a man who knows how to marshal cars in a yard or run an engine from one point to another. There is a great deal more to the business than the physical handling of the equipment. I think, even in the milk business, you will agree that the fellow who drives the truck does not necessarily know how to run the whole business. The same is true of the railway.

In the Canadian National Railways we have a much more diversified business than that of "straight" railroading. We have a nationwide communications system, a nationwide system of hotels, and we have a real estate business which is one of the biggest in Canada. At the moment, I am just picking some of the highlights. Also, we have a lot of other activities within the industry; in the reorganization, for example, we are establishing, area managers, men we hope who will be able to represent the railway in all facets of its business. It is not only a matter of operating the trains, but the man who is an area manager is specifically in charge of sales as well. I want to find out in your area, Mr. Grills, why he has not been around to see you. That is what I mean. The man in your area is in charge of sales, and when I call him up about it, he is going to know he is in charge of sales! The area manager will be responsible for seeing to it that our interest in respect to real estate in his area is properly looked after, as well as our interest in the hotels or anything else which is within his area. There is the accounting situation, and all sorts of problems—our competitive problems vis-a-vis the trucking industry, as well as the airplane industry. He has to be a general business administrator. There are men in our areas who, necessarily, are equipped to do that job—he might be a lawyer, an accountant, or, even a banker! It is a matter of general administration.

Mr. FISHER: Are you hiring Mr. Coyne?

Mr. HORNER (*Acadia*): I have a supplementary question.

Mr. GORDON: I want to make it clear, also, that in selecting these area managers every branch of the railway is taken into consideration. What I have said does not rule out at all the operating man who shows he has the capacity to develop along these lines. He has an equal opportunity—but only an equal opportunity, not a preferred one. He has an equal opportunity with anybody else in the whole organization.

We have proceeded, now, in breaking down the former tradition, which was certainly in the railway before I came, and which I believe handicapped the organization a great deal. The tradition was that when a man started in the purchasing department, he stayed there; when a man started in the operating department, he stayed there; when a man started in the legal department, he stayed there; and when a man started in the accounting department, he stayed there, with the result that we produced purchasers, accountants, law officers, and so on, and they were all in a straight line; they did not merge, with the result that the general business of management was not, in my opinion, getting the over-all coordination it should. The consequence of that was that all these straight lines—and I have only mentioned a few; I could give you twenty—were being coordinated only in Montreal. They were all coming through to Montreal, and we got an over-centralization.

Mr. BROOME: It sounds like Ottawa.

Mr. GORDON: I do not know. I lived in Ottawa for a while.

That is the basic reason for reorganization. We are trying to put it on a decentralized basis so that the man in the area can handle all the business and requirements in that area.

Mr. CREAGHAN: Would the reorganization reduce the headquarters staff and put them out into the field?

Mr. GORDON: I would not like to answer that at this time. We only put this into effect in January. We are not far enough advanced in our reorganization to make a definite statement in that regard. I might as well say that I am not satisfied with the headquarters organization yet—and that may be a shock to some of my officers. However, I am reasonably well satisfied that we have the right idea in the areas and the regions. Out in the field it is coming together. But, there is still too much headquarters work being done and, when we get the matters sorted out, as I hope to do, I think there will be a definite reduction in headquarters staff. However, it will take time to get it properly jelled.

Mr. HORNER (*Jasper Edson*): At page 5 we have a chart showing that 57.7 per cent went for payrolls. Could you tell me how much of that 57.7 per cent is administrative or white-collar people, or are they included in that payroll, or in the other expenses of 30.9?

Mr. GORDON: Just a minute, until I see how I can break it down for you.

Mr. HORNER (*Jasper-Edson*): In other words, how much of the dollar is going towards management? What is the management costing?

Mr. GORDON: You want a breakdown of the total compensation in categories which would cover, say, senior management, middle management and then what you call the employee staff; is that it?

Mr. HORNER (*Jasper Edson*): Yes.

Mr. BROOME: Mr. Chairman, before the question is answered, I assume we now are through with financial results and are on management organization structure?

The CHAIRMAN: Yes. Is that agreed?

Agreed.

The CHAIRMAN: We are now on management organization structure.

Mr. GORDON: I think I can get that from the statement, but it might be a little different from the breakdown. I will have this for you after lunch.

Mr. HORNER (*Acadia*): I was interested in the figures in respect of the supervisory staff. In 1959, the C.N.R. had 12.2 and in 1960, 12.6. This constitutes an increase of about 500 people in the supervisory staff. Do you have the percentage for the years previous to 1959?

Mr. GORDON: Yes.

Mr. HORNER (*Acadia*): This would perhaps give us a better idea whether this has increased this year or whether it increases 500 people every year.

Mr. GORDON: I will give you that. Which figure did you have in mind?

Mr. HORNER (*Acadia*): The supervisory staff.

Mr. GORDON: I have it here back to 1956. This is the proportion of supervisory employees to the railway labour force. In the Canadian National in 1956 it was 10.7 per cent; in the Canadian Pacific, 10.8 per cent; in class 1 railways in the United States, 11.2 per cent. In 1957, in the C.N.R., it was 11.3 per cent; in the C.P.R. 11 per cent, and on class 1 railways, 11.5 per cent. In 1958, in the Canadian National, 12 per cent; C.P.R., 11.7 per cent, and class 1 railways 12.4 per cent. Then you have the figures for 1959-60.

Mr. HORNER (*Acadia*): Then it is obvious there has been a steady increase in the amount under supervisory staff.

Mr. GORDON: Yes.

Mr. FISHER: You would also need to point out that there has been a marked drop in the overall payroll. So when you graph this, there is a rising curve in supervisory personnel and a downward curve in the total labour force.

Mr. GORDON: Yes. As a matter of fact this subject was dealt with in considerable detail in the submission by the railways to the Senate committee on manpower and employment. I have copies of our submission in which all these matters were gone into very thoroughly. I will be glad to lay this on the table for any members who are interested in going into it. I would like to say this, however; there are a number of factors involved in this proportion of supervisory force increase. It is quite true it is part of the complexity of railway business that operations are becoming more and more complex and are moving at a much faster pace. Planning and co-ordination are very vital elements in it. Technological improvements made possible by the continual application of capital are bringing about a corresponding elimination of routine physical operations which did require large numbers of unskilled workers. With our mechanized operation we reduce the number of unskilled workers while the supervisory element increases because of that reduction. The other fact is that with the decline of traffic in 1960, it is obvious that the proportion is adversely changed there in the matter of the ratio of the supervisory forces, because you cannot handle a supervisory job with half a man.

The CHAIRMAN: Is it not a fact that this is the case at the present time in respect of industry generally right across the country. We have had this reviewed in parliament. It is not connected with either the C.P.R. or the C.N.R. any more than with any other industry. It takes more executive and white collar men today per man employed in every industry in Canada, due to the technological advancements.

Mr. FISHER: Mr. Grills' point and mine, is that there are getting to be more chiefs and fewer Indians.

Mr. GORDON: Let us put that quotation in proper context. The proper way to state it is there are more Indians becoming chiefs. These men who are unskilled workers are, by reason of mechanization, being given training and skills whereby they move into a supervisory capacity. They are now bossing machines and not men.

Mr. FISHER: You have already indicated there is less flexibility in the supervisory personnel than in the non-supervisory personnel. I am sure the associated complaint, which Mr. Grills and I have heard, is that there are all kinds of layoffs in many trades and jobs in the C.N.R. but they have yet to hear of anyone among the supervisory personnel being laid off.

Mr. GORDON: These anonymous complaints are hard to deal with. If I knew exactly what you are talking about I would be able to deal with it. The changes

which take place affect the supervisory personnel as well as the employees concerned. The percentage of supervisory employees is growing, but it is quite wrong to say there are no layoffs among the supervisory force.

Mr. FISHER: Is there no redundancy factor at all amongst supervisory personnel?

Mr. GORDON: I would not be positive on that. I would hope that when we get our reorganization properly working the question of whether or not there is a redundancy would become more apparent. I would suspect there is some; but that will come to light as the thing is better jelled.

Mr. FISHER: In respect of the revenue dollar and how you spend it, it would be true, in the section on page 5 where you have the picture of compensation to employees, that an increasing percentage of this compensation to employees is going to supervisory personnel and not to people who come under union classification.

Mr. GORDON: To the extent of the percentages I have named, the increasing percentage there is very marked. For example, it has gone up from 11.3 per cent, or 12 per cent, in 1958, to 12.6 per cent in 1960. Your reference to an increasing percentage makes it sound to me that you intended that it should seem that this is a very marked change. In the figures on page 28 I think you can see it is perfectly true that our overall number of employees has gone down substantially. The peak figure there in 1952 is 131,297 employees. Our figure in 1960 is 104,155; but that has come about from what I said yesterday, that the railway traffic as a percentage of the transportation market has been going down.

Mr. FISHER: Could you give us any figures since 1956 which would indicate, in this compensation to employees, how much of the profits go to your supervisory personnel and how much to the people who have a union classification.

The CHAIRMAN: That already is being prepared.

Mr. FISHER: There are two things on which to make a judgment. One is whether this ratio is a normal increase in supervisory personnel; the other is what share of the revenue dollar are they taking.

The CHAIRMAN: What would you call normal?

Mr. FISHER: This is something on which we should have an opinion from the president.

Mr. GORDON: The C.N.R. comparison is pretty close to other railways, and the ratio of increase in respect of the indices in manufacturing and durable goods remain about the same. It is a trend, and we believe we are staying within the trend pretty well.

Mr. FISHER: We have not had an indication of the percentage of compensation to employees. Are you bringing that in after lunch?

Mr. GORDON: Yes.

Mr. HORNER (*Acadia*): I can agree that more and more supervisors are taking their place in industry, generally speaking. On the chart on page 11, for the year 1956—or even 1955—ten per cent of your personnel was supervisory staff, then 12.6 per cent today. There has been an increase in numbers in supervisory staff ever since then, not only in percentage, but also in the numbers.

Mr. GORDON: That is quite right.

Mr. HORNER (*Acadia*): One of the yardsticks we must compare it with is the C.P.R. Back in 1956 it was 10.7 per cent. Today this seems to be widening rather than staying together.

Mr. GORDON: First of all, the 1960 figure has to be held in reserve until we work out a better appreciation of our recognization; but it is also true, mind you, that over the years there has developed another need for supervisory staff on the C.N.R., which I was hoping we would not get into because it seems to

be controversial. I am thinking of the barrage of interest that is taken in the C.N.R. in respect of statistics and figures of all kinds. This has involved a burden on management, and we do need staff to handle it. These questions, which may seem simple, do require answers and analyses. You need trained men for this; you need accountants. All this takes time. The questions in the House of Commons which concern the C.N.R. have never been greater over the years. They have been increasing steadily and this creates a definite burden.

Mr. HORNER (*Acadia*): While I can agree with you that there has been a lot of interest given to the C.N.R. and questions asked of the C.N.R., I think this stems perhaps from the feeling of the men working for the C.N.R. generally who are quite concerned today about their positions. Perhaps this leads to a lot of questions. Surely the questions asked in the house and in this committee would not really justify an increase in supervisory staff to any great extent. They may require the supervisory staff to work a whole lot harder. Most of these figures are available if they are dug out.

Mr. GORDON: I did not say that this explained the increase. I simply said it was a factor in the increase which is not applicable in the C.P.R. That explains the differential in part. I say it is a growth factor. The real question, which I understand we are discussing, is whether or not the trend on the C.N.R. in this regard is more marked than it is on other railways.

I think I have answered that I do not think it is. I think the fact that there is a slight differentiation is a challenge to us to try to improve it. I think we can go a bit along that line. In respect to the railway trends generally, I repeat that the analysis will give you some very significant figures.

There is another reason for the reaction to which you refer, that is, over the last two or three years we have been examining our organization in a detailed way and there have been more people around the railway from the supervising point of view to make these examinations. It is all being churned up and no doubt the average employee has seen more officials around him than before, because we have been travelling backwards and forwards over the country. That is perfectly true.

Mr. HORNER (*Acadia*): I would like to ask one question in view of what the president has said just now. Do you believe that this re-organization of your five regions and your subdivisions will bring a reduction of supervisory staff, or at least hold the line for a few years in the growth of supervisory staff?

Mr. GORDON: That is my expectation. I think that when we get it properly instituted, that will be so. You do not expect that in six months. It will take a little time.

Mr. HORNER (*Jasper-Edson*): In empire building.

Mr. CREAGHAN: I would like to ask that somebody on the staff, either now or at 2.30, should bring in some statements, even if they could not be absolutely accurate, on whether or not the C.P.R. has been having this reduction in its working force, particularly since 1956. There has been a lot of criticism in Ottawa on it and there have been some members speaking about a 20,000 drop in employees on the C.N.R. system.

Mr. GORDON: You want actual figures to see whether the amount has dropped? I can give you that.

AFTERNOON SITTING

FRIDAY, June 16, 1961.

The CHAIRMAN: Gentlemen, we have a quorum now and we are ready to proceed. I think we were on "management and organization structure", and we are now on "modern approach to sales".

Mr. MCPHILLIPS: No, Mr. Chairman, I do not think we had quite finished with "management organization structure"; there is one question I would like to ask. I notice that it is stated on the first page of the report that there is an Atlantic region, a St. Lawrence region, a Great Lakes region, a prairie region, and then a mountain region. Is that a term used to include the province of British Columbia?

Mr. GORDON: There is a prairie region, and then comes the mountain region, but it is not all of Alberta.

Mr. H. C. GRAYSTON (*Vice-President, Transportation and Maintenance*): Roughly speaking, Alberta and British Columbia as a group might be considered in it.

Mr. MCPHILLIPS: Is that a vice-president in Vancouver?

Mr. GORDON: No, he is in Edmonton.

Mr. MCPHILLIPS: Do you have a high ranking official in Vancouver?

Mr. GORDON: Yes, Mr. Wyman, is our area manager there.

Mr. MCPHILLIPS: I would like to see the Pacific region in there too, because we think it is rather important.

Mr. GORDON: It does not affect the service that you get. We found in the examination of the distribution of our traffic from the standpoint of the Canadian National Railways organization that Edmonton was the most convenient place for the vice president's office, but that does not mean that you lose anything in the matter of local service in British Columbia; because Mr. Wyman is stationed at Vancouver. We have other officers in Prince George, Edmonton, Calgary, and Vancouver. I think what might assist you in this—and I intended to do it before—is a brochure on our re-organization. I wonder if we have enough copies here? Let me see. This brochure describes the new plan of re-organization in the C.N.R. In addition there is a map included, and the whole thing is laid out in a form which I think will be helpful. I shall have them distributed to you, and I hope that you will find them of value. Any member of the committee may read this brochure, and if he would like to get in touch with me after the meeting, or to get in correspondence with me, I shall be happy to explain the background and the reasons. I would like to know if you have any points to bring up.

Mr. MCFARLANE: We had a considerable amount of discussion this morning on supervision. I think it would be helpful to the committee if Mr. Gordon should state where this supervision starts. Does it start from the foreman up, or is it in a category beyond that?

Mr. GORDON: You are talking about the breakdown of figures. I was hoping to have those categories set up, but I find that they have not finished with the typing and they are not quite ready yet. The first unit of supervision is the area manager. The question arises as to what we would include under supervisory help.

Mr. MCFARLANE: That is right; I think we might clarify the situation which has to do with a part of the increase in supervision.

The CHAIRMAN: Probably, yes.

Mr. GORDON: The groupings that come in under the general heading of supervisory, and the figures I was talking about this morning are broken down

in these important categories. Category I includes executive officers and assistant professional, and sub-professional assistants; chiefs, assistant chiefs, and supervisory clerks; stores, general foreman; foreman and assistants; B and B master, roadmaster and assistants, B and B department foreman, and section foreman. Then there is assistant general foremen, inspectors, and signal and electrical transmission, and foremen, signal and electrical transmission; general foremen, and system foremen, in the equipment section; chief train dispatchers; supervisory agents and assistants; general foremen, and foremen in freight sheds; dining car and restaurant inspectors, and yard masters and assistants. There are 84 classifications under which our payroll breaks down. I have given you the ones which are included in supervisory.

The CHAIRMAN: Does that answer your question, Mr. McFarlane?

Mr. MCFARLANE: Yes. I thought it might help to clarify the situation to the committee on the make-up of the personnel.

Mr. GORDON: Yes.

Mr. FISHER: Right at this particular point Mr. Gordon has very aptly given us a comparison in terms with the C.P.R.; in category III, for example, chief, assistant chief, and supervisory clerks—I am reading from the railway transport report employment statistics; I believe it is the basis on which you gave us your classification.

Mr. GORDON: Is that a dominion bureau of statistics document?

Mr. FISHER: Yes.

The CHAIRMAN: What year?

Mr. FISHER: It is for the year 1959; it is the latest. In the category under professional and sub-professional assistants, the Canadian Pacific has only 361 in that category, while the Canadian National Railways has 1,290. It seems to be rather uncommon spread, and I wondered what the reasons would be for it. This is in category II under your classification.

Mr. GORDON: I do not identify that category at the moment; I would have to look into it in order to give you a reply. I would have to check into it to see.

Mr. FISHER: But you just gave us your classifications.

Mr. GORDON: I cannot compare them with Canadian Pacific figures without having a chance to check them. I do not recognize those figures. Mr Toole tells me there is not a perfect standardization between our figures and those categories. That may be part of the explanation.

Mr. FISHER: Why would D.B.S. put them out in public?

Mr. GORDON: I am afraid D.B.S. would have to tell you that.

Mr. FISHER: I understand these classifications are set up by the board of transport commissioners and the dominion bureau of statistics.

Mr. GORDON: Yes.

Mr. FISHER: Do you indicate it has been impossible to actually have an exact co-relation for class 1 railways in these categories?

Mr. GORDON: There is constant refinement on it. I think it can be said generally that those are not exact comparisons. Whenever you pick one particular argument up, you have to examine it to make sure you are comparing the same things.

Mr. FISHER: This would apply to the total breakup you gave this morning.

Mr. GORDON: No; I do not think so. The breakdown between the categories may be those, but the total categories in here are supervisory help. It would not affect the total. Mr. Toole advises me that the breakdown I made this morn-

ing was taken from figures which had been agreed on between the Canadian National and the Canadian Pacific association as being the comparable figures for use in the Senate manpower committee.

Mr. FISHER: You agreed between yourselves in order to have a joint presentation.

Mr. GORDON: Yes.

Mr. FISHER: To come back to the situation in relation to supervisory personnel, I think it is unfortunate, when we have these published tables, table 1 for the C.N.R. and table 2 for the C.P.R., that one gets the impression in several of these categories that there is a very wide disparity between the totals, even in lieu of the difference in the total management force of the railways. Since we are on the topic of chiefs and Indians, it interests me very much.

Mr. GORDON: Yes. I think that is a very valid point. It is something I think we ought to be taking in hand to see if we can get a proper comparison made. I am not familiar with that document. To be perfectly frank, I had not realized those contrasts existed. I will have it examined to see if we can get agreement on it.

Mr. FISHER: I will let that aspect of it go. Certainly one of the reasons why I had come to the conclusion there were more chiefs than Indians in the C.N.R. was by making a comparison on this table over a number of years.

I would like to come to another aspect of the organization. This relates to what I think concerns politicians most of all; it is the total drop in employment on the railways and the sort of curves on a graph which you might work out to give us some indication of what the future is in terms of railway employment.

Mr. GORDON: Well, there are two things about that. The first is we cannot do a very good job in forecasting that without tying it into a forecast in respect of traffic. The other thing is, I do not believe it is wise for us to point out job forecasts of that kind and produce unnecessary alarm on the basis of our own guesses; they cannot be better than guesses. If we were to deal purely with statistics and tried to project a trend, depending where we start from, we could cause unnecessary alarm in respect of the total employment which may be affected on the railways. It would depend on a lot of things which are completely out of our control such as legislative changes, conditions in competition and so on. I do not believe it is wise for us to make public our assumptions in that regard unless, of course, it was something being done by the industry generally.

Mr. FISHER: If we look at the situation as revealed in these employment statistics, there is a disturbing pattern in railway employment.

Mr. GORDON: Yes.

Mr. FISHER: I do not suppose all the members of the committee would agree on this, but I have heard from men, especially men in their thirties and forties—these people are not in set categories—that they are concerned whether they should get out now when they have a choice, or wait until they are laid off. You cannot inform any one man specifically or even any one area, but if we had something in the nature of a projection of what the employment situation would be as a result of technological change, it seems that then the railway workers would be in a much better picture of realism.

Mr. GORDON: I have referred before to the manpower study. This was a joint study made by the railways. A very real study was given to this by the senate committee on manpower and employment. This joint study by our association is dated February 16. There is a chapter there headed "state of railway employment". Under that chapter we attempt to give our best appraisal of the pattern of future employment.

Mr. FISHER: Have you given any consideration to popularizing that particular chapter by putting it into your *Track* magazine.

Mr. GORDON: We have some plans along the lines of discussing that subject in our *Keeping Track* magazine. We are working on that now.

Mr. FISHER: What about the points we have had for discussion in the last period in the committee—the general concepts Mr. Grills put forward and which I certainly put forward—that is this question of the burgeoning of supervisory personnel and the cutting down of people who are not supervisory. Could you project something in that field in a popular form to your employees that would put the situation as it is? You disagree completely with the popular interpretation which both Mr. Grills and I presented.

Mr. GORDON: Wait a minute, now, please. When you say I disagree with something, I would like to know exactly what it is.

Mr. FISHER: That the popular conception of the C.N.R. is that it is becoming a place loaded with more chiefs and fewer Indians.

Mr. GORDON: I disagree completely with the statement made, that that is the popular opinion. I do not believe it.

Mr. FISHER: You do not believe it is the popular opinion?

Mr. GORDON: No, I do not, and I do not think it can be proven to be a popular opinion.

The CHAIRMAN: On a point of order, Mr. Fisher, the president went through all that this morning and, it seems to me, that we now are repeating ourselves.

Mr. FISHER: I do not think we are repeating one bit. To me, this is one of the central points.

The CHAIRMAN: But, if you had heard it the first time, you would think you were repeating it.

Mr. FISHER: I have not been aware of any particular repetition.

The CHAIRMAN: Well, I have. You are rehashing a lot of stuff that already has been said. That all was elaborated on this morning. You are taking up a lot of the time of this committee and wanting a further elaboration of what has already been said. I think the committee will agree on that.

Mr. FISHER: What I have been trying to bring to the attention of the president is that if we are wrong in this—

The CHAIRMAN: Who do you mean by "we"?

Mr. FISHER: Members such as Mr. Grills, myself and the rest of us.

The CHAIRMAN: I am on the committee, too.

Mr. FISHER: Then, you must agree—

The CHAIRMAN: I am not agreeing.

Mr. FISHER: You obviously are talking in defence of Mr. Gordon.

The CHAIRMAN: No, I am not. When you say that this is the popular opinion, this is not the popular opinion. I am only taking issue with you because I am the chairman of this committee. I say that you are repeating yourself, and making a mountain out of a molehill.

Mr. FISHER: I do not think it is any molehill.

Let me put this question to Mr. Gordon—

Mr. GORDON: If I may interrupt, let me see if I can make a statement that will try to grasp what it is you are trying to establish.

I say, at once, that the railway industry has been under a process of change—and very extreme change, for quite a considerable time. In that process, by use of new technology, development of new machines, new processes and so forth, the demand for unskilled labour has dropped considerably. We no longer, in

the railway business, use human beings as beasts of burden, and the drudgery that used to be a regular part of the railway business thirty, forty or fifty years ago has gone. We no longer take men and use them, as I say, as beasts of burden, but we supply them with tools which take all the heartbreaking toil and backbreaking toil out of the business. In the process of doing that, these men who were heretofore unskilled labourers have been moved up into higher brackets. These men are taught how to use machines. As a result they are pa'd better because of their improved skills which we have taught them in the use of these machines. Now, therefore, it is perfectly natural—and I agree at once with this—that in that changing picture of the railway industry, the labour content—the actual payroll content, is bound to show more men of the supervisory type and fewer men of the common labour type. And, I further stated it would be a great criticism of the efficiency of the railway if that were not so. It must be so. So, if you are trying to establish that there is that change, yes, I agree with you; but if you are trying to establish that we have more of the supervisory type than the running of our business demands relative to other types of employees, I say the answer is no, that that is not the case. Is that what you have in mind?

Mr. FISHER: Yes. And, if the answer is no, I would like to suggest that it would be a good idea for you to give a popular explanation of this to your employees, because, with all respect to the chairman one does not receive three or four hundred letters over a period of three months, largely on this point, without there being a general conception. Whether it is a misconception or not, I don't know.

Mr. GORDON: I think that is a very good suggestion. I will be glad to get it under way.

You said it would be a useful thing for the railway employees generally, if we produced a series of managerial information pamphlets or articles describing the sort of thing I have just expressed in a few sentences now.

Mr. FISHER: Exactly.

Mr. GORDON: And, pointing out what is the changing face of the railway industry.

Mr. FISHER: Yes.

Mr. GORDON: I accept that.

Mr. CREAGHAN: Could you make a brief statement at this particular point on the extent and effectiveness of the relocation and retraining of employees whose jobs might have disappeared because of automation or men who had their jobs disappear because of a new type of work.

Mr. GORDON: I will be glad to make a comment on that right now, because, certainly, Canadian National management's approach is that training is an indispensable management tool to meet the demand for the new skills and techniques.

I have a detailed document here which shows we have had training and retraining courses of various types, which have affected over 45,000 employees during the year 1960. As I say, there have been 45,000 of our employees who have been touched in one way or another by our efforts to provide educational training, technical and up-to-date oversight in regard to their work.

For instance, we have a management education staff training course, which has been held annually since 1953. It is one of the things that I personally am proudest of, as I had a good deal to do with establishing that course. In connection with this course there are 50 officers of the Canadian National chosen all across the system every year, and they are chosen under a method of selection, whereby they have a six weeks' course in Bishop's university in Lennoxville. To date, we have had over 400 men go through that course.

Mr. CREAGHAN: Does this concern mostly management group?

Mr. GORDON: Yes.

There is a job instruction training course. This type of training, which stresses the responsibility of the supervisor for on-job training of his men, was included the syllabus of courses followed by maintenance of way personnel in Toronto, Winnipeg and Moncton, and their chief clerks and other supervisory personnel in Montreal, a total of 114 supervisors attended.

We have a course in leadership training. In connection with this course, during 1960, some 875 supervisors in the passenger, communications, motive power and car equipment, accounting and maintenance of way departments received such training. This course included such subjects as human relations, skills of communication and delegation, as well as leadership and management skills.

Then, in connection with office management, in preparation for the move to our new headquarters building, a group of 20 chief clerks and other supervisory personnel were given instruction, in 1960, with a view to improving the standard of office management through more effective use of men, materials, methods, procedures, space, equipment and other company resources and service.

Another is a course in work study, the purpose of which is to train work study analysts, and this course was attended by 68 selected Canadian National personnel in 1960.

Next, is our work simplification course. The first training workshops in this field were held in January and February of 1960, with 12 candidates selected from the accounting, purchasing, passenger sales, maintenance of way and personnel departments. The program included instructional techniques, effective speaking, methods study, motion picture photography for work analysis and problem solving.

The school of instructional techniques is to improve the effectiveness of all instructors and establish a standard of competence for all who instruct others. There is an increasing acceptance of the premise that the skilled worker requires more than job knowledge to be a good instructor. He must learn the skill of teaching.

These schools are set up and operated by the company whenever and wherever required. We have had 316 active instructors involved in these courses.

Then we have had courses in training steam locomotive engine men and shop mechanics in the handling and maintenance of diesel locomotives. These courses, which commenced in 1951 and 1952, respectively, are conducted at various shops across the country and since 1952 there have been no fewer than 11,349 enrolments. In recent years the number of enrolments has decreased as the backlog of employees to be retrained in these skills has diminished, but in 1960 we had 76 enrolments in these courses. As I say, 11,349 men have gone through these courses since they were established.

Dealing with technical job skills, this type of training and re-training program was conducted mainly in the maintenance of way, signal maintenance, communications department, motive power and car equipment shops during 1960. Prefabricated buildings were erected in Moncton, Toronto and Winnipeg in 1960 to provide facilities in which to teach new methods in track maintenance, operation of new work equipment machines, rail welding and so on.

Passenger coaches converted to mobile classrooms, equipped with signalling apparatus, and which travel across the system, were used to teach the technical skills involved in maintenance of centralized traffic control and other aspects of the complex signal system. Thus a total of 7,559 employees were either trained or re-trained in technical job skills during 1960 in these departments.

That is a very important thing, which might not appeal to you at first blush, and in technical schools which are supervised by electrical engineers, training is being given in the new science of microwave transmission, reperforate switching, telex, and all the developments of that kind in the telecommunications business.

As a result of that we have been able to give employment to skilled signal maintainers and installers that we just were not able to do before. Perhaps I should mention that last year we had a protest from one of the unions to the effect that we were using an American company to provide the equipment and the installations in our C.T.C. program, that is, the centralized traffic control program. You remember that, Mr. Grayston. The union came to see me about it and we pointed out that the union was not able to provide the skilled workers and that we were forced to go to the United States. However, after listening to the union's representations we decided to delay our program for a period until we got the instructional skill, working with the cooperation of the union, and that has meant Canadian content in this field where we could not get the skills before.

Mr. CREAGHAN: Are these courses of re-training for motor power employees conducted during work hours or are they given after hours?

Mr. GORDON: It varies. Some are on job instruction and some are after hours instruction, but for the most part it is on the job instruction in that particular category.

Mr. CREAGHAN: Do you encourage those who have the necessary educational background to take these courses?

Mr. GORDON: Yes indeed we do, but we are also subject to certain elements in our union arrangements. There are certain trades which will only take a certain number of apprentices and we cannot push them to any higher figure than the arrangements will stipulate. We have been doing that to the maximum extent possible.

We have a number of other programs in this connection. One is in clerical operations, which is a much bigger thing than you would imagine, and covers developments in key punching, sorting, tabulating and data processing. I do not know if the members of the committee are familiar with these things but, if any of you are in Montreal, you should spend a couple of hours in seeing our data processing computers in the office we have there. I think it will be a perfect eye opener to you. You have no idea of the advancements made in that respect, and we have trained these people to become skilled operators. There is not one person in this room could hold a light to them for five minutes. Certainly I could not. I do understand the theory of this operation but I do not have the faintest idea of how it is done. It is marvellous what has been done there and we have produced these operators in our training schools.

Also we have given courses to 1,047 employees of the passenger sales and sleeping, dining and parlour car departments during the year. These courses, which include such training as the preparation and serving of food, for chefs, waiters and stewards or counter sales and telephone techniques for information and reservation clerks, have a common objective—better customer relations with an emphasis on service and courtesy.

Then there were a number of other types of training activities, which include a very good work regarding safety on an accident prevention basis. There were 18,306 people at these courses last year. Of the apprentices I just mentioned, 784 went through a mechanical course. We could put through more but, as I said, we are limited by our agreements with the unions. In medical first aid a similar course is provided, and 2,819 men took medical aid courses, and we had 11,625 employees take part in a course on transportation covering rules instruction.

I believe I have mentioned that 45,000 employees were involved in these respective courses and our costs in that respect, the money we put up to run these courses, these schools, and provide the necessary instruction techniques totalled over $1,300,000 in the year 1960. So I would just mention that to point out that we have accepted in full measure any managerial responsibility that could be pointed to in the matter of adjusting our employees to the changing phases of the railway industry. These things will take time. There is no doubt that Mr. Fisher is absolutely right that there is a tremendous need for understanding in this respect and an acceptance of the fact of the change being inevitable. We must adjust ourselves. An organization of any kind, has to adjust itself to its environment, or it just dies.

Mr. FISHER: As a footnote to this, the largest area of misunderstanding is with the maintenance people. Is that the group that is hardest to get to take advantage of re-training, or is that the place where the agreements by which you were bound would prevent you from making adjustments more easily?

Mr. GORDON: By maintenance people you mean people working on the track?

Mr. FISHER: I am thinking particularly of section foremen.

Mr. GORDON: I would say this is a general concept, as I see it. Mr. Grayston is closer to it than I. Perhaps he will fill in what I say. I want to be very careful here because things get out of this room that may hurt the feelings of certain people. Our maintenance crews, generally speaking, have a larger turnover of the lesser educated type than most other parts of the railway.

Mr. FISHER: Do they include in that figure extra gangs?

Mr. GRAYSTON: If you include the extra gangs, there is quite a rapid turnover.

Mr. GORDON: The educational level by definition is much lower with extra gangs.

Mr. FISHER: Do you remember last year there was a sensational story that the railways could not get people to do this sort of work and that it might be necessary for them to import people?

Mr. GORDON: Like all sensational stories about the C.N.R., that was completely untrue. I remember that story. I do not remember how it got out, it was a misinterpretation of some statement we made. The story was that we had difficulty in finding men to take over work and that there were hundreds of jobs open.

Mr. HORNER (*Jasper-Edson*): Was that not in the Senate manpower and employment hearings?

Mr. GORDON: There was a misunderstanding of some statement made here. It was not made by a railway officer.

Mr. FISHER: This is where the reaction came, from the maintenance people who were laid off and were still hopeful they might be hired.

Mr. GORDON: It is perfectly true that with the growing use of machinery and automation there is less demand for that type of labour for the reason I explained, but it is not true to the extent that we do need unskilled labour and that we have no difficulty in getting them.

Mr. HORNER (*Acadia*): Does the growing use of machines cut down to a great extent the number of section men? Does mechanization come into the work of section men?

Mr. GORDON: It does.

Mr. GRAYSTON: Yes. You get track maintenance in a standard condition related to the requirement of traffic. As you acquire the necessary machinery to do track maintenance obviously the number of men required to do a given amount of work is reduced, and with this comes the concept, for instance, of what is called cyclical maintenance where instead of the section forces taking care of the day to day requirements of track maintenance, this is done periodically by mechanized means. These things do result in the lengthening of the section, that is to say the number of men required for a given amount of track does become smaller.

Mr. HORNER (*Acadia*): I want to follow this up. I put this question because of a story that was told to a member of parliament by men working on the railroad. Mr. Gordon may well disagree, but I still feel I must repeat it here. It is told that where the sections are lengthened there is actually poor maintenance and there is a tendency to have a greater number of accidents because of this. Is there any evidence of this? I would think there would be an area in which sections have been lengthened, and an area in which they have not, which could be compared. Is there any evidence to suggest that maybe more of the accidents are occurring in the areas where sections have been lengthened?

Mr. GORDON: That is something on which we have had a very careful analysis because naturally we were concerned about the question of accident possibilities in the areas you mentioned. Every accident that we have, of course, is very carefully gone into, and we are certainly in a position to demonstrate that the maintenance factor has not been the cause of any accident of the kind you mentioned. It must be remembered that we maintain every section of our railways in accordance with standards. We have class "A", "B", "C" and "D" of track, depending on the kind of line it is. The local foreman in charge of a particular section is supervised by his road master and finally by the area manager who is responsible for seeing that the standard of maintenance in his particular section is adequate. It is his responsibility. When we send inspectors around and his particular line is not up to that standard, then he is in trouble. If he has found that he could not do it, for example, by reason of the fact that his section was lengthened, his duty would have been to complain about it and get the necessary assistance. So mechanization has not had an effect of that kind at all.

Mr. FISHER: Have you had no complaints from the board of transport commissioners?

Mr. GORDON: Not to my knowledge.

Mr. BROOME: Mr. Chairman, would it be in order, under this heading "organization structure", to ask a few questions in regard to the board of directors?

Mr. CHEVRIER: Could I ask a question on accidents? I should like to refer back to that point. Have you noticed a relationship or a downgrading of accidents since diesels have come in as compared with steam locomotives?

Mr. GORDON: Our accident record is improving. It would be a temptation to claim credit due to dieselization, but I would not want to do that because I am terribly superstitious about accidents. As soon as I start taking credit for something, I will read in the morning paper that someone proved I am wrong. Take the matter of C.T.C. signals. Under the centralized traffic control the need for train orders is thrown out of the window. Under the old system an engineer was given his train orders and they were based on time. He was required to be at a certain mileage at a certain time. If he was not there for any reason it was up to him to see that the line was blocked and the necessary safeguards taken. The essential difference, however, with centralized traffic control is that the engineer proceeds entirely by signal indication, no matter where

he is. If he has a green light, he goes, if it is a red light, he stops. That seems simple, but every now and again a man goes through a red light. The human element is there no matter what you do. Some of the most serious accidents we have had were due to that simple factor, that for some unknown reason a man, despite the fact that he was risking his own life, would go through a red light. We have tried to find out why it was so. It is a very difficult thing to understand.

I think our accident record is better for the reason that the equipment and machinery is better. We have got some breakdowns here which would have some bearing on it. This shows the cause of the train accidents.

Under the heading of defective track, where the accident occurred because there was something wrong with the track, there were 38 accidents in 1959 and 27 in 1960. Under the heading of defective rolling stock—that is where we have found for some reason or other that something had happened to the rolling stock—there were 133 accidents in 1959 and 107 in 1960. Under the heading employee responsibility, which would be an accident of the kind I have just mentioned, there were 136 in 1959 and 92 in 1960. Then, under the heading of other causes, there were 76 accidents in 1959 and 67 accidents in 1960. The total number of accidents was 383 in 1959 and 293 in 1960. Therefore, there has been a very substantial improvement there. However, as I say, my superstition will not let me claim it is due to this or that. The human element still is a very important factor.

Mr. BROOME: In regard to the board of directors, could Mr. Gordon give us information as to how the executive committee is composed and perhaps how often they meet and then now often does the regular board meet and the function of the board.

Mr. GORDON: The board of directors normally meets once monthly. There are occasions when it will meet in special session at the call of the chairman. That has happened occasionally, but not often. There is no regularly constituted executive committee, but a procedure exists whereby anything that needs to be done on an emergency basis, which needs the actual powers of the board, may be done by two other members and the chairman. There is therefore an ad hoc procedure whereby if we get two directors plus the chairman together we can take emergency action. That kind of action is rare and is usually of a character where secrecy may be involved. Let me explain it this way for example—and this is a major example of the use of the executive committee—if there is a bond issue to be floated in the market, I meet with the Minister of Finance usually, with my advisers, and we talk over the bond issue. It is highly necessary that no advance information of that issue or its price should reach the market before the morning of its launching, because there could be a good deal of skul duggery going on in the manipulation of price, and otherwise. Therefore, everything is left to the last minute. When we finally put the price on it, I speak with two members of the board and with their authority we pass the board resolution which is nedeed for the order in council issued by the government. I just give that as an example.

Mr. BROOME: In other words, any two directors can be nominated by yourself to form the executive committee for an emergency meeting?

Mr. GORDON: That is right, yes.

Mr. BROOME: But, there is no regularly constituted executive committee?

Mr. GORDON: No.

Mr. BROOME: I would like to make a comparison again with the C.P.R. They have a regularly constituted executive committee composed of seven directors. I do not know how often they meet. Their total board is a board of 24.

Mr. GORDON: Well, there are two comments on that. In the first place the board of directors of the C.P.R. is, I think, a 25-man board, which makes

it a very different situation. The other thing is that the C.P.R. have a number of their own officers of management on their board of directors.

Mr. BROOME: Three of them.

Mr. GORDON: I think you will find that in the executive committee they have some of the company officers as members of the executive committee.

Mr. BROOME: Three out of the seven members of the executive are company officers.

Mr. GORDON: I thought it was four.

Mr. BROOME: They are Mr. Crump, Mr. Emerson and Mr. Sinclair.

Mr. GORDON: I cannot answer at the moment as to how often the full board is called together. We call a full board meeting every month and it so happens that the number is seven, which is the same number as their executive committee. Therefore, it is a process in which we call our full board together and that is similar to their executive committee with regard to numbers.

Mr. BROOME: I thought the executive committee may have met, not daily but perhaps weekly.

Mr. GORDON: Oh no, I know that much about them.

Mr. BROOME: I thought that because they are all in Montreal.

Mr. GORDON: I know enough about it, but I cannot bear testimony for the C.P.R. However, I know from conversation with Mr. Crump that their executive committee by and large meets for special sessions only in special matters, if you want to call them that.

Mr. BROOME: Last year, in your testimony, as given at page 153 of the proceedings, in reference to this same matter, answering a question by Mr. Fisher, you said:

> That is what our board of directors do; they deal with my recommendations. Should not the board of directors be something more than that?

Mr. GORDON: Well, I do not know what the context of that is. I suppose I should say they certainly deal with my recommendations, but they also deal with many other matters.

Mr. BROOME: I can read what you said. It is as follows:

> Mr. Gordon: Mr. Fisher, I do not want to leave the impression that there is any reluctance on my part or that of the board of directors to appear, but I thought that you were asking me a question of practicability. The fact is that anyone who has any experience in management of an organization knows that the board of directors of any organization deals with the recommendations of the president, who is in charge of the management of the organization.

Then there is the piece which I have already quoted:

> That is what our board of directors do; they deal with my recommendations.

Mr. GORDON: Would you just put in the other sentence. It is important.

Mr. BROOME: That is what I have done.

Mr. GORDON: But the next sentence then, starting "They may bring matters to my attention".

Mr. BROOME: That is what I am at now.

Mr. GORDON: I am sorry. I was skipping it myself.

Mr. BROOME: It continues:

> They may bring matters to my attention, but they do not originate and bring forward any projects in connection with the railway. They

expect me to do it, and I do it with the assistance of my officers. The board of directors deal with my recommendations.

Mr. GORDON: That is right.

Mr. BROOME: I come back to the question again. Do you consider that should be the sole function of the board of directors, to deal with the recommendations of the executive officers?

Mr. GORDON: On management, yes. I think you will find that most boards of directors function in that way. They expect and require management to make recommendations on anything affecting the welfare, the organization or the work of any particular industry. That does not mean that a director could not at any moment bring up some subject to which he was calling the attention of the board and which he would like to have examined.

Mr. BROOME: That is the point.

Mr. GORDON: Certainly.

Mr. BROOME: There is nothing in this about the directors bringing forward business.

Mr. GORDON: Oh, wait a minute. I said they may bring matters to my attention, too. They do not originate and bring forward any projects. I might put it this way. You would not expect a director to come forward and recommend that we buy so many diesels. The directors would not have the knowledge to do that; that has to be analysed by our operating officials. I do not do that myself, as a matter of fact. I get my advice from the operating officers, after they have analysed traffic requirements and so forth.

Let me see if I can give you an example. Take the Moncton real estate development for instance. Mr. Stewart discussed with me the advisability of trying to see if we could do something about the central part of Moncton. I would not say he originated the scheme, but he was in on the very early discussions which led to our trying to get some indication from various people as to what might be done. He got his idea on that, I am sure, by reason of the development we had around the centre of Montreal. He would quite properly at a meeting of the board of directors say something like this: "We have done something about Montreal; why do we not do something about Moncton?" Then I might say: "That is an excellent idea; I like Moncton; let us see what can be done."

The same is true today of Edmonton. There is a project being examined in Edmonton now by various groups which might be of interest to the railway, to try to do a rehabilitating job in the centre of Edmonton. That would come up in the ordinary part of the discussion and would not necessarily be a matter solely for management.

I am reminded here that the same thing is going on at Campbellton at the moment.

Mr. BROOME: Then there is a flow of ideas from the board of directors to the management?

Mr. GORDON: Yes, and there is a responsibility on management to bring to the directors recommendations on anything affecting the management or the property; but the directors are free and expected at any time to bring before the board any criticisms they may have heard, or any suggestions which might come to their mind, and of course they do that.

Mr. CREAGHAN: Is there already a company by-law setting forth the duties of the board of directors?

Mr. GORDON: Only in very general terms, I believe. I wonder if I have a copy of it here? No, I think it is my bag at the hotel, but it would be in general terms.

Mr. CHEVRIER: Do you have an agenda at each meeting of the board of directors?

Mr. GORDON: Oh yes.

Mr. CHEVRIER: And that agenda deals not only with managerial recommendations, but also with all sorts of matters which affect the railway from one part of Canada to the other?

Mr. GORDON: Yes; on the average we would deal with from 50 to 80 items of business at an average board of directors meeting, and they would range all the way through the examination of recommendations in regard to staff, to a number of legal documents affecting, let us say, the sale of property or the purchase of property. The situation in regard to Toronto is a very good example. We spent a very long time in discussing at our sessions the wisdom of acquiring certain lots of property for our access lines, and our hump lines. And there have been, of course, differences of opinion in regard to that. But we finally reached a conclusion as to the best way to do it. This would come to the board on the recommendation of local officials, but the board is free, and it does express views on all sorts of things we are actually recommending.

For example, take our budget. We have a general budget which is approved, by our Board. It will come before this committee for consideration, before it gets to the House of Commons and is finally put into a formal form in the Canadian National Railways Financing and Guarantee Act. In addition, our board of directors meets every month when we bring forward that portion of a project which we intend to embark upon in that month. I do not mean general operating matters, because we would go ahead with them in the normal course; but for some new project, it will be brought before the board before we commence it, for a final look at adjustment if necessary. Sometimes we do amend it, and find one or more ways to reduce or change it around a little. But in all these things we consider many capital expenditure proposals which we call "authorities for expenditure"; the local colloquialism for it is "A.F.E."

Mr. CHEVRIER: Do you discuss matters concerning the T.C.A. at your Canadian National board of directors meetings?

Mr. GORDON: Not at the C.N.R. board meetings, no.

Mr. CHEVRIER: Are there any matters concerning T.C.A. which come up before the C.N.R. board?

Mr. GORDON: No, not as such. But you will remember that five Canadian National Railways directors are also members of the T.C.A. board, and that is how we keep in liaison. But I would not say there was never a question of inter-relationship between the C.N. and the T.C.A. discussed, such as the advisability of our having joint offices, or things of that kind; but it would be nothing affecting the policy of T.C.A. That is reserved for the T.C.A. board itself.

Mr. CREAGHAN: At what level of management would the board of directors discuss matters? Would it be with the vice-presidents?

Mr. GORDON: You mean, matters regarding our staff?

Mr. CREAGHAN: Yes.

Mr. GORDON: Any senior appointment starting from area manager, up, would be discussed with the board; then I would report to the board on salaries, and on salary adjustments up to $12,000; and anything over $12,000. Then we would pass on pensions, for example, which fell due that month, and we would go over the formal papers. Oh, there would be an endless variety of matters. For instance, our labour discussions would be fully reported to the board, and we sometimes have a "merry time" with them. On our board we have a direct

representative of labour in the person of Mr. J. R. Griffith, who is there directly representing railway labour. He therefore is kept fully informed of all current railway-labour matters.

Our vice-president of personnel and labour relations comes regularly to the board and makes presentations on any matter which may be currently in dispute and any other items affecting personnel. We have something like 197 separate agreements, so we always have some negotiations going on; and the vice-president of personnel and labour relations reports regularly to the board; then the vice-president of purchases and stores comes to the board, and presents his recommendations in regard to equipment purchasing. Our general manager of real estate will come, if he has some particular project; and on communications we often have a good deal of discussion about microwave installations, or other installations of that kind. You will find in our budget that every one of the vice-presidents in charge of a particular area is on call to the board of directors meetings.

Mr. BROOME: Does the board break down into subcommittees to deal with various areas?

Mr. GORDON: Very rarely; I have only known it to happen twice.

Mr. BROOME: But it does happen.

Mr. GORDON: That is right.

Mr. BROOME: And with this decentralized program of yours, it is conceivable that it might happen, too?

Mr. GORDON: We have been hoping to have directors meetings more in the regions; we have been in Winnipeg, Vancouver, Toronto, Moncton and Halifax, but we have not had as many in the various regions as I would like to see.

Mr. BROOME: There is a tremendous amount of work, and a tremendous variety of work which comes before your board of directors. Would that be a valid statement?

Mr. GORDON: Well, I would say this, that I have some letters here on that point, as a matter of fact. These things have been said not only in my hearing, but again and again by members of our own board who have other interests—I mean men like Mr. Bickle, for instance who died just recently, and Mr. Gagnon, with wide interests and on other boards of directors with different industries and so on. They have said that they received as members of the board of directors of the Canadian National more information, and have had a better opportunity to take part in decisions, than they did on any other board. That has been said more than once. I have a sheaf of letters from past directors asserting that very point, as well as making some very logical comments which I only wish somebody would ask me to read! I had better not volunteer to do so myself. But they wanted me to know that this was the way they felt about it, and that I could use those letters if I wanted to. I can certify that we go to no end of trouble to keep the board of directors informed.

The CHAIRMAN: I think the president's exhaustive demonstration of his information concerning the railways would indicate that fact.

Mr. CREAGHAN: I have a further question just for the purposes of curiosity. Various government boards have been before parliament this winter, and they were invariably asked about the attendance at their board of directors meetings.

Mr. GORDON: Yes. Our attendance is extraordinarily good. It is very seldom when we do not have full attendance; and if there is absence, it is usually due to sickness or some serious cause of that sort.

Mr. BROOME: What constitutes a quorum?

Mr. GORDON: The majority, four out of seven. I have checked over the record, and it is unusual when it is not a full meeting. In looking at the reports of those meetings I think that is what you would find.

Mr. FORBES: I have a question concerning areas in the prairie division. Under Hudson Bay it says The Pas. I believe I should write in Dauphin, is that not right?

Mr. GORDON: That has been changed since then. You should read "Dauphin". That is quite right. You got a copy before we made the change.

Mr. FORBES: Fine. That is right.

Mr. GORDON: When I had these brochures distributed I should have said that they were issued on August 8, 1960, and that the new organization plan was not in effect at that time. The plan did not come into operation until January 1st, of this year. But in the meantime after we had discussed it further, we made several changes from the original plan, and I should have brought them out to the committee, because there may be other questions arising out of it here.

Mr. FORBES: I thought the committee should know about it just in case they travelled out that way; I thought they should know where the divisional headquarters were.

Mr. GORDON: There is another change; take the St. Lawrence region; Kingston was changed to Belleville. Kingston should now read Belleville, and The Pas should now read Dauphin. Those are two changes to bring it up to date. If you do not mind, would you please pencil them in so that you will have it right up to date.

Mr. CHEVRIER: May I ask a question in connection with the dividing line between the St. Lawrence and the Atlantic regions?

Mr. GORDON: Yes

Mr. CHEVRIER: You may have noticed that there was some criticism in the house when, I think, Mr. Bourget, my colleague, raised it in his remarks on one occasion, when he referred to the fact that this re-organization was affecting the area around Levis, in that they were formerly in the Quebec region, whereas now they were in the Atlantic region, and there was some difficulty and some protest to management in connection with it.

Mr. GORDON: We made a change there, after that stretch from Levis to Riviere du Loup. Would you like to deal with it Mr. Grayston?

Mr. GRAYSTON: The section of line from Riviere du Loup to Levis is shown in green, but it is now part of the Quebec area.

Mr. GORDON: The green, in other words, should be blue.

Mr. CHEVRIER: Up to Riviere du Loup?

Mr. GORDON: Up to Riviere du Loup, that is right. It does not go beyond that, from Levis to Riviere du Loup.

Mr. CHEVRIER: You say that it is now part of the St. Lawrence region?

Mr. GORDON: It is the Quebec area, and it leaves it in the same control, so to speak, as it was before.

Mr. CHEVRIER: That point was raised by Mr. Bourget, that it was not at the time still under the same control, and that it had been moved from Quebec control to Atlantic control.

Mr. GORDON: It has been moved back.

Mr. R. T. VAUGHAN (*Assistant to President of the Canadian National Railways*): That was a year ago. It has now been moved back.

Mr. GORDON: It has been adjusted along the line.

The CHAIRMAN: Are there any more questions?

Mr. FISHER: I would like to ask a question. You indicated this morning that you felt you had broken down the old idea of operating men having the advantage in promotion.

Mr. GORDON: No, no; I did not say that they had an advantage in promotion. What I said was that the old tradition was that when a man entered, let us say, the purchasing department, he would only get promotion in that department. And if he entered the operations department, he would only get promotion in that department. But now we do not do it that way. We "cross-fertilize", so to speak.

Mr. FISHER: Now, about your area managers—because this is primary—I think from your chart that this shows that it is a sort of primary division of your whole railway.

Mr. GORDON: Yes.

Mr. FISHER: You could conceivably, for example, have an area manager whose experience was in express, or in sales, or something like that.

Mr. GORDON: Yes, that is right.

Mr. FISHER: I know there has been some concern expressed, perhaps, about the possibility that an area manager may be very short of knowledge or experience on the operating side, and that he may not properly understand the difficulties of the situation that are facing him in the operating end. I was wondering if there was any possible substance in this situation developing, and if so, how would your organization plan to meet it?

Mr. GORDON: I think that of course it is easily a matter for the intelligence of management. But I can say generally that wherever an area manager has been appointed who has not had operating experience, then we have given him, as his assistant, a man who has had operating experience and vice versa. If an area manager is an operating man by experience, at this point, then we have selected for him a man who has experience in sales and so on; but the two top men in his area right now have certainly between the two of them, sufficient experience to take care of the actual operation of the railway.

Mr. FISHER: Fine, that is what I wanted.

Mr. CROUSE: Is this area map used to advertise your services? Is it mailed out to large shippers?

Mr. GORDON: There has been a lot go out but I am not sure that all our large shippers receive it.

Mr. CROUSE: I have a reason for asking the question. I notice the town of Lunenburg, which is one of the largest fish shippers in the east coast, is not listed on this map.

Mr. GORDON: My assistant from the Maritime provinces will answer.

Mr. VAUGHAN: I was incensed about that too. I think you are referring to a map which the traffic department had put out and sent around. The line to Lunenburg was left out. I assure you it is being corrected.

Mr. CROUSE: Thank you.

Mr. GORDON: This is one of the things which happens. I remember in my first days on the railroad that we left out Newfoundland and I certainly heard about that.

Mr. HORNER (*Acadia*): At the top of page 6 of the report it is stated that the combined reduction in the number of administrative units will, in due course, improve the relationship between administrative costs on the one hand, and revenues on the other. I failed to gather from the discussion this morning that costs will be reduced by this change of management or change in administrative set-up.

Mr. GORDON: That is a very valid skeptical attitude if you want to take it. That remains to be seen. We had thirty-one divisions, ten districts and three regions. What we have done is, we have put it into eighteen management areas. We have cut out one level of supervision. There are no districts now. There are eighteen areas reporting to five regions. That is, we have enlarged the number of regions and cut down the number of divisions and eliminated the districts. In the normal state of things I would think that this pooling together will reveal a certain degree of redundancy.

Let me repeat what I said before. This reorganization plan is a tremendous thing. We have only got it going. It has to have a period of, I would say at least two or three years, before it can prove itself. In the meantime I am sure it will develop that we have underestimated in some cases or have overestimated in others. I am perfectly certain, however, that as a plan of organization it is sound. Any sound plan is bound to be better than a plan that was beginning to show strain.

Mr. HORNER (*Acadia*): This morning you gave us evidence that supervisors were going up rather than coming down, and you also stated that this particular part of the costs was the most difficult to cut in times of lay-offs. Is it something like this?

Mr. GORDON: Yes; but that is talking about another matter. Let me be clear on this. This reorganization plan was not entered into specifically for the purpose of cutting costs; that was not its objective. Its objective was to get a sound and efficient organization. If we find it is a sound and efficient organization, my assumption is we will find it will be a less costly organization in the overall; but that is a by-product and has nothing to do with the decision we made to have a reorganization.

When I was talking about the difficulty of cutting administrative costs, I was speaking in terms of lay-offs. Suppose you had a situation where you had one supervisor in charge of 100 men. If you lay off 50 men you still have to have a supervisor. You cannot do it with half a man. So long as there is a section at all, the ebb and flow of the rank and file of employees can vary tremendously. That unit could consist of 125 men or 75 men and you would still need a supervisor.

Mr. HORNER (*Acadia*): I can well understand the difficulty in cutting down your supervisory staff. The thing that I question about it is the growth of it. I realize there is a great deal of difficulty in cutting down.

Mr. GORDON: I think the term is Parkinson's law!

Mr. HORNER (*Acadia*): Something like that.

Mr. GORDON: We are very familiar with it and are watching it carefully.

Mr. CHEVRIER: I have a question in connection with the movement of the head office on McGill street to the new building. All sorts of representations were made by the employees at the premises at 360 McGill street because a contract was given for the maintenance and operation of the new building, rather than having the employees do the work as they had done before. The question I would like to ask, first, is: how many men were affected by the move; second, how many men were re-instated in the new premises; and, third, how many, if any, were left without employment?

Mr. GORDON: I think we have the figures on that here.

Mr. CHEVRIER: You could deal with it later, if you wish. Could I add to the question the ICAO building, as I understand the same situation applies in respect of it. That is property of the C.N.R., is it not?

Mr. GORDON: Yes. The contract for the cleaning and maintenance of the building has been given to an outside firm.

Mr. CHEVRIER: Does that apply to both buildings.

Mr. GORDON: I cannot remember whether or not it applies to the ICAO building.

Mr. VAUGHAN: I think what you are referring to is the maintenance staff for the building on McGill street.

Mr. CHEVRIER: That was the first question. I am asking whether the same situation applied to the ICAO building.

Mr. VAUGHAN: Not that I recall. I think that because of the seniority groupings certain "bumping" went on according to the seniority list.

Mr. GORDON: We have no elevator attendants in the new building. The elevators are self-operated. So the elevator attendants at 360 McGill had under the contract the right to bump and some of them went into the ICAO building.

Mr. CHEVRIER: Are you familiar with the expressway in the city of Montreal, the plan for which goes from one end of the city to the other.

Mr. GORDON: In a general way, yes.

Mr. CHEVRIER: Have you seen the plans made by Valois and Lalonde for the expressway which is also called the auto route.

Mr. GORDON: Yes, I have. I have just a vague picture of it in my mind now.

Mr. CHEVRIER: As you know, part of it will take up a portion of the Turcot yard.

Mr. GORDON: Yes.

Mr. CHEVRIER: Has the city of Montreal approached the railway for a portion of the C.N. land for that purpose.

Mr. GORDON: Yes. It was done two years ago. We made a swap in connection with property in the terminal area for a portion of the Turcot yard. We made the transfer on the basis of the assessed value in each case.

Mr. CHEVRIER: Can you give me an idea of the amount of land that is involved?

Mr. GORDON: I do not have the detail of the amount of land. I could get that quite readily.

Mr. CHEVRIER: It is definitely for the purpose of constructing the auto route.

Mr. GORDON: That is what we were told, but we have no control over it once we have transferred it. The situation was that in the terminal area where the Place Ville Marie development is, we did not own all the land. There was a certain portion coming down University avenue and past the Ciba building which dipped into the area. In our bargain with the Place Ville Marie corporation they did not hold us liable for the land we did not own. However, we did agree to use our own good offices to tidy it up. When we got into discussion with the city we found that the city wanted to get a strip of land along the Turcot yard. In the circumstances we negotiated an exchange. At this time the situation certainly was that they wanted the land for the expressway purposes.

Mr. CHEVRIER: Do you now own all the land north of Dorchester?

Mr. GORDON: In that square block; yes.

Mr. CHEVRIER: Would you be prepared to give us an up to date statement on the progress of the Place Ville Marie project. What I mean is, is the question of the financing now definitely determined?

Mr. GORDON: Yes. You mean so far as the Place Ville Marie corporation and Zeckendorf and Webb & Knapp are concerned?

Mr. CHEVRIER: Yes.

Mr. GORDON: It is all in good order. Everything is arranged. The financing is arranged and the building is well up to schedule. All the problems you probably have in mind have been worked out.

Mr. CHEVRIER: Could you give me a brief statement on the termination date of the cruciform building and the plaza to the west?

Mr. VAUGHAN: I think the date is May 1962.

Mr. GORDON: I would not want to give you any more than a rough estimate. If I gave you a date it might have an effect on the rental situation. It was a guarantee of some sort. I understand it is going to be finished next year and the date will range all the way from May to October.

Mr. CHEVRIER: Does this cover everything?

Mr. GORDON: No; the cruciform building only. A statement has been made on behalf of the Place Ville Marie corporation that the scheduled occupancy date is in May, 1962. There are other projects associated with it. There is a building in back of the Place Ville Marie. Then there is another building scheduled in the master plan which will run right across from the Sun Life building and it will also include that present brick building which has the air conditioning and heating unit for the Sun Life building.

Mr. CHEVRIER: What about the date of completion of the plaza?

Mr. GORDON: It will be about the same date as the cruciform building itself.

Mr. CHEVRIER: What is going up in place of the St. James club which was torn down this week?

Mr. GORDON: Nothing.

Mr. CHEVRIER: Will University avenue be widened there?

Mr. GORDON: That is my understanding. If you come down the street where the St. James club was, there will be a path there coming over to the street going down and then through the former location of the St. James club. From there there will be access to the eastern side of the cruciform building; there will be entrances on both sides.

I might give you the figures now which were asked for.

There were 124 employees involved in this headquarters reduction. There were 53 that were retained and reallocated within the company in one place or another; there were two who resigned, and that left a total, subject to lay-of, of 69. Now, through our efforts, we were able to have 19 of those placed with the provincial government, who bought the building. We have had two of them hired by our cafeteria contractor; that makes a total of 21. That leaves 48 who are not yet placed, and we are still working on it.

Mr. CHEVRIER: Are these 48 out of employment at the moment?

Mr. GORDON: Yes, they are.

Mr. CHEVRIER: Were you going to say something else?

Mr. GORDON: I was going to say that 17 of them were males and 31 were females. Of that total, there were 15 of the males who were laid off on June 15th, one on May 31st, and one elevator operator laid off on June 15th. On the female side of it, 25 were laid off on May 18th, 5 on June 15th, and one elevator operator. So, there are 48 out of employment.

Mr. CHEVRIER: Is the railway making efforts to find employment for those 48?

Mr. GORDON: Everything we can do for them, we are doing. I think we have done a pretty good job in the particular kind of problem we had.

The CHAIRMAN: Are there any other questions on this item?

Mr. CREAGHAN: I have one question which is not my own. It is from Mr. Cyril Kennedy, a member of this committee, who unavoidably is absent. He

has asked me to ask this question of the management. It requires statistics and, I presume, it can be answered tomorrow or later on:

> Referring to the Atlantic region and in view of the recent reorganization of divisions there, (1) how many officials above the rank of train despatcher were on strength
> (*a*) prior to above referred to reorganization;
> (*b*) as of present time.

I do not know what he means by train despatcher, in so far as the supervising level is concerned.

Mr. GORDON: Well, I will accept the question, subject to an examination of it. I am not sure myself if we could answer it in the way that he has suggested, but I will get some sort of answer to you by tomorrow, if you will let me have the question.

Mr. FISHER: In your reaction to the MacPherson report, have you studied the recommendations and considered how they will affect the C.N.R.?

Mr. GORDON: I have read it several times, and I have at the present time a group of officials studying it in detail. Each department of the railway is under instructions to study the report in detail, and to let me have their comments and recommendations as it affects their particular section. This is being co-ordinated through our Research and Development Department, and I expect to have these recommendations before me within the very near future.

Mr. FISHER: I think this is a key question in the minds of many employees, and I wonder whether it has been given any priority. How many employees would be affected if 4,300 miles of branch lines were discontinued, as envisaged by the report?

Mr. GORDON: I could not answer that. It is part of—

The CHAIRMAN: Mr. Fisher, this is irrelevant to the issue that is before us. We are dealing with this report now, and not the MacPherson report.

Mr. GORDON: If I might complete what I was saying, Mr. Chairman, you must remember we only have volume I of the report; there is also volume II, III and perhaps IV, and they may have a very great bearing on the recommendations. We cannot make definite decisions now in regard to any of these things.

Mr. FISHER: I have one question in connection with statistics. Would you tell me how many men or employees have been taken on in the last three years from outside the railway labour force?

Mr. GORDON: Let me put it this way: Do you mean engagements by the railway outside the Canadian National as a system?

Mr. FISHER: I mean employees that you have taken on and brought in. You have a declining work force?

Mr. GORDON: Yes.

Mr. FISHER: Yet, I assume you are still hiring people in certain categories, and I would like some idea of the number who are new employees.

Mr. GORDON: I will try. I see some difficulty in this, but we will have a look and see what happens. You get into an awful complexity there, because you find yourself in trouble where employees have been laid off; they may have been laid off for years and come back. There is that kind of thing. For example, there were 12,000 separations in the railway by death, retirement or resignation. That is what you might call natural separations, attrition.

Now, to replace this 12,000, we have hired 5,300. Now then, to analyze that 5,300 is quite a job because, to answer your question, I have to determine which ones are absolutely with no C.N.R. background, and I cannot say at the moment if I have that. However, I will check with our personnel and labour department. They sometimes come up with startling statistics.

I must say, in connection with those 5,300 jobs, we gave priority, of course, to our own laid-off people. But, we had 110,000 applicants for those jobs, which suggests to me that the C.N.R. is popular as a place of employment.

Mr. FISHER: I think any job is popular today.

Mr. GORDON: Well, 110,000 for 5,300 jobs is a pretty high ratio.

The CHAIRMAN: Are there any other questions? If not, let us proceed to "Modern Approach to Sales".

Mr. BROWNE (*Vancouver-Kingsway*): On this item, it says:

> The freight rate staff was also reorganized to focus specialist group attention on specific types of rates.

I gave my opinion yesterday, when I stated that I felt the railway should not be hampered by any onerous restrictions. I said I felt that the railway should have complete freedom to meet their competition at the present time. Mr. Gordon did not seem to agree with what I said. I would like to pursue that matter, to determine if there are restrictions on the railway in that regard.

The CHAIRMAN: What do you mean?

Mr. BROWNE (*Vancouver-Kingsway*): I want to be sure the railway is in a position to be able to set whatever rates are necessary to meet the competition, and to be able to set them as rapidly as necessary to meet it. I am sure that everyone would want to see the railway in that position. Could Mr. Gordon make a statement on that?

Mr. GORDON: I do not think I can make any better statement than the one we already made before the Royal Commission on Transportation, because that is still our position. Perhaps the quickest way to deal with it is for me to read the relevant sections of the Railway Act, and then give our comments on them.

If you will permit me, I will go ahead on that basis, and will make other comments as I go along.

Mr. BROWNE (*Vancouver-Kingsway*): I do not think that covers the exact question I am arising. I think you are covering a broader field. What I want to know is the exact position the railway is in, in regard to setting rates to meet competition. I think that is a little different than what it covered in your submission to the Royal Commission on Transportation. It covers a broader field. I do not want to go into all the restrictions of the railway. I am dealing with restrictions in regard to setting rates to meet competition, only.

Mr. GORDON: Let me see if I can cover it in a general statement. Our point of view is that so long as there is regulation, that constitutes a restriction, because the regulatory authority can move in at any time when we quote a rate. Therefore, that is a restriction. We want freedom from that type of restriction.

You were talking to me earlier about the question of a compensatory rate. Well, the section 334 of the Railway Act says distinctly, in connection with competitive rates:

> (2) The board may require a company issuing a competitive rate tariff to furnish at the time of filing the tariff, or at any time, any information required by the board to establish that
> (*a*) the competition exists;
> (*b*) the rates are compensatory; and
> (*c*) the rates are not lower than necessary to meet the competition;

The very fact that our rate-making officer has this act before him, restricts his freedom in making rates. He has to think about what that rate means, and that is not freedom, in our opinion, to meet competition. Then, we enter into a discussion on what is compensatory. That applies. It applies not only to

competitive rates but agreed charges. I always have taken the position that we are required by law to make these rates compensatory, and that means our rate-fixing officers have got to keep that sort of thing in mind at all times. There is no challenge in respect to the trucker's rate. Nobody can challenge the trucker. However, we get challenged. We take the stand that compensatory rate is anything that pays its variable cost. Then, we get into a discussion as to what are variable costs. I could give you some examples of this. There is the whole business of cost factors, regression analyses, and things like that. We spent two years before a Royal Commission and, having gone through all that, there still is not an agreement on it. Some of our western farmer friends think they have the proper interpretation of this, and we think that we have.

Mr. BROWNE (*Vancouver-Kingsway*): I would like to call to your attention one or two things that have been said in this connection before, and also to one or two things in the tariff regulations, as set out by the Board of Transport Commissioners which, in my opinion, allow the railway to have complete freedom in making rates.

I would refer you first of all, to rule 17 of the Board of Transport Commissioners, dealing with competitive rates, and here is a statement which is contained in that booklet.

Mr. GORDON: Which is that?

Mr. BROWNE (*Vancouver-Kingsway*): It is rule 17 of the Board of Transport Commissioners, and tariff circular 1(*a*), effective December 1, 1960. The particular rule I am going to refer to has been in existence since 1945.

Rule 17—competitive rates, reads as follows:

> Competitive rates may be established without notice: competitive rates, which are urgently required to be brought into immediate effect to meet the competition of transportation services not subject to the board's jurisdiction, may be acted upon without previous notice to the board, but the carrier or agent concerned must immediately publish such rates, effective as from the date of acceptance of the traffic for movement, and file the same with the Board in accordance with the regulations herein stated.

Then, in the Royal Commission, in connection with agreed charges, on November 8, 1954, Mr. Edsforth was giving evidence. There were two or three statements that he made, at page 975 of volume 10 of the report of the royal commission in 1954.

He was being questioned by Mr. Hume, the trucking association counsel, and the question was asked:

> Q. Is it not true that the railways may put in a competitive rate and meet the truck rate almost overnight?—A. They can put it in on short notice, that is right.
>
> Q. So that the railways are just as free to quote a rate on any competition with a truck as a truck is on any competition with the railways?—A. We are free to quote a rate just as much as a trucker is.

Then, at page 984, he was questioned further, still by Mr. Hume, as follows:

> Q. The point I want to make is that don't you have the same freedom in putting in competitive rates as your truck competitors?—A. We have freedom to put in competitive rates, Mr. Hume, yes.

Then there were a number of other references in here. I do not know that it is necessary to refer to any more of them. However, I will give this one more, at page 1002 of the same document. There had been a series of questions and answers. Then Mr. Hume asked this:

Q. Can you not make rates by telephone?—A. We can make rates by telephone, certainly.

Q. But you cannot make them at the shipper's door?—A. Well, it is rather an impractical sort of thing.

Q. You will agree with me that, except for the man who is driving his own truck, the trucker cannot make rates at the shipper's door, either?—A. Unless they give their drivers the right to do that.

The commissioner intervened at that point and asked a few questions himself.

Q. Who can make rates on behalf of the railways by telephone?—A. The officer who is in charge of making freight rates can make a rate with the shipper over the telephone, in conversation.

Q. The officer who is in charge—where is he located?—A. In Montreal, sir, at headquarters, of course, and then we have officers in Toronto who are likewise able to do that, and again in Winnipeg and in Vancouver.

Q. Each one of those officers can make a rate by telephone?—A. He could make a rate by telephone with a shipper, although I may say that is not the usual practice.

Now, of course, it is quite clear it is within the power of the railways to have an officer for rate making purposes wherever the railways choose to have one. Therefore they have power to set rates, on the moment, by telephone to meet the highways competition they have to meet.

Mr. GORDON: That is not the question. You asked were we free to meet competition and my answer has to do with the word "free". We have the power, subject to the definite wording of the act, and the person making the rate is always under that hazard. First of all he has to keep in mind that the rate he quotes is not lower than necessary to meet the competition. That is the first hurdle. He has to know what the competition is before he quotes against it. Secondly, he must know that the competition exists and he has got to be able to prove it. He must also know that the rates he proposes to quote are compensatory.

These three hazards are always there, and that is not freedom. We also have to file the rates. When we make a rate we have to file it and, the moment it is filed, the board, of its own motion, can say: "You have filed your rate. Have you satisfied the requirements of the law".

Mr. BROWNE (*Vancouver-Kingsway*): I do not wish to take up the time of the committee by going into the history of how many times that was done.

Mr. GORDON: If you read Mr. Hart's evidence—he is the Vice President of Traffic in the C.N.R.—you will find he made certain qualifications and I am making it very clear that the hazard is there. The question is that we can very often produce the information required, if we know it, but when we are talking about freedom, when that qualification is there it is not complete freedom.

Mr. BROWNE (*Vancouver-Kingsway*): I am talking about freedom to meet competition. I am not suggesting complete freedom on the part of the railways. All I am asking about is freedom to meet competition. In other words, if you are advised that trucking rates are lower are you in a position to meet that competition?

Mr. GORDON: Let me put it that way, I am perfectly free to kiss my wife but, if I am qualified by the law to the extent that, before I do, I must make sure there is no other competition, then I am not free!

Mr. BROWNE (*Vancouver-Kingsway*): Some of your statements are very good in confusing the issue, but they do not answer the question. I do not want there to be any doubt that the railway is in a position to meet its competition, and I do not think hedging the subject in that way is any answer to the

proposition I have put to you. I have pointed out to you that according to the regulations of the Board of Transport Commissioners you are not required to file the rate immediately you put it into effect.

Mr. GORDON: But we do have to file it.

Mr. BROWNE (*Vancouver-Kingsway*): I admit you have to file it sometime.

Mr. GORDON: Having filed it, we have to prove these qualifications on our freedom, and when you have any qualification on freedom it is not freedom.

Mr. BROWNE (*Vancouver-Kingsway*): You are taking the wrong interpretation. I am not speaking about complete freedom in every respect. I am talking about freedom to meet your competitors' rates. I think it is clear you have the power necessary to meet your competitors' rates.

Mr. GORDON: Mr. Browne, I wish we had someone in the railway business who could advance our interests as well as you do in the subject of debate. The fact is that you asked me for my opinion, and my opinion is that we are not free, at least not so free as you think we are. All I am doing is expressing my opinion about this and, when you come to mention the Royal Commission on Transportation, they recognize that we are not completely free.

Mr. BROWNE (*Vancouver-Kingsway*): I suggest you have not put anything forward to indicate you are not prevented from immediately putting into effect a new rate to meet competition whenever it arises. If a trucking firm says to a shipper: I will do you business for so much", then the railway is immediately in a position to set a rote to meet that competition.

Mr. GORDON: How could you say that is the case when we do not know if any other competition exists?

Mr. BROWNE (*Vancouver-Kingsway*): I am suggesting these is competition right there.

Mr. GORDON: But we have to make sure of that. How do we know the trucking competition exists? The rate supervising man does not know. He has to examine the position to see that the rate which he is quoting is no lower than necessary to meet with competition, and not only has he got to know there is competition but he has to find out what the competition's rate is, before he can act.

Mr. BROWNE (*Vancouver-Kingsway*): I would suggest that in the normal course of events he would find that out from the shipper, and not from the competitor.

Mr. GORDON: But he is not allowed to draw the shipper into his defence before the transport board, and say the shipper told him what the competitor was quoting.

Mr. BROWNE (*Vancouver-Kingsway*): But the shipper would probably have quotations in writing to show what the competitor was quoting.

Mr. GORDON: That is not the way this is done. You know perfectly well the truckers do not tell us their rates, and you know perfectly well the shipper will not tell us what the truckers are quoting him. He will just say: "on a matter of a deal, I can get it for so and so". That is not proof. He might even be lying. It is possible.

Mr. BROWNE (*Vancouver-Kingsway*): Would the railway be in a position, in the case of a new plant going into operation, and before any goods have moved out of that plant, to set a truck competition rate, even before any goods are shipped out of the plant?

Mr. GORDON: That is a different proposition. If we are dealing with a new plant we have an opportunity to examine the situation and discuss it

with the new plant people. Probably the new plant is not built without getting a freight rate in advance. That is an entirely different proposition.

Mr. BROWNE (*Vancouver-Kingsway*): You will agree that in most provinces in Canada the trucking industry has to file rates? That is true certainly in my own province in British Columbia.

Mr. GORDON: All I know about that is that the regulations in each province vary very considerably.

Mr. BROWNE (*Vancouver-Kingsway*): In most provinces they are required to file rates which are available to the railways, and thus the railways are able to set competitive rates.

Mr. GORDON: Do you say that in all provinces the trucking rates you mention are maintained by the truckers?

Mr. BROWNE (*Vancouver-Kingsway*): I am just saying that in most provinces the trucking industry must file its rates.

Mr. GORDON: I know that they are not always maintained, and I have seen a circular from the trucking association exhorting its members to stop the practice of cutting their own rates.

Mr. BROWNE (*Vancouver-Kingsway*): I think that would require some substantiation.

Mr. GORDON: I shall get a copy of the circular. I have read it and I know it is in existence.

The CHAIRMAN: For the benefit of the balance of the committee, what is the purpose in Mr. Browne's questioning? I am thinking of the competitive rates we had in the past between water and railway transportation. Railways have always tried to be competitive with water rates, and I wonder is there anything similar to that in reference to the trucking industry? If you could get service in a given district between two points by water, the freight rate on the railways was cheaper. Is there anything similar in regard to the competitive rates with trucks?

Mr. GORDON: As I understand the law, it says we have to know if there is any form of competition, whether it is water, highway or otherwise, and we have to know what its rates are.

The CHAIRMAN: Mr. Browne is principally concerned with competition from trucks.

Mr. BROWNE (*Vancouver-Kingsway*): No, I said with all forms of transportation.

The CHAIRMAN: In some instances the railways will carry, let us say, X tons of goods over a given distance at a cheaper rate if it could be hauled by water transportation. Is that right? You have water competitive rates?

Mr. GORDON: We have water compelled rates.

The CHAIRMAN: And your water competitive rates make it possible for goods to be transported cheaper by rail. Is there anything similar with trucking?

Mr. BROWNE (*Vancouver-Kingsway*): Remember, I am not making any complaint about the railways lowering their rates. I feel very strongly that the railroads should be free from a restriction in fixing rates, so far as possible.

The CHAIRMAN: You mean they should be able to lower them more than they have done?

Mr. BROWNE (*Vancouver-Kingsway*): No. All I say is that they should not be hampered in meeting competition. Sometimes I feel very strongly that they are not in that position. I do not agree with Mr. Gordon with regard

to the way in which the railways are hampered in meeting competition, but I am questioning the method of agreed charges which do not have to be compensatory.

Mr. GORDON: I have to disagree with that completely. In fact, I have to say that the statement is wrong. You made that statement on the second reading of a bill in the House of Commons, in which you said agreed charges do not have to be compensatory to the railways, and therefore the railways were in a position to eliminate certain segments of the trucking industry. That is wrong because agreed charges have to be compensatory, as is evident from section 32 (6) of the Transport Act, which requires them to be made on the established basis of rate making. Section 33 of that act also deals with them, and requires the Board to consider the effect of an agreed charge on the net revenues of the carrier.

Mr. BROWNE (*Vancouver-Kingsway*): That interpretation of the Transport Act is entirely wrong. This is under section 32 which states:

> Notwithstanding anything in the railway act or in this act, a carrier may make such charges for the transport from one point in Canada to another point in Canada of goods of a shipper as are agreed between the carrier and the shipper.

That is the condition of an agreed charge?

Mr. GORDON: I can only say my legal advice disagrees.

Mr. CHEVRIER: Is not this over and above the factual point which has been raised by Mr. Browne? There is also the legal question, one which has to be determined by the interpretation of the statute, and there is a long line of decisions having to do with freight rates and the interpretation that should be put on the statute. I do not want to interrupt Mr. Browne. I know he has a great deal of experience in these matters but I think, over and above the points he is raising, there is unquestionably the legal position and, in order to determine what is the position having to do with the point he has raised, we must get judicial advice as to how the statute applies to a particular case.

I have before me the report of the royal commission on transportation, and Mr. Justice Turgeon cites a number of cases to determine what should be done. It strikes me that there is the factual position and the legal position as to how the statute applies to a given set of circumstances.

The CHAIRMAN: Even agreed charges are on the basis of the statutes.

Mr. BROWNE (*Vancouver-Kingsway*): I just read out the statute as to what constitutes an agreed charge, and I do not think there is anything to be gained by pursuing the matter any further. I put my views on the record and the relevant section of the act here. I have put on record what the witness, Mr. Edsforth, said before the royal commission which I believe bears out entirely what I said.

Mr. GORDON: Thank you, Mr. Browne. Your views will be helpful to our lawyers in resisting your opinion.

Mr. FISHER: Mr. Chairman, you indicated you felt that perhaps some of us did not understand the key point that Mr. Browne is making. Before he lets it go, as I understand it, his key point is that despite what Mr. Gordon told us yesterday, about the difficulties of competition—especially truck competition—Mr. Browne points out that the railway is in a position to meet this competition. I would like to ask Mr. Browne whether that is his point?

Mr. BROWNE (*Vancouver-Kingsway*): I have stated my view.

The CHAIRMAN: That is Mr. Browne's contention, but the president says he is within the statute. There is a line difference there.

Mr. FISHER: I would like to take an example. The C.N.R. entered into an agreed charge with the breweries in Manitoba, especially covering shipments to the north, and I received a communication from a trucker who said he lost the business in this particular case. The rates the C.N.R. agreed to with this particular shipper could not be compensatory. As I understand the position, to redress a situation such as this he should go to the Board of Transport Commissioners with a copy of that charge and say "I believe this is not compensatory". It would then be the duty of the Board of Transport Commissioners to call in the railway and ask them whether it is truly compensatory. Is that correct?

Mr. GORDON: I had better stop making legal interpretations. I am not qualified to do so. All I can tell you is that the person who has a complaint against the railway for anything will find his redress spelled out in the respective acts. There is an act covering agreed charges, an act covering competitive rates and an act affecting railway rates generally. I am not going to assist competition by giving my interpretation any more. You had better hire a lawyer and pay him for it. I will say this, and I want to repeat this point, although I know it infuriates Mr. Browne—I am sorry—all our agreed charges are compensatory.

Mr. BROWNE (*Vancouver-Kingsway*): The committee burst into laughter the last time you made this statement.

Mr. GORDON: They are getting educated. They are learning more and more.

The CHAIRMAN: Any other questions?

Mr. BROWNE (*Vancouver-Kingsway*): I would like to ask one or two questions. In dealing with the specific type of rate here, I presume you were referring to incentive rates, competitive rates and agreed charges. I was wondering what the position is between the C.N.R. and the C.P.R. I presume that they generally agree before the incentive rates are put into effect.

Mr. GORDON: We are required to have an agreement in regard to agreed charges.

Mr. BROWNE (*Vancouver-Kingsway*): Have there been any instances where there have been disputes between the railways on this point, where one felt that the rates should be lowered and the other was reluctant to go along?

Mr. GORDON: Mr. Macdougall, could you help us on that? Mr. Macdougall is our commission counsel. He has appeared in many rate cases before the board of transport commissioners.

Mr. J. W. G. MACDOUGALL (*Commission Counsel, C.N.R.*): As I understand Mr. Browne's question, I think it is true there are discussions between the railways and occasionally differences of opinion, but each is quite free to go ahead on its own motion if it is convinced it is in its interest to do so.

Mr. BROWNE (*Vancouver-Kingsway*): Mr. Gordon, the C.N.R. recently had some incentive rates advertised in one of the Toronto papers, and it is a fairly substantial rate cut which they made there. Has the C.P.R. gone along with that or is there any dispute between the railways? I notice they did not make any mention of that and did not feel it is necessary.

Mr. GORDON: We made our rates on an incentive basis for the purpose of getting traffic. I do not think I should be asked to say whether or not the C.P.R. agreed with us or not. I do not think I need to answer whether or not we had discussions. We are free to make those movements on our own and we are in a competitive business. Certainly the C.P.R. does not always agree with us.

Mr. BROWNE (*Vancouver-Kingsway*): The reason I raised this, and I expressed this concern before but I wish to raise it again now, is that there

have been substantial rate cuts made. I can appreciate the necessity to do that in order to obtain more business. If it is going to help the revenue position of the railways, I am sure everyone would wish to see it done and most of all the shippers. But what I am concerned about is that as of this year there will be approximately $91 million paid in subsidies to the railways by the Maritime Freight Rates Act, the Freight Rates Reduction Act of $20 million, the bridge subsidy of $7 million and, supplementary estimates of $50 million. As I have said before, I think that we would wish to be assured—the committee, the country and parliament—that the money being paid in subsidies is not finding its way to making it possible for the railways to reduce rates below an economic level. There are essential rate cuts here. I know that the shippers are going to be delighted with them. At the same time I feel we want to be sure the railroad is getting all possible revenues they can from their freight charges.

Mr. GORDON: First of all, those subsidies you mentioned, every dollar of them, go to the shipper and not to the railway. The shipper is getting benefit from the reduction of the rates. Subsidies are being paid for the purpose of keeping railway freight rates lower. Secondly, I have a statement before me from the appropriate department which tells me this quite definitely in regard to the general incentive rates—the incentive boxcar rates have two essential features: they are fully competitive with trucks in the weight range from 20,000 to 40,000 pounds per carload and secondly they offer an incentive to load beyond 40,000 pounds, all the way to 120,000 pounds, which shares the cost savings available between the shipper and the railroad.

These rates in all cases provide an attractive return above our out-of-pocket cost and are set just low enough to compete effectively with truck cost, bearing in mind the service disadvantage of the boxcar. We have in mind that there are real disadvantages which cover somewhat lower service, more risk of damage, and the shipper must load and unload the car himself. We recognize that in our rate, and we do put these incentive rates at a point that as nearly as possible would compete with truck costs and still give us a return.

Mr. BROWNE (*Vancouver-Kingsway*): I understand these incentive rates do not include pick-up and delivery charges at either end.

Mr. GORDON: I am not sure about the details but I do not think they do. Even if they did, my statement would still be the same.

Mr. BROWNE (*Vancouver-Kingsway*): I would think that would be very important if anyone wanted to make a determination.

Mr. GORDON: Whether or not they include pick-up and delivery, it is providing an attractive return above our out-of-pocket expenses.

Mr. BROWNE (*Vancouver-Kingsway*): My feeling is that where the railroad can obtain the business at a proper rate, they are entitled to get them.

Mr. GORDON: In making the statement I have, I meant that we do not put rates below the point to meet competition. In other words, our instruction to the department is that the rates should not be lower than necessary to meet competition.

Mr. BROWNE (*Vancouver-Kingsway*): I noticed this article in the *Financial Post* by Mr. Norton Anderson and the date is not on it but I believe it is in the last issue that came out—that after your advertisement appeared in the Toronto newspaper it showed at that time 30,000 pounds freight. It says:

> For example, soda ash in drums, moving from Sarnia to Quebec City shows this comparison:

—for 30,000 pounds loads the rail rate at that time was 84 cents and the truck rate was $1.43.

> An the rail rate goes down 51 cents per 100 pounds when the shipper packs 120,000 pounds into the boxcar.

Of course, the reduction was based on higher loading, and, as I say, I do not object to that, provided the railway is being properly compensated and that they are getting as much revenue out of moving the goods and still retaining business as necessary. As I say, I ask that particularly in the light of the fact that the railways are being subsidized and that there are no subsidies to truck operators and employees particularly. I have had a number of letters from employees, from a number of members of teamster unions, and various locals of teamster unions. In some instances they felt there was unfair competition, and they want to be assured that money which is being paid in subsidies to railways is not leading to reductions of this kind, which might not be helping the railroad either.

Mr. GORDON: Every day we are fighting for all the traffic we can get. We will quote rates at any time, and our effort is always not to quote rates any lower than is necessary to meet competition because we want to make all the money we can. We are not risking that policy at any time. We are talking about effective competitive rates.

Mr. BROWNE (*Vancouver-Kingsway*): My concern is that no one, other than perhaps yourself, appears to be in a position to make any determination. Parliament, the committee and we do not know what is considered to be a compensatory rate.

Mr. GORDON: The board of transport does.

Mr. BROWNE (*Vancouver-Kingsway*): I have not got the evidence nor do I want to go into it, but in the evidence that was given before various royal commissions it had been shown that there had been very few occasions when the board had ever asked for information to show whether a rate was or was not compensatory. In one instance it said there had been three or four requests for information, not a detailed examination but requests out of some 30,000 rates that had been established. My own feeling is that in the light of the subsidies being paid to the railway, there needs to be a strengthening of the study that is made and there needs to be a greater check to assure that these rates are in fact compensatory to the railroad.

Mr. GORDON: Would you concurrently accept or at least support some machinery whereby the truck rates could be examined to say they are compensatory?

Mr. BROWNE (*Vancouver-Kingsway*): I pointed out that a trucking enterprise is usually fairly small, and even if it is large it does not have the taxpayer picking up a loss of $67 millions a year. If they do not set compensatory rates, they soon go out of business. The railway is in a completely different position, so that is not an accurate comparison. I am sure the taxpayers in this country are more concerned, since they are the ones who are paying the deficit for the railway, and the taxpayers want to know that it is not being lost.

Mr. GORDON: Is it better for us to get traffic with some margin of profit than no traffic? I have given you my best assurance that the rates of traffic we are handling, including these incentive rates, are made on a basis that we do not quote rates any lower than is necessary to meet competition and that those rates are compensatory. What more can I say?

The CHAIRMAN: On a point of order, Mr. Browne, Mr. Gordon has repeated that statement at least a dozen times since yesterday morning about the compensatory feature. I hope we can accept it as the truth, the same as he accepted your statements.

Mr. BROWNE (*Vancouver-Kingsway*): If I accepted his statement like he accepted mine, I could not accept them at all.

The CHAIRMAN: I hope you do not create the impression across the country that we are trying to encourage the railways to increase freight rates, because many people think freight rates are too high now.

Mr. BROWNE (*Vancouver-Kingsway*): He does not have to pay the taxes for the deficit of the railways.

The CHAIRMAN: You do not pay for the deficit on that basis, if you are taking the president's words, which he has often repeated, that they are compensatory. If they are compensatory, the more business he can get the better, whether he gets it from truckers or elsewhere, no matter how little compensation there is it increases the over-all profit and reduces the deficit to that extent. If we take the president's words that it is compensatory, then the fact that he is getting more business by competition does not increase your $67 million.

Mr. BROWNE (*Vancouver-Kingsway*): I do not want to enter into a dispute with the chairman and I do not think we should be required to do so. I am putting the case to the witness before this committee and I do not want to enter into a controversy with the chairman.

The CHAIRMAN: I do not want to do so either, but when a witness gives you his word a dozen times, there is no use proceeding further on that basis. If a witness tells you a dozen times that it is compensatory, do you not believe it?

Mr. BROWNE (*Vancouver-Kingsway*): I am suggesting this to the witness, if you will allow me, Mr. Chairman, that I am not disputing when Mr. Gordon says that to his knowledge these rates are compensatory. Then, of course, I can accept that. What I am challenging him on and what I am suggesting to him is that I do not think the regulation covering the determination, as to whether they are compensatory or not, is complete. No one is infallible. Mr. Gordon's knowledge may not be complete and the knowledge of his officials may not be complete.

The CHAIRMAN: That of his accountants and staff may not be complete?

Mr. BROWNE (*Vancouver-Kingsway*): I do not know what factors are being taken into consideration to determine what the compensatory rate is, and therefore no one is in a position to know; and I am saying that the board of transport commissioners, while it is true they have the power to investigate that, have very, very seldom, if ever, made an investigation to determine it. I am saying that I think that part of the regulation needs to be strengthened so that we are able to see that the railway is charging a compensatory rate.

Mr. CHEVRIER: We have had quite a lengthy discussion. I would be the last to interfere with Mr. Browne or anyone else. There is only one question on what Mr. Gordon has said. The law makes it quite clear, and the Board of Transport Commissioners Act makes it quite clear that the rate must be compensatory, and if it is not compensatory it is up to the person who complains, to raise the complaint before the board. As I understand it, that is how railway freight rate cases have grown up in the law on freight rates. Therefore, when it is said that it is Mr. Gordon's statement, I think it may be; but I think it is also the board of transport commissioners that determine whether or not the rate is compensatory.

Hence I do not know what we are going to gain from the discussion, other than that there are two points of view. It seems to me that a good way to determine the two points of view would be to get the board to hand down a judgment as to whether or not in a particular instance the rate is compensatory or it is not. I think that is the way to do it.

The CHAIRMAN: That is the way it would appear to me.

Mr. FORBES: There has been one very important point in this discussion. It has been shown to the people in western Canada, that they have not got water as a competitive source of transport.

The CHAIRMAN: There is only the odd case, Mr. Forbes.

We have a new member of our committee, Mr. Cathers, whom we are glad to see here.

Mr. FISHER: We are glad to have him here.

Mr. CATHERS: Some years ago I saw the figures in the United States, that the truck was competitive up to a distance of about 72 miles with the railway. Have you any figure comparable to that worked out for Canada?

Mr. BROOME: It depends upon the commodity.

Mr. GORDON: We have views as to the area of truck competition, but that is part of our competitive circumstances, a part of our judgment of lowering incentive rates. I think the people who talk about the mileage—do you remember, Mr. Macdougall, whether we have talked about that publicly? Have we not made certain studies?

Mr. MACDOUGALL: We have made studies in the realm of transport showing that the trucks were highly competitive; and the general run of our studies and those of the C.P.R. are that the truck is competitive over long distances today, and certainly we are not only in competition on runs of 100 or 200 miles. We are meeting competition at 1,000 miles and 2,000 miles, and so on.

Mr. GORDON: That is a service factor.

Mr. MACDOUGALL: There is the service factor, and also that they are able to reduce their costs by eliminating competition. That used to be the position some years ago.

Mr. CATHERS: I have a supplementary question also. Is it now a fact that the railways have to carry all the commodities offered, while trucks can refuse to carry?

Mr. GORDON: The railway is a common carrier and, as I understand it, it is not permitted to refuse any traffic—except certain restricted things like explosives, or dangerous material—if it is offered at the rate which the railways quote. There are some restrictions in regard to dangerous materials, but that is all.

Mr. FISHER: I was wondering when Mr. Gordon was going to put on his trucker's hat and speak as a trucker.

Mr. GORDON: As soon as you want to ask questions.

Mr. FISHER: I want to ask about Modern Approach to Sales.

Mr. GORDON: I hope when coming to the truckers part of the subject, I will be able to speak as a trucker and we might have Mr. Browne's assistance.

Mr. FISHER: I have a question on this. The emphasis here seems to be on freight. What steps are you taking in your modern approach to sales to do something about the passenger side of your operations?

Mr. GORDON: Quite a good deal. We have made a great number of passenger innovations, but perhaps I could state our policy again as we presented it before the royal commission on transportation. Our policy is:

To pursue an aggressive policy towards building up passenger business in those areas where there has been evidence of a good passenger demand or the possibility of creating a good demand. To this end, it is the company's policy:

To sell passenger travel with initiative, imagination and resourcefulness, using modern research, marketing and selling techniques.

To set passenger travel prices at a level which may be expected to provide maximum returns for the services operated.

To run passenger trains and provide all auxiliary services efficiently, courteously, expeditiously and reliably; to develop and train staff and to encourage among them the esprit de corps necessary to achieve this.

To improve old or develop new types of equipment, methods, practices and facilities with the object of producing more efficient and attractive transportation. To remove or change train services which do not return their variable cost of operation and for which there is no reasonable prospect of doing so in the foreseeable future. In areas where there is no alternate transportation

service available and it is justifiable in the public interest to continue passenger services which do not return their variable cost of operation, to seek reimbursement from the public treasury for the losses incurred. Now, we put in quite a number of innovations in the matter of fare changes and incentive fares, and in the matter of group action, credit cards, "go now, pay later" plan, and simplifying the ticket forms and ticket procedures and tariffs. We also put in intensive training, as I remarked earlier, in our passenger sales force. Generally, our policy is to aim ourselves at those places where there is still a chance of response from the travelling public for cheaper travel and more attractive travel.

Mr. FISHER: What about the advantage in selling passenger service from an increase in speed? I have been informed—it is probably unreliable—that you actually are making better times in your freight service in many parts of the country now than you are on the passenger service.

Mr. GORDON: That might be so in some places. We put in a two hour passenger service between Montreal and Ottawa. That is the best time service yet. It may be that there are a certain number of freight services, the hi-ball service, which is making as good time as the passenger service.

Mr. GRAYSTON: Well, as the secondary passenger train.

Mr. GORDON: Generally speaking, the fact is that the passenger train still gets preference, and that makes for better speed.

Mr. FISHER: If you have a situation in which you are selling passenger service, where you would sell all-inclusive tickets for trains and the trains may not have connections, are you not in difficulty? I will give you one example. There is no connection to Saskatoon from Prince Albert for train No. 3. There is no connection to Winnipeg from Prince Albert for train No. 4. I had a suggestion you sell an all-inclusive ticket.

Mr. GORDON: I do not think you can say there are no connections. It may be that the connection is not immediate, but there must be a connection if we sold a ticket.

Mr. FISHER: In your cut down, you have cut down passenger services, particularly in the west, and in the transcontinental. Is that not correct?

Mr. GORDON: We have cut some, yes.

Mr. FISHER: Let us shift this. What effect have these cut-downs had on the volume of passenger traffic which you are able to get?

Mr. GORDON: Basically, where we have cut down it is because we were not getting anything like the volume which would give a reasonable proportion of the cost. We have only cut out those passenger services where we have satisfied ourselves, and in the required instances the Board of Transport, that the number of passengers who want that service has reduced so much that it is not justified.

Mr. FISHER: What effect is this having upon your sales drive? You say you have stepped up your sales approach, but yet you have actually got less to offer.

Mr. GORDON: That is right. We have cut out certain services, but have intensified our sales approach under those services still operating.

Mr. HORNER (*Jasper-Edson*): In your sales approach do you use an incentive approach? Do you use a commission basis?

Mr. GORDON: No, we have no commission basis.

Mr. HORNER (*Jasper-Edson*): Do you expect your agents to solicit business outside of normal working hours?

Mr. GORDON: It is not an instruction, although we would like to see them do it. However we could not require them to do so.

Mr. HORNER (*Jasper-Edson*): Do you have any program to modernize and improve your facilities in the smaller towns, I know about the bigger ones, to make stations more attractive, so that that might help your approach to sales?

Mr. GORDON: We have done a fair amount of that. In some cases where the cost of making any appreciable improvement would be just out of the question, we have not done it. An example of that is Ottawa station, here. It is in the process of being demolished, or being moved, so that for some years we have not done very much in it as it would be just throwing money away.

Mr. HORNER (*Jasper-Edson*): I have no cities in my riding, sir, as you probably know, but I am concerned about the condition of the right of way going through some of the towns, compared with the bigger towns. One of these would go for a cooperative approach with the railway to use parking lots, or improve the condition and appearance of them. I wonder whether or not you have done any of this?

Mr. GORDON: Yes, we have. I would not pretend it has been a very extensive program, but within reason we have expended money to make them more attractive or bring good results. Over the years, our stations generally have shown steady improvement.

Mr. HORNER (*Jasper-Edson*): Some of mine have not. I also know from personal experience as a town councillor in regard to the N.A.R. that when we approached the railway and asked if they would let us lease or borrow, or use a portion of the railway as a parking lot, they refused. It was not going to cost them anything, but they said that they would not do so. We said we would fix it up, but the N.A.R. and the general manager of the N.A.R. apparently turned us down cold.

Mr. GORDON: Did they not give you any good reason?

Mr. HORNER (*Jasper-Edson*): No.

Mr. GORDON: I will find out.

Mr. HORNER (*Jasper-Edson*): I have not been a councillor for some years.

Mr. GORDON: Even so, I will find out his reason. Would you let me have a memorandum on it?

Mr. HORNER (*Jasper-Edson*): Yes.

Mr. GORDON: I will be happy to look it up and let you know.

Mr. HORNER (*Jasper-Edson*): As far as our towns are concerned, there is concern about the condition of the station. Even in the towns doing a certain amount of business with the railway, they are concerned about the general condition of the stations and the right of way in the stations. It is not so much perhaps the deterioration as it is that these towns are gradually improving themselves with sewerage and water, paving and so on, and they think that C.N.R. should be capable of keeping up with the rest of the town.

Mr. GORDON: Would they have the same feeling about the C.P.R.?

Mr HORNER (*Jasper-Edson*): I have no C.P.R. lines in my riding.

Mr. GORDON: How lucky you are!

Mr. PASCOE: I was waiting for page 9, Passenger Services, to ask an outline of what the railways are doing to increase passenger traffic. I think there is a field there, and I am glad to hear Mr. Gordon outline it. I have a brief press cutting here saying that the passenger sales manager, Mr. Pierre Delagrave, says the C.N. is in the passenger business to stay. I was just wondering as to what is being done in regard to promoting passenger sales.

Mr. GORDON: We have put into effect in the course of the last 18 months one of the most intensive advertising programs of sales promotion, market analysis, that has ever been done by any railway in this continent. I have here some of the types of advertising.

Mr. PASCOE: I heard a singing commercial on the air this morning in connection with the Canadian National.

Mr. GORDON: Perhaps we could look at some of the advertisements. Mind you, we have been plugging this pretty much. You said you heard a singing commercial. That is one use of it. Not everybody agrees with the technique of singing commercials, but it is a popular way to sell things. We have television programs, and we have had a very intensive series of ads—which are now being illustrated—of various kinds pointing out the advantages of the railway both in regard to comfort, as well as with regard to the slogan to ease worry.

That is a slogan which has caught on quite well. We have had good response in respect to the group sales program we have put on, whereby we sell a ticket on the basis that a person who travels with one other gets a discount, and with two others, he gets more discount, and even more with over three or four. I can certify that we are giving this very intensive attention, but in the process of it we are losing passengers. Our passengers are declining despite our best efforts. But I hope what will emerge will be that the passengers who are being attracted back to the railways are of such a type that the railways can hold on to them, which will improve our net revenue in passengers.

Mr. PASCOE: I wonder if Mr. Gordon would answer my earlier question regarding the removal of agents from the smaller towns? Does this in any way interfere with the sale of tickets and thus reduce the possibility of people in the smaller towns travelling by train?

Mr. GORDON: We have not suffered very much loss there, because where those agents have been removed, by definition the business was not there. There is no trouble at the small points you have in mind about getting a person on the train, because he may purchase his ticket on the train. There have been very few cases of this kind where we have found any particular disadvantage.

Mr. BROOME: I have made some comparisons which would reflect credit on the Canadian National when compared to the Canadian Pacific, whether due to this promotion or not in the passenger service; and I find that the Canadian Pacific suffered a very drastic reduction in passenger revenue while the Canadian National managed to maintain fairly well its position in this area at least.

Mr. GORDON: That is true, and I think it reflects the fact that we have made a more intensive effort in regard to passengers than has the Canadian Pacific.

Mr. BROOME: They have dropped ten per cent, while you went down only two or three per cent.

Mr. GORDON: I am not personally satisfied that we have completely explored the area. I think we are keeping these men on their toes with sales promotion under the management of Mr. Delagrave, and that it has received new life in that respect, because he has gone all out in the way of imagination and new slants, and in a way which is very pleasing to me.

Mr. HORNER (*Acadia*): My question is on the last paragraph under "modern approach to sales", where you say

> The freight rate staff was also reorganized to focus specialist group attention on specific types of rates.

Would it be proper to assume that each one of these rates would have one specialist, or a specialist group in setting that rate?

Mr. GORDON: That is an indication that each area will be able to provide a service which will give very rapid handling of specialist groups on rates. We have embarked—I do not know if you have had the advantage of reading my speech which I delivered on this subject in Toronto on February 16, and which I called "Total Distribution Costs"; this speech covered the new approach we

have made to what we call marketing approach to the whole subject by our sales force, because we are now selling it on the basis of selling the best marketing approach. This means that we study the technique of the projected rate from the point where the product is produced, and move forward to get it right on to the customer's shelf. We try to sell them on the service which will bring that product right from the point of manufacture and put it on the shelf of the user. This would include total distribution costs, and we keep each individual shipper informed by stating the freight rate actually involved, the packaging costs, the loading and unloading costs, the amount of warehousing needed and its location, and the inventory level of costs as affected by the size of the shipment, as well as the speed, the reliability of the material, and the flexibility, which is represented in the equipment and service.

By having all these factors of costs for the shipper, we are able to analyse it for him so as to establish for him whether or not the movement by rail or by an associated service is the best medium to use. Each one of these commodity classifications for an area will have a specialist who can handle the rates along that aproach.

Mr. HORNER (*Acadia*): Then this article goes on to point out that the rate group is sub-divided into sub-groups dealing with rates for selected types of commodities and services. And it says that the new establishment is designed to develop expert sub-groups capable of processing applications and negotiating rates quickly and efficiently. Does this mean that throughout the regions there will be numerous groups or sub-groups who are capable, in other words, of setting rates?

Mr. GORDON: Yes. And by sub-groups in that sense I mean that we will be able to handle the whole deal, with sub-groups for the various types of commodities and services involved.

Mr. HORNER (*Acadia*): And they will, of course, have to estimate the cost of every one, as you suggest?

Mr. GORDON: There is another factor in this sales approach. We have to be very careful about the freight rate involved in a particular group or sub-group —or commodity, let us say; let us take Saskatoon as an example; we have to watch to see what affect that rate will have on similar commodities coming out of Ontario or Quebec; that is to say there must be a specialist who understands not only the impact in western Canada, but also how it affects the rates in eastern Canada, and vice versa. So with this local autonomy we are trying to come to regulate areas, always subject to co-ordination in regard to freight rates generally across Canada.

Mr. HORNER (*Acadia*): I realize that.

Mr. GORDON: It is a highly complex subject.

Mr. CATHERS: Mr. Gordon, you are also a director of T.C.A.?

Mr. GORDON: You ask if I am a director of T.C.A. Let me see, this is Friday; yes, I am.

Mr. CATHERS: But not to-morrow?

Mr. GORDON: I do not know.

Mr. CATHERS: My question is on this reduction of passenger rates to Vancouver which was brought in on the first of January. I know this is not going to be popular.

Mr. GORDON: Please wait a minute. May I say before you ask your question that I am not prepared to discuss anything affecting the operation of T.C.A. I think that should be done by Mr. Gordon MacGregor, president of the company.

Mr. CATHERS: But you are involved.

Mr. GORDON: I am involved in T.C.A. as a director, but I am not speaking for management.

The CHAIRMAN: T.C.A. is not really before us. It is not under this particular item.

Mr. GORDON: The president is the chief executive officer of the company, and he is the one to speak for it.

The CHAIRMAN: We shall come to that when we have Mr. MacGregor before the committee.

Mr. GORDON: Mr. MacGregor will be here on Monday.

Mr. CATHERS: The railroad owns a part of T.C.A. and I thought that you as a T.C.A. director would be able to answer my question, but I will pass it. The other question I have is this: are you carrying out co-operation with the Canadian Pacific in order to cut down wasteful competition? Let me give you an example. This was three or four or five years ago, but I recall that the C.N.R. train left Chatham for Toronto at 6:05, while the C.P.R. left the other station at 6:00 o'clock. I think that is crazy.

Mr. GORDON: No; it is not crazy. It would not have been done, first of all, if it were crazy, believe it or not.

Mr. CATHERS: Oh now! Why did you pool the trains between Toronto and Montreal many years ago.

Mr. GORDON: You must remember that if a train leaves at 6 o'clock on one railway and at 6:05 on another running to Toronto, you will find they travel by different routes and service different towns and villages in between. You may have a starting point and get to the same terminal and say that it is a duplication; but that is quite wrong, because each railway is servicing villages and towns in between. We have done our utmost, in discussions with the C.P.R., to try to cut out any unnecessary duplication of service. As a matter of fact a complete railway line was abandoned by the C.P.R. because it was duplicating one of our lines in western Canada. That is done wherever the country can be properly serviced by one instead of two. Where an area is highly competitive, however, I will quote Mr. Crump in saying that we co-operate in every way possible, except in sharing a car of freight.

Mr. HORNER (*Acadia*): This whole subject comes under the heading, "other developments". On page 13 there is a section headed co-operation under C.N.-C.P. Act.

Mr. CATHERS: Mr. Gordon was speaking about the modern approach to sales. I was going to suggest that he call off the aggressive salesmen he has in the riding of York North who are bringing down hundreds of school children to visit Ottawa—unless the Chateau Laurier is prepared to feed them—because it is becoming quite an item for members of parliament.

An hon. MEMBER: I do not know of any member who is better able to do this.

An hon. MEMBER: No member can look after them better than Tiny.

Mr. GORDON: I am interested to have one comment about our aggressive salesmanship. I wish Mr. Grills was here.

The CHAIRMAN: Shall we conclude this item?

Agreed.

The CHAIRMAN: The next section is visual redesign.

Mr. HORNER (*Jasper-Edson*): How are you doing with the visual redesign.

Mr. GORDON: It is coming along. It is a slow process. We do not intend to make it a crash program. We intend to put in the redesign as we shop our cars gradually.

I have with me Mr. Harris who is our director of public relations. He might give you a few sentences on visual redesign, and that might dispose of it.

Mr. C. A. HARRIS (*Director of Public Relations, C.N.R.*): I think the results of redesign have been quite good, even better than we anticipated. I think the program is probably the best advertising for the line which we have had in a long time. Not everybody may like the new trademark—people have referred to it as a number of different things. We did not expect to have immediate and universal approval.

The reaction however has been good in a number of respects. First of all, in design circles the reaction has been almost unanimously favourable. It has been selected for exhibition in the art director's shows in Toronto and Montreal. A number of shippers have indicated to us their interest in having boxcars with the new design in front of their plants. Northern Plywood of Port Arthur decided to take a new picture of their plant if we could give them the new cars.

Then there has been the reaction of our own employees. More and more of our departments have come to us and have asked to have the redesign instituted in their operations. I know we have to go slow, but some of the employee groups are going ahead on their own and are painting it on the track motor cars. Some of the results are quite interesting.

I do not know that there is anything further I can say, unless there are questions.

Mr. FISHER: Did you examine the consequences of the redesign of the corporate image among United States railroads before you got into this?

Mr. HARRIS: There are very few United States railroads which have had much experience in this. The New Haven railroad had started a program, but they let it lapse after a year or so. The current issue of *Trains* magazine published in the United States has done a four page article on the Canadian National redesign program. The article ends up by saying that many of the United States railroads would do well to pay the Canadian National the sincerest form of flattery.

Mr. FISHER: What effect will it have on the costs of cleaning?

Mr. HARRIS: Every attention is being given to costs all through the program. For example, the colours are being picked out having regard to how long they will last. We have tested different colours on our passenger cars with this in mind.

Mr. FISHER: Perhaps this is just a rumour, but I have heard that you were going in for some pretty bright colours insofar as passenger engines and trains are concerned.

Mr. HARRIS: Yes. We have accepted a new colour scheme for passenger locomotives, A and B units, and road switchers. An experimental version of the A and B unit painted in these colours has been right across the country. I do not know whether or not you have seen it. There is a model on the cover of the timetable. The colour scheme is black and white diagonal strips, with orange and red. In terms of resisting dirt, it is a designer's trick of obscuring dirt in high contrasts.

Mr. FISHER: The only assurance I would like is that this program is not going to appear as an extra maintenance cost.

Mr. HARRIS: No.

Mr. GORDON: Are you worried about extra maintenance?

Mr. FISHER: Additional maintenance costs.

Mr. GORDON: There is nothing in this program which by itself would cause additional maintenance in the form of washing or keeping it up. The contrary more likely is true, because the design will lend itself to better wear,

and the paint experiments are all with that in mind. Mind you—and Mr. Harris mentioned this—we have a lot of experiments under way. You may be getting a reaction from people who have seen some of the experiments. In my opinion the passenger car is not satisfactory. We have had two tests and have run it across the country in order to see how it reacts to weather conditions. I have no doubt people have had views about it. However, those are only experimental cars. We have decided on the boxcar colour and have decided on the engine.

Mr. FISHER: In respect of the boxcars, is there any truth to the rumour I have heard that you are planning to use yellow on the boxcars?

Mr. GORDON: Yes. We have had that for some time. That is another one of our ways of approaching the use of cars in connection with the newsprint industry. When you see a car with a yellow door you will know it carries newsprint and that it gets a preference because the newsprint business is the most valuable traffic we have, both in volume and revenue. We have a good deal of difficulty in potential damage claims and where they happen. A lot of that traffic goes over the United States lines and damage which occurs to newsprint is expensive. We have a considerable struggle to try to determine that the damage does not happen on our lines. The yellow door means only: take care, this is newsprint.

Mr. FISHER: Are all your paper-carrying cars painted with this type of door now?

Mr. GORDON: Well, you see, there is the difficulty of the car cycle there. We cannot make them all that way, because they have to come and go. I do not know how many we have. Perhaps Mr. Grayston could help us.

Mr. GRAYSTON: We have about 1,200 now. Of course this is the type of program you can only carry on to a point; otherwise you get into the complications of expense for empty hauling and so on.

Mr. FISHER: You will recall that a number of times in this committee a discussion has come up with relation to the safety factor which might be involved with the different colours on box cars. Was this taken into consideration in the experiments you were carrying out in design in so far as box cars are concerned?

Mr. GORDON: Yes.

Mr. HARRIS: The saftey concern is not the prime reason for the redesigning program. However, in going about the task of designing trucks, locomotives and box cars, we are taking into consideration the safety factor. I think we have succeeded in the case of the motor vehicles. There is a large "C.N." on it, but in addition there is a safety factor on the back of the vehicle at night.

This locomotive design which Mr. Grayston is showing is certainly easier to see. Again, this is no guarantee that people are not going to hit the train, because sometimes they run into the twenty-third car. When his experimental locomotive was in Edmonton some of the safety people from municipal and provincial governments were very interested in it. They came down to see it and had very favourable comments to make in respect of it.

Mr. FISHER: The former member for Peterborough had a great interest in this particular aspect of safety, and I wondered whether some of his general suggestions are being taken into consideration?

Mr. GORDON: He was particularly interested in the reflectorization on the sides of box cars, and we had friendly disagreements on it, as you may recall. Nevertheless, he won the argument, because we now are under instruction from the board of transport that all new cars must be reflectorized. That pertains to the Canadian railways. All the cars we bring in for reshopping and repainting

must be done now. Over a period of years they will all be reflectorized. My objection has been that I think it is an added hazard instead of a saftey factor, because of the fact that a great many box cars come here from the United States, and when we are running a mixed train, as we do very often, with cars from 20, 30 or 40 different railways, some of which are reflectorized and some of which are not, you can easily get a situation where there might be cars in a row which have reflectors, while the next six or ten cars have not, with the result that a driver, on a wet, rainy night might think the train has gone by. I always have been worried about that. However, that program is going on.

Mr. HARRIS: Dr. Horner raised a question a short while ago in connection with stations. We all realize a great many of our stations leave something to be desired in appearance. We have about 5,000 different stations across the country, and it would be very, very expensive to attempt to repaint all of our stations overnight. The cost of the paint alone would be prohibitive. However, every year some of these stations in our regions are earmarked for attention. As a matter of fact, we now have in western Canada a list in the order of something like 68.

Mr. HORNER (*Jasper-Edson*): I would like you to give some thought to your rights of way through these towns, on a community approach.

Mr. GORDON: Would you let me have a memorandum on that, because we have been tackling our real estate program on a much more intensive scale the last couple of years. I think it has been a case of too much attention being paid to railway requirements, and we find that our railway operating officers tend to hang on to any property they get their hands on. That is one of the quarrels between departments which comes to our attention. I have reconciled that quarrel by insisting that all the real estate which is not in active use be analysed, and we are looking at it in terms of how best to make use of it. I mentioned the Campbellton, Moncton, Toronto, Montreal situation, and so on. Edmonton is active. There will be a lot of things done in the next few years.

Mr. CREAGHAN: I have one question in connection with the design or the symbol. Are you still putting the maple leaf on our repaints or new cars?

Mr. GORDON: No.

Mr. CREAGHAN: I noticed Mr. Fleming said in his article that you could not notice it travelling at 70 miles an hour, and I thought I had seen new cars in the Montreal yard with the new symbol and the maple leaf as well.

Mr. GORDON: No.

Mr. PASCOE: As a matter of interest, I always have referred to the line as the C.N.R. and now it is called just the C.N.

Mr. GORDON: Yes. Do you know why? "C.N." is bilingual; C.N.R. is not.

Mr. FISHER: Can you say the same for the vice-presidents?

The CHAIRMAN: Are there any further questions on this item of plant and equipment? I believe we have dealt with that considerably. Is there anything further on it?

Mr. FISHER: I asked a question on the order paper, Mr. Gordon, in relation to the Wabamum subdivision on the main line west of Edmonton in connection with the ballasting project. Since this complaint which was brought to me is not marked personal and confidential, I will tell you that it comes from the officers and members of the B. of R.T. lodge, No. 861, B. of L.E. division, No. 796, and B. of L.F. & E. lodge, No. 810. I will put the paragraph on record so that you will have the substance of the point.

> In 1959 the C.N.R. contracted a gravel crushing project at Entwistle, Alberta, for track ballast to be used on the Wabamum subdivision (the

main line west of Edmonton). During the crushing operation the senior officials, as well as the engineers' department in charge, were informed that such gravel was not suitable due to its resemblance to ball bearings therefore not having the holding power to stabilize the track. Without regard, the operation was progressed and eventually 43 miles of that subdivision was reballasted with this gravel, with the result that a 40 m.p.h. slow order had to be placed on such track. Not until this unsuitable rock was plowed off and a better grade laid under the track (about a year ago) was the speed restriction lifted to the present speed of 60 and 70 m.p.h.

There still remains a gigantic stockpile of this gravel at Entwistle with little or no value for which it was intended. When all aspects of this operation are taken into consideration, the amount of money uselessly spent must have been several million dollars.

Mr. GORDON: What was the year of reference there?

Mr. FISHER: 1959. I received this letter on March 20, and it was postmarked Edmonton, Alberta.

Mr. GORDON: Is that letter referring to 1959 ballasting?

Mr. FISHER: It says:

In 1959 the C.N.R. contracted a gravel crushing project at Entwistle—

Mr. GORDON: In connection with 1959-60, the question was asked:

Did ballasting prove satisfactory?

The answer is: "Yes". The assertion made there was that it was highly unsatisfactory. Of course, I do not know about this letter. However, I will be very happy to take notice of the letter and conduct an investigation. I am not informed on it. Certainly, from all the replies we received from the officers responsible, there was nothing to indicate there was anything wrong at that time.

The CHAIRMAN: That is in the year 1959.

Mr. GORDON: I cannot resist this comment. I do not understand why railway men who feel that way would not write to me. I do not understand why they would not write to me or to the vice-president in charge of that region. Certainly our top management would be very interested to examine it.

Mr. SMALLWOOD: I got a form letter of that sort too.

Mr. GORDON: You got a letter of that kind?

Mr. SMALLWOOD: Yes.

Mr. GORDON: What did you do with it?

Mr. SMALLWOOD: I did nothing with it.

Mr. GORDON: One of the reasons I asked that is because we do receive letters from members of parliament. We sit down and talk about them, and we give members of parliament all the information we can, and this works very well.

Mr. FISHER: I might point out this is not a form letter. This, so far as I know, is addressed to me personally.

Mr. GORDON: I should be very glad if you laid it on the table. We shall make a thorough investigation of the allegations made in it.

Mr. HORNER (*Acadia*): My question is on a rather different subject. It deals with diesel locomotives. You have some 2,134 of them. Are they in different size ranges?

Mr. GORDON: Yes, there are different capacities.

Mr. HORNER (*Acadia*): How many are in each capacity, or how many divisions of them are there?

Mr. GRAYSTON: I could not answer that offhand, but the information can be supplied. You mean by horsepower?

Mr. HORNER (*Acadia*): Yes.

Mr. GRAYSTON: There are many different ranges.

Mr. GORDON: They range from road diesels down to switchers.

Mr. GRAYSTON: They range from 380 horsepower to 2,400 horsepower.

Mr. HORNER (*Acadia*): I ask this question because there was some inference earlier that the C.N.R. is overstocked with diesels. It would help to clear the matter up if we had a breakdown. I can understand one railway might have 10 diesels of an average size, while another railway might only have five. It would help to try and analyze the situation.

Mr. GORDON: We are quite willing to give you the breakdown you ask but, in carrying out an analysis, you will get nowhere without relating them to the work we are doing. The locomotives range from 380 horsepower to 2,400 horsepower. We are constantly examining the situation to see if we are overpowered, and we are constantly finding things to amend our views.

I can give you an example of this. Through the new computer method we devised over the past two years, we can simulate the actual conditions on the tracks, feed in the load factor, and even the prevailing wind, if we wanted. We put all the factors into the machine and ask it questions on everything, assuming the grade, the curvature, the actual operation and the size of the diesel, and ask what size of diesel would best do the job. Before we had this computer method, which can do the work very rapidly, it would take a group of men upwards of a year to establish all these factors and come up with the answer.

I recall very well a problem which Doctor Solandt, our vice president of research and development, had at one time and, as a result of the computer analysis we were able to reduce the switcher we were using in Montreal from 1,200 horsepower to 1,000 horsepower. That effected very substantial economies, and that is going on all the time. Our operational research group was established late in 1957 for the purpose of enabling the company to benefit from the new scientific methods and techniques which have proved so very successful in other industries.

Mr. HORNER (*Acadia*): To follow this idea up a little further with regard to establishing whether or not the C.N.R. is overstocked, is there some kind of log kept as to the number of hours and miles for each loco?

Mr. GORDON: There is. I do not do this work personally, but our operating officials get very extensive statistics indeed, pages and pages of them, which cover every possible operating factor you could think of.

Mr. HORNER (*Acadia*): What would be the average, say, of one of the bigger engines? What would be the number of hours it could run in a year?

Mr. GORDON: We could supply that. It is the life history you mean?

Mr. HORNER (*Acadia*): I do not want to put you to the trouble of providing a great deal of statistical information, but could you give us the number of hours per year for the biggest group?

Mr. GORDON: Perhaps I could answer the question this way. For a diesel in active service we expect it to have a utilizational life of something like 93 per cent or 94 per cent. We are getting over 90 per cent utilization now, as compared to steam locos which could go as low as 30 per cent and 40 per cent.

Mr. HORNER (*Acadia*): Just last year you added 123 new diesels to the list. Would these have a tendency to lower the percentage of utilization?

Mr. GORDON: On the over-all figure, to the extent we have more diesels than we need to handle the actual traffic now. Traffic is a great deal lower than

we expected when we started our plans for these diesels. It takes about 2½ or 3 years for such an operation to be completed. When we order locomotives it is only after a long, intensive analysis has been made by the operating department. We put that department right on the spot. They make an analysis of the motive power needed and then the operation research group takes the result of that analysis and puts it through every possible test. After that it arrives on my desk and I go over the whole line again. Then there enters the question of money and on the basis of the money we have, the final decision is made.

Mr. HORNER (*Acadia*): The reason I asked the question is because the C.P.R. operates with a little over 1,000 diesels and the C.N.R. has 2,134. Of course, I realize the C.P.R. runs more through the west and you have more shunting and shifting in the east.

Mr. GORDON: And a substantially bigger railway.

Mr. HORNER (*Acadia*): This would tend to make me believe that perhaps your operating costs might be greater in the east because of the necessity for more shunting and shifting there.

Mr. GORDON: I stated yesterday in my statement on finance that the C.P.R. has an advantage due to the fact they are carrying more of the traffic in western Canada.

Mr. HORNER (*Jasper-Edson*): At the Crowsnest pass rates?

Mr. GORDON: I am talking about operating costs.

Mr. HORNER (*Acadia*): We like to believe that operating costs have something to do with rates.

Mr. GORDON: I agree. If the costs of operating the railway in western Canada were as high as they are in eastern Canada, the Crowsnest pass rates would be more inadequate than we claim they are.

Mr. HORNER (*Acadia*): But, as you stated, your costs in western Canada are 42 per cent less than they are in eastern Canada.

Mr. GORDON: Remember this, costs vary, and vary considerably.

Mr. CHEVRIER: With reference to C.T.C., you say you have extended it over seven more main line subdivisions?

Mr. GORDON: Yes.

Mr. CHEVRIER: What is the policy in that for 1961?

Mr. GORDON: We are trying to do a certain number each year. That will come up on my budget.

Mr. GRAYSTON: We have six subdivisions in the plan.

Mr. CHEVRIER: How many more miles of railway lines are there on which you could install C.T.C.?

Mr. GORDON: That is covered in the budget presentation. I shall take note of the question and give you the answer. The general answer is that this is a long-term program. We are doing so much each year, and when we reach the budget I shall be able to tell you what we have done so far and what remains to be done.

Mr. CHEVRIER: I have some questions on freight services.

Mr. HORNER (*Acadia*): We are not on freight services yet.

Mr. CHEVRIER: We are going from one place to another.

Mr. HORNER (*Jasper-Edson*): I hope the president is also going to study the minority report of the MacPherson commission.

Mr. GORDON: It speaks for itself.

Mr. HOWE: I have a question to ask on plant and equipment of the railiners. There are quite a few used in western Ontario. Has any thought been given to the possibility of pulling extra coaches behind those railiners or express cars?

Mr. GORDON: It is not practical.

Mr. GRAYSTON: Quite, sir. We have actually made tests of the ability of these cars in their present state to pull a trailer.

Mr. HOWE: Has any consideration been given to making the motors a little heavier or making a lighter express car?

Mr. GRAYSTON: As I recall it, we did make some tests with very light trailers, but we still found that the strain on the motive power was too great for the car to haul a trailer, and of course a major factor was speed, which could not be achieved.

Mr. HOWE: One of the difficulties that those railiners have in the winter time is that the hoods or covering over the motors are not heavy enough, and break off. Some of those cars run for a month without a cover over them. Has any thought been given to getting heavier hoods put on them?

Mr. GRAYSTON: This is something of which I have not been made aware. Those cars would be maintained in the local area, and I certainly can inquire as to whether anything has been done about this.

Mr. HOWE: I know the operators of the railiners themselves have been very much perturbed from time to time and had to stop because the motors got covered with ice and snow and the intakes got blocked because the hoods were torn off.

Mr. GRAYSTON: It might not necessarily be due to the hoods.

Mr. CHEVRIER: I was going to ask three questions, Mr. Chairman, if I may, with reference to the board of transport commissioners and the applications of the railways that are now pending. A 17 per cent case has been disposed of by the Freight Rates Reduction Act and the subsidy which was passed recently. Then there is another case which has gone through the board, which is a 12 per cent application. Has the Canadian National Railways joined in that application with the other railways? What is the position?

Mr. HORNER (*Acadia*): I do not want to be too sticky, but we have been getting along rather well lately sticking to the point under discussion, and this certainly would not come under plant and equipment.

Mr. CHEVRIER: I thought we were under rate services, and since we have been roaming all over the place—

Mr. HORNER (*Acadia*): If you are referring to me, Mr. Chevrier, when you said "roaming all over the place", my point was strictly on diesel units.

Mr. CHEVRIER: I said "we have been roaming all over the place", and there is no doubt about it that we have.

Mr. HORNER (*Acadia*): I have been trying to stick to the items as they come along.

The CHAIRMAN: I think Mr. Chevrier has not taken up a great deal of time and there has been a great deal of latitude. I could have checked you a long time ago on deviating from different items.

Mr. HORNER (*Acadia*): If we are going to make special provisions because someone has sat quietly, then you throw the whole thing wide open.

The CHAIRMAN: But we have had a lot of latitude. We have not been too rigid on this.

Mr. HORNER (*Acadia*): I do not know whose fault that is.

The CHAIRMAN: We have been talking of freight services, trucks and everything else. I am not saying this has not been progressive.

Mr. BROWNE (*Vancouver-Kingsway*): It is true in the first instance that we were, but since we started this afternoon we have been following the

items fairly well. It seems to me that if we deviate from that course now, we are certainly going to find ourselves in difficulty. You will find that most of us have been keeping pretty strictly to those items. You mentioned freight rates and so on, but they were directly mentioned in that paragraph we were dealing with.

The CHAIRMAN: We have not approached passenger services and trucking services and yet we have been talking about both.

Mr. CATHERS: I move Mr. Chevrier be heard.

Mr. HORNER (*Acadia*): If you are going to accept Mr. Cathers' motion, put the question. Someone has to move that someone be heard.

Mr. BROWNE (*Vancouver-Kingsway*): If we are going to deviate from the clause, it is going to throw it wide open.

The CHAIRMAN: I am glad to see you fellows get so strict on the clauses. If Mr. Chevrier will decline, we will stay on the clauses from now on.

Mr. CHEVRIER: Mr. Chairman, I am going to insist the next time someone goes away—as Mr. Browne did a moment ago—

Mr. BROWNE (*Vancouver-Kingsway*): It was related to the clause.

Mr. CHEVRIER: Discussing freight rates and a number of other things concerning freight matters which should have been discussed under freight services.

Mr. BROWNE (*Vancouver-Kingsway*): You did interject several times when I made my remarks.

Mr. CHEVRIER: I made two interjections because I thought the matter was a legal one as well as a factual one.

Mr. HORNER (*Jasper-Edson*): I think it is time we adjourned.

The CHAIRMAN: It is getting late in the week and late in the day. I see no one is in better humour than I am. I give the floor to Mr. McFarlane if he sticks to the issue.

Mr. MCFARLANE: This has to do with diesel units, I can assure you. I would like to ask Mr. Gordon if any consideration has been given to the centralization of power. I understand that diesel units are manufactured by several concerns. For instance, has any consideration been given to operating Canadian Fairbanks-Morse or Montreal Locomotive in specified areas, keeping spare parts and equipment in several locations, rather than in just one or two?

Mr. GORDON: We have done a great deal of work and we have a centralized motive power bureau. With the aid of rapid communications we were able to direct the utilization of these diesels in a very much better way than we ever did before. The fact is that the high capital cost of the diesel really means that we must get maximum utilization of it to justify the expense, and also to minimize the ownership. In 1958 the C.N.R. carried out a detailed investigation of motive power control bureaux which had been in operation for some months on the Pennsylvania and New York Central Railroads. From observations at these power bureaux and considering the size of our diesel inventory, 2134 diesel units, it was decided that a system of regional motive power control would best serve the interests of the C.N.R.

This system of motive power control consists of power bureaux at Moncton, Toronto and Winnipeg, these points being the headquarters of the old Canadian regions. These power bureaux are in operation 24 hours a day.

Each power bureau has one or more power controllers and power control is achieved by using power control forms which list each line control point and a direct dialing telephone system to foremen of diesel running repair and

main shops as well as to chief dispatchers. Through conversations with the chief dispatcher these power controllers arrange for the assignment of diesel power to specific trains.

In addition to contacting chief dispatchers the controllers discuss the shopping of diesel units with foremen of both main and running repair shops.

By controlling the assignment of power to trains the power controllers are able to accomplish the following:

1. Minimize power ownership by maximizing utilization of diesel power in peak traffic periods.
2. Increase running shop efficiency by minimizing work load fluctuations.
3. Utilize local assigned power for main line operations as occasions permit.
4. Minimize disruption from emergency circumstances.
5. Balance the movement of power between regions.

The following is only one example of what motive power control has achieved to date on the C.N.R. In the early stages of power control there was on the average a total of 15 to 17 units awaiting repair at the Point St. Charles diesel running repair shop. Now that power control has been in operation for some time the number of diesel units awaiting repairs has been reduced to two. This is a considerable reduction in the number of idle diesel unit hours and means that we are getting considerably better utilization from our diesels. I think that generally answers your question. We also have the additional factor that we try as far as possible in our assignments of power to locate them so that we do not have to keep duplicate inventories of repair parts. We try as far as possible to get one kind of diesel power in one region. Does that cover your point, Mr. McFarlane?

Mr. McFARLANE: Yes.

Mr. GORDON: I am sure you would appreciate how important it is from a dispatching point of view to be able to indicate immediately to the chief dispatcher and also running repair shops, so that when a diesel is available or comes to a particular point it is grabbed at once, and not allowed to stand idle because that would be a real work loss.

Mr. HORNER (*Acadia*): On plant and equipment, I was concerned with the statement in the middle of page 7, which reads:

> An important feature of the new yards is the comfortable working conditions in the modern yard offices and shops. In addition, attractive recreation, lounge, cafeteria and sleeping facilities are provided for employees laying over between runs.

Is it the custom for C.N.R. to provide sleeping facilities for the employees laying over between runs?

Mr. GORDON: Yes, that is all covered in the wage agreements.

Mr. HORNER (*Acadia*): This is covered in the wage agreements. Even if C.N.R. has not the facilities there, the men are fixed up in regard to hotel rooms?

Mr. GORDON: It depends on the circumstances, but the wage agreement is quite specific on the point. I have another memorandum on that when you come to the turn around benefits.

Mr. HORNER (*Acadia*): I have another question on the same page, which says, about two thirds of the way down, where you are talking about two-way radio or talk-back communication systems, and you say they were in operation in 29 yards. This is 29 out of how many?

Mr. GRAYSTON: They are all shown in this chart here, chart 13. This shows the yards in which those radio installations are in use. They are shown in the small grey square. These, of course, are the principal yards, where we can derive the best economic value and service value from the installation of the radio.

Mr. GORDON: Does that cover your question?

Mr. HORNER (*Acadia*): It does not do so exactly. I said that 29 yards were mentioned, and I still do not know out of how many. Perhaps I did not look at the right chart. Did you say number 14?

Mr. GRAYSTON: No, number 13.

Mr. HORNER (*Acadia*): I have another question I would like to ask about Plant and Equipment. In the 1959 report of this committee, on page 79, Mr. Kennedy asked a question about business or v.i.p. cars and Mr. Gordon said they had six or eight of them and they are reasonably profitable? I wonder if you have still six or eight in service, or what is meant by "reasonably profitable". I wonder if you have got an idea as to the number of times which they are used per month?

Mr. GORDON: I think at that time we were talking about special cars which we have available for rental or sale. They would usually be for meetings of directors of large industries, bankers and so forth. We call them directors' specials. We find there is a demand for them, where a company or bank or large organization having a directors meeting at some particular point will hire the whole car. We rent those out and we find this quite satisfactory.

Mr. HORNER (*Acadia*): Could you give the committee some idea as to how many times each one of these cars would be used within a month, or within a year or two?

Mr. GORDON: I could find out. I have not got it here.

Mr. HORNER (*Acadia*): I might add that the reason behind asking this question is that I noticed this service was expanded in 1954 when two more cars were added, and this was about the same time that the dome cars came into effect. Of course, this brings up the question whether or not it would have been more profitable for C.N.R. to add dome cars at that time rather than the directors' cars which, in your own words, you say cost around $235,000.

Mr. GORDON: That would be quite an analysis, there. I can say in a general way, and I have said this many times, that we did not go into dome cars for the reason that when we embarked on our passenger equipment program we thought it would make more sense to spend the money on standard-type passenger cars rather than have specialized cars dedicated to only one service.

In regard to directors' cars we are able to sell them and they are profitable. I have not got the figures as to the actual receipts, but the fact that they are used enough to be profitable is in stark contrast to the unprofitability of the passenger service generally.

Mr. HORNER (*Acadia*): Evidently you are not losing money on directors' cars.

Mr. GORDON: We feel the capital investment in them is justified in terms of what we are able to get in revenue.

Mr. CROUSE: Are they used by directors of the C.N.R.?

Mr. GORDON: No.

Mr. CROUSE: They are rented entirely to corporation directors for special meetings?

Mr. GORDON: I only mention directors as a sample. They are not directors' cars in the sense that they are used only by directors. Any group of people travelling, who want to be together and who have a stipulated number, can use them. I forget what the number is; is it 12?

Mr. GRAYSTON: Fourteen.

Mr. GORDON: A group of 14, and sometimes a few more if there are couples travelling, may travel together. These are used even for salmon fishing and they are used even by millionaires who use the C.N.R. service, who rent a car and go on a fishing trip.

Mr. GRILLS: Do you not admit that the dome car is very popular?

Mr. GORDON: Yes, but I do not know that they are more popular than our cars. I have had conflicting opinions on it.

Mr. HORNER (*Acadia*): Would there be dining service provided?

Mr. GORDON: Usually they carry their own steward, and their own meals are provided on the car.

Mr. HORNER (*Acadia*): It sounds like a pretty costly business.

Mr. GORDON: We have a rate fixed and it returns a profit.

Mr. HORNER (*Acadia*): I am sure the committee would be interested particularly to know exactly what you would consider a reasonable profit, and I will be satisfied if you will give the committee some information as to how many times they are used in a year or a month?

Mr. GORDON: I will look it up and see what I can get.

Mr. HORNER (*Acadia*): And what the rate would be on these cars—not that I expect to hire one.

Mr. GORDON: If I hoped you would offer some business, I would quote you a rate.

The CHAIRMAN: Have you got one that would suit this committee?

Mr. GORDON: Not at the rates this committee would pay me.

Mr. CATHERS: I would like to remind you of a time, Mr. Gordon, when your wife christened the *Wm. Carson* in the Canadian Vickers yard, and you took at that time a good deal of pride in saying you had some ship being built in a Glasgow yard on which you were going to save a quarter of a million dollars. That disturbed me at that time.

Mr. GORDON: At that time we had two ships being built in Aberdeen, in Scotland, for service around the coast of Newfoundland. They were being built for the government of Canada, and the government of that day, faced with conflicting opinions as to where the ship should be built, very wisely passed the buck to the C.N.R. with the instruction to the C.N.R. management to get the ships built wherever they could, in their best judgment, get the best results. Those ships were let out for tender and we had tenders from all over, from Canadian yards, from American yards, from English yards and from Scottish yards. The best tender came from Aberdeen in Scotland—by a coincidence I was born only 30 miles therefrom. The cost of these ships was very substantially lower and we carried out the direction of the government of the day to place the order where it cost the least money.

Mr. CATHERS: You have not built any there since?

Mr. GORDON: We have built nothing there since.

Mr. FISHER: Mr. Gordon, why do we see so many steam locomotives sitting on sidings?

Mr. GORDON: They are all there waiting for salvage, to be chewed up and sold as scrap. The reason we are not going ahead and scrapping them is that the scrap market has been poorish lately, and they are being stored until the right time comes.

Mr. CATHERS: Is there any sale for them?

Mr. GORDON: Practically none.

Mr. HORNER (*Acadia*): What are you getting for scrap lately?

Mr. GORDON: I have not the figure in mind.

Mr. HORNER (*Acadia*): But you will bring them to us tomorrow?

The CHAIRMAN: Gentlemen, it is now six o'clock.

Mr. GRILLS: Are you keeping some of those old steam locomotives for use in the future?

Mr. GORDON: No, not unless someone comes along and invites us to sell him one. We will sell him one and get quite a good price for it. We have sold one or two already; but if you would put up—and do not tempt me—over $10,000, I might even cut it quickly, if you talk right.

Mr. HOWE: Did not one of those old steam locomotives make a trip up to Midland the other day?

Mr. GORDON: Yes; historical associations put on some of those last run trips, and we have done quite well with them.

The CHAIRMAN: Are there any of the really old ones left with the big top on the engine?

Mr. GORDON: No. I don't think so.

The CHAIRMAN: The committee now stands adjourned until tomorrow morning at 9:30 a.m.

HOUSE OF COMMONS

Fourth Session—Twenty-fourth Parliament

1960-61

SESSIONAL COMMITTEE

ON

RAILWAYS, AIR LINES AND SHIPPING

Owned and Controlled by the Government

Chairman: HONOURABLE W. EARL ROWE

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 3

SATURDAY, JUNE 17, 1961

Annual Report, Canadian National Railways—1960

WITNESSES:

Honourable Leon Balcer, Minister of Transport. *From Canadian National Railways:* Mr. Donald Gordon, Chairman and President; Mr. R. T. Vaughan, Assistant to the Chairman; Mr. J. L. Toole, Vice-President, Accounting and Finance; and Mr. W. T. Wilson, Vice-President, Personnel and Labour Relations.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1961

25481-3—1

SESSIONAL COMMITTEE ON RAILWAYS, AIR LINES AND SHIPPING

Owned and Controlled by the Government

Chairman: Hon. W. Earl Rowe

Vice-Chairman: Mr. Heber E. Smith

Messrs.

Brassard (*Lapointe*)
Broome
Browne (*Vancouver-Kingsway*)
Carter
Cathers
Chevrier
Creaghan
Crouse
Fisher
Forbes
Granger
Grills
Horner (*Acadia*)
Horner (*Jasper-Edson*)
Howe
LaMarsh (*Miss*)
McFarlane
McPhillips
McWilliam
Mitchell
Monteith (*Verdun*)
Pascoe
Robinson
Smallwood

J. E. O'Connor,
Clerk of the Committee.

MINUTES OF THE PROCEEDINGS

SATURDAY, June 17, 1961.
(6)

The Sessional Committee on Railways, Air Lines and Shipping met at 9.35 a.m. this day. The Chairman, Mr. W. E. Rowe, presided.

Members present: Miss LaMarsh and Messrs. Broome, Browne (*Vancouver-Kingsway*), Carter, Cathers, Creaghan, Crouse, Fisher, Forbes, Granger, Grills, Horner (*Acadia*), Horner (*Jasper-Edson*), Howe, McFarlane, McPhillips, Monteith (*Verdun*), Pascoe, Rowe and Smallwood.—20

In attendance: Honourable Léon Balcer, Minister of Transport. *From Canadian National Railways*: Mr. Donald Gordon, Chairman and President; Mr. R. T. Vaughan, Assistant to the Chairman; Mr. J. L. Toole, Vice-President, Accounting and Finance; Mr. H. C. Grayston, Vice-President, Transportation and Maintenance; Mr. J. D. Wahn, General Economist; Mr. W. T. Wilson, Vice-President, Personnel and Labour Relations; and Mr. D. M. Trotter, Assistant to Vice-President, Transportation and Maintenance.

Mr. Gordon, assisted by Messrs. Vaughan, Toole and Wilson, answered questions asked at previous meetings of the Committee.

Mr. Gordon was further questioned on the section of the Company's Annual Report relating to "Plant and Equipment".

At 11.00 a.m. the Committee adjourned to meet again at 2.30 p.m. this day.

AFTERNOON SITTING
(7)

At 2.33 p.m. the Committee reconvened. The Chairman, Mr. W. E. Rowe, presided.

Members present: Miss LaMarsh and Messrs. Broome, Browne (*Vancouver-Kingsway*), Carter, Cathers, Chevrier, Creaghan, Fisher, Forbes, Granger, Grills, Horner (*Acadia*), Horner (*Jasper-Edson*), Howe, McFarlane, McPhillips, Monteith (*Verdun*) and Pascoe.—18

In attendance: The same witnesses as attended the morning sitting.

After completing questioning on the "Plant and Equipment" section of the Report, Mr. Gordon was questioned on the sections relating to "Freight Services" and "Passenger Services".

At 5.05 p.m. the Committee adjourned to meet again at 9.30 a.m., Monday, June 19, 1961.

J. E. O'Connor,
Clerk of the Committee.

25481-3—1½

EVIDENCE

SATURDAY, June 17, 1961.

The CHAIRMAN: Gentlemen, we have a quorum. Shall we proceed?

Mr. BROWNE (*Vancouver-Kingsway*): Mr. Chairman, I would like to suggest that perhaps there is a possibility of finishing today. If we convene again after the orders of the day instead of at 2.30, we might be able to sit for another hour and a half.

The CHAIRMAN: I think there is some merit in what Mr. Browne suggests, if it is satisfactory to everyone on the committee. I do not think, however, that it would be wise to rush it. How about sitting between twelve o'clock and one o'clock? Sometimes the members of the opposition have questions on the orders of the day.

Mr. BROOME: I think there will be questions this morning.

The CHAIRMAN: Yes. Mr. Chevrier may not have thought of it yet.

Mr. CHEVRIER: I have no objections; but I think we might have some indication whether or not there is any hope of finishing today. The idea might be a good one if there is hope of finishing.

The CHAIRMAN: I think Mr. Browne's suggestion was based on the assumption that we would finish today. I think we should assume there is a chance of finishing.

Mr. FISHER: I can see no reason why we should not get through the report of the C.N.R. today, but there is the question of the auditors.

Mr. BROOME: And there are a number of other things, such as the capital budget.

Mr. FISHER: I see no objection to finishing the annual report, but personally I want to ask the auditor a great many questions in connection with the C.N.R. truck lines and in connection with the expense accounts, as well as the amount of checking that is done on them. I quite agree that we should be able to get through the C.N.R. report, but with all the other items, it seems to me it is a pretty ambitious program.

Mr. CHEVRIER: If that is the feeling, then there is not much point in sitting after the orders of the day.

Mr. BROOME: Yes. Let us just keep to our announced sittings.

The CHAIRMAN: We are not sitting tonight and I do not suppose we had better sit on Sunday.

Mr. CHEVRIER: Why not carry on until eleven o'clock and then decide at that time?

The CHAIRMAN: That might be better. I would prefer not to sit on Monday.

Mr. FISHER: So would I.

Mr. BROOME: Perhaps we could sit today and reconvene on Tuesday. That would at least give the C.N.R. officials a day in their office on Monday.

The CHAIRMAN: I do not know that they need that any more than we do. They seem to be ready.

We will proceed on that basis. If just before eleven o'clock we feel we will get through today, then we can arrange our hours of sitting.

I believe there are some unanswered questions which might be dealt with now. Perhaps, Mr. President, you might deal with these.

Mr. DONALD GORDON (*President, Canadian National Railways*): I have some answers here. There was a question by Dr. Horner in connection with the space in the station grounds at Barrhead; here is the information I have received.

The space in the station grounds at Barrhead is very limited because the space is taken up with what are called piling permits. There are a number of pulpwood shippers who pile their pulpwood while waiting shipment. There are also permits covering piling sites for pipe and pipe line supplies. Mr. Cooper says the space is so limited that they are even using space along the wye for piling.

The pipe and pipe line supplies are being brought in for the Swan Hills oil field development north of Barrhead. Mr. Cooper said that were it not for the fact that the space is required for the use of these customers of the railway who require the space he would be glad to deal with the town of Barrhead looking to the use of the station grounds as a parking space. He adds that in the future if business at Barrhead falls off, no doubt the N.A.R. can accede to the council's request.

Mr. Cooper also says that the N. A. R. have several places on their line where the station grounds are not required for railway business and arrangements have been made with the municipalities to use them as parking spaces, and so on.

Mr. HORNER (*Jasper-Edson*): I will send you a memorandum of my comments on that.

Mr. GORDON: Fine.

There is a table in respect of diesel electric units. Would you like to have that read?

Mr. CREAGHAN: Perhaps we could have it tabled.

Mr. GORDON: It is as follows:

Diesel-Electric Units at December 31, 1960

	Canadian Lines	U.S. Lines	Total
Road—Freight	148	22	170
Road—Passenger	149	..	149
Road—Switching	1,172	127	1,299
Switching	432	84	516
	1,901	233	2,134

Then there was a question asked by Mr. Horner in respect of the situation with these special cars. We have taken out of our records the three months' performance. This is a lengthy statement. Would it be satisfactory if I file it?

Mr. HORNER (*Acadia*): Yes.

(Editor's Note: The statement referred to above is as follows:)

We have taken out of our records, after several hours of work, three months' performance of our six combination cars, that is, compartment-buffet-lounge—the Atlantic, the Pacific, the Bedford, the Burrard, the Matise and the Cacouna. The months June, July and August 1960 were chosen and our record for the use of these cars is:

In service	450 days
Unassigned	102 days
Total	552 days

These cars are used both for special parties and in regular line use.

When in regular line use the fares, of course, are the same as for similar accommodation in other line cars. When so used they serve a dual purpose of providing sleeping and dining service. For dining the meal charges are at normal dining car rates.

When used for special parties there are two bases of charge: (*a*) exclusive occupancy; (*b*) charter.

(*a*) Exclusive occupancy—this provides exclusive service for the party only between origin and destination with no extra occupancy. The charge is 18 first class fares plus the sleeping accommodation charge, e.g., Montreal-Toronto, one way, $371.00. At this price the car may be used by up to 18 people. Although for sleeping, four of the cars provide 14 beds—uppers and lowers—while the other two provide 12—uppers and lowers.

(*b*) Charter—this provides the car on a sleeper-diner basis for the charterer and his party for the time required whether on line or in terminals. The charges are made up of 18 first class fares for transportation, plus the daily rental and service charge which varies depending on the duration of stopovers and time in transit. Meals under this arrangement are charged to the charterer at cost plus 20 per cent; e.g., with no meals between Montreal and Toronto, return, leaving Monday night and returning Wednesday morning, the charge is $760.00.

Under this arrangement the car may be used on line by up to 18 persons, with the restriction on sleeping accommodation as noted above for exclusive occupancy, and in terminals as the charterer may desire. This service provides for the services of porter-waiter and cook.

Note: Under present day arrangements these cars on a charter basis are operated by a two-man crew, the porter and waiter being the same person.

Mr. HORNER (*Acadia*): There is another question I asked some time ago with regard to the previous amounts written off for depreciation.

Mr. R. T. VAUGHAN (*Assistant to the President, Canadian National Railways*): That is one we have on our list. We do not have it now, but we have a note of it.

Mr. J. L. TOOLE (*Vice-President, Accounting and Finance, Canadian National Railways*): It is a lengthy calculation. I do not know how soon we can get it.

Mr. BROOME: In respect of these statements which are being put on the record, I am wondering if the minutes of proceedings and evidence will be printed by Monday.

The CHAIRMAN: No. It would be impossible to have them on Monday.

Mr. BROOME: Or on Tuesday or Wednesday?

The CHAIRMAN: I do not know, but I do not believe it would be physically possible.

Mr. GORDON: I have here also a statement in answer to a question asked by Mr. Horner, covering the price of scrap metal per net ton for No. 1 heavy melting scrap:

Price of Scrap Metal, Per Net Ton, for No. 1 Heavy Melting Scrap

November, 1960	$22.70
December, 1960	$22.90
January, 1961	$24.85
February, 1961	$31.56
June, 1961	$36.56

Then there is a statement here covering our subsidiary companies in the United States, with the results of operations in 1960. Would you like this filed?

Mr. BROOME: No. I would like to have it read.

Mr. GORDON: The summary of our United States operations is as follows:

Railway operating revenues	$67,200,000
Railway operating expenses	61,006,345
Net revenue from railway operations	6,193,655
Taxes and rents	13,461,371
Net railway operating loss	7,267,716
Other income	411,133
Deficit	6,856,583

As you will note, this shows a net operating deficit of $6,856,583, which is a figure you were requesting.

Mr. CREAGHAN: Would the taxes all be local taxes?

Mr. GORDON: No. This is a heading taxes and rents, in the amount of $13,461,371. Does not this figure of $13,461,371 include in it, Mr. Toole, our charges for equipment?

Mr. J. L. TOOLE (*Vice-President, Accounting and Finance, Canadian National Railways*): Yes.

Mr. GORDON: We rent equipment from the C.N.R. parent company to the Grand Trunk Western on a per diem basis, and the other taxes which would be included would be all local taxes.

Mr. FORBES: On what basis do you pay property tax in the United States? Is it paid on a basis equal to that in Canada, on a mileage basis?

Mr. GORDON: No, it is different—ad valorem. It is on a different basis of property tax, on a local assessment basis—an ad valorem tax.

Mr. FORBES: Would it be on about the same basis you pay in Canada?

Mr. GORDON: No.

Mr. FORBES: Would it be higher?

Mr. GORDON: Well, in Canada we have a different basis altogether. It varies with each part in Canada. Some places we are exempt from tax. However, we have made agreements with various municipalities to pay a grant in lieu of taxes. But, that has been a matter of negotiation. There are certain places in Canada where the railway is exempt, but rather than have an agitation arise, which would necessitate a change in legislation, we have made, with the permission of the federal government, local arrangements arrived at by a process of bargaining in respect to the amount of taxes we pay.

Mr. FORBES: In view of the importance of this item to the municipalities, I just thought it would be interesting to know how it compares with the basis on which you pay taxes in the United States.

Mr. GORDON: That would necessitate an analysis. However, I will arrange for that, if you would like the information. It would take time.

Mr. FORBES: I think you could pretty well tell us off the cuff.

Mr. GORDON: Could I send it later on?

Mr. FORBES: That would be all right.

Mr. BROOME: This is net operating loss?

Mr. GORDON: Yes.

Mr. BROOME: And if I applied this against the consolidated income statement for 1960, this $6 million would appear at that same point, so it roughly represents one-half of your net railway operating loss before fixed charges?

Mr. GORDON: I have not made that calculation.

Mr. BROOME: I am at page 19 of the report. In other words, I am saying this figure is before fixed charges.

Mr. GORDON: In this case, yes.

Mr. BROOME: So, therefore, the loss on the American lines is half of the total system net railway operating loss, which was $12,677,204. Am I right in that?

Mr. GORDON: Will you deal with that, if you know, Mr. Toole? I am not too sure about that. I do not think so.

Mr. TOOLE: Actually, that figure fits into the deficit after "other income", which is that $6,473,732 down the page in the consolidated income statement.

Mr. BROOME: "Deficit or surplus before fixed charges"?

Mr. TOOLE: Yes.

Mr. BROOME: Then this deficit on American lines is greater than the over-all system deficit at that point?

Mr. TOOLE: Yes, at that point.

Mr. BROOME: If you had not had that deficit, this would have shown a surplus before fixed charges.

Mr. GORDON: That is a technical accounting figure, yes. But, remember, as I said yesterday, the feeder value of this line gets into the Canadian figures and does not show in the effect of this operation.

Mr. BROOME: But if you are making 5 per cent, and wanted to take into account fixed charges, you would have to have a few hundred million dollars worth of revenue from that, and since the lines are interconnected, even if you did not own them, would you not get the onward freight from the point of connection.

Mr. GORDON: No. You have put your finger right on it. In our analysis we have analyzed the traffic from outside operations on the basis of trying to establish whether we would get the traffic if we did not have the line.

Mr. BROOME: Well, it cannot jump the track; it has to keep on going.

Mr. GORDON: It goes to other railways or makes other connections.

Mr. BROOME: But, that would be logical.

Mr. GORDON: If it was just a straight connection as you say. On the basis of judgment, if we did not have these lines, could we assume that any American line taking them over would naturally give us the traffic? Then the answer is no, to the extent they still show a feeder value.

Mr. BROOME: Would not any taking over by an American line make that taking over contingent upon a continuing relationship with the C.N.R.?

Mr. GORDON: No; we could not make a bargain of that kind.

Mr. BROOME: Would you not be in the same position as your rival, the C.P.R., except that you would have had association with the shippers over a good many years and you would have the most logical connection for the shippers?

Mr. GORDON: That is a question of judgment. Our view, as nearly as we can assert, is that we have taken all these factors into consideration, and there is still the feeder value from this line.

Mr. BROOME: Granted, but is it worth $6 million of net loss?

Mr. GORDON: Yes.

Mr. BROOME: In other words, you have to make that $6 million back?

Mr. GORDON: Yes.

Mr. BROOME: Before you start to say that it is profitable?

Mr. GORDON: Yes. We figure there is a net benefit.

The CHAIRMAN: Are there any other questions?

Mr. CREAGHAN: How big are the American holdings?

Mr. GORDON: In terms of mileage?

Mr. CREAGHAN: As to the percentage of the whole C.N.R. plant.

The CHAIRMAN: I think he gave that yesterday.

Mr. CREAGHAN: I mean number of employees, number of cars, and so on.

Mr. GORDON: I think the quickest way to give it to you is like this. In our consolidated balance sheet, the total property investment for the C.N.R. system is recorded at $3,767,316,630 and of that our property investment in the United States lines is $186 million in round figures.

The CHAIRMAN: Does that answer your question, Mr. Creaghan?

Mr. CREAGHAN: In other words, it is a very small percentage?

Mr. GORDON: Yes.

Mr. BROOME: Mr. Gordon states the C.N. do make a profit out of their operation of the American lines, due to the onward freight. If his traffic people can come up with that answer they must have figures on which they base it. Those figures, which must be the summation of freight and income from American lines, including the amount of traffic derived by the C.N. system in Canada, must be the basis for that statement.

Mr. GORDON: Yes.

Mr. BROOME: Could they be made available to answer the question on overall figures?

Mr. GORDON: The complex of those figures represents an analysis of the traffic. The traffic we are talking about is competitive traffic.

Mr. BROOME: I am only talking about the overall figure.

Mr. GORDON: I do not think I can answer your question intelligently without analyzing the traffic. I would be glad to give you the answer you want. It is a very lengthy analysis and it is some 3, 4 or 5 months since I went into it. My recollection is that there are about 150 pages in the analytical report. I shall see if it is possible to summarize that in some fashion so that we could answer your inquiry, but it will take some time.

Mr. BROOME: Would not your officials have set out the freight delivered to the C.N. system in Canada from your American lines in 1960? What was the total of that? Regarding the total of your revenues are there not certain qualifications on the chart you have, going down—

Mr. GORDON: You see, what we get into there is that from time to time there arise questions as to whether the Grand Trunk railway is for sale. I have always said the Grand Trunk railway is not for sale.

Mr. BROOME: That is the American line?

Mr. GORDON: The Grand Trunk Western line, as it is called, and there may come a time when we are in negotiation with it, but we shall not be in a helpful bargaining position if we start revealing the figures.

Mr. BROOME: Could you not trade it in for a good trucking company?

Mr. GORDON: I would be glad to, particularly if Mr. Browne would check the balance sheet of the trucking company!

Mr. CARTER: I should like to follow the point raised by Mr. Broome regarding this investment of $185 million in American lines. Does the C.N. own these lines outright, or just have control over them?

Mr. GORDON: We own the lines covered by that figure.

Mr. CARTER: Do you have control over other lines?

Mr. GORDON: We have, and you will find them at page 22 of the balance sheet. If you look at page 22 of the Printed Annual Report you will find our investment in affiliated companies there. You will find the Belt Railway Company of Chicago, the Chicago and Western Indiana line, the Detroit and Toledo Shoreline and the Detroit Terminal Railroad Company. Those are all the American lines in which we have share investment, and the amounts are included there also.

Mr. CARTER: And the $6.856 million deficit, does that cover traffic moved in the United States between point to point, or traffic throughout the whole system between the United States and Canada?

Mr. GORDON: It represents the operation of these companies only to the extent that it is a United States operation.

Mr. CARTER: It is only the loss on goods moved within the United States?

Mr. GORDON: It is only that. In other words, we credit to Canada the revenue portion of the onward traffic from the Canadian border line into Canada.

Mr. CARTER: And the forward movement of that to Canadian points could very well offset this deficit?

Mr. GORDON: That is my point. We feel it does offset it.

Mr. BROOME: This is a net deficit. If you took the fixed charges what would be the overall deficit on the American lines, including all fixed charges?

Mr. GORDON: Just a moment please—my great difficulty is that I can never get a simple answer. It must always be qualified by four or five conditions.

Mr. BROOME: That is our trouble.

Mr. GORDON: I am in the same position as you are. I shall try to get the figure for you in a moment.

Mr. HOWE: We read a great deal in this royal commission report about uneconomic branch lines—

Mr. GORDON: I am sorry, I cannot hear you. I am trying to get the previous answer. Would you allow me just a moment while I get it cleared up? In round figures, it is about $4,100,000.

Mr. BROOME: So the overall deficit on American operations is around $11 million?

Mr. GORDON: It could be stated that way, on one basis.

The CHAIRMAN: That is gross?

Mr. BROOME: That is the total deficit?

Mr. GORDON: That is the net deficit.

Mr. BROOME: This is inclusive of fixed charges?

Mr. GORDON: That is what I am saying.

Mr. HOWE: In the Royal Commission on Transportation on the financial situation of the C.N.R., a lot has been said about political interference and uneconomic branch lines.

The CHAIRMAN: Sorry, Mr. Howe. I have made a mistake. I do not believe yesterday's questions have all been cleared up.

Mr. HOWE: May I finish my question, since I have started it?

The CHAIRMAN: This is not following yesterday's questions?

Mr. HOWE: This has to do with the American affiliates organization, and I am just wondering what category it comes under, whether it is an uneconomic branchline or whether some political interference may be keeping it going.

Mr. GORDON: It is neither. The situation is as I have said on our analysis of the traffic these lines obtain, which records not only deliveries in the United

States but includes onward freight into Canada. The net value of the traffic to the system as a whole is beneficial. We keep this under examination to ascertain that it is so.

On occasion we have had some suggestion as to whether or not we should sell those lines and we would recommend their sale without hesitation if we could demonstrate and satisfy ourselves that the net results of a sale would be to our advantage; our analysis has shown so far that we are doing better by keeping them operating and getting the yield from them that we do get.

Mr. HOWE: Regarding those figures, are you giving the total breakdown in regard to them?

Mr. GORDON: I am giving the practical net operating figures.

Mr. HORNER (*Jasper-Edson*): If you sell those lines you would reduce your deficit substantially?

Mr. GORDON: No, that is the whole point.

Mr. BROOME: You would not reduce it?

Mr. GORDON: This is not an easy thing to answer because, as you can see, we have to try and make an assumption as to what we can sell the lines for, if anything. It is pretty hard to sell a railway line which, on the face of it, is losing money and that position may have been jeopardized by my releasing those figures. I am certainly not going to be able to sell a line which shows a deficit of $11 million, because right then and there my prospects for a sale have gone right out the window.

Mr. BROOME: Do you think that any prospective purchaser of that line would come to you and make an offer without seeing the figures beforehand? So how could this prejudice a sale of that line? They certainly would not say: here is $100 million for the line, now tells us how it is doing?

Mr. GORDON: It would be a matter of negotiation. When you talk about the market value of the line, we have to establish if we could take what we got for the sale of the line and put that amount of money out at interest and invest it in such a way that we would get as much benefit from our return as we are getting out of the actual operation of the line. When you start to think about selling a railway line, you have to be pretty foxy; you have to play a little poker game. So the more figures which get released, the less chance you have to play that poker game. I am sorry—Your question has not prejudiced the matter at all, because I have already released figures at the annual meeting of the Grand Trunk Western in Detroit. That was done for the purpose of demonstrating to the American public that we are taking losses on the line, as we are about to apply for abandonment proceedings for certain of our passenger services. We think that by demonstrating the fact that there are loss figures, we would have a better chance to persuade the public utilities commission, and to get our application for abandonment approved. All these things have to work in together.

Mr. CHEVRIER: Are you familiar with the converse situation as to what happened with respect to the New York Central line which operated between Rooseveltown, New York, and Ottawa, and which got into difficulties and had to be sold?

Mr. GORDON: Yes.

Mr. CHEVRIER: And the Canadian National Railways bought part of it.

Mr. GORDON: Yes.

Mr. CHEVRIER: What was the position there? Do you remember that?

Mr. R. T. VAUGHAN (*Assistant to the President of the Canadian National Railways*): Was that not the old railway which ran between Ottawa and Cornwall, and when the line was abandoned we bought it for the salvage of the rails?

Mr. GORDON: The New York Central demonstrated a loss on the line in order to support their application before the board of transport commissioners for abandonment of the passenger service. It was only after abandonment of the liability of that passenger service that they were able to sell the line. If we were in a position of trying to sell the Grand Trunk Western, it would be to our benefit if we first of all got rid of any liability in regard to losing passenger services, and that is being worked upon right now.

Mr. PASCOE: Mr. Gordon indicated some thought of abandoning passenger service on American lines. Would he have to get permission from the Board of Transport Commissioners in order to do that?

Mr. GORDON: Not in Canada, but we would have to get permission from the Interstate Commerce Commission or the Public Service Commission in the United States; we have to make out our case before the United States authorities in other words.

Mr. FORBES: How do you operate in the United States? Do you pay the United States government for the concession to operate there?

Mr. GORDON: No.

Mr. FORBES: Or do they subsidize you for rendering the service?

Mr. GORDON: Oh boy, I wish they did. No, we have to stand on our own feet there. We operate just as any other railway and pay the taxes which are applicable to other railways.

Mr. FORBES: How did you get in there in the first place? How did you acquire those lines?

Mr. GORDON: I would have to go back to 1910 to get that history for you; but I would be glad to send you the history of the Canadian National Railways. In fact I intended to send some copies of it to members of the committee, if they would like to have it. I do not know if I am in order in volunteering to let you have free copies, and if there are any questions asked in the house about our furnishing free copies, I would have to explain about it. But I would be glad to give the members of the committee free copies.

Mr. CHEVRIER: What is the position with respect to wage, industrial, and labour relations in the United States?

Mr. GORDON: Our agreements are of course separate in so far as our own working force is concerned; but all disputes which arise in the United States are dealt with in exactly the same way as they are with any other railway. We have had individual disputes on the Grand Trunk. I think I referred to the strike which we had there last year. Did I not refer to it in the report here? I think I did. Yes, and there is still an outstanding dispute going on with the U.S. railways. You will find on page 12 of my annual report where I refer to a strike by the brotherhood of railroad trainmen which closed down the Grand Trunk Western Railroad from September 1, to September 9. And I go on to say that in the United States a dispute with operating employees over requests for changes in working rules made by United States railroads remained unsolved. There has been a presidential commission set up, and we are one of the railways involved in that dispute.

Mr. CHEVRIER: How do the rates compare with those in Canada? I mean the wage rates?

Mr. GORDON: Oh. I should have introduced Mr. Wilson who is here today. He is our Vice President of Personnel and Labour Relations. I thought it would be convenient to have him up here.

Mr. W. T. WILSON (*Vice President, Personnel and Labour Relations*): The rates are substantially higher in the United States. I shall not generalize on it. I mean the rates for running trades, and non-ops; the average rates are considerably higher in the United States than they are in Canada.

Mr. CHEVRIER: What is the range of time for those contracts?

Mr. WILSON: The last contract was a three year one, and it expired last November.

Mr. CHEVRIER: Is that the one which has just been resolved?

Mr. WILSON: The wages have been resolved, and the matter is now before the presidential commission in Washington; I mean the matter of rule changes, which is one of the questions. They refer to it in the United States as the confirmation of the deal, and that type of thing; and it is now before the presidential commission. Sittings are going on right at this moment.

Mr. FISHER: Mr. Gordon, it sounds to me as if you enunciated a principle a few minutes ago, and I would like to check you on it. When you replied to Mr. Broome, you said you looked at the Grand Trunk Western situation in the light of whether or not the investment would return five per cent. Just what did you mean by that?

Mr. GORDON: I did not say that.

Mr. FISHER: But did you not say something like that?

Mr. GORDON: No.

Mr. BROOME: It was I who mentioned five per cent.

Mr. GORDON: Yes, Mr. Broome made the statement. I did not.

Mr. FISHER: Do you examine all your investments from the point of view that they should return a certain percentage each year, or do you project a percentage return which is close to the average interest yield?

Mr. GORDON: What do you mean by examining all our investments?

Mr. FISHER: I do not want to switch into another line at this time, but in so far as this railway is concerned, you have a certain loss factor.

Mr. GORDON: Perhaps I should put it this way: that in regard to any new project that we undertake, in our economic analysis of that particular project we try to require that project, as a project, to return not less than 15 per cent; that, of course, covers interest charges and everything else; and we figure that it takes 15 per cent to justify a new project as what we call a self-liquidating project; we have that as a sort of yardstick for our own satisfaction in looking at a new project. I am not suggesting that we get it in each case; but if it does not return 15 per cent, then management takes a look at it in terms of what is involved in it from the standpoint of public requirement of service, and things of that kind; but if the project returns 15 per cent, we go through with it.

Mr. FISHER: You invested $26 million in the Queen Elizabeth Hotel; and when you invested that, you had a 15 per cent figure in mind?

Mr. GORDON: That is right, we invested that much.

Mr. BROOME: The main disadvantage that the Canadian National suffers, from what you said yesterday, is that it constitutes a polyglot system of railroads, which if individually dealt with, could not be married into a cohesive whole as is the case with the Canadian Pacific, and that this is perhaps its major drawback. Would you say that your American lines are pretty polyglot?

Mr. GORDON: Yes.

Mr. BROOME: Does that not tend to exagerate this spreading out of effort and money; and would you not have a more cohesive system and a better system if you did not have any American lines whatsoever?

Mr. GORDON: Let me put it this way. If we were free to do that, and were thinking of buying lines in the United States, my reaction would be no, not at any price. We would not think of purchasing lines in the United States under present-day circumstances. I am only dealing with the fact that the lines are there.

Mr. BROOME: But you are trying, it seems to me, in management, to chop off those limbs which are not economical. It appears to me that as well as having such limbs in Canada, you have some in the United States.

Mr. GORDON: Yes, they belong to roots which go back to the beginning of the century and we are trying to the best of our ability to yield the maximum benefit to the system. As I explained heretofore, if we could find the sale value of them on a basis that would give a better benefit, we would do so.

Mr. BROOME: What about those in which you lost, there?

Mr. GORDON: Is there not a western expression, "We have the bull by the tail"?

Mr. BROOME: Why not let go of it?

Mr. GORDON: If you let go, you usually get hurt. You are afraid to hang on to it and afraid to let go.

The CHAIRMAN: You are also controlled by certain transport regulations in the United States, the same as here, for cutting off these branches.

Mr. BROOME: I have a further question. Do not the American railroads lead you into areas such as wage rates and the number of firemen on diesel engines, and all sorts of complicating factors, which you would not have if you got rid of these, and would not there be benefits which you could not assess in dollars and cents if you got rid of the American lines?

Mr. GORDON: Yes, if we got rid of them.

Mr. BROOME: Why not give them away? Why not sell them for the real estate and scrap value?

Mr. GORDON: You have to remember this. I do not think that is a matter in which management would be free. Generally speaking, the management of the C.N.R. can dispose of and turn in property in the normal course of events; but if you take a sizeable part of the railway and wish to dispose of it, I am sure—and I would feel anyway—that we would have to get government approval of it, and I do not know if the Minister of Finance would give it.

Mr. BROOME: I am sorry, I should not have made that statement.

The CHAIRMAN: I think we are getting a little wide of our agenda. We are here to discuss the report, as to what you have been doing with the railway lines that we have; we are not here to discuss disposing of the railways or giving them away.

Mr. BROOME: It is to this point that it contributes substantially to the deficit.

The CHAIRMAN: But is does not help to give them away.

Mr. BROOME: It reduces the size of the deficit.

Mr. FISHER: I think it is an interesting line of questioning.

The CHAIRMAN: It may be interesting, but it is not relevant.

Mr. HORNER (*Acadia*): It seems to be relevant in dealing with equipment.

Mr. CATHERS: We have been discussing, was it, mostly the Grand Trunk Western? How about the line which runs down to New London?

The CHAIRMAN: Central Vermont.

Mr. CATHERS: Are they paying?

Mr. GORDON: They are in pretty much the same position as the Grand Trunk Western, on the same basis. We feel there is still a benefit from the Central Vermont, but it is small.

Mr. CREAGHAN: How much are you charging as overhead in the case of these American lines?

Mr. GORDON: There is no overhead charge. We have separate managements on American lines. I am president of the Grand Trunk Western, but there is no extra overhead.

Mr. CREAGHAN: But your own Board of Directors must consider the American components?

Mr. GORDON: It has its own Board of Directors and the parent company deals with it only at the annual meeting. Both the Grand Trunk Western and the Central Vermont have their own Board of Directors.

Mr. CREAGHAN: As senior staff, have you to go to Washington on occasions and get involved in wage disputes?

Mr. GORDON: No, they handle their own affairs, although we occasionally give assistance in the matter of advice. The negotiations are conducted by their own officials. They have their own legal officers and a complete organization.

Mr. FISHER: Could I ask, in so far as the Chicago-Detroit market is concerned, is the Grand Trunk Western in there in competitive terms with the American railways? It is not considered an inferior operation?

Mr. GORDON: On the contrary, we have a very high class operation there, and our service, particularly to the automobile trade, is regarded as high class indeed.

Mr. FISHER: Could I ask a question about plant and equipment?

Mr. GORDON: Just a moment. May I clear up the general answers first? I am sorry, I did not realize that there were more answers. I would like to deal with them and then we could get back to the report. The next answer which I have here is in regard to a question which was asked about grain figures. It was for Dr. Horner or Mr. Horner. This was a table showing the grain breakdown. I have the table here and a copy of it, if you would like to look it over.

The table is as follows:

GRAIN—1960-1959

(C.N.R. System)

	Year 1960		Year 1959		Revenue Increase or (Decrease)
	Tons	Revenues	Tons	Revenues	
		$		$	$
WESTERN REGION					
All Western Region Grain at Statutory and Related Rates	6,600,000	27,000,000	6,800,000	28,400,000	(1,400,000)
All Other Western Region Grain	300,000	1,300,000	300,000	1,000,000	300,000
Total All Western Region Grain	6,900,000	28,300,000	7,100,000	29,400,000	(1,100,000)
OTHER THAN WESTERN REGION					
Total Grain moving all by rail from Bay, Lake and River Port, all by rail from Lakehead and ex-Western Points to Eastern Ports for export	592,887	2,993,995	824,441	4,235,031	(1,241,036)
All Other (Domestic—U.S. etc.)	1,184,383	8,406,005	1,837,305	11,764,969	(3,358,964)
Total System	8,677,270	39,700,000	9,761,746	45,400,000	(5,700,000)

NOTE I:

Bay are shipping points such as Midland, Ontario and Owen Sound.
Lake are shipping points such as Toronto, Ontario.
River Port are shipping points such as Kingston, Ontario.
Lakehead—from Port Arthur and Fort William.

I have another table here in regard to the total number of employees in all our services, from 1956, making a comparison between the C.P.R. and the C.N.R. These are taken from the annual reports of the C.N.R. and C.P.R. The figures are as follows:

Total Employees—All Services

Year	C.P.R.	C.N.R.
1956	90,499	126,639
1957	89,720	124,620
1958	82,853	113,086
1959	79,882	111,538
1960	74,037	104,155

I also figured out the percentage drop, and I find it is approximately the same.

Mr. CREAGHAN: That answers the question I asked late yesterday afternoon.

Mr. GORDON: Then there is Mr. Broome's question as to how many submissions were made to the Board of Transport Commissioners for the withdrawal of passenger services in the last two years, how many were approved and how many were rejected. The answer is that in 1959 there were 12 submissions and all were approved; in 1960 there were 14 submissions, 12 were approved and two were rejected.

There was a question in regard to Moncton yard. Again I am not sure who asked it, but I think it was Mr. Creaghan. The answer is that on a peak day at Moncton yard the number of cars handled was 1,935 cars, and that was on March 20, 1961. The capacity of the yard is 3,000 cars, based on 1955 peak of 2,000, plus the 50 per cent increase estimated for development within the next 20 to 25 years.

I would like to add to that, that it would be wrong to think of the capacity of the yard at 3,000 as compared with the peak which is set at 2,000, as indicating over-capacity, because the basic costs of the yard are in the basic facilities and the allowance for expansion consists largely of just an area of land where tracks can be laid in a hurry. The basic cost of a 2,000 car yard as against a 3,000 car yard is not relative. It is not in the same proportion.

In regard to a question which Mr. Howe asked as to the breakdown on the $100 million which I suggested had been the net savings as a result of capital improvements, I have a statement here giving that breakdown and I would like to file it with you, if that is satisfactory.

The statement is as follows:

ESTIMATED NET SAVINGS ACHIEVED IN 1960 AS A RESULT OF THE 1952-1960 CAPITAL PROGRAMME

Labour	$ 107.6 million	
Pension expense	6.8	
Health and Welfare	1.6	
Total labour and fringe benefits		$ 116.0 million
Material		26.4
Gross savings		$ 142.4 million
Deduct depreciation and interest on $600 million (see below)		42.3
Net savings as a result of capital improvements		$ 100.1 million
Total capital expenditures		$1,700.0 million
Less amount applicable to straight replacements		1,100.0
Capital Improvement Expenditures		$ 600.0 million
Summary of Capital Improvement Expenditures		
Dieselization, spare parts and facilities		$ 450.0 million
Hump and other yards		70.0
Railway and shop machinery		25.0
Centralized traffic control signalling		10.0
Siding extensions		10.0
Treated ties, portion of rail investment etc.		35.0
Total		$ 600.0 million

The CHAIRMAN: Are there any more answers? Has your question been answered, Mr. Grills?

Mr. GRILLS: We were to be given a breakdown of the supervisory staff.

Mr. GORDON: I was a little confused about that myself. Mr. Fisher raised a question as to why the C.P.R. seemed so much higher than our. Perhaps Mr. Wilson will be able to deal with that. I suggested that it was a matter of what I called a statistical aberration between the two methods of reporting, and I find that is so. Mr. Wilson will give the reason for it.

Mr. VAUGHAN: Mr. Creaghan submitted a question. We do not have that answer yet.

Mr. GORDON: You will have it later. Mr. Wilson will deal with the final question here.

Mr. WILSON: As I understand it, the question was why in the D.B.S. report the C.N.R. showed in division No. 2 that professional and sub-professional assistants totalled 1,290 employees, and the C.P.R. showed 361. There are different ways of grouping employees under these various divisions. This is a classification booklet which was adopted by the D.B.S. back in 1956. Under division No. 2 they described the employees to be reported there as rail analyst, assistant architect, assistant engineer, chain man, chemist, draftsman, instrument man, laboratory assistant, rod man, and so on. That is the group they referred to in the book. There is a large number of employees which falls now into this category, in our opinion, of professional and sub-professional assistants, that do not appear in the detailed classification in this book at all. I have a list of them here. They cover, broadly, X-ray technicians, technical assistant, personnel officer, labour relations officer, wage analyst, pension superintendent, method officers, method analyst, and all the people engaged in the integrated data processing procedures, which did not exist to any great extent back in 1956.

If you take divisions Nos. 1, 2 and 3 as shown in the D.B.S. publication, and add them together for both the C.N.R. and the C.P.R., you will discover that in the mix of employees we have reported under divisions 1, 2 and 3 a total of 3,422 employees, and the C.P.R., in those three same divisions, have reported a total of 2,206. That is basically a 40-60 relationship between the two railways. If you look closely at the figures you will discover that under division 3, which is chief, assistant chief and supervisory clerks, we reported 844, whereas the C.P.R. reported 854. Obviously some of the people whom the C.P.R. have included in division 3 are of the type which we would have and did include in division 3.

Recognizing this statistical anomaly or aberration, two of the officers from my department conferred, back in October 1959, with Mr. A. L. Brown, the public finance and transportation chief of the D.B.S., and pointed out how this classification list—and indeed all 79 classifications—should be re-examined and amended. Together with Mr. Brown and other officials of the dominion bureau of statistics we are working on a revision of this list which was published in 1956.

Mr. FISHER: Could I ask what effect your change into regions and areas is going to have? Will this scramble it further?

Mr. GORDON: Just a minute. I think the real point that you have raised is a very valid matter; that is, the statistical analyses which appear in the D.B.S. reports tend to confuse or mislead, because they are not making a comparison about the same things.

Mr. FISHER: Yes.

Mr. GORDON: You have a valid question there. There are two things in that connection. We have made our case, as Mr. Wilson said, in October 1959. As a result of that, we will at least get the same things compared. I am also making

a note here to instruct all of our statistical and accounting officials to the effect that, in future, figures by themselves are not sufficient and that we have to see to it, when we report figures, that we check with the C.P.R. to see that we are reporting on the same basis. What is happening now is that each organization is saying it is right. I am going to put a stop to that and see that we get the same things examined so that these confusions do not arise.

Mr. FISHER: When one goes through these statistics and compares them year by year—this is not a point I wanted particularly to drag in—the C.P.R. seems to have many advantages in terms of lower employment ratio, especially in fields such as section men. If you are going to examine an area like this, I would suggest that you should do it in all areas on your classification list. For example, I would like to know whether or not it is fair to look at the section men on the C.P.R. as against C.N.R.

Mr. GORDON: We will try to do that. I agree that that is the sort of thing we should have. Then, if we find that our ratios are different, we can explain why, in terms of this. So long as the figures are not on the same basis, there is endless confusion and misleading assumptions can be made. I think your point is quite valid.

Mr. FISHER: In part 6 of employment statistics, right at the top, there is a comparison which indicates—and again this is just the judgment of a lay reader looking at it—that the C.N.R. is paying higher wages and getting less return for them in terms of work. Again, this is something which I would appreciate your having a look at, so that in future we would have some explanation as to why there are these variances.

Mr. GORDON: I agree. I can say that Mr. Wilson informs me that the C.P.R. now is in full agreement and working with us in order to straighten out these anomalies and get the statistics on a comparable basis.

Mr. CARTER: Before you leave that point in respect of the statistics and classification of people, I am wondering if that takes in the United States lines as well?

Mr. GORDON: These are Canadian, only.

Mr. CARTER: Just the Canadian?

Mr. GORDON: Yes.

Mr. FISHER: Could we come back to the annual report. You mention here that you have an end-to-end radio system which was placed in operation between Edmonton, Winnipeg and the Lakehead. What is the significance of the introduction of this system in respect of future operations as it might relate to the number of employees required?

Mr. GORDON: The application of radio to railroad operations is not basically designed to reduce employment. It is designed to improve the service operation of the railway. It may very much materially improve the working conditions for the working force. In other words, for instance, on a wet, stormy night, if they had some trouble on the train, the trainmen might have to go out regardless of weather conditions and might have to walk a mile before they could place a fuse. Nowadays, with these radio-telephones, he can call from the rear end of the train and talk to his engineer and find out what is wrong.

We can keep in constant communication in that way. As well, the despatcher can talk to the men right on the train. This provides for much more flexibility and much more comfortable conditions for the crews on the train.

Mr. FISHER: It is not considered, then, as a preliminary step which is required or necessary before consideration is given to the elimination of one more person from the running personnel on a train?

Mr. GORDON: That is not the intention. That is not what it is put in for, no. Basically, it is an aid to navigation—so to speak.

Mr. FISHER: I asked you one question in relation to your new methods of operational research techniques. Could you confirm or deny you have had a rather inordinate turnover of research officers?

Mr. GORDON: Research officers?

Mr. FISHER: You have had difficulty retaining research officers in this particular division.

Mr. CHEVRIER: Mr. Chairman, I have to leave and go to a meeting. Perhaps I could express my views, for what they are worth, as to what should be done.

It looks now as if we will not be through today. For what it is worth, I would like to say that I do not think it would be advisable to sit before two-thirty this afternoon, as was suggested yesterday, unless, of course, it is the view to adjourn completely at one o'clock until next week.

Those are my views, Mr. Chairman, for what they are worth.

The CHAIRMAN: Do you mean, to adjourn completely today at one o'clock, after we sit from twelve to one?

Mr. CHEVRIER: Until next week.

The CHAIRMAN: What is your wish on this? If we are going to go into all the detail that is intended, I do not see a possibility of finishing up tonight, as it seems to me we are getting a terrific amount of detail.

Mr. CHEVRIER: If we can finish tonight, I am willing to sit until six o'clock.

Mr. FISHER: I do not think we can.

Mr. CHEVRIER: After what has happened, I doubt if we can.

Mr. FISHER: Mr. Chevrier did not want to mention this, but he has to be away for several days next week.

The CHAIRMAN: And you have to be away, as well?

Mr. FISHER: Yes, on Monday.

The CHAIRMAN: We are going to miss you.

Mr. FISHER: I wondered whether the committee would take this into consideration in arranging for meetings next week.

Mr. CHEVRIER: I have to be away three or four days, and I am not asking for any consideration.

The CHAIRMAN: You probably could name somebody in your place.

Mr. CHEVRIER: I think you should go on with the meetings in the ordinary way. The only thing I wanted to say was that if there was no possibility of finishing today, I do not think we should sit after the orders of the day; that is, from two-thirty to six. Those are my views. The committee might decide that the best thing to do is to sit until one and then adjourn until next week.

The CHAIRMAN: All right. Thank you, Mr. Chevrier.

Mr. CATHERS: Mr. Chairman, we agreed yesterday to sit from two-thirty to six, and I do not think anything has come up to change that.

The CHAIRMAN: Well, I think at that time we thought there might be a possibility of concluding today. If there is not, I would have no objection if somebody wanted to change it to five o'clock, or something of that nature.

Mr. FISHER: That is a good idea.

Mr. BROOME: Five o'clock.

The CHAIRMAN: I noticed that the last hour is like the last part of a sermon; you do not get as much good out of it. Everyone gets a little tired.

Mr. FISHER: Have you a three-year-old running somewhere tonight?

The CHAIRMAN: No.

Mr. CATHERS: He does not run them that old.

Mr. BROOME: Mr. Chairman, I suggest we adjourn when the house goes in, meet at two-thirty, and rise at five.

Mr. FISHER: Good.

Mr. GORDON: Mr. Fisher, you were talking about the turnover in research staff?

Mr. FISHER: Yes.

Mr. GORDON: I do not know whether I can confirm that it is an unusual turnover; we do have a heavy turnover. There is very serious competition for research workers, and part of our trouble is where we develop a good man and he gets to be recognized, and then outside industry pays him more than we feel we can.

Mr. FISHER: I have brought this up for the reason that an acquaintance of mine worked several years with the C.N.R. and is now down working with the Southern Pacific, or some other American railroad. I understand from him there was a relatively heavy turnover and the offers by American companies were very high and attractive. This must be a tremendous expense to the railway and I wondered what steps were being taken to stop the drain or checkmate it.

Mr. GORDON: The only step to be taken is to keep on bidding up, and we have not felt that to be advisable. We have been able to fill the positions, and what is happening in practice is that we generally are able to discover enough men. We have a very good system of contacting university graduates. A lot of those people will come into post-graduate courses in the C.N.R. for a few years, and then leave us. We do not feel we can bid against the very attractive offers made by United States railroads and other large industries. We have to live with the position as best we can. It is true we do lose an investment in knowledge and experience but we cannot do much about it.

Mr. FISHER: In connection with the whole question of plant and equipment and in the light of the fact that this year you have introduced the new analysis, is your depreciation setoff for plant and equipment completely satisfactory? You know of no reason to change your depreciation accruements in order to meet the replacement of the plant and equipment you have at the present time?

Mr. GORDON: I would say the answer to that is "yes", subject to one question which is still a matter of great dispute in the accounting profession generally. That is the subject of the question of inflation. Our depreciation rates are set up, and approved by the Board of Transport Commissioners, and they are based on the cost of the equipment as we buy it. If we do have inflation and the value of the dollar goes down, those depreciation reserves will not be adequate in the future. I do not know of anywhere where this problem of what to do with a decreasing dollar has really been worked out.

Mr. FISHER: Mr. Chairman, I do not know if this is the appropriate place, and actually I am wrenching the matter to bring it in here, but I have checked the Turgeon commission report and one of its recommendations on page 199 states:

> If the recommendations of the commission are carried out, and if good judgment and common sense are exercised in the future in the financing of improvements and betterments, there is no reason why the Canadian National Railways should again be burdened with excessive fixed charges.

As I understand it, the recommendations in this regard were carried out.

Mr. GORDON: What is the page?

Mr. FISHER: Page 199, the fifth paragraph.

Mr. GORDON: Well, as a matter of fact, the short answer to that is that the recommendations of the commission were not carried out, or at least not all of them. The matter was discussed with the railway management and the government, and the re-capitalization scheme introduced in 1952 does not fully carry out what the commission recommended. It was a negotiated settlement, so to speak.

Mr. FISHER: At page 211 of the commission's report we have a section on depreciation, where the C.N.R.'s position is outlined. I would assume from what you have told us in relation to depreciation of plant and equipment the position taken by the C.N.R. at that time was a completely mistaken, or misinformed one?

Mr. GORDON: No, no. I would not say it was. They were dealing with it in the atmosphere of the day, but if you read paragraph 2(a) you will find it says:

> Canadian National Railways has no inventory of its railroad property and any adequate valuation of the property which might be subject to depreciation would be a most lengthy and expensive task.

That was the situation then and that is what we have undertaken since. I do not want to leave the impression that my submission is intended to be a criticism of previous managers. Because previous management dealt with the circumstances of their day; what they did was perfectly honest in the atmosphere of that day.

Mr. FISHER: Yes, but I want to understand what the situation is today. We are on this section "plant and equipment", and where do we stand today in so far as this whole depreciation question is concerned?

Mr. GORDON: I will tell you where we stand today. Since the uniform accounting regulations were passed in 1956. We have since 1956 charged our operating expenses with full depreciation in accordance with the formula set out at that time. The formula set out at that time was and is adequate in terms of accounting knowledge of today as well as of that time. The only qualification I would make personally—and note that I make this qualification personally as a point of view, because I have a point of view with respect to it—is that the current method of accruing depreciation for a particular industry, or for all industry, not only the railways, but for all industry, raises a very serious question as to whether or not a formula to deal with the declining value of the dollar should not be worked out by the accounting profession in their depreciation practices. I made a speech on that subject in Montreal, and I would be glad to send it to you. It caused quite a stir in accounting circles. But there is a definite question mark at this point, and there is very divided opinion on it. I am not suggesting that my opinion is right at all, except that it is the opinion that I hold.

Mr. FISHER: In view of the fact that this committee will have to consider that whole question, and in view of the statement you gave, what presentation did you give to the recent Royal Commission on Transportation in regard to this matter? Could you give me the reference? I tried to find it, and was unable to do so.

Mr. GORDON: This matter did not come up in our presentation. We really considered that this was a matter between ourselves and the government, and that it has no bearing on the railway problem. It is merely a question of a bookkeeping problem between ourselves and the government, and anything done here would not affect the railway industry generally, it would merely affect the results of the Canadian National Railway's operations as between

ourselves and the government. The reason I made the statement was to give you my view as to why deficit results on the Canadian National Railways came about. I hope I managed to convey the impression that they were not attributable to the present day management.

Mr. FISHER: You certainly conveyed that impression; but was not the royal commission considering the problems of the Canadian National, the Canadian pacific and other railways in toto, rather than looking at this thing apart, and that some of their recommendations—as I think they are—are an attempt to put the Canadian National, the Canadian Pacific, and other railways in a better position? So would this not have been an important factor in their consideration?

Mr. GORDON: We did not think so, because it would merely have complicated the commission sittings in speaking of a specific Canadian National issue which did not affect all railway interests. The commission was assigned to deal with the problem of the railway industry as a whole. Our bookkeeping problems, as between ourselves and the government, would have no real bearing on the question of the railway industry; in other words, whatever our bookkeeping adjustments may be for the purpose of revealing the true results of the Canadian National, it would not affect our costs, and neither would it affect freight rates. Just let me say this too: you must remember that at any Board of Transport Commissioners' hearings affecting freight rates, it is always the Canadian Pacific which is taken as the yardstick railway.

Mr. FISHER: You introduced a hypothetical figure here that would indicate that if you got this booking adjustment, the C.N.R.'s financial position at the end of each year would be a much more attractive one. As a matter of fact, the deficit would this year be very minor. This would surely have a great bearing on the kind of subsidy set-up that the royal commission would recommend.

Mr. GORDON: Not at all, because any possible profit position that I could devise, even with these bookkeeping corrections I have suggested, would not yield a surplus that would be able to pay a dividend such as C.P.R. is doing to its shareholders. It would be a surplus. Mind you, we are required by law to pay 4 per cent on preferred stock.

Mr. BROOME: You can make 3 per cent on total investment capital.

Mr. FISHER: All this led from this question of depreciation on the plant and equipment. I wanted to make sure that I understood it.

Now, you say in this section:

> Acquisition of land for the Toronto yard and access line moved ahead, as well as preliminary engineering work.

Do I take it from what you told us two days ago that you are at the present time reconsidering this whole operation in Toronto in terms of whether the planning is too big or is satisfactory?

Mr. GORDON: Yes, but it will not have a bearing on the acquisition of land. We are quite satisfied that the amount of land we want is going to be needed. For example, the access line is obviously going to be needed in the future, and we have set out the size of the yard in terms of property we will acquire in any event. Whether in the immediate circumstances it is too much, it is still better for us to get it now and provide for any possible expansion for the next 25 or 30 years. We want to provide for at least a minimum of 25 years, because if we build that yard and let ourselves get built around, it is going to be a horribly expensive thing to try to handle that situation. That is the trouble we have been up against. Here is where there may be criticism of past management. The yards in Toronto were built in such a way that any expansion of

them was just impossible. It would have cost billions of dollars to have expropriated the property surrounding them, so we were driven into the position of giving them up and starting all over again. This yard we are now building to the north of Toronto will eliminate half a dozen smaller yards scattered throughout Toronto.

Mr. FISHER: What are your plans in so far as that particular plant is concerned; would they be to recoup something in terms of the value in real estate?

Mr. GORDON: We will have them for sale. That is a matter which we have carefully analyzed and studied, and various people are expressing interest in them. That will open a new course.

Mr. FISHER: Are you making sure that whatever approach you have to this in the Toronto area is dovetailing into what the metropolitan authorities there are concerned with in terms of their planning of roads, routes, parks and so on?

Mr. GORDON: We are in full co-operation with them, and the metropolitan commission—I do not know their exact name, we can call them "metro"—have in fact approved our plans.

The CHAIRMAN: Are there any other questions?

Mr. CREAGHAN: I have one question. I understand that you have three major shops in the system—Montreal, Winnipeg and Moncton—and you answered some of my questions on the Moncton shops at the opening day. I am just wondering about the reasoning behind the information that I have, which came from C.N.R. authorities, to the effect that the plant equipment shops at Winnipeg and Montreal were roughly 12 per cent more efficient than the shops in Moncton. I understand that that formula was the major reason for the transfer of the heavy car repairs from Moncton. Could someone explain how that situation came about at the Moncton shop?

Mr. GORDON: I think the inference you have drawn from that statement is wrong to start with. That is not the major reason for the transfer at all. The major reason for the transfer is that it just does not make sense to have a number of shops dealing with major passenger repairs scattered all across the system. We have eliminated all shops but three. We had passenger car shops at Moncton, St. Malo, Point St. Charles, London, Transcona, and Fort Rouge. We have discontinued Fort Rouge, London, St. Malo—and there is another one in Toronto, I think it is Leaside. I beg your pardon, Leaside was only freight. We have now discontinued a passenger shop at Moncton, or at least discontinued doing heavy repairs to passenger equipment there. The reason was that we did not need it.

The reason for the 12 per cent differential would, in my judgment, be brought about by the fact that the shops were not equipped as well as others.

Mr. GRAYSTON: As well as the general size, lay-out and modern features of the newer shop facilities.

Mr. CREAGHAN: It was explained to me that management disclosed that the 12 per cent inefficiency was brought about because, perhaps, of long-term planning to make improvements at Montreal and Winnipeg over the past few years.

Mr. GORDON: I think you have to keep this in mind, that in regard to any shop, any mechanical work, the most efficient way to handle it is to equip the shop so that you get volume. You must get volume production in order to get efficiency. The better the volume in relation to plant and equipment, the better efficiency we get.

Mr. CREAGHAN: If we require a lot of passenger repairs, is the railway going to find itself in the position after reducing the craft shops, which have a five-day week now, of going on three shifts, to one repair shop which will be working round the clock?

Mr. GORDON: My understanding is that we have enough capacity in Moncton to perform all the light passenger repairs which you can foresee.

Mr. CREAGHAN: I was thinking more of what is going to be the effect in Winnipeg or Montreal, the remaining two, on heavy repairs? I know that you have perhaps many millions of dollars of modern equipment in those two shops, and to make it pay you may have to put on extra shifts. Perhaps, first of all, to clarify the point, am I right in assuming that the craft shops normally work regular hours, that is one shift a day? Is that uniform across the country?

Mr. GORDON: Generally speaking yes, but we do put overtime on in case of peak loads.

Mr. CREAGHAN: But normally they work seven o'clock in the morning to five in the afternoon?

Mr. GORDON: If we had a chronic situation of overtime, it would be obvious that facilities are inadequate. We have not reached that situation.

Mr. CREAGHAN: Is there any intention of planning to have eventually one major shop and to have this expensive equipment put to its full capacity by working two or three shifts?

Mr. GORDON: Are you talking of all shops or just passenger shops?

Mr. CREAGHAN: Passenger. I know T.C.A. has one major repair place.

Mr. GORDON: Our passenger shops for heavy repairs have now been reduced to Montreal and Winnipeg. We expect we will continue in Winnipeg and Montreal for the heavy repairs of passenger cars.

Mr. CREAGHAN: Does it mean that if passenger business improves—as everyone hopes it will—that these two remaining shops may find themselves working two shifts rather than overtime?

Mr. GORDON: In our planning we cannot foresee any increase in our passenger business that will make those shops inadequate to handle it. We have enough capacity to handle it.

Mr. CREAGHAN: My final point is again on the transfer at the Moncton shops. As you know, there was a lot of public resentment, community resentment, and labour resentment, and I am wondering about the importance, in case of an emergency, war or something, of having passenger trains as such available. You may find yourselves—and you have 27 acres under roof in Moncton with major importance being laid on heavy passenger repairs—with all this centralized in another place.

Now, I admit that last year you sent in repairs to an extra 200 freight cars—which was very welcome to the maritimes and created a lot of work. However, this does not employ electricians, plumbers, upholsterers and various craftsmen who normally work on heavy passenger cars. You have all this tooling there, which represents a huge investment, made, perhaps, even before the C.N.R. by statute came into existence. Is it going to represent a good management decision to leave all this idle?

Mr. GORDON: Those factors have all been analyzed, and in the economic analysis it makes more sense to move the heavy repairs to Montreal and Winnipeg and to discontinue in Moncton even though it means that the shop equipment there is more or less left for salvage.

Mr. CREAGHAN: I want to impress upon you the importance of this point because we had a lot of discussion about letters and the duties of members,

their responsibilities and the position in which they find themselves. I have told you that I had letters and telegrams on this subject. I have said that in the house, and I mentioned it earlier in the committee hearings yesterday.

There was some discussion on what a member does with circular letters. On this particular issue of the transfer of heavy car equipment from Moncton to Winnipeg, I understand that less than 5 per cent of the men involved can exercise their seniority because they cannot afford to do it. They told me they had to move themselves at their own expense. I do not know whether they have the right, under rule 28, to demand a transfer and to force the railway to move them. It seems to me a good employer would do so, especially when some of these people with many years of service have very little service on a priority basis. Because of dieselization in 1950 they have changed their crafts. They may have 30 years in the railway but only 10 years of seniority because of dieselization. That has created quite a hardship particularly to the man who may be in his late forties and fifties, and he is the only one who can exercise his seniority.

Mr. GORDON: You have quite correctly touched on one of the great problems of adjustment that has to take place, which I referred to earlier. We are very conscious of these difficult problems as they affect our employees and we do our utmost to try to cushion these adjustments. There comes a time, however, when they can be cushioned no further.

Mr. CREAGHAN: I have here 960 cards. Each one has a two-cent postage stamp on it; each one is addressed to me; each one has a message and each one is signed by a full-time C.N.R. employee, with his address and occupation. Each one of them is critical about this management decision.

The CHAIRMAN: Are they all different expressions?

Mr. CREAGHAN: No, they are printed.

Mr. GORDON: Mr. Creaghan, at the risk of appearing indiscrect...

Mr. CREAGHAN: I have not answered them. I do not have the facilities the C.N.R. has for answering such things.

Mr. GORDON: I could get 2 million cards signed around Canada, for a murderer, if it happened to be that someone wanted to have cards signed. You can get cards signed on anything.

Mr. CREAGHAN: I realize that. I cannot answer them.

Mr. GORDON: I know. Why did you not send them on to management?

Mr. CREAGHAN: I do not think I could, because there might be some retaliation.

Mr. GORDON: There is no retaliation. Surely you know management better than that. In this particular case the discussions affecting this transfer were held between management and the authorized representatives of labour. Those men who talked to you know all the circumstances and I am perfectly certain they recognize the inevitability of the change. It is human nature, however, that the individuals concerned will needle their union representatives and say, "Well, try to make an agitation in Ottawa; see what you can do." Those union representatives are on the spot. They cannot do anything else; so they do it. They do it because it is the C.N.R.; they do not do it if it is the C.P.R. That is where you and I have a mutual problem.

While I am saying this, I should say that I would much rather discuss a mutual problem of that kind with you than have it raised in the House of Commons and have it get into the local and national press, because inevitably it gets distorted and there are wild and irresponsible statements made. I realize the difficulty you are in, but I believe it would be far better if you informed these people that you are taking it up personally with management. We will

attend with you and any representatives you want to bring along. We will give you a hearing for a day or a week. I suggest that the wrong way is to try and go over the heads of management. I am not saying it is your fault.

Mr. CREAGHAN: The next time there is a layoff in Moncton, I will accept your invitation.

The CHAIRMAN: Gentlemen, the house is meeting; it is eleven o'clock. We have not made much progress. I hope that when we come back we can make more.

Mr. FISHER: In support of Mr. Creaghan, I may say that I have had approximately 200 cards from Moncton and 25 or 30 letters on the same thing. It seems to me he is bringing up a good point.

The CHAIRMAN: Some years ago I received 5,000; they filled the waste-paper basket and I didn't answer any of them.

Now, shall the item "Plant and the Equipment" carry?

An Hon. MEMBER: No.

Mr. HORNER (*Acadia*): I had a question.

The CHAIRMAN: Then we have made no progress this morning.

Mr. HORNER (*Acadia*): I do not think that is right.

Mr. FISHER: That is not a fair statement to make. We received answers and information.

AFTERNOON SESSION

THE CHAIRMAN: I observe a quorum.

Are we through with plant and equipment yet?

Mr. HORNER (*Acadia*): I have one question to ask to clear up something in my own mind.

The CHAIRMAN: Before we open the meeting for questions, what is your wish about sitting on Monday?

Miss LAMARSH: I am sure that the witness must want to get back to work. He has half the railway here. I think we have to take that into consideration.

Mr. BROWNE (*Vancouver-Kingsway*): In so far as the committee is concerned, Mr. Chairman, I think we should sit, unless there is some advantage to the railway officers in not sitting on Monday.

The CHAIRMAN: Tuesday is budget day. I would have preferred, for my own selfish reasons, to go home. I have not been home for a bit, and I have some business that I wanted to take care of. However, as I am your chairman, I will come back on Monday, if you think it is advisable to sit on that day. Some of the members remain in Ottawa over the week-end, and I think that some of us from Ontario should be willing to bend a bit in this connection.

Would you like to sit on Monday, Miss LaMarsh?

Miss LAMARSH: I would think that it would be better for the railway.

The CHAIRMAN: What about you, Marvin?

Mr. HOWE: I cannot be here on Monday.

The CHAIRMAN: How about you, Cecil?

Mr. CATHERS: I am always available.

The CHAIRMAN: You are here anyway, Harold.

Mr. MONTEITH (*Verdun*): I will not be on Monday.

Mr. CATHERS: Mr. Chairman, I think we should make an effort to get through with this, and I think this can be done if we cut a lot of detail investigation out of it. If we proceeded in this way, I think we should be able to finish by five o'clock today.

Mr. BROOME: Mr. Chairman, I take exception to those remarks. Mr. Cathers is a new member of this committee, and if he just wants to get on this committee to sit for two hours, that is fine; let him do so. However, the other members have been on this committee for a few years, and we do not take that attitude. I reserve the right to go into whatever detail I want to.

The CHAIRMAN: Of course, you have that right, but I hope that we do not become smothered in this.

Mr. BROOME: We never have yet.

The CHAIRMAN: Under the Railway Act, the management of the roads belong to the railway company. We are supposed to review the bills, annual report, estimates and accounts when the report is presented to us. I think we are going fairly far afield when you go back and discuss things five years before, and so forth, and question management to the extent that it is almost like telling management how to run the business.

I want to get a report of what they did in running the railway in 1960. I do not think we should be telling them now how they should have run it in 1956, or how they will run it in 1966. We are here to review the annual report of 1960 in connection with the management of the C.N.R. We are not here to change the whole management policy of the railway. In fact, if that was the case, we had better allow them to come to parliament and run this place, and we will go down there.

Mr. MCPHILLIPS: What is the magic about not sitting on Monday? Why not sit on Monday? If the officials cannot be here, then that is another thing.

The CHAIRMAN: Mr. Gordon says that he can be here. He is in the hands of the committee. I know he is a very religious fellow, and I think he would sit on Sunday, if you wanted him to.

Mr. FISHER: I brought this up originally, Mr. Chairman. The reason for me not being here is that a month ago I accepted a speaking engagement in New Brunswick, which I cannot get out of. I just asked if the committee would consider it.

The CHAIRMAN: Several of the committee members feel that as Tuesday is budget day, we should not sit. As well, our Clerk advises me that there are a lot of other committees sitting. I, myself, had some business on for Monday. It was rather important, but I can forego that and be back here in time. There are a large number of members who do stay here over the weekend. As I say, Tuesday would be definitely a pretty cluttered up day, with the budget and everything else.

Miss LAMARSH: Also, they use this room for the press on budget day.

The CHAIRMAN: Yes; that is another thing. This room is used for the budget from around four o'clock in the afternoon, or something like that.

Mr. FISHER: What about coming back on Wednesday?

Mr. PASCOE: I think we should sit on Monday.

Mr. FORBES: I would like to get home by the first of July, and any arrangements you can make to facilitate that would be greatly appreciated.

The CHAIRMAN: Would all those in favour of sitting on Monday please indicate. There are nine.

Carried.

Then, I guess we had better sit on Monday. Will we sit at the same time on Monday, or shall we make it ten o'clock?

Mr. HORNER (*Acadia*): Nine thirty and two thirty.

The CHAIRMAN: I am glad to see you are all trying to get through the work. Now, what about plant and equipment?

Mr. HORNER (*Acadia*): I want to be clear in my mind regarding ownership of railroads in America. This morning, in answer to Mr. Broome, you stated you lost $11 million, including fixed charges and so on on the operations in the United States. Was that solely on the Grand Trunk railroad company or was a percentage of it due to operations of the other companies listed on page 22?

Mr. GORDON: I covered that point this morning. The $11 million covers only wholly-owned operations in the United States.

Mr. HORNER (*Acadia*): It does not cover these others, the partially owned ones, referred to on page 22?

Mr. GORDON: No.

Mr. HORNER (*Acadia*): That leads to my next question. How have you done in the companies in which you hold 50 per cent of the stock? For one company you list a percentage of stock at 7.69 per cent but there are several railways in which you have 50 per cent ownership in the United States. How have you done on those? Have you lost money, gained money, or broken even?

Mr. GORDON: You understand, of course, this appears in our statement here as an investment and the total yield from this investment was $180,000,— which was a dividend on these holdings.

Mr. HORNER (*Acadia*): $180,000 is the dividend on your holdings in all these railways listed here?

Mr. GORDON: Yes.

Mr. HORNER (*Jasper-Edson*): Including N.A.R.?

Mr. GORDON: No, just from United States lines.

Mr. HORNER (*Acadia*): What would be the total investment on which this return was made? I cannot tell the total from this.

Mr. BROOME: It is about 20 per cent, is it not?

Mr. GORDON: No, no.

Mr. BROOME: $9,500,000 is what I added it up to.

Mr. GORDON: Perhaps it would simplify it if I state the only dividend return was on the Detroit and Toledo Shoreline investment. There was no dividend paid on the others.

Miss LAMARSH: I am not sure if this is the proper heading under which to ask my questions, and Mr. Chairman, if it is not please say so. People living in the Niagara area are a little confused with what is happening in the C.N.R. there. In that area there has been a drastic cut in personnel, the roundhouse has been taken away and there are rumours the plant is for sale. I wonder if the witness could give, in general terms, an idea of what is in store for this particular line in my riding?

The CHAIRMAN: In the Niagara Peninsula?

Miss LAMARSH: Yes.

Mr. GORDON: Are you referring to our bus lines?

Miss LAMARSH: To the railway; we shall come to the bus lines later.

Mr. GORDON: I assume you are referring to the general changes which have taken place following the dieselization of the railway. All those steam locomotive facilities, such as roundhouses, are in the process of being eliminated and discarded.

I am not quite sure what you have in mind in talking about the future of the railway in that particular district. Our operations, so far as I have them in mind, will continue on practically the same basis and we shall endeavour to build up and attract traffic there.

Miss LaMARSH: There has been a considerable cut in personnel in Niagara and there has been a cut in services. No longer is there a train to New York, and I have heard from some people that on another line the sleepers and dining cars will be taken off completely and from Toronto there will only be these little cheaper cars.

Mr. GORDON: That service has been pretty well abandoned because the United States railways, with which we had connections, have given up their passenger services.

Miss LaMARSH: Then you must give up yours because the United States lines have given up theirs?

Mr. GORDON: They are cut because there are no longer connections for those trains.

Miss LaMARSH: And there will be further cuts in services which provide a connection between Canadian and American lines?

Mr. GORDON: I would not like to be positive on that, without knowing what is in your mind. If it is freight services, then the answer is no. We are doing our best to get traffic there. There may be specific passenger services—but I do not know of any,—that will go through the process of abandonment in that area.

Miss LaMARSH: There has been a considerable change in respect to freight, and you are meeting competition from trucks?

Mr. GORDON: Yes, competition is very severe in that way.

Miss LaMARSH: I am referring to services from St. Catharines all the way to Niagara Falls.

Mr. GORDON: With regard to the passenger service to New York, which you mentioned, the Lehigh Valley railroad petitioned the Interstate Commerce Commission in 1960 and obtained permission to discontinue their remaining passenger services, which included the service between Suspension Bridge and New York. That has been approved and we tried to make an association with the Erie-Lackawanna railroad in the hope of trying to continue to provide a through passenger service to New York, but thus far we have not been successful. The result is that we no longer have a through passenger service between Toronto and New York, and neither has any other railroad.

Miss LaMARSH: Do you know that a study is being made by chambers of commerce in cities in the area with respect to re-routing all traffic around the city, and this was to include the New York Central as well. I do not know if anything has been decided.

Mr. GORDON: Around the city? You mean Niagara Falls?

Miss LaMARSH: Yes.

Mr. GORDON: I am not familiar with this. Are you, Mr. Grayston? Miss LaMarsh, you are thinking now in terms of a re-arrangement of the tracks?

Miss LaMARSH: Yes.

Mr. GORDON: I certainly do not recall any representations to that extent in Niagara Falls. We are, however, having a great deal of discussion in Hamilton.

Mr. GRAYSTON: The only thing I can think of in this connection was that some months ago a re-arrangement, or at least an improvement in our freight service from that area into Toronto, was made for the purpose of connecting with eastern and western trains. Would that be something along the lines you have in mind?

Miss LaMARSH: No, it is not.

Mr. GRAYSTON: So far as I know, no representation has been made.

Mr. GORDON: It has not reached my office yet. It may be our local officials are in discussion with the city officials in some preliminary stage, but nothing

in the form of a recommendation has reached me yet. I could make inquiries about it to see if there is anything cooking. Usually what happens in a thing like this is that there may be discussions with a city, held by our local officials, and if they reach a conclusion regarding something or other they will advance their recommendations to me, but nothing of that kind has happened so far.

Miss LAMARSH: So far as you are concerned, the loss of personnel has been as the result of dieselization and the loss of the service to New York is as a result of the action taken by American railways. So far as you are aware there is to be no further cut in either passenger or freight services?

Mr. GORDON: This is dependent on the traffic level. Remember that quite apart from dieselization or any of these routine changes, the basic consideration about our employment level is the question of traffic. If traffic goes down seriously, as it has been doing in the last couple of years, then most certainly our employment level will fall. But we always have fluctuating situations, depending on the traffic level, and weather conditions at different times of the year, and many other factors. There is always an up and down swing.

Miss LAMARSH: Has there been a determination as to whether this line from Toronto to Niagara is one of those which the commission recommended should be discontinued?

Mr. GORDON: I do not think they would come in that class.

Miss LAMARSH: So far as passenger service is concerned?

Mr. GORDON: That would have to be a question mark—I do not know.

Miss LAMARSH: Has there been a determination to substitute one-car trains?

Mr. GORDON: You mean the railiner?

Miss LAMARSH: I am not sure what you call them.

Mr. GORDON: Our policy is to keep them alive so long as the public demand is such that we can maintain a reasonable operation of the trains. So, you see, it is entirely up to the public. If the public want the train, we will supply the service, but when we get to the point where the public will not use the train and we find only four, five or half a dozen people a day using a train, then, after we have done our best to try to popularize it and build up the business, and if the traffic does not come forward, we intend to abandon the service.

Miss LAMARSH: Which is the chicken and which the egg? Is the loss of passenger service because there is a lack of service—that is the trains are not running frequently enough and not at the proper times—is that why you are losing passenger service, or are you cutting service because you are not getting passengers?

Mr. GORDON: It is difficult to answer. The whole question of our passenger service has been gone into very exhaustively by the royal commission. We spent many hours and days on it, and there is a fairly full report on it in volume I of the royal commission report. All I can say is that our attitude towards passenger service is to provide service at whatever is the most convenient time, or anything else. We are prepared to cater to the public. We have made changes in our timetable and we have made changes in our equipment; we have done a very exhaustive advertising campaign, and we have put incentives in the way of group fares and things of that kind for the purpose of attracting or inviting people to use our service. We have done everything we can think of, and after we have done that, if a particular service is not patronized, then our intention is to apply to the Board for permission to abandon it.

Miss LAMARSH: The most frequent complaint in that area is that the train services are apparently being run for the benefit of the train. I suppose this is an economic reason.

Mr. GORDON: That is not so.

Miss LAMARSH: One can walk as fast as one could get to any place by the C.N.R., because of stoppages for freight loading and unloading.

Mr. GORDON: I do not think the record will prove that. When we apply for abandonment, we will get a very large group of people from the area to protest abandonment, and they will drive there in private automobiles to reach the courtroom.

Miss LAMARSH: I would hate to try to get by C.N.R. to our courtroom—it does not go there.

Mr. GORDON: The real point is the competition of private automobiles. It is a competition that has done more to ruin passenger train service than any other element.

Mr. BROOME: I would like clarification on a point. This morning I requested certain information and Mr. Gordon said he was going to get it. I hope it will be available when we meet again next week. It is in regard to U.S. operations. There was a question as to what information should be divulged because of giving information to competition. I believe it was agreed the committee would get the total revenue accruing to the C.N.R. national system from the United States lines. Am I correct?

Mr. GORDON: I said I would have a look at this very exhaustive report that has been made to apply the benefit or otherwise that we get from our operation of our U.S. lines, and to see if it would be possible to summarize it. I do not know at the moment. I think I said I saw the report five or six months ago. It is a very exhaustive report running into a number of volumes of studies. I am not sure whether we are capable of an analysis such as you mentioned, but I will endeavour to see that it is done. It cannot be done during the sittings of this committee.

Mr. BROOME: Would it not show the total revenue? Would it not be one of the figures shown in that report? If you come to any conclusions as to the work of these lines, surely you must know the total revenue you get before you can come to any conclusion.

Mr. GORDON: That is an oversimplification. You get into all sorts of complications. The railroad is the most fiendishly complicated business in the world. You cannot talk of revenue in simple figures because it involves rate divisions with other railroads and revenue allocation between various parts of our own system. You, therefore, cannot just take a simple figure and say that is it.

Mr. BROOME: What I am saying is that it is for management to make a decision on this. This is one of the figures that you would have to have, no matter how long it took the staff to get it.

Mr. GORDON: Management have the whole report, which is a complex of a great many factors, and I am not prepared to say at this moment that we can simplify it in a way to produce the figure you mentioned, because producing the figure without qualification would be grossly misleading. I will do the best I can.

Mr. BROOME: The point is that there is $11 million to $12 million loss on these operations, and yet it is worth while because of the revenue which the C.N.R. gets. This is the contention of management.

Mr. GORDON: That is not all you need. I do not think, in all fairness, that any member of this committee is qualified to analyze the statement I mentioned.

Mr. BROOME: We are not analyzing; we are just asking for one figure.

Mr. GORDON: I am telling you, it is not possible to get one figure.

Mr. BROOME: One figure of the total revenue.

Mr. GORDON: If I give you one figure of the total revenue, then you will get the wrong conclusion. It has to be analyzed.

Mr. BROOME: What figures do you think it might be possible to give?

Mr. GORDON: I have promised to look at it and see if I can get a simplified answer that will make sense. I do not know at the moment. All I know is, I spent more hours than I care to think of in studying the report myself, surrounded by a group of officials who took me carefully through the report before we reached the conclusion. We reached the joint conclusion finally after we had done that study and analysis, and the result was that we still had a net benefit from those operations.

Now, the real point is that even if we had not, there is nothing we can do about it right now.

Mr. BROOME: That leads me to my next question, but I have one more on that before I come to the next question. Would your officials have had an estimate of that traffic which could not have been diverted from you because of going to points on your line, as opposed to that traffic which might be diverted? In other words, how much of the traffic benefits would you have received anyway, whether you owned the lines or not?

Mr. GORDON: All the factors which have a bearing on the operations, whether or not they lead to the conclusions which I have mentioned, are calculated in the report.

Mr. BROOME: I have a final question which I would like to ask. Would the report have had any estimate as to the salvage value of the real estate, the rails and all the rest of it, if you applied to the New York Central for abandonment of these lines and if you were granted this by the governing body in the United States? What would you realize out of your assets in the United States?

Mr. GORDON: An appreciation has been made of the salvage value, of the possible sale value and of the salvage of the traffic under certain circumstances and under other circumstances; but I can tell you this is a voluminous report. Speaking from memory, I would say that there may be 150 to 200 pages in it, plus a statistical analysis which I think would be two or three inches thick. It is not something which is produced in a week; it is a result of very careful analysis over the years. It is not something we can do every day but which we do now and again and we try to keep it up to date.

As I said, what we really have got there, to be perfectly frank, and as I said to Mr. Horner, is that "we have a bull by the tail"—if we let go we get hurt; and if we hang on we get hurt also. However, that is a fact of life which is there with us. If we can sell the railway right now for anything which would suggest that we would be better off in the sale than we are by carrying on, then that is what we would try to do. It is one of those conundrums with which we have to live and try to work out as best we can. In the meantime we are engaged in every possible way in cutting the expenses so as to salvage as much as possible out of the operation.

Mr. HORNER (*Acadia*): I have one further question to ask. It is with regard to car shops. Mr. Gordon mentioned two car shops, one in Winnipeg and one in Montreal. I am wondering about box car repair shops. What do you foresee in this dwindling down to two box car repair shops, or one for each region, or could you give the committee some idea?

Mr. GRAYSTON: I assume you mean freight car repair shops?

Mr. HORNER (*Acadia*): Yes.

Mr. GRAYSTON: There is no indication in our studies that we should make any change in the number of main shops which do repairs to freight cars. We have to have one in the east, one in the centre and one in the west. I am speaking now only about major main-shop overhauls. The major repairs to freight equipment are calculated, on a long-term program basis. By a program basis I mean that conditions are laid down as to the frequency with which a freight car will receive a general overhaul, which might be anywhere from five to twelve years, depending on the type of car. A refrigerator car, by virtue of the use which is made of it, requires general shopping more frequently than a box car. In this planning of major back-shop repairs to freight equipment our aim is to maintain the programme of repairs on a long-term basis. This has the effect of providing stability of employment in the main freight car shops. They are affected occasionally by traffic levels, but in the main the objective in respect of main shop repairs to freight cars is to maintain some stability in the employment level.

We have no studies in mind in connection with any further reductions in the number of main freight car repair shops.

Mr. HORNER (*Acadia*): You kept referring to main freight car repair shops. How many would you say would be classified as "main"?

Mr. GRAYSTON: Three—at Moncton, Montreal and Winnipeg.

Mr. HORNER (*Acadia*): What about further reductions in non-freight car repair shops? I am speaking about what I know about Hanna, Alberta, where the men are quite concerned.

Mr. GRAYSTON: These are not in the same category as those about which I have been speaking.

Mr. HORNER (*Acadia*): I realize that.

Mr. GRAYSTON: These are running repairs.

Mr. GORDON: It depends on traffic levels.

Mr. GRAYSTON: The employment at those places does depend more on traffic levels, more than in the case of the main repair shops where we can work on a long-term basis.

Mr. HORNER (*Acadia*): This is a concern of the railway men at the points of these non-main shops. Do you foresee this work gradually being done in the main shops and the cutting down of these smaller shops?

Mr. GORDON: No. It is a different kind of repair altogether. The main shops which Mr. Grayston has been speaking of deal with heavy repairs, what we call "shopping". We have a formula in respect to this. A car may run a certain number of miles and a certain period of time, and then, regardless of the traffic level, these cars will be put through the main shops for general shopping. We have to do that on the basis that, regardless of traffic level, this will maintain a reasonable stability of employment in the main shops.

With respect to the running repair shops, the employment is bound to fluctuate up and down in accordance with the traffic level, in that the amount of repairs is related to the degree of traffic running at the time. If there is an upthrust of traffic, these running repair points are busy; if there is a severe downthrust, unfortunately it would mean keeping men on who would be doing nothing.

Mr. HORNER (*Acadia*): I realize that.

Mr. GORDON: Therefore, the employment level is geared to the traffic level.

Mr. BROWNE (*Vancouver-Kingsway*): I would like to ask a question in connection with box cars. I note that some of the American railroads operate cars which they call "damage free" cars, and I know they were soliciting

business in Vancouver at least a couple of years ago on the basis that the car was superior and that no damage occurred in the shipping. I wonder if this has come to the attention of management and if any consideration has been given to acquiring such cars, or if it has been found to be impracticable?

Mr. GORDON: I think it was an advertising stunt, if I remember correctly. It was not damage free in the sense that the car is damage proof. It means that they will guarantee the lading against damage.

Mr. GRAYSTON: There is a type of car, called a "D.F." car, a damage free car. There is a large number of them operating within the United States. They are expensive and it becomes to a large degree a matter of economics, also, in relation to service. We have developed what we call a "damage free" car of our own, and we are still in the process of investigating this. But at the same time we are planning to instal equipment of this kind in a number of our heated box cars. This is a recognition of the demand of shippers for specialized service.

Mr. BROWNE (*Vancouver-Kingsway*): The particular cars I refer to have bulkheads in them which substantially reduce damage claims.

Mr. GORDON: These are for selective ladings; they are not for general ladings.

Mr. BROWNE (*Vancouver-Kingsway*): I know; some of them actually came from Vancouver to Toronto via American railroads. The particular number was not great, and they were diverted from the Canadian Pacific, not from the Canadian National. But I thought it would be something worth looking into. It would seem to be of great value in places where cars might stop over, or where a car would be partially unloaded, and would then continue on, when there might be some damage. Gates may be put in at any place in the car to prevent the freight from shifting. I think that this not only reduces damage claims, but at the same time satisfies the customer to a greater degree. I have had it reported to me that the customers were satisfied with these cars. Some of them were actually diverted and went from Vancouver to Toronto on American railroads. I do not think that should be the case. All I would ask is that management take some consideration of it.

The CHAIRMAN: You are assuming that we have finished with "plant and equipment", and that we are now on "freight service"?

Mr. BROWNE (*Vancouver-Kingsway*): No, I am discussing a type of box car.

Mr. GORDON: The problem to the railway of having specialized types of cars is always with us. We have developed quite a number of special types of cars over the years, and it gets down to the question of economics, whether or not we can establish enough demand for them to justify our buying those specialized types of cars, because they tend to become a captive type of car to a particular industry. It is not economic, perhaps, unless there is enough volume. For example, that is the problem with handling automobiles with a specialized type of car for that purpose, because we may get no return load when it comes back.

Mr. BROWNE (*Vancouver-Kingsway*): I should think there would be a large proportion of traffic applicable to this kind of car.

Mr. GORDON: I am perfectly confident that our sales department in co-operation with our equipment officers are fully up to date in regard to any new equipment coming on the market, or off it. We are fully informed about it. I do not say that I personally know all about it, but I know that I have a good staff; and at any time if they form the conclusion that a particular type of car would get us on a better economic basis, they do not hesitate to bring forward a recommendation accordingly.

Mr. CHEVRIER: What is the position with respect to the balance of cars as between Canada and the United States? I mean box cars. There was at one time an unfavourable balance.

Mr. GORDON: That is a constant battle. We are always trying to pinch each other's cars. We have had no difficulty recently, because there is no demand for cars. The traffic movement between Canada and the United States is down to a point where there is an overall surplus of cars. But at any time when peak traffic is burgeoning, there is always an argument as to whether we have more of their cars, or whether they have more of our cars.

Mr. CHEVRIER: Are there any figures available for 1960 as to the number of Canadian box cars on American lines, and the number of American box cars on Canadian lines?

Mr. GORDON: I do not have them in detail for the year 1960. But I can say from memory that during that year there was quite a balance of Canadian National Railways box cars or freight cars in the United States, with an overall credit. But if you wish the detailed figures I can get them.

Mr. CHEVRIER: Perhaps we might have them produced on Monday.

Mr. GORDON: Yes; they are easy enough to get. There was a time when I could have told you offhand, because it was a problem. But now it is not a problem, I do not hear of it. I only deal with problems, it seems to me.

The CHAIRMAN: Are there any more questions on "plant and equipment"?

Miss LAMARSH: I would like to ask about Fort Erie. Last year there was considerable complaint on the subject that your Fort Erie yards were to be located in Buffalo where, through some co-operative arrangement with the New York Central, the Canadian National used their yards as well.

Mr. GORDON: You say there is a complaint about the movement between the two countries?

Miss LAMARSH: The thing I am talking about is the re-location of that yard.

Mr. GORDON: You mean the Fort Erie yard?

Miss LAMARSH: Yes.

Mr. GORDON: Your question is whether or not there has been a re-location of our Fort Erie yard, to be located in Buffalo?

Mr. GRAYSTON: I must say that I know nothing about it. I rather suspect that had it happened, or even if it had been considered, we would know something about it.

Mr. GORDON: Have you been informed that our Fort Erie switching operations are now being conducted in Buffalo?

Miss LAMARSH: Yes, so I am informed. Is this not a piece of information which would come directly to the president, and may we not expect to have an answer from him by way of a letter?

Mr. GORDON: Yes, I would be very glad to give you an answer on it. I think there must be some confusion about it, because neither Mr. Grayston nor I have heard anything about it. But if you will write me a letter, I will give you full particulars of what is involved.

Miss LAMARSH: Thank you.

Mr. FISHER: Since we are on a constituency basis, I suppose I should ask about some of the situations at the Lakehead and at Atikokan, and such places as that. Has the Canadian National any plans at the present time that would cut down any box car repair work, or repair work of any kind at the Lakehead?

Mr. GORDON: Not to my knowledge.

Mr. GRAYSTON: This would come under the heading of running repairs, I think.

Mr. GORDON: If it is running repairs, then my answer would be the same as it was before, that it depends entirely on the traffic, and there is no change in the situation.

Mr. FISHER: Last year I brought up a complaint in the committee which had been brought to me, that there were many cars out of order, but were actually in service, and that the ratio was increasing on the Canadian National. I believe the reply was that this was not so, because the Board of Transport Commissioners would not allow it.

Mr. GORDON: Wait, now. There is some confusion there. You are talking about the number of bad order cars at a given time, and whether or not the number had gone up or down.

Mr. FISHER: Yes.

Mr. GORDON: The Board of Transport Commissioners has nothing to do with that.

Mr. FISHER: But they inspect them, do they not?

Mr. GORDON: There may be an inspection made as to the safety yes. But I think what you have in mind is the position as to whether or not a bad order car would be repaired. It is our prerogative to decide when a car shall be repaired, and if we have a surplus situation, they can stand until needed. We have to try to keep a fairly consistent percentage of bad order cars to be repaired in order to keep our equipment operating; but when we are in a position of a severe down trend in traffic, we do want the bad order cars; that, is they are not needed, so there is not much point in repairing a lot of them to lie idle on the siding. Have we a recent percentage on that?

Mr. GRAYSTON: It is running at the moment around 6.5 per cent of the total cars on the line.

Mr. GORDON: This ratio fluctuation would run between 4½ to 7½ per cent. Our present percentage is about 6½ per cent of our total equipment.

Mr. FISHER: Is it possible as part of a works program that men be engaged or fostered by the central government, since here is an area in which you can very rapidly put men to work?

Mr. GORDON: Yes. We could do that if the Federal Government was prepared to put up the interest charges which would be involved in respect of the cars remaining idle.

Mr. FISHER: Of course, this could be done in the winter time.

Mr. GORDON: Yes; part of it could be done.

The CHAIRMAN: Are there any further questions on Plant and Equipment? We will go on to Freight Services.

Mr. CHEVRIER: I tried to get in a question on freight services the other day. May I come back to it now. I would like to ask the President if I am correct in assuming that, following the application by the Railway Association of Canada for the seventeen per cent increase in freight rates because of the Freight Rates Reduction Act, that the lay-offs reduced this somewhere in the neighbourhood of nine per cent; and then there was an application, prior to the Freight Rates Reduction Act being passed by parliament, by the Railway Association of Canada again for, I think, an additional twelve per cent. Could I ask you what the position of that is. Is it still pending until the freight rate freeze is lifted?

Mr. GORDON: You are speaking about the twelve per cent?

Mr. CHEVRIER: Yes.

Mr. GORDON: I think I cannot do better than quote again this item from the 1959 report:

> The Board of Transport Commissioners, shortly after the interim freight rate increase of seventeen per cent was authorized, required the railways to specify before April 10, 1959, the amount of supplementary relief sought. Accordingly, the railways on that date made formal application for a general rate increase of twelve per cent. In the meantime, however, the government had announced that no further general increases would be allowed for a period of one year as it intended to proceed with an inquiry into the railway rate structure and other matters affecting railway transportation.

Now, as you know that report has been received—volume 1. The Freight Rates Reduction Act has been extended, and that being the case the twelve per cent is still pending.

Mr. CHEVRIER: How much money did the twelve per cent represent insofar as the requirements of the railway were concerned?

Mr. GORDON: I used to have that figure right in my head, but it has gone right out. I am sorry; my memory has failed me and my officials also apparently have. We should know that. I had it here in the years previous, but for some reason I do not have it right now.

The CHAIRMAN: What was the question?

Mr. CHEVRIER: Do you remember what one per cent is equivalent to in railway requirements.

Mr. TOOLE: About $5 million?

Mr. GORDON: I do not believe that.

Mr. CHEVRIER: That sounds high.

Mr. GORDON: That is not it. I will get that figure for you, Mr. Chevrier. I do not mind telling you I am chagrined at not having it. We should have it readily available and I cannot understand why we do not have it.

Mr. CHEVRIER: Could I go on from there and ask you if the amount, whatever it is—the equivalent of twelve per cent in millions of dollars—would be the amount required by the railways, the C.N. and the C.P., to meet their obligations in connection with the labour increases.

Mr. GORDON: No. That twelve per cent was the amount which the C.P.R. had estimated would make them hold in regard to their requirements.

Mr. CHEVRIER: What requirements?

Mr. GORDON: You remember the formula of the C.P.R. requirements before the Board of Transport.

Mr. CHEVRIER: Yes. Did this include the C.N. requirements also?

Mr. GORDON: It never does. The C.P.R. as the yardstick railway established a formula of around $15 million and the twelve per cent was the amount they were short at that time.

Mr. CHEVRIER: How is it divided between the C.N. and the C.P.?

Mr. GORDON: It would not be divided, because it was a twelve per cent horizontal increase that we were joining in asking for. The answer to this question is that roughly, if we had to figure it, about sixty per cent of it would be C.N. and forty per cent C.P.

Mr. CHEVRIER: When the railways and the brotherhoods were unable to meet their difficulty, the matter was referred to a conciliation board and the conciliation board brought in a majority report which the railways said they could not meet at the time.

Mr. GORDON: Yes. You are now referring to the Milvain report.

Mr. CHEVRIER: Yes. Recently the whole matter was settled. What I would like to know is this: what made it possible for the railways to be able to settle with their employees around the fifteenth of May, or thereabouts, when it was not possible for them to settle earlier.

Mr. GORDON: Well, you will recall the chain of circumstances. Back around the end of November or the first of December we came to a parting of the ways. A strike was then called by the non-operating unions. At that time the government stepped in and introduced legislation following the breakdown in formal negotiations between the non-operating unions and the railways. The government passed the Railway Continuation Act or whatever it was called, which brought it through to about May 16. Of course there were intensive negotiations conducted during that period, particularly toward the end. All I can say is that when the settlement was finally agreed to, in the judgment of railway management we were faced with a situation we knew we would be faced with a strike, and that the only way to avoid a strike was to make the settlement.

Mr. CHEVRIER: Yes, but how were you able to make the settlement when you did make it, whereas a short time before that both railways said they did not have the means?

Mr. GORDON: Yes. We were no more able to make it then than before. The fact is that the wage increase obligation that was assumed by both railways means an increase in cost to that extent.

Mr. CHEVRIER: Of how much?

Mr. GORDON: In our case roughly of the order of somewhere between $30 million and $32 million and, in the case of the C.P.R., it was in the vicinity of $19 million to $21 million.

Mr. CHEVRIER: Well, what I would like to get some clarification on is this: where is the C.N.R. and the C.P.R.—but I can only ask for the C.N.R.—now to get the $30 million or $32 million required to settle the issue? You said earlier you did not have it.

Mr. GORDON: That is right. We do not have it now, in terms of an adequate return for the revenue operation. But what happened was that in order to avoid the strike with which we were faced we had to pay the wage increase in accordance with the Milvain recommendations, and the end result of that has been to increase the costs of both railways to the amount mentioned.

Mr. CHEVRIER: And you decided to settle in the face of the increased costs, although, at the time, you did not know where the money was going to come from?

Mr. GORDON: That is right.

Mr. CHEVRIER: Now, since you have seen that there is in the supplementary estimates, I believe, an amount of $50 million—

Mr. GORDON: Yes.

Mr. CHEVRIER: —could you tell the committee whether that will meet the requirements of the railways for these increased costs?

Mr. GORDON: Yes, we believe it will for this particular year.

Mr. CHEVRIER: For one year?

Mr. GORDON: Yes.

Mr. CHEVRIER: Well, I was going—

Mr. CATHERS: Mr. Chairman, are we not discussing the financial statement of 1961 to 1962 now? We are supposed to be discussing the 1960 statement.

Mr. FISHER: We are on freight services.

Mr. CHEVRIER: Yes, we are on freight services. This is a matter which arose under 1960 because of the 12 per cent case, and that is why I introduced it.

Mr. CATHERS: You are talking about the settlement made on May 16, 1961, which involves the financial statement of this year; also, the one we are discussing.

Mr. CHEVRIER: I am also talking about the requirements for the railway for the year 1960.

Mr. GORDON: It is true the settlement made was retroactive from January 1, 1960.

Mr. CHEVRIER: And is the settlement for one year?

Mr. GORDON: The settlement covers a two-year agreement which dates from January 1, 1960, and expires on December 31, 1961.

Mr. CHEVRIER: And in accordance with the terms of the agreement, several months prior thereto there will begin negotiations again?

Mr. GORDON: We expect—although I do not know; it depends whether there are demands. However, under the terms of the agreement, if the unions make further demands, they can open new demands this fall; in other words, they can file notice by about the last of September or the first of October, under the terms of the agreement.

Mr. CHEVRIER: And the amount mentioned in the supplementary estimates will enable the C.N.R. and the C.P.R., I take it, to meet that position for the year 1961?

Mr. GORDON: To meet the increased costs obligated for 1961.

Mr. CHEVRIER: You mentioned something earlier about the recommendations of the Royal Commission, divided into four parts, and amounting to $97 million. Do you consider, in the supplementary estimates, any of the recommendations by way of subsidies in the amount of $97 million are included in this $50 million.

Mr. GORDON: I am not sure I follow you.

Mr. CHEVRIER: Perhaps I did not put my question clearly. What I am trying to ascertain is if any of the recommendations contained in the first volume of the MacPherson report, amounting to $97 million or $100 million, are in your opinion contained in the $50 million in the supplementary estimates, so that you may do one of the four things, or you may do all of those things recommended in the MacPherson report?

Hon. LEON BALCER (*Minister of Transport*): On a point of order, Mr. Chairman, I think what Mr. Chevrier is asking of Mr. Gordon is a sort of legal opinion on the wording of an item in the estimates, and I think the role of the witness is not to give a legal opinion.

Mr. CHEVRIER: It is not a legal opinion. I submit it is not. There is nothing legal about it.

Mr. BALCER: You are inquiring about his understanding or his interpretation of the wording of an item in the estimates.

Mr. CHEVRIER: I am asking him a simple question, and it is this—and I submit it is in order: does he consider that any of the recommendations contained in the MacPherson report, which amount roughly speaking to $100 million, are to be implemented by the inclusion of the $50 million in the supplementary estimates?

Mr. BROWNE (*Vancouver-Kingsway*): On the point of order raised by the minister, Mr. Chairman, I believe Mr. Chevrier is now asking very clearly and distinctly for an interpretation of what the government's intention was in putting that money into the supplementary estimates, and I think—whether it

is in order or not; and I do not think it is—it would be a very unfair question to put to Mr. Gordon.

Some hon. MEMBERS: I agree.

Mr. CHEVRIER: Then, I will ask the minister. I do not think it is—and Mr. Gordon was about to answer.

Mr. GORDON: I do not want to leave that impression, Mr. Chevrier. All I can say is that there is before me here the wording of the item in the supplementary estimates, and you are just as capable of interpreting that as I am.

Mr. CHEVRIER: I do not know that I am. Could I ask the minister?

The CHAIRMAN: Well, the minister is here just as an observer and not to be examined.

Mr. CHEVRIER: Yes, he is. It has been the practice in the past to examine the minister from time to time when questions like that come up. I will ask the minister this question. The president has now told us the $50 million in the supplementary estimates is to satisfy the requirements of the railways to cover the wage agreement.

Mr. HORNER (*Jasper-Edson*): He did not say that.

Mr. BALCER: No, he did not say that. You asked him if the amount in the supplementary estimates was about even with the wage increase, but he did not say that the amount in the supplemenary estimates was to cover the wage increase.

Mr. CHEVRIER: If you take $30 million to $32 million as the requirements of the C.N.R. and $19 million to $21 million as the requirements of the C.P.R., that is pretty close to $50 million.

Mr. BALCER: Yes.

Mr. HORNER (*Jasper-Edson*): One and one makes two.

Mr. CHEVRIER: So, it would strike me that what is in the supplementary estimates is for that purpose. Now I am asking you in this amount of $50 million is there any subsidy or any amount to implement either one or all of the recommendations contained in the MacPherson report.

Mr. BALCER: All I can do is read the statement in the estimates which states:

> The $50 million interim payments related to recommendations of the rail commission on railway problems pending its complete report to companies as defined in the Freight Rates Reduction Act of an aggregate amount in respect of the calendar year 1961 of $50 million, to be paid in instalments at such times and in accordance with such method of allocation as may be determined by the Board of Transport Commissioners for Canada as compensation to such companies for the maintenance of their rates on freight traffic at reduced levels as provided for in the said act.

Mr. CHEVRIER: That is all right. I am prepared to leave it at that.

Mr. GORDON: If I may clear up that figure, we estimate that a one per cent general rate increase would yield us approximately $1,750,000. That would give roughly about $21 million if there were a 12 per cent straight horizontal increase.

Mr. FISHER: I could bring this up later under personnel and labour, but it follows on the point Mr. Chevrier raised. In the joint statement issued by the railways after the strike was settled there is this sentence:

> In the result, if a nationwide strike were to be avoided, we had no alternative but to accept the Milvain recommendations despite the fact that we completely disagree with the reasoning contained in the report.

May I conclude from the answer you gave Mr. Chevrier it was strictly because you had to avoid a nationwide strike that you accepted this particular settlement?

Mr. GORDON: That was our judgment, yes.

Mr. FISHER: There was no extraneous factor of any kind involved, such as a realization funds would be forthcoming from the government to cover any increase?

Mr. GORDON: I am not going to deal with extraneous factors. The settlement made by Mr. Crump and myself was based on a clear appreciation that, failing settlement on the basis of the Milvain report, inevitably there would be a strike unless other action was taken to stop it. We had to make that judgment as to whether or not we were prepared to take a strike, and whether the negotiations would break down on the basis of further demands. You will recall at the time the railways, through myself as spokesman, accepted the Milvain report, it was after a long long struggle, and at that time we had been faced with a proposition that we pay another ten cents for the year 1962, and there was certainly in the arrangement the possibility of still further grounds for dispute. We said: "well, we have your assurance that you have accepted the Milvain report. Now we accept it. That removes all cause for a strike, so call the strike off". It is as simple as that.

The CHAIRMAN: We are on personnel and employee relations. Let us get back to freight services.

Mr. HORNER (*Jasper-Edson*): With regard to piggyback services, have you any of the special flat cars they have in the United States, which the truckers are complaining about—

Mr. GORDON: Sorry, I was still thinking about the strike.

Mr. HORNER (*Jasper-Edson*): Have you any of the special piggyback flat cars?

Mr. GORDON: Yes, we have.

Mr. HORNER (*Jasper-Edson*): I have had a shipper come to me and say: "how come I can ship my goods cheaper by piggyback than if I load them in boxcars?"

Mr. GORDON: I should have to see the facts but I think that is quite possible.

Mr. HORNER (*Jasper-Edson*): I shall give you an example.

Mr. GORDON: What he would have in mind would be the overall costs, I presume.

Mr. HORNER (*Jasper-Edson*): No. I have one very recent example which, as a matter of fact, was given to me this noon. It concerns a man who was shipping potatoes—

Mr. GORDON: Under which plan, was it plan one or two?

Mr. HORNER (*Jasper-Edson*): It was the piggyback service.

Mr. GORDON: One plan is where the railway provides the trailers itself, picks up the potatoes and ships the load, and the other one is where the truck supplier provides the trailers and we service the shipment by piggyback. Are you talking about the shipper dealing direct with the railway?

Mr. HORNER (*Jasper-Edson*): I am talking about the cost to the shipper. I do not know what plan he was using, but it would cost him $1.15 if he loaded his seed potatoes into boxcars to ship them to a point in Saskatchewan, but if he loaded them piggyback it would only cost him $.95. I have also heard people who ship bulk mixed grain and packaged feed from Manitoba into Ontario say it is cheaper to do it via piggyback than via boxcars. Can you comment on that, and say what is the explanation behind it?

Mr. GORDON: I should have to know the specific facts, but I shall try to guess as to how that could come about. I cannot be specific without knowing the actual shipment, but it is possible for a shipper, using a trailer which he is sending over the railway, to load that trailer with goods which would cost him more in freight rate if he shipped them in boxcars, because the piggyback rate is quoted on the basis of the piggyback movement. I cannot say whether that applies here or not, but there is a great deal of difference between the two types of plans.

Plan I is transportation by the railway of trailers of all common carrier trucks. The railway in that case provides the flat car and arranges for the unloading and loading of the trailers on the flat car. Plan II is where all the service is performed by the railway, using trailers and flat cars. The railway arranges for pickup and delivery of the shipment, and arranges for the loading and unloading of trailers, and the prices for those two services vary quite considerably.

Mr. HORNER (*Jasper-Edson*): It would probably be the first of those two plans.

Mr. GORDON: I would think that is it.

Mr. HORNER (*Jasper-Edson*): At the same time, it is an inconvenience to that particular shipper to do it that way.

Mr. GORDON: It could be.

Mr. HORNER (*Jasper-Edson*): I cannot understand why he should have to pay more if he loads the boxcars himself.

Mr. GORDON: What is growing into Canadian transportation scene at the moment is the fact that because of the alternative methods being provided in whether it is by water, truck or railway, it pays the shipper to take a good hard look at which service he wants to buy. There are circumstances where a shipper can do better for himself under one form of service than under another.

Mr. HORNER (*Jasper-Edson*): I have one last question. Do you have any piggyback service on the N.A.R.?

Mr. GORDON: No.

Mr. BROWNE (*Vancouver-Kingsway*): Following on the point Doctor Horner has raised, is it not true that goods that travel on piggyback do not go under class rates arrangements? If the same item were shipped on the railway ordinarily, it would have to fall under one classification or another?

Mr. GORDON: That is really what I was trying to say to Doctor Horner.

Mr. BROWNE (*Vancouver-Kingsway*): That is true under one of the plans. If the railway accepts the freight itself it will take goods on piggyback without carrying them at a class rate. Is that right?

Mr. GORDON: No, no Mr. Browne. We have this whole complexity of freight rates and I have got to be very careful.

Your question is whether we haul our own trailers? I would suggest, Mr. Browne, that you give evidence on that on behalf of the railway because you know it.

Mr. BROWNE (*Vancouver-Kingsway*): I was not too certain. I believe that is the case and I was really attempting to be of assistance rather than to raise any trouble for you.

Mr. GORDON: I would like you to give evidence because you probably know it better than I do. Let me answer by saying I believe that is so.

Mr. BROOME: Can I take it from you that you are making an offer to Mr. Browne to apply to the C.N.R.?

Mr. FISHER: Put him in charge of East-West.

Mr. GORDON: I would be very happy to have Mr. Browne act for me as liaison with members of parliament.

Mr. FISHER: On piggyback, Mr. Gordon, again maybe the statistics are not fair, but there seems to be an indication that the C.P.R. is carrying a lot more piggybacks than the C.N.R. and that their rate of increase is faster. If that is so, what would be your explanation for it?

Mr. GORDON: I think it is so. There are so many reasons for it that it is difficult to explain. Offhand, I would say that one of the reasons is that they have a bigger trucking operation themselves than we have and therefore their piggyback operations would tend to be larger.

Mr. FISHER: But, say, in the hauling from Montreal to Toronto or from Toronto to Winnipeg, which would be long hauls, and there you have comparable routes and comparable times, why would they have such an advantage?

Mr. GORDON: The number of trailers handled in C.P.R. piggyback service increased to 113,800 from 101,600 in 1959. Our relative figures were 111,508 as against 92,936. So the difference in the number of our cars is within about 2,000, which is not a very wide margin. I also think the fact that they are ahead of us in this business, and have been, is largely brought about by the fact that their own trucking business is considerably larger than ours, as it now stands. They get all the trailer business from the Smith Transport, for instance, which is quite large.

Mr. FISHER: Since you got into the trucking business last year, I wondered whether that has had any appreciable effect on improving your position, and whether it is going to have an increasing effect?

Mr. GORDON: It will, I believe. We are not a trucking agent, but I can answer that in general that is one of the collateral advantages that we expect to get as we acquire trucking companies.

Mr. HORNER (*Jasper-Edson*): With regard to piggyback, do you expect N.A.R. will have this service in the near future?

Mr. GORDON: Offhand, I doubt it. I do not think there is enough business available in that area.

Mr. HORNER (*Jasper-Edson*): I am thinking of Edmonton into the Peace River country.

Mr. GORDON: I have had no recent suggestion that the piggyback service is going to be recommended on the point you mentioned. There is not enough business to justify it.

Mr. GRAYSTON: We are investigating it.

Mr. CREAGHAN: Last year, or the year before, you gave us some information on new box cars for the shipment of pulpwood and also an indication that you are having a new box car for the carrying of automobiles. I wonder if you could tell us what success you had with those types of box cars and an indication of your inventory of them. I believe you call them pulpwood cars and automobile carriers. I am particularly interested in the success you have had in maintaining that business. Was it an experiment?

Mr. GRAYSTON: It was an experiment, and perhaps I should say that it is still an experiment. It has met certain requirements of the pulpwood industry, but neither they nor we are entirely satisfied with it. All that can be said at the moment is that it is still a subject of consideration. I am referring now to the pulpwood cars.

Mr. CREAGHAN: What about the double-deck automobile carriers?

Mr. GORDON: It is doing well, is it not, Mr. Grayston?

Mr. GRAYSTON: Yes, it was successful to the extent that we added to our fleet of those cars so that now we have a total of 150 of them. We ordered 125 in 1959.

Mr. BROWNE (*Vancouver-Kingsway*): Could I ask one more question on piggyback, now that it has arisen, Mr. Chairman? Mr. Gordon, could you tell me if the railway had any agreed charges with anyone carrying piggyback operations?

Mr. GORDON: Offhand, I cannot remember.

Mr. CARTER: Have the agreed charges been the same on carloads and piggyback?

Mr. GORDON: I do not know offhand.

Mr. PASCOE: Mr. Chairman, I would just like to follow our discussions earlier about box car repairs.

Mr. CARTER: Could I put a supplementary question on piggyback? I believe the C.N.R. have two piggyback plans and the C.P.R. have two also.

Mr. GORDON: As far as I know, yes.

Mr. CARTER: Do you have to go before the Board of Transport Commissioners?

Mr. GORDON: No.

Mr. CARTER: So you do not know whether your plan is the same as the C.P.R. plan?

Mr. GORDON: We know from observation that their plan is the same as ours.

Mr. PASCOE: Mr. Chairman, my question was in regard to box car repairs, and I think particularly box cars for hauling grain. We frequently hear reports, at times like this, that there is a shortage of box cars for hauling grain. Would that be because some of these box cars would be taken for repairs? What is their casualty? We hear reports that there is a shortage of box cars.

Mr. GORDON: There is no shortage, as far as I know, and I think Mr. Grayston will agree that our provision of box cars in Western Canada is quite adequate. The last report I remember reading shows that everything is in good shape. There may be shortages at one particular time, so that a particular farmer may feel he has not got a car at the exct moment at which he wants it. However, in the over-all handling of grain movement our car supply in western Canada is very comfortable indeed.

Mr. PASCOE: What about repairing box cars?

Mr. GORDON: It runs on about the general average. We find that the necessary repairs for running a box car, that is running repairs as distinct from heavy repairs, average about the same.

Mr. GRAYSTON: Yes. We get here into the area of classification of box cars. We have box cars that we classify for paper, sugar and flour, and for grain. I would say that in the running repair area the amount of repairs required to keep a car in the grain service is no greater or no less than it is to keep a car in any other service, assuming it starts out in either one or the other category.

Mr. GORDON: You understand, of course, that we do not just send any box car for grain. It has to be a box car that is acceptable for transport of grain, and that is a high class of box car.

Mr. PASCOE: I have a question which you may not want to answer.

Mr. GORDON: There is no question I do not want to answer.

Mr. PASCOE: It concerns cars coming into a point where there are three or four elevators. Do you treat all elevators the same in regard to spotting cars?

Mr. GORDON: The spotting of cars is under the direction of the Board of Grain Commissioners. We follow orders.

Mr. PASCOE: Do you get your orders every time?

Mr. GORDON: Yes, we follow orders.

Mr. BROWNE (*Vancouver-Kingsway*): How much of a factor are damage claims in the movement of freight? Is there a percentage available for the amount of damage in relation to freight revenue, and perhaps a comparison with other railroads in the same field?

Mr. TOOLE: The loss in damage claims in 1960 was $4,600,000.

Mr. BROWNE (*Vancouver-Kingsway*): Have you got a percentage figure on that in relation to freight revenue?

Mr. TOOLE: I can calculate it quickly. The ratio is .82 per cent.

Mr. GORDON: Less than one per cent.

Mr. BROWNE (*Vancouver-Kingsway*): I would imagine that is quite low.

Mr. GORDON: It is quite low and we have been improving on it.

Mr. HORNER (*Acadia*): Have we at any time been given the figure with regard to tonnage haul on piggyback?

Mr. FISHER: We were just given a percentage and then he gave us cars.

Mr. GORDON: Would this meet your point, that our report shows that piggyback tonnage rose 8.6 per cent over 1959?

Mr. HORNER (*Acadia*): It is easy for tonnage to rise, from a very small figure.

Mr. GORDON: That is right.

Mr. HORNER (*Acadia*): I wondered approximately what the tonnage would be.

The CHAIRMAN: If it rose 8.6 per cent, it is a steady increase.

Mr. GORDON: The tonnage in 1959 was 576,512 and in 1960 it was 670,306.

Mr. FISHER: Car loadings?

Mr. GORDON: No, that is tonnage.

Mr. FISHER: I know, but you gave the cars, did you not?

Mr. GORDON: I do not follow you.

Mr. FISHER: The C.P.R. gives a figure for piggyback service in terms of trailers handled, and you read that out.

The CHAIRMAN: Is there any other question?

Mr. FISHER: Is there any place in the system where you have a cooperative or pool arrangement for taking freight along with the C.P.R.?

Mr. GORDON: The Northern Alberta Railway is jointly operated. We have quite a number of joint terminals where we do joint operations there, but I think that is about the only kind of operation you could call joint operations.

Mr. FISHER: You have not at any place an arrangement to share the freight traffic out of the place?

Mr. GORDON: No. We do not.

Mr. FISHER: So anyone under that impression would be completely mistaken?

Mr. GORDON: Yes. If you mean by that, have we got an agreement or understanding with the C.P.R., that they take the freight rather than ourselves and vice versa, the answer to that is definitely no.

Mr. FISHER: So there is no splitting or arrangement—

Mr. GORDON: Absolutely not—except where it is well known that we have joint operations. The N.A.R. is a joint operation and there the railway is 50-50 ownership. We have certain places where we have joint terminals and where we have agreements with regard to operation and switching.

Mr. FISHER: Could you take down this agreed charge No. C.T.C. 1180 and after the hearings could you have that checked as to whether it is genuinely compensatory?

Mr. GORDON: We will look into that.

Mr. MONTEITH (*Verdun*): In regard to the pool service between Montreal and Toronto, what proportion of personnel and equipment is there? You said it is proportionate between the C.P.R. and the C.N.R. Is it a 50-50 basis?

Mr. GORDON: No, it is on a basis, generally speaking, of the usage of equipment. There is a formula which I will explain. Let me take this in regard to an individual train. As the train is marshalled for a pooled operation, there may be a certain number of cars of various types provided by the C.P.R. and a certain number provided by the C.N.R. On the basis of cars provided, the formula recognizes the ownership of the cars. Then, having provided for the payment in respect of the ownership, the expense is divided on a 50-50 basis.

Mr. MONTEITH (*Verdun*): That includes locomotive service, too?

Mr. GORDON: Yes, it does. The first split is in recognition of the company which provides the equipment. That is the first item.

Mr. MONTEITH (*Verdun*): There is one question I should like to put. It is in regard to the hump yards. What will happen to Point St. Charles? Will the shops there be transferred to the new hump yards eventually?

Mr. GORDON: Point St. Charles is not affected by the new hump yard.

Mr. FISHER: I would like to ask this question. The C.P.R. seems to be very proud of what is called integrated handling or merchandizing services they introduced in British Columbia. Is that in any sense a model or forerunner of your area management, or is area management going to produce the same kind of integrated service?

Mr. GORDON: We think we are ahead of that in many respects but it is still very much in the transitional stage. The model that they had set up there is still on an experimental basis. The main purpose of what we call the Department of Merchandise Services is to rationalize and co-ordinate the various media or rail or highway transport which are or will be made available, in order to make the railway as competitive as good practice dictates, in that area of traffic where the highway carrier attracts traffic because of his speed and flexibility of service, as well as perhaps in a smaller area where the highway carrier now enjoys the cost advantage. The basic plan is that we are getting these railheads established. The general effect of it is that we are trying to arrange our traffic in such a way as to use the advantage of the railway to the maximum extent. We will haul the traffic to a railhead point and then fan it out from that point like the spokes of a wheel by trucks, if that is found to be the most economical way of doing it. In the course of doing that, we will eliminate the small wayside freight sheds which are very costly in relation to the small amount of traffic they handle. The basic idea of this is to merge our LCL express and other forms of traffic so that we will get it into this railhead point and fan out by truck.

Mr. FISHER: You mentioned express. Is this the reason why that express train which you had running on the transcontinental seems to have disappeared; and do you see express cars now in your faster freight?

Mr. GORDON: Yes, that will be part of it. We are very busy now discussing with our unions the necessary co-ordination in order to make these seniority groups merge; and we have had quite a satisfactory response from them. Indeed the head of the union complimented us not long ago on the co-operation that has been worked out.

Mr. WILSON: The basic agreement has been worked out.

Mr. FISHER: Are there any other unions affected by it?

Mr. GORDON: No; this is streamlining the effect of the L.C.L. There are a lot of other things to be done, it is true, but they will be worked out. Documentation is a big problem in itself. Documentation for an express parcel is quite different from documentation for L.C.L. freight, and we run into a lot of legal problems, as well as problems of methods of accounting and things of that kind. But we are making real progress on it, and eventually we hope we will get the streamlining done.

Mr. FISHER: If integration works, I mean you and the Canadian Pacific, and it is a great success, will you not then be in a position to put out of business a great many for-hire truckers and shippers of the kind who operate within a sort of limited franchise within a city, municipality, or area?

Mr. GORDON: Wait a minute; I can quite easily recognize a loaded question when I hear it. I would say no, that it would not have that effect. As a matter of fact, in the course of working out these rail-head operations, it will not necessarily be the case that we will use our own trucking. It may be that we shall find it to our advantage to hire truckers who are already in business. I do not say that we will do it in every case, because it would have to depend on the circumstances. But we have quite a number of truckers who are hired now, and if it suits our purpose, we will hold to that practice in a particular area. Moreover, the rail-head principle I referred to is really transportation on the railway of traffic which would be on the railway in any event. The railway now is hauling goods, let us say, from Toronto to some small wayside station en route. I do not want to pick one example, because the people of that area might become annoyed if I referred to it as a small wayside station; so let us say small wayside station "X". We have found in the operation of trains that we get a horrible duplication because a train will run, let us say, from Toronto to Montreal, and it is not economical for it to stop at a wayside station; so we get a situation where you run all the way to Montreal, where you switch off the car and take it back again to the wayside station in order to deliver it. That is the sort of thing we are trying to eliminate. I found in one case where we had made a pass by a wayside station about six times before we got an opportunity to deliver the car there, since it went back and forth until it was actually switched off. I think by making a sort of head-on approach we can get it right from the starting point to the rail head as fast as we can, and then we would expect to use our trucks, not only to haul our own traffic, but to haul whatever traffic that might be there in any event.

Mr. FISHER: My information is from a person who, a few years ago, suffered from this agreed charge which you and the Canadian Pacific have for breweries. The result was that you put his particular business on the rocks. His point in connection with this is not particularly plain about the fact that he lost his business, but the point is that some of these breweries were allowed to have that rail head principle, and that it was the cost involved of moving their supplies to and from the warehouse which caused the trouble, and that this same thing applied at the other end. His point was that the agreement beat him hands down.

Mr. GORDON: Yes.

Mr. FISHER: It put him out of business. It would require better co-ordination and integration of services on the part of the railway. This is a kind of example which raises in my mind the question as to whether or not to have separation or to have a proliferation of the railway in the trucking business. It may be a perfect kind of integration and it may be excellent efficiency and so on, for the railways, but it may conceivably alter the whole transportation picture.

Mr. GORDON: To define the structure is certainly a labour-railway problem. The real point in answer to your question is that all our agreed charges are compensatory. But I shall have a look into this specific case that you mention.

Mr. FISHER: In this case it was an agreed charge between the railways. These people say that they have always been in position to alter the rate, until the agreed charge came about, when the railways were involved.

Mr. GORDON: Yes.

Mr. FISHER: But when it comes to actually getting the business there is no opportunity to bargain; it depends on sales personality.

Mr. GORDON: It is strictly competitive, yes.

Mr. FISHER: How can you be competitive, if the charge is the same?

Mr. GORDON: Services, and my gentle smile as compared to Mr. Crump's and the dulcet cadence of my voice.

Mr. BROOME: Only at this meeting of the committee.

Mr. GORDON: We shall become more competitive, Mr. Broome.

Mr. BROWNE (*Vancouver-Kingsway*): Might I ask if in this integration which you are carrying out it is your intention in connection with the companies you acquire, to have their employees eventually become employees directly of the railways?

Mr. GORDON: Oh yes; in fact they are now, to the extent that we have finished the purchase; they are our employees.

Mr. BROWNE (*Vancouver-Kingsway*): In the case of the Canadian Pacific merchandise service, this has caused a considerable amount of labour difficulty in the Province of British Columbia, because these firms, while running as independent firms, were in many instances represented by the teamsters union.

Mr. GORDON: Yes.

Mr. BROWNE (*Vancouver-Kingsway*): But when they are integrated into the railway itself, that is no longer the case.

Mr. GORDON: Wait a minute. I think you have misunderstood me. I did not mean to say that the employees of certain of these companies that we own would come into the railway company.

Mr. BROWNE (*Vancouver-Kingsway*): That is the idea that I got. But in the case of the Canadian Pacific, they run them as independent trucking firms, and eventually under their integration plan, which they call the Canadian Pacific merchandising service, they become direct employees of the railway, rather than of the independant firms.

The CHAIRMAN: Are there any further questions?

Mr. GORDON: I cannot be sure about the Canadian Pacific, but I do question if you are right. However, I do not know.

Mr. BROWNE (*Vancouver-Kingsway*): What I am trying to determine is that in the case of the East-West Transport Limited, I would expect that they are represented now by the Teamsters Union.

Mr. GORDON: No. Did you say East-West?

Mr. BROWNE (*Vancouver-Kingsway*): Yes. I just picked one at random.

Mr. GORDON: We have taken over whatever union contracts existed at the time. Let us see about East-West? Yes, the teamsters union were in there when we took them over. That is right.

Mr. BROWNE (*Vancouver-Kingsway*): What I am trying to get at is that they are now employees of East-West Transport, but East-West Transport belongs to the Railway, and the railway is the bargaining unit.

Mr. GORDON: East-West Transport would bargain with their own employees.

Mr. BROWNE (*Vancouver-Kingsway*): Yes, that is right, pardon me. Is it your intention to continue that relationship, or in future will those employees eventually become integrated right into the railway and be a part of the railway employees?

Mr. GORDON: That will depend entirely on the circumstances. We are not necessarily tied to any union. If it is a case where the employees want to change their union, it is up to them to ask for certification.

Mr. BROWNE (*Vancouver-Kingsway*): I do not think I am getting my point across.

Mr. GORDON: We do not as a matter of course do this; it is the employees themselves who do it.

Mr. BROWNE (*Vancouver-Kingsway*): Is it fair to say that when you have purchased one of these companies, it then becomes part of the Canadian National system? The Canada Labour Relations Board have ruled in the case of the Canadian Pacific that when it was a company operated by the railroad, the railroad was not the appropriate unit; therefore they would have to bargain separately with the union.

Mr. WILSON: This whole matter is the concern of the Canada Labour Relations Board.

Mr. BROWNE (*Vancouver-Kingsway*): It is a question of policy of the railroad whether or not you intend to continue to operate East-West Transport Limited as such, Empire Freightways Limited as such, and any of the other firms that are involved, like Sydney Transport. So long as they are operated under those names, under the present circumstances they are considered to be appropriate bargaining units?

Mr. GORDON: Yes.

Mr. BROWNE (*Vancouver-Kingsway*): And the management of those firms bargains with the employees.

Mr. GORDON: Yes.

Mr. BROWNE (*Vancouver-Kingsway*): You are planning on integrating the services?

Mr. GORDON: Not in that regard. At this time we intend—but things do change—to keep the corporate structure of those particular companies so long as it is to our advantage. Labour is one thing which may be involved. There is no necessary requirement on us to bring it into the railway operation as such. We will continue its corporate identity so long as it suits us. There is a question of licensing and other changes which would have to be made.

Mr. BROWNE (*Vancouver-Kingsway*): I realize that. First of all, I wanted your intenton. I think I am clear on it now. One of the type of complaints I have had—and I have had them in respect of the C.P.R.—is that where they come directly under the railway brotherhoods for bargaining, the wages were then taken into consideration on a national level, whereas previously they were independent companies bargaining at the provincial level.

Mr. GORDON: That would make the Canadian Pacific trucking service less competitive?

Mr. BROWNE (*Vancouver-Kingsway*): It put them in a better competitive position when they were brought directly under the railway, because the wages in British Columbia, for example, were higher than the national average. When these employees came to the railway brotherhood their wages diminished. This might not be true in all cases.

Mr. GORDON: I was assuming that when they were brought under the railway unions the wages would go up.

Mr. BROWNE (*Vancouver-Kingsway*): No; there was a substantial drop when that happened.

Mr. GORDON: Then we are dealing with the exception.

The CHAIRMAN: Are there any further questions?

Mr. HORNER (*Acadia*): What section are we on?

Mr. FISHER: We are on freight. Do you, anywhere in your trucking services, use brokers to solicit freight traffic and pay them on a commission basis?

Mr. GORDON: I cannot recall any. It certainly is not a general practice.

Mr. D. M. TROTTER, (*Assistant to the Vice-President, Transportation and Maintenance, C.N.R.*): We have commission agents, in express.

Mr. GORDON: We have various agreements with our agents.

Mr. FISHER: I understand the C.N.R. has brokers handling their truck sales; that is, to pick up traffic on the trucks. Since Mr. Gordon spoke of an integration I am wondering if the same idea would be extended into the freight sales?

Mr. GORDON: The only one I am familiar with is in connection with what the agent might get in the way of salary plus commission, in relation to express. That, of course, is not general; it depends on the particular location. Mr. Browne, Mr. Fisher is asking if any brokers act for the C.N.R. in getting business for the trucks. Do you know of any circumstances in which brokers act for the C.N.R. in getting trucking business for us?

Mr. BROWNE (*Vancouver-Kingsway*): I know that the agents themselves solicit. A firm with which I was connected used to solicit, themselves.

Mr. GORDON: But you do not know of any broker?

Mr. BROWNE (*Vancouver-Kingsway*): No.

The CHAIRMAN: The minister has to go to another meeting and wishes to be excused.

Mr. FISHER: I am sorry to see him go.

Mr. CHEVRIER: I still have some questions for him.

Mr. FISHER: Perhaps Mr. Chevrier should have an opportunity to ask his questions now, since he will not be here on Monday or Tuesday.

The CHAIRMAN: The minister must leave now. Mr. Chevrier has been a minister and knows what it is when a minister has another appointment.

Mr. FISHER: I will leave this commission business until we get to the item on trucking.

Mr. GORDON: Will you try to state precisely what you have in mind.

Mr. FISHER: It is the Winnipeg situation.

Mr. GORDON: The more definite you make your question the more accurately I will be able to get Mr. Browne to answer it.

Mr. FISHER: I want to know why you are paying ten per cent commission to a broker in Winnipeg?

Mr. GORDON: I would doubt very much that we are, but I will be glad to look into it. What kind of broker have you in mind?

Mr. FISHER: A broker to pick up sales for trucks.

Mr. GORDON: What you may have run across in the past is a broker of that kind, in one of the trucking companies we have acquired. I do not know of any in connection with our operation, but I will look into it.

The CHAIRMAN: I think that anything in the interest of the general good, the public and the taxpayers is one thing; but after all the C.P.R. and the C.N.R. are competitive companies and should be protected in their way of getting business. I do not think any private companies would reveal all the ways they have of obtaining business.

Mr. BROWNE (*Vancouver-Kingsway*): Do I understand that Mr. Fisher's question was in respect of getting business for one of the trucking companies acquired by the C.N.R.?

Mr. FISHER: Yes.

Mr. GORDON: He seems to believe we are paying a broker for business in respect of our trucking operations.

Mr. BROWNE (*Vancouver-Kingsway*): It seems to me that any firm would have people soliciting business for them on some basis or other. I do not see anything unusual about that.

The CHAIRMAN: I think it is their own private business and not the type of thing we should deal with here.

Mr. FISHER: I will bring it up when we get to the item on trucking.

The CHAIRMAN: I think the heading passenger services is next.

Mr. MCFARLANE: Before we go into that, I have a question I would like to ask Mr. Gordon. As Mr. Gordon is aware, there is a certain amount of pressure to have certain commodities excluded under the Crowsnest pass rates. Is it proper to ask how you feel about it?

Mr. GORDON: Terrible!

Mr. HORNER (*Jasper-Edson*): It might improve carrying your mix, and thus improve your revenue.

The CHAIRMAN: Is there anything further?
We will now go to passenger services.

Mr. BROWNE (*Vancouver-Kingsway*): On passenger services, I would like to ask Mr. Gordon what his feeling is about getting out of the uneconomical service, as has been recommended in the report of the Royal Commission. On page 60 of the report the following appears:

> To facilitate reduction of passenger deficits, we recommend that the pertinent statutes be amended to enable the railways upon application to the Board of Transport Commissioners to remove any uneconomic passenger service except when the board is satisfied that no reasonable alternative public highway exists.

One of the things I am concerned about is that Mr. Broome asked a question concerning how many applications the railway had made to get out of these services, and I note that most of these applications were approved.

Mr. BROOME: Twenty-four out of twenty-six.

Mr. BROWNE (*Vancouver-Kingsway*): I wondered why there were not more applications and whether or not it is the intention to get out of some of these uneconomical services.

Mr. GORDON: The reason most of them were approved is that we have come to know, through bitter experience, the kind of things we can get through. While there are others we feel strongly about, we know there is no use wasting time on them, and we have not tried. As a result of this encouragement from the Royal Commission, we have under way a very intensive analysis

of each specific type of service. When we come to the conclusion we can demonstrate a loss, now with the invitation from the MacPherson Royal Commission to go to the Board, we do not have to allege that this service should be abandoned; we no longer have to do that. What we have to do is to allege that it is unprofitable, and put it up to the Board. We have to say to them: the service is unprofitable, here is the record. You do not say whether or not it should be abandoned. If they decide it should not be, then we collect a subsidy for the amount of losses, which is a completely different change. Therefore I cannot tell you now how many of these there may be, as we are busy examining them now.

The CHAIRMAN: That is a different policy from what we have been pursuing. You have been closing up these lines, after satisfying the Board that they should be closed.

Mr. GORDON: The Board can come to the conclusion that it should be abandoned. If they decide that, we collect nothing, because it cleans up the service. But, if they find an unprofitable service but decide there are enough factors in the public interest to justify it, then they may say there should be a subsidy payable to the railways, which is a means of saying they should be paid for this service.

Mr. BROWNE (*Vancouver-Kingsway*): The only stipulation the Royal Commission has made is that there be a suitable public highway available.

Mr. GORDON: No, I think it goes further than that.

Mr. BROWNE (*Vancouver-Kingsway*): It has to be uneconomical.

Mr. GORDON: Yes.

Mr. BROWNE (*Vancouver-Kingsway*): The wording was that if it were uneconomcial and there was a suitable highway available, that is all that would be necessary.

Mr. GORDON: Do they not refer to an alternative service? The railway would have to say there was an alternative service.

Mr. BROWNE (*Vancouver-Kingsway*): I was reading from page 60. It says:

> When the Board is satisfied that no reasonable alternative public highway exists—

Mr. GORDON: Public highway?

Mr. BROWNE (*Vancouver-Kingsway*): Yes.

Mr. GORDON: That is not the intention, purely, I do not think, to stick to that one point. We always show, where we have a service we want to abandon, that there is a reasonable alternative, and I would expect that the public interest would be taken into consideration at the Board's hearing.

The CHAIRMAN: You are still obligated under the act, even if there is not an alternative route, to give the service, whether it pays or not on that particular route. The clause you mentioned about getting compensation for a loss was only if they had alternative service?

Mr. GORDON: It is entirely up to the Board to determine what criteria they use. It is entirely up to them.

Mr. CHEVRIER: May I ask a question. Will it not be up to the government to decide whether or not it accepts these recommendations?

Mr. GORDON: Yes. I am only talking about recommendations, and nothing of this is any good until the Government implements it.

Mr. CHEVRIER: And, until legislation has been brought down. When it is, then, I take it, all the factors—public highway alternative and any others—will have to be included in that legislation, is that not so?

Mr. GORDON: Oh yes, there is no guarantee at all that this report will be implemented, to start with, nor is there any assurance the report will be implemented as stated. The government of the day will have to decide as to how they are going to make the public purse liable.

Mr. BROOME: On that point, even if the report is not implemented in full, will you not be justified in going further in your applications for abandonment than in the past?

Mr. GORDON: Yes, because we stated in our submissions and our arguments that we felt if this Royal Commission would express its views about the passenger service in such a way as to develop a climate of public opinion, we would have more success in making presentations to the Board for abandonment of unprofitable lines. I think this climate of public opinion is very important. They have gone one step further, not only in the climate of public opinion, but they have produced a proposal that if there is overriding public interest in the continuation of a profitable line, all these conditions should be removed from the railway.

We keep on trying to state the railway gets no subsidy as such. We are only getting paid for our services. If the government appears to judge that on behalf of particular segments of the country particular services should continue, and is prepared to pay for them through the public purse, it is all right by us. I do not care where the money comes from—that is my Scottish training—so long as we get it.

Mr. BROOME: Have you found an increasing public acceptance of the fact that except for specialized cases train travel is doomed?

Mr. GORDON: I think there is, and the Royal Commission hearings have done a lot to bring that about.

Mr. BROWNE (*Vancouver-Kingsway*): I should like to finish what I have here.

The CHAIRMAN: It is very interesting and I would like you to go ahead but, while it is interesting educationally, I do not think we are here to review a report that has not yet passed parliament.

Mr. BROWNE (*Vancouver-Kingsway*): I think we are interested in the railway's position, and this is very directly related to that.

Mr. FISHER: We could possibly make a recommendation to help the climate of opinion.

The CHAIRMAN: You mean recommend the government might, or might not, adopt the report?

Mr. BROWNE (*Vancouver-Kingsway*): I think we would want to recommend the railway be allowed to get on with what it is doing.

The CHAIRMAN: The report of the Royal Commission has hardly been sent in, and I do not think it is our business to review the MacPherson report.

Mr. BROWNE (*Vancouver-Kingsway*): But we are interested in the railway's position.

The CHAIRMAN: You were pretty strict about following procedure the other day.

Mr. BROWNE (*Vancouver-Kingsway*): Are you saying that anything I am doing is out of order?

The CHAIRMAN: I do not think it is in order to be reviewing the MacPherson report, which has not been passed by parliament. It does not come within our terms of reference.

Mr. BROWNE (*Vancouver-Kingsway*): We are dealing with the proposed expenses of the railway and I am sure everyone is interested in improving its financial position.

The CHAIRMAN: Very well, go ahead.

Mr. BROWNE (*Vancouver-Kingsway*): I do not want to provoke controversy again as to what happens with subsidies. I do not think anyone is satisfied they must be stopped, but they are a factor in competition. The point I want to make in relation to passenger services is that apparently there was a $40 million loss on them last year. Your total deficit was $67 million, and loss on passenger services was responsible for a very substantial portion of that. I am sure the committee will talk about that and I hope they are going to recommend the railway be allowed to get along with as much freedom as possible to remove that drain on its revenues, so that it will not be in a position of requiring subsidies to make good the deficit.

Mr. HORNER (*Jasper-Edson*): What was your deficit on passenger traffic last year?

Mr. GORDON: It is stated in the report.

Mr. HORNER (*Jasper-Edson*): And you are required to give that figure each year?

The CHAIRMAN: Miss LaMarsh had a question, and then Mr. McPhillips is next.

Mr. HORNER (*Jasper-Edson*): My point is simply that you had an operating loss of $40 million on passenger services, while revenue from those services totalled only $48 million. You are only getting $8 million out of a $48 million operation.

The CHAIRMAN: There is no question about the trend of conditions, that passenger losses are to be expected during the transition period in the next few years.

Mr. BROOME: This is a very interesting point and is most pertinent.

Mr. FISHER: On this point, in your statistics of passenger traffic you have the revenue per passenger and the average passenger journey, and so on; why could you not consider working out, or do you have, a figure that would indicate the operating cost so that we could get a comparison right in your table?

The CHAIRMAN: We have given the total loss, Mr. Fisher. Surely that would be enough.

Mr. HORNER (*Jasper-Edson*): We cannot consider the figures unless you can show us how you are actually using that money.

Mr. GORDON: We have shown it to the Royal Commission. I think what you have to do here is to decide on the principle, and most certainly I agree that once parliament has decided on the principle and we go to the Board of Transport Commissioners, which is going to be the chosen agent in regard to administration of any subsidy, the railway will be required to show the figures for the losses. That will be done.

Mr. MCPHILLIPS: If, for instance, you take express that travels with passenger trains, do you soak up the whole revenue from it with the loss on passengers?

Mr. GORDON: That is a most complex problem of costing and it is not an easy one. The commission spent many months on it, but there is a costing formula which will be used and upon which the Board of Transport Commissioners will have to form a judgment.

Mr. MCPHILLIPS: At the present time, do you allocate expenses, say of motor power, so much per passenger or do you soak up the whole cost with the passenger?

Mr. GORDON: We do not do that on a day-to-day basis, but we do it when we analyze our statements for the year on a formula which we claim the passenger service should bear.

The CHAIRMAN: On the point which Mr. McPhillips mentioned, I would like to know the following. There are several branch lines in my district which have been closed down. I have not put up much kick-up because I knew there was hardly any passenger service on them, but I have noticed cars going through sometimes with two express cars and one passenger car. I suppose that those lines kept on for the service of that district were supported more by express in some cases than they would be by passengers.

Mr. GORDON: We call it a mixed train.

Mr. MCPHILLIPS: You make the passenger picture look grim if you soak everything up with the passengers. For instance, T.C.A. on their service between Vancouver and Victoria were able to show a loss because they soaked up the wages of everyone down to the ground crew and local service, while most of those days they were selling transcontinental tickets. That is what a smart bookkeeper does. Are you soaking all this up with passenger trains when you should be putting something down to the express train?

Mr. GORDON: Mr. McPhillips, I will give you an example of an answer to a question in regard to figuring out costs. This was a reply to the Royal Commission on Transportation and it has to do with the method of arriving at costs. It reads as follows:

> The coefficient of variable cost emerges from the regression equation. To explain it I have to explain a little about what a regression equation does. Regression analysis is essentially a way of inferring from variation in expenses by division, and variation in output units of different types of transportation services by division, the cost of an additional unit of one type of transportation service holding constant the volume of other types of transportation service produced. The coefficient which emerges from the regression equation is a number which comes through the solution of a series of simultaneous equations, each of which is developed from calculus and is designed to show the quantity of the particular value of the equation which will minimize a functional relationship between the predicted and the actual values.
>
> Now, the regression equation, or the coefficient of variable unit cost is, therefore, that part of cost which varies with changes in the particular traffic volume to which it is attached.

That is how we do it.

The CHAIRMAN: That is very clear.

Mr. CHEVRIER: Is that the basis on which the Royal Commission made this recommendation?

The CHAIRMAN: Our only lady member has been trying to ask a question. I would like her to get it in before five o'clock.

Mr. MCPHILLIPS: I have not finished my question. In the report you mention that there has been some improvement in facilities in the Supercontinental in 1960. I ride that line quite a lot. What were the improved facilities?

Mr. GORDON: I will find out now.

Mr. MCPHILLIPS: I am not trying to be sarcastic.

Mr. GORDON: No, I did not think so. I was wondering whether Mr. Grayston had it handier than I. You are talking about the Supercontinental. Perhaps I should read from this point:

> Effective September 24, 1960, we withdrew from the consist of the "Continental" all meal service facilities as well as sleeping cars, with the exception of those which were operated overnight between Montreal-Englehart-Saskatoon-Edmonton and Vancouver-Kelowna. The only other

passenger equipment left in these trains were coaches for the accommodation of local passengers along the line. This action permitted us to operate all head-end cars from express and mail traffic on the "Continental", and resulted in savings through the cancellation of trains 102 and 103 between Capreol and Winnipeg, and Nos. 11 and 12 between Winnipeg and Saskatoon, which were formerly operated mainly for the accommodation of head-end traffic. This arrangement is expected to effect savings in the neighbourhood of $2,000,000 per annum.

During the summer of 1961, through meal service cars and sleeping cars formerly operated in the "Continental" will be restored, as studies have indicated the volume of passenger traffic offering during the summer peak traffic months is too heavy for one train. Accordingly, these cars will be restored to the "Continental" effective June 22, westbound from Montreal and Toronto, and June 26, eastbound from Vancouver. They will be operated westbound from Montreal and Toronto until September 22 and eastbound from Vancouver until September 26.

Mr. GRAYSTON: One of the things which was done, and to which Mr. McPhillips might be referring, is the addition of roomette cars as tourist accommodation.

Mr. MCPHILLIPS: Yes, I have noticed that.

Mr. HORNER (*Acadia*): In the case of these roomette cars, which you are speaking of, why do they smell so terribly?

Mr. GORDON: Because of the passengers who travel in them.

Mr. HORNER (*Acadia*): I meant that question in a serious vein.

Mr. GORDON: I do not know what smells you refer to. There are all kinds of smells.

Mr. HORNER (*Acadia*): I would suggest that you get an unbiased inspector to walk through one of those cars. I refer to the roomette cars which Mr. Grayston mentioned, which are in addition. Those cars are completely roomette from one end to the other, with a centre alley, from one door to the other.

Mr. GORDON: I am interested in this, because I have met exactly the same complaint myself and I am trying to find out what it is. We have this under very serious examination and the medical department is interested in it, not only as a sanitary situation. It arises out of the fact that there are many new types of material, plastic material and other kinds of material, which we are only beginning to discover, after some years of service, may begin to create an odour. We do not know. We are testing to find out. Having found out what causes it, we will try some kind of spray or something like that.

Mr. HORNER (*Acadia*): I only wanted to find out.

Mr. GORDON: It is a very interesting matter. We have not had long enough since the first one went into service. I am told that after a period of use some of these new types of curtains or other materials may eventually result in some sort of unpleasant odour. If we find the cause, we will find the correction.

Mr. WILSON: It is not the passengers.

Mr. GORDON: That is correct. I will take back what I said. I will say now, with my hand up, that every paying passenger smells good to me.

Mr. HORNER (*Acadia*): I know. I pay a lot out when I travel on the C.N.R., for meals and everything else, for the whole family.

Mr. MCPHILLIPS: You stated, and I am inclined to agree with you the reason you did not put dome cars on your crack train; but you made other savings. In the Supercontinental you provided such items as music and cocktail bars. Having saved that money, would it not be possible to put in a better type of lounge car? What I am wondering about is this: would it not be

possible for you to put into service a better type of lounge car in the middle of the train instead of the heavy steel thing you now have, which is so noisy, with all its creaks and groanings?

Mr. GORDON: The consist of our trains is a matter which is under constant discussion, as to how best to improve it. The fact of the matter is that we are trying to make out with what equipment we have, because we do not want to buy any new equipment. After all, the cost of a lounge car runs anywhere from $225,000 to $250,000, just for one car. I sent a note to Mr. Grayston the other day about a car which had an unpleasant noise or squeak in it. Some of these things can be corrected, I mean some of the squeaks and noises you mentioned; they are not necessary, and it is my belief that they could be better looked after at the shopping plants. But this is a criticism of the transportation operating department, and Mr. Grayston may not feel the same as I do about it. I feel that a better job can and should be done.

Mr. GRAYSTON: The sound Mr. Phillips refers to might be a question of the truck composition, and we are gradually changing the trucks on these cars. That is probably what you are referring to. I suspect it is.

Mr. GORDON: May I say, in all honesty, that when you are travelling on such a car, if you hear these noises and you have any suggestions to make about how to improve the situation, please let us know, because we are genuinely interested in trying to find out what is wrong. I know that personally I have gone up and down a train with a screwdriver, when I found that with a little ingenuity I could reduce a lot of the noise, and I have done so. We want to bring these things to the attention of our train crews, and I would be glad to tell them, so that we may have a definite investigation about it. Let us know about it.

Miss LAMARSH: It has come to my attention in the last year that the railway has given up its exclusive franchise in a number of places in respect to street railways or street buses. Is this a general practice, to abandon franchises wherever possible?

Mr. GORDON: Pretty well; in those particular places where we have had buses operating on city street, we are getting out of the business. We had one in Oshawa, and another on the Niagara peninsula.

Miss LAMARSH: And there was one in Niagara Falls.

Mr. GORDON: Yes, they were operating the Niagara, St. Catharines, and Toronto. We are still operating the Niagara-St. Catherines-Toronto run, and will be doing so until September 1, 1961. But because of our operating losses we are withdrawing from the service as soon as our contract for that service expires. We have made arrangements with the municipality to take it over. And in the case of the city of St. Catharines, they have made an offer to purchase, subject to the approval of the municipal board, and to take over all the buses, plants, and inventory. Wherever we find that our operations cannot be conducted with any hope of profit, we are giving them up.

Miss LAMARSH: Do you have any other situations besides these three in southern Ontario which were abandoned last year?

Mr. GORDON: There are no others. I think that was the last one.

Mr. GRAYSTON: We are out of Oshawa, too.

Miss LAMARSH: What did you do with your personnel who were operating those services?

Mr. GORDON: That is a question we have to develop at the time of the particular deal. In some cases the men are taken over by the purchaser, which was the city in this case, that was buying the line; and they will take over

as many men as they feel they want to. And in some cases the men are permitted to take their pensions under whatever pension fund arrangement there might be.

Miss LaMARSH: I will be asking some more questions about this. I am wondering what you do about putting to work those who wish to remain with the C.N.R.?

Mr. GORDON: That is the same situation we are faced with in respect of all sorts of individual cases. Our policy is to do the best we can and give those men the first opportunity there may be for employment elsewhere. Our first effort is to see how many we can get transferred to the purchaser.

Miss LaMARSH: Are there any persons involved in St. Catharines and Niagara Falls?

Mr. WILSON: The employees in this particular case are being interviewed.

Miss LaMARSH: You are speaking about St. Catherines?

Mr. WILSON: Yes.

Miss LaMARSH: It has not yet taken place there; but on the first of October, Niagara Falls had its franchise released, and before that Oshawa.

Mr. WILSON: Very satisfactory arrangements were made with the people at Oshawa. The city took over the bus line.

Miss LaMARSH: Did the railway re-employ any of the men?

Mr. WILSON: Some of them.

Miss LaMARSH: In both cases?

Mr. WILSON: The difficulty we always find is that they have been represented by a different union. In this case it is the Amalgamated Union of Street Railway Employees, or some such name. They have no seniority rights with any other group. In qualifying for jobs with the railway they have to go in at the very bottom of the seniority list. Nevertheless, in Oshawa we were successful in transferring some of the employees to the rail operation. Every possible opportunity is investigated. Each employee is interviewed and the jobs which may be open are made known to him.

Miss LaMARSH: Then, I take it you have no other street railways or street buses anywhere else in Canada which are operating.

Mr. WILSON: It is not likely they would have any seniority rights on any other bus lines.

Miss LaMARSH: The other point is one with which I have more experience. I understand that passes which are now given to members of parliament and their families are to be revoked. I would like to ask the witness about this.

Mr. GORDON: Is this in reference to the streetcar lines?

Mr. FISHER: She has changed her position and is now speaking for all members of parliament.

The CHAIRMAN: You are asking about the cancellation of the passes.

Miss LaMARSH: Yes; for members and their families.

Mr. VAUGHAN: Members of parliament are, by statutory right, entitled to travel and are granted a certificate. Each one of you has such a certificate.

Mr. FISHER: But we are still in a state of complete confusion as to what is the future because of the recommendation by the Royal Commission.

Mr. GORDON: The Royal Commission is recommending that those should be eliminated.

Mr. FISHER: Could you tell us how much passes for members of parliament and their dependents cost last year?

Mr. VAUGHAN: I do not know that we keep a record of how often you travel. We have an estimate of the cost of that segment of travel and of the cost of passes.

Mr. FISHER: Of all free passes?

Mr. VAUGHAN: Yes.

Mr. FISHER: Could you give us any indication of how much our dependents cost?

Mr. VAUGHAN: I do not think we have that breakdown.

Mr. CHEVRIER: Did you have that before the royal commission?

Mr. VAUGHAN: Not separated for members of parliament. That would require the conductor to make a separate report identifying the member of parliament.

Miss LaMARSH: You do that in respect of a number of people.

Mr. VAUGHAN: Yes. I do not think we make a breakdown.

Miss LaMARSH: My original question was, what is the present view with respect to cancellation?

Mr. VAUGHAN: I do not think we gave an actual figure. I believe the C.P.R. did. Subject to correction I think the figure of $9 million was used. My impression is that the Canadian Pacific said that if the people who travelled free had paid the company would have received $9 million.

Mr. CREAGHAN: That would include all the employees also.

Mr. VAUGHAN: All forms of free transportation.

Mr. FISHER: Have you a view in connection with passes for M.P.'s, and have you a view in connection with passes for M.P.'s dependents?

Mr. GORDON: I have a view, but I prefer not to express it.

Mr. CHEVRIER: The first one is covered by statute.

Mr. FISHER: Yes, but it is the second which is important.

Mr. GORDON: We expressed our views in our submission to the Royal Commission.

Miss LaMARSH: What were they?

Mr. GORDON: If anyone does not have a copy of the submission, I could give it again.

Mr. FISHER: Well, this is Miss LaMarsh's question and I do not wish to interfere. Some of us who have dependents are concerned about what the situation is for making these available, say, for the rest of 1961.

Mr. GORDON: Well, it would depend on the government.

Mr. VAUGHAN: I can answer part of that question.

Mr. GORDON: Well, you answer the part you can, and I will finish it.

Mr. VAUGHAN: The part I think you are interested in is the dependents of members and, as I recall the regulations we put out at the turn of the year, said that, the dependents would be carried for the 1960-61 session. That is where the matter stands at the moment.

Mr. FISHER: Does this mean we have to get them out of here?

Mr. VAUGHAN: I will say this. If the session ended tomorrow we—I will say I, anyway—would not think it would be a proper thing to do not to grant a pass to a dependent of a member of parliament. We would be reasonable in that respect.

Miss LaMARSH: Do you compute your losses on what you would have received if these same individuals travelled as paying passengers? In other

words, is there any case where you have had to deny to other people service because there are pass-holders travelling and you do not have accommodation?

Mr. GORDON: We do not keep records of that kind.

The fact of the matter is that the pass-holder is expected to give way to the revenue paying passenger. In the case of our employees we will enforce that. However, in the case of members of parliament, I think the conductor who enforced it would have to have a good deal of moral courage—and I am not sure they are all equipped that way.

I never have had a report or a complaint that a member of parliament has been dispossessed of his space by reason of a revenue paying passenger wanting it. I never have known of a case, and if anyone has had an experience in this connection I would be pleased to know.

Miss LAMARSH: My point is this: does it really cost railways anything to carry members and their dependents, when one considers the train goes anyway?

Mr. GORDON: Of course you get to the question of saying, if a train is half empty it does not cost us anything to fill it up with free-loaders, no matter who they are. I did not intend to be funny.

Miss LAMARSH: But you do actually get revenue from meals and sleepers?

Mr. GORDON: That happens.

Miss LAMARSH: Which revenue you would lose, I suppose, if free passes go out of existence.

Mr. GORDON: There is certainly an element of quid pro quo in it. Of course the other question I thought you were going to ask, and which is a question, is how many would travel if it were not free. I would think quite a number would not travel if it were not free, particularly dependents.

Mr. BROOME: This is in the nature of an agreed charge?

Mr. GORDON: Unilaterally. May I just clear up this point? The Canadian Pacific submitted figures showing $6.7 million as the estimated amount of free transportation granted by the company during the year. That was their estimate. We did not make an estimate, but the Royal Commission then assumed an estimate for us.

Mr. CHEVRIER: The share of the members of parliament in that would be quite small, would it not?

An hon. MEMBER: Infinitesimal.

Mr. GORDON: I can say this: the question raised in the MacPherson commission will be a matter of government policy, and if you need any assistance from me in making your argument in the house at the time that comes up, I shall be happy to help.

Mr. CREAGHAN: That represents, I understand, 80,000 people so far as the C.P.R. is concerned.

Mr. GORDON: It may be of interest to you, as the situation stands now, you gentlemen of the committee all have passes on the Canadian Pacific railway and I have not. Mine has been cancelled. I pay my own fare. I am going to pay it tonight, if I go by Canadian Pacific.

Mr. FORBES: Why not travel C.N.R.?

Mr. GORDON: Because we don't have a train.

Mr. CHEVRIER: Is not the matter of the dependents covered by order of the Board of Transport Commissioners? It is an order of the Board which authorizes the railways to do this.

Mr. GORDON: With regard to passes for members of parliament, as it stands now passes issued to dependents of members of the Senate and House

of Commons will be honoured until the end of the 1960-61 session of the federal parliament. Annual passes issued to dependents of cabinet ministers will be honoured until the end of the 1961-62 session of the federal parliament. What happens after that I do not know.

Miss LAMARSH: This recommendation to cancel them was a railway recommendation?

Mr. GORDON: Yes.

Miss LAMARSH: Then I take it the railways recognize they will lose the fringe revenues?

Mr. GORDON: What we were arguing before the commission was that we should be paid for the transportation provided for the members of parliament. If members of parliament have a right to free rides on our trains, our feeling is that the government should pay for them, the same as they do for the armed forces and other officials of the government. We do not see why the railways should bear this burden. We expressed no view about the merit of members of parliament travelling free.

Miss LAMARSH: The argument I was putting to you previously applies here.

Mr. GORDON: About the cost of carrying passengers?

Miss LAMARSH: It does not cost you any more to carry 21 people than it does to carry one.

Mr. GORDON: We are getting into the question of variable costs again. The situation in the United States and United Kingdom is that parliamentary representatives are entitled to free transportation upon production of a warrant, in the same manner as it is provided for members of the armed forces in Canada. We are not saying a word about the merit of members of parliament having free passes, but we do say there is no reason why the railways should bear that burden.

Mr. CREAGHAN: Charge it up in the $50 million.

Mr. GORDON: You have no such privilege on the buses.

Mr. HORNER (*Acadia*): The Greyhound Bus Company in Alberta gives us free transportation anywhere.

Mr. GORDON: Not by statute.

Mr. HORNER (*Acadia*): I have one other question. You said you would have to pay your own way on the C.P.R.?

Mr. GORDON: I have.

Mr. HORNER (*Acadia*): But do you not have an expense account?

Mr. GORDON: I have.

Mr. HORNER (*Acadia*): If we had an expense account like that, we would not worry.

Mr. GORDON: But it is only for use when I am travelling on business.

Mr. HORNER (*Acadia*): I would assume that.

Mr. CHEVRIER: What is happening on Monday?

The CHAIRMAN: We are meeting at 9.30 on Monday morning.

HOUSE OF COMMONS

Fourth Session—Twenty-fourth Parliament

1960-61

SESSIONAL COMMITTEE

ON

RAILWAYS, AIR LINES AND SHIPPING

Owned and Controlled by the Government

Chairman: HONOURABLE W. EARL ROWE

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 4

MONDAY, JUNE 19, 1961

Annual Report of Canadian National Railways, for the year ended 31 December, 1960

WITNESSES:

Honourable Léon Balcer, Minister of Transport; and Mr. Donald Gordon, President and Chairman of the Board; Mr. H. C. Grayston, Mr. R. T. Vaughan, Mr. J. L. Toole and Mr. W. T. Wilson, of the Canadian National Railways.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1961

25483-9—1

SESSIONAL COMMITTEE

ON

RAILWAYS, AIR LINES AND SHIPPING

owned and controlled by the Government

Chairman: Hon. W. Earl Rowe

Vice-Chairman: Mr. Heber Smith

and

Miss LaMarsh,
Messrs.
Brassard (*Lapointe*)
Broome
Browne (*Vancouver-Kingsway*)
Carter
Cathers
Creaghan
Crouse
Fisher
Forbes
Granger
Grills
Horner (*Acadia*)
Horner (*Jasper-Edson*)
Howe
McPhillips
McWilliam
Mitchell
Monteith (*Verdun*)
Pascoe
Pickersgill
Robinson
Smallwood

J. E. O'Connor,
Clerk of the Committee.

ORDER OF REFERENCE

SATURDAY, June 17, 1961.

Ordered,—That the name of Mr. Pickersgill be substituted for that of Mr. Chevrier on the Sessional Committee on Railways, Air Lines and Shipping.

Attest.

LEON-J. RAYMOND,
Clerk of the House.

Note: This order was passed by the House just prior to adjournment at 6.05 p.m. Saturday.

25483-9—1½

MINUTES OF PROCEEDINGS

MONDAY, June 19, 1961.
(8)

The Sessional Committee on Railways, Air Lines and Shipping met at 9.30 a.m. this day. This Vice-Chairman, Mr. Heber Smith (*Simcoe North*), presided.

Members present: Miss LaMarsh and Messrs. Broome, Browne (*Vancouver-Kingsway*), Carter, Cathers, Creaghan, Crouse, Fisher, Forbes, Granger, Horner (*Acadia*), Horner (*Jasper-Edson*), McFarlane, McPhillips, Mitchell, Pascoe, Pickersgill, Robinson, Rowe, Smallwood.—(21).

In attendance: The Honourable Leon Balcer, Minister of Transport. *From Canadian National Railways:* Mr. Donald Gordon, Chairman and President; Mr. R. T. Vaughan, Assistant to the Chairman; Mr. J. L. Toole, Vice-President, Accounting and Finance; Mr. H. C. Grayston, Vice-President, Transportation and Maintenance; Mr. J. D. Wahn, General Economist; and Mr. W. T. Wilson, Vice-President, Personnel and Labour Relations.

The examination of Mr. Gordon, assisted by Messrs. Grayston and Vaughan, with respect to the section of the Annual Report relating to passenger services, continued.

Agreed,—That when the Committee meet at 2.30 p.m. this day, it proceed to a study of that section of the Annual Report dealing with trucking services.

At 11.00 a.m. the Committee adjourned to meet again at 2.30 p.m. this day.

J. E. O'Connor,
Clerk of the Committee.

AFTERNOON SITTING
(9)

The Committee resumed at 2.30 o'clock p.m. The Chairman, Hon. W. E. Rowe, presided.

Members present: Miss LaMarsh and Messrs. Broome, Browne (*Vancouver-Kingsway*), Carter, Cathers, Creaghan, Crouse, Fisher, Forbes, Horner (*Acadia*), Horner (*Jasper-Edson*), McFarlane, McPhillips, Mitchell, Monteith (*Verdun*), Pascoe, Pickersgill, Robinson, Rowe, Smallwood and Smith (*Simcoe North*).—(21).

In attendance: The same persons as are shown in attendance at the morning sitting.

The Committee continued its consideration of the Annual Report of Canadian National Railways for the year ended 31 December, 1960.

Sections of the Annual Report, concerning trucking services, telecommunications and hotels were severally studied, and passed as Mr. Donald Gordon's examination, assisted by Messrs. Toole, Vaughan and Wilson, was continued.

In the course of the study of that section of the Annual Report, pertaining to trucking services, Mr. Fihser tabled a document entitled "C.N.T.L. Results of Operations of Trucking Arm as shown included in consolidated income statement for the year ended December 31, 1960".

As the Committee was about to rise at 5.40 o'clock p.m. a discussion took place as to whether or not the said document should be retained by the witness, Mr. Gordon, or left with the Committee. It was finally agreed that the Clerk of the Committee have the custody of it until the matter cleared up a 8.00 o'clock p.m. following the recess.

At 5.40 p.m. the Committee took recess.

EVENING SITTING
(10)

The Committee resumed at 8.00 o'clock p.m. The Chairman, Hon. W. E. Rowe, presided.

Members present: Miss LaMarsh and Messrs. Broome, Browne (*Vancouver-Kingsway*), Carter, Cathers, Creaghan, Crouse, Fisher, Forbes, Grills, Horner (*Acadia*), Horner (*Jasper-Edson*), McFarlane, McPhillips, Mitchell, Monteith (*Verdun*), Pascoe, Pickersgill, Robinson, Smallwood and Smith (*Simcoe North*).—(21).

In attendance: In addition to above listed persons, Dr. Maurice Ollivier, Q.C., L.L.D., Parliamentary Counsel.

As the proceedings opened Mr. Browne (*Vancouver-Kingsway*), spoke on a question of privilege involving certain statements made by Mr. Donald Gordon at the afternoon sitting in relation to a document tabled by Mr. Fisher and from which the latter quoted and comments by the witness on alleged attacks on himself by Members of Parliament in the House. After lengthy discussion the matter was allowed to stand.

Mr. Horner (*Acadia*) moved, seconded by Mr. Smith (*Simcoe North*), that the said document tabled by Mr. Fisher be appended to the printed record of the Minutes of Proceedings and Evidence for this day.

And the question having been put, on the proposed motion of Mr. Horner, it was, on a show of hands, resolved in the affirmative on the following division: Yeas, 11; Nays, 4. (*See appendix hereto.*)

The discussion having drifted back to trucking services which had been passed in the afternoon, Hon. Mr. Pickersgill raised a point of order which was sustained by the Chair.

And the question having been put as to whether the ruling of the Chair be sustained, it was, on a show of hands, resolved in the affirmative on the following division: Yeas, 16; Nays, 2.

The question of privilege by Mr. Browne (*Vancouver-Kingsway*) was again raised, in connection with the afternoon statements of Mr. Gordon, and was ruled as not well taken on the ground that objection should have been raised at the time the statements were made.

The Committee then resumed consideration of the C.N.R. Annual (1960) Report, on sections thereof pertaining to Personnel and Employee Relations, and Pension Finding.

Mr. Donald Gordon was again examined and Messrs. Wilson, Grayston and Toole answered questions dealing with specific matters under their respective jurisdiction.

At 10.00 o'clock p.m. the Committee adjourned to meet again at 9.30 o'clock, Tuesday, June 20, 1961.

Antoine Chassé,
Clerk of the Committee.

EVIDENCE

MONDAY, June 19, 1961.

The VICE-CHAIRMAN (*Mr. H. Smith, Simcoe North*): Gentlemen, I see we have a quorum and the meeting will come to order. I understand your chairman will be here in about half an hour. At the adjournment on Saturday afternoon I understand you were discussing passenger services. Mr. Gordon, were there any questions left over which you wish to answer this morning before we begin the meeting proper.

Mr. DONALD GORDON (*President, Canadian National Railways*): I do not think that there is anything prepared at the moment. Replies to a few queries are being typed, but they are not ready yet.

The VICE-CHAIRMAN: Are there any further questions on passenger services?

Mr. HORNER (*Acadia*): With regard to improvement of the facilities of the Super-continental, has any thought been given to installing a radio system on the train?

Mr. GORDON: Yes, we have looked into the matter and decided against it because it is too expensive. We do not believe there is enough evidence of passenger demand to make the expenditure worth while.

Mr. HORNER (*Acadia*): As a passenger on both lines I can say I have enjoyed it on occasion while travelling by C.P.R. They have a public address system for meals, which is very satisfactory. Cards are distributed and they announce meal servings according to the colour of the cards, which are blue and yellow. The C.N. does not do that?

Mr. GORDON: Not as far as I know.

Mr. HORNER (*Acadia*): It would be hard to do without a radio system.

Mr. GORDON: We do it by sending a man through the cars announcing meal service. With regard to a radio announcement system, we have had quite a mixed reaction to it from passengers, and on balance we decided the expenditure would not justify installing it.

Mr. HORNER (*Acadia*): During the last couple of years you have gone into quite a large advertising scheme in order to attract more passengers for your passenger services. Has there been any evidence to suggest this advertising has paid off?

Mr. GORDON: It is always very difficult to appraise exactly the results of advertising. We feel the advertising we have been doing has shown some results, but it is very difficult to measure them.

Mr. HORNER (*Acadia*): Could you give the committee any idea of the percentage of tickets sold on your go-now-pay-later-plan?

Mr. GORDON: I do not know if I can give you that right away. We certainly have an analysis of it. I shall inquire and see if I can produce that figure.

Mr. HORNER (*Acadia*): I am not really anxious to have it but I thought it would give the committee some idea of how it was being accepted by the public.

Mr. GORDON: While not having the benefit of an actual analysis of the figures before me, I do know our passenger department feels the response has been sufficient to justify the plan. You are talking now of our go-now-pay-later-plan, particularly?

Mr. HORNER (*Acadia*): Yes.

Mr. GORDON: The figures before me indicate there were 1,683 passengers involved, and the value of tickets sold totalled $284,020. It is not a very large amount, but, still, there is that response. Those figures are for 1959. The 1960 figures appear to be 1,721 passengers, totalling $379,314.

Mr. MCPHILLIPS: The credit card arrangement has been very successful too, has it not?

Mr. GORDON: There has been a good response to it. It is one of the modern ways of doing business, but I have mixed views of it.

Mr. MCPHILLIPS: Have you trouble with it?

Mr. GORDON: No. Our experience with it has been extremely good actually, but I do not know if it is good for the—I had better stop at that.

Mr. FISHER: You know the term "blind-end-coach", Mr. Gordon?

Mr. GORDON: A blind-end coach? I have heard the term.

Mr. FISHER: Is it good safety practice to have two blind-end coaches together, that is, two blind-ends together on a passenger train service?

Mr. H. C. GRAYSTON (*Vice-President, Transportation and Maintenance, Canadian National Railways*): I would say it was quite within the bounds of safe operation to have two blind-end coaches together, though perhaps it might be preferable to have them separated.

Mr. FISHER: There is no rule made by the Board of Transport Commissioners that you cannot put two blind-end coaches together?

Mr. GRAYSTON: Not that I am aware of.

Mr. GORDON: I would certainly say that if there is a rule to that effect we obey it.

Mr. FISHER: I have had complaints from two railroaders who told me they took this up and were not able to get anywhere with it. The train with which they were particularly concerned is the number 15.

Mr. GORDON: Would you care to let me have the particulars of it, and I would be glad to have them examined?

Mr. FISHER: It is very nice to hear that you do not break any safety rules. I took up one case with the board of transport commissioners relating to another railway in connection with the changes that took place when the service was reduced on the second transcontinental train. The train was one in which there were box cars or express cars at the end of the train, with the light on them, rather than there being any through passage for the train crew to go to the back of the train. I actually saw this situation on the other railway. It is being reported to me that the same thing is applied on your Continental. I wanted to inquire if that was so, and what are the reasons for it.

Mr. GORDON: It is another operating matter for Mr. Grayston to answer.

Mr. GRAYSTON: The reasons for it are to provide better heating for the passenger cars at the front end, and also to facilitate the handling of the passenger traffic at station platforms.

Mr. FISHER: Is it a safety rule that passenger trains are to have a passage right through to the rear of the train, in order that the train crew will have no difficulty at all?

Mr. GRAYSTON: This has been the subject of recent discussions with the board of transport commissioners, and both railways are dealing with them in respect of the continuance of this practice.

Mr. FISHER: Is this against the board of transport regulations, or is it required by the board of transport regulations that the train crews should be able to get through to the rear of the train?

Mr. GRAYSTON: No, sir.

Mr. FISHER: Why is the board of transport commissioners considering this matter? Is it a new safety problem that has come up?

Mr. GRAYSTON: It is partially a question of interpretation of the provisions in the Railway Act, and this is what is under discussion.

Mr. FISHER: How long has it been under discussion?

Mr. GRAYSTON: It has been discussed informally with the board for some months and it was also carried on the docket of an informal meeting between the railroads, the labour organizations and the board, which, I believe, was in April of this year. The matter is still under consideration.

Mr. FISHER: In so far as complaints having been made, have you received any substantial complaints from passengers about the quality of the "newsy" service on your passenger trains?

Mr. GORDON: I am not aware of any particular number of complaints about that. We do get occasional letters of complaint, but it is not on this general subject.

Mr. FISHER: Has any consideration been given to improving the quality of the goods supplied by the newsies to the passengers?

Mr. GORDON: As you know, that is a concession and it is in the hands of the person who operates the concession.

Mr. FISHER: Have no steps been taken to advise them to improve the quality?

Mr. GORDON: They may have taken steps themselves.

Mr. FISHER: Would it not be within your province to advise them about the quality of this service?

Mr. GORDON: If we had been in receipt of complaints such as you have been mentioning, and which I said we have not, we would certainly have taken it up.

Mr. FISHER: In the changes that have taken place, especially in your transcontinental trains, has there been any constriction in the number of employees available for cleaning coaches and keeping the train in good shape?

Mr. GORDON: Our general attitude is to provide a sufficient number of people to do the job that is required. If you have some particular item in mind, perhaps you could place it before Mr. Grayston. Are you aware of anything of that kind?

Mr. GRAYSTON: No.

Mr. FISHER: You would say your standard is as high as it has been in the past?

Mr. GORDON: If anything, higher, because we have been putting up a special campaign to improve our passenger services, as I told you before, and doing everything possible to eliminate sources of complaint.

Mr. FISHER: You have hinted several times in the past, it seems to me—you can alter the interpretation if you want to, or correct it—that the transcontinental passenger business may be a declining thing or something that will go out of existence. Are you any nearer arriving at any place where you can give a definitive analysis of where that service is going?

Mr. GORDON: No, I cannot forecast that. We will keep on with our efforts to maximize passenger traffic, and if the public responds to our efforts, it is our intention to keep the passenger service going, as I have said many times before. We are doing everything we can as management to try to popularize our trains, and if the public wants the trains and will patronise the trains, we will be very happy not only to keep them on but to increase them.

Mr. FISHER: Is it a cooperative move by the railroads to bring back the services on your Continental train starting June 22 and ending September 26, or whatever the dates are?

Mr. GORDON: It has nothing to do with the cooperative move. It has to do with the question of seasonality of the trains. It is always the case that there is a short summer season where there is adequate traffic in transcontinental trains, and sometimes we need to run extra sections. The reason for the increase in service at the commencement of the June time-table is purely a matter of summer traffic.

Mr. FISHER: I am curious about the fact that both the railways are introducing extra sections at the same time.

Mr. GORDON: We watch each each other. There is an understanding between the railways in regard to time-table changes. We make the time-table changes on the same date to avoid confusion in the public mind.

Mr. FISHER: In other words, the initiative usually comes from one or the other railroad?

Mr. GORDON: It is a matter of sensible practice. It usually coincides with the commencement of daylight saving across the country.

Mr. FISHER: Usually.

Mr. HORNER (*Acadia*): There is a statement here that station-to-station fares have been replaced by zone fares on the commuter service to Montreal. Does this commuter service lose money or break even, or what is the score on that?

Mr. GORDON: We believe they lose money.

Mr. HORNER (*Acadia*): They lose money. Is the C.N.R. putting in new commuter services at Toronto?

Mr. GORDON: Nothing currently at all. Some statements were made about that and perhaps a word of explanation may be in order. General discussions have taken place in Toronto from time to time in regard to what would happen as soon as we get our new yard operating, together with the access lines which will enable a lot of traffic to by-pass Toronto; that is, go out around the north part of Toronto instead of getting into the centre of Toronto where the lines are badly congested. I have said on a number of occasions that if and when the existing lines are freed of the heavy saturation of traffic which existed then, and exists now, we would be prepared to discuss with the civic authorities or the metro authorities the possibility of commuter services, and what sort of financial arrangement, whether joint or otherwise, would be appropriate in each case. I have pointed out that, under the present conditions of congestion, no matter what sort of bargain they might be prepared to make, we could not put commuter services on the existing lines.

Mr. HORNER (*Acadia*): On the whole, commuter services break even right now?

Mr. GORDON: No, I said I thought they were unprofitable.

Mr. HORNER (*Acadia*): Unprofitable. You do not know how much? What is the comparison of loss, ordinary passenger services compared with commuter services?

Mr. GORDON: I could not give you that offhand. I might be able to make a stab at it later on if you would like that.

Mr. CARTER: In regard to the pool train service between Ottawa and Toronto, or between any two places, do you have any analysis of the breakdown of booking as between C.P.R. and C.N.R.?

Mr. GORDON: We would have an analysis of the tickets, yes—the ticket sales.

Mr. CARTER: Do you find that the sharing is pretty equal?

Mr. GORDON: I do not know that we have that figure in that way, but it does not matter very much because that is not the basis on which the pool is divided. As I explained a few days ago here, revenue from the pool is divided equally between the two companies. That is how the division takes place. It does not matter, actually, which railway sells the ticket.

Mr. CARTER: Looking at it from another angle, I travelled quite a bit last year between Ottawa and Toronto, and I had the impression that the C.N.R. equipment was of an older type on that run than the equipment the C.P.R. were using. I got the impression that the C.P.R. was more popular on that run and that people would book the C.P.R. first. I am interested because I am interested in the C.N.R. and I thought perhaps it was not good advertising for the C.N.R.

Mr. GORDON: I could not answer that offhand specifically, but of course it boils down to just where the equipment can be made available. There are other pool trains in which the C.N.R. equipment certainly is better than that of the C.P.R. We use the equipment as best we can. You are thinking of the Toronto-Ottawa run?

Mr. CARTER: Yes, that is the one I use most.

Mr. GORDON: That is their service more than it is ours. It is their line, whereas our line, Montreal-Toronto, is different. You should have a trip on that some time. I think you will find that the equipment there will bear comparison with the C.P.R.

Mr. CARTER: Between Montreal and Halifax you have three trains a day. You have the Ocean Limited, the Scotian and another one.

Mr. GORDON: Yes, the Maritime Express.

Mr. CARTER: I usually travel on the Ocean Limited. It is the most convenient one for me in making connections going to Newfoundland, but I travelled also in the Scotian. That is a delightful trip and it is surprising how few passengers travel that way compared with the number using the Ocean Limited. I wondered if you might try advertising that one more, since the service is every bit as good as you get on the Ocean Limited.

Mr. GORDON: Perhaps I did not hear you correctly. I thought you suggested that the Ocean Limited was full up and that you found that the Scotian was not.

Mr. CARTER: I found fewer people using the Scotian.

Mr. GORDON: The Ocean Limited is the more popular train. There is no doubt about that. I think it is the faster train, too, Mr. Grayston?

Mr. GRAYSTON: Yes.

Mr. GORDON: There are three services there. One is recognized as superduper, the fastest one, the crack train, and people naturally head for it. It does not make as many stops as the other two. The services are created in order to provide service at various stopping places along the way. The Ocean Limited makes as few stops as possible.

Mr. CARTER: There is not much difference in speed—a couple of hours.

Mr. GORDON: Well, two hours in a train trip is a lot of time. What I mean by that is that when you try to cut two hours off any train trip you really have to do something.

Mr. CARTER: There has been quite a bit of talk about a new ferry between the mainland and the east coast of Newfoundland.

Mr. GORDON: Yes.

Mr. CARTER: Has the C.N.R. carried out any survey?

Mr. GORDON: That survey is being conducted by the Department of Transport and we have been asked to give them assistance. Our officials are co-operating with them in doing so.

Mr. CARTER: In the case of the *Wm. Carson,* when people make bookings on the *Wm. Carson* and then she is taken off and goes into dock, what happens to those bookings? Are they transferred to other ships, or are they just lost?

Mr. GORDON: The customer does not lose it. We make an adjustment which is suitable for the occasion.

Mr. CARTER: If a person has booked to travel by the *Wm. Carson* and if the *Wm. Carson* is in dock, if he has the booking when he arrives in North Sydney, is that booking transferred to another boat?

Mr. GORDON: If we can find another boat, yes.

Mr. CARTER: It is not certain?

Mr. GORDON: We cannot produce boats out of the air. We certainly will put on an alternative service and, as you know, we usually do. There may be some delay, or it may be a different kind of boat. However, we recognize the responsibility when we make the booking. If, by reason of mechanical trouble or weather, or anything of that kind—the *Wm. Carson* has to go into dry dock once a year anyway—there are outstanding obligations in that respect, we regard ourselves dutybound to honour them as best we can.

Mr. CARTER: There is one other suggestion which I would like to make. In regard to North Sydney, those of us who use the train coming from Newfoundland have to sit quite a while in North Sydney if we are taking the night train. The seats there are very hard. I would like if you would consider two things. Would you consider making the seats a little more comfortable, especially for women and children? Also, it would be a good thing if you could install a T.V. set, as the hours of waiting are pretty long.

Mr. GORDON: Yes, I am sure. You would not like free beer, too!

Mr. PASCOE: I have just one question under the heading of passenger services and I would like some information or some comment on it. I believe Mr. Gordon testified at other hearings, and here I am subject to correction, that the railway loses money on every meal served in the diner car. Is that still correct?

Mr. GORDON: Yes. I meant by that that we take our average meal service. We lose on that. I do not mean that on every specific meal we lose, but if you take the total income from the passenger service and look at what we get from the passenger meals, we have an average loss per meal.

Mr. PASCOE: Is it improving over the years?

Mr. GORDON: No, it is not. The average loss per meal in 1959 was 84 cents and in 1960 it was 88 cents.

Mr. CROUSE: I would like to ask the president, in view of the type of service provided for example on T.C.A., if he has given consideration at any time to having prepared meals on aluminum trays, selling them on that basis to the trains.

Mr. GORDON: That was considered very carefully on a number of occasions and it just will not work. We have not got the facilities on the train which would enable us to do so.

Mr. PASCOE: You mean that you have not got the refrigeration facilities to hold refrigerated meals?

Mr. GORDON: It is partly that, but it is more particularly the heating facilities.

Mr. PASCOE: Would they require more heat than ordinary meals?

Mr. GORDON: The cost of handling the prepared meals and heating them and serving them along the lines you mention would cost us more than the system we are operating now.

Mr. SMALLWOOD: Have you any table on these meal costs, on a profit and loss basis, on the cafeteria as compared to the dining car?

Mr. GORDON: In the cafeteria cars our average loss per meal in 1960 was 63½ cents, compared with 77 cents in 1959. Therefore, there is a slight improvement in the matter of loss factor in the cafeteria cars.

Mr. PASCOE: How about the dining car?

Mr. GORDON: I had better read the whole table. In the dining cars and buffet cars the average loss per meal was $1.27 in 1960 as compared with $1.23 in 1959. In the dinette cars the average loss per meal was 49 cents in 1960, compared with 43 cents in 1959. In the sleeper-grill cars, commonly known as the coffee shop, the average loss per meal was 47 cents in 1960 as compared with 31 cents in 1959. I have already given the cafeteria cars, but I may as well repeat the figures; there the average loss per meal was 63½ cents in 1960 as compared with 77 cents in 1959. The total for all cars shows the average loss per meal, as I have stated already, to be 88 cents in 1960 as compared with 84 cents in 1959.

Mr. HORNER (*Jasper-Edson*): What was the total loss of the whole operation?

Mr. GORDON: The total loss on these figures in dollars, in the case I have just mentioned, was $1,907,239 in 1960 as compared with $1,802,021 in 1959.

Mr. MCPHILLIPS: Could you say whether this includes the sales of spirits and beer and wine?

Mr. GORDON: No, it does not. This is just the meal losses.

Mr. MCPHILLIPS: How do the bar facilities make out?

Mr. GORDON: You probably overheard me when I was speaking to my assistant. That was the figure I did not want to give, but here it is. The sale of beverages, cigarettes, etcetera, shows a profit in 1960 of $392,768, which is offset against the loss which I have mentioned.

Mr. CATHERS: My question is supplementary to that which was asked regarding the commuter services to Toronto. You will remember that about two years ago, when the by-pass came out, a survey was undertaken by the Metropolitan. Has any definite progress been made on that survey?

Mr. GORDON: Mr. Cathers, I do not know whetther you can refer to it as progress. All I can say is that a very intensive examination has been going on by Metro and by ourselves. It is based on this, that in effect we have said to Metro: "You let us know your problem; you analyse your problem and give us your estimate of the traffic congestion at the places where you think service will be required. We will then work out a pattern to see to what extent we can be of assistance to you. Then we will sit down and talk about your problem." They have been working on that, for about four or five months, but they have not yet reached a pattern of the traffic that I have been referring to. It is a difficult thing to get, because it means forecasting over the next 15 to 20 years.

Mr. CATHERS: There has been quite a lot of criticism of the railway.

Mr. GORDON: That must be something new.

Mr. CATHERS: I mean criticism in regard to advertising the services that you have in these smaller places, and around.

Mr. GORDON: Yes.

Mr. CATHERS: There is a feeling that you have not gone out and really done your job to make it known about these services. Whether or not you are trying to discourage them, I cannot figure out.

Mr. GORDON: I do not know why that should be so, because again, as I said the other day, we have put on more intensive advertising campaigns in regard to our passenger services in the last year or two than has ever happened before in the history of railroading. We have had television broadcasts, newspaper advertising, magazine advertising—and someone has even reminded me of our singing commercials, which I think are horrible, but still they are a part of present day advertising techniques. At least they get attention, and that is what advertising is all about. But it is true that we have not advertised our commuter service to the same degree. Here is an example of the sort of brochures and advertising; perhaps you would like to look it over. Here is a whole book of samples.

Mr. CATHERS: I was thinking particularly about commuter service.

Mr. GORDON: We did not advertise commuter service because there is not much need there.

Mr. FISHER: Is there any substance to the story which appeared in a Toronto paper early in March?

Mr. GORDON: Would you please repeat your question; I am sorry but I was not giving you my full attention.

Mr. FISHER: I would like to know if there was any substance to a story which appeared in a Toronto paper early in March. I think it came from the Canadian National, and was to the effect that there was a subsidy in prospect from the city in order to provide commuter service from Toronto, Scarborough, Agincourt, Markham, and Stouffville.

Mr. GORDON: I do not recall the statement that there was any subsidy in prospect. It probably came out of the talks I had with Premier Frost and Opposition Leader Wintermeyer, during which I discussed with them the possible establishment of a single authority to co-ordinate control of the form of transportation in the metropolitan Toronto area. I told them that in my opinion that was the only way to get some successful planning in respect to the area in and about Toronto. I pointed out to them that such a co-ordinated plan could not be undertaken solely by the railroad, but that it would need the co-operation and assistance of other authorities in connection with it.

Mr. FISHER: Was the word "subsidy" mentioned?

Mr. GORDON: I do not recall that it was, but if it was, then of course it would be perfectly all right so far as any contribution which might be made by other authorities.

Mr. FISHER: Is the reason that you cannot take the initiative because you know, from experience, that commuter trains, not only in your system but also in other places—that it is just impossible to build them up into a profitable position?

Mr. GORDON: That is right. We know from experience that we are heading into a very substantial loss.

Mr. ROBINSON: Mr. Gordon's advice to management is looking forward to the time when commuter service will pay its own way. Is that right?

Mr. GORDON: We are constantly striving to that end. We have made some progress over the years by a substantial increase in the fares. I do not know at the moment how much, but there must have been a 100 per cent increase over the past few years. We have also, in the heavily congested areas around Montreal, made a very substantial improvement in the method of collecting fares. We found that in the heavily congested areas where there is such a

short distance between stations, that over the years, some passengers had found means to avoid paying fares, because the conductor simply could not, with such congestion, manage to go all the way through the group in order to pick up the fares. But we have now instituted a system of flash cards, and we believe that our collection of fares has been very substantially improved. Then there is also the fact that the number of passes has been reduced, and our own employees are now on a half-fare basis.

Mr. ROBINSON: Could you tell us at how many places commuter services are not paying their way?

Mr. GORDON: I would not think that any of them are paying their way. The problem with commuter service is this: that when you see a railroad station jammed full of people around five o'clock, or around eight o'clock in the morning, the normal reaction of the public is that the railway must be pretty badly managed if it cannot make money out of this kind of trade. But the trouble is that it is a peak load, and while you get a terrific peak, it costs a great deal of money both in passenger equipment as well as in crews to handle it, when it lasts only for about one and a half hours and only in one direction; and then it is followed by a period when it is idle. We cannot use the equipment or crews elsewhere except on these two peaks, with the result that we have all this overhead and cost which we cannot overcome. The only place in the world that I know where a successful commuter operation is taking place is London, England, because the saturation of population there is so very great that there is a high level of traffic all through the day. But this is not the case in Canada, and at the places where we have commuter service.

Mr. ROBINSON: I would like to ask Mr. Gordon if he thinks it is a fair thing to be losing money on commuter service in larger centres, when there are smaller centres which would appreciate having more or better service.

Mr. GORDON: No, I do not think it is a fair thing at all. We have to apply to the Board of Transport Commissioners before we can abandon any service. And may I add this one comment; you have touched on a point, and I must explain why it is that the railway must be very, very careful about initiating any new service. If we initiate a new service, then we assume obligations in regard to that service, and in many cases we have to get permission to abandon it. Once we have established it, once we are in, we are hooked, and we have trouble in getting out.

Mr. BROOME: Mr. Gordon, the amazing figure or the amazing two figures to me are as follows: that the Canadian National stated to the royal commission that the total loss on passenger services was $40,800,000, and then the royal commission added a depreciation factor, which brought the figure up to just over $50 million.

Mr. GORDON: That is right.

Mr. BROOME: But your total revenues are only $48 million; and when I say "only", I want to know if you recognize the fact that you had a very small drop from the previous year, and that your position was much better in that respect than that of the Canadian Pacific. So it seems to me that when you take these two figures, one would think that this is almost fantastic in its connotations.

Mr. GORDON: That is right, we have been saying that for many years.

Mr. BROOME: If you dropped on your passenger service, would you not have certain charges which your passenger services now take, such as charges in regard to maintenance of way, general overhead, costs, and your own salary for instance, and would these charges not then have to be allocated to freight?

Mr. GORDON: Yes, but that has been allowed for.

Mr. BROOME: Are you not faced with certain overhead which you cannot touch, and which simply eliminates the possibility of your improving your picture, by and large except for the matter of the direct labour involved?

Mr. GORDON: In our presentation to the Royal Commission, full account was taken of the expenses directly attributable to the passenger service. That estimate is pretty close to the figure which we think we could save by complete abandonment of passenger service. But it would take some time to accomplish it. Nevertheless, that is what we think would happen if some wave of a magic wand took the whole business out of the system.

Mr. BROOME: This is a direct saving you would be able to make.

Mr. GORDON: This is our estimate of it; yes.

Mr. BROOME: I was in Union station one night and wanted to go to Montreal. Your agent told me I was the fifteenth person to ask for accommodation that night. I was stuck there, but I got a cancellation about five minutes to ten, and got on. If one agent had that number of applications for a berth, it would seem to me that there might have been a total list of perhaps one hundred passengers.

Mr. GORDON: Was it a stormy or foggy night?

Mr. BROOME: No. The airlines were running. This has happened several times when I have been coming to Ottawa. Several times I have been lucky to pick up space from Toronto to Ottawa; I can understand that. It does seem to me, however, that on high density runs it might be possible to add an extra car—I do not know. This is just a suggestion. The incident I referred to did happen one night when I was standing there.

Leaving that particular point, I would like to come to my particular bogey of this year. Last year it was microwave; this year it is United States lines. I have been looking at the D.B.S. figures which show the total operating revenue in 1959 was $88 million for all United States lines. Would your officials have any information as to how much of that would be passenger revenue.

Mr. GORDON: It would be very helpful to me if you would give me in writing exactly the sort of questions you would like to have answered. I have sent to Montreal for the files. I have them in my hotel room now and have tried to do some work on them, but have not had enough time to do intelligent work on them. If I had the exact questions you have in mind I could have someone work on this.

Mr. BROOME: This is based on the proposition that I do not think the Canadian taxpayers should pay $11 million subsidy for an American line.

Mr. GORDON: I completely agree with you on that, and I hasten to assure you—

Mr. BROOME: We are paying a subsidy to unload the subsidies in the United States.

Mr. GORDON: No. I think it would be a shame if a mistake got out on this. The Canadian taxpayer is not paying a subsidy in connection with the loss on our American lines.

Mr. BROOME: A loss of $11 million.

Mr. GORDON: No. Those are the first figures which appear in the operation of the railway, but the net benefit coming to the Canadian system shows that we make a profit out of the traffic which originates by reason of the operation of those lines.

Mr. BROOME: But this is the point where I say this is simply a statement not buttressed by any facts we have been given so far.

Mr. GORDON: Surely, Mr. Broome, you are not going to suggest you do not accept my statement as management.

Mr. BROOME: I am going to say this, Mr. Gordon, that I would accept it much more readily if I had some facts and figures on it.

Mr. GORDON: That is another way of saying you do not accept it.

Mr. BROOME: Let us put it this way; I am trying to add figures together. The total revenue from the United States lines was $88 million. Onward freight from the United States lines is mainly due at a Canadian point. By an unusual quirk, the D.B.S. includes Newfoundland water services. It must also include passengers. We were told on this question of onward traffic that the information might be of advantage to your competition. In checking this over, however, it appears that D.B.S. received information from the United States in terms of every category—tonnages, and all the way through. So it is public information. Then again, there is the factor as to how much of that traffic, which is onward traffic which is revenue producing in Canada, cannot be converted. I mean, we cannot assume that one-hundred per cent would be converted.

Mr. GORDON: Well—

Mr. BROOME: May I make my case. All of this could not be converted. Some of it might; there might be a modest percentage. Surely there is a figure of the amount of traffic and the mix of that traffic received by lines in Canada from lines in the United States. From the general picture in respect of freight revenues and the profit you make with regard to different mixes, it should be relatively easy for you to come out and say we make $15 million profit on freight received. There must be figures which enable you to make that statement. What I am asking for is those figures.

Mr. GORDON: I have no particular brief for the United States lines operated by the Canadian National Railways. I did not buy them; they are there, and we are doing the best we can with them. To the best of our analytical ability we have established at the moment their net benefit to the Canadian National. I will see what I can do. These figures are not nearly as easy to analyse as you have outlined. I had hoped you would accept the assurance that management has the capacity to make a proper analysis in order to determine what those facts are.

Mr. BROOME: If there has been an analysis, then those figures are readily available. There must be a final figure.

Mr. GORDON: I would not like to put it on the record by itself. The figures would be subject to a great deal of interpretation. The question is whether I can give it in simplified form, and that is what I am trying to do.

Mr. BROOME: At the least session you spoke of having a bull by the tail; before that you spoke about the polyglot arrangement of the United States system, and you noted the advantage of the Canadian Pacific Railway in being a cohesive unified structure. Over the period of twenty years should there not have been steps taken to bring the Canadian National system into a more or less cohesive system of railways, and the United States lines should not have any place within that system unless they are very high revenue producers. If they ever do get into a profit position the taxes will go to the United States government. You have the other factor about the complication of railways operating in another country, which must be of some concern.

Mr. GORDON: That is perfectly true, and we do not know how to avoid it.

Mr. BROOME: I would like to point out that the New York Central had a similar bull by the tail in respect of their line up here.

Mr. GORDON: No. They had only one line. We have a system in the United States, the Grand Trunk Western system. Moreover, they had a saleable asset.

Mr. FISHER: On the question of a saleable asset, you do not mean that the rental aspects of the Grand Trunk Western operation are not saleable for a fair price?

Mr. GORDON: No; not for a fair price. Perhaps for a salvage price.

Mr. FISHER: A few years ago you spent $4 million in improving the yard at Durand, Michigan.

Mr. GORDON: Yes.

Mr. FISHER: It is only good for salvage now? I do not mean it is a going concern, but in terms of sale.

Mr. GORDON: I despair of trying to get my point over. I will try again. A railway is only of interest for sale if you can sell it. The Grand Trunk Railway may be a perfectly good asset, a good operating asset, but still not saleable, because nobody wants to buy it. In anything that we have seen in the matter of a railway system in the United States, there is no railway which would find the Grand Trunk Western an advantage to their system. They already have their own system, and are in competition with us. They are not going to buy any railway to enlarge their lines when they can handle it in their own system.

The Grand Trunk Western has a feeder value to the C.N.R. system as a whole, that makes it of net benefit to the C.N.R. system. But, it is not profitable to any railway, not even to the Canadian Pacific, because their lines are in different places. They have not the same connections, et cetera. So, it is not correct to make an assumption that we have an asset that we can advertise for sale.

Someone suggested we could give it away. I doubt that very much. No American railway is going to take over the Grand Trunk Western, because they would acquire something they could not use, in large part. They might be able to use some of it, but not all. They are in competition with us.

Mr. FISHER: Well, let us say we were Americans looking at this. Because there are competitive lines, there is no question, aside from the factors that may be involved, that the services you are now providing could be provided by other railroads in the United States.

Mr. GORDON: In large part, yes.

Mr. FISHER: So this brings us down to the only justification for keeping it. Is it not the benefit which accrues to the Canadian National for a feeder line?

Mr. GORDON: There are two reasons. The first reason is that we cannot get rid of it for any acceptable price. The second reason is that by keeping it, we are still getting a net benefit in its operation.

Mr. FISHER: In relation to these two points—and they are related—is it possible you will get to the stage where it will be worthwhile disposing of it in any cash way possible?

Mr. GORDON: I cannot answer that. I do not know; I hope not. If that stage came, it would mean our traffic had fallen so dismally that we are getting no benefit out of the railway. However, when that time comes we will have to look at it in the light of all the circumstances.

There is no possible sale of the Grand Trunk interest, as far as I know, or as far as any of the officials of our organization know, which would give us a

sum of money for the Grand Trunk Western which, taken by itself and invested in anything you want to mention, would yield as much as we are getting out of this operation now.

Mr. FISHER: There is a climate at the present time of rail merger and appropriation in the United States.

Mr. GORDON: Yes, and we have not overlooked that, either.

Mr. FISHER: But, so far, there has not been any interest in this particular line.

Mr. GORDON: We have not had any interest of a current character.

The VICE-CHAIRMAN: We have had a pretty fair range of discussion of United States railways, and this does not seem entirely to come under passenger services.

Dr. Horner has a question.

Mr. HORNER (*Jasper-Edson*): Mr. Chairman, I have one question on commuter services.

Mr. Gordon, do you have a figure for the total loss on commuter services? I might say that I have a good reason for asking this question. I do not mind if it is just approximate. I would like to know how much you lose on your total commuter service.

Mr. GORDON: When you talk about loss, you are getting into a very detailed analysis, which has to take into account all sorts of things in arriving at expenses, and you do not make that analysis on a current basis but only when we make a specialized examination in surveying any of these lines.

Let me say this: Here is our total revenue from the system's commuter operations. Perhaps these figures will be of interest. In 1960—and I can give them to you for any year you wish—the number of our passengers was 6,172,383; the total revenue was $1,730,427.

Now, jumping back to 1954, our total number of passengers was 8,385,021, and our total revenue was $1,305,760.

Therefore, you will see that while our passenger carryings—the number of bodies carried—declined by 2,200,000, our revenue actually has gone up $425,000, which shows that we have been making real progress in the matter of increasing the prices.

Now, as I say, I have not a detailed analysis of all these lines, because each one of them needs a special study. But, if you take the Mount-Royal tunnel service, it would seem from here that our loss is running at the rate of close to $100,000 a month on that service.

Now, lest I be thought to be giving alibis for not having these figures available, I want to call to the committee's attention the type of analysis that has to be made in order to arrive at expenses which are attributable to an operation of this kind.

When we have to make a special analysis of a service, we have to find the direct variable expenses, which start off with the engine and train crews, electrical power propulsion, terminal switching, interconnecting with other trains, running maintenance of the multiple unit, the electrical locomotives, the coaches and the multiple units that go into the service and classified repairs of equipment. There are three, four, or five types of equipment: power line equipment and the electrical maintenance on it, track and signal maintenance, station maintenance and supplies. Those are what you call direct variable expenses. Then, we have to analyse direct expenses, which consist of operators and despatchers, line station agents and clerks, ticket sellers and examiners, tickets, timetables, municipal taxes, depreciation on the rolling stock, track and roadway. Then, having done that, we have to start with our allocated system expenses, which are part of our overhead attributable to that service, and you get such items as these charged: the use of the central station, the supervision

costs, the communications costs, credit for use of part of the line that does not belong to the commuter trains, and the interest charged. I think that is about all. However, all these things have to be analyzed.

Mr. HORNER (*Jasper-Edson*): I appreciate that it takes quite an analytical process to ascertain your losses, but would you not agree, then, that any subsidy paid either by way of the government absorbing your defiicit, or a direct subsidy to you, that people generally right across Canada are benefiting from it, and that it is not—as some of our friends in the metropolitan area and, particularly, some metropolitan members, sometimes, like to give us the idea—entirely the Crowsnest pass rates that are causing this deficit. I want to point out that here we have a commuter service which is losing a substantial amount of money, and some of our friends in the cities are benefiting from subsidies paid to the C.N.R.

Mr. GORDON: That is your opinion, and it is on the record.

The VICE-CHAIRMAN: Are there any further questions?

Mr. BROOME: On a point of clarification, Mr. Gordon said he had a big file and was going to provide certain information.

Mr. GORDON: I said I was going to try to provide it.

Mr. BROOME: Could that be filed with the committee?

The VICE-CHAIRMAN: Mr. Broome, possibly if you spoke to Mr. Gordon at the adjournment, and made it perfectly clear what information you require—

Mr. BROOME: He asked me to give him a note on that, but I should like the information printed as an appendix to the committee's report.

The VICE-CHAIRMAN: You mean the answer he gives?

Mr. GORDON: That is satisfactory to me.

The VICE-CHAIRMAN: Have you any questions on passenger services, Mr. Horner?

Mr. HORNER (*Acadia*): My problem is to try and reconcile the losses attributable to passenger services. In 1959 you told the committee you lost $38 million on passenger services, and you told the royal commission that in 1960 you lost $40 million. They gave you another $9 million odd for depreciation, which upped the amount to $50 million. You have curtailed services since 1959; you have tried to do away with some passenger services and still your losses have increased.

Mr. GORDON: Yes.

Mr. HORNER (*Acadia*): Then the committee would be led to believe this would continue—no matter how you cut your services the losses would increase?

Mr. GORDON: The obvious reason for that is applicable to other services too. Our costs are steadily increasing.

Mr. HORNER (*Acadia*): In 1960 you ran one million less passenger miles than you did in 1959, and still your losses went up.

Mr. GORDON: Yes.

Mr. HORNER (*Acadia*): I am assuming this does not take in depreciation allowances?

Mr. GORDON: Mr. Vaughan thinks your figures are wrong. Would you repeat them? I did not catch them.

Mr. R. T. VAUGHAN (*Assistant to President of the Canadian National Railways*): You mentioned a figure of $40 million, or at least that is what I thought you said.

Mr. HORNER (*Acadia*): Yes, $40 million for 1960 and $38 million for 1959. I have taken the second figure from page 80 of the report of the proceedings of the 1959 committee, where Mr. Gordon stated:

> We figured our passenger deficit last year ran about $38 million.

The $40 million figure is in the report of the proceedings of the royal commission on transportation.

Mr. VAUGHAN: At the Royal Commission for first time we had a precise calculation. That is the reason the $38 million was presented to the Royal Commission, and they added $12 million for depreciation.

Mr. HORNER (*Acadia*): The figure presented to the Rowal Commission was $40 million, and they added $9.5 million for depreciation.

Mr. VAUGHAN: It came to $50 million anyway.

Mr. GORDON: I am speaking without the benefit of an analysis of the figures, but as a general statement I am certain what you say is correct. The loss has increased and the tendency, or trend, is all towards a likelihood that it will increase so long as our costs keep going up and we are not able to get the volume of traffic to fill passenger trains. We are trying to work on profitable lines and, if we are able to increase the number of passengers through the efforts I have described, that is the only way the loss will be reduced. Our costs have been going up in recent years on all forms of traffic.

Mr. HORNER (*Acadia*): Would this loss tend to go down with the fewer number of passenger miles?

Mr. GORDON: But the number of passengers carried also dropped.

Mr. HORNER (*Acadia*): Yes, the number of passengers carried is down, but I am wondering have you any figure for 1959-60 commuter services. Apparently commuter passengers are half your total passengers.

Mr. GORDON: Yes.

Mr. HORNER (*Acadia*): Was the drop in commuter services or in overall traffic services?

Mr. GORDON: In both.

The VICE-CHAIRMAN: If there are no further questions—

Mr. HORNER (*Acadia*): Wait one moment, I am not through yet. I notice the percentage of time arrivals is down in 1960 as compared with 1959.

Mr. GORDON: From what page are you reading?

Mr. HORNER (*Acadia*): Page 27. The per cent on time arrival of principal passenger trains was 68.1 in 1960 and in 1959 it was 71.6.

This may be a small percentage, but I notice, when travelling on C.P.R. and C.N.R. trains, that one is more likely to be on time on a C.P.R. train. Why is this?

Mr. GORDON: This is a figure that C.P.R. does not publish, so I do not know how we compare with C.P.R. Probably they are wise in not publishing it, I do not know. However, on-time arrivals depend on a great many things. You cannot generalize, I do not think, in one year because weather conditions are involved to such a large extent. I remember that in the early part of the winter in 1960 we had very severe weather conditions, and, for instance, in Montreal during six weeks the trains were tied up completely for several days at a stretch.

Again I speak generally in saying that my observation—this is something I do look into from time to time—has been that our on-time arrivals have been improving. I was rather surprised at how it came out in the yearly figures. Is it weather conditions that make the comparison bad? The current record was that we were improving.

Mr. GRAYSTON: The current record for the latest few months of 1961 indicates quite a substantial improvement in the on-time performance. But, as Mr. Gordon says, a number of things go into this. One of our difficulties in respect of on-time passenger train performance has been the extent of our track-rehabilitation program which interferes substantially with the ability to move a train along the road on time. It is a figure with which we are not satisfied.

Mr. HORNER (*Acadia*): I have always felt that some time could be cut off your continental run, particularly when approaching Ottawa. The trains seem to slow up, or at least they do slow up around Sudbury before they come into the station here in Ottawa.

Mr. GORDON: When they slow up, that is when they arrive on time, is it not? That is exactly the point. In that road coming to Ottawa we have the cushion, and we try to maintain that cushion to bring the train to Ottawa on time. If the trains had a good run out west, they would have to slow down coming into Ottawa, otherwise they would get in ahead of time and that would upset the whole schedule. You cannot get in ahead of time. It is quite true that the trains coming into Ottawa slow up before they come. I wish you would observe this, that when you come in slowly, you come in on time.

Mr. HORNER (*Acadia*): That may be, but the point I want to bring out is that I have always felt they had a period of loafing, and I thought that the percentage of time should be better.

Mr. GORDON: Take, for instance, what happens around Montreal. Our on time performance over the last year has been bad because we have been building the Lachine diversion and overpasses as well. We completed that only the other week and we were able to eliminate eight level crossings in the process. There has been a terrific amount of terminal work around the station in Montreal, and also construction of buildings in the Place Ville Marie development, and so on; so that the station has been tied up and our trains have been held up for fifteen or twenty minutes before getting into the station. That affects the over-all percentage of on-time arrivals. But, as I say, my impression was, as I looked at these controllable on-times, that our record has been improving.

The VICE-CHAIRMAN: We have come to trucking services.

Mr. HORNER (*Acadia*): I am not through yet.

Mr. GORDON: Another thing is that you are probably more observant about C.N.R. than you are about C.P.R.

Mr. HORNER (*Acadia*): That may be, but I do not think so really. In fact, I have travelled more by C.P.R. than by C.N.R. because I get better connections out west.

But another question I have with regard to the Canadian National is this: It concerns your ticket sales and the amount of allocation to the different stations, in regard to pooling trains. Now, I have, for example—and this is a question which has been brought up before on the floor of the house by some other members—I tried two weeks ahead of time to book a lower berth reservation on a train. I wanted a lower berth going west, from here to Edmonton, I believe it was. The best they could give me was an upper, and I took it. When I got on the train I noticed that there was nobody occupying the lower, and I said to the conductor: "There does not seem to be anybody down there". He said: "I will see you when I come back." When he came back he said: "Nobody has this lower." I said: "How come?", and he said that he did not know. So I said that I might as well pick it up, and I paid him another couple of dollars and took the lower.

Why should this be, when I applied for a lower two weeks ahead of time and was not able to get it, yet when I get on the train I find that there is nobody there to occupy that lower?

Mr. GORDON: I can give you at least a dozen reasons, but one very simple and obvious one is that somebody, like yourself, two weeks before, bought that lower, but ten minutes before the train left he cancelled it.

Mr. HORNER (*Acadia*): There seem to be an awful lot of cancellations.

Mr. GORDON: There are, and that is one of the big problems in the transportation business. It applies to the airlines as well as to the trains. It is called the "no-show" problem, and we have all sorts of difficulty with it. Large companies will book a block of seats; we cannot refuse them. In fact we encourage them to do it. They will book the space on that basis. We have been doing a lot of thinking about this, even to the point of considering changing for a stand-by service.

Mr. HORNER (*Acadia*): The airlines themselves do not do this?

Mr. GORDON: No; but they have their "no-show" problem too, and they have been able to put in stunts like cancelling the reservation if you do not confirm it. I have just been reminded that this has been thoroughly dealt with before. But you are quite right, it is a big problem in the transportation business. All I can say about it is that we are working on it, trying to correct it. The conductors, I think, are using a little more ingenuity than was formerly the case.

Mr. HORNER (*Acadia*): On that point, I was talking to the conductor about it on that same trip, and he said: "I do not know what they are doing in the ticket offices. I know of a case where the whole waiting room was full of passengers, yet they would not sell a ticket because they said the train was full. But I told the people to get on the train, and I found and sold them seats."

Mr. GORDON: We depend a great deal on the conductors to use their heads. We have a program directed to our ticket sellers, and ticket examiners calculated to improve this very problem. In the final instance, the conductor on the train is the fellow who takes charge of the train. When it leaves everything is handed over to him and he has to use his best judgment. Sometimes we get what is known as a duplicate sale. I suppose you have heard of it.

Mr. HORNER (*Acadia*): Yes, and on the Canadian Pacific too.

Mr. CREAGHAN: We have an indication of the losses on the small branch lines, and so on. But what is the general situation with regard to the Pullman car and sleeper service, in so far as profit and loss is concerned? It seems to me that your Pullman rates are very, very reasonable; in fact they are much cheaper than the rates in a hotel or motel.

Mr. GORDON: Once again, in so far as giving you an analysis of what the profits, or otherwise, are in connection with Pullmans and sleepers, that would take a very detailed analysis. Have you any figures as to the actual revenue?

Mr. TOOLE: No.

Mr. CREAGHAN: Is it something like the sale of beverages; is there a slight profit from the Pullman aspect of it?

Mr. GORDON: I do not think so.

Mr. CREAGHAN: You now have the all-inclusive fares which include Pullman, meals and tips.

Mr. GORDON: We have the all-in service.

Mr. CREAGHAN: I believe it includes tips?

Mr. GORDON: Yes.

Mr. CREAGHAN: I am wondering if you might indicate to the committee how the porters on the dining cars share in the ticket sales insofar as tipping is concerned?

Mr. GORDON: It is a percentage of the sale which is agreed upon by the union which goes to the individual porter on the car.

Mr. CREAGHAN: Is it possible that you could do this in respect of regular Pullman service, not meals. People have spoken to me about this. They find it embarrassing to travel on the train, because of the tipping. This is the only medium of transportation which has tipping today. The airlines have abolished it.

Mr. GORDON: If you can show me a way to abolish tipping no one would be happier than I. Efforts made in that regard have not had a very good response.

Mr. CREAGHAN: You have abolished it in respect of the all-inclusive fare.

Mr. GORDON: Yes. We have not really abolished it. We have made an arrangement in respect of what the porter gets. You will always find people who will tip, because they think they will get better service by doing it. Unless we could pass a law making it illegal for people to tip, I do not think there is any hope of carrying it out. We know from experience that even now people who buy the ticket for the all-inclusive service will nevertheless tip.

Mr. CREAGHAN: This is something which causes embarrassment to a lot of people. There is the story of the maritimer who was travelling in an upper berth to Montreal. When he was getting near the city in the morning he asked the porter what type of tip he expected, and he mentioned that he had never travelled before. The porter said "My average tip for an upper berth is $2". The maritimer got off the train, gave his $2 to the porter, and the porter said "That is the first time I made my average".

There is quite a variance in what passengers give and sometimes it drives traffic away.

Mr. GORDON: Yes.

Mr. MCFARLANE: My question is on the subject of reservations and I hope that what I have to say will be of some help and will not be taken as criticism. I know a person who will make a reservation for four consecutive days because he did not know the day he was going. I said to this gentleman "Did you cancel any of these". He said "Oh no; they will sell them to somebody else".

I am wondering if it might be a good suggestion to make a rule that, unless a reservation is picked up forty-eight hours before a train leaves, the reservation is automatically cancelled. I do not know whether or not you would get away with an arrangement of that kind. I know this type of reservation is quite common.

Mr. GORDON: I am sure that this has been examined by our officials in the passenger section. Mr. Delagrave who has taken over as our general passenger man has been full of ideas. He has examined every possible suggestion. I will turn this over to him to see if there is anything in it. I am sorry he is not here, because he might have been able to give you more information on this than I can. Our experience in a general way in dealing with the public is that you have to cater to them. If they want to have certain tickets on such and such a basis and cannot get them, or if you turn around and cancel their reservation, no matter how unreasonable their wishes are, this is going to cause bad feelings. If you put in a rule that they should pick up their tickets in advance, then they would arrive half an hour or ten minutes before train time and would

be horrified if you had cancelled their reservation, because everybody knows that this particular man is an honest man. And, so it goes. However, we certainly will take a note of it, and I will turn it over to our passenger people.

Mr. McFARLANE: I think it would be well worth considering. I know a chap who, not very long ago made a certain reservation on the Canadian Pacific; he slept in that morning and the reservation, apparently, went through empty. In view of the number of complaints which you, no doubt, receive and which we, as members of parliament, receive, I feel something should be done about it so that legitimate passengers who are on the trains can get these reservations.

Mr. GORDON: I know it is quite a problem I will see what improvement can be made in this.

Mr. FORBES: On that point, I asked for a reservation yesterday on the Canadian National for the 28th and the agent suggested that I should pick my reservation up two days prior to my departure— and I thought that was fair enough.

Mr. HORNER (*Acadia*): Did you get your reservation?

Mr. FORBES: Yes.

Mr. HORNER (*Acadia*): I tried for one three weeks ago, and did not get it.

Mr. FORBES: There is one further point I would like to bring up, and it bothers me very much. In connection with the Canadian National, there nearly always are two men who come to take your ticket when you get on. However, in the case of the Canadian Pacific you only have one. Is that a safeguard you have, or what kind of system do you run there?

Mr. McFARLANE: It depends who is travelling.

Mr. MITCHELL: I would like to ask Mr. Gordon this question: Have the air lines any standard reservation arrangements with your system in case they do not fly?

Mr. GORDON: No. That has been discussed with us on many occasions. We have undertaken to do this for the air lines if they will pay stand-by prices. However, they have not felt that was necessary, and we have not worked out an agreement.

Mr. MITCHELL: Has there ever been that arrangement?

Mr. GORDON: Not to my knowledge. We never have had one. Mind you, we do cooperate with them, but we do not undertake to hold equipment for them. Within the last year I can remember we had a discussion on that basis, and we said to the air lines that if they wanted us to have stand-by equipment, we felt they ought to pay us. However, they have not done so.

Mr. MITCHELL: And there is no arrangment in existence whereby they can cancel at a certain time of the day.

Mr. GORDON: There is no arrangement of that kind.

Mr. CARTER: In connection with that same point, what about travel agencies. Do they have any understanding or any special arrangement?

Mr. GORDON: Yes, we have arrangements with travel agencies with regard to blocks of tickets which might be in their hands.

Mr. CARTER: Under what arrangement can they be cancelled? Are they obligated to cancel within a certain time?

Mr. GORDON: We have an understanding with them. I do not remember the timing, but there is an understanding.

The VICE-CHAIRMAN: Mr. Horner has one question, to conclude passenger services.

Mr. HORNER (*Acadia*): What percentage of the $30 or $40 million loss for passenger services is because of the loss in the passenger service in the United States?

Mr. GORDON: How much is attributable?

Mr. HORNER (*Acadia*): Yes.

Mr. GORDON: I do not know. I will have to look at that again. I will see if I can get the answer to that over the luncheon hour.

The VICE-CHAIRMAN: If that is the final question, perhaps we could adjourn now and start on trucking services at two-thirty. Would that meet with the approval of the committee?

Some Hon. MEMBERS: Agreed.

The VICE-CHAIRMAN: Is it agreed that passenger service is passed?

Some Hon. MEMBERS: Yes.

AFTERNOON SITTING

MONDAY, June 19, 1961

The CHAIRMAN: Gentlemen, we have a quorum.

Mr. FISHER: We are now on the trucking services, Mr. Chairman.

Would it be correct to say, Mr. Gordon, that the decision to enter the field of trucking in the way that you did recently was entirely a management decision?

Mr. GORDON: Mr. Chairman, in the expectation of having to make a general statement in regard to our trucking policy, I prepared one which would be of assistance to the committee, and perhaps save time in the matter of general questions. So, if you are agreeable, I would like to read this statement which brings us right up to date in respect to the purchase of the trucking companies recently acquired.

Mr. FISHER: Have you any copies we could follow? Is it a long statement?

Mr. GORDON: It is fairly lengthy,—but it should not take more than five minutes to read. It is quite easily followed. It is not a complicated statement.

Since the Turgeon royal commission on transportation made its report in 1951, one of the factors affecting rail transportation in Canada has been the great increase in the size of the trucking industry and the pervasiveness of that form of competition. This development, which has occurred during a period when Canadian National's expenses have been steadily rising, has produced a marked effect upon the ability of the company to increase its net revenue.

When railways had a monopoly in the transportation of large segments of traffic it was possible to meet increased expense by raising the price of rail services. This method of relief has grown more and more inadequate as the areas and intensity of such competition have broadened. In addition, the effectiveness of such competition has forced the railways to make vast expenditures for modernization and upgrading of plant and equipment in order to remain competitive with the truck in the national transportation market.

These changes and effects have, of course, been intensified over the period of the past few years. While during that time active and energetic steps have been taken by Canadian National to meet the problems presented to

it, the clear fact emerges that despite its efforts the railway's share of the total Canadian transportation market is declining. These facts point to the need for further changes in order to attract a greater volume of freight traffic to the rails and at the same time the urgency of stringent economy in operation, not only in the methods and means of handling traffic but in respect of the elimination of burdens of unproductive services.

Canadian National is making strenuous efforts to meet the problem of erosion of its share of the transportation market. In addition to examining pricing techniques, it is convinced of the necessity of effecting a close integration of road and rail operations. Considerable progress has already been made in this regard. The company's aim is to offer the kind of transportation service that is best suited to public demand, both in terms of cost and efficiency, always remembering that its basic interest is the provision of service through railway facilities, in which Canadian National has a very large capital investment.

The major interest of the railway is the long distance haulage of bulk and packaged commodities. Generally speaking, this can be done most economically by railway but certainly there exists and will remain a large field for long haul road transport. In addition road transport is a better agency for the collection and distribution of much traffic and is more economical and faster for short-distance service. This statement is, of course, a generalization. It is not possible in every instance to draw a hard and fast line, since the character and conditions of the traffic itself provide infinite variation in which one method of transportation may have an advantage over the other, or in which combinations of both methods may be the most efficient answer. Canadian National plans to use both its rail and road services for long haul traffic as circumstances dictate and at the same time closely integrate them for both long and short haul carriage when that type of service is what a customer requires.

Canadian National does not regard competition between the railway and private truckers as a fight for survival. Canadian National is not in any way interested in driving the independent trucker out of business. Both the railway and the truck are tools of transportation and in the best interests of the shippers and receivers—the users of the service—each tool should be used as it is best suited. What is needed, therefore, is an intelligent recognition of a competitive co-existence and the development of a coordination rail-highway system in which each form of transportation would play the role which it best fits.

To further this concept, Canadian National decided to supplement its railway services with collateral trucking facilities wherever close cooperation or integration of operations would effectively improve its services, and, therefore, its competitive position. In implementing that policy, Canadian National is proceeding cautiously and, as a general rule, is endeavouring to enlarge its trucking facilities through a very selective purchase of existing highway operators. In this way, it is not adding suddenly to the total transportation facilities of the country since that would likely produce an undesirable surplus and lead to a period of uneconomic competition by the weaker operators striving to maintain their position. Canadian National's objective is to acquire a trucking pattern so as to obtain for its own operations the benefits of coordination with railway facilities or even replacement of them in those cases in which the truck is the better tool.

The acquisition of the trucking companies now owned or optioned by the Canadian National is a step toward implementation of this policy. This is a logical follow-up of competitive rates, agreed charges, piggyback services, and the railhead and master agency principles of operation. Effort has been, and is being, made to select those highway services that best fit into an over-all plan of making the best use of all transportation media. Thus the acquisition

of truck lines, in addition to improving the competitive position of the railway and gaining access to markets not served by rails, provides opportunities of economy through integration of rail and highway services, substitution of highway for rail services and substitution of rail service for highway services through increased use of rail piggyback.

It was recognized at the outset that to be effective a highway operation must have adequate licences to and from productive areas. It was recognized too that with the number of highway operators in the productive areas it was most unlikely that the Canadian National would be successful in applications to provincial regulatory boards for licences in these areas. The only alternative then was to buy out existing operators whose areas of licensed operation offered the best opportunity to the railway of achieving its over-all objective.

Numerous trucking companies were examined. In western Canada alone the licences and operations of 10 separate companies were analyzed. This analysis revealed that no one company had the licence coverage that would suit the Canadian National plan at a price that was acceptable and that it would be necessry to acquire several truck firms and then merge the licences and operations into one unit operating within the four western provinces and between those provinces and central and eastern Canada. The firms of Midland Superior Express Limited, Empire Freightways Limited, and East West Transport Limited, were then selected, as offering the best market coverage and opportunities for road-rail integration, at prices that were considered reasonable.

Midland Superior Express Limited holds licences for intra-provincial services throughout the entire province of Alberta and actively serves such major points as Edmonton, Calgary, Lethbridge. In addition the company holds inter-provincial rights between all points in Alberta and Sault Ste. Marie and Port Arthur and practically all points in Ontario south of North Bay, as well as to Montreal. The company owns 175 units of equipment operating over 6,300 route miles and employs 214 people.

Empire Freightways Limited, holds intra-provincial licences to serve a large area of northern Saskatchewan, including Saskatoon, Prince Albert, Melfort and North Battleford and between these points and Regina, as well as inter-provincial licences between these points and Winnipeg and Calgary. The company owns 142 units operating over 1,100 route miles and employs 87 people.

East-West Transport Limited serves all major cities in western Canada such as Vancouver, Calgary, Edmonton, Saskatoon, Regina and Winnipeg, connecting them with the eastern cities of Toronto, Hamilton, Windsor, Sarnia and Kitchener. The company owns 119 units of equipment operating over 7,500 route miles, and employs 126 people.

Thus it will be noted that very extensive market coverage was obtained through these companies.

No difficulty was encountered in obtaining approval of the provincial regulatory boards to the sale of all of the capital stock of Empire Freightways Limited, and East West Transport Limited, to the railway. However, in the case of Midland Superior Express Limited, the operations of which extend into the province of Quebec, it has not as yet been possible to obtain approval of the Quebec transport board. This in turn has inhibited the completion of plans for blending the licences of Midland with the other two western companies because some other provincial boards are reluctant to sanction the merger of licences of a crown company, such as Canadian National Transportation Limited, with a company such as Midland in which 51 per cent of the stock is privately held. Thus, until the Quebec board approves the sale of all of the capital stock of Midland to the railway we are operating under a distinct disadvantage.

With the complete acquisition of the two companies and partial acquisition and option of the third, plans for integrating the licences and services of these companies one with the other and all three with the railway were translated into action to the extent possible.

The operations of these three western companies have been placed under the jurisdiction of an experienced western general manager and their operations integrated one with the other and with qualification the railway. This has been done to obtain an economy or better management control. Therefore, in dealing with the three trucking companies in western Canada they must be considered as a unit because the individual characteristics which existed at the time of purchase have disappeared in some measure. It is true that the separate corporate entities still exist but the operations bear little relationship to those of the original companies. Thus, it is not appropriate to take any one company's operations or results as they exist today and attempt to relate them to the operations or results existing at the time of purchase, or to relate results to the purchase prices. It is noteworthy here to say that since the acquisition the piggyback revenue of the railway obtained from these three companies has increased by $328,000 or 141 per cent. In addition the western group, for the period in 1960 when they were owned by or optioned to the Canadian National were able to break even, although, in common with others, they experienced a severe drop in revenue due to the decline in the economy generally, and despite the fact that this was a period of reorganization of services and changes in management.

With a view to further integration, steps are now being taken toward further merging of licences to obtain the widest possible market coverage, and given the requisite approval by provincial regulatory boards we are confident that we will then be able to offer an integrated service within the four western provinces and between them and central and eastern Canada that is unexcelled.

In central and eastern Canada numerous trucking companies have been examined. Two have been purchased in eastern Canada, i.e. Sydney Transfer and Storage Limited and Eastern Transport Limited.

Sydney Transfer and Storage Limited holds intra-provincial licences in Nova Scotia serving Sydney, New Glasgow and Halifax among other points, as well as inter-provincial licences between Nova Scotia and Moncton and Saint John in New Brunswick. The company owns 55 units of equipment operating over 1,100 route miles and employs 38 people.

Eastern Transport Limited holds intra-provincial licences in Nova Scotia and New Brunswick as well as inter-provincial licences between the two provinces. Some of the points served are Mulgrave, New Glasgow, Truro, Halifax, Amherst, Moncton and Saint John. The company owns 52 units of equipment operating over 750 route miles and employs 58 people.

At the moment negotiations are under way with three other trucking companies and it is expected that these will be concluded in the next few months provided the requisite provincial approval is forthcoming.

Mr. Chairman, that statement was made in the interest of giving background data, and I hope it covers all of the questions which members may now have in mind.

Mr. FISHER: Mr. Chairman, if I could ask Mr. Gordon one question. You examined each one of these purchases very closely before you went through with the deal in order to make sure that they were going operations. Is that correct?

Mr. GORDON: Yes, our company officers did that. I did not do it personally, but it was done by proficient officers of the company.

Mr. FISHER: Then, in your mind all these companies were efficient operations doing well, if I could put it that loosely?

Mr. GORDON: I do not want to pass a judgment on the companies in the language you have used. The companies I have referred to suited our purpose in the purchase of them, for the reason that they fitted into the chain we had in mind, and we purchased them at a price which we thought was appropriate under the circumstances.

Mr. FISHER: And you took over the management teams in all these companies, did you?

Mr. GORDON: We took over the management teams as they existed at the time, and made adjustments to suit our own purpose in the meantime.

Mr. FISHER: Did you make any management contracts arrangements with the management of those companies?

Mr. GORDON: Management contracts, in what way?

Mr. FISHER: Was there any form of contract between the people who had been managing the companies, to take care of the arrangements, as to who would be in charge or who would be conducting them after the sale had taken place?

Mr. GORDON: There were various arrangements made with the companies in the matter of conducting the management. I would not call them management contracts. There were some instances where we took over part of the staff and in other cases we did not. It was merely a measure of their employment.

Mr. FISHER: In how many of these companies is the original management left?

Mr. GORDON: Well—was there a question answered in the house on that?

Mr. VAUGHAN: I think there was, Mr. Fisher.

Mr. FISHER: You no longer have the senior management of East-West or Empire Freightways with you.

Mr. GORDON: From that point of view the management which existed at the time of the purchase is no longer there. The management is now being provided by Canadian National Transportation Limited. In some cases the men from the companies we took over are now working for us, and in other cases they are not.

Mr. FISHER: Mr. MacMillan made a statement down in Winnipeg when this was being set up. One of the quotations carried in the press in regard to that said: "One important aspect of this acquisition is that it brings into the Canadian National System a well seasoned and experienced truck management team."

Mr. GORDON: Yes.

Mr. FISHER: Now, if your two firms based in western Canada have already seen the departure of the senior management teams within less than a year of the time of purchase, is this not an indication that they were not particularly well seasoned and experienced truck management teams?

Mr. GORDON: That is a general statement which Mr. MacMillan made and he had in mind all the companies which had been acquired. We obtained the personnel from them. In some cases, as I said at the beginning, we let them go, and in other cases we kept them; but we still have a well seasoned and experienced truck management team, we believe.

The CHAIRMAN: Are there any other question?

Mr. FISHER: Yes, I have quite a few. I am waiting for an answer.

Mr. GORDON: The question which was asked and the answer given covers it quite well, I think. The question was asked by Mr. Fisher:

> Are the original management personnel of these firms still managing them? If not, in which companies, have they been displaced?

Answer: Operating under C.N.R. supervision, the same original management personnel are engaged in all companies except East-West Transport Limited and Empire Freightways Limited, in which two companies there have been some separations and adjustments.

I think that is practically what I did say.

Mr. FISHER: Is there any other factor involved in your inability to purchase the Midland Superior other than the provincial licensing difficulty?

Mr. GORDON: No, not in the case of the Midland Superior. What we need there is to clear up the licence rights in respect of the provinces of Quebec and Ontario. Ontario, I believe, has been cleared up now, but Quebec is still pending.

Mr. FISHER: You said in your statement that the equipment was: Empire owned, 142 units; and I believe East-West was 119. I did not catch what the other was. Oh, yes, you said Midland Superior 175 units. Are these units actually owned by each of these companies, or are some of them on a form or lease or use from trucking owners?

Mr. GORDON: There are varying arrangements in regard to these different trucking companies. In the case of Midland, I think the company has an arrangement whereby they are owner-operated trucks which work with the company on a formula basis with the company. In other words, the trucks are owned by individuals and they operate for the company on an agreed basis.

Mr. FISHER: Would they be included in your total of 175 units?

Mr. GORDON: I do not know. I do not think so. Do you know, Mr. Toole?

Mr. TOOLE: No.

Mr. FISHER: So, actually, Midland Superior in terms of what it had been performing, would be a much bigger company than 175 units?

Mr. TOOLE: It must be, yes.

Mr. GORDON: Yes, I think that is obviously the case, that we have only included the trucks actually in our ownership, but we have these owner-hire agreements.

You are referring to my statement in regard to Midland? Where has my my statement gone? Yes, 175 units operating, that I mentioned. Are those in the owernship of the company?

Mr. FISHER: They will be in your onwership when you are able to complete these?

Mr. GORDON: When we are able to complete. That is right.

Mr. FISHER: Is it unsual to have an arrangement like this where you are operating a company that you do not actually own?

Mr. GORDON: I do not know. It is our first experience. We never bought trucks lines before. We never bought trucking companies before.

Mr. FISHER: When is this likely to reach a solution?

Mr. GORDON: When the Quebec transportation board makes up its mind.

Mr. FISHER: Aside from the use that you got from the licence to take you into Quebec, were the East-West licences into Ontario sufficient for your purposes in so far as Ontario is concerned and shipments from the west?

Mr. GORDON: We have had to make various readjustments in regard to those licences, but they still fit into the pattern which we set out as I described in my memorandum.

Mr. FISHER: Where could we find, in your consolidated income statement, or anywhere in your report, some indication as to the situation with regard to trucking? We have information on your passenger service and the other aspects, but I can find nothing in your annual report which gives any indication that you have in fact made a good deal here.

Mr. GORDON: You cannot find anything in the report?

Mr. FISHER: Anything that would indicate that you have made a good deal and have taken over sound firms which give a good return.

Mr. GORDON: I do not think our annual report is drawn up on those lines. It is a factual statement. If you would tell me what is in your mind, I will try to answer.

Mr. FISHER: I would like to know something about the results of the operations of this trucking arm.

Mr. GORDON: As I told you in my background memorandum, in both the western part of our purchase and the eastern, the results for 1960 as a whole show that we just about broke even with a few hundred dollars profit.

Mr. FISHER: It would not be correct to say you lost approximately $300,000 on the operation of East-West Transport in 1960.

Mr. GORDON: I am talking, as I said, of over-all operation, when you put them all together, which is the only way you can properly examine them. We just about broke even.

Mr. HORNER (*Acadia*): Is that taking into consideration depreciation and fixed charges and management, that you just about broke even?

Mr. GORDON: Yes, it is the regular accounting approach, the profit and loss account.

Mr. FISHER: When you are talking about that, you are talking about the Midland Superior Express Limited, East-West Transport Limited, Empire Freightways Limited.

Mr. GORDON: Midland Superior, East-West and Empire. If you refer to the western segment—

Mr. FISHER: You broke approximately even, you say, on the over-all?

Mr. GORDON: On the over-all.

Mr. FISHER: This gives us no indication as to whether any one or any two of these companies are not sound operations. I am just wondering could you not provide us with more information on the picture of these individual companies?

Mr. GORDON: Well, I thought I already had done so, in the figures I have given you. I suppose I had better try.

What I said in the statement to you was that there had been a very substantial or very noticeable decline in traffic in the trucking operation in 1960 in common with most trucking operations, and certainly that has been pointed out by C.P.R. in their report. We believe that we have here a trucking operation which is fundamentally sound and which will work out quite well, but naturally in the early stages of taking the companies over and bringing them into our operation there is a period of readjustment and transition which does not give these companies an opportunity to display their best.

So, those two factors mean that in my opinion 1960 is a much less favourable year than we hope to have in coming years.

Mr. FISHER: Could I place this question? It is not correct then that C.N.R. trucking arm loss for 1960 was approximately in the nature of $400,000?

Mr. GORDON: No, it is not correct. I have told you twice that our trucking operations about broke even with a small profit.

Mr. FISHER: I would certainly like, Mr. Chairman, to have some information on this in some kind of a breakdown between these companies, because the information that is given to me indicates that two of the companies in particular, East-West and Empire, are losing money and have lost money since the company took it over.

The CHAIRMAN: Information given to you by Mr. Gordon?

Mr. FISHER: No, not given by Mr. Gordon.

The CHAIRMAN: What information have you?

Mr. FISHER: Information given to me by people who were formerly related to these organizations, and this information may be completely haywire.

Mr. GORDON: Will you put it on the table and let us see it?

Mr. SMITH (*Simcoe North*): I have a supplementary question on what Mr. Fisher has been following in the line of questioning. I am wondering, since the period which the railroad is in now is a transition period, would it not seem that this problem might recur from year to year? I am wondering if any thought has been given, when the operations are co-ordinated, that a separate balance sheet and separate statement be put out for the trucking operations, or is that not possible in the foreseeable future?

Mr. GORDON: I am terribly sorry, but I was completely preoccupied—and I think you might allow me to deal with this. If Mr. Fisher discloses who gave him this, I think it would be of considerable interest.

Mr. FISHER: All I am going to state in this regard is that it was given to me by someone who indicated that he had a relationship with the former companies.

Mr. GORDON: It is a statement which, by the look of it, has been stolen from our files; and I would like to know how you got it?

Mr. FISHER: I did not steal it from your files—

Mr. GORDON: You certainly connived with somebody who did.

Mr. FISHER: I connived with someone who did?

Mr. GORDON: It looks like it. That is my charge.

The CHAIRMAN: I think if it is tabled that way, we should have the name of the person who gave it to you. We might get into an awful shambles if someone is to say here what someone said in the street.

Mr. FISHER: This is a question I put to Mr. Gordon. I have no way of supporting the truth of that statement.

The CHAIRMAN: You do not know who gave it to you?

Mr. FISHER: Oh yes, I do. That is why I placed the general question.

Mr. GORDON: I told you twice that we certainly broke even on their operation. This statement put in front of me is a statement stolen from our files which does not reveal the complete story. The person who got it does not know the rest of it. Someone has taken a portion of a statement out of our files, because it is a carbon copy that I recognize. Who stole it, Mr. Fisher?

Mr. FISHER: I do not know who stole it.

Mr. GORDON: Who gave it to you, Mr. Fisher?

Mr. FISHER: I cannot reveal that here.

Mr. GORDON: Then you should not make reference to it at all if you are not prepared to say who got it.

Mr. FISHER: I asked my question in a general way so that I might just determine whether there was any substance in this at all.

Mr. GORDON: Mr. Chairman, I am not prepared to answer questions on the basis of stolen documents.

The CHAIRMAN: I think if you are going to use this, we might have the name of the person who gave it to you. We come here to study the report of the railroad, and if you bring in what I may call a hearsay report, anyone may get up and say they heard something on the corner of the street this morning from someone whom they did not know.

Mr. FISHER: This is my point, and why I asked for more information.

The CHAIRMAN: Even so, asking for more information on something you got that you are ashamed to tell who gave it to you.

Mr. FISHER: I am not ashamed to tell it.

The CHAIRMAN: Then tell it.

Mr. SMITH (*Simcoe North*): My question has some relevance at this point. Is it going to be possible in the future that when these purchases have been completed the C.N.R. will be in a position if it was required to do so, to issue a separate balance sheet in relation to its trucking activities so that, assuming that there were deficits in further years, the committee would be able to relate those deficits either to the rail operations or to the trucking operations? Is that possible in the foreseeable future?

Mr. GORDON: Yes, I think that could be quite possible, but the point is that in the year 1960 we were in the middle of a lot of uncompleted transactions, and even now some of them are not complete. We are merely putting together the figures as they affect the C.N.R. on the basis of that portion of the transactions that affect our operation. It is not a complete statement and therefore he stole this document apparently to provide you, Mr. Fisher with a hostile accusation not realizing what the total picture is. I have said repeatedly the total picture is that on the basis of overall operations we broke about even and had a few hundred dollars profit. That is our position.

If Mr. Fisher wants to question my word on the basis of a stolen document, I repeat that is all I have to say.

Mr. FISHER: Who says the document is stolen? I do not know that part of it at all.

Mr. GORDON: Would you name the man who gave it to you if it was not stolen?

Mr. FISHER: I would not. I am not going to name anyone.

Mr. GORDON: Have you any idea how he could legitimately come about having it?

Mr. FISHER: I did not talk to him from that point of view. I assume it came into his hands because he had some relationship with the operation.

Mr. GORDON: He forwarded it to you, knowing you would use it in a hostile fashion.

Mr. FISHER: What is hostile about the questions I ask?

Mr. GORDON: Hostility consists in your questioning my word.

Mr. FISHER: I asked was it correct you had a loss of the nature indicated by that document and you said no, not on the overall operations. I then said it would be better for us to have a more detailed statement or breakdown to indicate if this situation existed with regard to Empire and East-West.

Mr. GORDON: I do not accept that and I should like to see the *Hansard* record. May I have a transcript?

Mr. BROWNE (*Vancouver-Kingsway*): I should like to ask one or two questions. Before C.N. decided to go into the trucking industry was a study undertaken, or do you employ a separate company or firm to investigate the whole scene?

Mr. GORDON: There was a study done by our own officials, by certain officials in the railway who had some background in that general field. This

helped us in our analysis and then we acquired the services of Mr. George Warnick of Midland Superior. We made an early association with Mr. Warnick and used his services in connection with our trucking companies in western Canada. He acted for us in an advisory capacity and then came on to our staff in an employee capacity.

Mr. BROWNE (*Vancouver-Kingsway*): For these firms which you are now operating, you have not offered to give a breakdown. What I think we might be interested in is whether one of these firms is making a substantial profit and the other is operating at a substantial loss, even though the overall picture might be very good.

Mr. GORDON: Part of my caution, although I do not need to exercise the same care with you as with some, is due to what is involved. It is a well known fact that the vendors of the East-West transport company have commenced a lawsuit against us and we have counter-suited them because of lack of performance. When we come to East-West, I have some hesitation in talking about that because it is a unsatisfactory situation which I do not like. I do not want to go any further than that because the matter is before the court, and it is for the court to decide.

We have held back a substantial portion of the purchase price, on the advice of Mr. Warnick, pending the performance of the agreement into which we entered. Performance consists of a lot of things in the trucking business, covering such things as equipment, and licences, and we allege performance has not been made and we are holding back a portion of the price. The vendors of East-West have entered suit and we have entered counter-suit, so that the matter is before the court now. As a matter of fact, I have a memorandum here containing more details of it, which will tell you more what the suit is about.

Mr. BROWNE (*Vancouver-Kingsway*): I think it might be of interest to the committee to have that.

The CHAIRMAN: If the matter is before the court, I do not know whether this matter should be read. It is really sub judice.

Mr. BROWNE (*Vancouver-Kingsway*): There is nothing wrong with setting out the grounds of the suits before the court hears them.

Mr. GORDON: I may say first I have not personally been very much involved in this matter, because I have not found time, and so the information I am passing on comes from my officials who have been in charge of these negotiations. Here is the statement:

> An action was commenced in the court of Queen's Bench for Manitoba by the vendors of the shares of East West Transport Limited against the Royal Trust Company on March 24, 1961. The vendors are—Victor James Thiessen, Margaret Thiessen and Edward Penziwol. Penziwol and Mrs. Thiessen each had a qualifying share of capital stock and V. J. Thiessen had control of the balance of the shares, viz 463. C.N.T.L. purchased the shares through its agent the Royal Trust Company.
>
> The plaintiffs allege that the defendant has failed to perform its obligation, contained in the agreement to buy 14 van-body trailers for the price of $30,000. They also allege that the defendant has failed to perform its obligation to purchase the Winnipeg terminal used by East West transport, for $125,000. In addition to these two claims for specific performance of alleged covenants or obligations of the purchaser, the plaintiffs claim the sum of $37,500 which is one half of the holdback of $75,000 we retained out of the purchase price of the share purchase. The plaintiffs total claim is $192,500.

We filed a statement of defence on behalf of the Royal Trust Company denying all the allegations of the plaintiffs and in addition we filed a counter-claim claiming the sum of $165,000. This figure represents the difference in the financial position of the company as investigated and reported by MacDonald, Currie and Company, and the position as warranted by the vendors. The breakdown of the $165,000 is:—

decrease in surplus accounts and inventory shortage $68,145.00
Uncollectible accounts receivable $61,203.00
Undisclosed liabilities $27,707.00

The plaintiffs have filed a reply to our statement of defence and a defence to our counterclaim. The plaintiffs deny that they are indebted to us as claimed and allege that we waived any discrepancy or defect in the books or records of account or the financial statements of East West transport at the time the purchase was closed. There is, of course, the general denial to our counterclaim. Examinations for discovery will be held by both parties within a few weeks. The courts go on long vacation during July and August and it is therefore unlikely that the case will be set down for hearing before September.

This memorandum then says:

I have attached hereto copies of:—
(1) Statement of claim.
(2) Statement of defence and counterclaim.
(3) Reply to statement of defence and defence to counterclaim.

If you would like to have the pleadings tabled and given in the report of the proceedings, I should be glad to give them. This memorandum is dated June 13, 1961.

Mr. CREAGHAN: I would think anyone who needs the pleadings could get them from the court.

Mr. GORDON: They save $5.

Mr. BROWNE (*Vancouver-Kingsway*): I am sure no one would want to go further than that now. I should like to thank Mr. Gordon for giving that information. The thing which has concerned me, and which I think would be the legitimate concern of other people in the trucking industry, including the employees, is that the railway should not operate a trucking firm in competition with other trucking firms at a loss. I have not got the exact quotation before me but I believe we had some assurance from you last year when I asked a question along those lines, as to what would happen if a trucking company owned by C.N. should sustain a loss, whether it would become part of the deficit of the C.N.R., and, as such, would be paid by the taxpayers.

Mr. GORDON: That is right. I never intended to convey an assurance that under no possible circumstances would trucking operations of the C.N.R., or anyone else, not sustain a loss. All I am saying is that on the overall operations there was a small profit. Once we have integrated our trucking operations on a good sound basis, Mr. Warnock has told me he is convinced they will show a good profit.

Mr. BROWNE (*Vancouver-Kingsway*): I do not doubt that while the overall operations may make money, you could have an instance where, if you are operating 10 or 15 truck lines, it may very well be the case that one private operator could be very seriously affected, and your rates might be lowered in that particular operation to the detriment of the private operator. If he were to meet those circumstances, that would be quite unfair competition.

Mr. GORDON: I think I would agree with your general thesis on that, but it is not our intention to run into that sort of thing. What we are trying to do is set up an intelligent chain, so that each link will be as strong as another, but

in doing that we may find it is to our advantage to merge certain of our operations in such a way that would benefit our overall operations.

Mr. BROWNE (*Vancouver-Kingsway*): I want to bring to your attention that I have had some concern and have had a number of representations from employees in the trucking industry who have expressed the feeling that in some circumstances some of the firms, who knew they would be acquired by the railway, were quoting low rates.

Mr. GORDON: I think I can give you this positive assurance that it is no part of our policy to engage in unfair competition, or unfair competitive practices in the trucking industry. It is my own belief that the entry of the railways, and particularly the Canadian National Railways into the trucking industry, will have a most salutary effect in regard to the ethics of the business. I am talking about maintenance of rates, overloading, the observance of franchise requirements and so on. I can certify that the Canadian National does not in any way break the law and will not. We have already found some practices which we could not countenance and we have changed them. I would repeat what I have said, that our entry into the business will have a very beneficial effect on the whole standard of the industry.

The CHAIRMAN: Are there any further questions?

Mr. CREAGHAN: The annual report lists most of your senior officials. However, it does not indicate who is the general manager of Commercial Transportation Limited.

Mr. GORDON: Does it not? It is Mr. Frank Gaffney. You will see he is vice president, highway services.

Mr. CREAGHAN: Does that mean he is general manager of C.N.T.L.?

Mr. GORDON: He is overall vice president in charge. There is a general manager for the western region, whose name I have just mentioned, Mr. George Warnock, but Frank Gaffney is now the person in charge of that operation.

Mr. CREAGHAN: I have one other question. In a previous report you made reference to the fact that you were making progress in the simplification of those corporate structures, and emphasized this leads to the elimination of charters. That is for highway transportation companies. Is it your intention that eventually, when you are in a position to surrender those charters, you will bring them in under one C.N.T.L.?

Mr. GORDON: I do not wish to commit myself to that. There are a number of factors with which we are going along cautiously. Mind you, we are just learning this trucking industry and, believe me, we are learning it the hard way. As Mr. Browne knows there will be instances I believe, when it will be advisable to retain the corporate structures in relation to franchise rights. You cannot throw out established franchised rights in the trucking industry, because they are very, very valuable. There are other considerations where the maintenance of the corporate structures may be to our advantage but, apart from that, I do not wish to comment further.

Mr. CREAGHAN: In other words, the whole of those shares will come into the one company?

Mr. GORDON: Yes, subject to what I have said.

Mr. CREAGHAN: You hope that if you do not run into franchise trouble you will eventually have one C.N.T.L. transportation company?

Mr. GORDON: That is our intention. The Canadian National Transportation Company Limited is the main company and all these component parts are feeding into it.

Mr. CREAGHAN: You mentioned the name of the general manager for the western region. Who is his counterpart in the Atlantic area and in the eastern region? I shall be more specific. What position has Mr. Charles Gillespie, who is in Moncton, New Brunswick?

Mr. GORDON: I am personally a little out of touch with the trucking operations, because I have not got down to a detailed study of them yet.

Mr. VAUGHAN: Charles Gillespie is general Superintendent of our transport operations in Moncton.

Mr. CREAGHAN: In passing, I may mention that in the last week or so, I heard he apparently obtained some new position in the trucking industry in Moncton.

Mr. VAUGHAN: That may be in the reorganization setup.

Mr. HORNER (*Acadia*): Could you give the committee some idea as to what your total investment is in the trucking industry now, and what it is intended to be after you get the three portions of your plan together?

Mr. GORDON: Well, total investment, as of December 31, 1960 was $9,987,298. In our current budget which I hope will come before you for approval before 5.00 o'clock this afternoon, there is an item of $5 million for possible purchases and options that may be taken up this year.

Mr. HORNER (*Acadia*): Mr. Gordon, you mentioned earlier with regard to the establishments of new services you considered, in order to pay back money invested, that there must be a return of about 15 per cent. Was that the figure?

Mr. GORDON: I was talking about railway projects.

Mr. HORNER (*Acadia*): This would not apply to the trucking industry?

Mr. GORDON: Not necessarily.

Mr. HORNER (*Acadia*): Why not?

Mr. GORDON: That 15 per cent is a yardstick which we use for ourselves internally to warn us, so to speak, to look closely at anything which does not return 15 per cent. This is a guide to management in any proposal.

Mr. HORNER (*Acadia*): Why should not the same yardstick apply to trucking?

Mr. GORDON: I have not figured out a yardstick for trucking yet. We shall have to examine the whole industry and set up a separate yardstick for it. As I said, we are new in this game.

Mr. HORNER (*Acadia*): I realize that, but how do you possibly pay back the investment if you have no yardstick to cover interest on the money invested?

Mr. GORDON: We have a total yardstick in that respect. What I thought you meant was, had we worked out what figure a trucking operation ought to return, and the answer is "no".

Mr. HORNER (*Acadia*): Would there not be a greater depreciation factor with the trucking industry than there would be with railroading, due to the life of the trucks and so on?

Mr. GORDON: We had that in mind. In our accounting we have adopted a sort of standard measure of depreciation practice, as has been adopted by the best units of the trucking industry.

Mr. HORNER (*Acadia*): On your experience up to date, do you feel that you should continue with the investment by another $5 million?

Mr. GORDON: I am not saying that we will actually spend $5 million, but we are making provision for it in our budget. We have a number of

discussions going on, and we have one or two options to look at. I do not expect we will use the $5 million, but if we have an advantageous proposal, we will want to be prepared for it.

Mr. FISHER: In the news release that came out last year in Winnipeg on June 9 there is a paragraph which, although it seems to be poor reporting, says something different than what you said a few minutes ago about the role of Canadian National Transportation Limited.

> It was emphasized by Mr. McMillan that Canadian National Transportation Limited is to be operated as a completely separate entity.

Does he mean by that a completely separate entity from these truck lines?

Mr. GORDON: From the truck lines?

Mr. FISHER: From the truck lines which have been purchased?

Mr. GORDON: What we mean there is that we will have the Canadian National Transportation Limited separated from the railway operations.

Mr. FISHER: It goes on:

> Similarly, the five trucking companies concerned will continue to be operated as separate corporate entities and will function within the trucking industry under the same ground rules as any independent trucking organization.

Mr. GORDON: That is what I said.

Mr. FISHER: So you are going to keep these separate from Canadian National Transportation Limited?

Mr. GORDON: With this qualification, that this is our present intention. If we find that this does not make good sense or that we can operate them in a better way, we will change that. At the moment, however, we believe that operating them as a separate corporate entity has considerable advantages, and that is our intention.

Mr. FISHER: In relation to the information that one can seek or get in relation to your trucking operations, once you have these operations, if you have them operating on, say, a full year's basis, will there be in your annual report some statement in relation to their operating revenues and the gross profit or net profit?

Mr. GORDON: I have not given that much consideration in regard to the 1960 report because a lot of the transactions are not completed. I will say, however, that we will be very glad to reveal it in our annual report, as does the C.P.R.

Mr. FISHER: C.P.R. does not wholly own Smith Transport Limited, I understand.

Mr. GORDON: My understanding is that they said they did in the annual report. If you look at page 28 you will see that the sword sign they have against these companies "denotes complete ownership," and they have a sword opposite Smith Transport Limited.

Mr. FISHER: For cumulative preference stock?

Mr. GORDON: No, the sword denotes, as it says in the footnote, complete ownership. It is intended to be against the name of the company. I cannot speak for the C.P.R., of course.

Mr. FISHER: Instead of an outright purchase, did you give consideration to purchasing or controlling of partial interest in the intermediate period?

Mr. GORDON: We did. Our first approach to trucking was along the lines of trying to buy partial ownership, but we gave that up because we saw it would get us into endless complications. We came to the conclusion we had to have complete control.

Mr. FISHER: Because of your position as a publicly-owned entity?

Mr. GORDON: Yes, and secondly, we learned from the standpoint of the operation, that two bosses will not work, even in the trucking business.

Mr. FISHER: But in relation to the question of an incentive to management that you were retaining, would there not be a balancing factor there?

Mr. GORDON: No, we did not think so. As I said, I cannot make it any better than that, that we came to the conclusion, whichever way we look at it, that we could not get a practical working arrangement, that would contemplate minority interest in any company in the trucking business, which we could work with. The C.P.R. has found that out too. They started off with part control and finally decided they had to have wholly-owned control.

Mr. FISHER: To what extent did the C.N.R. management seek advice of the auditors who have examined these companies to determine the background on the price the truck companies share?

Mr. GORDON: I do not know. I did not conduct the negotiations personally, and I can only say in a general way that the C.N.R. officials who conducted the negotiations took all prudent precautions in making their investigations. You are asking if they had specific discussions with the auditors? I cannot answer that, but I could find out.

Mr. FISHER: You did carry out the pre-purchasing investigation very thoroughly into these companies?

Mr. GORDON: We did. Mr. Vaughan calls to my attention some detailed answers on these questions in the house under question No. 268, which is quite a lengthy question.

The CHAIRMAN: Who is questioning?

Mr. GORDON: Mr. Badanai. I am quite certain I am safe in saying that the officers in charge of these negotiations made all the normal investigations that any negotiator would do in acquiring a company of that kind.

Mr. FISHER: What is the situation with regard to Empire Transport and its management? Has there been a complete shift in its senior management people?

Mr. GORDON: Well, I cannot answer that. "A complete shift" is so sweeping. There has been a merging of it.

Mr. FISHER: Has the manager or superintendent gone?

Mr. VAUGHAN: In answer to question 264 certain officers were listed, if you recall then in answer to another question we said that management personnel was the same with the exception of East-West and Empire Freightways Limited in which there had been some adjustments. I cannot tell you offhand whether Fraser, Joyce and Snook are still there or not.

Mr. FISHER: The reason I raised this is that we have purchased these two companies—I do not know what the purchase price was, I assume it is substantial, and it took place a little over a year ago. There were arrangements made to carry these as separate entities with management in charge. This management has already departed. It naturally raises the question as to how thoroughly both the competence and the whole structure of the organizations were investigated by the C.N.R. in the light of the changes and shifts. That is the only thing I want to draw to Mr. Gordon's attention.

Mr. GORDON: That is a very natural query, Mr. Fisher. The answer is obvious. As we acquired these companies and got the knowledge of their operations, those officials who are in charge made all the necessary adjustments in personnel and operations they thought advisable in the interests of performance.

Mr. FISHER: Who is the man who will make those judgments? Who is making them now?

Mr. GORDON: Mr. George Warnick reporting to Mr. Frank Gaffney, who is our vice-president. As I said, Mr. Gaffney is our vice-president in charge of highway services.

Mr. FISHER: Did Mr. Warnick have relations with Midland Superior? Was he part owner?

Mr. GORDON: He was part owner of Midland Superior.

Mr. FISHER: With these three western Canadian lines, you have management of Midland Superior left, and it is now running the other two lines?

Mr. GORDON: George Warnick is in charge as general manager, but I cannot answer how many changes have been made in regard to the other officers of the company you mentioned.

Mr. FISHER: One question, Mr. Gordon, in relation to the purchase that was made of these two lines in western Canada. Were competitive rates of the railways cut fairly drastically before the purchases were made in the areas in which these franchises were held?

Mr. GORDON: You mean cut because of purchases or in anticipation of them? No, any readjustments of rates were made separately from anything having to do with trucking operations.

Mr. FISHER: That was no factor at all, I understand.

Mr. HORNER (*Acadia*): Would it be logical to assume, Mr. Gordon, that the trucking companies that the C.N.R. now owns are making relatively the same profit they were before the C.N.R. owned them? Did the C.N.R. management in any way change the profit structure of the companies they took over?

Mr. GORDON: I would assume right now, as I said before, they are not doing as well as they were because there has been a very substantial decline in trucking traffic, not only on the C.N.R. but in other trucking companies as well. The year 1960 was a poor year, and you will see the same reference in the C.P.R. report. It says, in the C.P.R. report:

> Smith Transport results were less favourable than in previous years, owing largely to reduced volume of traffic.

There is an item here from the *Motor Carrier*, which is a management magazine for Canada's motor transportation industry, that Consolidated Freightways expects to be in the black by the end of the first half of this year. The first quarter loss was some $1,700,000.

That is a factor to show that it has been a very poor year.

Mr. FISHER: Is that for 1960 or 1961?

Mr. GORDON: May, 1961.

Mr. FISHER: So the situation that existed last year where you bought these lines and business dropped, is continuing right into 1961?

Mr. GORDON: It has done so far in our last review of it, which was done about a week ago. Mr. Gaffney tells me he thinks we will begin to show some upturn in the second half. The first half has been poor.

Mr. FISHER: Who is the senior man in your company who approved all the purchases of the truck lines?

Mr. GORDON: Mr. N. J. McMillan, our executive vice-president, was in charge of the initial transactions, and he reported through me to the board of directors. All of these transactions were reported to the board of directors, but Mr. McMillan was in charge of the initial transactions. It is only recently, about three months ago, because the operations were beginning to become

too much of a burden along with other duties, that we have put Mr. Frank Gaffney in charge of our highway services, with jurisdiction over all these trucking operations.

Mr. FISHER: How complete was the information that was given to the board of directors in relation to truck services?

Mr. GORDON: Just as complete as I knew how.

The CHAIRMAN: Any other questions on trucking?

The next item is on telecommunications.

Mr. BROOME: I have one question, Mr. Chairman. Would it be possible in another year, Mr. Gordon, to consider separating the telecommunications section, to show it separately as far as revenue, expense, and profit is concerned?

Mr. GORDON: That matter has not yet been decided. It has been under examination for some time. It has not been done in the past for one principal reason,—not the only reason,—because there are several. The accounting has not been on a basis where we have been able to separate what may be called railway communications from commercial communications. It is quite a job to get those separated. Perhaps Mr. Toole could speak on this.

Mr. TOOLE: We have been developing our accounting to the point where we have a pure separation between communications and the railway as such. At present we report only communications revenue, but in the normal history of the organization we have reported the revenues, although we have never reported profit and loss positions. We are now able, commencing this year, to work that in.

Mr. GORDON: You should bear in mind, Mr. Broome, and I presume you have—it is something that is very often overlooked—that our balance sheet is on a completely different basis than the C.P.R. The balance sheet of the C.P.R. is called the general balance sheet. Our balance sheet is a consolidated balance sheet; that means that C.P.R. does not include in its general balance sheet the assets and liabilities of all its subsidiary companies. They only show the investment which they have in those companies and show it under the general heading of investments in controlled companies. Ours is a consolidated balance sheet and our income statement brings every element we have into the revenue and expense account, and into the income account as appropriate not just the dividends we receive.

Mr. BROOME: Does not the C.P.R. show you all of their revenue?

Mr. GORDON: No, no. If you turn to page 28 of the C.P.R. balance sheet—if you have it.

Mr. BROOME: Yes.

Mr. GORDON: You will find in fact starting with page 26 the whole list of investments in controlled companies, shown on pages 27 and 28. In addition to that, they have investments in other companies and securities of leased railway companies, and so on. There are two or three pages of investments. These are simply to tell you what appears in the balance sheet under the general heading of "investment in controlled companies and other companies". The only income taken into the income statement consists of dividends declared by those controlled companies. That is my general understanding.

Mr. BROOME: They do not show any other income, income from hotels and other services—so this is only the catch-up.

Mr. GORDON: This is only direct operations.

Mr. BROOME: This is direct profit.

Mr. GORDON: The dividend income shown would include such things as the mining and smelting dividend, and other dividends that come in.

Mr. BROOME: In regard to telecommunications, last year I asked about the Yukon Telephone Company and asked whether it was a profit venture, and I believe you said yes. I was wondering whether it has been making a profit on its original purchase price, and the investment you may have made in plant and equipment to bring it up to a good standard?

Mr. GORDON: Yes, this is a relatively small transaction. The Yukon Telephone Company was bought in October 1958. I do not know if I have given the figure before, but I am in the mood to provide all the information possible to the committee. Our cost was $625,000. The assets of the company included a 400-line automatic telephone exchange, a building with office equipment and accommodation for staff, extensive outside plant, some maintenance vehicles, and storage buildings in the town of Whitehorse, and a 30-line manual switchboard, building, pole lines and maintenance vehicles at Mayo, 200 miles north of Whitehorse. The Mayo exchange serves subscribers in the Mayo and Keno areas, the former point approximately 36 miles from Keno.

This company was acquired as part of a link in our western communication system that we are building in the northern territories there. Mr. Broome is aware of that. You know that in the N.T.C.S. we had been operating that for some considerable time. We eventually took it over and this is a link in it.

Mr. BROOME: Do you know if these figures are extracted, Mr. Toole?

Mr. TOOLE: Yes, they are extracted. The company itself is carried on the rest of the system.

Mr. BROOME: The company itself can show its own picture.

Mr. GORDON: It shows a profit in the 1959-60 results after allowing for depreciation.

Mr. BROOME: And it shows a profit after all that. I think that is rather marvellous.

The CHAIRMAN: Are there any other questions on telecommunications?

Mr. CREAGHAN: Does the C.N.R. still own any radio station?

Mr. GORDON: You mean an operating radio station?

Mr. CREAGHAN: Yes.

Mr. GORDON: No, no. They went out with Sir Henry Thornton.

Mr. BROOME: Will the Microwave setup be finished on time?

Mr. GORDON: Yes it will. There is going to be an opening ceremony and there may be some governmental announcement. I am not in a position to state yet. But it will be on time.

The CHAIRMAN: Are there any questions? The next item is hotels.

Mr. HORNER (*Jasper-Edson*): On hotels, I have a general question to put before I ask a specific one. With regard to Jasper Park Lodge, I understand that you have had a new man in charge of hotels.

Mr. GORDON: Mr. Robert Sommerville, who has been our general manager for some years, is due to retire on 30th June of this year. His retirement has been announced and he is really on a retired basis now, because he gets holiday arrangements for this year. Mr. S. S. Chambers is his successor. I cannot say whether we announced that or not. Do you know, Mr. Toole?

Mr. TOOLE: We have announced it.

Mr. GORDON: We have announced his successor.

Mr. HORNER (*Jasper-Edson*): Are we going to get a statement of the net position in each of the hotels in your chain? I think you provided that last year.

Mr. GORDON: Do you want it filed, or read out?

Mr. HORNER (*Acadia*): Read out.

Mr. HORNER (*Jasper-Edson*): We do not know anything about it, so I do not know.

Mr. TOOLE: The profits on hotels were as follows:

Bessborough, a loss of $109,225;
Charlottetown, a profit of $6,201;
Chateau Laurier, a loss of $55,072;
Fort Garry, a loss of $64,746;
Jasper Park Lodge, a profit of $96,967;
MacDonald, a profit of $458,110;
Newfoundland, a profit of $198,099;
Nova Scotia, a loss of $232,442;
Vancouver, a profit of $161,027.

Mr. BROOME: That is half of the profit?

Mr. TOOLE: Yes, that is our share, of the C.N.R. earnings from the Vancouver. In the Queen Elizabeth there was a profit to us of $1,401,383.

Mr. BROOME: What is the reason for the Chateau Laurier loss?

Mr. FISHER: Just operating profit?

Mr. TOOLE: Profit before interest.

Mr. PICKERSGILL: I just asked what the consolidated figure is.

Mr. TOOLE: $1,859,852, profit.

Mr. HORNER (*Jasper-Edson*): In what direction are you moving in so far as the hotel system is concerned? Are you thinking of building any more?

Mr. GORDON: We have no plans for building. We have extended some of our hotels. We made a major extension in Halifax, Nova Scotia, but we have no other hotels in mind, though we may take a hard look at Newfoundland one of these days if we can get enough courage. I said this is just a hard look.

Mr. HORNER (*Jasper-Edson*): Is there going to be some rejuvenation of our hotel policy?

Mr. GORDON: I do not understand what you mean by rejuvenation, as we always keep ourselves young in heart and spirit.

Mr. HORNER (*Jasper-Edson*): I want to throw out a question in regard to Jasper Park Lodge.

Mr. GORDON: By all means.

Mr. HORNER (*Jasper-Edson*): Has Mrs. Sommerville been hired as hostess there during the summer months?

Mr. GORDON: We have no hostess in Jasper Park Lodge. I think it is rather unfortunate that we should in this committee engage in personalities.

Mr. HORNER (*Jasper-Edson*): I appreciate that, but I wanted to know what the picture is.

Mr. GORDON: I would prefer if your question had been phrased, "Is there a hostess in regard to Jasper Park Lodge?" And the answer would have given you the same thing.

Mr. HORNER (*Jasper-Edson*): Anyway, Mrs. Sommerville is not on the payroll?

Mr. GORDON: Mrs. Sommerville is not on the payroll in any capacity.

Mr. HORNER (*Jasper-Edson*): Here is the next question. Would you state what is the use of the facilities of Jasper Park Lodge, say, by management, as their own summer resort, if you like? In other words, what are the facilities?

Mr. GORDON: A playground?

Mr. HORNER (*Jasper-Edson*): In other words, what do top brass of the C.N.R. pay for the facilities at Jasper Park Lodge?

Mr. GORDON: There are very few occasions on which any senior officials go to Jasper. I presume that the comment is made on the fact that for the first time in ten years I spent two weeks there last year.

Mr. HORNER (*Jasper-Edson*): No, it is not.

Mr. GORDON: Then, I may say it is not the practice for officials, apart from Mr. Sommerville himself, to spend any time at Jasper. There may be a person passing through, but it is not the practice, because they cannot afford it.

Mr. HORNER (*Jasper-Edson*): There has been a certain amount of division in the town of Jasper between the lodge and the rest of the town.

Mr. GORDON: Some what?

Mr. HORNER (*Jasper-Edson*): Some division between the hotel operators and the lodge.

Mr. GORDON: What do you mean by division?

Mr. HORNER (*Jasper-Edson*): Some conflict of opinion. What proportion of your traffic is arriving by train at the lodge? Have you any idea? Is it still a worthwhile "come on" as far as passenger traffic is concerned?

Mr. GORDON: Yes, we still get a fair volume by train—enough to make it worthwhile—but it is dwindling.

Mr. HORNER (*Jasper-Edson*): That is the point. Do you have any objection to people flying in and then wanting to stay at the lodge?

Mr. GORDON: No, no. We are glad to welcome anyone, no matter how they get there; but usually space is at a premium. Jasper Park Lodge is very popular, for the short period it is open.

Mr. HORNER (*Jasper-Edson*): Then I will have your support in pursuing this matter with the Minister of Northern Affairs in regard to the question of expansion of the airport?

Mr. GORDON: That is quite all right.

Mr. HORNER (*Jasper-Edson*): Have you given any thought to extending the season as far as Jasper Park Lodge is concerned? Have you given any consideration to a winter operation in conjunction with the skiing, and so on?

Mr. GORDON: Yes, we have gone into that on many occasions, but there are some quite obvious factors which rule out winter operations. In the first place, Jasper is not a good snow area, not a dependable snow area. Perhaps it is unfortunate that you have caused me to publicize that, but that is so. In the second place, at Jasper Park Lodge, practically none of the cottages are winterized, and in order to winterize them we would have to put in heating facilities and sewers—and sewers in Jasper Park, with rocky soil there, is a major operation. We could not see the wisdom of winterizing it. The other question in regard to extending the season is something we think about every year, actually. It is always put reluctantly to one side. The operation there is geared now to the employment of student help, and student help is a feature of the place and has a real meaning in regard to its attractiveness for the customers, especially those who have been going there for 25 to 30 years. We feel that if we change from that kind of operation to what might be called a more commercial operation, we would not attract the high-class clientèle that we now have. Besides that, even if we were going to extend the seasons, we could not do it for more than about a month anyway, because the cold weather comes in pretty fast there.

Mr. HORNER (*Jasper-Edson*): Yes. I was thinking more particularly in the early part of the year, in the spring.

Mr. GORDON: The same thing applies with regard to students, because we have to wait until they finish their examinations, before they can report.

Mr. HORNER (*Jasper-Edson*): I will have the Chamber of Commerce send you notice about the snow conditions there.

Mr. FORBES: Now that Mrs. Sommerville's name has been brought in, I wonder if you could let the members of the committee know if she was or is part of the attraction.

Mr. GORDON: Mrs. Sommerville's presence at Jasper Park Lodge has been very useful in connection with the management there. She is a very gracious woman who has made friends with a great number of the clientèle there at Jasper Park Lodge over many years. Mr. Sommerville has been associated with Jasper Park Lodge as far back as 30 years ago. He started with us in March, 1929, and as far back as I can remember the Sommervilles have been very popular indeed in the management of Jasper Park Lodge. As I say, Mrs. Sommerville's presence there has been really useful in terms of the management of the property.

Mr. PASCOE: Any time I was staying at the Bessborough hotel it always seemed to be pretty well filled, and I am wondering at this loss of $109,000.

Mr. GORDON: I am making a generalization of it, Mr. Pascoe, because I have not made any specific examination of it in connection with this particular year, but the occupancy at the Bessborough is low. It is low in terms of outside visitors. However, it is a popular hotel and is used a great deal by the community but we do not get the room occupancy which really spells the difference between profit and loss for a hotel. It does not attract convention traffic, which is a profitable type of traffic in the hotel business.

Mr. PASCOE: I was wondering why, because it is well located.

Mr. GORDON: I do not agree the public's attitude is that way. We have done our best to popularize it. I shall say this though; possibly the Bessborough hotel is getting more community support than any other hotel in the system. The local public make good use of the hotel facilities, but you cannot make money out of a hotel because of its feeding facilities and general entertainment facilities. You must have occupancy of rooms.

Mr. FISHER: Have you any plans underway to alter or change the quarters and living conditions of the employees at Jasper?

Mr. GORDON: Alter or change—I do not understand.

Mr. FISHER: Have you any plans to improve their living accommodation?

Mr. GORDON: Yes, we have done a great deal over the years. We have spent a great deal of money on the staff quarters. Is there anything in the current budget? I do not recall anything, but I think their facilities are pretty good.

Mr. FISHER: Just for general information, could you indicate the way you find the students for those posts there?

Mr. GORDON: We are on the receiving end. Over the years we have found there are plenty of applicants, in fact more applicants than there are available positions.

Mr. FISHER: What is the requirement for those applicants, that they be bona fide students at a university?

Mr. GORDON: No, we do not stipulate that. We leave ourselves free to pick and choose. Some of the staff are not students but we do try to fill it with students. The main requirements are that students must be over 18 years of age and they must come well recommended. Apart from that,

we deal with them in the terms of the particular job for which they are applying. For the hotel we need clerks, operators, bellboys, busboys, waiters, drivers, dish washers, stenographers, telephone operators, waitresses, chamber maids and cleaners. We get applications, we tell the applicants what is available and then they will apply for jobs in those categories. We select the applicants on the basis of what they tell us about themselves.

Mr. FISHER: You have always had more applications from university students than you have been able to hire?

Mr. GORDON: That has been our experience.

Mr. FISHER: I should like to ask some questions on the Hilton arrangement with the Queen Elizabeth. Is it correct that the lease expires in 1975?

Mr. GORDON: It was a 15 years lease.

Mr. FISHER: It runs to 1972, I believe.

Mr. GORDON: When did we open?

Mr. TOOLE: I think it was 1958.

Mr. FISHER: In 1955, when this question was much discussed in the committee, you made the point very definitely it was a management contract rather than a lease. I wonder could you distinguish between the two?

Mr. GORDON: Well, I would think it depends on what you are looking at. The bargain we made with Hilton was a management contract. In other words, they undertook to manage the hotel on the basis of a formula agreed upon, and it was understood the period of the contract would not be less than 15 years. I am speaking about a formula, used to establish the accounting in connection with charges that would be made in the operation of the hotel. We could consider the hotel as being leased to them, for income tax and general accounting purposes. They had to account to us for a basic rent.

Mr. FISHER: For the information of the committee and questions in the house, have you ever tabled the approximate figures of how much goes to each party?

Mr. GORDON: No, I have not.

Mr. FISHER: I understand the Hilton hotel corporation went to the American public last year seeking $30 million of 6 per cent subordinated sinking fund debentures, and in the prospectus that was published by Merrill, Lynch, Perce, Fenner and Smith Incorporated, there is given the information that, in fact, there was a lease and they held a rental for 75 per cent of the gross operating profit. This would indicate a three to one split in so far as the gross operating profit is concerned. This information was not provided to members of parliament before this.

Mr. GORDON: That is right.

Mr. FISHER: It has now been provided, or at least indicated in this prospectus. I should like to know what is the value of this arrangement?

Mr. GORDON: Well, I shall tell you the story of that. When we were negotiating with Hilton, he had a number of other projects around the world. He asked me not to disclose, if I could avoid it, the split which was being made with us because it was much more favourable than he was offering in his other projects around the world. The reason it was more favourable was because he was dealing with the Canadian National Railways, a government owned enterprise, and I took every advantage I could of impressing that upon him from the point of view of prestige. I may add that his operations around the world included Cuba, which has not turned out nearly as well as the Queen Elizabeth hotel. That was our general understanding. He said to me: "If you can avoid it, it would help me if you did not release the details of our deal."

When the information was released in the prospectus I was very annoyed because I had undertaken not to disclose it, but the financial people who wrote the prospectus put it in although it should have been avoided. Since Hilton released it, then I am sure I am released from my obligation not to disclose the full details.

Mr. FISHER: This $1,401,383 represents 75 per cent of the gross operating profit of the hotel?

Mr. GORDON: No. The figure we have shown there is after we have charged interest, the depreciation of the building, amortization and depreciation expenses and the usage of operating equipment. Our actual figure was considerably higher than that. But we took off the depreciation I mentioned. You see, there are two ways of determining this. While our deal was 75 per cent of the gross operating profit, the Hilton enterprise pays us a basic rent of quite a substantial amount, so our take from the hotel is more than appears in our balance sheet in that sense.

Mr. FISHER: With regard to that, you have a total investment of $26 million roughly?

Mr. GORDON: The average capital investment is $25,372,000.

Mr. FISHER: When this was discussed previously, and the question was brought up about the return on the investment, you gave an indication that you expected to get a good return on this?

Mr. GORDON: I beg your pardon, I don't recall. But I did warn the committee I think, at the time and I am speaking from memory that I mentioned some hazards. The first budget item I referred to had a return of between 3 to 5 per cent, or less than that, 3 to 4½ per cent. I never predicted any return better than that and I justified the hotel on the grounds of its collateral advantage to the railway and to the city of Montreal. However, we later made the Hilton deal and, as a result, we have substantially improved my original estimate.

Mr. FISHER: What has been your return on this $25 million investment over the years that the contract has run?

Mr. GORDON: If you take this figure it is 5.52 per cent of our average investment, but that figure is not as good as it should be because we are still writing off some early pre-opening expenses. What I mean by that is that we charged the hotel venture with staff wages and similar expenses incurred prior to the actual opening and they amounted to quite a figure. When we write off those pre-opening expenses we shall have a substantially higher interest on the investment.

Mr. FISHER: But, at the present time, you are making less from your investment than if you had bought Hilton's own 6 per cent bonds?

Mr. GORDON: No, that is not so. This is because we are writing off the pre-opening expenses.

Mr. BROOME: And the depreciation of the building?

Mr. GORDON: And the depreciation on the building; but even if that were not so, I would still say it is a good venture.

Mr. FISHER: I have one other question. Was there any agreement with Hilton in so far as the establishment, either by ownership or by management, of hotels in competition with the C.N.R.?

Mr. GORDON: Yes, and I am again speaking from memory. I should have this agreement before me. The general understanding is that Hilton will not enter into competition wherever there is a C.N.R. hotel, without the permission of the C.N.R. management, with the single exception of Vancouver.

Vancouver was reserved on the general understanding that if Hilton still wanted to do it, he was free to do it, but as a gesture of good will they have consulted us about that.

Mr. FISHER: The Hilton construction of a hotel at Dorval is not looked upon as competition?

Mr. GORDON: That was specifically taken up with us and we gave them our blessing. We had the opportunity to go in with them in that hotel, if we wanted to.

Mr. FISHER: And the same would apply to the hotel they operate in the Laurentians?

Mr. GORDON: They do not operate a hotel in the Laurentians.

Mr. FISHER: The Hilton hotel at Dorval will not compete with you in terms of convention facilities?

Mr. GORDON: We do not think so. We can make a very suitable arrangement with them. As I said, we had the opportunity of going in with them. Perhaps we missed an opportunity, but burdens get too much at times.

Mr. FISHER: Have you anything in prospect for extending the Hilton arrangement to any of your other operations?

Mr. GORDON: On the same basis—no.

Mr. FISHER: On any kind of basis?

Mr. GORDON: Nothing specifically. We thought at times it would be to our benefit if we could work out something in the nature of a consulting arrangement with them. We may do that but we have nothing specific in mind at the moment.

Mr. FISHER: Mr. Gordon, last year a file was returned by Mr. McGregor to a question relating to parking areas. There is one parking area leased to Terminal Realty and Investment which, I believe has an area of 21,028 square feet. Has it any relationship to the Queen Elizabeth and the area around the hotel?

Mr. GORDON: What is the name of that company?

Mr. FISHER: Terminal Realty and Investment.

Mr. GORDON: Have you got information there? I am curious. It would be helpful.

Mr. FISHER: I am curious about this rental.

Mr. GORDON: I still do not understand. Which one are you talking about?

Mr. FISHER: Terminal Realty, it is the largest one in terms of space.

Mr. GORDON: This Terminal Realty—I do not know what that is. I do not think it belongs to the hotel.

Mr. VAUGHAN: Is this a private company, Mr. Fisher, which has a concession?

Mr. FISHER: Yes. What I was curious about is whether the concession was rented at $200 per year. I know this is the second biggest concession you have in parking anywhere, and I was curious about the figure.

Mr. GORDON: $200 a year?

Mr. FISHER: Yes.

Mr. GORDON: I am perfectly certain there is no concession anywhere which we would rent at that figure.

Mr. VAUGHAN: Could we take another look at that document?

Mr. GORDON: I do not recognize this at all. So far as I know at the moment the hotel has no parking concession as such, but I would be glad to look into it and let you know.

Mr. SMITH (*Simcoe North*): You said you have sometimes thought of discussing management problems of hotels with the Hilton corporation. Have they ever been consulted in relation to the management of the Chateau Laurier?

Mr. GORDON: I shall tell you what may have caused that impression. The Hilton people had a walk around our hotels—they visited them—during the year 1960. That was for the purpose of determining whether a close working arrangement could be hammered out between the hotels and the Hilton facilities, having in mind the spreading use of convention facilities and things of that kind. They took a good look at our hotels at that time, and out of that may have arisen some speculation. We have not got anywhere on it on a practical basis as to whether or not it would be to our mutual advantage if the world wide Hilton organization were to be placed in some sort of consultative capacity with our hotel operations.

Mr. CATHERS: Have you ever considered selling these hotels?

Mr. GORDON: Not seriously. We have had two or three approaches, but never anything on a basis that made any sense to me. You remember, six or seven years ago we sold all our small hotels. We came to the conclusion that mixing of hotel business was not a good idea. We have to be either in the big hotel business or in the small hotel business. To attempt to run big and small hotels, creates hopeless confusion in the management approach. We are specializing only in high class hotels. We like to think we have the best hotels, in whatever particular locations we have, and we maintain standards along that line.

Mr. CATHERS: Have you a hotel in Paris that you either own or operate?

Mr. GORDON: We have hotel Scribe in Paris which we have owned for 30 years, but which we have not managed for that long, in fact since before the war. It is now rented out on a basis of a lease that expires in 1964. We have had a good deal of difficulty in respect of the lease and rental laws of France, but we have succeeded recently in completing an agreement for a substantial increase in rental. We are now open for offers. We have been trying to sell the Scribe hotel, and I will use this as a publicity medium to say that I am ready to listen and to receive offers.

Mr. HORNER (*Acadia*): Why has the Chateau Laurier particularly lost money while the rest of the hotels in some of the bigger centres have made it?

Mr. GORDON: Well—

The CHAIRMAN: Do not say it does not charge members of parliament.

Mr. FISHER: Has the Chateau Laurier in the main made profit in recent years?

Mr. GORDON: No. One of the problems of the Chateau Laurier is quite obvious. It has a very poor occupancy on week-ends because of the nature of its clientele. In addition we have made a policy not to allow the hotel to get tied up too much when the House of Commons is in session. There was a time when we used to be able to predict fairly closely when the House of Commons would be in session, but lately we have not been able to make that forecast. The result is that we are very nervous about taking on convention business that might clash with sittings of the House of Commons. Because of that implied priority, it is difficult for management to take on business which it might otherwise have.

Mr. PICKERSGILL: Have you similar worries about the Senate?

Mr. GORDON: Yes—they go together. I should have said "parliament".

Mr. MCPHILLIPS: I wonder if Mr. Gordon would indicate whether the conversion of the Chateau Laurier, in the matter of radio and T.V., was charged to current operations?

Mr. TOOLE: No it was capitalized. Depreciation is being charged against current operations.

Mr. MCPHILLIPS: Where is the accounting done in regard to the Queen Elizabeth? Was that done in Montreal?

Mr. GORDON: It is done in the Queen Elizabeth hotel by the Hilton people, who act as managers of the hotel.

Mr. MCPHILLIPS: This Hilton Credit Corporation in the city of Los Angeles issues credit cards. Does the Hilton Credit Corporation assume the risk on collections, or if they fail to collect do they charge it back against the hotel?

Mr. GORDON: They assume the risk on the Hilton credit card, but there is another C.N.R. credit card which can be used at the Queen Elizabeth hotel. I should have made it clear that while Hilton's do their own bookkeeping, we have a right of audit, and we conduct an audit of the books in order to be sure that the division arrangements work out properly.

Mr. MCPHILLIPS: It is clear the Hilton Credit Corporation stands responsible for any accounts given on their credit card?

Mr. TOOLE: That is right.

Mr. GORDON: There is no comeback on us for their general credit cards.

Mr. CREAGHAN: I was interested in the large net profit that you had in the Vancouver hotel, and I am very pleased to see it, but what I cannot understand is how you can have a profit of around $150,000 net with an investment of only $75,000.

Mr. GORDON: These accountants are curious fellows. Let us see what they can say about that.

Mr. TOOLE: We had a net profit in the Vancouver hotel.

Mr. GORDON: You will realize that this profit was before interest which we were giving you.

Mr. CREAGHAN: On page 22 you show your investment in the hotel, a capital stock investment of $75,000, and I presume that is the only loan or investment which the C.N.R. has made in the hotel.

Mr. GORDON: Oh, no, that is only a very technical matter. The $75,000 there represents the capital stock, but we have put large sums of money into the Vancouver hotel.

Mr. CREAGHAN: Do you set it up as a loan somewhere?

Mr. GORDON: The net capital investment in the Vancouver hotel is $10,997,741, and the return of that capital investment in 1960 was 1.46 per cent. This $75,000 only shows the share ownership of the company.

Mr. CREAGHAN: Why would you show, on page 22, as you do in the case of T.C.A., your advances?

Mr. GORDON: We show it on page 22, under the heading investments in affiliated companies not consolidated, an investment on a fifty-fifty basis with the C.P.R.

Now, what was your question on T.C.A.?

Mr. CREAGHAN: On T.C.A. you show your capital advances. Why would you not show your original capital advances to the Vancouver hotel?

Mr. GORDON: Now that you mention it, what is the answer, Mr. Toole?

Mr. TOOLE: The Vancouver hotel company as such is not our own property, so we only show the stock value of our ownership in the Vancouver hotel company.

Mr. CREAGHAN: One final question on hotels. Someone suggested to me—I cannot disclose the identity because I cannot remember it—that you had a capital loan or an investment of some kind in the Admiral Beatty hotel in Saint John, New Brunswick.

Mr. GORDON: That is right. This was a long time ago.

Mr. CREAGHAN: It does not show anywhere as an investment.

Mr. GORDON: It is small. It is probably under some miscellaneous heading.

Mr. CREAGHAN: It is a substantial part of the original investment in the hotel?

Mr. GORDON: It is in here somewhere, but it is so small that probably it is not set out.

Mr. CREAGHAN: What percentage of ownership do you have in the Admiral Beatty hotel?

Mr. GORDON: We have 8,250 shares of common stock for which we show a book value of $18,750 par value of 5½% unsecured debentures—$342, book value $658 and $50,000 par value of 5½ per cent second mortgage bonds on the books at $1.00. We do not regard this investment as really giving us any share in the management of the Admiral Beatty.

Mr. CREAGHAN: Does the common stock pay a dividend?

Mr. GORDON: No.

Mr. CREAGHAN: Does the C.N.R. have any representation on the board of directors of that Saint John hotel? The reason I ask you is, I understand a former director from Saint John represented your company—Mr. Brennan.

Mr. GORDON: I do not think so. Mr. Brennan was on the board in his personal capacity. He had personal interest in the hotel. He was not representing the company.

Mr. CREAGHAN: Do the bonds not provide the C.N.R. with a certain investment?

Mr. GORDON: If there is anything of that kind that stipulates we have representation, our vice-president would be our representative. We do not take much interest in this investment, to tell you the truth.

Mr. CREAGHAN: It is obvious.

Mr. FISHER: On the Hilton matter, since we now know the ratio of that, would you be agreeable now, Mr. Gordon, to tabling the terms of the agreement between Hilton and C.N.R.?

Mr. GORDON: No, I do not think so. It is a matter of general principle. I do not think we should table agreements of that kind. It is not the sort of think any other competitive organization would do, and I think it falls within the general precedent that has been established in this committee, that we do not table things of that kind.

Mr. FISHER: Even in view of the fact that the information denied members of parliament in the past was released on a unilateral basis in another place?

Mr. GORDON: The only item that you refer to was the actual item of the profit split. There are, however, a great number of other things in the agreement which affect the management of the hotel, and which I would regard as information that would be of value to our competitors. It has to do with many arrangements for the management of the hotel and sharing of reservations with the Hilton corporation, labour arrangements and so forth. All those are matters which should be held in confidence, and the release of which would be prejudicial to the competitive position of the C.N.R.

Mr. FISHER: Does that apply to the figure of working capital that the Hilton supplies to the operation?

Mr. GORDON: I do not think so. I do not know about that. I think on principle that, that working capital is entirely a matter of the Hilton's own business. It may be that they do not want to have that business released which gives information to their competitors in the hotel business. The working

capital consists of an amount of money they have to put in to provide food, supplies, refrigeration, and all sorts of things that make for the current operation of a hotel. I would think that that would be competitive information that the Royal York hotel might like to get.

Mr. FISHER: Does your hotel deal with the supply firm in Montreal by the name of B and M Limited?

Mr. GORDON: I have not the faintest idea. We could look it up.

Mr. FISHER: The point about which I am curious is whether this company—

Mr. GORDON: Are you referring to the Queen Elizabeth hotel?

Mr. FISHER: Any of your hotel operations. The point I am curious about is as to whether it is correct that the management and owners of this B and M Company are former C.N.R. officials?

Mr. GORDON: I wonder how many smears could be arranged?

Mr. FISHER: What are you talking about?

Mr. GORDON: The very suggestion is a smear. No C.N.R. official would be allowed to have the ownership of a company of that kind doing business with the C.N.R. The question has already been answered in the house, that only two of our officials are directors of other companies. This brings up a number of rumours that have come to my mind that seem to be in the air these days affecting the integrity of the C.N.R. officials. Personally, I do not like it.

Mr. MCPHILLIPS: Mr. Chairman, as I understood the question, Mr. Fisher meant the officials who were in the C.N.R. previously.

Mr. GORDON: I apologize. Let me have the question again.

Mr. FISHER: I wanted to know whether this B and M company—

Mr. CATHERS: You mean the Bank of Montreal?

Mr. GORDON: We have no directors with the Bank of Montreal.

Mr. FISHER: As to whether this is a company organized and run by former officials of the C.N.R.

Mr. GORDON: Former officials. I beg your pardon, I did not catch the word "former". I do not know. I have not the faintest idea whether former officials are involved with any company doing business with the C.N.R. If they were, that would be entirely their own business.

Mr. FISHER: In relation to the Chateau Laurier hotel, you have created new parking facilities there in the last year or so. What is the arrangement for running these facilities and, if they are out to lease, was the lease put up for a tender bid?

Mr. GORDON: It was several years ago, and my recollection was that it was that it was advertised and given to the person who offered the best deal. It is a concession which is rented out.

The CHAIRMAN: Any other questions on hotels?

We proceed to personnel and employee relations.

Mr. PASCOE: Mr Chairman, I want to bring up the question of express workers. Can I bring it up now?

The CHAIRMAN: Yes.

Mr. PASCOE: My question does not deal with C.N.R. express, but it deals with the C.P. express and I wanted to see whether this would also apply to the CN.R. The Canadian Pacific express company gave their employees at one time a bonus. They gave a gratuity to employees in recognition of long and satisfactory service. It is a voluntary payment separate from the direct salary of the employee. I understand that when this wage increase went through, the Canadian Pacific Express Company cancelled this voluntary long service bonus. Would the same situation apply to the C.N. express?

Mr. GORDON: I have asked Mr. Wilson to reply, on the understanding that he cannot speak for the C.P.R. We will tell you the Canadian National practice.

Mr. WILSON: We have no such arrangement, Mr. Chairman, on the C.N.R. There is no such special bonus payment for express department workers. Therefore we do not have anything to cancel.

The CHAIRMAN: Are there any other questions?

Mr. FORBES: Could I ask Mr. Gordon if all the employees of the railroad are required to be members of unions—say, conductors and engineers?

Mr. GORDON: Are they required to be members of unions? No.

Mr. FORBES: They are not?

Mr. GORDON: But they are in most cases required to pay union fees, under the wage agreements enacted.

Mr. FORBES: Is there anything in the way of a check-off?

Mr. GORDON: I thought you were talking of all forms of railway employees?

Mr. FORBES: Yes.

Mr. GORDON: Let me put it this way. Whenever a union exists and a particular trade or group is represented by a union, then all the employees of that particular trade or group have to pay union fees whether or not they are members of the union. That is what is commonly referred to as the check-off principle. We have, of course, employees who are not unionists.

Mr. FORBES: He could be a conductor who is not a unionist?

Mr. GORDON: No, in fact all the conductors are members.

Mr. WILSON: All the conductors, trainmen, baggagemen, engineers, firemen and yardmen are unionists.

Mr. FORBES: Do you have any regular hours of run between point A and point B, would it be ten hours or 14 hours, or how is that arranged?

Mr. GORDON: It is based on the dual system of pay, namely, time or mileage, whichever is to their advantage. Perhaps Mr. Wilson would explain that.

Mr. WILSON: It is a very complicated setup, as I am sure you know. It is the dual system of pay, as Mr. Gordon has said, based either on hours of duty or miles run. There is a basic day of 100 miles, in certain instances, and 150 miles in other instances. It is very difficult to say that, for example, an engineer's day will be "X" hours. For example, we have passenger trains running out of Montreal where the engineer and fireman run to Brockville. They may make that run in a couple of hours, and they are off. That is their run; that is a day's pay. Two more engine crew members get on there and go to Belleville and they get off and have earned a day's pay. The engine crews are again changed at Belleville, and they may take the train into Toronto. Therefore, one could not say that the train crews would work "X" hours on an assigned run. It is pretty difficult to pinpoint it exactly that way. In way-freight service, they may have a lot of work to do on a run and it may take them much more than eight hours to make a run.

Mr. FORBES: Is eight hours regarded as the standard day?

Mr. WILSON: The standard day is 100 miles.

Mr. FORBES: The standard day is 100 miles, whether it takes them 10 hours or 16 hours?

Mr. WILSON: Yes, or two hours. It is a very complicated setup.

Mr. FORBES: Could it take 12 hours?

Mr. WILSON: In some cases, yes. In some cases.

Mr. FORBES: Some men indicated to me that they had this 12 hours to put in on a certain line, and did not get time and a half for overtime as they do in many other industries. I was just wondering if you got that type of run?

Mr. WILSON: It is very complex basis for calculating pay and there are all sorts of variables which creep into it.

Mr. FORBES: If anybody had a "beef" along that line, it should be dealt with by the union?

Mr. WILSON: Yes. As a matter of fact, we are at present in negotiations with the Brotherhood of locomotive engineers, the Brotherhood of railroad trainmen and the Brotherhood of locomotive firemen and enginemen. Those agreements are now being worked out. I have the minutes and I have detailed copies of the documents and suggestions made by the unions to the company, and our counter-demands in an effort to streamline these agreements in many respects. If I were to read them it would take me from now until 6.30 p.m. I have them in my bag and they are very thick. There are countless items and most of them are complex.

Mr. FORBES: You have indicated the answer to my question. That is fine. I have another question. I have had 39 form letters that recommend certain changes in connection with pensions.

Mr. SMITH (*Simcoe North*): Is that not going to be dealt with separately?

Mr. FORBES: Very well.

Mr. SMITH (*Simcoe North*): I would like to ask a question. Could you state total number of employees as of 31st December, 1950, and the total number of employees as of 31st December, 1960—a ten year period?

Mr. GORDON: If you look at page 28, you have the average number. We do not show it as a matter of fact, at December 31. What we take is the mid-month count, which is the payroll basis. It is given on page 28.

Mr. SMITH (*Simcoe North*): That would be satisfactory for the purpose of the question.

The CHAIRMAN: Is there any other question?

Mr. FISHER: There is a problem in relation to personnel that is central, to my mind, in any criticism that I might have about C.N.R. operations. It relates to personnel and morale. I am not going to attempt to put on the record all the statements I have had from C.N.R. employees, but I thought it might be fair to put on one typical comment and since it comes from the officers and members of three lodges,—B of R.T. lodge 861, B. of L. E. Division 796, and B. of L.F. & E. Lodge 810—I will give this one paragraph and would appreciate your comment on this:

> About a year ago Mr. Gordon made a statement to the effect that morale among employees was high, which is grossly false.

I would appreciate it if you would make a statement or give your analysis of the comment which is continually coming to me, that morale in the Canadian National Railway amongst the employees is very poor.

Mr. BROOME: Who signed the letter?

Mr. FISHER: That was signed by the officer.

Mr. HORNER (*Acadia*): I think it is pretty well an agreed fact, anyway.

Mr. GORDON: Well, I do not know quite how completely I should deal with this question. My temptation is to deal with it fully, which will take a little time.

Mr. FISHER: I would appreciate it, if you would, Mr. Gordon.

Mr. GORDON: It may also be the appropriate place, Mr. Chairman, to take advantage of the invitation of the committee to make a statement in respect to many matters which have been discussed in regard to morale, management, etcetera, and perhaps we will cover them all at one time, with your permission.

The CHAIRMAN: I think it might be a good idea.

Mr. GORDON: Those factors which affect morale, it seems to me, have to be analysed before you can make a general statement such as I have just listened to. I went to the trouble, for instance, to look up the meaning of the word "morale", as I could not be sure myself what it means. I found last night that the *Oxford Dictionary* says that "morale" means a moral condition, especially of troops, as regards discipline and confidence. I can assure you at once that there is no break down of discipline on the C.N.R. that I have been able to trace, so I do not believe that is what is in mind when the subject of morale is touched upon. Therefore, we get into the question of confidence. There cannot be much doubt about it, that when you get into a period of time particularly such as we have experienced in the last two years, with a very serious decline of traffic as our discussions over the last few days have shown, and the railway is losing its preferred position in the transportation business, that has a depressing effect on morale. All I can say on that is that the C.N.R. management has maintained its relative position as well as any other, and that has taken place through very strenuous efforts indeed.

Under the heading of "change" we have talked a good deal about the meaning of the massive technological change in the railway industry which has been revolutionized over the last few years. It must be recognized and realized that the railway industry is no longer top dog in transportation. That is bound to have a depressing effect on morale of the old timers, particularly those who feel that in some way they are being let down.

I am giving you factors now which have to do with the sort of expressions that I have heard about this thing. Perhaps towards the end, Mr. Wilson our vice-president, personnel and labour relations, whose position brings him into much closer touch with these things, will have something to say, but I shall ask him to let me finish first, because I have a lot to say.

On the subject of reorganization I have pointed out that this has also been a massive change and it had created a great deal of uncertainty, despite the fact that we have informed all our employees, the unions and the government of our plans and we have circulated a lot of information about what we expected would happen. These uncertainties have persisted for the last two years, particularly because each man said to himself: "well, it looks all right, but what is going to happen to me"? In talking about the thing backwards and forwards he assumes the worst. It was only this year we were able to implement our reorganization plan and we think a lot of these uncertainties have evaporated.

Now, Mr. Chairman, there is the general situation with regard to labour disputes, and here is a matter which I think should be cleared up for the benefit of the committee. The fact that we have had major disputes over the years, which came pretty close to strikes, have raised the impression that management is continually fighting with labour. That is not so. Our relations, by and large, are good with labour. I had these figures extracted as a matter of interest and they show that since 1950 the Canadian National Railways have negotiated 275 agreements. The number of these that were settled through direct negotiation was 214. That is to say, 77.8 per cent of our negotiations were amicably settled across the table in collective bargaining. There were 67 that were taken to conciliation boards, that is, 24 per cent, and of the 67 which were taken to conciliation boards, 51 were settled in favour of the company's position.

We have only had conciliation arbitration involved in two cases, one the dispute on railways, on which Mr. Justice Kellock adjudicated, that is the 1949-50 dispute, and the 1957 dispute with Mr. Justice Sloan. I do not think

it is necessary to point out that the 1950 labour dispute was one which I inherited, because the dispute had been going on for a long time before I took over the presidency in January 1950. However, my name became associated with it and with the strike which took place during my regime. But, it should not be assumed that because of labour disputes of that kind we are in continual conflict with our labour.

I now want to make reference to the loss of morale which has been occasioned by attacks made upon the management of the C.N.R. I want to say that in my opinion there has been a stream of irresponsible, uninformed, hostile and malicious statements made in the House of Commons, and naturally carried in the press, over the radio and on television, all seeking to disparage Canadian National management, and also the Canadian National organization as an inefficient organization, with incompetent management, all of which certainly will disturb morale. You can hardly expect anything else, and so I come to this point.

Mr. Chairman, I said I would take advantage of this opportunity to make a general statement in connection with the matter. I say therefore that the fact that attacks have been made against me under the protection of parliamentary immunity entitles me to speak, now that I am before a committee of parliament.

I ask the indulgence of the committee to make a statement and, before I do so, I call attention to one of the fundamental rights declared by parliament in respect of the construction of law as it affects the individual. I refer to section 2 (e) of the Bill of Rights which declares that no law of Canada shall be construed or applied so as to—and I quote—"deprive a person of the right to a fair hearing in accordance with the principles of fundamental justice for the determination of his rights and obligations." I cannot but wonder, therefore, why parliament in the course of its deliberations should not be guided by the lofty principles of legislation enacted by it rather than permitting a few members to import into our Canadian way of life that ugly form of character assassination which has come to be known as McCarthyism.

The charges and accusations which have been made have consisted of general statements that have been supported by no evidence or proof. I shall not weary you, Mr. Chairman, with a detailed repetition of the references to which I take exception. It is sufficient for my purpose to select a few of them: that I am "arrogant" and "haughty" in my dealings with this committee and in the conduct of my work; that I have been "inhuman" in my treatment of C.N.R. employees; that I am "hated" by them; that I am "enemy number one of national unity"; that I am responsible for a low state of morale on the C.N.R.; that I am insensitive to public opinion; that I have failed to consult the board of directors on matters of policy; that I have the attitude of a dictator; and that there is a lack of confidence in myself as president and in the management of the C.N.R.

As I say, these are but samples of what has been alleged, and since they are of a general character, general answers may be regarded as sufficient. Thus I call attention to the public statement issued on June 12, 1961, by Mr. W. J. Smith, national president of the Canadian brotherhood of railway, transport and general workers, who made this statement. As I say, it was released on June 12, in Ottawa and I claim privilege to quote the statement as follows:

> At the conclusion of the annual staff meeting of the C.B.R.T. and G.W. in Ottawa last week, national president W. J. Smith announced that considerable concern was expressed by the officers and the staff about what is considered to be a concerted attempt to discredit public enterprise such as the C.B.C., T.C.A. and particularly the C.N.R.
>
> It appears to us that every effort is being made to create in the public mind a belief that the C.N.R. is a hopelessly inefficient enterprise and that the management is totally incompetent resulting in a waste of the taxpayers money.

In this climate of public opinion even the C.N.R. employees are detrimentally affected as it is much more difficult to obtain a fair appraisal of the employees' requests for improvements in wages and working conditions that are designed to keep them abreast of other comparable Canadian industrial workers.

The criticisms have centered around the financial position of the C.N.R. with the implication that management and the employees are largely responsible for deficits incurred during the past few years. The conclusion has apparently been reached that the president of the railway should be changed and that, as the *Financial Post* has suggested in an editorial and articles by so-called transportation experts, there should only be one railway in Canada, this to be accomplished by eliminating the C.N.R. These criticisms and conclusions are made, completely ignoring the all-important fact that practically all the deficits incurred result from the railways, particularly the C.N.R. being obliged to operate as an instrument in the application of public policy by the government of Canada. These facts are borne out by the report of the royal commission on transportation.

Now I come to the particular part of the statement to which I want to call attention. This is, of course, still Mr. Smith's statement.

The C.B.R.T. and G.W. representing one third of the C.N.R. employees takes a great deal of pride in the knowledge that the C.N.R. is an efficient and vigorous enterprise serving the nation well and compares equally with the best of railways on the North American continent. The criticisms of Mr. Donald Gordon as an individual to our knowledge are not warranted.

The criticisms of him as president of the C.N.R. have been unsupported by the necessary evidence and are in a measure a reflection on all C.N.R. employees, designed to discredit in the public mind a great, national, publicly owned enterprise.

While frictions may occur between management of the railways and union officers during periods of wage negotiations, there is a high degree of cooperation between management and the employees in effectively and efficiently operating the railway and thereby honourably discharging the public trust we have as C.N.R. employees and management.

It seems to us that this criticism of the C.N.R. its president and employees is coming at a time when the C.N.R. is finally becoming a major competitive factor in providing this nation with efficient transportation services which our proponents of free enterprise apparently do not desire to see succeed.

That is one statement on that item. I have another which I have not seen yet. I wonder, Mr. Toole, is it favourable or not? I have here a letter from the brotherhood of maintenance of way employees, signed by the vice president in charge of rates, Mr. C. Smith, and dated June 14. It reads as follows:

Dear Mr. Gordon:

During the past several weeks you have been subjected to a sustained and vicious attack by certain members of parliament and by certain sections of the press.

I do not question your ability to defend yourself against such procedure at the appropriate time and place but I feel constrained to write to you expressing, both personally and on behalf of my organization, our desire to see the rules of fair play and equity prevail.

> As you know, we have on many occasions criticized some of the decisions you have made and some of the results of policies adopted under your direction and we reserve the right to do so in the future in the belief that such right of criticism is an integral part of our way of life.
>
> However, we have never questioned your integrity and honesty of purpose and as one member of the subcommittee of the non-operating unions which met with you during negotiation of the settlement of our wage dispute on May 4, 1961, I would express my deep appreciation for the sincere effort you made to bring about the settlement reached.
>
> I have not hesitated to bring this to the attention of our membership and I can assure you that the reaction has been most favourable. Statements made in the house as to your lack of status with the employees are grossly exaggerated.

Mr. Wilson has just handed me another document, which seems to be a statement made by Mr. Frank Hall at Winnipeg today. This I have not seen and I shall just quote what I have in front of me, since I have no other means of knowing what is in it. He is reported to have said at a press conference today:

> I have nothing whatsoever against Donald Gordon. When asked for his views on the recent criticism levelled against him in parliament he said "I think he is doing a good job, but there may be other people better qualified than I to judge him."
>
> Mr. Hall added that his committee had the highest regard for Mr. Gordon and that he personally shared this high regard.
>
> The C.N.R. president is a hard man to deal with but, actually, he is paid to be tough. However, so far as I am concerned, Mr. Gordon tries to get along with organized labour. If any railway employees are disgruntled, it is not because of Donald Gordon.

To continue, Mr. Chairman, there is a great deal here which I put down but have decided not to say but, in addition to these statements I have read as samples, I can, if necessary, answer the charge of loss of confidence in management by producing expressions of confidence by the Canadian National board of directors; by producing evidence of loyalty and support from all ranks of the supervisory forces and senior executives of the railway; and more recently, by pointing to the statement of the Minister of Transport himself to the House of Commons on May 22, 1961, and I quote:

> I must say that personally I have always had extremely good relations with Mr. Gordon. He has cooperated during the time I have been the minister and personally I am satisfied with his work.

Now, Mr. Chairman, it is not unusual to see a campaign of vilification and abuse by a minority and irresponsible group against anyone charged with duties which call for action or responsibility for deciding upon major changes in long established methods and customs. People who do things are always exposed to this hazard, which is so easily avoided by those who are content to drift along in the comfortable complacency of inertia.

Bear in mind, as I have already pointed out during the hearings of this committee, that I did not invent the diesel locomotive nor the thousand and one items of machinery, materials and supplies that have revolutionized railroading technology over the past decade. I did not produce the fierce new competition of the passenger automobile, trucking, airline, pipeline and seaway that has dislodged the railway industry from its one time position of dominance

in the field of transportation. I did not create, but inherited, the financial morass that past generations of railroaders and politicians inflicted upon the Canadian National system. What the management team of the railway has done is adapt and adjust the organization to the changed environment which these developments have produced, and cushion in as considerate a way as possible the impact of these massive changes upon the human beings and the communities affected. This has meant that both the employees and management have done a tremendous job in meeting the challenge of change and deserve credit for the loyal and dedicated teamwork which that represents, rather than uninformed and destructive criticism.

No wishful thinking nor nostalgic recollections of past glories could have altered the inevitability of the change which has had to be faced by the railroad industry and only a forthright acceptance of new conditions and necessary adjustments will ensure a healthy and viable industry that will best reward the efforts of its workers and provide the transportation service suited to develop and build Canada as one of the great trading nations of the world.

Now, Mr. Chairman, in respect of each one of the descriptions or rather epithets that have been used about me, the plain fact is that the truth is exactly the reverse. That, however, has very little to do with the competence of myself and colleagues in management in conducting the affairs of the Canadian National. The Canadian National is a trusteeship in the public interest and our management duty is to conduct its operations in the public interest.

Consequently, may I say that this effort to undermine confidence and destroy respect for the management of the C.N.R. is a most serious matter and is against the public interest as well as the individual interests of all employees of the C.N.R. No organization can be expected to function properly if confidence in its leadership is steadily undermined. This is particularly true when the organization is engaged in a highly competitive business, which in its day to day operations, require teamwork of high quality and high morale. The inevitable consequence of a campaign of this kind is to reduce the prestige of the Canadian National in the eyes of its shippers and other customers, and this in turn will adversely affect its business and reduce its capacity to provide employment.

Mr. Chairman, I would be remiss in my acknowledgments if I did not thank my critics and traducers for the current reaction to their campaign. From press reports and editorial comments, radio and television programs, letters from many people who know me only by name and reputation, and from many, many letters and messages from persons who express personal friendship and affection, I have received comforting reassurance that my efforts have not been in vain and that my record in the public service of my country has not gone unappreciated. Could it be, Mr. Chairman, that after all my detractors had Paul's epistle to the Romans in mind wherein he said, "Let us do evil that good may come".

In addition to this, I would like to deal with a couple of more points on the question of morale. I think the morale of the C.N.R. is being seriously affected by reason of the growing efforts to go over the head of management—to go over the head of management by going to the Minister of Transport and to members of parliament. I mentioned this the other day. I see a growing tendency in this regard. So long as union officials are pressed by their organizations to make this effort, the morale on this railway will not survive.

I do not blame the union officials for that, because union officials of necessity have to do what their membership ask them to do. But so long as union officials know that their efforts to go over the head of management are going to be received, then there is going to be a difficult situation for morale.

Secondly, there has been a lot of evidence—and also comments in the house—of letters from malcontents, frustrated individuals, who are always

with us. These letters are sent forward as evidence that there is low morale in the C.N.R. It would be very surprising to me if, out of one-hundred and ten thousand odd employees, that a few hundred of this type were not to be found, particularly when certain members make a special study of such things in order to defend their declared hostility to the C.N.R. generally. I say that with some emphasis, I hope, because those letters to which I have reference cannot be the place to judge the competence of management or to judge the morale on the C.N.R.

Finally, we have the question of morale which comes out of meetings of this committee. This is a very, very difficult committee for management. The impact of this committee's sessions this year goes right through the C.N.R. organization. I know my organization well enough to know that I have their sympathy, help and support when I appear before this committee; but that is no way to treat the chief executive of a $3½ billion corporation. The detail that is gone into here and the obvious expression of lack of confidence in management's statements is bound to have an injurious effect on the organization of the C.N.R. The meetings of this committee become an ordeal for management and an ordeal for a great part of our head office organization.

To wind up, when you look at the morale factors affecting conditions of work, wage conditions, benefits and things of that kind which have a bearing on management's treatment of employees, then I can certainly certify that there is nothing in management, and evidently management policy, which should cause low morale. It is not from management policies or management action that low morale exists. I repeat, in respect of conditions of work, wages and benefits, and conditions generally in respect of staff, the management record of the C.N.R. will bear comparison with any railway on the North American continent when like is compared to like.

I believe Mr. Wilson would like to make a statement which will be more of a grass roots statement than I have made, because it is his duty to keep closely in touch with employees in all positions on the railroad and to engage in negotiations with all unions. He gets around more than I do. Perhaps I should get around more.

Thank you.

Mr. WILSON: Mr. Chairman, I think that in my position as vice-president of personnel and labour relations I have listened to just as many gripes and beefs as any member of this committee—probably a lot more. I have spoken to many employees, officials, officers of the unions, and members of the families of employees about working conditions, and they do not hesitate to tell me about their frustrations. I classify them in a general way as beefs and grievances. By and large, however, dissatisfactions are outweighed tremendously by the expression of loyalty and enthusiasm from the tens of thousands of railwaymen and women whom you gentlemen know in your constituencies—these railwaymen and women who are the backbone of the country. Inevitably, in any group of ninety thousand people, there are bound to be some who have frustrations and some who have grievances, real or fancied. Perhaps they consider they should have been promoted instead of somebody else. There are some who are resistant to change and who think the way things were done a generation ago was perhaps the best way, and who think that any new procedures which are to be adopted are not for them. There are some such people.

I suggest to you, Mr. Chairman, and through you to members of this committee, that many of the gripes in the letters members have said they receive from local union lodges or individual employees are from those relatively few employees who are dedicated to that type of thing, people who have unreasonable gripes or beefs, real or fancied.

The Canadian National, as Mr. Gordon has said, is as good an employer and amongst the best employers in Canada; there is no doubt about that at all. Perhaps I could remind you that, when there is a possibility of a man, who has employment relationships with the company, losing his job for one reason or another, whether he has been discharged for a violation of the rules, or for some misdemeanor, or whether his job has disappeared, there is a terrific campaign on the part of everyone to try to get that man put back to work.

On Saturday, the hon. member for Westmorland held up a package of cards.

Mr. CREAGHAN: The 960 postcards which were sent to me.

Mr. WILSON: It was a cabal; it was a campaign. They were all identically worded and mimeographed. Nevertheless, those 960 cards were distributed to employees in the Moncton area, I presume, and they signed them, put a stamp on them and mailed them to you because of the fact that due to a change found to be necessary by management in the method of repairing passenger equipment, 14 men laid off, were likely to find it difficult to get other positions. I suggest to you that is "esprit-de-corps", if I understand what esprit-de-corps means. Those people have certainly rallied to the support of their fellow employees. They did not send the cards to me or to Mr. Gordon. They sent them to you.

But there is a pride amongst the C.N.R. family that I think is second to none in any company in Canada. We have, in the C.N.R., about 31 per cent, according to the latest statistics of our employees, who have service of more than 25 years. Of those, 17,418, as of the end of last year, have an employment relationship of over 35 years. If I were to include the group with over ten years' employment relationship, including those with 35 years or more, the group is nearly 67 per cent of our total work force.

Now, employees who have a pitifully poor morale, I suggest, do not stick around in a company that is a poor employer for that length of time. During the past decade there have been tremendous improvements in the benefits for employees and in working conditions. We have, under Mr. Gordon's leadership and with the cooperation of parliament, invested a large amount of capital in the Canadian National Railways to rehabilitate a property that was exhausted. We make the claim that today we have a practically brand new railroad with new diesel locomotives and heavier rail etc., and improved facilities. The provision of power tools and equipment has taken much of the drudgery out of employment. Such things have created for the employees an enthusiasm for the company that is not expressed by a few malcontents who write letters. It is sensed by me and would be by you if you were to speak to the right people in your constituency, the ones who do not seek you out to tell you that the C.N.R. morale is at a very low ebb, but the tens of thousands of people who find employment with the company to be very attractive and rewarding. They have something to be proud of.

I do not want to prolong this—indeed it is a subject I could talk about from nine in the morning until nine o'clock tonight—I would just like to give the committee, Mr. Chairman, a few highlights of what I think is a good indication of the morale of the Canadian National employees. If you had been able to attend a field day held in Montreal by the C.N.R. recreation association on Saturday afternoon—I was not there because I was here, but I got reports on it yesterday from Montreal—hundreds of employees and their families enjoyed all sorts of picnic recreation at the Canadian National recreation grounds. Employees from the shops, from the yards, employees from the offices are had a whale of a time.

There are some 30 such associations across Canada run by the employees, not subsidized by the company or by the taxpayers, but run by employees who elect their own committees. They pay fees. Management assists them, so far as management can by providing whatever facilities may be available. I am sure each of you knows of the location of some C.N.R. recreation grounds where this type of thing goes on. These employees work and play together, and are I believe enthusiastic happy and loyal. We have, at many locations on the system, bowling and curling competitions; shooting competitions; tennis tournaments and other group activities covering practically the whole gamut of sports activities and athletic events, all of which are very popular.

There are 50 employees organized and employee-operated credit unions across Canada. Those credit unions have 30,000 members. They have paid up share capital of over $7 million. I had the privilege of addressing the annual meeting of a large credit union in Montreal a few months ago. Company officers and their wives were there, employees and their wives were there from the shops, senior officers from the shops and from headquarters were there, many of them members of that credit union. It made a most encouraging and pleasant evening, all of which I submit, contributes to good employee-management relations and stimulates morale.

However, during discussions with employees, one cannot ignore that there is some uncertainty and concern as to why the Canadian National Railways is under attack. When ten people are laid off in a given location it usually becomes a cause celebre; it is on the front page of the papers. But when some other company lays off two or three hundred men, you find the story buried in the back pages of the paper.

There is a reason for all this, and the employees generally are concerned about it, I believe. The attacks on management, as referred to by Mr. Gordon, made in the House of Commons and in some sections of the press in what appears to be an attempt to undermine the confidence of the Canadian public in the employees and in management, certainly do not help in our efforts towards maintaining good morale. Nevertheless, the employees who are satisfied with their lot and are happy to be members of the Canadian National family—and that includes 25,000 or 26,000 pensioners whom we still consider as part of the family—worry about what has been going on, and they ask questions of us.

They are not the type of people who, when they are happy about moving into the new headquarters building in Montreal, or happy about improvements in health and welfare plans or the provision of group life insurance or the substantial benefits that have been made in the pension plan, sit down and write to members of parliament or the press to express their enthusiasm. They are unlike the articulate, militant individuals who direct vindictive criticism to people who they consider are their champions, in an effort to vilify management.

I could go on for an hour. I have here much material and many statistics on this subject that would take much too long to cover, but which would perhaps cause me to generate too much heat. However, I do assert, that C.N.R. employees—and you know this as well as I do—are the salt of the earth. They are the solid citizens in every community from one end of this country to the other. Inevitably there are a few malcontents who are "agin" everything, and who eloquently express their discontent in letters. On the other hand the employee who is reasonably well satisfied with his lot but who would accept a little more money if it were coming along by way of a wage increase, doesn't usually write letters making wild and unsupported charges such as some we have heard.

I would like to put on the record a few statistics that to me are most significant, reflecting the stability of Canadian National Railways employees: during the ten years ended December, Canadian National employees purchased $137,217,000 worth of Canada savings bonds, and that represents 500,000 individual subscriptions. Last year, in 1960, when there were tensions of one kind and another resulting from all that was going on in the labour negotiation field and which I shall not rehash now, there were $12,100,000 worth of Canada savings bonds purchased by C.N.R. employees, and that represented 41,726 individual subscriptions.

I do not quote these figures to try to persuade the committee that railway employees are overpaid or that they have too much surplus cash, but I do say that they are thrifty, loyal Canadians, and they are happy in their jobs. But if 500 or 600 or 1,000 out of 90,000 bombard you with letters and petitions, putting forward one side of a story, their particular gripes, I do not think it is too important. I again assert that in my opinion the morale of the employees is good. The morale of C.N.R. employees, however, is vulnerable, and depends upon how the shareholders and how their political representatives of this national enterprise regard them. How they will continue to react to the type of attack to which management and employees have been subjected, can have effect on future morale.

The CHAIRMAN: Any further statements, Mr. President?

Mr. GORDON: I would like to say this. I would like to add this extemporaneously, that as I read what was a prepared statement I realized that perhaps I had emphasized much too greatly the personal point of view in respect of myself. That was not my intention because I want to assure the committee that I am not defending myself personally with any idea of fighting for my job. I am fighting for the organization, and I am making the statements that I do about confidence in management because of the number of senior officers in the railway who are feeling very let down by this kind of an attack.

If there is any heartbreak in this whole situation, it is that I take credit for having built up a first-class senior management organization in the C.N.R., an organization that will stand comparison with any railway on this continent, and indeed with most large industries. A number of those men have come into the railways on my personal solicitation, and because they have had confidence in the kind of management in which I would provide leadership. I have been tremendously concerned to see the let-down of morale in that group.

Mr. Fisher asked me the other day whether there was a big turnover in research workers, and I told him there was. I did not mention one of the reasons then which I will mention now, that is that these men are by definition intelligent young men and have an intelligent appreciation of the kind of future there might be in an organization such as the C.N.R. In past years we have had very little difficulty in recruiting that class of individual. Today I have personally sat and heard them say to me "well, we do not like the look of things. There is too much political interference. Management is apparently going to be criticized and attacked on such a basis that we do not know what our future is going to be." They will wave their heads and say "no, we can do better elsewhere and we do not want to have to take that risk." I say that unless this matter is cleared up and there is a renewal of confidence that management will be allowed to manage without all these forms of attack and character assassinations that have gone on, then I predict to you that the organization of the C.N.R. will crumble, and instead of having the top-ranking organization that I am proud to lead now, you are going to get a very miserable show indeed.

Mr. CREAGHAN: If I may, I should like to say a word. In the first place, I want to thank, and at the same time, congratulate Mr. Gordon for the well prepared statement he has made on this subject. It is probably the most impor-

tant statement that we have had during the committee meetings of the past four days. What he says in great part is true. I do not take question with any part of it. However, the morale of the C.N.R. workers varies from time to time. Naturally, since May it would be very good because of the millions of dollars of retroactive pay and the settlement of the national railway strike. On the other hand, the morale of those who were recently laid off, and the morale of those laid off in the past few years brought about by automation, those who are now former employees of the railway, is about as low as it is possible for morale to be.

No one blames Mr. Gordon, the board of directors and the senior officials for all these unfortunate things which have happened in the last 10 years but I think it is right to say that morale is still naturally low with the employee who has no particular qualifications, and who knows automation and its expansion are extinguishing his chances of securing a job. I am speaking of the man who is 40 or 50 years of age and who has been with the railway for 20 years or so. He is bound to beef about management, reorganization or whatever it may be.

I have telegrams here from provincial secretaries in New Brunswick and also a telegram from the Mayor of Moncton, who was a senior employee of the railway, and they are criticizing the federal government for permitting the senior management to make these changes. Naturally, they complain to me when they are unhappy, the same way as they do if Mr. Diefenbaker and parliament make decisions which are not happy ones for them.

I shall conclude by thanking Mr. Gordon for his very frank statements. I think they were warranted and I believe they are going to do a lot of good for the railway and the employees.

Mr. FISHER: Since, to a degree, Mr. Gordon made this statement at my request, I just want to preface my remarks by saying I am delighted he took this opportunity of laying it on the line from his point of view, but I cannot accept some of the estimates which he has made in his statement. It seems to me that we have had the whole issue which I was trying to present switched completely around. I am not at all bashful about the fact I expressed my criticism in February in the house. In view of the morale situation in the C.N.R., I thought it was time there was a new senior management, but I am delighted with the response which Mr. Gordon has made. However, I have not changed my views, the views I had in February. I know this statement should not go to Mr. Gordon, it should go to the government, but I still feel because of the low morale in the C.N.R. and the doubts among its employees, it is incumbent on the government to do something about it.

Mr. BROWNE (*Vancouver-Kingsway*): I certainly feel Mr. Gordon had every justification for making the statement which he has just made. Instead of being grieved regarding the general allegations made in attacks in parliament, I think it should be recognized these were made by a small number of members. I do not think they were general attacks made on Mr. Gordon by a large number of members, or even by very many members of this committee. I should not want the impression to go abroad that Mr. Gordon was pilloried by a large number of members in the House of Commons. I have had a great deal to say in the house on transportation but I have never mentioned Mr. Gordon in the house. I have raised matters concerning transportation generally and I think note should be taken of the fact that there was not a general attack by members on Mr. Gordon and the managers of the railway.

Mr. SMALLWOOD: I should like to reply to Mr. Gordon's statement very briefly. I feel Mr. Gordon has castigated members of parliament and this committee, but I should like to congratulate him for his patience during the last four days. I am not going to use the argument he has used, but if his atti-

tude during the last four days had been the one he adopted during the last three or four years when appearing before this committee we might have come to this understanding a lot sooner. I cannot understand why he should adopt the attitude he has this year, but I repeat that had we this cooperation from him during the last three years we should have had a complete understanding all the sooner.

Mr. Gordon has mentioned that morale was lowered by speeches made in parliament, but ever since I was elected in 1958 I could not step on a passenger train, travelling between Edmonton and Ottawa, without the conductor, the porter, or someone else telling me about all their complaints. They complained about management and they wanted me to do this and that. We are elected representatives of the people. You, Mr. Gordon, are getting $75,000 a year to run the C.N.R. We are only getting $10,000 a year and we have a responsibility to speak for the people who send us to parliament. I repeat, had we this co-operation during the last few years, we would have had agreement much sooner.

Mr. GORDON: I have no question about that at all. Indeed, what you said is perfectly true. My complaint is that when these matters are raised they should not take the form of generalized statements. I did not say they were said by "members of the house". I particularly said "a few members of the house". However, since you have congratulated me on my changed attitude, of which I am not aware—I am just the same fellow I always was—all I wish to say is that I would be very delighted to accept the changed attitude of the committee. I certainly have never had any intention of coming before the committee and fighting with it. I have been told on occasions by some of my friends that I am a bit forthright, and I am. When I am asked a question I have a tendency to answer it, and not equivocate. Gentlemen, do not get into the position that you cannot take it. That is exactly the position I am in, and I have taken it.

Mr. FISHER: And you have handed it out too.

Mr. GORDON: Maybe I am learning. If I am around here next year, and if I have learned to smile this year, I am sure the chuckle will develop into a laugh, and we shall all have a merry time so far as we can.

Mr. SMALLWOOD: There are one or two questions I should like to ask.

Mr. BROOME: I should like to say a word on Mr. Gordon's statement.

Mr. HORNER (*Acadia*): So would I.

Mr. SMALLWOOD: I wish to add two or three questions.

The CHAIRMAN: Are your questions on the statement which has been made?

Mr. SMALLWOOD: They are related to it.

The CHAIRMAN: If they are on the statement then you are quite in order.

Mr. SMALLWOOD: They deal with the morale of the workers.

Mr. PICKERSGILL: Mr. Chairman, Mr. Gordon has made a statement and so has Mr. Wilson. There are certain members of the committee who feel they wish to make some comments before we go on with the questioning. I think if anyone wishes to do so he should be permitted.

The CHAIRMAN: I think, on a point of order, Mr. Pickersgill is correct.

Mr. HORNER (*Acadia*): I should like to make a statement on what Mr. Gordon has said. I think this is the second statement he has made to the committee, has had extra copies of those statements, handed them out later but not to all the members. I believe if he had done this it might lead to better relations. I shall leave it to him to judge. In my view, it does not lead to better relations. I was one of those who made comments in the House of

Commons, to the effect that the morale of the workers was low. Despite what Mr. Wilson says about the terminal workers in Montreal, I know conditions in my constituency and I certainly maintain despite even what Mr. Gordon has said, that the workers morale is low.

However, I made no mention in the house as to whether or not the efficiency of the management was high, but there were questions asked in the house inquiring what other benefits management received besides the $75,000 a year which the president gets. I am thinking now of travel allowances and such things. Those questions were not answered and that information was not given to the people's representatives. This leads me to believe that perhaps management reserved information on those questions. Now, we hear from workers that vice-presidents come down in special cars to go goose hunting in my constituency. I do not know if that is true or not, but there have been reports of railroad cars parked on the sidings. Who pays for this? Is it the people of Canada? We are not told, and I do not know. The management will not discuss this matter. We can only be left to assume members of the management do all right by themselves when they will not disclose information on this. That has not been elucidated before this committee.

Mr. Chairman, I should like to say this is my first appearance on the committee but I have sat in the background at previous committee hearings. I do not know if Mr. Gordon's definition of the word varies with mine, but he did appear to be arrogant at other hearings and I would go along with what Mr. Smallwood has said. I think there has been a change in his attitude and I think there has been a change in the reaction of members of the committee. It is a most welcome change.

Mr. BROOME: I am rather sorry for some of the statements which were made. I have disagreed with Mr. Gordon but he and I often disagree in his office and in this committee. I have been on the receiving end because Mr. Gordon can dish it out, and this year Mr. Gordon has shown he can take it. I have a high respect for him, let him believe that or not. It is my feeling he is a conscientious manager and I believe him that this committee has a job to do. I have been trying to do that job, and if you go through the things I have been talking about you will find they dealt with the operations of the C.N.R. where I thought, to put it quite bluntly, further savings could be made and a more efficient operation brought about, and where the C.N.R. could contribute to the economic development of my particular area of the country and to the development of Canada as a whole. I shall give one example of that.

I asked questions on several occasions about the policy of the C.N.R. in buying Canadian. I did that last year and this year, reading out excerpts from instructions which go to contractors, and what I was trying to find out was whether in the actual request for tenders for equipment from the railroad itself there was any stipulation regarding country of origin and whether there was any price preference for Canadian supplied goods, the same as is given by the treasury board, and the Canadian National Railways are, in effect, an arm of the government.

I could refer to previous reports of proceedings at this committee where the treatment meted out by Mr. Gordon to me and other members has been rather rough. However, I shall only talk about myself.

I speak to the president of the railway and congratulate him on the marvellous job he has been doing in front of the committee this year. You have been doing a marvellous job. You did a good job previously but you did not work in cooperation with the committee and the fact that we may not accept a blanket statement but may want to ask further questions may have been taken as a personal reflection upon you. However, it may be taken that we have ideas too.

Mr. Bladen, who was appointed a one man royal commission for the automobile industry, knows nothing about the automobile business. The man who wrote this report knows nothing about the railroad industry. The men who judged the firemen on engines, were people who could make assessments of conditions and make recommendations. There is this difference, there is enough intelligence and there is enough experience, both in the experience of those persons within their own work that they have done, and experience of the conditions in the areas in which they live. This committee is a very valuable forum, and this committee can be of tremendous help to the management of the C.N.R. We can bring new life, a fresh approach and a fresh viewpoint which may be of assistance to the president and his staff. They may be the best staff of any railroad system in the world, but they are not perfect, they are not omnipotent and they are not omniscient. I say that the railroad is gaining out of these committees, that instead of complaining about the work you have to do to prepare for this committee—and this is the one appearance you make in the year—you should be glad that this committee is a functioning committee, a good committee and a worthwhile committee. I think Mr. Gordon has unwittingly made reflections on the work of the committee, and has made reflections on the work of parliament. Do not forget that all other crown corporations pretty well go through this. All other departments have to go through it in greater detail. There has been a reflection, in that it is said that we should not ask questions about details, that we should not get into depth, that we should skim over the surface. I have been harping on U.S. lines. The chairman says U.S. lines deficits are worth it because of the continuing benefit to the railway. If I accept that right away, in that case we can go over this report in 15 minutes. That is just all I have to say.

Mr. GORDON: Thank you. I am listening. I am perfectly willing to hear these statements.

Mr. HORNER (*Jasper-Edson*): I would like to concur in some of the things which other members have already said. However, it has been my experience in the last three years that the C.N.R. management—this is my experience as a country boy coming into this—came into this with a chip on the shoulder, and we started out with antagonism immediately. Certainly, I thought we were getting a lot more information this year and was quite pleased with the way the committee was going. However, your statement indicates that we, as members of parliament on this committee, should come here and sit and listen to the annual report being read and then all get up and say Aye, Aye. If that is the position, that is too bad. I do not forget the responsibility we have to others as well as to ourselves. We have a responsibility, certainly, to our constituents, not only to railway workers, but to farmers and everyone in our area. The C.N.R. is a public corporation. We are not going to fulfill that responsibility by any means by an act of parliament, or by instructions to management, or anything else. I believe that if management would take a different viewpoint, as well as perhaps the members of parliament, towards this committee, if we would not be stymied in regard to information—and it does not have to be detailed and specific information in most cases—if there were informed, we could become ambassadors of the C.N.R. There is no one who would not like to see that happen, who would not say: "Why not ride the C.N.R.?" I ride it any time I ride a train. We would require some appreciation by the C.N.R. management of our position, and of the fact that even though in Ottawa an M.P. is not counted much, when we get back home we have to answer questions. Away back home they expect us to know something about it. If we just said that Mr. Gordon showed us the annual report, said there was a deficit of $67 million and then that was all there was said about it, I wonder what those people would be likely to say about myself?

Therefore, I think there are two sides of the story. While Mr. Gordon may feel he would be flattered, I did not feel that way. I know what was said in the house. He did come in here with this brief of his and with his management team, and it was doing a good job, and we certainly got far more information this year than ever before. It took a little longer. I know he does not like sitting here, but then we do not quite appreciate sitting here either, on these hard chairs, all the afternoon. I believe there are two sides to the story.

In regard to the question of morale, there has been some saying in the political world about the brass and the dross. I believe there is something which is well worth looking into, since you cannot get on a train, as I did a month ago, without every employee on that train being brought back to talk to you. How are we to judge this morale if complaints continue year after year, and if we get some complaints which are not just by a group or an odd disgruntled man?

Mr. PICKERSGILL: I would like to say a few words.

The CHAIRMAN: You have been very quiet.

Mr. PICKERSGILL: It is the first time I have been a member of this committee, and I feel I am being pretty presumptuous in saying this.

The CHAIRMAN: Go ahead.

Mr. PICKERSGILL: I appreciate quite a bit of what Mr. Horner said, that the committe was going to be of no use at all unless it were to make a serious effort to understand what the railway was trying to do and to understand its operations. I have never hesitated—as Mr. Gordon very well knows, and I have some memories—to suggest that I know there is something wrong with the railway if I think that is so; and equally I have never hesitated to say there is something right with it, if I think that is so, and that is most of the time.

I never thought I would find myself in the position of being champion of the late Senator Meighen. However, I think we rather forget that when this problem was first posed on the doorstep of the Canadian taxpayer, between 1914 and 1920, when the C.N.R. was put out of its collection of bankrupt roads, which should not have been allowed to become bankrupt, and the water squeezed out of them, before they were made government roads—and which perhaps might be described as a stew, if I may make that reference, sir?

The CHAIRMAN: We all know what you mean.

Mr. PICKERSGILL: We should commend Senator Meighen. He laid down the position at the first meeting of the C.N.R. Every government in my own experience—I say "every government" with a little hesitation, but certainly every government up to 1957—adhered to that. That was that C.N.R. could and should be questioned about anything which any other company would be questioned about, but that the prime interest was to run a railroad and to run it efficiently, and to lose as little of the taxpayers' money as possible. We have had a long experience from the days when the Intercolonial was built, of having railways run by politicians and they contributed enormously to the national debt and very little to anything else. From the time of Mr. D. B. Hanna who seriously undertook to put C.N.R. on its feet, and of Sir Henry Gordon, who, in my opinion, did a magnificent job, in my opinion all those who have been charged with the responsibility over the years have had a problem which, because of the nature of the country, is a very difficult problem. I think our prime duty is not to grind the axe of some small locality or some particular employee. Our prime duty is to see that the taxpayers of the country are not loaded with an impossible burden of debt because we have an inefficient railroad. It seems to me that if we would get that conception of our duty in this committee there would be a great deal more harmony.

However, as some people may say, I was not long enough in the room when the committee was here. I only came in when Mr. Chevrier told me he was going away, and that I would have to take his place. Then I came in to have a look at it.

All this does not mean that there is not some small detail which may be wrong and which should be corrected or brought to the attention of management. We should not approach this question on the basis that this is an ideal situation. At the same time, I do not believe in prejudging questions. I have believed all my life that one should go in and listen to the evidence before making a judgment. It seems to me that there are certain people, I am not going to say whether in parliament, or otherwise, who make their judgment first and then scout around terribly hard to try to find a little evidence to support their preconceived judgments.

Mr. FORBES: It seems to me that this is one of those meetings where after the sermon every member gives testimony. This is the first time I have been a member of this committee, and I would like to give my impression of it. I will join with Mr. Horner and a number of other members and say the morale does not appear to be good. I have had some complaints as I travel back and forth, being in public life for a number of years. However, as a general rule, I do not take it too seriously. My impression is that if Mr. Gordon would take time and travel on the railroad, as we do, in an ordinary car, and meet employees and talk to them, the morale probably would be immediately enhanced.

I take it from the statements which have been presented during the last three days, Mr. Gordon, that you inherited a dilapidated, run down, over capitalized industry. I also take from your statement and from what I observe in travelling back and forth, that you have done a pretty good job in reorganizing that industry to the credit of yourself and your staff and the people of Canada.

Mr. PICKERSGILL: And the employees.

Mr. FORBES: Yes.

Mr. CATHERS: I would like to make a few comments on this. Earlier this week I expressed in the house my very thoughts on this thing, of members of parliament getting up in the house and going after the presidents of crown corporations.

Mr. FISHER: Mr. Coyne.

Mr. CATHERS: I agree with that. I will not go into that.

The CHAIRMAN: It is not in our terms of reference.

Mr. CATHERS: We have, on occasion, in this committee, off and on, since I came down here in 1957—and I will say this and I can defy anyone to correct me—there is no president of any Canadian corporation who has to go through what the president of the Canadian National Railways has to go through.

The CHAIRMAN: Hear, hear.

Mr. CATHERS: I have been at a lot of annual meetings and have listened to presidents and have never heard one who had the answers like the present president of the C.N.R. I know of a company in which a few questions came up and I heard that president say—and I think Mr. Gordon will know—when questions were put to him in such a way that it got the president annoyed, "I will take a punch at that so and so". Mr. Gordon has come to these meetings, and I would say he would have been justified, on account of some of the questions he has been asked, and the manner in which they were asked. That is the worst part of it.

I do not stand for protection. I have been known all around this house, Mr. Gordon, to be one of your protectors. I do not know how it came about. My first experience with Donald Gordon was when he came up on the by-pass and spoke to the members of the Toronto area in connection with the by-pass. He put the case up to us. We questioned him on it. In my own experience I went out the following weekend and drove that way, because it was involved in my riding. I drove that territory and came back with a suggestion to the president to move it over against a certain highway. He took that suggestion and came back and he said: "Mr. Cathers, this will cost the railroad $2 million odd to do this." I dropped my suggestion right there.

I made a suggestion of moving a yard and he accepted that and moved that yard 800 feet away from a certain place, a road which I thought would be of benefit to the railroad map.

I ask, is this the attitude of an arrogant person? I say it is not. You talked about the morale on the railroad. I have had some of those fellows says to me: "Aw!" The first question I would put to them is: "Why are you working for this railroad, if you are not loyal to the railroad; in accepting money, you are being paid for being loyal to the railroad and you should not accept the money." I have asked some of them: "What is your beef?" One fellow in particular said to me: "What does he know about running the railroad?" That is the trouble with any man. I had experience with a company where they brought in a president and every man in that company of 4,000 employees thought he could run that company better than the new president. They made it so difficult for that man that he lasted only three years. Now, there is a reference made here about your salary, sir. I am not one of those who think that $75,000 is high, because you remember Sir Henry Thornton was paid $50,000 per year when a dollar was worth something.

Mr. GORDON: As a matter of fact, it was $100,000.

Mr. CATHERS: Was that right?

Mr. GORDON: Yes.

Mr. CATHERS: He ended up in 1930, or thereabouts.

Mr. GORDON: There was no income tax.

Mr. CATHERS: No income tax. That is another point. When you look at this $75,000 and you get through paying your taxes.

Mr. GORDON: Take off 60 per cent.

Mr. CATHERS: That means that the government is getting back a large part of it.

The CHAIRMAN: Sixty per cent of it.

Mr. CATHERS: There is another point to which I would like to draw the attention of the committee. The C.N.R., ever since it was joined together, has always been a losing thing and you cannot get the same morale in a company which is continually losing money, as you would in one which is making a profit. I remember, for example, the Abitibi Company, Mr. Fisher will know something about them. The morale of that company from 1930 to 1943 was pretty low, but when they start making money it is a different situation. I think, Mr. Gordon, the statement you have made here today has been a very fair criticism of our committee, and I think some of the criticisms from the committee have been fair. I would like to see us carry on this committee. It is the fault of the system we are in. Here you have a company that is run by the government, a publicly owned company, and we have to ask questions from the management of that company which we would not have to ask if it were a private corporation. That is one of the difficulties of this committee. I would like to say that I have personally a great deal of confidence. I admire Mr. Gordon and the way he has come. He has shown a lot of plain ability in the way he has

operated the company and it behooves us to get up in the House of Commons and say so. Mr. Fisher, I do not know how you would like it if the school trustees, after they appointed you to teach school in Port Arthur, should immediately go out publicly in front of those children and belittle you.

Mr. FISHER: I would resign.

The CHAIRMAN: It is approaching six o'clock, the hour when we are supposed to retire.

Mr. BROOME: We should clean this up at 7.30 or 8 o'clock.

The CHAIRMAN: Do you want to sit tonight?

Mr. FISHER: I have a lot more questions on personnel.

Mr. SMITH (*Simcoe North*): Do you think there is any chance of getting finished tonight? How much will you require?

Mr. FISHER: I do not know, but I am game to come back at 8 o'clock.

The CHAIRMAN: Very well, 8 o'clock.

This room is available to the committee tomorrow morning if necessary, but in the morning only. I suppose we will sit here tomorrow morning. The budget will be coming on tomorrow. There is no other room, in view of the other committees which will be meeting.

Mr. FISHER: The reason I tabled that document was for the information of the committee. If it is tabled—

Mr. GORDON: No, you did not. You handed it to me and I accepted it.

Mr. FISHER: Before you accepted it you asked me to put it on the table. As far as I am concerned, I put it on the table. As far as I know that document is tabled.

An hon. MEMBER: The meeting is adjourned until 8 o'clock.

Mr. BROWNE (*Vancouver-Kingsway*): It is not adjourned and that document will have to be tabled, because it is a public document, made public by Mr. Fisher, from wherever it came, and it was put forward for the purpose of tabling, as far as I understand it.

Mr. GORDON: This, Mr. Chairman, is a stolen document purloined from C.N.R. files, and while I am not a lawyer I understand that stolen property when discovered belongs to the owner. I have it in my hand now, and I am quite willing to discuss it at 8 o'clock, and I will discuss it with my lawyers in the meantime.

Mr. CREAGHAN: I think the document should be left in the hands of the Clerk, and at 8 o'clock we can decide what to do with it.

Mr. GORDON: I am quite satisfied with that.

EVENING SITTING

MONDAY, June 19, 1961.

The CHAIRMAN: Gentlemen, we have a quorum.

Mr. BROWNE (*Vancouver-Kingsway*): I wish to raise a question of privilege affecting members of parliament arising out of statements made by Mr. Gordon in this committee today. The first one concerns the member for Port Arthur and the charge that Mr. Gordon made against him in connection with a document which was produced here. As I recall Mr. Gordon's words, he said to the member for Port Arthur "You have certainly connived with someone to get this document. That is my charge." Mr. Gordon should substantiate this charge or withdraw it and apologize to the member for Port Arthur.

Secondly, in the statement which he made to the committee and of which he issued copies to the press—but took care that we in the committee did not get them—he accused members of parliament of making irresponsible, unfair and malicious attacks on him in the House of Commons. I suggest those words are unparliamentary and would not be open to use to a member of parliament. They should be required to be withdrawn by Mr. Gordon.

Mr. SMITH (*Simcoe North*): On the first matter of the document I should like to say, and if I could be permitted to go a little farther on that and speaking as a country lawyer of limited legal experience, in my opinion, whoever produced the document and however it got before this committee, it becomes neither the property of Mr. Fisher nor the property of Mr. Gordon; it becomes the property of the committee, and it should so remain. The subsequent proceeding might later be to determine how it got into Mr. Fisher's possession. But regardless of the physical handing of it from one person in attendance before the committee to the other, it becomes a document which is now the property of the committee.

As to the allegations as to how Mr. Fisher got it, it is possible and reasonable that it may have come into his hands without any connivance on his part, because it could very well be that the document was improperly removed from the C.N.R. file. I am not suggesting it was not, but it is quite reasonable to expect it might have been removed from the C.N.R. files without knowledge on the part of Mr. Fisher, and it may have come into his hands innocently in so far as his possession of the document goes. That does not in any way detract from the fact that the document is now the property of the committee, as I see it.

Mr. CATHERS: Mr. Chairman, can a document such as this, on which there is no signature and the source of which is unknown, be evidence in this committee? Can a piece of paper come in here with a lot of figures on it and be put here with no authority as to who issued those figures?

Mr. SMITH (*Simcoe North*): In my opinion it would have the same evidentiary value as a document would have in court. It has some evidentiary value, but until the original source and figures are explained, it is still evidence for what it is worth. The committee may either accept it or discount it in large measure, but it is still evidence.

Mr. CATHERS: If it is in order that this document should be presented to this committee, then I would think that this document should be tabled. It should neither be returned to Mr. Fisher nor to Mr. Gordon. I think it is now the property of the committee.

Mr. SMITH (*Simcoe North*): That is also my opinion.

Mr. HORNER (*Acadia*): Are you stating there, Mr. Cathers—and pardon me for interrupting—that it should be tabled as an appendix to this committee's meeting?

Mr. CATHERS: In the first place I question whether it should be part of the evidence when the source of this document is unknown and it is unknown who is behind it. If it is in order for that to be tabled, I think it should be tabled.

Mr. BROWNE (*Vancouver-Kingsway*): Mr. Chairman, I would like to suggest that I feel the question of privilege which I raised should come first. I am prepared to deal with the question of the document and the rules of the house when we come to that question. However, I think the question of privilege which I raised should be dealt with first.

Mr. CREAGHAN: The question of privilege and the admissibility of the document are so closely related that you cannot separate them. Mr. Browne raised two questions of privilege. We should decide on this point and on the admissibility of the document first of all, and then discuss the second issue of privilege. You cannot have three things at once.

Mr. BROWNE (*Vancouver-Kingsway*): I raised the question of privilege, and that has not been dealt with. The first question of privilege is the one concerning Mr. Fisher. That should be dealt with first.

Mr. CREAGHAN: The only way to solve that is for Mr. Fisher to make a statement or give evidence, because the only way to clarify the issue is to have some indication as to how he got it. He has been accused of getting it through connivance. He should be able to make a statement to rebut it.

Mr. FISHER: I denied it.

Mr. MCPHILLIPS: My submission is that after all we are not a court of law. Courts of law have to determine the admissibility or inadmissibility. We are a parliamentary committee. This document should be put on the files of the committee, and when the committee comes to its report it can decide whether it is of evidentiary value.

Mr. BROWNE (*Vancouver-Kingsway*): We are not either here to have unfounded accusations made against members of parliament.

Mr. SMITH (*Simcoe North*): It is possible that the word "connivance" is a word of many interpretations, as anyone would know who has had some experience with the courts. It seems to me that "connivance" in the sense that Mr. Gordon used it would have meant that the document was obtained possibly on the solicitation of Mr. Fisher. I think Mr. Fisher has denied that he in any way solicited or asked for the document to be produced by him.

Mr. FISHER: I assume it meant that I had aided and abetted thievery—and I deny it. If Mr. Gordon wants to leave it on the record that he thinks I did, he is welcome to it.

The CHAIRMAN: I do not think that is in the record. You say:

> Mr. FISHER: All I am going to state in this regard is that it was given to me by someone who indicated that he had a relationship with the former companies.

Mr. Gordon said:

> It is a statement which by the look of it has been stolen from our files; and I would like to know how you got it.
>
> Mr. FISHER: I did not steal it from your files—
>
> Mr. GORDON: You certainly connived with somebody who did.
>
> Mr. FISHER: I connived with someone who did?
>
> Mr. GORDON: It looks like it. That is my charge.

Mr. Fisher, you repeated Mr. Gordon's words when you asked whether you connived with someone who did.

Mr. FISHER: I thought I said at the time that I certainly did not connive with anyone with regard to this. I had no idea what relationship the document had, whether it was an authentic picture of things. I did not know whether it was a figment of the imagination—I knew nothing about that.

The CHAIRMAN: But you said "information given to me by people who were formerly related to these organizations".

Mr. FISHER: That is correct, but I certainly did not connive in the stealing of it, if it was stolen.

Mr. GORDON: Let me make a statement. I want to call attention to the record. I never at any time accused you of stealing it. I said:

> Mr. GORDON: It is a statement which by the look of it has been stolen from our files; and I would like to know how you got it?
>
> Mr. FISHER: I did not steal it from your files—
>
> Mr. GORDON: You certainly connived with somebody who did.

Mr. FISHER: I connived with someone who did?

Mr. GORDON: It looks like it. That is my charge.

I did not say you connived with him to steal it. I said that somebody stole it from our files, and that you worked with them in connection with it. Certainly you must have because the document is in your possession. The word "connive" was not used by me to suggest that you went down with this individual to steal the document. I had no such thought, and if I left any such implication I withdraw it. I do, however, suggest that the person who got the document consulted with you, showed it to you, and that at that point you connived with him. In my own words I said that you certainly connived with someone. You did, but that was after he stole it.

Mr. FISHER: You say it is a stolen document?

Mr. GORDON: I say it is a statement which by the looks of it has been taken from our files.

Mr. SMITH (*Simcoe North*): Have you suggested Mr. Gordon, or have you any evidence, that Mr. Fisher solicited anyone to remove this document from your files?

Mr. GORDON: No. I did not have the remotest suggestion in mind. I did not think it and did not say it. I am not making that accusation at all. What I am pointing out is that the document had been given to him by somebody who apparently took it from our files.

Mr. PICKERSGILL: Do you think there might be another interpretation put upon it? Do you think Mr. Fisher was perhaps the innocent victim of a hoax?

Mr. GORDON: No. I have never regarded Mr. Fisher as innocent.

Mr. HORNER (*Acadia*): In order to wind this up, I move that it be tabled as an appendix to the committee's proceedings. Let us get on with our proceedings.

Mr. GORDON: I am agreeable.

The CHAIRMAN: Are you satisfied to have it tabled here?

Mr. GORDON: Yes. I tave talked to my legal people and they tell me I am quite right. If the document is tabled, I am satisfied.

Mr. CARTER: This is a document being tabled by a private member.

Mr. HORNER (*Acadia*): If the committee agrees, then it may be tabled.

Mr. CREAGHAN: Is the motion that it become a part of the record or that it be tabled?

Mr. HORNER (*Acadia*): That it become part of today's proceedings.

Mr. BROWNE (*Vancouver-Kingsway*): Mr. Gordon has described the members of this committee as being unfair and malicious.

Mr. MCPHILLIPS: Let us deal with this first.

Mr. FISHER: May I reiterate again that I connived with no one insofar as the document is concerned. I would like to put it to all members of the committee that I am sure every one of them at times receives persons in their office and receives phone calls and letters from persons who provide them with information asking that they keep it to themselves. When I say keep it to themselves, I mean the person's name. Now, whether or not a member wishes to make use of the information is up to the member. I was asking questions on the basis of this particular document. That is how it came to be here. At no time did I connive with anyone. I have not the least idea whether it is a document which was stolen from the C.N.R., and I strongly doubt it.

Mr. GORDON: I accept your statement on that.

Mr. PICKERSGILL: This proceeding is wholly irregular. It is a well known rule of the House of Commons that the only members who can table documents

are members of the government. The idea that an anonymous piece of paper, brought by someone who refuses to disclose the source, should be in the record of our proceedings seems to be bringing our proceedings to something close to contempt. If the committee wants to do this, they can go ahead; but I think we should pay attention to the proprieties and the procedure in parliament.

Mr. HORNER (*Acadia*): You are out a country mile. Question.

The CHAIRMAN: What is your pleasure, gentlemen?

Mr. HORNER (*Acadia*): This is a motion that it become an appendix to the committee's proceedings.

Mr. PICKERSGILL: I suggest that someone take the trouble to make a motion in the English language, or in the French language, which makes some sense.

Mr. BROWNE (*Vancouver-Kingsway*): I suggest there is no need for any such motion. The rules are clear. I quote from Beauchesne's fourth edition paragraph 324 (3):

> If a document has been formally laid before a committee of the house, and entered upon its minutes, it is in the possession of the house, and it is a breach of privilege for any person or department to withhold it. A member who claims the production of papers for his own justification is not entitled to them as a matter of privilege...

That rule makes it clear that we do not need a motion.

Mr. GORDON: This whole episode arose because Mr. Fisher tried to get the document back and I objected. He came over here and asked for the document back and I refused. If the document is on the table it is all right by me. The only kefuffle arose when Mr. Fisher demanded the document back and I said "I will not give it to you because it is a stolen document."

Mr. FISHER: You have introduced a new element here. I was not trying to get it back for myself, but rather for the committee.

Mr. GORDON: Oh, well, I am sorry; I misunderstood.

The CHAIRMAN: I do not know that it is going to do any harm. It is like an orphan who has neither a mother nor father. It is not signed by anybody.

Mr. BROWNE (*Vancouver-Kingsway*): Mr. Gordon has claimed it as a document of the Canadian National Railways, and as such it seems good evidence before the committee.

Mr. CARTER: It must be identified in order to be properly tabled.

The CHAIRMAN: It should be.

Mr. CARTER: We should know the author of it.

Mr. HORNER (*Acadia*): Apparently the railway says it came from their company. It is a document, according to Mr. Gordon, which comes from their files. This is clear to me. I move that it be tabled as an appendix to today's proceedings of the committee. Let us get on with the matter.

Mr. PICKERSGILL: We have the benefit of Mr. Ollivier's presence here and I would suggest we ask him to interpret the rule with regard to the rights of private members to table documents in the house.

Dr. P. M. OLLIVIER, (*Senior Law Clerk*): I think even when private members quote a letter in the house they are asked to table it.

Mr. PICKERSGILL: But we never do.

Dr. OLLIVIER: If you refer to a private document or letter you are asked to table it and you do table it.

The CHAIRMAN: Whether or not it has a signature.

Dr. OLLIVIER: Yes; for what it is worth.

Mr. SMITH (*Simcoe north*): I do not think there is any motion. This document has been produced as part of the evidence before this committee.

Dr. OLLIVIER: You do not need a motion to table it, but you need a motion to make it part of the record. You do not need a motion to table it; however, you would to make it part of the record.

Mr. HORNER (*Acadia*): Well, I indicated that I wanted it made part of the record.

The CHAIRMAN: All those in favour of the motion for tabling it and making it part of the record, as an appendix, to today's proceedings? There are eleven.

All those opposed? There are four.

Mr. HORNER (*Acadia*): Trained seals.

The CHAIRMAN: The next is "Personnel and Employee Relations".

Mr. BROWNE (*Vancouver-Kingsway*): Now, Mr. Chairman, I assume that we are dealing with this document at the moment—the motion to have it tabled and printed as an appendix.

When this document was first introduced I think the committee was talking of disregarding it as being an anonymous letter. However, Mr. Gordon has claimed it is a Canadian National document. On this basis I think we are entitled to some explanation, because it is in conflict with what Mr. Gordon told the committee in connection with the trucking operations of the Canadian National. I think we are entitled to have an explanation. He has told us it is an authentic Canadian National document and, however it got before the committee—it is here now—and it appears to contradict what Mr. Gordon told the committee before. Because of this I think we should be entitled to an explanation.

Mr. CATHERS: He made an explanation on this. He said it is part of a story.

Mr. BROWNE (*Vancouver-Kingsway*): Well, let us have the other part.

The CHAIRMAN: Is it the committee's wish to go back to the trucking services?

Mr. BROWNE (*Vancouver-Kingsway*): I want an explanation of this document. Mr. Gordon said the trucking operations made an overall profit. However, this document shows a deficit of around $400,000. He claimed this as an authentic document of the Canadian National, and I think we are entitled to an explanation of that.

Mr. GORDON: I think I made it clear that this is not a complete document. Also, I stated that all our trucking operations in western Canada were taken into account and there was a small profit. I also said it looked like a document that had been stolen. I did make the statement before, with the figure which I gave, that there was a small profit on all our western operations. There was a small profit, as I say, and this statement includes only part of the operation.

Mr. BROWNE (*Vancouver-Kingsway*): What operations are not included in that?

Mr. GORDON: Midland Superior.

Mr. BROWNE (*Vancouver-Kingsway*): Can we take it these are authentic figures for the operations that are covered in that document.

Mr. GORDON: I do not understand you.

Mr. BROWNE (*Vancouver-Kingsway*): Can we take it that these are authentic figures for the firms named there?

Mr. GORDON: No, I am not certifying these figures. They simply say it was a statement made up through a discussion at one time or another, which someone appears to have got hold of. I am not certifying it as correct, nor am I filing it. I do not say it was an authentic document. It is one that appears to have been stolen.

Mr. CARTER: It is not an audited statement.

Mr. GORDON: Certainly not. We make out lots of statements which show very little meaning, when the final product appears.

Mr. BROWNE (*Vancouver-Kingsway*): Do you make a definite statement that these are not authentic figures?

Mr. GORDON: I am not going to be drawn into any statements on it. I am not presenting it.

Mr. HORNER (*Acadia*): You have examined that document?

Mr. GORDON: No, I have not. I just took it from Mr. Fisher.

Mr. HORNER (*Acadia*): You kept it a couple of hours this afternoon.

Mr. GORDON: But, I did not use it.

Mr. HORNER (*Acadia*): But you must have looked at it.

Mr. GORDON: No, I did not.

Mr. HORNER (*Acadia*): Well, look at it now. Can you tell the committee that these two companies mentioned there lost that amount of money?

Mr. GORDON: I am not going to deal with it at all until I can check with my files and with my officials. It is not an official Canadian National document.

Mr. HORNER (*Acadia*): It is for the full year of 1960.

Mr. GORDON: It is merely a piece of paper that contains some figures somewhere along in the discussion. However, I said that our total over-all operations returned a small profit for the year 1960.

Mr. HORNER (*Acadia*): But can we assume that these companies in western Canada lost money for the year 1960?

Mr. GORDON: I told you that the operations in western Canada made a little money.

Mr. CARTER: Mr. Chairman, did we not say we were going to pass on to personnel and employee relations?

The CHAIRMAN: We have passed trucking services, unless you, as a committee, wish to go back. You are taking a document, which is only part of a report.

Mr. GORDON: Have I not provided the information you wanted?

Mr. BROWNE (*Vancouver-Kingsway*): Well, now, I think in the light of this document which, as I say, I was prepared to disregard as being a purely anonymous document without any meaning—however, you seized upon it, and said it appears to be an authentic Canadian National document.

Mr. GORDON: No, I did not say that. I said it appeared to be part of a report, and that it was stolen.

Mr. BROWNE (*Vancouver-Kingsway*): It appeared to be stolen from the Canadian National files, and you accused Mr. Fisher of conniving with someone in connection with it?

Mr. GORDON: No, I didn't.

Mr. BROWNE (*Vancouver-Kingsway*): In the light of that, if this kind of information is being made available, I think the committee is entitled to know the position of these trucking companies. Are they losing money? If they are, I suggest it is very unfair competition for private trucking companies.

The CHAIRMAN: What reason have you for believing that, when this is only part of a report?

Mr. BROWNE (*Vancouver-Kingsway*): Because one firm changed the whole picture. All these firms were losing money, and Midland Superior made enough profit to offset all these losses. If that is the case, and these firms continue to operate at a loss, I say it is unfair competition for those people engaged in the

trucking industry, as well as the employees of the trucking industry. In this case, these firms lose money, but their losses are picked up by the taxpayer. However, a private trucking company is a different thing. If they lose money, they are driven out of business. I would not want to see that practice being carried on. We were assured in the committee last year that the Canadian National would not operate trucking services at a loss.

Mr. PICKERSGILL: Mr. Chairman, on a point of order. Earlier this afternoon the committee agreed that we had completed the consideration of the trucking section of this report, including any consideration of this anonymous document. It seems to me it should not be the right of any honourable member to reopen that matter. The committee made a decision, and it is a well known rule of the House, that once a decision is made, it cannot be reopened. I suggest we proceed with the agenda, instead of allowing some members to grind their particular axes.

The CHAIRMAN: What is your pleasure? Shall we proceed with the next item?

Mr. BROOME: In respect to Mr. Pickersgill's talk about grinding particular axes, he is treading on dangerous ground, also.

Mr. BROWNE (*Vancouver-Kingsway*): This document now is properly before the committee. We started to deal with this at eight o'clock, and we have not left it. We were not properly able to deal with this document at the time because at that time I was prepared to disregard this as an anonymous document.

The CHAIRMAN: Why do you like it so much now, when it is not signed by anyone?

Mr. BROWNE (*Vancouver-Kingsway*): Furthermore, I suggest on the point of order that we are not formally passing anything. That was agreed when we started. We still have to deal with the Budget, and if it is your wish, it can be raised again, then. However, I think this is the proper time to do it.

The CHAIRMAN: We will have no plan of procedure, either, if you are not going to honour what we have dealt with.

Mr. Pickersgill has raised the point that the trucking services item was passed. Now, if the committee decides to go back to it, they will have to rule that way. As far as my ruling is concerned, trucking services are passed. As I said, this document is only part of one. There is some controversy as to how it got tabled and so forth. What is your wish? Are you going to sustain the ruling of the Chair?

Mr. CARTER: I never accepted at any time that that document was being tabled for discussion. I understood all we were doing was moving that it be appended to today's proceedings, and there would be no further discussion—that it was not before the committee for discussion, and it was a part of something.

The CHAIRMAN: All those in favour of proceeding, raise your hand.

Mr. BROWNE (*Vancouver-Kingsway*): Proceeding, but from where, Mr. Chairman?

The CHAIRMAN: Personnel. All those opposed?

Carried.

Mr. FISHER: There is a second point of privilege that Mr. Browne raised which has not been disposed of. He brought up the fact that Mr. Gordon had in his statement said that members of parliament were irresponsible, unfair and malicious in their comments in the house.

Mr. GORDON: Did *Hansard* bear that statement out?

Mr. HORNER (*Acadia*): Well, you have a copy of your own statement.

Mr. GORDON: I have been looking at it very carefully and I cannot find those words in it.

Mr. HORNER (*Acadia*): The press were given a copy of it. They can verify it.

Mr. GORDON: After the committee met, yes. This statement was written by me at 12 midnight last night and I have been looking over it very carefully—what were the words you objected to?

Mr. BROWNE (*Vancouver-Kingsway*): As I recall them you said there had been irresponsible, unfair and malicious statements made in the House of Commons.

Mr. GORDON: I would like to see the *Hansard* record. I cannot find it in this statement. I was saying in this committee this afternoon:

> Mr. Chairman, it is not unusual to see a campaign of vilification and abuse by a minority and irresponsible group against anyone charged with duties which call for action or responsibility for deciding upon major changes in long established methods and customs. People who do things are always exposed to this hazard, which is so easily avoided by those who are content to drift along in the comfortable complacency of inertia.

I made no reference to a member of parliament there. That refers to a minority and irresponsible group, and I had in mind all the criticism that has been made.

Mr. PICKERSGILL: I would like to raise a point of order here. I do not know when this question of privilege was raised, but I was here during the whole time Mr. Gordon made his statement in the committee, and I heard no question of privilege raised at the time he made the statement. Also, I might remind the committee and you, sir, it is a well known rule of the House that any question of privilege must be raised immediately and not some time afterwards. Mr. Gordon spoke, Mr. Wilson spoke, and then a number of members, including myself, spoke, and at five minutes of six I had to leave. Up to that time no question of privilege had been raised. The question of privilege was not raised immediately the words were uttered, and therefore I suggest the hon. gentleman is quite out of order in raising it now.

Mr. GORDON: May I just say that I have found here in the letter I quoted from Mr. C. Smith, vice-president, Brotherhood of Maintenance of Way Employees, the following:

> During the past several weeks you have been subjected to a sustained and vicious attack by certain members of parliament and by certain sections of the press.

That was Mr. Smith's statement.

Mr. BROOME: Mr. Chairman, on the particular points of privilege which have been raised...

Mr. PICKERSGILL: I raised a point of order.

Mr. BROOME: Well, on the point of order, in a committee such as ours I do not think we have the same stringent rules as we have in the House.

The CHAIRMAN: How do you mean we have not?

Mr. BROOME: We have a little more latitude.

The CHAIRMAN: In what way?

Mr. BROOME: I would say with regard to raising this point of privilege. But if you will let me finish my statement, Mr. Chairman, I may be able to show a way out of this. I am quite sure that Mr. Gordon would not want statements such as have been mentioned by Mr. Browne on the record, and I am quite sure Mr. Gordon would withdraw those words if any member feels they were said about him, because they are not conducive to good relations between this committee and Mr. Gordon. This would be taken care of if

Mr. Gordon, perhaps tomorrow, would file a statement on the trucking operations, thus providing an opportunity of giving a full report of the trucking operations of the Canadian National Railways and their policy, which is the important thing to us.

The CHAIRMAN: That was done this afternoon, was it not?

Mr. BROWNE (*Vancouver-Kingsway*): There was no financial statement.

Mr. PICKERSGILL: No statement was made by the Chairman.

The CHAIRMAN: Gentlemen, I have ruled that the trucking services have been passed. You have supported me. As far as Mr. Gordon is concerned, unless you can find in the record that he said that members of parliament were irresponsible—rather than that a minority group were irresponsible—your point of privilege is not well taken. As Mr. Pickersgill, an experienced parliamentarian, has said, when you have a point of privilege you must raise it immediately after a statement is made, either in the House of Commons or in committee, and the time to raise it was at the moment. Therefore, I rule it out of order.

Mr. BROWNE (*Vancouver-Kingsway*): Mr. Gordon's statement, I think, took the committee by surprise.

The CHAIRMAN: It may have taken you by surprise.

Mr. BROWNE (*Vancouver-Kingsway*): He gave copies of that statement to the press. He made sure it was given to the press, and not to the committee.

The CHAIRMAN: What did he say as far as the members are concerned?

Mr. GORDON: I gave no copies to the press.

Mr. BROWNE (*Vancouver-Kingsway*): I raised it as soon as I heard about it at eight o'clock. I raised it immediately after I came back at eight o'clock.

The CHAIRMAN: Mr. Pickersgill left ten minutes before six and Mr. Gordon spoke long before he left.

Mr. HORNER (*Acadia*): On his own admission he left five minutes before.

Mr. CATHERS: Mr. Chairman, you have made a ruling and I think we should abide by it.

Mr. FISHER: So you have ruled a question of privilege out of order.

The CHAIRMAN: Unless you can say he meant it in relation to members of parliament, it is out of order, but by this record he is saying it was a small and irresponsible group.

Mr. PICKERSGILL: Unalert members, who cannot raise things at the right time.

Mr. HORNER (*Acadia*): Poor little old Jackie! If we had been given a copy, as we should have been, as long as the press was given copies, we might have followed it a little more closely. It was a 60 minute report, and obviously we could not assimilate it.

Mr. MCPHILLIPS: It was swiped by a side wind, and I thoroughly believe the president of the C.N.R. proposed to make the swipe. And furthermore I will say this, that I quite disagree when you say that everything in this committee is so cut and dried it must be done as if we were in the House. I will tell you, Mr. Chairman, if you were in the chair in the House you could not be as partisan as you are tonight.

The CHAIRMAN: I resent that as a reflection on the chair, and if you were in the House of Commons you would not be allowed to say that to the Chair, either.

Mr. MCPHILLIPS: But we are not in the House of Commons.

The CHAIRMAN: You are not going to make a rough-house out of the committee, either, because you could not make a rough-house out of the House of Commons, and you would not be able to say that to the chairman in the house, and I take it as a reflection on the chair.

Mr. PICKERSGILL: This outburst from the member for Victoria is one of the most shocking things I have ever heard.

Mr. HORNER (*Acadia*): Just to look at him would shock the average citizen.

Mr. PICKERSGILL: This deliberate attack upon the chair is being pressed because Your Honour imposed a rule which had been imposed long before the hon. member for Victoria ever entered this parliament.

Mr. MCPHILLIPS: At least I am a lawyer, not a bloody law student.

The CHAIRMAN: I am glad to learn you entered as a lawyer, because by your remarks we would not have known it.

Mr. MCPHILLIPS: I am not asking you to withdraw that, but if it were in the House of Commons it would be withdrawn.

Miss LAMARSH: I want to raise something with respect to pensions.

Mr. HORNER (*Acadia*): I have a question on personnel.

Miss LAMARSH: It is not pension funding, it is pensions. Anything on pension funding will wait.

Mr. HORNER (*Acadia*): We are on personnel.

Miss LAMARSH: This deals with personnel and their pensions.

The CHAIRMAN: Well, Miss LaMarsh, there is a section for pensions a little later.

Miss LAMARSH: Not funding.

The CHAIRMAN: I think so, yes.

Mr. HORNER (*Acadia*): Mr. Chairman, I wonder if the president can state or give the committee some information as to how high up in management are expenses paid in the operation of the Canadian National Railways?

Mr. GORDON: All legitimate out-of-pocket expenses incurred by anyone in connection with the business of the company are reimbursible. The system is that anyone who incurs legitimate expenses in the business of the corporation files an expense account which is approved by his immediate officer, and that passes all the way along until finally it comes to the president.

Mr. HORNER (*Acadia*): Then am I led to believe that the president approves all expense accounts?

Mr. GORDON: No, I said the immediate senior officers to the employee who has the expense account. It is his boss, in other words, his immediate chief, and so it passes on along the line. For instance, I approve all vice-presidents' accounts and the vice-presidents approve general managers' accounts.

Mr. HORNER (*Acadia*): And the general managers approve the superintendents'?

Mr. GORDON: Yes, and all the way down the line. It is the immediate recognized boss.

Mr. HORNER (*Acadia*): What can be legally approved as an expense? Can you give the committee some idea?

Mr. GORDON: Any out of pocket expenditure on behalf of the company's business.

Mr. HORNER (*Acadia*): For example—

Mr. GORDON: On company service.

Mr. HORNER (*Acadia*): For example, the vice-president or superintendent could take a special car and travel his particular region of the railroad inspecting it on so-called inspection cars or something, and have this written off as an expense account?

Mr. GORDON: Yes, he could if he were working on company business.

Mr. HORNER (*Acadia*): Well, it would be hard to determine if he was just making a routine inspection, if he was working on company business or goose hunting.

Mr. GORDON: The officer who is his immediate superior usually knows what he is doing. That is the way it is done in any business I have any knowledge of. Incidentally, I should also say at each monthly meeting of the board of directors the total of all expense accounts is also examined and approved.

Mr. HORNER (*Acadia*): Can you give the committee some idea—and I do not mean out of your expense account—it is totals we are talking about, what would it amount to, say, for the year 1960, or something like that?

Mr. GORDON: I have not got that available. I will take notice of the question and see if I can get the figures. You want the over-all total of expenses on company service during the year?

Mr. HORNER (*Acadia*): Yes, if I could have that.

Mr. GORDON: Will you let me have a chance to look it up and I will see if I can have it in the morning?

Mr. HORNER (*Acadia*): I have some further questions, but I will pass for somebody else, and the opportunity will come back to me later, I hope.

Mr. FISHER: I would like to ask Mr. Gordon a question in relation to an answer which was filed for me at page 4277 of *Hansard*. The question was:

> 1. In 1957, 1958, 1959, 1960, did the Canadian National Railways provide the property of the president at Lustre lake, Quebec, with materials such as naphtha gasoline or services such as laundry, carpentry, and plumbing?
>
> 2. If so, what charges were made and paid in each of these years for such material and services?

And the answer was:

> 1 and 2. Mr. Gordon advises that he has purchased items of supply from the C.N.R. as follows:
>
> Naphtha and gasoline: 1957, $9.68; 1958, $41.23; 1959, $15.17; 1960, $14.85.
>
> Laundry—records not available for 1957 and 1958: 1959, $30.83; 1960, $27.21.
>
> Materials: 1957, $7.60; 1958, $25.60; 1959 and 1960, $378.29.
>
> Labour: 1957, $90.00; 1958, $20.00; 1959 and 1960, $430.78.

My question is, Mr. Gordon, this right or practice of charging for certain services and goods provided for officials of the railway is open to how many of the executive of the Canadian National Railways?

Mr. GORDON: It depends entirely upon circumstances. Anybody who has a courtesy arrangement can get from the C.N.R. goods, which they would pay for, as I did.

Mr. FISHER: Well, for example, could a trainmaster, an assistant superintendent, someone of that level?

Mr. GORDON: I do not know whether there are any such cases or not. It would depend on what his particular situation was. If it happened to be a matter of convenience for the company, I think he would get it, yes. It is a matter of convenience for the company, incidentally.

Mr. FISHER: The reason I raise this, Mr. Chairman, is not that I think this particular item has any particular significance in itself, but I have checked with various deputy ministers or their assistants in regard to this practice, and they assure me it is not carried on in government departments. We have had several examples where the Auditor General in the past has raised the issue in so far as this kind of practice being carried on by senior service personnel is concerned, and I just wanted to draw it to the attention of the committee and let it stand unless Mr. Gordon would like to indicate the value of this practice.

Mr. GORDON: In this particular instance it is such a small incident that I find difficulty in describing it. I have a little property up at Lustre lake as a matter of convenience, and also because it is the only privacy I get. I spend weekends occasionally at Lustre lake and Lustre lake happens to be a very isolated spot and there is no available local labour. As I pass through Ottawa I find it necessary to get my naphtha gas. Naphtha gas is white gas and used in Coleman lamps. It happens that the service station of the Canadian National Railways has naphtha gas, so I give the attendant my 5-gallon can and he puts it on the spigot. I get my gas and I pay for it.

In the case of laundry, I have a monthly account at the Chateau Laurier. I go in there for all kinds of things and when I come down from the camp in the evening I might have some dirty shirts. I leave them in and pay for them in the regular way.

In the case of the labour mentioned there, that possibly was a mistake. I had a fire at Lustre lake and in the process of getting it fixed up the superintendent used some Canadian National Railways' employees and sent me a bill. I was very grateful, Mr. Fisher, for having my attention called to it, because when I went into it I found I paid four times as much by using C.N.R. employees than I would have if I had got someone from Ottawa. Now I am getting labour cheaper. I can assure you I will not let this practice continue. I can do it cheaper.

If you want any assurance from me I can solemnly certify there has been no work or supplies given to me by the C.N.R. that have not been properly paid for. This question of convenience has this added factor, that I have to be available. Even though I am there on weekends, when an emergency turns up I have to be available, for that reason—I remember last time I was at Lustre lake I spent all my time studying the papers preparing for this committee, so I am still working for the railroad even if I am trying to get some privacy.

Mr. BROOME: I am not too happy with this line of questioning. I think it is very penny ante.

The CHAIRMAN: Well, we have pretty wide latitude. I think we have gone into so much—laundering and everything else.

Mr. FISHER: It may be penny ante, but I wanted to know if this was a practice because—

Mr. GORDON: No, it is not a practice. I suppose "practice" would be a word that would cover everybody in the railway doing it. No, I suppose there is an element of courtesy here and aid to the president in a little better way than to others, in view of the fact that the president is always on call. I am on duty all the time and therefore when I pass through Ottawa or get to isolated stations it is true that the superintendent likes to look after me, and he does little services for me and makes sure I am as comfortable as possible. He may pick up my laundry and pay for it. I do not even know if he does it on his own time. Perhaps I have been wrong about that. But the laundry goes in, and I pay for it. I would like to point out in my own interests, and in the interest of my wife's housekeeping, that the sum of $10 for a year's laundry does not represent the degree of cleanliness at Lustre lake. It merely means that I had some odd socks and shirts.

Mr. FISHER: I would like to ask Mr. Gordon if he remembers the press release which he and Mr. Crump issued after the labour arrangements were completed in May?

Mr. GORDON: Yes, I remember it, but I have not got a copy of it before me. Have you got a copy of it there?

Mr. FISHER: In the light of what Mr. Gordon put on the record this afternoon for Mr. Smith, I felt it would be only proper to put on the record here what appears in the magazine "Canadian Transport" for June, 1961, where we have an editorial entitled "power of these unions". This editorial quotes substantially from the joint statement issued by Mr. Crump and Mr. Gordon, and makes this comment on it:

> The quotes should also be remembered in the next round of negotiations and all efforts to further strengthen the unions, for the quotes are an open admission that the railways, as representatives of big business are in the forefront of the fight to weaken organized labour.

I would like to put this question to you, Mr. Gordon: If you hope or plan to have good relationships with your employees; how are you going to get anywhere when you get this kind of reaction from what you have pointed out as your biggest union?

Mr. GORDON: I do not understand the question. You made a statement concerning a statement from Mr. Crump and myself in which we expressed our views about this labour dispute. Those are our views. You may have your own opinions about it, or somebody else may; it is your right, but I do not understand your question.

Mr. FISHER: Here is an indication that seems to me to indicate that the Canadian brotherhood of railway, transport and general workers have taken a strenuous objection to that particular statement, which I think you will all agree is their right. But I ask you, when you get a reaction like this, is this your idea of morale building?

Mr. GORDON: No, it is not my idea of morale building. The point is not in issue. It was a statement having to do with the settlement of this labour dispute which took place on a certain date, and we made a statement there as a consequence of our feelings about the settlement of that particular dispute. It is a statement of fact.

Mr. FISHER: The statement which you and Mr. Crump made, you say, is a statement of fact?

Mr. GORDON: Yes.

Mr. FISHER: Fine.

Mr. GORDON: Since you have quoted from the statement, I think you should finish the statement which came to my attention from Mr. Hall, who was dealing with this matter, in a press conference at Winnipeg today:

> Mr. Hall said that during the closed session this morning, he warned the delegates of the necessity for a very careful approach to the next negotiation with the railways, due later this year. He felt that both the railways and newspapers would criticize them if they were to make any further demands this year. He pointed out that the present situation is not the fault of the unions, but was due entirely to the long delay in obtaining a decision in their last demands. He also expressed the hope some other means could be found to settle railway-union disputes as present methods are too time consuming. He concluded by saying that the best interests of the country would be served if these disputes could be settled within a much shorter period of time.

And that is in disagreement with the general philosophy that is stated in the statement which you mentioned.

Mr. FISHER: You indicated this afternoon in your statement that one of the reasons there might be an unsettled attitude or effect upon morale in the railways was because of the length of these negotiations. Could you indicate what you think the main reasons are for the long dragged-out negotiations, and the fact that they take a period of a year and a half to 18 months?

Mr. GORDON: I do not mind expressing a view on that. My view is that what hamstrings all efforts towards collective bargaining is the realization by both labour and management that the federal government feels it cannot permit a showdown because of the public interest. That is what the government has stated on many occasions. Consequently labour feels safe in pressing demands, and management feels justified in resisting even under a strike threat. That is the situation as it stands now, and this is an amplification of what Mr. Crump and I said in this statement. What we said here is that existing legislation gives no protection against arbitrary action on their part.

Mr. BROWNE (*Vancouver-Kingsway*): The statement Mr. Gordon has made does seem to be in accordance with a statement made by the government in the house during the time this dispute was on. It seems to me that the government took the position that collective bargaining should be allowed to play its full course, and that is the way these things should be settled. It is true that while they felt it was not in the national interest that a strike should take place at that particular time, they did press for the continuation of the railways, and that the basic position that was taken by the government on these things should be settled by collective bargaining, and there was no suggestion that at any time would we permit a showdown between the railways and its employees.

Mr. BROOME: I suggest the only way we can come to a real loose, collective bargaining is when the management has free hands, and labour has free hands; and it is just as Mr. Gordon stated, that if both parties know that it can go to a strike, then there is more chance of reaching an agreement from collective bargaining than if they think that pressure is going to be put on the government by everybody across the country, from the prairie farmer to the eastern manufacturer, to stop a strike at all costs. I think the president is quite justified in what he told us, and in fact that is what happened, to tie the hands of management and to make this situation come about. I think the situation has got to come to a head some time.

Mr. FISHER: I want to make the point that it also would appear very strongly to me that the hands of labour are also tied.

Mr. GORDON: Quite so, and that is what I just said; so long as the remedies that are normally applicable between industry and labour are not available to the railway industry, you will have this difficulty. When a company has a labour dispute in that industry, and if management feels that labour is being unreasonable, or if labour feels that management is being unreasonable, then they have a remedy which is the strike. Nobody said that in the case of the railways strike action has been stopped. I am not saying that management is always right. I simply say that when there is disagreement between industry and management in respect to the level of wages, for instance, the normal remedies which are available to that industry are not allowed to take place in the railway industry.

Mr. FISHER: This paragraph is contained in the Crump-Gordon release, and it is only fair to say that the public realizes that the power of these unions cannot be resisted by the railways so long as the existing legislation tends to

protect against arbitrary action on their part. I like much better the explanation or the analysis that Mr. Gordon has given tonight, because it seems to me that it is a bit more fair than this particular paragraph.

Mr. GORDON: It could be. This statement of course was given at the end of a pretty tough session when perhaps feelings were a little more aroused, immediately after the event, than they would be after sober thinking has taken place. I do not withdraw the statement. I go along with it. It is a joint statement by Mr. Crump and myself. What I have said now is the same thing only in perhaps little more diplomatic language.

Mr. HORNER (*Acadia*): With regard to changing and moving personnel, and the closing down of terminals and so on, does the railroad recognize any responsibility towards the loss of property on the part of railroad workers?

Mr. GORDON: This is a matter of negotiation, and Mr. Wilson is now involved in it. I should like him to answer you.

Mr. WILSON: This is a matter that certainly has been raised now by the running trades and I think I explained earlier today that their organizations have asked that the company assume responsibility for loss of property, or on property which the individual may have to sell. We have had numerous discussions with the representatives of the unions on that point, and indeed the brotherhood of engineers has applied for a conciliation board. We have notice also from the trainmen that they too have applied for a conciliation board. These are items which will be discussed before that conciliation board and I cannot forecast what the outcome will be. It is a demand, by the unions, which is now under negotiation.

Mr. HORNER (*Acadia*): I do not want to become involved either for or against union demands but, you are stating that the railroads do not recognize any responsibility in that respect. Am I right?

Mr. GORDON: I do not think it is in the interests of the employees if we attempt to give judgment now on a matter which is under discussion.

Mr. HORNER (*Acadia*): I thought there had been a decision made on it. If not, I shall leave the matter.

Mr. GORDON: It is in the negotiation stage.

Mr. FISHER: Mr. Gordon, you may remember I asked a question on what view the C.N.R. took of future conditions, and you indicated it was not advisable to release that kind of information. I am not quarreling with that reply, but what I am curious about is whether the C.N.R. at the present time has underway any more contracts with consultants such as Woods and Gordon in this same area?

Mr. GORDON: Well, the answer to that is no. There is nothing current.

Mr. FISHER: At the present time you have not engaged any consultants or firms such as Woods and Gordon, or Price Waterhouse to make any studies within your management framework relating to personnel?

Mr. GORDON: Relating to labour, wages and so forth?

Mr. FISHER: Relating to labour and personnel.

Mr. BROOME: We have engaged consultants in regard to our general reorganization plan, but that is not a study of the kind you are questioning. The study you are questioning is a study of wage levels in comparison with other industries. That is what you had in mind?

Mr. FISHER: Yes.

Mr. GORDON: There is nothing of that kind in hand at present.

Mr. FISHER: I am curious about the fact—at least I claim it a fact, though I may be wrong in my interpretation—that during the last three years of negotiations the railways seem to have shifted their standard or basis for

railway wages. I understand that Judge Milvain did not accept the analysis from the railways, which, I understand, was a shift from what had been presented to the Thompson committee. I am just wondering what standard has the railway arrived at now in relation to what it thinks wages should be. Do you accept the durable goods standard?

Mr. GORDON: No. The durable goods standard is not a realistic standard for the railways. On two occasions we have attempted before conciliation boards to provide something that might take its place, but we remain in disagreement with our labour friends on what constitutes a proper standard.

Mr. FISHER: Now that the Milvain report has been accepted, what standard has that left the railways with?

Mr. GORDON: No standard.

Mr. FISHER: No standard at all?

Mr. GORDON: Except that the railways use their own judgment with regard to the market price for labour generally in the trades we employ.

Mr. FISHER: In other words, that has become the standard for the present?

Mr. GORDON: I do not want to concede for a moment that we have accepted the durable goods standard. There have been representations made by the unions and I am hopeful that at some time we might be able to arrive at a conclusion with them. However, at the moment there is nothing under consideration.

Mr. FISHER: I put this point because a couple of years ago I asked whether it would be possible to get a job classification within the railways in order to arrive at something that would be universally acceptable, but since then there seems to be a kind of negotiation difficulty. I am curious to know whether or not more attempts were made to provide that job classification. I wonder has Mr. Wilson some comment to make on that?

Mr. WILSON: Certainly this question of the acceptability of the durable goods standard as a yardstick has been partially supported by conciliation boards. Nevertheless, they have all recognized the difficulties that exist. I do not want to go into a lot of detail here, but one conspicuous point is that in the durable goods industry wage index there are few, if any, monthly rated clerical office workers involved. Further, there is a concentration of the durable goods industries in central Canada, whereas our employees are distributed throughout the country, a large number in the Maritimes, in the west, and so on. Another point is that the highly paid production workers in the durable goods industry are included in calculating the average hourly wages of durable goods workers while the production workers on the railways are not included with the non-ops. The production workers on the railways are the running trades. The running trades earnings are taken out when we calculate the non-ops average hourly earnings. The monthly rated clerical employees, however, are in, but in the durable goods industry there are practically no monthly rated clerical workers included, so you are comparing things which are not alike. For that reason we tried to establish what would be the going rate for comparable classes of work in the various geographical sections of Canada. That was the evidence we put before the Milvain board.

Without going too far, I feel I should like to say that under the present legislation, with which you are familiar, a conciliation board is not an impartial tribunal, as has been widely claimed. It is a tribunal, appointed or established, consisting of the most partisan spokesmen the companies can find to support their point of view, the most partisan spokesmen the unions can find to support their point of view, and a chairman who sits between them, and who is appointed by the Minister of Labour. Under the legislation they are not charged with finding a just, a proper or a defensible solution to a wage

dispute. They are a conciliation board and they are charged with the responsibility of attempting to find middle ground which is likely to produce a settlement to avoid a strike. It is in that atmosphere that conciliation board reports are written. The Minister of Labour back in 1958 circulated a request to the railways and to all industries coming under federal labour law, asking for their suggestions and recommendations. He also invited the unions to put forward their views as to how the Industrial Relations and Disputes Investigation Act might be revised in order to improve the situation and the climate of negotiations. The railways, through the Railway Association of Canada—and there are quite a number of them in Canada, they were listed in the submission and there are twelve of them—presented their views to the minister, and the unions did also. Nothing has happened as a result of that, so far as I know. Since then, the legislative committee of the International Railway Brotherhoods have annually made a submission to the government in which they refer to these particular problems. They have recommended that a new approach be examined with the hope that it might assist in resolving wage disputes. I believe that in an atmosphere of cooperation with the unions we can get down to some basis such as you suggest, where we can agree on something that all will be satisfied is more comparable than the durable goods versus non-ops averages. For our part we have tried to take the railway force and reconstruct it, having regard to the geographical distribution of employees, the male-female ratio and so on, and to include wages of workers which we think would compare with durable goods workers. We put in the production workers and took out the monthly rated clericals. We have put this to the unions formally, but they have rejected it as something they cannot "buy". This whole area must be re-examined if we are ever to get rid of these long and costly and tension-ridden negotiations on a mass basis to resolve these disputes.

Mr. FISHER: Is the relationship between the railways and their unions any such that you can proceed in a bilateral way, or does there have to be a third party come into this before you can do anything?

Mr. GORDON: I have had some thoughts on that which I do not mind expressing, more or less on a basis of thinking out loud. I have thought for some time that what might be a useful means of trying to approach an area of solution, is to promote the establishment of what might be called a fact-finding board. It would be given the status of complete objectivity and would be expected to give its judgment only on the basis of well analysed facts and measurements. I would hope that such a board could be established, whereby the unions and the railways would pay its expenses and while its opinions would have no binding commitments on either labour or management, the facts would be established and would then form a good basis for true collective bargaining. If such a board could be brought into being with proper staff, and particularly with a man of stature recognized by both sides as absolutely objective, then we would not be arguing backwards and forwards, as we do, from day to day and from week to week about the facts.

What happens before these boards of conciliation, in my observation, is that the unions produce a document and the railways deny it, the railways produce a document and the unions deny it. I noticed the other day when you called my attention to a document which the unions had provided, the railways had a similar document. It had to do with a forecast—and it boiled down to this that, after two or three days arguing, the unions said the railways' forecast was lousy and the railways said that the unions' forecast was lousy. So we tied on that one and did not get anywhere.

I think that if a fact-finding board, not under sponsorship by government, except on the point supplying fact-finding data for officials and statistical data from D.B.S. surveys, or with the assistance of labour; if this fact-finding board could achieve a stature, I think we could find a method of settling disputes within the family, and in that way keep the government and others outside of it and stop the confusion and stop the pleadings and the perhaps well-intentioned interference that have done so much to bedevil the work of unions and management alike.

I have not had an opportunity to advance that scheme or plan yet, but I would like to try it out on the unions some time and see if that is not possible. I am quite sure that collective bargaining can take place only in an atmosphere where the parties are agreed on the facts.

Mr. FISHER: In regard to this, we will be considering this whole area, this whole problem, in this committee, and we can make suggestions in regard to the Canadian National Railways, but of course the other railways are outside our province. Because of that fact, I would like to ask you if you have any indications or any hopes that the other railways, and particularly the other major railway, would be interested in cooperating in a move in this particular direction?

Mr. GORDON: Oh, I have not sprung my brain child. I would like to think how it would be received. I should like to say this. In one of the arguments I read from the unions—I have a copy here—there is something of interest. You will remember that the unions were not permitted to appear before the Royal Commission on Transportation, since the commission held its terms of reference did not include hearing labour disputes or wage matters. Nevertheless the unions did submit a brief to the Royal Commission and it was accepted for study, but it did not become part of the report.

I have, however, a notation of the extract I had in this memorandum I prepared. It was part of the hearing by the International Railway Unions, and said this. This is taken out of context, and I say this at once, but this particular point I might mention:

> What we mean by a wage standard is a principle or set of principles which set forth all the factors to be taken into account in determining wages, and inferentially other major conditions of work of railway employees. It is essential that the criteria embodied in a standard be such that they can be expressed in some kind of mathematical formula. Such formula should be as simple as possible and easily understood. Thus, a standard provides an objective means of determining wages in a manner understood by all, and not easily misinterpreted.
>
> If a standard cannot be easily expressed in mathematical formula, it is less likely to be an objective standard. Different people will interpret criteria in different ways. The formula must be relatively simple, for the same reason, so that there can be little reason for such a wide range of interpretation being given to the standard that it ceases, in effect, to be a standard.

I am quoting this with approval, except to say that the principle of trying to find an objective standard seems to me to be under discussion at least by the union.

Mr. FISHER: You talk of this as your brain child. Have you any idea of launching this before you get into the next round of negotiations?

Mr. GORDON: I do not know. I have been rather uncertain about what I can launch lately.

Mr. McPHILLIPS: Mr. Wilson made an interesting comment a short time ago. I agree with him that the durable goods industry was not too appropriate for railworkers, but when he said he did not know any comparable industry, I was wondering if he would look on the telephone industry. Here is an industry which has heavy gangs, rating gangs, telephone personnel, wire splicers, collectors and so on. Would that not be comparable to the non-ops in the railway?

Mr. WILSON: I would not say so. The list of classifications of employees in our non-ops agreement is very long. They range from red caps in the station to truck drivers, freight handlers, sleeping car porters, office boys, clerical machine operators, those dealing with the maintenance of way, gangs out on the line, skilled mechanics, plumbers, boilermakers in the shop, and so on. It is a global group.

Mr. McPHILLIPS: Do you not have all the tradesmen, including porters and red caps, in the telephone company?

Mr. GORDON: There is one item also which causes fiendish difficulty, that the non-op unions, for example, proceed by national bargaining. That means that whatever agreement is made has to be of national application. You know as well as I do that the wage level in British Columbia shows some difference from the wage level of Newfoundland or Prince Edward Island. Yet we are obliged to make the same ratio or degree of increase in wages when we make a settlement. That causes all sorts of difficulty with railway management. I do not mind admitting there will be spotty cases. In a heavy industrialized area like Montreal, you may be forced by reason of national bargaining to pay the full "going" rate, whereas in Newfoundland or Prince Edward Island, you are paying more than the "going" rate, in fact much more. I have had a protest from Prince Edward Island, written in an angry way, saying that I was ruining the economy of Prince Edward Island by paying so much. But the fact of the matter is, that is one of the complexities that arises. Yet, if we try to work out a system of regional rates we would be into endless trouble there, also. It would not work. The telephone system does not have the national application which we have. While the telephone system runs across Canada, nevertheless the component parts are on a regional basis.

Mr. WILSON: They do not have the wide variety.

Mr. GORDON: I mentioned that as one of the factors. There are others. It is not a simple question.

Mr. FISHER: In regard to the recent increase, is this increase, or something comparable to it, passed along to the employees of your organization who are not covered by union agreements?

Mr. GORDON: Yes, all the same type of members. Perhaps Mr. Wilson had better answer that.

Mr. WILSON: It goes to those people who are in comparable operations—stenographers and office people and employees who are not under a scheduled wage agreement in the accounting department for example, or in our own department, but not to the officers.

Mr. FISHER: Not to the officers?

Mr. WILSON: Not yet.

Mr. FISHER: There is one last question on this general item. You have a paragraph in the report saying that special attention is being given to the modernization of working rules and arrangements. I have seen press releases which indicate that with the C.B.R.T.G.W. you have had a number of meetings. Where do you stand in relation to the other unions; and in this modernization of working rules and arrangements, is any attempt being made to consolidate your agreements so that they cover more than the one union?

Mr. WILSON: Referring first to the negotiations with C.B. of R.T. on the streamlining of our agreements and modernization, we have an agreement setting out a basis of understanding which has been signed. Negotiations are going on now every week, ironing out the details of the various rules and revising seniority provisions and the like. It is an agreement in principle we have signed with them.

In respect to the running trades, we approached this problem on the basis that it should be possible for a company like C.N.R. to deal with a single group of employees, let us say, the locomotive engineers, on a basis of a standard agreement that would have effect from one side of the country to the other. This is a single group of employees represented by a single brotherhood and covered by a single certification. Therefore we should have rules and working conditions which would reflect the philosophy of a single management towards a single group of employees.

Instead of that, as a result of the way these agreements grew up from the various components which became C.N.R., from the various railways back in 1920, and which date back before 1918 and 1919—I am sure you are aware of the steps taken at that time to apply what was called the McAdoo award in the United States—there were differences in agreements as between western Canada and eastern Canada. Consequently, we now have agreements which cover engineers and running trade employees in the prairies and the mountain region, which are different from the agreements with the same union covering employees in central Canada and the Atlantic provinces So we made a detailed study of each of the provisions of these agreements. It is a tremendous job in that there are a multiplicity of rules and complex arrangements and arbitraries and gift payments, and so on, that required examination. We came up with a recommendation which was discussed with the regional officers from across the country and finally was discussed with the general chairmen of the organizations.

I still see the possibility of our edging up towards the objective that we have set for ourselves. I do not think we are going to do it—although perhaps I should not be so pessimistic—in one round of negotiations, but we are getting there. We find—and I want to make it perfectly clear—considerable objectivity and cooperation on the part of most general chairmen in adopting our point of view towards attaining the objective that we are striving to reach. They quarrel with us on some of the negotiations, some of the changes that we suggest. There may have to be a bit of horse-trading, but ultimately we will come to something that will be more acceptable and under which we will have happy relationships with all.

Mr. FISHER: The last question I wanted to ask relates to a matter that was brought up in the house by another member, and that is the question as to the fact that there are 17 vice-presidents in the C.N.R. and not one seems to be a French Canadian or French-speaking. I just wondered whether Mr. Gordon would have any explanation of this situation.

Mr. GORDON: Yes, I think the explanation is quite simple. Our promotional policy in the C.N.R. is based entirely on merit, and when any position becomes open, anyone who has the qualifications for the position is surveyed and tested and considered by the supervisors, and so forth. The management is always endeavouring to select the best qualified men for particular positions on the basis of experience, skill and aptitude, and where the circumstances suggest for further advancement. In making these promotions that have resulted in the occupancy of the jobs you mentioned—the vice-presidents in particular—we have followed that principle of merit throughout, and we accept the recommendations of officers moving up the line of promotion until finally we bring the matter before the board of directors and talk the matter out on that basis.

The last appointment in that respect was following the untimely and very sad death of Mr. Kyle, who had been recently appointed Vice-president of our St. Lawrence region in the course of our reorganization, although he had been the Vice-president of the Central region before that.

As I say, the appointment was made on January 1 of 1961. Unfortunately he took ill and died. He was replaced by the best choice we could make, all things considered, and in respect of that appointment the General Manager was a French Canadian from Quebec City, an Area Manager, or General superintendent, as he used to be called. He was moved from Quebec City to Montreal at that time.

But, as I say, the simple answer to your question is that our selections and our promotions are based on merit and without any discrimination for or against any racial group or anything of that kind.

Mr. FISHER: Have you considered bringing in a senior executive from outside your corporation in order to have someone in senior management?

Mr. GORDON: Yes, as a matter of fact I came within an hour of getting a very competent French Canadian senior executive last year. We had him in mind for a senior position. He was very, very suitable. Unfortunately, he received an offer that nipped him away from me just about an hour before he decided to accept.

Mr. FISHER: On this question of opportunities, has your personnel department studied any ways of opening up opportunities for advanced administration on supervisory levels for sleeping car porters or other coloured personnel?

Mr. GORDON: You raise the question of wage agreements. Those particular positions are held in a grouping which is insisted upon by the unions themselves. Have you the details, Mr. Wilson?

Mr. WILSON: Yes. There has been some criticism over the years coming, I think, from western Canada, that the Canadian National Railways discriminate against coloured porters, that there is no avenue of promotion for them. Our sleeping and dining car employees are all represented by the Canadian brotherhood of Railway Transport and General Workers, and there are two groups under the wage agreements now in effect. Group one, the sleeping and dining car department, consists of dining, cafe and buffet car employees and sleeping car conductors. Group two comprises sleeping car, buffet and parlour car porters. There are two separate groups with two separate seniority lists and promotion provisions and procedures. There are 172 porters at the last count in group two. That includes some coloured employees. Sixty-five of those 172 are white, the remainder are coloured. The same seniority rules apply to both white and coloured employees, and therefore any charge of discrimination or segregation amongst that group is unfounded.

Now, as a result of the protest of some employees and some groups who wanted to merge these two lists so that the coloured porters could in fact exercise seniority to become sleeping car conductors, the brotherhood—and it is entirely a matter within their competence and responsibility—conducted, I think it was, two polls. They circulated ballots to the employees concerned, and on both occasions the employees voted overwhelmingly to retain their group one and group two seniority.

As far as management is concerned, we cannot do anything about it. Mr. Gordon himself spoke to president W. J. Smith of the brotherhood and wrote to him on this matter some time ago and asked just what the brotherhood proposed to do about it. Under the democratic rules of union organization, Mr. Smith says "we have posed the question to the members and have submitted the ballots". I have in my papers somewhere the exact count of the votes. The required majority voted to stay as they were.

Mr. FISHER: I wanted to get that clear, because I have seen these protests. This explains why we have no coloured personnel as sleeping car conductors.

Mr. WILSON: Yes. I am grateful for the opportunity to make this clear. This is something which is misunderstood in many parts of the country. What I said is exactly the situation. In another area, you will never see a trainman become a locomotive engineer or a fireman; you know that. This will not happen unless he quits his job and goes over to the other organization at the bottom of the seniority list. The line of promotion is from fireman to engineer; the line of promotion is from brakeman to conductor. The conductor does not become an engineer. They want it that way. I would like to see it otherwise.

Mr. FISHER: Do conductors not at times become assistant superintendents?

Mr. WILSON: Yes.

Mr. FISHER: And engineers become master mechanics?

Mr. GORDON: But they would then leave their present schedule of seniority.

Mr. FISHER: Have you examined the availability of sleeping car porters and decided that any of this personnel is ready to take over a supervisory position?

Mr. WILSON: We have a supervisory trainer, or two, from the ranks who are coloured. Indeed in the organization we now have a number of them. I cannot tell you how many, but there are coloured people in supervisory and semi-official jobs.

Mr. MCPHILLIPS: You mentioned redcaps as if you paid them. Do you pay those fellows?

Mr. WILSON: Indeed.

Mr. MCPHILLIPS: They always look as if they are starving.

Mr. WILSON: That is part of the rules to pay them good wages. Indeed we do.

Mr. PASCOE: I am always very interested in receiving copies of *Keeping Track*. I think it is a very interesting and informative publication. I am wondering what the circulation is and if it gets down to all the workers.

Mr. GORDON: We used to sell it for a nominal subscription rate. Several years ago we changed that and now issue it free.

Mr. WILSON: In 1950 *Keeping Track* had a paid circulation of about 43,000 and was published only in the English language. Since January, 1958, we also publish it in a French edition under the name of *Au Fil du Rail* which is the translation of *Keeping Track*. As Mr. Gordon has said, the magazine now is distributed free of charge and mailed to the homes of all employees in either the French or English language. It is also distributed free to all pensioners. In 1960, the circulation was about 140,000 from the 43,000 under the paid basis. Fifteen thousand two-hundred of these are in French.

Mr. PASCOE: May I make a suggestion to be passed on to the editors. The members of the committee have stated that Mr. Gordon has thrown a little better light on the situation this year. I think it would be a good idea if some of his statements were incorporated in the text of *Keeping Track*. I am thinking in particular of the outline of the problems of management, what they are doing to meet new problems and why they have to do it; also Mr. Gordon's comments on the C.N.R. operation in comparison to other lines, and particularly his statement on page 12 outlining the objectives of the company. I think this is very interesting.

Mr. GORDON: That is a good suggestion. I think the same suggestion was made earlier. I think there is a field, through *Keeping Track*, for making better known the policies and outlook of management. We certainly have a note of it.

Mr. HORNER (*Acadia*): I do not want to bring up this matter of morale again, but could you give us some idea in this regard? Earlier you stated you were going through the lists of the numbers of employees in the various regions, and I gathered that perhaps the biggest drop was in western Canada. Could you give us some idea that now that this drop has been made, that employment may level out in western Canada to some extent, and could you reassure the workers in that regard?

Mr. GORDON: I am afraid all I can say in the way of assurance must be tied in with the question of the volume of traffic. If we have the volume of traffic that demands employment, no one will welcome more than management the opportunity of putting these men back to work. But, there is not any assurance I can give that is not tied in directly to the question of how much traffic we are able to get.

Mr. HORNER (*Acadia*): I realize that, but are you about finished, as far as closing roundhouses, moving divisionary points and changing your positions where you are repairing boxcars and so on. This is a point to which I was referring.

Mr. GORDON: I would say that in a general way I think our reorganization approach to this matter is pretty well jelled. I think we have our area points selected now, and any movement of the personnel that has been involved, I think, is over. I think we have done a big job there.

In respect to the running repair shops and points, Mr. Grayston, I think I am right in saying it is a question of traffic. Also, I do not recall at the moment any further major plans in respect to the major shops or anything arising out of our program in western Canada.

Mr. GRAYSTON: I mentioned yesterday about our efforts to keep the main freight car shops employed at a stable level and, in that respect, the major changes have been done, yes. As Mr. Gordon said, there always are things that come up, and changes are continually going on. It is a difficult thing to give a guarantee that no more will come about. However, there is nothing major that I know of.

Mr. GORDON: Mr. Horner, to complete this, there are two elements that are bound to cause fluctuation. One is weather, when at any given point we take a lot of men on,—and, I am thinking of winter conditions, particularly—and then they are laid off again. Casual labour of that kind comes and goes, as you know. The other thing is the level of traffic, and this is bound to have a bearing. In an effort to stabilize labour,—and I am not sure that Mr. Grayston has made it clear—we are using our main shop repairs for boxcars as a sort of cushion to stabilize employment. We will try to arrange our repairs so we do not have a big operation in repairs in one year and nothing in the next. We will try to keep it on a reasonable level. However, if we run into an unusually big traffic load, we might have to make an emergency repair program. However, I do not know that it is likely. Therefore, by careful scheduling of the number of cars that come in for heavy repairs and shop work, we think the employment level in our main shops will not fluctuate very much.

Mr. HORNER (*Acadia*): I have one further question. Mr. Fisher mentioned 17 vice-presidents, and you mentioned something about a change-over from superintendents to vice-presidents. Have all the superintendents been moved up in title, or what is the information on that?

Mr. GORDON: Well, I have not followed that, really. The process of promotion, as I said a few days ago, is not necessarily confined to the operating department. Is that what you mean?

Mr. HORNER (*Acadia*): Have there always been 17 vice-presidents of the Canadian National?

Mr. GORDON: No. I don't know. I have not checked over the years. However, I imagine our count at the present time is higher than it has been.

Mr. HORNER (*Acadia*): A further supplementary to that: Have the former superintendents who were taken on as heads of these different regions, been moved up to vice-presidents? This is my interpretation of it.

Mr. GORDON: Not all of them.

Mr. HORNER (*Acadia*): Some have?

Mr. GORDON: Yes. We move them along if they are an appropriate person to fill the job. But, we go across the full extent of our operations to pick out the best qualified man for the particular operation. We do not have in mind, in this reorganization, that where we put an area manager in whose experience has not been in the operating side, then we have equipped him for the purpose of this initial start in the organization with his next senior officer being an operating man, and if the area manager was an operating man, his next senior man would likely be a sales department man.

Mr. CREAGHAN: How many new vice-presidents, if any, has the reorganization created?

Mr. GORDON: We had three regions and now we have five, and two vice-presidents have been added there. We did also appoint a vice-president for our highway services.

The CHAIRMAN: Are there any further questions?

Mr. FISHER: I would like to ask Mr. Gordon one question. Some years ago, at least, one firm was doing contract work for you. I will not say it lost out; but the work came under a union agreement, and I believe the work was done by people who were proper employees of the Canadian National. I am thinking of the Welch company. I believe this took place a number of years ago. Are there any plans at the present time for bringing in any other firms doing contract work for the Canadian National within the Canadian National framework, in so far as their employees are concerned? I am thinking of the Pre-pack Concrete Company.

Mr. GORDON: We have jealously reserved the right of management to contract out if we find that we would be better off and have an advantage with regard to price or quality. That has been a salutory thing, because our unions have been very much on the job in the interests of their men, and in some cases have seen to it that their men were qualified in order to do the work themselves. There is a form of competition in that respect, but I cannot think of any new contract.

Mr. FISHER: I am thinking of the organization which goes around reinforcing bridges.

Mr. GORDON: Oh, you mean the Pre-pack Company; yes, that has been in force ever since I can remember.

Mr. FISHER: There is no plan or anything to bring that particular operation within the scope of the workers themselves?

Mr. GORDON: My recollection is that Mr. Grayston told me that the pre-pack work was divided now.

Mr. GRAYSTON: Yes, it is gradually reaching the point where the contracting work is getting less, and the work is being taken over by regular railway employees.

Mr. GORDON: It was originally a sort of specialized process, but over the years we have learned their methods, so that our own workers have acquired the know-how, and as Mr. Grayston says, we are gradually on the way to making this a railway job.

Mr. BROOME: Why not send Mr. Fisher to Montreal for a week, so that he can go into it?

Mr. FISHER: Before this heading of "personnel and employee relations" is finished I would like to say that relative to the discussion concerning the statement that was given about morale, as far as I am concerned in the future, I am going to have photostat copies of every letter that I get and see that a copy is sent to Mr. Gordon, or brought to the attention of somebody, because I am convinced that my judgment which led me to make the remarks I did in the House of Commons was not an irresponsible one.

Mr. GORDON: We would be delighted to see them.

Mr. FISHER: And I think the frequency with which we will be able to provide him with information will indicate that.

Mr. GORDON: All right, I shall be glad to see them.

The CHAIRMAN: Are there any other questions on personnel and employee-relations?

Now we come to pension funding. That is the next item.

Mr. FISHER: May I ask a question in regard to this. Is this where we are going to consider that part of the instructions we received from the house in relation to pensions? Of course this is part of the annual report, but is it also going to be the place where we consider our instructions from the house?

The CHAIRMAN: We are still on the accounts, estimates, and bills relating to the Canadian National Railways. But Mr. Fisher wants to know if this has any reference to that portion of our terms of reference.

Mr. FISHER: I want to get it clear, because while I have very few questions on pension funding, I have a great many on the general questions of pensions and turn-around benefits.

Mr. PICKERSGILL: I think that some time ago you asked Miss LaMarsh to defer her questions until this section came up. So I think you should give her precedence.

The CHAIRMAN: That is right. Mr. Fisher was merely asking about procedure. I think we should proceed with this, and then deal with the other matter as a certain portion of our terms of reference. Miss LaMarsh thought that her question should come up under pension funding.

Mr. PICKERSGILL: Agreed.

The CHAIRMAN: Now, Miss LaMarsh?

Miss LAMARSH: I would like to ask Mr. Gordon a question. It has really to do with a very small matter and I hesitate to take up the time of the committee at this time of night. Nevertheless it is pretty important. I asked Mr. Gordon a couple of days ago about the provision whereby the N.S. and T. withdrew its service by giving up their exclusive service in Oshawa, Niagara Falls, and St. Catharines. I have no doubt that in preparing for this, Mr. Gordon had reference to what was said in the house and in particular by the hon. members for Welland and Lincoln, and I am sure he has; but my information comes from the union concerned, and it is that there are 75 people there who because of the fact that the service is terminating are being deprived in a rather shocking way of their pensions. I know that in Niagara Falls when the service was discontinued, no arrangements were made except that the employees' portion was refunded to the employees, notwithstanding representations made by the two municipalities, the city of Niagara Falls and the town of Stamford, and that no other provision was made.

When they set up a new pension scheme it required very substantial payments in, for those employees whom they took over. I have lists of employees and I understand the president has received these on behalf of the unions.

Some of them indicate that there are those people who are employed but who will be in a matter of months, and in some cases of weeks, from the time of qualifying; but they cannot qualify so that their pensions will be 2/5, 2/7 or, in some cases, nothing at all, although they have served up to 38 years on behalf of the railway, and what they are to be given is a $300 refund per annum, which has been paid in by themselves, and the portion paid by their employer remains and is not made available to them for new pensions.

I know also representations have been made to the C.N.R. that because of the provisions of the contract of pensions, which call for, full pensions to be made payable where there is a death or where there are resignations or dismissals that they do not apply in these cases where certainly there is any termination. The president told us the other day there was no place in this to relocate these people, because there are no street railways or buses operated by the C.N.R. I want to ask the chairman whether any arrangements have been made in the case of St. Catharines, where there will be termination of service on September 1, for a payment either to a new pension or to the individual employees whose services are terminated, which will put them in the same position as they are in at present?

Mr. GORDON: I am not sure I have that, but Mr. Wilson has a statement which I hope will answer the question, and if you have any other points you can raise them afterwards.

Mr. WILSON: First, I should like to refer to the Niagara service. We were originally to get out of the business on August 31, 1960, but at the request of the city we carried on for a couple of months beyond that. Then the Greater Niagara Transit Commission was set up and came into the picture and the opportunity was given to the 19 employees involved to transfer to their pension plan. Some 17 of the 19 employees had been contributors to our pension plan and two were non-contributors. Of the 17, three took early retirement and got an early retirement pension. Of the others, seven elected to transfer to the Greater Niagara Transit Commission, and seven applied for and got refunds of their pension contributions.

In St. Catharines, of the 75 employees involved, 25 are eligible now for a deferred pension under our Canadian National pension plan. Of the others, eight are eligible for early retirement pensions, and 23 were non-contributors to the pension plan and would therefore qualify, if they stayed through to retirement age, for the non-contributory pension of $25 a month. That is where the $300 a year comes into the picture. It is not $300 a year that the company has paid into a fund on their behalf. It is a gratuitious pension that accrues to those employees of long service who have not contributed to the pension plan. There are 19, the remainder of the 75, who are eligible for repayment of whatever contributions they put in. The individual employees have all been contacted, and a meeting has been arranged to be held next Monday night in St. Catharines between the municipal authorities, representatives, the Canadian National, Union officers and the employees themselves, in which these matters will all be discussed. Their rights will be made known to them and they will be informed what opportunities they have to transfer to the new company which will operate the transport business in St. Catharines.

Miss LAMARSH: Who is paying the employer's portion of the new pension scheme?

Mr. WILSON: This is a matter that must be discussed. It depends on what steps the city of St. Catharines takes to set up a pension fund for employees coming into the new business.

Miss LAMARSH: Am I correct in stating that in Niagara the Greater Niagara Transit Commission takes the position that in order to build them up to the same level, the amounts paid back to the former employees should be paid over to the new pension scheme?

Mr. WILSON: As I understand it, the Greater Niagara Commission set up a pension fund and took the contributions the employees had in, that is employees of Canadian National, over into the new fund.

Miss LAMARSH: Yes, but the commission was required to make up the employer's portion as well as their own. For the N.S. and T. what happened to the money that had been paid in prior to termination of service, that is, the employer's contribution to the scheme prior to termination of service?

Mr. WILSON: Well, there is no actual payment. For example, reference has been made to this $300 that the employer is alleged to have paid in every year to a pension fund for the benefit of these non-contributors. That is not factual; that is not right. The employees, had they stayed until normal retirement, would qualify the same as railway employees for $25 a month, or $300 per annum pension, but there is no actual deposit of funds in the pension fund.

Miss LAMARSH: It is a bookkeeping effort?

Mr. WILSON: Exactly.

Miss LAMARSH: So there is no money set aside? What do you do with the money which you built up in the books which is credited to the benefit of the employee?

Mr. WILSON: Those who have been members of the pension fund, that is all but 23 of the 75, qualify if there is no action whatsoever on the part of the St. Catharines bus authority. Some 25 would qualify now for graded pensions, eight for early retirement pensions, and 19 who would not have sufficient service to qualify for early retirement or deferred pensions, would get their own contributions back with interest.

Miss LAMARSH: And an early retirement, I take it, is a portion of the full pension?

Mr. WILSON: Yes.

Miss LAMARSH: Can you tell me whether there is a proviso covering that in the pension agreement?

Mr. WILSON: In our pension fund rules—yes.

The CHAIRMAN: Does that pretty well cover the question?

Miss LAMARSH: No, I am still waiting for the answer.

Mr. GORDON: I was just following that. I am not really too familiar with it but, as I take your question, you are talking about the subject of portability, as it is referred to in pensions.

Miss LAMARSH: Yes.

Mr. GORDON: Well, there is no portability in that connection.

Miss LAMARSH: The union takes the position, as you are no doubt aware, that as a part of its wage agreement with the N.S. and T., wherever there was a pension scheme set up they contributed to that scheme, and it called for certain payments to be made on certain things happening. It did not contemplate the franchise being surrendered and, having been surrendered, these people are not in a position to qualify for pensions and are, through no fault of their own,—even if it was only a bookkeeping entry made by the railway on their behalf as apart of their wages for those who had been employed 30 years—these people with the N.S. and T. are not able to get out and get a pension, and

it now depends on the municipalities who take over these services to pay a whopping amount to pay these pensions so that these people will be pensionable.

Mr. GORDON: This question of portability is a subject which raises a great deal of difficulty in connection with any sort of transfer which takes place when one outfit buys out another. I think we shall have to leave the question for the negotiations that will be taking place on Monday.

Miss LAMARSH: Monday night?

Mr. GORDON: Yes, between the parties involved, and if they have as eloquent a spokesman as you, I think the point should receive attention.

Miss LAMARSH: May I take the suggestion that the C.N.R. is in a position to say: "we are not going to do any more"?

Mr. GORDON: That is right.

Miss LAMARSH: You would not do any more in either Niagara or Oshawa?

Mr. GORDON: There is no commitment in the pension rules and wages agreement that would cover the point with which you are concerned.

It has never been a recognized employer-employee relationship in connection with this kind of operation.

Miss LAMARSH: Do you not agree it is a good thing to have portability of pensions for people such as this?

Mr. GORDON: You are getting into a very wide subject on that. I would not want to commit myself on that because it opens up a very wide field.

Miss LAMARSH: May I ask Mr. Wilson?

Mr. WILSON: I am heartily in favour of it, but there are terrific problems involved.

Mr. SMITH (*Simcoe North*): Is there no vesting of the employer's contribution under the C.N.R. scheme?

Mr. TOOLE: Yes, there is vesting. It came in on January of 1961. It is a plan to which most employees now contribute. That vesting comes into effect—and it means that the company's contribution at that time is attached to him —only after he has had 15 years of service, and service totals a factor of 60.

The CHAIRMAN: We are still on pension funding, Miss LaMarsh, and unless you can think up another question before the morning, we will meet at 9.30. We cannot have a meeting in the afternoon as we have no room available, so we will just meet in the morning.

APPENDIX

C.N.T.L. RESULTS OF OPERATIONS OF TRUCKING ARM AS SHOWN INCLUDED IN CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 1960

	Profit or Loss (−)
Eastern —15 months October 5, 1959, to December 31, 1960	$ 50,528.91
Sydney —15 months October 5, 1959, to December 31, 1960	49,709.39 (−)
East-West—8 months April 29, 1960, to December 31, 1960	308,065.34 (−)
Empire —8 months April 29, 1960, to December 31, 1960	134,634.71 (−)
Wacos —8 months May 5, 1960, to December 31, 1960	35,121.38
Montalta —8 months May 5, 1960, to December 31, 1960	9,038.72
Results of wholly-owned subsidiaries	$397,720.43 (−)
C.N.T.L. H.O.	
Interest earned on advances to subsidiaries	$ 36,734.96
Interest earned on advances to Midland	36,383.32
Total interest earned	73,118.28
Less interest paid on advances from C.N.R.	67,493.83
Excess of interest earned over interest paid	5,624.45
Corporation taxes, etc.	5,606.20
	$ 18.25
Trucking arm loss for 1960 as included in Consolidated Income Statement	$397,702.18 (−)

NOTE: Above figures do not include any charge for salaries or travelling of C.N.R. employees spending part or full time on operations of the trucking arm.

HOUSE OF COMMONS

Fourth Session—Twenty-fourth Parliament

1960-61

SESSIONAL COMMITTEE

ON

RAILWAYS, AIR LINES AND SHIPPING

Owned and Controlled by the Government

Chairman: HONOURABLE W. EARL ROWE

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 5

TUESDAY, JUNE 20, 1961

WEDNESDAY, JUNE 21, 1961

Annual Report of Canadian National Railways, for the year ended 31 December, 1960.

Capital Budget and Estimated Income account of Canadian National Railways, for the year 1961.

Annual Report of Canadian National Railways Securities Trust for the year ended 31 December, 1960.

Auditor's Report to Parliament, in respect of the Canadian National Railways, for the year ended 31 December, 1960.

WITNESSES:

Honourable Léon Balcer, Minister of Transport; and Messrs. Donald Gordon, President and Chairman of the Board, J. L. Toole, R. T. Vaughan, of the Canadian National Railways. Also, Mr. J. A. de Lalanne, C.A., Auditor.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1961

25501-8—1

SESSIONAL COMMITTEE ON RAILWAYS, AIR LINES AND SHIPPING

Owned and Controlled by the Government

Chairman: Hon. W. Earl Rowe

Vice-Chairman: Mr. Heber Smith

and Messrs.

Brassard (*Lapointe*)
Broome
Browne (*Vancouver-Kingsway*)
Campeau
Carter
Creaghan
Fisher
Forbes
Granger
Grills
Horner (*Acadia*)
Howe
Kennedy
Miss LaMarsh
Martini
McFarlane
McPhillips
McWilliam
Mitchell
Monteith (*Verdun*)
Pascoe
Pickersgill
Robinson
Smallwood

Antoine Chassé,
Clerk of the Committee.

ORDERS OF REFERENCE

MONDAY, June 19, 1961.

Ordered,—That the names of Messrs. Martini and Campeau be substituted for those of Messrs. Horner (*Jasper-Edson*) and Cathers respectively on the Sessional Committee on Railways, Air Lines and Shipping.

WEDNESDAY, June 21, 1961.

Ordered,—That the name of Mr. Kennedy be substituted for that of Mr. Crouse on the Sessional Committee on Railways, Air Lines and Shipping.

Attest.

LÉON-J. RAYMOND,
Clerk of the House.

(*Note: The first of the two orders above was passed by the House just before adjournment on Monday evening.*)

25501-8—1½

MINUTES OF PROCEEDINGS

HOUSE OF COMMONS,
Room 253D,
TUESDAY, June 20, 1961.
(11)

The Sessional Committee on Railways, Air Lines and Shipping met at 9.30 o'clock. The Chairman, Hon. W. E. Rowe, presided.

Members present: Miss LaMarsh and Messrs. Broome, Browne (*Vancouver-Kingsway*), Carter, Creaghan, Fisher, Forbes, Granger, Horner (*Acadia*), Howe, McFarlane, McPhillips, Mitchell, Monteith (*Verdun*), Pascoe, Robinson, Rowe and Smith (*Simcoe North*).—18

In attendance: The Honourable Léon Balcer, Minister of Transport. *From Canadian National Railways:* Mr. Donald Gordon, Chairman and President; Mr. R. T. Vaughan, Assistant to the Chairman; Mr. J. L. Toole, Vice-President, Accounting and Finance; Mr. H. C. Grayston, Vice-President, Transportation and Maintenance; Mr. J. D. Wahn, General Economist, and Mr. W. T. Wilson, Vice-President, Personnel and Labour Relations.

As the proceedings opened a brief discussion took place as to the order in which the Committee should deal with the matters before it, and, on motion of Mr. McFarlane, seconded by Mr. Forbes, it was agreed that the Committee follow the original plan outlined earlier by the Chairman, namely, C.N.R., Pensions rights, and T.C.A.

Copies of the Capital Budget and Estimated Income Account of Canadian National Railways for the year 1961 were distributed to the members present.

The Committee then resumed from Monday its adjourned consideration of the C.N.R. Annual Report for 1960, with special reference to those sections pertaining to Pension Funding and Other Development.

Mr. Donald Gordon was further examined, with Mr. J. L. Toole, aiding.

At 11.00 o'clock the Committee adjourned to meet again at 2.30 o'clock p.m., Wednesday, June 21, 1961.

Room 112-N,
WEDNESDAY, June 21, 1961.
(12)

The Committee met at 2.30 o'clock p.m. The Chairman, Hon. W. E. Rowe, presided.

Members present: Miss LaMarsh and Messrs. Broome, Browne (*Vancouver-Kingsway*), Carter, Creaghan, Fisher, Forbes, Granger, Grills, Howe, Horner (*Acadia*), Kennedy, McFarlane, McPhillips, McWilliam, Martini, Mitchell, Monteith (*Verdun*), Pascoe, Pickersgill, Rowe, Smith (*Simcoe North*).—(22).

In attendance: The Minister of Transport, Hon. Léon Balcer, and the officials of C.N.R. as are listed on the day before.

The Chairman having declared the proceedings opened, greeted a new member, Mr. Martini, M.P., and the return to the Committee of Mr. Kennedy, M.P.

The Committee resumed from Tuesday, June 20, its adjourned consideration of the Annual Report of the Canadian National Railways for the year ended 31st December, 1960.

Mr. Donald Gordon again was under questioning with the assistance of Messrs. J. L. Toole and R. T. Vaughan.

Study of the items of the Annual Report, under the heading Other Development, were completed.

On the motion of Mr. Broome, seconded by Mr. Browne (*Vancouver-Kingsway*), the said C.N.R. Annual Report (1960) was approved.

The Committee then considered the C.N.R. Capital Budget and Estimated Income Account for the year 1961.

During Mr. Gordon's examination on this item, the witness quoted from a letter from the C.N.R. Law Department and on Mr. Pickersgill's suggestion, it was agreed that the complete document be appended to today's Minutes of Proceedings and Evidence. (*See appendix hereto*).

On motion of Hon. J. Pickersgill, seconded by Mr. Carter, the said Budget and Account were approved, except for that part of it relative to T.C.A. which is to be considered later.

The Committee then went on to the consideration of the Annual Report of the C.N.R. Securities Trust for the year ended December 31, 1960.

On motion of Mr. Creaghan, seconded by Mr. Smith (*Simcoe North*), the said annual report was approved.

The next order of business was the consideration of the auditor's Report to Parliament, in respect of the Canadian National Railways for the year ended 31 December, 1960, and in this connection Mr. J. A. de Lalanne, Chartered Accountant, was called.

However, before proceeding with consideration of the Auditor's Report, Mr. Fisher, after speaking on a question of privilege, gave notice that he would move later in the proceedings, "that the Committee should advise the government to consider removing the President of the C.N.R., and replacing him with someone charged with restoring the confidence of the employees".

After a brief examination of Mr. J. A. de Lalanne, on motion of Mr. Browne (*Vancouver-Kingsway*), seconded by Mr. McFarlane, the said Auditor's Report was approved.

At the invitation of the Chairman, Mr. Donald Gordon gave a statement to inform the Committee that, because of illness, Mr. Gordon R. McGregor, president of T.C.A, would be prevented from appearing before the Committee this year. The Chairman thereafter announced that he would write to Mr. McGregor to express to him the sympathy and best wishes of all the members of the Committee.

The Chairman tabled sets of charts presented by T.C.A. to be read in conjunction with the Annual Report for the year ended 31 December 1960, namely,

1. Comparison of 1960 Financial Results with 1959.
2. System Net Income/Deficit 1937-1960.
3. Operating Revenues by Service 1951-1960.
4. System Average Return per Revenue Passenger Mile 1950-1960.
5. Index of T.C.A. Fares versus Consumer Price Index 1949-1960.
6. Percentage of System Seat Miles Offered in Low-Fare Service 1954-1960.
7. System Passengers Boarded 1958, 1959 and 1960 by Months.
8. Available Seat Miles and Seat Miles Occupied 1951-1960.
9. Operating Costs per Available Ton Mile 1951-1960.
10. System Average Seat Miles per Hour Flown 1951-1960.
11. Hourly Seat Mile Production by Aircraft Types.
12. Direct Flying Costs per Revenue Hour and per Seat Mile (Exclusive of Depreciation).
13. Average Employee Productivity in Seat Miles 1951-1960.
14. Payroll Expense per Seat Mile 1951-1960.
15. Ownership Costs (Depreciation, Interest and Insurance) 1954-1960.
16. Total Funds Invested and New Funds Required by Years 1953-1965.

It was announced by Mr. Rowe that it was planned to proceed with consideration of the affairs of T.C.A. at 9.30 o'clock a.m., Tuesday, June 27, 1961.

A number of returns were read into the record, and oral answers given, by Mr. Gordon, in compliance with requests made at earlier sittings by several members of the Committee.

Mr. R. T. Vaughan informed the Committee that copies of (a) the C.N.R. brief submitted to the Senate Manpower and Employment Committee and (b) the C.N.R. submission to Royal Commission on Transportation had been left with the Committee's secretariat. (*Note: These were forwarded, by hand, to each member on the following day*)

Mr. Gordon asked, and was allowed to make a "mise-au-point" regarding a statement made to the Committee on Tuesday, June 19th.

The Committee then discussed whether or not it should proceed now with the special order of May 15th concerning pension rights and turn-around benefits.

After some discussion it was finally agreed that the prepared statement by Mr. Gordon would be taken as read, and a copy thereof supplied to each member for perusal during the evening and the Committee would proceed in the morning with consideration of the matter. (*For statement by Mr. Gordon see Minutes of Proceedings and Evidence No. 6 for Thursday, June 22, 1961*)

At 5.20 o'clock p.m. the Committee adjourned to meet again at 9.30 o'clock a.m., Thursday, June 22, 1961.

Antoine Chassé,
Clerk of the Committee.

EVIDENCE

TUESDAY, June 20, 1961.

The CHAIRMAN: Order, gentlemen. I observe a quorum.
We are on pension funding. Are there any questions?

Mr. FORBES: Mr. Chairman, I wish to say a few words on behalf of that group of workers which served the railroad during the 1930's. During the last week or so I have received thirty-nine letters.

The CHAIRMAN: Pardon me, Mr. Forbes. Last night I think we decided we would take up the pension question and the turn-around benefits issue. At the outset we decided to consider the pension rights in existing or retired Canadian National Railways employees with respect to anomalies which may have resulted from breaks in the continuity of service, and also to consider the arrangements for turn-around benefits for employees of the Canadian National Railways.

Mr. FORBES: Do my comments not come under this item?

The CHAIRMAN: At the present time we are considering the report of the Canadian National Railways. There may be a fine distinction between the two, but I thought the committee had decided we would proceed with this and then go into the pension rights of existing or retired Canadian National Railways employees and the turn-around benefits issue.

Mr. FORBES: It is all right, so long as I have an opportunity to bring up my points.

The CHAIRMAN: Yes, this really is a financial matter; it is the pension funding account and the financial set-up rather than pension rights and the anomalies of the 1930's.

Mr. FORBES: The question of pensions is also a financial matter. So long as I have an opportunity later, it will be all right.

The CHAIRMAN: The terms of reference again refer to consideration of the accounts, estimates and bills relating to the Canadian National Railways and Trans Canada Air Lines, saving always the power of the committee of supply in relation to the voting of public monies, and to consider the pension rights in existing or retired Canadian National Railways employees with respect to anomalies which may have resulted from breaks in the continuity of service, and also to consider the arrangements for turn-around benefits for employees. It was the decision of the committee to consider that first part first; that is, the accounts, estimates and bills of he Canadian National Railways. That is what we are on now. The plan is to dispose of this and then go along and deal with the pension problem of the 1930's.

Mr. CREAGHAN: My understanding at our opening meeting on Monday morning was that we would do what we normally do; that is, take the C.N.R., then the T.C.A. and come back to this new task which has never been before the committee at any time in previous meetings—this is brand new. I understand we would do our normal work first.

The CHAIRMAN: I thought we should first deal with all things in connection with the railways and then go to the T.C.A. I do not think we should sandwich the T.C.A. into it.

Mr. BROOME: That is also my understanding.

Mr. CREAGHAN: I took an absolutely different interpretation. I though that because of the scope and importance of this it would be taken by itself.

The CHAIRMAN: It will be taken by itself after we finish what we are on now.

Mr. CREAGHAN: The only thing is that we might be bogged down on this for days and never reach T.C.A. during this session.

The CHAIRMAN: I thought it would be in the interests of all concerned if we cleaned this up.

Mr. CREAGHAN: Some members have said that they may want to have witnesses appear in respect of the pension aspect. These witnesses may reside in Newfoundland or in Vancouver.

The CHAIRMAN: That would prolong it still further. If you did not do it in the order I have suggested it would mean bringing back the railways officials after we have heard the T.C.A.

Mr. FISHER: I am sure that we would need all of the officials in relation to the pension and turn-around benefits. I would think it would be a very small nucleus which would be needed. I think Mr. Creaghan is right that in respect of something like the turn-around benefits we could not possibly go into it without having witnesses from the unions. I do not know whether or not Mr. Gordon would agree with that, but are not the turn-around benefits an aspect of the contracts?

The CHAIRMAN: Collective bargaining.

Mr. FISHER: If we want to have any opinions expressed on it, it would be one-sided not to have the unions.

The CHAIRMAN: Collective bargaining is a pretty drawn out affair.

Mr. FORBES: I do not see why this item should take long, while we have the C.N.R. officials here.

The CHAIRMAN: I do not think it will take long until we get into the pensions and turn-around benefits. I think, however, that it would be a mistake to finish what we are on now, take T.C.A., and then spend several days on this.

Mr. FISHER: That is fine with me. There may be more to this matter of the turn-around benefits than some members feel.

The CHAIRMAN: Then there is all the more reason to get at it. It seems to me that the suggestions would be demoting it, as it were. If you were to wait until after the Trans Canada Air Lines, that would be putting it in a secondary position entirely.

Mr. PASCOE: Has a date been set for the T.C.A.?

The CHAIRMAN: It was tentatively set for Monday of next week.

Mr. CREAGHAN: There is one technical point which I would like to raise. If you look at the report dated May 15, you will see that it sets out our duties in chronological order. First of all is the railways, then air lines and shipping, and after that pensions.

The CHAIRMAN: It says Trans Canada Air Lines.

Mr. CREAGHAN: Railways, air lines and shipping; then after that normal work we take on this new task.

The CHAIRMAN: After all, we are masters of our own procedure as a committee and do not have to follow it in exact chronological order. I have suggested we follow the order which we decided on at the beginning of our sittings. I understand it is the desire of the committee that the turn-around benefits and the pensions should be looked at very seriously. If that is the desire, then it would seem that you would be defeating it by delaying it.

Mr. McFARLANE: We can waste a lot of time this morning by discussing this. I would move that we go along with the program the chairman has outlined.

The CHAIRMAN: Is that satisfactory?

Mr. CREAGHAN: My understanding of our procedure, as I stated earlier, is that we would proceed in the way we normally do; that is, finish the C.N.R., finish the T.C.A., and then tackle the pension problem.

The CHAIRMAN: The pension problem is under the C.N.R.

Mr. SMITH (*Simcoe North*): Should we not finish our statutory requirements in respect of the C.N.R. first; should we not be proceeding with that this morning.

The CHAIRMAN: That is the purpose. It has been moved by Mr. McFarlane, seconded by Mr. Forbes, that we proceed along the line I have indicated, and then take up the pensions and turn-around benefits, and then the T.C.A.

Mr. McFARLANE: That is right.

The CHAIRMAN: All those in favour? Contrary?

Motion agreed to.

Mr. CREAGHAN: That means we take the budget and come back to pensions.

Mr. McPHILLIPS: We have not had the budget yet. This is the first time since I have been a member of this committee that we have not had the budget in hand long before this.

Mr. DONALD GORDON (*President of the Canadian National Railways*): The budget has been in the hands of whoever is responsible since we have been here. We sent the budget down in the usual way and it should have been distributed.

Mr. HORNER (*Acadia*): While we are waiting for the budget to be distributed, yesterday morning I asked a question regarding the amount of passenger losses in the United States. Mr. Gordon said that he would take a note of it and look it up. I am wondering if Mr. Gordon has the answer now.

Mr. GORDON: My officials tell me they are trying to break down the figures in respect of the Grand Trunk question and hope to get the answer for you at the same time. We will have it as soon as possible.

Mr. FISHER: I am afraid I did not clearly understand what we have decided to do. Will there be no more questions on pension of any kind.

Mr. GORDON: Perhaps I might be able to clear this up. This section headed pension funding really has to do with the manner in which the C.N.R. provides funds for the pensions. The other question has to do with the pension rights of individuals. We are ready to deal with the pension funding now. This paragraph makes reference to a change in the method of financing or of setting up the financial position of the fund.

The CHAIRMAN: Are there any questions on this? It is a matter of financing.

Mr. FISHER: I cannot understand why you pay $10 million into something and yet you seem to have met the situation in a more satifactory way.

Mr. GORDON: This is a highly technical accounting matter and also a matter of actuarial appraisal of the fund.

Mr Toole, the vice-president of finance, will deal with that for you.

Mr. J. L. TOOLE (*Vice-President, Accounting and Finance, Canadian National Railways*): Prior to this year the company employed a terminal funding basis, which meant that the funds were allocated to the employee only at the time of his retirement, so the amount of money the company put into the reserve was the total requirement at the date the man retired. When the plan became compulsory in 1959, it was obvious that we needed to have another

look at how our funding was done. Up until the auditors and actuaries had been qualifying the report—you can see the qualification in it—that the reserve only applied to people actually on pension. When contributions became compulsory we thought it advisable to convert the reserve, so that a certificate could be given to the effect that the employee also was being protected for his pension.

Mr. SMITH (*Simcoe North*): That refers to the certificate of the actuaries on page 25 of the annual report.

Mr. GORDON: Page 18.

Mr. TOOLE: There is a note by the auditors on page 18, and a certificate of the actuaries on page 25.

Mr. GORDON: You should read both. On page 25 there is the auditor's certificate as well as the actuarial certificate, but then there is an item on page 18 which also refers to it. It is note 4.

Mr. TOOLE: The actuaries, in recognizing the changed rights for the employees, pointed out to us that two different philosophies may be employed, ways one for taking care of the deficit in the pension funds and another for taking care of requirements related to current service, that is the current funding itself.

The deficit in the calculation comes about from the fact that no funds were put into the account for service prior to the year 1935. That is primarily it—although there is a portion of the deficiency related to the other service prior to current funding. The calculation of the deficit is as shown in the report, $325 million.

In reviewing the estimate of the deficit, the actuaries advised us that the money which would be required to meet that deficit was very far removed in time. As a matter of fact, they estimate that it is in the nature of 150 years away before the company will need any funds to meet the deficit. Consequently we froze that deficit, then the company acknowledged it and we ceased contributing towards it. We froze it by paying interest on the deficit.

The other thing which took place is that we adopted current funding and that means that in each year the company puts up the money required to meet the ultimae pension for service performed in that year. This, in essence, is discounting the terminal funding basis, and so the money is put up earlier, at the time the man is actually in service, rather than waiting until the date of his retirement. The interest calculation on the earlier funding also gave a cost benefit.

The single premium method of funding and the freezing of the deficit thus resulted in the saving in annual contributions.

Mr. MCFARLANE: I see that this plan was not compulsory until January 1, 1959. How were the pensions figured out prior to that time? Were there any contributions?

Mr. TOOLE: Calculations of the benefits were on exactly the same basis, but at that time we offered a privilege to all employees in the 1959 plan to transfer to it, and we made it compulsory for all new engagements, so what we are trying to do is to be sure that the employees do contribute towards their future pensions.

Mr. GORDON: Mr. McFarlane, what was actually the case was that in the C.N.R. the right to join the pension fund was a voluntary right and in practice a great many people did not take up that right. As a result, as they got older they regretted their decision. That is what has caused a great deal of confusion about the rights of pensioners, since those people who did take up their rights naturally accumulated a pretty good pension by the time they came to pension age. The people who had not taken up their pension rights were entitled to what is called the $25 per month basic pension, for which they paid nothing.

Speaking quite frankly, that was a good arrangement for the company from the financial point of view, because to the extent these people did not take advantage of their option to join the pension fund, the company did not have to put up the money for any pension for them, apart from the $25 a month basic pension.

As time went on, we got on to the revision of the pension fund. When I came to the railway in 1950—I do not mind taking a little personal credit for this—one of the first things I did was examine the pension fund and it seemed to me it was grossly inadequate along certain lines, and also that it was not a good thing to leave the voluntary aspect of it there, particularly in the hands of a great many men who did not understand what it meant. You got men joining the railway, and in the first carefree years it did not matter very much. We found the case history usually was that after about ten years a man got married and started raising a family, and in 12 or 15 years suddenly realized he had given up very valuable rights. Then, there was no way to make it retroactive, no way to make back payments. These people were prejudiced by their own act.

Now, although it is costing a great deal of money to do so, we started a campaign over the years to explain to individuals the rights that they have. With the assistance of the union leaders, we talked to all the unions and we told them about this. We said we would prefer to avoid these constant and continual cases of people who suddenly woke up to find they had no pension, whereupon it seemed as if the company was hard-boiled and hard-hearted. We said we would much prefer if they would realize what their rights were. We started this compaign over a period of several years. We had the unions go all across the country with our officials over a period of two or three years explaining it to our employees. This runs into some tens of thousands of employees. In the first instance we found even then there was still quite a number of employees who did not take up their rights. There was no way to make retroactive legislation, so to speak, to force people to do it, with regard to people in service. However, we decided that with regard to new employees we would make it a condition of employment. We had no right, we felt, to say to a man in service that he must belong to the pension fund, since that was not a condition of service when he joined; but in respect to all new employees from January 1, 1959, we have made it a condition of employment that they must join the pension fund. That is what is meant by being compulsory. If they do not want to join the pension fund, then they do not get the job. This puts them on the same basis as the C.P.R. The C.P.R. fund has been compulsory, I do not say always, but certainly for the last 25 or 30 years.

Mr. McFARLANE: Since 1937.

Mr. GORDON: Thank you, sir. They have had the compulsory aspect of it since then and, looking back on it now, my opinion is that we should have done the same, but we did not. It seems now as time goes on that all these employees who had not joined the pension fund will die off and in due course we will be in the same position as the C.P.R. in that everybody must subscribe to their pension and we will not hear any more about these sad cases of men who neglected to take up the option.

Mr. McFARLANE: I would like to qualify part of my statement there. The C.P.R. was compulsory after January 1 for any man that the railway employed prior to that time, but the employees prior to that time had a pension.

Mr. GORDON: That is right. It is the same with us.

Mr. McFARLANE: I believe that about 15 years ago, in the late 1940's or the early 1950's, the company gave employees the option of paying their back pension contributions from 1937. Has that been considered?

Mr. GORDON: Yes. I will have a detailed memorandum on that when we get into the other matter. I just want to explain this, because it has a bearing on this. In regard to the campaign which we undertook, we got 32,000 employees who had not previously been contributing to what we called the part II pension fund, to become members. That is what has changed the financing needs here in large measure.

To summarize what Mr. Toole said, you can explain it this way. We have now gone on what we call a current funding basis instead of a terminal funding basis. I should add in respect to this development that it has been thoroughly explained to the Minister of Finance. The officials from the Department of Finance, assisted by the Department of Insurance, I believe have analysed our proposal thoroughly, and we have their approval of the change which has been made.

Mr. FORBES: Did I understand you to say there was a basic pension of $25 per month regardless of whether the employee made a contribution or not? Did I understand that?

Mr. GORDON: I am pretty sure the answer to that is yes. The reason I hesitate is that again we have got a terrible mish-mash of different considerations because of the number of railways which have come into this over the years. However, I will deal with that rather carefully in this prepared memorandum I speak of.

The CHAIRMAN: That is all helpful, but let us not get tangled into this now, as we will come to the details later.

Mr. FORBES: The pensions fund is quite an important subject around Ottawa in the last couple of days. Does the president of the C.N.R. get a pension?

Mr. GORDON: He would get a pension if and when the time arrives, on exactly the same formula as any other employee in the railway. There is no special provision in respect of the president at all. The formula applies to him exactly the same as anyone else.

Mr. FORBES: You are making contributions?

Mr. GORDON: Yes, I am paying the 5 per cent—About $3,500 per year.

Mr. FORBES: What would your pension be supposing you continued, as likely you will, for the next 25 or 30 years?

Mr. GORDON: I would not want to discuss the question you have asked, because we do not give out the amounts of pensions of any individuals. It is not that I care about myself, but I do not want to set up a principle which will affect anyone else. All I can tell you about myself is that I am in exactly the same position as any other person and, as a matter of procedure, we never have released the individual amounts of pensions paid to individuals, as we regard that as a matter of personal privacy.

Mr. FORBES: But then, take the case of the rest of us, here we are, and most of us around here are waiting for the day when we will be 70 and entitled to get $55 per month. Why should you not have a similar ambition?

Mr. FISHER: I am not waiting.

Mr. GORDON: I will certainly get more than $55 per month!

The CHAIRMAN: If you stayed in the house as long as the rest of us, and you soon will be entitled to the pension as it stands at the moment, you will not get the $55, because members of parliament are about the only people in Canada who would have a small pension for service in the House of Commons and yet they do not get a pension when they reach the age.

Mr. FISHER: May we point out for Mr. Forbes' benefit that Mr. Gordon is a large man and any large man will tell you that actuaries have not much use for large men, as they die sooner.

The CHAIRMAN: I think, in fairness to your question, and I know there is no ill motive implied, but it is on the same basis as the rest, and if you start to tell one person's pension fund, you can go right down the line.

Mr. FORBES: He is a government employee. Another pension entered into the picture a few days ago.

The CHAIRMAN: It was on a different basis.

Mr. GORDON: Let me clear it up in case of misunderstanding. The pension fund of the C.N.R. has the approval of an Order in Council. One point, Mr. Forbes, which I think it would be well to make clear is that there is nothing on this pension funding that in any way affects the rights of the individual, and it does not hurt the security of the fund in any way, shape or form. Neither the pensioners of today nor the pensioners of tomorrow need to worry about financial arrangements in regard to the payment of pension by reason of this act.

Mr. FORBES: I asked the question because I wanted to make a comparison and associate it with the responsibility of office.

Mr. BROOME: In regard to the acknowledged liability of $325 million, is that the amount Mr. Toole mentioned on which you are paying an interest?

Mr. GORDON: We pay interest on an accrued liability, and that is an actuarial liability which in effect is theoretical, that is, as the actuaries say, if all the pensioners collected their pensions today. But, as Mr. Toole said, it would be, in their calculations, 150 years before any question would rise as to whether or not the fund was exhausted. That is a theoretical statement, and what it means is that the fund would go on for perpetuity because it is almost inconceivable that so many people would tie it up at one time, that is that liability would become applicable. So this really means that the fund would continue in perpetuity on this basis.

The CHAIRMAN: A lot of branch lines would close by this time.

Mr. BROOME: What does this figure mean; is it in the debt structure of the company?

Mr. GORDON: A contingent liability that may come about 150 years from now.

Mr. CARTER: The number of employees of the C.N.R. has been steadily decreasing. In what way does that affect your fund and the ability of the fund to pay higher benefits?

Mr. GORDON: It does not affect it at all.

Mr. CREAGHAN: A man who is laid off gets a refund of all his contributions. Is that correct?

Mr. GORDON: It depends on his status. You are getting on to the rights again.

Mr. CREAGHAN: Mr. Carter was wondering if the reduction in the staff was going to make the fund more solvent. I am suggesting that refunds do take place in case of separation.

Mr. GORDON: Yes, but there are some cases where the employee has a right to get a refund of his contribution with interest. Paying that back to him does not affect the stability of the fund because it reduces liability to that person as soon as we pay him off.

Mr. HORNER (*Acadia*): I am not quite clear on this reduction of $10 million in pension costs, and yet the stability and liability is maintained. These terminal funding and current funding problems are somewhat confusing. I wonder if it means, what I think it does, that the company has stopped paying into the pension fund but pays its share out as the pensions are drawn?

Mr. GORDON: No. It means this: let us take an individual. Under the terminal funding method which was the former method, when an individual reached pension age and went on pension, then the company, by an actuarial calculation, would put up a sum of money which joined with the money the man had put up, plus interest would produce a capital sum which then would yield enough interest to pay his pension. That became a charge to our accounts in the year in which that man retired.

Now, we have given that method up. I am oversimplifying this but I am basically correct. I cannot use the accountant's language because it is a jargon that would confuse anyone. We have said that starting from January 1, 1960, we are charging the company's accounts with the current amount for all the persons now in service, and we are not paying any attention to the accrued liability for past service. From January 1, 1960 we will pay into the fund the actual amount that is due.

Mr. HORNER (*Acadia*): Five per cent, or whatever it may be.

Mr. FISHER: If you are paying $10 million less in this year, this indicates that if you had made this switch sooner, this $700 million odd would be a smaller figure now.

Mr. GORDON: That is another one of those guesses.

Mr. TOOLE: This takes into account the average age of your employees, and if you had made this change, two, three or five years ago, I am not sure whether the $325 million would have been higher or lower.

Mr. GORDON: It depends on the age composition at any particular time. The actuaries always deal with lives, and they will take the group that is involved in the pension fund and will evaluate those lives on an insurance basis, so that the cost of any pension fund can vary considerably depending on the group lives they are talking about. Our group lives of five years ago would have, I would think on the average, been about the same as the law of averages, but we cannot say that for sure.

Mr. FISHER: One last question. Where did the initiative come for this change; is it patterned after what other large organizations have done?

Mr. GORDON: It was brought about really, as Mr. Toole explained, when we made the fund compulsory. We felt then that we should have a look at our method of terminal funding. I had doubts about this terminal funding all along, but when we decided to make it compulsory, that raised the question once more and we decided to employ the firm of William Mercer Company, who are recognized specialists in this actuarial field. We brought the men and said "sit down, and take a look at our financing method in connection with this fund. Let us have recommendations as to what is the soundest and best way of doing it." They spent a considerable time on it, and their recommendation was that we adopt this style of funding. After having convinced ourselves that the recommendation made sense we submitted it to the finance department and had their experts look into it. This, therefore, has taken a good deal of time but it has been thoroughly vetted by all the best people we could find.

Mr. BROWNE (*Vancouver-Kingsway*): Mr. Chairman, most of the members of the committee have had these recommendations made by members of the unions, and in some cases by officers of local unions. I see that part of that would come under the terms that would have to do with pension rights, but

I see that there also may be suggestions in connection with the amount of money that should be paid into the fund and the amount of pension itself. I think that that properly comes under this time rather than the other.

Mr. GORDON: I would not think so, if you will forgive me. The amount of contribution at any time is part of the pension rights that are written out in the pension fund.

The CHAIRMAN: You will have plenty of opportunity to bring that up again.

Mr. GORDON: I could explain it this way. Under the pension fund, as it now stands, what the company really does is to underwrite the benefits that are spelled out in the rules of the pension fund, and we have established the contribution which we think the employee should make. If the cost is more than the employee's contribution, then the company underwrites it in total, and our contribution would tend to be substantially higher than that of the employee.

Mr. BROWNE (*Vancouver-Kingsway*): The only reason I raised it—I am quite satisfied to proceed in that way—is to bring this to the attention of the committee. It says in the resolution passed in the house on Monday, May 15:

> —and to consider the pension rights in existing or retired Canadian National Railways employees with respect to anomalies which may have resulted from breaks in the continuity of service.

That does not give us any right to deal with amounts of pensions as such. I did not want to have the committee pass this item and then get to that and find out that under our terms of reference here we could not do so.

The CHAIRMAN: No. Any other questions on this item?

Mr. HORNER (*Acadia*): I have one question. So that we might have a better idea as to who this pension funding affects or how many of the employees it affects, I should like to know what per cent of the employees have taken up the option of compulsory pensioning?

Mr. GORDON: The latest figures I have here on the contributors who contribute towards the various plans as of December 31, 1960 are 79,826, which represents 83 per cent of our staff as of that date. Perhaps I could say that in December 1958 there were only 53,982, or 51.9 per cent. So we have substantially increased.

Mr. CREAGHAN: I wanted to find out from Mr. Gordon if the pension set-up has any effect on the age of new employees. I know that in some cases management says "we cannot hire you because it is contrary to our pension rules".

Mr. GORDON: That will come under pension rights again. That is spelled out in the pension fund rules. We have had a number of changes. It used to be that there was a restriction in regard to age, and an employee coming in after the age of forty either had to have special arrangements made as part of the service deal, or got roughly 50 per cent benefits. It has been cancelled. As it now stands, we can allow entry into the pension fund at any age.

Mr. CREAGHAN: That is a very proper rule.

The CHAIRMAN: In view of this being so interlocked, there will be an exhaustive study of pension problems later.

Mr. HORNER (*Acadia*): Will the amount of pension be allowed for discussion later?

The CHAIRMAN: Yes. We will proceed now to the next item—other developments, new branch lines.

Mr. FISHER: I would like to ask Mr. Gordon whether there have been any further developments in the surveys that I understand were made several years

ago relating to a possible branch line in the Nakina area to the Anaconda iron ore development? Anaconda have a reef of iron about 40 to 50 miles north of Nakina, and they are spending, I think, $5 million on that development project. I understood that they have had conversations.

Mr. GORDON: We have a number of lines under consideration on a highly confidential basis with the individuals concerned. In other words, the promoters of these projects do not want us to reveal that they are giving serious consideration to the development of the particular area. I do not mind showing you this, but I would not like it to be publicized. And I am not sure that I can identify the particular line you have in mind.

Mr. FISHER: The reason I want to bring it up is this. One of the factors involved in this is to get the best possible port on Lake Superior if they go ahead. One of the stories going around is that it might be at Jackfish, which you know is on the C.P.R. I would be quite interested to know if the C.P.R. is angling in on this matter, and to recommend that we do not get another situation like Manitouwadge, and that every possible effort be made to make sure that in bringing ore to the coast this is done by the C.N.R., which is the closest line to it.

Mr. GORDON: I would be very happy indeed for any action of that kind which could be taken. However, in that area, the question of what railway comes in is purely a matter of competition and which railway is able to offer the best terms. If you can persuade your colleagues in parliament to reserve that area to the C.N.R. and get the C.P.R. out, I would be very glad to make a proposition—but I do not think you are going to get that bill through.

Mr. FISHER: It seemed to me in relation to this particular point that this is one of the great ironies, that there are two routes into Manitouwadge for the size of the community and the amount of the traffic, and if we are going to have this development I can understand the Iron Ore Company bargaining, but I would hope that the C.N.R. would do everything in its power to see that they are in at the beginning, as they are the closest to the development there.

Mr. GORDON: Let me put it this way. The only thing I can say quite definitely is that I do not think that the managements of C.P.R. and C.N.R. would build competitive lines into this area. Manitouwadge was a special case. Actually the accesss position from C.P.R. and from our line was pretty much the same. You can see pretty well that this is either a C.P.R. or C.N.R. point, that the actual cost of building in would be similar, one of us came from the north and the other came from the south, so there was a factor of development there, plus the fact that we were both there. We were there first, but the C.P.R. came afterwards.

Take the C.P.R. position and the appraisal of the camp. The appraisal of the development was that there seemed to be a promise of sufficient development there to justify access by both lines on a competitive basis, as there would be enough traffic. It was not a very long line, only about 25 miles, and it was not a major project. What is happening in the case of the project to which you are referring is that we had a very intensive discussion with the promoters, if I may call them that, the people interested in the ore, and we pointed out to the best of our ability the advantage which would accrue by using the C.N.R. We are using every competitive factor we can to support our point of view and we believe we will get the bid. However, short of legislation which would close the area to C.P.R. there is no other way of doing it.

Mr. FISHER: You mentioned the Lake St. Joseph development, which I believe is under the promotion of the Steep Rock iron interests. Have you made a survey there?

Mr. GORDON: Discussions have been going on and it is only in that discussion stage. We have had a number of these things under discussion. We have not actually made a survey, we have made an aerial approach to it, but the matter is live.

The CHAIRMAN: Are there any further questions on branch lines? If not, we may turn to the next item, industrial promotion.

Mr. FISHER: This says that there are more than 360 plants located along Canadian National lines. Could you make the generalization that those plants were in the main in the central Ontario-Quebec region?

Mr. GORDON: I think that is right. Incidentally, while we are on that point I would like to make it clear to the committee that the C.P.R. report on the same thing refers to 589 plants. Naturally, when I saw that, I wanted to know why we showed only 360. Once again I found that this was one of those things where we were not on the same basis of comparison. In getting them on the same basis of comparison, I am informed, though I cannot certify it, that the comparative figure is 674 for the C.N.R. to 589 for the C.P.R., comparing the same things. They were taking in plants and then switching areas of that kind and we were not, but this gives it on the same comparable basis.

Mr. FISHER: What role has an organization like Muirhead Forwarding in this industrial development? Is this, in a sense, an arm in trying to provide a better service to new projects?

Mr. GORDON: This is an old-established railway custom which really means that the Muirhead Forwarding, by providing a service of picking up small lots around the various plants and collecting them into a pool car of their own, are able to make a little money; and the difference between the less-than-car-load freight rate that the individual shipments pay, and the car freight that they get as a full car, does not really have anything to do, as I see it, with the matter of encouraging location on our lines.

Mr. FISHER: I wondered if it had any reference, when you are making a strenuous effort to build up your L.C.L. traffic, how this would affect the organization?

Mr. GORDON: It will have an influence. In other words, it will reduce their opportunities.

Mr. FISHER: One complaint that we often have at the Lakehead—and for the first time I am going to be shamelessly constituency in my approach.

Mr. SMITH (*Simcoe North*): The first time?

Mr. FISHER: The second time. A lot of property seems to be tied up at the Lakehead by various railways, by the C.P.R. and C.N.R. There is a tremendous amount of waterhead property there. It seems to me that this inhibits industrial development. I am curious about whether any area such as this, whether you will consider dispensing with some of this property and turning it over either to the municipality or some other organizations, since it seems to me it is possible that the railways are rather unfairly blamed for blocking industrial progress.

Mr. GORDON: I do not know. There may be an element of justification in that criticism, Mr. Fisher. I think I said earlier—if I did not, I intend to say it somewhere along the line—we have embarked on a very intensive analysis of all our holdings across Canada. One of the reasons for that was that I have become increasingly conscious over the years that in the case of any property in the hands of the railway, our operating department hate to see it go. They are always in the frame of mind that we might need it tomorrow or in the next year. When it was left to them, under our previous

practice, no property in the railway was surrendered or sold without a certificate from the operating department that it was not required for railway purposes. Therefore, while we still require that certificate, we prepare an independent analysis of it and in the course of that analysis we have found a number of places where we have put properties to better advantage. I mention the Moncton development as one example, then there is Campbellton, which is another one, and there is Edmonton, which is under active survey. Toronto is being done by reason of the fact that as we get on with a new hump yard we will be releasing other property. Therefore, in the course of that survey we will almost certainly be looking at the Lakehead to see whether we may not use that property to better advantage to ourselves, or, if it is of no real use to us, whether it can be used to better advantage to other members of the community.

Mr. FISHER: I would like to underline that you have three yards there, and while I know there needs to be a great deal of provision for grain traffic, it seems to me there could be some disposal made. I do not know how, if you have no use for some of your property.

Mr. GORDON: You are well aware that there is a new terminal being built under the direction of the Department of Public Works. I, personally, am not sufficiently familiar with the Lakehead myself to make a comment on it, except that I know that the matter is under survey and in the light of your comments I will give it a personal look.

Mr. BROOME: The C.N.R., I would imagine, has a department to consider this industrial development and industrial promotion. Is that not so?

Mr. GORDON: Yes, a very active department.

Mr. BROOME: It would deal with development, trying to interest plants and manufacturers of new products.

Mr. GORDON: Yes, we have a very active department and over the years we have conducted a series of industrial surveys of the various communities and we have produced booklets covering pertinent data on all factors of interest to industry. These booklets are circulated through various trade associations, and otherwise. We are constantly on the alert to find out if any industry would be interested in any particular type of resource material and we get in touch with them.

Mr. BROOME: Or a secondary manufacturer.

Mr. GORDON: We produced surveys all through the Atlantic region. I have a whole list of them.

Mr. BROOME: In your own purchasing policy, when you go out for tenders for your own requirements through your own purchasing department, do you on your invitations to tender specify that the country of origin must be given?

Mr. GORDON: Not the country of origin. I think I did give the clause the other day.

Mr. BROOME: That applied as I understood it to contractors working for you and their conditions, under the letting of the contract; but I am talking now only about your own purchasing. If you want axes, say, do you in your request to tender specify that the country of origin shall be shown?

Mr. GORDON: No, I do not think we do that.

Mr. BROOME: Do you not think that would be of advantage to you?

Mr. GORDON: I was going to say that while we do not specify what I think you have in mind, nevertheless the practical result of our operation is such

that the figures I put on record for you anyway show that the amount of purchasing in Canada is so much greater than anywhere else that outside purchasing is almost inconsequential. I do not think it would be a practical thing, Mr. Broome, if I understand your question, for us to say that in asking for bids to supply us with a certain number of axes, as an example, they must only be axes made in Canada.

Mr. BROOME: I did not say that. In government tenders, provincial as well as federal, country of origin is required and in many cases an estimate of the percentage of Canadian content. In your purchasing you could well purchase from a Canadian company and in that way you are placing your orders with a Canadian company but the company may simply be agents for an imported article, so your figures could not possibly show the Canadian content of your purchasing, unless you had required this information to be given when the companies tender to you.

Mr. GORDON: Let me put it this way. This is an extract from our own system policy book which is used in the purchasing and stores department:

> It is system policy to buy for use in Canada materials, equipment and supplies of Canadian origin wherever possible. A product of foreign manufacture will be purchased for use in Canada only in cases where no suitable alternative is produced in Canada, or where the foreign product has cost or other advantages that cannot be matched by Canadian suppliers.
>
> Materials, equipment or supplies for exclusive use on United States lines will normally be purchased from United States suppliers.
>
> Wherever possible, not less than three sources of supply will be maintained for all products, and where there are fewer sources than this, it is system policy to encourage others to enter the field where volume warrants.

So, in actual purchasing, we do give preference to materials of Canadian origin wherever possible.

Mr. BROOME: If price is not a factor, in other words there is no price preference?

Mr. GORDON: I would not say that completely. I have known cases where, if the differential is slight, we give the nod to the Canadian product.

Mr. BROOME: You have no real policy where if the price is within, say, 5 per cent you would then do so?

Mr. GORDON: No. We have never named a percentage. I think our buyers, however, have a figure in their minds, but we do not let that be known.

Mr. BROOME: Why would you in your purchasing for U.S. lines say they should go to U.S. suppliers? Would you not still think of your U.S. lines as being a vehicle to promote Canadian economy rather than American economy?

Mr. GORDON: Yes. The Canadian suppliers have as much opportunity to tender as the American suppliers; but we think as a matter of good practice and good public relations that we do not want to have it that, on our operations in the United States, we will bring in only Canadian supplies.

Mr. BROOME: Not only.

Mr. GORDON: You must remember this works two ways, in a sense, because we have traffic interests in the United States also and we purchase things from people who are using our facilities.

Mr. BROOME: Let us assume you are purchasing a diesel engine for the Grand Trunk Western; would that be purchased in London, Ontario or in the United States?

Mr. GORDON: It would be purchased in the United States—and the major reason for that is the question of tariff.

Mr. BROOME: Because of tariff?

Mr. GORDON: Yes.

Mr. BROOME: You mean that taking your diesel engine from—

Mr. GORDON: —Canada into the United States, would cost us considerably more than buying in the United States.

Mr. BROOME: That also would apply to your rolling stock, would it not?

Mr. GORDON: Pretty well, although in connection with rolling stock, box cars, by and large, in our United States lines they do not buy them. We rent them. That is a feature.

Mr. BROOME: You lease them?

Mr. GORDON: That is right. We lease them, and that is permissible.

Mr. BROOME: You could do that with your diesels, too?

Mr. GORDON: Not on a basis that would show a net advantage to us.

Mr. BROOME: Would you consider it might be good policy, since you are trying to develop these Canadian plants and Canadian manufacturing, to consider setting up within the system some specified price preference to a Canadian supplier, within a range?

Mr. GORDON: Well, if I say we have done so, then I will be asked how much. There is that general feeling towards it, in the matter of our people who are doing the buying. If we were to set up anything which is specifically known, I think we would reduce the advantage we get of the competitive bidding.

Mr. BROOME: Except this, that a purchasing agent is judged by how well he purchases, so he will invariably take the low bid if it is satisfactory, unless he knows that it is company policy that he has this leeway to go on and that this is not against him if he takes it.

Mr. GORDON: Well, he knows that.

Mr. CARTER: Several years ago, Mr. Gordon, your industrial promotion department developed a canex container and I had hoped that it would come into general use for my product, because I thought it would help to solve some of my problems which we have with the fishery there. The only use I have heard of it so far is in connection with the Chateau Laurier, and I think Eaton's and some firms in Toronto. Could you bring us up to date on this container? Is it used to any extent?

Mr. GORDON: No. As a matter of fact, the canex container has been a disappointment. We still feel that we have got a very good article there and it has done all technically that we had hoped for it. But in trying to popularize it in the trade, we have run up against organized resistance, mostly by the handlers in between who, in the fish trade, operate and get a good deal of their own profit from the question of shrinkage. In the canex they do not get shrinkage, so we have found it almost impossible to break that trade practice and therefore the canex has been largely confined to uses which we have been able to stir up ourselves. Eaton's has been one of them and we use it in our hotels. You will find it in The Queen Elizabeth. I am prepared to tell you now, and I would like the newspapers to take note, that if anyone went to eat really good fish they should ask for fish which is canex—moved by C.N.R., served in C.N.R. hotels. That is a strictly objective and unbiased statement.

Mr. CARTER: And produced in Newfoundland?

Mr. GORDON: Yes. It is a good point, Mr. Carter. This is a first-class article, this is a good marketing article, and I am not over-stating it when I say it does a great job in moving fish in a condition of freshness, a condition that keeps it about as near to ocean freshness as can possibly be devised.

The CHAIRMAN: Would you try and get some of it up to the parliamentary restaurant?

Mr. GORDON: I would be glad to do so. May I use you as a recommender?

The CHAIRMAN: Yes.

Mr. GORDON: Make a note of that—write to Mr. Speaker; I think he is the person in control of the restaurant. Let us write to Mr. Speaker and say we have had a recommendation from the chairman of this committee. Quite seriously, you should get it.

The CHAIRMAN: I am not such a good judge as some of those from the maritimes, but I do not think we get very good fish there in the restaurant.

Mr. CARTER: I can support Mr. Gordon on that, because I have tasted the product in various parts, in various hotels.

Mr. HORNER (*Acadia*): On this question of industrial promotion and the setting up of the 360 plants, this interests me very much because of the number of towns in western Canada which have roundhouses lying empty, and so on. They are all asking for some kind of a manufacturing plant to be set up to take up the slack, in this particular dropping off of employment. I wonder if we could be given some kind of idea as to the variety which goes to make up these 360 plants, and roughly speaking as to whether they are all across Canada or mostly in central Canada down here, or if some are in western Canada?

Mr. GORDON: I can give you these figures, but I cannot give you much detail as to what goes behind them. If you take the figures which are really comparable with the C.N.R. and disregard the figure that you have got in the report, changing that figure of 360 to 674 in the first instance, so as to make this on a basis comparable with the C.P.R., this is the breakdown which I have: 25 are in the Atlantic region, 434 in the central region, and 215 are in the western region.

Mr. FISHER: Could we have some idea as to what they constitute, what variety are they, are they steel manufacturing, and so on?

Mr. GORDON: I have not got that detail.

Mr. HORNER (*Acadia*): What are they?

Mr. GORDON: I have not got that detail here but it is a cross-section of almost every kind of manufacturing and types of products you could think of. In other words, I know that when I looked at it there was no particular dominance, it was just a cross-section of all industry.

Mr. HORNER (*Acadia*): Could we have some idea as to what part the C.N.R. industrial development organization played in establishing these plants? Did they invest money or give them the land?

Mr. GORDON: We have no especial arrangements of that kind. Our part is simply to keep in touch with the trade and keep alert to anything that we learn about the possibilities of a plant being established. We then get in touch with them as quickly as possible to try to persuade them that the best location is on the C.N.R. line. We do that in several ways. First of all, we have made a very intensive survey of almost every community in Canada, in regard to its particular qualities, that would be of interest. Some places may have especially good electrical power, another good water, while another place may

have a good labour market. We make a thorough analysis of these in conjunction with the city or town authorities. Brochures are then sent out through trade associations in the United States and Canada and we build up over the years quite a mailing list in this connection. In addition to that, there is always a sort of gossip on in the trade that such and such a company might be interested, and we follow the leads accordingly. Incidentally, that is one of the reasons for our expense accounts. These officials are on the road, travelling to drum up business, and they may wander all over the United States in the process. One interesting example is, for instance, what we did in Red Deer. There was a case where we worked with the city authorities and we eliminated a station which was in the centre of the city and tended to block development on that point. We made an arrangement whereby an industrial park area was developed. Again, in conjunction with the city, it was publicized and we got after various people to show them the advantages of Red Deer and we cooperated by removing our tracks and running in spur lines until this had become a very satisfactory development indeed. These industrial parks are becoming known throughout Canada.

Mr. HORNER (*Acadia*): Have you had results at Red Deer? Have you—not necessarily C.N.R., but have there been, through your offer to run in spur lines and set up this help in setting up the industrial park, manufacturing firms moving into this area?

Mr. GORDON: There is a packing plant that has started construction already, and our belief is that we have enough indications of interest that there will be a real development in industrial parks in the very near future.

Mr. HORNER (*Acadia*): Does this packing plant start along the C.N.R. lines?

Mr. GORDON: Yes, serviced by the C.N.R.

The CHAIRMAN: In view of the concentration of industry in the central parts there is an indication that the trend of development is probably greater in the west than it is in the central parts.

Mr. FISHER: This is what high freight rates have caused.

Mr. GORDON: No, there is a real point there.

Mr. FISHER: That is what they say in the west.

The CHAIRMAN: It has impressed me that with the concentration of industry over the years principally in the central parts, that now the trend seems to be, as these figures show, 250 compared to 234, that the development towards the west, population-wise and in industrial standards and so forth, would indicate a more rapid expansion than in the east.

Mr. HORNER (*Acadia*): Alberta is a pretty good province.

The CHAIRMAN: It must be, but it is rather interesting from that point of view. Any other questions?

Mr. FISHER: I want to ask some on the Royal Commission.

The CHAIRMAN: The next item would be the Moncton real estate projects.

Mr. CREAGHAN: I would like to have a statement justifying the delay in the commencement of the redevelopment. It is common knowledge that everyone expected a big start to be made during the month of May, 1961, and to date there has been some delay. I understand there is renegotiation, but I wonder how much of it could be made public at this time.

Mr. GORDON: Well, I suppose you could call it delay from one point of view, but my experience has been that in all these developments, particularly with these developments that are referred to in the language of the press "multi-million dollar developments", that from the time of the first announcement, which is only on a project basis, to the time that you see actual bulldozers and

steam shovels, there is bound to be a time that appears to be a delay. It should not, however, be regarded as delay because in the meantime all sorts of planning and details and blueprints, arguments and discussions about this and that, are going on, with the result that when the shovels finally get on the job, it goes quickly.

You will see a very good example of that in the city of Montreal where, I suppose, two years went by after we had announced it, and before there was the slightest sign of activity. A lot of people got skeptical, and in fact there were whispers of death going about it all the time. To make a development of this size you just have to have patience and a recognition that architects, engineers, and business discussions take time, and the working out of details cannot be hurried.

There is an additional factor in the Moncton development, and that is that after we had selected the private enterpriser who was working with us on the project, in the course of our discussions, we arrived at the conclusion that there was sufficient enthusiasm for the project, sufficient public reaction, and sufficient encouragement to the promoters to raise the question as to whether the development that was originally planned could not be extended in the first instance. Usually that takes place after you apportion the job, and then you do the rest. In this case the private developer got sufficient response to warrant his believing that if he could make a bargain with us for the other part of the property—another ten acres or so—he might do the whole thing at the time.

Mr. CREAGHAN: That is the point I am concerned about. In May 1960 you put out your advertisement across the country. You received 15 odd bids or inquiries, and as long ago as February the agreements were more or less negotiated to the final point. There was every indication that a good start would be made this year because it is pretty well understood you have a completion date for moving.

Now, what I am concerned about is that after a year of negotiation and drawing of plans and the completion of the same by execution of the contract for ten acres, there is talk now of another ten.

Mr. GORDON: No, wait a minute; I think again I should make it clear.

Mr. CREAGHAN: Just a moment, I am wondering if perhaps under your system of public tendering, if you extend this to any great degree, if you will not be obligated by custom to readvertise?

Mr. GORDON: Yes. There is no worry about that, I do not think. The situation about the other part of the property that developed in the course of our discussions gave sufficient interest to believe that it could be enlarged at this time. It may have delayed us somewhat in getting on with the first half of the plan. But we are going to clear that other part of the property—the railway will clear it—and then we will decide whether or not the interest in that property warrants our inviting a further series of tenders. We are not necessarily obligated to give the development of the second part of the property to the person who has the first part of it. He will, of course, get a chance, and in all likelihood I would think he is in a preferred position, or he should be in a preferred position, but we do not want to be exposed to any criticism—we have called for offers in respect of a certain portion of property, and we had four, five or six offers. The real point is that any of those unsuccessful bidders could say, "if we had known it was going to be this size, we would have done much better". I am aware of that factor.

Mr. CREAGHAN: Is it right for the people to assume that the existing agreement will be pushed ahead and that there will be a good start made on it this fall?

Mr. GORDON: Oh yes, it is going ahead now. The project has never stopped. It has been going ahead right along, and these people we have, have a very good record for performance—we have had them before. The delay has not been unusual. It slowed down a little bit while we had these recent discussions, but I do not think the delay here is unusual at all. It is the normal process of apparent delay while all the plans are being put together.

Mr. CREAGHAN: I understand there has been one major change in the original agreement, and that is the location of the office building for the C.N.R. It has moved west quite a few feet.

Mr. GORDON: That is the sort of thing that comes out when you get to detailed discussions.

Mr. CREAGHAN: That is a very proper change because it is going to mean that the land to the east, which should be more commercial, will be put to its full capacity. I am wondering, however, if by expanding it, you are going to have another change.

Mr. GORDON: I do not think so. It will not affect this project as such, and we certainly want to get on with it as fast as we can. I would predict that it will get along quite fast subject to the usual hazards of a business of that kind.

Mr. CREAGHAN: I have one further question on the re-development, including Montreal, Campbellton and Moncton. What control or influence does the C.N.R. have over the developer in the use of local labour and local suppliers where possible? I know it is the developer's problem to produce the finished product, but do you have any control, or do you put a term in your contract specifying local labour or priority to former C.N.R. employees?

Mr. GORDON: I do not think so, of the kind you mentioned. You are talking now of the Montreal project?

Mr. CREAGHAN: Moncton and Campbellton, maybe next year.

Mr. GORDON: Stipulating local labour?

Mr. CREAGHAN: Yes.

Mr. GORDON: I do not think that is a practical proposition.

Mr. CREAGHAN: When you built the hump yard in Moncton there was a preference to laid-off C.N.R. employees in the contract.

Mr. GORDON: That is right. That is a result of what you might call moral suasion. We do exercise influence on the contractor to use good sense, and, all things being equal, to use C.N.R. employees who may be laid off. We usually get excellent cooperation. My point is that we do not make it a legal stipulation. It is a matter of good public relations between the contractor and the railway.

The CHAIRMAN: Any other questions on Moncton?

Mr. CREAGHAN: I have many more questions but I do not think I will ask them here. I will perhaps discuss them privately.

The CHAIRMAN: The next one is Montreal terminal development. Any questions on that?

The next one is marine services.

Mr. MCPHILLIPS: I have a couple of questions on marine services. I was going to ask whether the Alaska cruise ship is operating this season?

Mr. GORDON: It is. We took the decision recently. It will be operating this season.

Mr. McPHILLIPS: There are persistent rumours on the Pacific coast that the company is going to give up the service. Is there any truth in that?

Mr. GORDON: Yes, in this sense, that the ship will be used as long as the ship can stay in service, and that may be for 10, 15 or 20 years, I do not know, unless we can sell it. There is no immediate likelihood, as far as we can see, of selling it. So that the likelihood is she will stay in service until she dies of old age. It is a single ship service. It is not something that one would go into by choice, and we have no intention of perpetrating a service or building it up because it is not the kind of thing that is any longer really popular, although this particular ship is very popular to the extent of a very short season. We went into a great deal of detail to see if we could equip the ship so that we could handle it for winter cruises, but the costs were greater than we could justify. However, you can assume the ship will be in service unless some kind person makes a bid for it, which is very unlikely. That ship is not a saleable commodity in the world today because it is not flexible enough and must be laid up for the winter, which is an expensive proposition.

Mr. McPHILLIPS: However, the policy of the company is to keep the ship in operation?

Mr. GORDON: Yes.

Mr. McPHILLIPS: You are no longer interested in steamship operations?

Mr. GORDON: Not of that type.

Mr. McPHILLIPS: The Ogden street docks in Victoria, which the C.N.R. operates, I am told were given to the C.N.R. in 1923. The control was given to the C.N.R.

Mr. GORDON: Yes.

Mr. McPHILLIPS: I hear the bell ringing.

The CHAIRMAN: We cannot meet this afternoon.

Mr. GORDON: What?

The CHAIRMAN: We have no room in which to meet.

Mr. GORDON: I could offer the facilities of the hotel.

Mr. BROOME: What about the other committee rooms?

The CHAIRMAN: They are all in use. We are stymied now until to-morrow afternoon.

Mr. CREAGHAN: Mr. Gordon has suggested we might meet in some room in the hotel. If we could get in two or three hours this afternoon it would be a help.

Mr. GORDON: I do not know what is available, but it would help.

Mr. HORNER (*Acadia*): Let us take him up on that.

The CHAIRMAN: I do not think the reporting staff could manage it. It appears that to-morrow afternoon at 2.30 is the best we can do.

Mr. FISHER: Or to-morrow morning.

The CHAIRMAN: There is caucus at 9.00 o'clock Mr. Fisher. That is for the majority of parliament.

Mr. FISHER: Do not keep rubbing it in all the time.

The CHAIRMAN: The meeting is adjourned, and we shall meet to-morrow afternoon at 2.30.

—The committee adjourned.

WEDNESDAY, June 21, 1961.
2.30 p.m.

The CHAIRMAN: Gentlemen, I see we have a quorum. We have two new members of the committee, Mr. Kennedy and Mr. Martini. They will help you expedite the business of the committee I am sure, because they are both very intelligent fellows.

As I recall it, we were on marine services. We have pretty well exhausted the subject, but if anyone has anything else on it, please proceed.

Mr. MCPHILLIPS: I have a couple of questions. I dealt with the cruise vessel at Prince George, but now I want to get on to the Ogden point deep sea docks in the port of Victoria. My understanding is that whilst this is an asset of the Federal Government, in 1923 it was put under the control of the Canadian National Railways. Is that correct, Mr. Gordon?

Mr. DONALD GORDON (*President, Canadian National Railways*): I believe so. I do not know the date, but it is being managed by us.

Mr. MCPHILLIPS: I asked some of these questions before. This is another matter in my constituency. When the docks were built they were considered to be one of the finest in the world. They bring in a revenue. However, since then, they have been allowed to get into a state of dilapidation, not only the sheds on the docks, but also the approaches to the city of Victoria just at the commencement of the scenic marine drive. As I understand it, in the year 1960 these docks gave a revenue of over a quarter of a million dollars—the actual figure is $276,815. As the first question I should ask whether the C.N.R. is charged with the maintenance of these docks and approaches?

Mr. R. T. VAUGHAN (*Assistant to the President, Canadian National Railways*): I have a vague familiarity with this subject, Mr. McPhillips. As I understand it, we are charged with the maintenance of the dock itself. About the approaches, I would have to check. However, the maintenance, and any capital that goes into it, is the responsibility of C.N.R.

Mr. MCPHILLIPS: Also the control?

Mr. GORDON: I misunderstood the word "charge". You mean it is our duty to look after it? That is correct.

Mr. MCPHILLIPS: Why is this state allowed to continue on the marine drive —it is called Dallas road. It presents a very miserable picture. There is an old, broken down, dilapidated picket fence there, and even an old shack that the St. John's company of engineers had when they built the breakwater. There are pieces of old iron there and weeds growing. It seems to me that with a revenue of over a quarter of a million dollars, the railway company should at least have a caretaker or someone to look after the place. I do not suggest that ocean docks should be made there, but at least they could be tidier and cleaner.

Mr. GORDON: I have no doubt our local officials are following out the practice, as far as they can, to keep the maintenance cost in line with the volume of traffic being offered. I am not too familiar with this particular operation, but I will take note of your comments and make inquiries. Your general point of view is, I take it, that for very little money we could improve the appearance of the area. That is a consummation devoutly to be desired, and we will see what we can do.

The CHAIRMAN: Are there any other questions on that item? If not, then we pass on to the St. Lawrence seaway project:

> At Montreal, a diversionary railroad span on Victoria bridge was completed to provide for an uninterrupted flow of train and vehicular traffic over the St. Lawrence seaway. The alternate route diverts bridge traffic around St. Lambert lock when the lock is in use.

Has anyone any particular interest in that?

Mr. HORNER (*Acadia*): We studied these bridges a year ago quite extensively. Is the automatic toll system fully implemented on Victoria bridge?

Mr. GORDON: It is. Incidentally, we pioneered it.

Mr. HORNER (*Acadia*): I am not going to get into this yet. However, could you tell me whether the tolls repay the cost of construction of the bridge?

Mr. GORDON: Yes, we made all those figures available at the time of the inquiry. It is not commensurate with the capital investment that has been made, but we do show an excess of revenue over expenditures. The capital investment is roughly $10 million.

Mr. HORNER (*Acadia*): I see.

Mr. GORDON: The capital investment was roughly $10 million last year. Our figure here, excess of total revenues over total operating expenses, $54,000, went down substantially from the previous year because the bridge had been under construction so it is not to be taken as representative here.

Mr. HORNER (*Acadia*): I see.

Mr. GORDON: I think it is starting well; the bridge is functioning now. However, it will be next year before we have the total utilization of the bridge, so the last four years are not representative years.

Mr. HORNER (*Acadia*): You hope it will—

Mr. GORDON: We believe, when we get all the work done, it will be a very popular route, particularly for trucking traffic and will show a marked increase in the revenues.

The CHAIRMAN: The next item is the paragraph marked "Royal Commission". There has been some discussion on that before. Is there anything further on that now?

Mr. HORNER (*Acadia*): There is just one brief question on that. In your submissions to the royal commission, did you deal at any time, or did the commission at any time ask you, regarding your operations in the U.S. or the U.S. railroads?

Mr. GORDON: I do not recall it. I read the 146 volumes of evidence, and by the time I got through the first 100 volumes I was getting woozy, but I cannot remember that particular question coming up.

Incidentally, if any of the members are interested in our submission to the Royal Commission, we have some copies here and could supply them at the end of this meeting, if anyone would like to have them.

Mr. PICKERSGILL: The Royal Commission, of course, has made an interim report, not a final report. The report was supposed to have something to do, we were told before it was made, with the railway labour settlement, but it appears it had nothing except a coincidental connection with it afterwards. We were also told that there was to be legislation arising out of that report, and now it appears that was a premature announcement.

However, there is an item in the estimates of $50 million which is not very adequately explained to us yet, and which has not come before the committee of supply. I would like to ask Mr. Gordon if he and Mr. Crump—well, I should not ask about Mr. Crump—if he was consulted by the government before that

amount of $50 million was put in the estimates; and if so, if he could throw any light on it, as to what it was for.

Hon. Leon BALCER (*Minister of Transport*): Mr. Chairman, on a point of order, whatever discussions occurred from time to time between myself as Minister of Transport and the president of the C.N.R. are privileged matters. I think it is unfair for Mr. Gordon to be called upon to make such a statement.

Mr. PICKERSGILL: I was not seeking and I certainly would not seek—and I have respect for the view of the Minister in this matter—to ask for any confidential conversation; but after all, the item is now before the committee of supply, it is in the supplementary estimates, and perhaps I should ask Mr. Gordon if he has been officially apprised in a public way, in which the Minister of Transport would not think there was privilege—and I am not seeking anything else. If it is felt this is a matter of privilege, I am not seeking to embarrass either the minister or Mr. Gordon.

Mr. BALCER: It is not a question of embarrassment. I note that Mr. Pickersgill said he does not want to embarrass anyone. It is not embarrassment. This is not the point at all. I do not think that the president should be called upon to come here and say what his opinion is on certain types of legislation or certain items of the estimates, or the way the government have gone about such and such a thing in the house. I think the question is absolutely improper.

Mr. PICKERSGILL: This appears to be a very secret matter.

Mr. BALCER: It is a question of privilege. I think Mr. Pickersgill is unfair because what I have been stating here is a well-known fact and a well-known rule. This rule has been brought forward many, many times by the government, when my honourable friend was a member of that government. I am only carrying on and expressing here a rule which has been established for a long, long time. I do not think it is fair on the part of Mr. Pickersgill to try to say that I am trying to hide something, or anything like that.

Mr. PICKERSGILL: I will have to take some exception to what the Minister has said. When I was a member of the government and we put an item in the estimates we explained what that item was, we did not regard it as a secret matter.

Mr. HORNER (*Acadia*): When it comes up in the house it will be explained.

Mr. BALCER: When the estimate is before the house—we have not reached it yet, but when it is reached in the house I will be very pleased to answer the questions of my honourable friend.

Mr. PICKERSGILL: I do not wish to cause the minister any further embarrassment.

Mr. SMITH (*Simcoe North*): It is not causing anyone any embarrassment. It is a question of privilege.

The CHAIRMAN: The next heading is "cooperation under C.N.-C.P. Act".

Mr. BROOME: On referring to the 1960 minutes of this committee, I find on page 215, Mr. Drysdale asked this question:

> Mr. DRYSDALE: I wonder if you could perhaps elaborate on two points? First of all, I think you mentioned, at the time you made the statement, something about the C.P.R. and C.N.R. combining or cooperating, perhaps, in withdrawing from certain areas. Is this a new policy?
>
> Mr. GORDON: No; what I said there was that the C.P.R. and ourselves are currently engaged in a most intensive exploration of all aspects of our passenger services. Then I gave the committee an idea of the sort of thing we are exploring to see if it is a practical proposition. I was

saying that merely as a commentary, for the information of the committee.

If we do arrive at any practical methods that we think would help to cut down duplication and eliminate unprofitable, non-patronized services, we would still have the requirements of the law to observe and would have to go before the Board of Transport Commissioners in respect of that kind of program.

First of all we want to decide, as a practical matter, what can be done. You will recall that I said in the statement—and I have not got the one I read from, but this is close enough—that the C.P.R. and ourselves, definitely recognize that while essential or even hightly convenient passenger services require to be continued in the public interest, they must be on the highly selective basis. Then I went on to say that the C.P.R. and ourselves believe a merging of services might be found possible with a view to reducing the costs due to unnecessary service. That is what we are trying to explore. If we are successful in demonstrating that we will meet the essential needs of the public, we will put our proposals—if they need to be put—before the Board of Transport Commissioners for approval.

This year the only note we have here is:

Discussions were held during the year to explore areas where co-operative action could be undertaken by the railways.

My question to Mr. Gordon is, were the discussions not fruitful in any way at all, in gaining cooperation between the C.N.R. and the C.P.R. in the way of withdrawal of services or merging of services, in order to give more economical operation?

Mr. GORDON: The time passes so quickly that I did not realize a year had elapsed. In the meantime, of course, we have had the Royal Commission to look after and various other things, which have taken a great part of the time of our analytical staff. There were several meetings of the joint committee and we discovered there were some very difficult practical problems involved. In the first place we needed to get much better statistical information in the matter of handling express traffic in relation to passenger trains. and connections and services into small villages which might be in the same general area, but still not be an exact duplication. The net result therefore was that the committee has in hand a very intensive examination of all these problems, such as express, mail, traffic, and the general handling of passengers to analyse just what might be accomplished. I have not received any report as yet, and upon my last inquiry I was told that they were still struggling with it, but were not in a very hopeful mood about coming up with anything very practical.

The CHAIRMAN: Are there any further questions?

Mr. FISHER: It would seem to me in the kind of coordinated negotiations that you have with the Canadian Pacific during wage disputes, and also before royal commissions, that there is a tendency for the Canadian National to wait, and let the Canadian Pacific take the lead. My own experience in watching sittings of royal commissions seemed to support this. I am not suggesting that there is anything wrong with it; but is there any substance in this view, that the Canadian National holds back in wage controversies and in appearances before such organizations as royal commissions, and the board of transport commissioners, in matters in which each railway has mutual interest, and that the Canadian Pacific takes the initiative?

Mr. GORDON: No, I do not think there is any practical truth in that. I agree that there is the appearance of truth in it, but there are some very logical reasons for it. Take for example, the Royal Commission; much of the hearings

of the Royal Commission surrounded a controversy which had to do with the Crowsnest pass rates. This, of course, originated with the Canadian Pacific, and the historical controversy was largely in their hands.

Now, in respect to the presentation of evidence there, we realized that there was no use for both of us doing it. So Mr. Ian Sinclair on behalf of the Canadian Pacific conducted the case and the cross-examination, so there would not be a duplication to increase the work of the commission, in the matter of presenting the case and the evidence. He assisted the staff of the commission and so on. The Canadian National played a part; and I am quite sure that the Commissioners would be glad to certify that the Canadian National more than pulled its weight in the practical work of the commission; although as I say in terms of courtroom appearance, the Canadian Pacific did dominate the scene.

Now, again, before the Board of Transport Commissioners, you will see something similar to that, because under the ruling of the Board of Transport Commissioners, the Canadian Pacific in freight rate cases, is the yardstick railway. And as the yardstick railway, when a freight rate case comes up, it is Canadian Pacific figures which are used in the presentation; and again you will find that the Canadian Pacific tends to do the cross-examining. But you will find always that we are there in a capacity where we fully share the burden of the presentation of the case. There is an awful lot of work done, that does not all appear on the surface.

The CHAIRMAN: Are there any other questions?

Mr. GORDON: Now, in respect to wage negotiations you must remember that the joining together of forces in that respect comes about by reason of the national bargaining techniques which are followed in the non-operating trades, the non-operating unions; and again that is a matter of division of the work. But in all the running trades, the agreements are individual. We conduct our own negotiations with our own running trades, while the Canadian Pacific does it with their own running trades. The joining together in national bargaining affects the 17 or 18 unions which are involved in those disputes. Perhaps you remember the letter that I read into the record the other day from the Brotherhood of Maintenance of Way, Employees which went out of their way to pay a tribute to me, and through me to the Canadian National, for the genuine efforts that were made in trying to effect a settlement of the strike by the Canadian National.

Mr. FISHER: You bring up this example to indicate that there would be substance in any impression that the Canadian Pacific has the initiative for management in this joint negotiation?

Mr. GORDON: Absolutely no; it is a joint negotiation in the truest sense of the word; neither one of us is trying to hold up or hang back along the line you mention.

Mr. FISHER: I think under this particular item I might ask you if the Canadian National and the Canadian Pacific have sat down together to discuss the position which each one of them is in, in so far as truck operations are concerned, and any projected bringing of truck operations under some kind of a national board?

Mr. GORDON: No, that is a competitive matter and we try not to inform each other about our competitive practices.

Mr. FISHER: You stated that the Canadian Pacific tends to be the yardstick road, in so far as rail rates are concerned, without expressing any pros or cons on that—although I have some views about it. Do you foresee the danger that this very same situation may be extended into trucking and truck rates?

Mr. McPHILLIPS: Under the Canadian National and Canadian Pacific Act, I do not think its terms apply to trucking operations at all. They are confined to railway matters.

Mr. GORDON: Shall I answer the question?

Mr. FISHER: I would like to have an answer, but if you want to sustain the point of order, I recognize the merit of what Mr. McPhillips said.

The CHAIRMAN: I think we had better sustain the point of order. Is there anything further on this topic?

Mr. FISHER: Again, Mr. Gordon, you indicated that you would look into the Lakehead situation in so far as the question of property and real estate was concerned. I wonder if you are doing so, and if you could provide me—or your officials would provide me—with any information, and if you would also indicate if there was possibility of cooperation with the Canadian Pacific under this act in reducing the number of spurs and various lines that are in the Lakehead area?

Mr. GORDON: Yes, I think we could do that; but I would not like to bind myself absolutely until I studied the problem; but to the extent that it comes within the orbit of the act, I think it might be done, and I would be glad to consider the point, yes.

Mr. FISHER: It is especially with a view to the number of spur lines, which we have running through the two cities, and the co-operation necessary to provide the elevators with a smooth flowing grain traffic.

Mr. GORDON: Yes, I shall see what can be done, and let you know.

The CHAIRMAN: Are there any other questions on this item?

Carried.

Now, we are on "corporate structure; the program to simplify Canadian National's corporate structure was advanced by the amalgamation with Canadian National Railway Company of five subsidiary railway companies and the dissolution of two land companies".

Mr. FISHER: Which land companies are these?

Mr. GORDON: The two land companies dissolved were known as the Consolidated Land Corporation and the Industrial Land Company.

Mr. FISHER: Were either one of those the one that held the property you disposed of two years ago, the Grand Trunk line to the Abitibi Corporation?

Mr. GORDON: My recollection is that I do not think they were involved in that, but I do have to check my files.

Mr. SMITH (*Simcoe North*): Is it intended, Mr. Gordon, to amalgamate or put all the trucking operations under Canadian National Transportation Limited?

Mr. GORDON: Our ultimate objective under the plan of consolidation is that our system companies will consist of five major corporate entities. There will be one railway company, one telecommunication company, one highway transport company, one hotel company and one realty company. It will take a few years to accomplish that, but this is our objective.

Mr. SMITH (*Simcoe North*): Will that simplify the matter of issuing road transportation balance sheets and figures separately?

Mr. GORDON: I would hope so, yes.

The CHAIRMAN: Any other questions?

Mr. FORBES: Does the C.N.R. control any land in western Canada?

Mr. GORDON: Yes, we have some land. I have not got in my mind the nature of it, but are you thinking of farms rented out?

Mr. FORBES: Or whatever you do with it.

Mr. GORDON: I do not recall any farmlands that we are renting out. We do have lands which we have rented out on a Royalty basis for oil exploration. We have some mineral rights, but not anything to be compared with the C.P.R., unfortunately.

Mr. FORBES: Have you revenue from those mineral rights?

Mr. GORDON: Yes, we have.

Mr. FORBES: Those are mineral rights that were given to the C.N.R. at the time the line was constructed through western Canada?

Mr. GORDON: Generally speaking, that is right. As of December 31, 1960, mineral rights on the prairie provinces were owned to the extent of 3,545,000 acres. These were apportioned as follows: Manitoba, 381,000 acres; Saskatchewan, 3,146,000 acres, and Alberta, 18,000 acres. We had oil and gas leases outstanding on 260,827.5 acres.

Mr. FORBES: Is this land for sale at all times, or are you holding it out?

Mr. GORDON: It is for sale so long as we do not foresee a railway use for it. The total revenue from rentals, oil, and royalties, and so on, is $442,000 roughly.

The CHAIRMAN: Are there any other questions?

Mr. BROWNE (*Vancouver-Kingsway*): I gather that there was a bill passed recently by the Saskatchewan legislature dealing with mineral rights. Did the C.N.R. not have any of their rights taken away under that legislation?

Mr. GORDON: I am sure I can say no, because I would have heard of it if there had. I have not heard anything.

Mr. PASCOE: Would most of that land in Saskatchewan be along the C.N.R. main line or is it carried all over the province?

Mr. GORDON: It is pretty well adjacent to the line. There was some swapping done many years ago. I think it was discovered that the land swapped for farmland, which was supposed to be a good investment, turned out to be land with oil in it. That happened before my time, I might say.

The CHAIRMAN: Any other questions on this?

Mr. BROOME: I have one question on page 27 where we have the list of companies included in the Canadian National Railways system. Those are wholly-owned companies, I assume.

Mr. GORDON: The ones under that heading are wholly-owned, and the ones which are partially owned are on another page.

The CHAIRMAN: If that item is passed, is it your wish that this financial statistic statement be an appendix to the report? I understand it is already included.

We need a motion to approve the report. It is moved by Mr. Broome and seconded by Mr. Browne that the report be approved. The motion is carried.

The next item of business is the budget.

Mr. BROOME: I believe that there were certain questions which I have placed with the railroad officials, and when the answers are given they will be appended to the committee report so that everyone has them.

The CHAIRMAN: That is right.

You have the budget in front of you, gentlemen.

CANADIAN NATIONAL RAILWAYS

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CANADIAN NATIONAL RAILWAYS

CAPITAL BUDGET—YEAR 1961

	1961 Proposals	Cost to Complete Projects Authorized in Prior Years	Total	1961 Expenditures	1960 Budget
	(000)	(000)	(000)	(000)	(000)
ROAD PROPERTY					
New lines, diversions and abandonments	210	41,703	41,913	5,693	11,862
Roadway improvements	39,247	1,289	40,536	39,920	52,841
Large terminals	—	60,566	60,566	16,778	25,931
Yard tracks and sidings	1,131	228	1,359	1,043	1,822
Buildings	2,083	11,624	13,707	11,947	21,123
Highway crossing protection	324	96	420	420	297
Signals	121	5,718	5,839	2,876	6,083
Roadway and shop machinery	2,471	440	2,911	1,811	4,306
General	14,115	9,219	23,334	22,731	19,909
Communications	6,813	17,983	24,796	19,516	26,033
Road Property—Total	66,515	148,866	215,381	122,735	170,207
BRANCH LINES	19,660	1,600	21,260	14,599	2,259
HOTELS	1,413	509	1,922	1,732	3,315
EQUIPMENT	16,618	14,032	30,650	14,212	34,977
	104,206	165,007	269,213	153,278	210,758
INVESTMENT IN AFFILIATED CO'S	4,795	1,127	5,922	5,922	6,842
	109,001	166,134	275,135	159,200	217,600
Less—Uncompleted work	—	—	—	16,000	30,000
Total—C.N.R. Capital Budget	109,001	166,134	275,135	143,200	187,600
Working capital	—	—	—	—	10,000
TOTAL—C.N.R. REQUIREMENTS	109,001	166,134	275,135	143,200	197,600

NOTE: The amounts required for refunding and/or retirement of maturing securities are shown on page 8 hereof.

T.C.A. FINANCIAL REQUIREMENTS					
Presented for inclusion in the Financing and Guarantee Act	19,700	—	19,700	19,700	82,350
TOTAL REQUIREMENTS	128,701	166,134	294,835	162,900	279,950

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CANADIAN NATIONAL RAILWAYS

STATEMENT OF FINANCING AUTHORITY REQUIRED WITH RESPECT TO CAPITAL BUDGET

YEAR 1961		(000)
GROSS CAPITAL EXPENDITURES		
Road Property	$122,735	
Branch Lines—Specific	4,599	
Contingent	10,000	
Hotels	1,732	
Equipment	14,212	
	153,278	
Investment in Affiliated Companies	5,922	
	159,200	
Less Incompleted Work	16,000	
TOTAL—C.N.R. Capital Budget		$143,200
TRANS-CANADA AIR LINES—Financial Requirements		19,700
TOTAL—Requirements		162,900
SOURCE OF FUNDS		
Depreciation Accruals, etc	108,100	
Issue of Securities:		
Preferred Stock	21,000	
Additional Borrowing..C.N.R. Account	—	
Mattagami Branch Line	4,100	
Contingent (Branch Lines)	10,000	
	143,200	
Borrowing—Trans-Canada Air Lines	19,700	
		162,900

JANUARY 1, 1962 TO JUNE 30, 1962

Interim financing authority required with respect to Capital expenditures authorized in 1961 and prior years.

Gross Capital Expenditures:	C.N.R.	58,000	
	Mattagami Branch Line	3,000	
	Contingent (Branch Lines)	5,000	
	T.C.A.	10,000	
			76,000
Financing thereof:			
Funds available from depreciation accruals, etc			54,000
			22,000
Issue of Securities:			
Preferred Stock		11,000	
Excess of depreciation and Preferred Stock over Capital expenditures—			
C.N.R. Account		(7,000)	
Mattagami Branch Line		3,000	
Contingent (Branch Lines)		5,000	
Borrowing—T.C.A.		10,000	
			22,000

Commitment Authority Requested

Authority is requested to enter into contracts prior to the first day of July 1962 for the acquisition of new equipment and for general additions and conversions that will come in course of payment after the calendar year 1961 in amounts not exceeding in the aggregate 44,000

Existing Financing Authority

Financing authority exists under CANADIAN NATIONAL FINANCING AND GUARANTEE ACT, 1960. Section 3 (1) (*b*) for an amount of $86,000,000. Estimated expenditures against this amount were $66,000,000 for Road and Equipment and $20,000,000 for advances to Trans-Canada Air Lines.

CANADIAN NATIONAL RAILWAYS

Summary of Road Property Capital Budget Projects by Areas

Total of 1961 Proposals and Cost to Complete Projects Approved in Prior Years

	Atlantic Region							
	Maritime District	Newfoundland District	Central Region	Western Region	Grand Trunk Western	Central Vermont Railway	Other	Total
	$	$	$	$	$	$	$	$
New Lines, Diversions and Abandonments	238,800	—	40,420,500	1,253,800	—	—	—	41,913,100
Roadway Improvements	5,621,500	1,945,400	9,493,400	22,822,100	303,600	349,700	—	40,535,700
Large Terminals	984,000	1,370,000	43,982,000	14,230,000	—	—	—	60,566,000
Yard Tracks and Sidings	105,400	124,000	911,800	138,000	80,000	—	—	1,359,200
Buildings	167,600	316,200	11,937,800	1,135,200	133,800	16,000	—	13,706,600
Highway Crossing Protection	15,400	—	273,300	41,300	60,300	30,000	—	420,300
Signals	1,370,000	—	683,000	3,785,500	—	—	—	5,838,500
Roadway and Shop Machinery	453,700	111,600	629,500	1,577,700	109,600	28,700	—	2,910,800
General	474,000	257,000	3,030,300	1,964,800	270,700	27,000	17,310,400	23,334,200
Communications	—	—	—	—	—	—	24,795,918	24,795,918
Road Property—Total	9,430,400	4,124,200	111,361,600	46,948,400	958,000	451,400	42,106,318	215,380,318
Expenditures—1961	8,813,400	3,439,200	32,926,200	39,825,000	944,800	426,400	36,359,700	122,734,700

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CANADIAN NATIONAL RAILWAYS

CAPITAL BUDGET—YEAR 1961

Branch Line Construction

Construction of the following new branch lines authorized as follows:

	Authorization	Mileage	Estimated Expenditures
Beattyville—Chibougamau-St. Felicien	Chapter 49, 1954	297.6	40,825,000
Sipiwesk—Thompson	Chapter 13, 1957	30.0	5,400,000
Optic Lake—Chisel Lake	Chapter 13, 1957	52.0	10,165,000

	Authorized Expenditures		Estimated Expenditures to end of 1960	Cost to Complete	Expenditures 1961
	Total	Capital			
Beattyville—Chibougamau-St. Felicien	35,000,000	34,930,000	34,788,000	142,000	67,000
Sipiwesk—Thompson	4,500,000	4,500,000	4,268,000	232,000	232,000
Optic Lake—Chisel Lake	10,165,000	10,165,000	6,224,000	1,226,000	200,000
	49,665,000	49,595,000	45,280,000	1,600,000	499,000
Less Subsidy on Beattyville—Chibougamau-St. Felicien	7,360,750	7,360,750	7,360,750	—	—
	42,304,250	42,234,250	37,919,250	1,600,000	499,000

	Legislation Pending		Estimated Expenditures to end of 1960	Cost to Complete	Expenditures 1961
	Total	Capital			
Mattagami	9,660,000	9,660,000	—	—	4,100,000
			(*Commitment—Payable 1962)		*800,000
Contingent					10,000,000

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CANADIAN NATIONAL RAILWAYS

CAPITAL BUDGET—YEAR 1961

HOTELS

	1961 Proposals	Cost to complete projects authorized in prior years	Total	1961 Expenditures
	$	$	$	$
"Nova Scotian" Halifax, N.S.	250,500	88,000	338,500	338,500
"Chateau Laurier" Ottawa, Ont.	49,000	150,000	199,000	199,000
"Fort Garry" Winnipeg, Man.	265,700	—	265,700	265,700
"Jasper Park Lodge" Jasper, Alta.	300,100	216,000	516,100	326,000
"Vancouver" Vancouver, B.C.	165,000	55,500	220,500	220,500
Various Hotels	266,000	—	266,000	266,000
	1,296,300	509,500	1,805,800	1,615,700
"Queen Elizabeth" Montreal, Que.	116,500	—	116,500	116,500
	1,412,800	509,500	1,922,300	1,732,200

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CANADIAN NATIONAL RAILWAYS

CAPITAL BUDGET—YEAR 1961

EQUIPMENT

	1961 Proposals	Cost to complete projects authorized in prior years	Total	1961 Expenditures
	$	$	$	$
NEW				
Authority is requested for the financing to the extent indicated of the undernotes equipment the financing and/or ordering of which was authorized in Financing and Guarantee Acts in prior years.....	—	13,221,000	13,221,000	5,270,000
1,161 Freight cars 2 Work equipment units 1,163				
Authority is requested for the ordering of equipment estimated to cost $9,090,000 of which $684,000 will be required to finance anticipated deliveries in 1961....	9,090,000	—	9,090,000	684,000
644 Freight cars 1 Work equipment unit 645				
	9,090,000	13,221,000	22,311,000	5,954,000
ADDITIONS, CONVERSIONS AND HIGHWAY VEHICLES.....	7,528,100	811,400	8,339,500	8,258,000
TOTAL—EQUIPMENT.....	16,618,100	14,032,400	30,650,500	14,212,000

NOTE: The particulars of the equipment required as indicated may be revised as to numbers and classes, but the total cost will not exceed the amount of the authorizations requested above.

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CANADIAN NATIONAL RAILWAYS

CAPITAL BUDGET—YEAR 1961

Investment in Affiliated Companies

	1961 Budget
TORONTO TERMINALS RAILWAY COMPANY	
Estimated requirements—$20,000	
C.N.R. proportion—50%	10,000
NORTHERN ALBERTA RAILWAYS	
Estimated requirements—$1,072,200	
C.N.R. proportion—50%	536,100
CHICAGO AND WESTERN INDIANA RAILROAD	
Advances under Agreements March 31, 1926 and May 1, 1952	376,000
CANADIAN NATIONAL TRANSPORTATION, LIMITED	5,000,000
TOTAL—C.N.R.	5,922,100
TRANS-CANADA AIR LINES—FINANCIAL REQUIREMENTS	
Advances in respect of Capital Expenditures (Year 1961 only)	19,700,000

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CANADIAN NATIONAL RAILWAYS

RETIREMENT OF CAPITAL OBLIGATIONS INCLUDING EQUIPMENT PRINCIPAL PAYMENTS DURING THE YEAR ENDING DECEMBER 31, 1961

Due Date 1961		Amount
		$
Jan. 15	Canadian National Railways 2¾% Equipment Trust Series "V" 1961 Certificates	675,000
May 19	Canadian Northern Ontario Railway Company 3½% First Mortgage Debenture Stock	*2,218,000
	* Equivalent to £739,216 par value outstanding converted at rate of $3.00 to £1. Amount to be borrowed will be based on rate of exchange in effect at maturity date	2,893,000
BONDS TO BE ACQUIRED FOR PURCHASE FUNDS—(Estimate)		
	Canadian National Railway Company 5½% Bonds, due December 15, 1964	4,000,000
	Canadian National Railway Company 4½% Bonds, due April 1, 1967	2,250,000
	Canadian National Railway Company 5% Bonds, due May 15, 1968	2,400,000
	Canadian National Railway Company 5% Bonds, due May 15, 1977	1,350,000
	Canadian National Railway Company 5¾% Bonds, due January 1, 1985	2,000,000
	Canadian National Railway Company 5% Bonds, due October 1, 1987	2,625,000
		14,625,000
	TOTAL	17,518,000

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CANADIAN NATIONAL RAILWAYS

Operating Budget—Year 1961

	1961 Budget	1960 Actual
	$(000)	$(000)
Operating Revenues	700,000	693,141
Operating Expenses		
Maintenance:		
Road	160,500	157,099
Equipment	148,000	150,727
Total	308,500	307,826
Transportation	307,000	308,700
	615,500	616,526
Traffic	16,500	15,497
Miscellaneous Railway Operations	6,000	6,299
General	49,000	47,472
Total	687,000	685,794
Net Operating Revenues	13,000	7,347
Taxes and Rents	20,300	20,024
Net Railway Operating Income	(7,300)	(12,677)
Other Income	6,400	6,203
Net Income Available for Fixed Charges	(900)	(6,474)
Total Fixed Charges	73,700	69,089
Received from T.C.A.	10,600	8,066
Net Fixed Charges	63,100	61,023
DEFICIT	64,000	67,497

Note: The 1961 Operating Forecast is based on 1960 material prices, wage rates and freight rates.

Mr. BROOME: I would like to raise a point of order on this. Included in this budget are the T.C.A. requirements. While the T.C.A. are not here—Mr. Gordon says he does not speak for T.C.A.—why should we be asked to approve the T.C.A. budget at this time?

Mr. GORDON: The reason it is included here is that their financing is done through this budget.

Mr. BROOME: I gather that, but there is no chance to question T.C.A. officials on their capital requirements.

Mr. GORDON: Yes. That will come up when T.C.A. appear before you.

Mr. BROOME: But it will already have been given approval.

Mr. SMITH (*Simcoe North*): I think we are being a little technical on this. In the previous years it was passed in the same manner.

Mr. BROOME: That does not mean it is right.

Mr. PICKERSGILL: This difficulty could very easily be overcome by approving the rest of the budget except for T.C.A., and suspending our approval on T.C.A. until they have been heard.

The CHAIRMAN: That is a good solution, I think. The C.N.R. budget is approved with the reservation made by Mr. Pickersgill.

Mr. FISHER: Could Mr. Gordon give us a brief statement on the budget?

Mr. GORDON: I think the best I can do is to refer to the papers which I think each member has in front of him, the papers labelled "capital budget and estimated income account for the year 1961". I will go through it page by page and answer your questions as we go along.

Page 1 is a summary of the 1961 capital budget in the format which has been used for the past several years. It shows by main categories:

1. Total cost of 1961 proposals.

Those are the new proposals applied for this year.

2. Cost of completing projects approved in prior years.

Those are obviously those which are in hand now and have not yet been finalized.

3. Total cost of completing 1961 proposals and projects approved in prior years or, in other words, the total "dollars in play" in the capital budget.

4. Proposed 1961 cash expenditures.

That is the actual money we expect to spend in going forward with these programs during 1961, and

5. Corresponding 1960 budgeted cash expenditures.

Under the heading of 1960 is simply a comparative figure for the previous years.

This page shows that the total completed cost of projects placed before the committee this year for the first time is $109.0 million. The cost of completing projects approved by the committee in 1960 and in prior years is $166.1 million and the resultant over-all total is $275.1 million. I will at this point call your attention to the fact that this is the lowest capital budget commitment that we had in play for quite a few years, and has stemmed down from a total of $498 million in play in 1958. We have now got the budget well down to the figure that I mentioned of $275 million. This latter sum can be regarded in the nature of a commitment since, at this time, approval for financing is requested only to the extent of $143.2 million which is the amount of money we expect to spend in order to complete work which it is planned to be undertaken in our 1961 capital program.

The planned 1961 expenditures break down between new proposals and previously approved proposals in this way.

	Millions
1961 proposals	$ 76.0
Prior years	67.2
	$143.2

Mr. PICKERSGILL: Could I ask Mr. Gordon a question at this point? Is there any provision here for the Pine Point railway?

Mr. GORDON: This is an item on contingent for branch lines. I will complete this later, Mr. Pickersgill, and I will pick it up in a moment.

I would like to call attention to the fact that new proposals this year, other than branch lines, have been largely confined to necessary additions and replacements to the roadway and equipment representing normal wear and tear on the property. At the bottom of the page you will find the T.C.A. requirements, but you will deal with them separately, so I will say no more about them, except that they do pass through our budget.

On page 2 is the statement of statutory financing authority that will be required with respect to the 1961 capital budget.

Mr. MCPHILLIPS: Mr. Gordon, you say that the T.C.A. requirements come through yourselves. Do you scrutinize them at all or do you take them carte blanche? Do you put in your budget whatever they want?

Mr. GORDON: They pass it through our budget for the purpose of financing, but as a member of the Board of Directors of T.C.A., I take part in their meetings in approving the budget for T.C.A.

On page 2, the top section shows how the 1961 capital expenditures will be financed. You will note that with the exception of new branch line construction we expect to be able to finance our complete general capital program out of self-generated capital accruing from depreciation, amortization and sale of preferred stock. In connection with the new branch lines, our policy is that they should stand on their own feet economically.

Under this heading we can deal with your question, Mr. Pickersgill. Under branch lines, there are branch lines that are in the process of construction and have been approved by legislation. We have a contingency item for $10 million, and if and when the Pine Point legislation goes through we will, under that item, be able to proceed, depending on the basis that the legislation spells out.

To continue then, January 1, 1962 to June 30, 1962 the annual Financing and Guarantee Act is the statutory authorization for the C.N.R. capital expenditures and additional borrowing. Typically this Act is passed by Parliament towards the end of the first half of the year. I hope that this typical procedure will continue. As a practical measure the act for the current year, in this case 1961, also provides interim authority for capital expenditures on previously approved projects during the first half of the ensuing year, in this case 1962. This interim authority is superseded by the passing of the next year's Financing and Guarantee Act. So we keep on picking it up.

Existing financial authority—The caption at the bottom of the page is to demonstrate how this process works. It sets out the extent of the interim authority which was provided by the 1960 act with respect to the first half of 1961. The interim needs having been met, expenditures related to them now form a part of "gross capital expenditures" for the year 1961, shown at the top of the page, and receive formal authorization in the 1961 Financing and Guarantee Act.

Mr. PICKERSGILL: Before Mr. Gordon goes on the next page, I have one question. If the 1961 act is not passed before June 30, does that mean the C.N.R. will have no further authority for capital expenditures?

Mr. GORDON: That is not the case. I have been concerned about that matter myself, and only recently I had our legal department look into the question very carefully because it seemed to me we were getting into difficulty in that respect. I have here a comprehensive legal opinion, and I do not think I can summarize it. If you would like me to read this, I will do so.

Mr. PICKERSGILL: It would be helpful to have this document, but I do not want to take the time of the committee to have it read. It would be helpful if it could be made an appendix.

Mr. GORDON: I can say this—the legal opinion ends with this statement:

> We are justified in relying on the approval of our 1961 budget by the Governor in Council as our authority to carry out the capital projects contemplated in that budget.

There are three pages of reasoning leading up to that. I will be glad to put them in the record.

The CHAIRMAN: Perhaps that would be enough?

Mr. PICKERSGILL: I think it would be very helpful to have it in.

The CHAIRMAN: The whole thing?

Mr. PICKERSGILL: Yes, but I hope no one will insist on its being read.

The CHAIRMAN: What you want is the opinion.

Mr. GORDON: We will file it. It is an interdepartmental document, a legal opinion to me from our department.

The CHAIRMAN: Is that agreed?

Agreed.

(See appendix)

Mr. MCPHILLIPS: Now that we are talking about records, I have not received any interim minutes, or anything. What is holding them up?

Mr. PICKERSGILL: Too many committees meeting at once.

The CHAIRMAN: The staff have had so many committee meetings, as was mentioned the other day, that they find it impossible to get them printed. I am told it is the printing staff. There is no hold up in the reporting here.

Mr. MCPHILLIPS: Very well. I thought my name might have been dropped off the list.

Mr. GORDON: I finished with page 2. If you will now turn to page 3, which is really a summary, as it says, of the "Road Property Capital Budget Projects by Areas." I do not think I need cover it in detail. I have shown at the bottom of the page the comparison with the total expenditures.

The CHAIRMAN: You have that page. What about page 4, Branch line construction? Are there any questions on that?

Mr. GORDON: Page 4 is self-explanatory. The lines are shown there and the expenditures and the progress of the work. I do not know if there is anything I need to comment on there.

Mr. PICKERSGILL: I would like to ask Mr. Gordon with respect to the Pine Point Railway. I recognize that has not yet been approved by parliament. Since there has been a $10 million amount put in the capital budget, I would assume that the C.N.R. has some policy about it. There is one point which troubles me very much. I understand that this line will connect with the line which the C.N.R. operates into Edmonton?

Mr. GORDON: No, it will connect with the N.A.R. I have just been thinking on what I said about that $10 million. I may have left a mistaken impression. I do not mean by that that the C.N.R. necessarily is going to put up any money for the building of that line.

Mr. PICKERSGILL: No, no.

Mr. GORDON: I say that if it turns out that way, we have a contingency amount to deal with it, or with any other lines.

Mr. PICKERSGILL: The point I am on is a quite different one. I understand the principal reason for the building of that line is to carry ore from the mine to the smelter at Trail. When that ore reaches Edmonton there will be a haul between Edmonton and Calgary—and assuming it goes that way—and I am being hypothetical about this, and if I am wrong I would like to be corrected and will not waste the time of the committee—between Edmonton and Calgary there are two alternative ways for shipping it, one by the old Grand Trunk Pacific Line and the other is by the C.P.R. I think it would be very helpful to us, in considering the legislation in the house, if we knew whether there was any understanding between the railways about how that ore would be shipped.

The CHAIRMAN: That resolution is before the house, is it not—the resolution is on the order paper now?

Mr. PICKERSGILL: Yes.

Mr. GORDON: I just wanted to confer with the Minister, because this is a matter which is pending and I did not want to make the mistake of anticipating what may be said with regard to legislation. On the point you have in mind, it will be covered, as I understand it, in an agreement which is now being negotiated between the company and the railway.

Mr. PICKERSGILL: I see.

Mr. GORDON: We hope that by the time the legislation reaches you, you will also be able to see that agreement.

Mr. PICKERSGILL: I just wanted to be sure the C.N.R. had got a fair deal in this matter.

Mr. GORDON: We are taking steps to ensure that, Mr. Pickersgill.

Mr. MCPHILLIPS: In connection with that matter, I would like to ask, in reference to British Columbia, how could the G.T.P. line deliver ore cars into Trail.

Mr. PICKERSGILL: From Calgary?

The CHAIRMAN: Starting from Edmonton south. Is there any question on page 5—hotels?

Mr. FISHER: I would like to ask Mr. Gordon, in regard to the Jasper Park Lodge project there, whether any of this $216,000 that is here in the second column is designed to improve the living accommodation and the recreation features open to the staff at Jasper Park Lodge?

Mr. GORDON: Not under this item. What is involved in this item is the construction of nine four-roomed guest cabins—which is a re-vote—and the construction of eight four-roomed guest cabins. This is for the construction of guest cabins. There is no capital expenditure involved on staff quarters this year. There will be, of course, the normal maintenance which will be in the operating expenses.

Mr. MCPHILLIPS: With regard to the Queen Elizabeth, I think a few days ago Mr. Gordon indicated that most of these amounts were what he termed pre-construction expenses.

Mr. GORDON: Pre-opening, yes.

Mr. McPHILLIPS: Does that make up the whole?

Mr. GORDON: No, this is an item covering the replacement of furnishings in the hotel. We provide the hotel furnished as part of our deal. This is a small item, really, relatively, for adjusting some additional furnishings in connection with the hotel.

The CHAIRMAN: If there is no other question on that item, we can turn to page six—capital budget, equipment.

Mr. FISHER: I would like to ask this question, with regard to the item at the bottom of the page, "additions, conversions and highway vehicles". Is this the only place in the budget where we get the figure on the trucking aspect?

Mr. GORDON: This covers our own C.N. transportation and truck lines quite apart from the new truck lines which we were talking about yesterday. I can give you this detail in a moment. These totals cover a conglomeration of replacement of express trucks, motor tractors, semi-trailers and things of that kind that are operated by the C.N., by our Department of Road Transport. Then in the C.N. Transportation itself, there is a purchase of miscellaneous equipment.

Mr. FISHER: Where in the capital budget do we get the analysis of what you are going to spend provisionally in 1961?

Mr. GORDON: It is on the next page. Is page 6 passed?

The CHAIRMAN: Shall we dispose of that? We turn to page 7.

Mr. GORDON: Under the heading of "Investment in Affiliated Companies" you will see that the budget estimate for C.N. Transportation is $5 million. That is the figure we budgeted for in order to enable us to complete any of the negotiations we now have in hand or any new ones which may come up in the year.

Mr. FISHER: Where is the money resting that you have not paid yet for maintenance repairs? I do not find it in the budget in the way you have it for other items which indicate an unexpended amount.

Mr. GORDON: You are talking about the unexpended portion. That would be simply in our general cash accounts, just in our own hands.

Mr. FISHER: The question is, how much have you left from your previous commitments in your general cash fund?

Mr. GORDON: The item last year was $10 million, and our total expenditures against that amounted to $9,987,000.

Mr. FISHER: So, in regard to completing the purchase of Midland Superior, you would have to draw from this $5 million in the 1961 budget.

Mr. GORDON: No, because the accounting is that, to the extent it has not been disbursed, it is in our working capital.

Mr. FISHER: How much is in your working capital that has not been disbursed?

Mr. GORDON: I am told that it is approximately $1,300,000.

Mr. FISHER: You have this money ready to hand and when you can complete the deal, when any decision of the Quebec Transportation authority is made—

Mr. GORDON: Whatever holdbacks there may be in the transaction—I want to make a careful distinction between holdbacks and kickbacks—it was suggested to me yesterday there might have been a relationship.

Mr. FISHER: Who suggested it?

Mr. GORDON: Not in the committee. It was purely an item of gossip and intended to be humorous, I think. I have repeated it here in order to make it perfectly clear that the holdback that is mentioned arises out of the fact that these transactions are not wholly completed and we, therefore, hold back part of our purchase price, pending the complete performance of the deal and that money we hold back is in the general working capital. As I understand it, the difference covers the whole thing. It is not just one company.

Mr. FISHER: In the case of the Midland Superior situation, I think you made this clear but I am not absolutely certain. The only difficulty in completing that, arises out of the fact that you have this licence problem.

Mr. GORDON: No, no. That applies in connection with some of it, but the difficulty of completing the deal in East-West, for example, is because there is a lawsuit.

Mr. FISHER: I am just asking about Midland Superior.

Mr. GORDON: I am sorry, I did not understand that. Well, that is right, it is the follow through of the licensing authority for Ontario and Quebec. The Ontario one has been cleaned up recently and the Quebec one is still pending.

Mr. FISHER: What happens with this money if you cannot complete it because of the refusal?

Mr. GORDON: Well, we meet each new situation with spontaneous ingenuity. I do not know.

It will depend on the circumstances under which the deal breaks down. If they cannot give the licence here, if the Quebec board hands down an unsatisfactory judgment, we will have to re-examine the deal to see how we can meet that new situation.

Mr. MCPHILLIPS: We have heard a good deal during these meetings about the Grand Trunk Western and the Central Vermont. Another company is rearing its ugly head here, it is the Chicago and Western Indiana Railroad, to which you are going to pay $376,000. Is that payment towards the acquisition of the 100 per cent holding in the company?

Mr. GORDON: Mr. Toole will explain that.

Mr. J. L. TOOLE (*Vice-President, Accounting and Finance, Canadian National Railways*): The Chicago and Western Indiana Railroad is owned only one-fifth by the C.N.R. In the set-up of the Chicago and Western Indiana Railroad, the property is mortgaged but it is also on lease to the Belt railway of Chicago, and on the mortgaged property they do not get enough income to meet the mortgage payments so each of the five owners contributes money each year to keep the mortgage alive.

Mr. MCPHILLIPS: And this is your one-fifth?

Mr. TOOLE: This is our one-fifth.

Mr. PICKERSGILL: What is the problem of the Chicago and Western Indiana Railroad, in any case?

Mr. GORDON: It is a terminal proposition, where five railways enter and share a joint terminal.

Mr. PICKERSGILL: It is just a terminal company, the use of the Grand Trunk Western?

Mr. GORDON: Yes.

Mr. BROWNE (*Vancouver-Kingsway*): On these trucking operations which Mr. Fisher was questioning about in the light of the confusion we had the other day with a document tabled by Mr. Fisher purporting to show some losses in connection with some of these firms, I wonder if Mr. Gordon would

be inclined to file a complete report with the committee on the financial operations, in as much as it now seems to be a very confused situation in connection with the whole matter. I think it might be in the interest of the railway to have the matter cleared up and a proper financial statement filed for those companies.

Mr. PICKERSGILL: I would like to raise a point of order similar to that raised by Mr. McPhillips a while ago. We are now considering the capital budget of the C.N., not the operations. I think that whether this point is raised later or not, at the present time we should continue with the agenda on which the committee agreed.

Mr. BROWNE (*Vancouver-Kingsway*): I think it is a very relevant point, to approve the capital budget, to have an explanation of the trucking facilities and we should be in a position to determine where the matter stands now before approving another $5 million.

Mr. BROOME: On a point of order, they are not the same conditions at all. This capital budget has to do with the acquisition of truck lines. As I understand Mr. Browne, he wants to know how the truck lines are making out. This is certainly something which the committee would want to know before approving the expenditure for more truck lines.

Mr. SMITH (*Simcoe North*): On that point of order I think every item in the capital budget relates to some item in the previous year's annual report and if we were to open up operations on one item when we were dealing with the capital budget, we would open up every item that is in the annual report. Presumably every project which Mr. Gordon is proposing in his capital budget this year has a very direct relationship to something which appeared in his annual report last year, with a very few exceptions of completely new enterprises.

Mr. BROOME: That is no argument at all. In committee, on any bill before the house, it has been opened up at every stage, to a certain limited extent.

The CHAIRMAN: We passed the operating items, and this is the provision of the money for those items.

Mr. PICKERSGILL: This is for new capital expenditure, I understand, and that is what he is discussing; and I submit that is what we have no right to discuss if we want to adhere to the understanding on which we are carrying on our work.

Mr. BROWNE (*Vancouver-Kingsway*): Mr. Pickersgill is a new member of this committee and has not been on the committee in other years, and is not in a position to tell us what procedure was adopted in other times, or what agreements were made.

Mr. PICKERSGILL: On the procedure point, I do not think I need to take a back seat to someone recently elected, on the question of parliamentary procedure. I would defer to your very much vaster experience, Mr. Chairman, every time. I have the floor and if there is anyone who is looking for trouble-making, I will guarantee that I can do my full share of it, and I will do it in connection with my fellow-members of parliament and not other people. I say, sir, that all we have a right to discuss, according to a ruling you made the other day, when I raised a very similar point of order, and according to the rule you made today when Mr. Fisher raised the question in connection with Mr. McPhillips' point of order, is the capital expenditures that are reported here. I think if Mr. Gordon could tell us what these capital expenditures are, it would be helpful.

Mr. BROOME: I quite agree that Mr. Pickersgill should be an expert on parliamentary rules because both he and his colleague, Mr. Martin, are called to order more often than anybody else for breaking those rules.

Mr. HORNER (*Acadia*): I know that you do not want the railroad to buy a pig in a poke.

Mr. PICKERSGILL: We are not even to be told what they are going to buy.

Mr. HORNER (*Acadia*): If the member would only restrain himself, I believe he should stay in opposition for a few more years and learn to be a little more humble.

Mr. PICKERSGILL: After yesterday's budget, I do not think I shall have to stay for a few more years; if ever a balloon burst, that was it.

Mr. HORNER (*Acadia*): On this particular point of order, we are going to approve or disapprove of a further capital expenditure for the trucking business of $5 million. This is a new venture on the part of the railroads; they have gone into it at a rate of about $5 million for the last three years, at $5 million a year. I think before this committee approves a further expenditure for the business, since we have had evidence to suggest that some of these companies are not paying off too well, I think we should be given further evidence. It is up to the railroads if they want to give us further evidence to show whether or not this is a worthwhile purchase, and to show whether or not we should substantiate a further capital expenditure; then it would be up to the committee to vote down the $5 million. But if the railroad does not wish to substantiate that this is a worthwhile purchase, then it is up to the committee to vote down the $5 million expenditure. As I see the rules, and the point of order, the onus is on the railroad to prove that it is a worthwhile purchase. And if the committee feels that in order to prove this, they have to submit evidence as to the financial situation of the companies they have already bought, then it is up to them to do so.

The CHAIRMAN: Perhaps the president might indicate what he intends to do with the $5 million.

Mr. FISHER: We are on a point of order, and since I wanted similar information, I would like to point out where I think there is a very great relationship between this $5 million and the situation in the annual report that we were trying to find out about. We have had the loan for the Midland Superior, for which the money was set aside, and I think it is in their working capital, even though the bill has not gone through. We have had assurance from Mr. Gordon several times that the trucking operations showed a small profit in this last year. But the situation in regard to this profit, to me, at least, is confused, because we do not know what charges were made on this money, which seems to be still sitting in the working capital; and if the Midland Superior contributed to that small profit, what is the situation with respect to the money sitting in the working capital? It might be needed. I know it is complicated, but it seems to me that it is germane to the point which Mr. Browne raised, and I certainly see a relationship between the two. For that reason I think the point of order is not a right one.

The CHAIRMAN: Well, of course, we have had quite a lot of latitude all the way along; but with reference to this item of $5 million, and what is going to be required in this next year, without reverting to operating matters, perhaps Mr. Gordon could explain it to your satisfaction.

Mr. SMITH (*Simcoe-North*): Could it not be explained in this way. Is this $5 million related to perhaps the purchase of new companies, or is it related to the purchase of equipment for companies which we have already bought, or partly bought? And following that, we have a statement, I believe, that shows the situation in Canada, to be pretty well covered with licences now. If this money is for the purchase of new companies, then why are we buying new companies if the scheme is fairly well complete across Canada already?

Mr. GORDON: Not being a parliamentarian, experienced or otherwise, I am blessed if I know what I am being asked for.

Mr. PICKERSGILL: Could you tell us about the $5 million, first of all?

Mr. GORDON: I would be glad to, but I have not had an opportunity to answer anything. I want to make it quite clear that I have refused nothing. I have just been listening, and it has been very interesting.

The $5 million is a budget item. It is a forecast of the amount of money we would like to have available to enable us to purchase new trucking companies this year. In connection with the $5 million, we have some options in hand, which will enable us to explore the companies under option and we have a number of other discussions going on, which may reach fruition, or which may not. But the $5 million is our estimate of an amount which will be quite ample to take care of any new acquisitions along that line.

And as a further item of information to the committee,—and that is the only wish I have in mind, namely, to inform the committee in every way possible—the reason for these new acquisitions is that we have pretty well completed our trucking lines across Canada, with the exception of Ontario and Quebec, or parts of Ontario and most of Quebec. If and when these options come through, which involve an expenditure of $5 million, I think we will be pretty well complete with the total amount of trucking operations that we have in mind.

If I am not out of order, I would like to make a statement in regard to the point which I think was under debate, and that is to repeat once more, in regard to our trucking operations in 1960, both in the west as well as in the east, that our operations taken as a whole have resulted in an almost break-even position, with a few hundred dollars to spare. In order to arrive at that figure you have to merge the operations both in the east and the west, because as we acquire these companies, we have had to distribute and re-arrange the actual handling of traffic under the licences in a manner which is of benefit to the parent company; therefore if the individual breakdown of these figures is to tabled,—and let me say frankly that I would prefer not to do so, because it would suggest a misleading apprehension in connection with it, with losses shown in certain companies and profits shown in others, you have to take the whole stack together, before you reach the conclusion I have just come to.

I am sure the provision of such a breadown would be used or reported across the country, without the qualifying remarks I am making. However the matter is completely in the hands of the committee. If any member would be happier to have the figures, very well, and whether they damage the Canadian National interests or not,—well— it is all right with me.

Mr. SMITH (*Simcoe North*): Mr. Gordon can assure us that as soon as possible he is working towards the position whereby he would be able to issue a completely separate balance sheet and report, if required, for all his trucking operations?

Mr. GORDON: It is my intention, subject to further consultations with the officers, as I have outlined, to arrive at a position that will show in our report the results of our trucking operations. I can assure you that is so. I am sorry that we are in such a position of confusion at the moment. The reason is that we are entering a new business, when a lot of transactions are not complete, and when some of them actually are still up in the air. We have a court case an our hands, and we are in trouble in regard to some items along that line. But I do not regard that as any particular reflection on the officials handling it. It was just one thing in a great big business which did not work out very well, and we are struggling with it.

The CHAIRMAN: I think that answers the matter, Mr. Horner. The question is whether we are going to approve this $5 million now from what we have studied with respect to operations last year, and with respect to what the president suggests now. Do you approve the $5 million?

Mr. BROWNE (*Vancouver-Kingsway*): I would like to deal with the statement which Mr. Gordon has made. I think in all fairness I should say that of course the Canadian Pacific would not be asked to divulge the same information in regard to the operations of an individual company. Under normal circumstances I do not think I would have been inclined to ask for it because of that fact. However it does appear that some of these operations have been conducted at a loss. The difficulty now is that Mr. Gordon says it is his intention eventually to report on the trucking operations as a whole, and to issue a separate financial statement; but it still leaves the problem I raised earlier, that if only part of this operation is disclosed, even though it might be covered in further statements which would deal with the whole national trucking operation of the railway, that some of the people in the private companies, the employees of those private companies, might consider it to be unfair competition, because one operation may be operating at a loss, and the other may be very definitely trying to compete. I want to know what type of promise can be offered to those people so that they will not feel that they are in that position?

Mr. GORDON: Let me tell you first of all that we as management have issued most stringent instructions to the people in charge of our trucking operations not to engage in price cutting. We are not interested in it. My difficulty about your question is that we have deliberately taken away from one company and given to another, an operation which might be profitable to the first company. This would look on the surface as if we were not doing a very good job with the first company. But we need a little time in order to get that merging operation done, and to make a success. Therefore any figures released now, would not tell the whole story. But let me assure you that it is not an easy matter, and that we are not engaged in price cutting, and that we are not interested in price cutting.

Mr. BROWNE (*Vancouver-Kingsway*): I think that statement should assure the people who have been worried about that matter.

The CHAIRMAN: Does that satisfy you, or are there any other questions?

Mr. FISHER: In respect to Mr. Gordon's statement I think I should draw to his attention that the original announcement from Mr. MacMillan did not indicate that this was going to be an overall integrated operation. As I read the statement, it indicated that these would be separate entities, individual entities. And I think if he considers the matter, he will agree that one might take that interpretation from Mr. MacMillan's statement. We can understand why one would have misgivings about the situation that he has now outlined, as to the changes, and as to the explanations as to why one or two operations may not be doing very well.

The CHAIRMAN: Are you not getting back to operations?

Mr. FISHER: I shall not push it any further at all, but I wanted Mr. Gordon to know why I had, and still have, misgivings on this particular matter.

The CHAIRMAN: Yes. We already dealt with Mr. MacMillan's statement the other day. I think that would be getting back into operations. But you were just explaining why you still have misgivings.

Mr. MCPHILLIPS: I take it from your evidence given earlier that there is $1 million in the kitty?

Mr. GORDON: $1.3 million is in the form of a holdback.

Mr. McPHILLIPS: I think you stated you invested $9 million.

Mr. GORDON: Really the total of our commitment is $9,987,000 and of that, there is $1.3 million still in the working capital as a holdback for this transaction.

Mr. McPHILLIPS: My next question is this: I know you may have coincidences, but it seems to me odd that for three years now, we have been asked to give our okay to exactly $5 million. What is behind this? Is this right? Do you actually need $5 million?

Mr. GORDON: I do not believe I need $5 million; it is just a nice round figure. I may not use it all, but we felt we ought to put in some figure for it which we thought was a maximum figure. Personally I do not think we will need it all. This is only a budget item; it is only a vote; it does not commit us to spend it.

Mr. SMITH (*Simcoe North*): You indicated that the end is in sight in so far as the acquisition of trucking companies is concerned.

Mr. GORDON: Yes, I believe so.

Mr. CREAGHAN: I would like you to tell the committee when this budget which we have before us was prepared? It bears the date of February 2nd, but I presume that was the last time it was looked at by management.

Mr. GORDON: Oh no, sir, it was looked at by management not more than half an hour ago.

Mr. CREAGHAN: I presume it was typed out on February 2nd.

Mr. GORDON: Yes, in part; it has been through our Board of Directors; that is the date when it went through our Board of Directors; and it was forwarded to the government for government disposition.

Mr. CREAGHAN: The form of it seems to be identical with the forms we have had in previous years. I wonder why it is that on page three we do not have the five regions set out, rather than the original three regions? The re-organization is dated last August.

Mr. GORDON: That is because the regional accounting forms for the new regions have not yet been fully established.

Mr. TOOLE: The work is going along piecemeal.

Mr. GORDON: We will have it done this year, but it was not yet in effect at the time we made this out.

Mr. CREAGHAN: May I ask that next year we might have the five regions set out?

Mr. GORDON: Mr. Toole said that it will be completed by the end of next year.

Mr. BROOME: When this budget if forwarded to the government, I suppose it is forwarded to the Minister. This question might be better asked of the minister; and he presents it to the cabinet. How much check does the treasury board put on this budget?

The CHAIRMAN: Which treasury board?

Mr. BROOME: Does this budget not go before the treasury board at all? Is there not any vetting by the treasury board? Or are you not under the jurisdiction of the treasury board?

Mr. GORDON: I want to see what the act says.

The CHAIRMAN: Do you mean the treasury board of the government? Are you asking the minister?

Mr. BROOME: I do not know, I am asking my question of whoever may answer it. I direct it either to the minister or to the president.

Mr. GORDON: I think you are quite right in directing your question to me, and if I can find the answer, I will give it to you. It goes forward to the Minister of Finance. I think it is so required in the act, I would like to check it, if I can find it.

Hon. LÉON BALCER (*Minister of Transport*): What is your question?

Mr. BROOME: This budget is prepared by the Canadian National. Does it receive almost automatic approval, or is it under further audit and check by the treasury board, or by some other department of the government?

Mr. BALCER: No, it is not the treasury board, it is the Minister of Finance.

Mr. GORDON: Let us not operate in the dark. Section 37 of the Canadian National Railways Act reads as follows:

> 37. (1) The annual budget of National Railways shall be under the control of the board of directors and shall be submitted by the Board of Directors to the Minister of Transport.
>
> (2) The Minister of Transport shall annually lay before parliament the budget of National Railways approved by the Governor in Council on the recommendation of the Minister of Transport and the Minister of Finance.

Now then, you will note that the annual budget is under the control of the Board of Directors, that is to say, the Board of Directors is responsible for all the details of the budget, for the total amount of the budget, which then goes forward to the Minister of Transport. If after examining it he disagrees with the total budget, if he feels the budget is too large having regard to their financial considerations, he may very well come back to me, and say, it is too much. But that is all he can say. Then it is up to me to say "Well, how much is too much?" And if they say $50 million, or whatever it may be, I would have to go back to my board, and the board will decide about it. In other words, the budget is not in the hands of the Minister of Finance. It is only the total that he is authorized to deal with under the act.

Mr. BROOME: Therefore there would not be any scrutiny?

Mr. GORDON: No, they would scrutinize it, and in regard to a particular kind of item they may draw it to our attention and say that they do not want a budget of that size, we might very well amend it, but we are not obliged to do so.

The CHAIRMAN: Are there any other questions?

Mr. FISHER: Mr. Gordon, in the financial statement that you read several days ago, you indicated you were bringing forward to the government a proposal in relation to the fixed debt that the railway had. Now, let us suppose that in 1961 you are successful in obtaining this transfer which you said in a sense was an accounting or bookkeeping transfer; would it have any effect at all upon anything in this capital budget?

Mr. GORDON: No. That would be an operating matter.

Mr. Broome, may I add this further point. That means also—and this is significant—that neither the Minister of Transport nor the Minister of Finance are authorized to put anything into our budget. It works both ways.

Mr. BROOME: Does this same control which extends to the use of funds which are generated by the railway from the depreciation account or can you spend the depreciation account as you see fit.

Mr. GORDON: So long as we use it in connection with capital items.

Mr. VAUGHAN: I think it is covered in the Training and Guarantee Act.

Mr. BROOME: It must be spent on capital and must be approved by the Governor in Council.

Mr. HORNER (*Acadia*): When the C.N.R. has a surplus does this go to pay off people's debts or is it turned over to the government.

Mr. GORDON: The surplus would be payable to the Receiver General.

The CHAIRMAN: You mean if he had a big surplus.

Mr. FISHER: I have some questions in respect of page 9.

The CHAIRMAN: I think Mr. Gordon would like to make sure that the answer he gave Mr. Broome is correct from a constitutional point of view.

Mr. GORDON: May I give you now the exact reference. I was looking at the wrong act. It is in the Capital Revision Act, section 9:

> Whenever the accounts of the National System for a fiscal year, as certified by the auditors thereof appointed by Parliament, show earnings remaining after payment, in the following order of priority, of
>
> (*a*) interest on securities held by the public,
>
> (*b*) interest on the indebtedness of the national company to Her Majesty,
>
> (*c*) taxes payable under the Income Tax Act, and
>
> (*d*) dividends on the four per cent preferred stock of the National Company, the earnings remaining shall be paid to the Receiver General of Canada.

The CHAIRMAN: Are there any other questions?

Mr. PASCOE: On page 6—and this has to do with page 9 in regard to equipment—reference is made to 1161 freight cars and then further down 644 freight cars, or a total of over 1800. Are these new cars or are some of them boxcars for grain.

Mr. GORDON: The number of new ones for 1961 financing are 508. There are 75 flats for Newfoundland that are already delivered, 25 piggyback flats, 150 boxcars for the Canadian system, 200 boxcars for the Grand Trunk Western, fifty hoppers, five cabooses for Newfoundland, two cranes and one Jordan spreader. There are 508 items all told.

Mr. CREAGHAN: I would like to have some sort of explanation from management in respect of taxes. You show that you paid $20 million odd in taxes.

Mr. GORDON: I will deal first with rents; taxes and rents are together. I have never understood why they are bracketed together, but it is a regular practice on all railroads. The rent covers rental of cars on a per diem basis which are on each others lines.

Mr. CREAGHAN: I am not concerned with the rental aspect; it is simply taxation.

Mr. GORDON: I have here four pages of the kind of taxes we pay. This includes such things as unemployment insurance, railroad retirement, United States unemployment insurance, telephone and telegraph tax, United States railroad revenue tax, excise stamps in Great Britain, health and unemployment insurance in Great Britain, and then there is an item Mexico income and absentee tax. There is an amount of $22,000 which is called Mexican income and absentee tax.

Mr. BROOME: Have we a railroad in Mexico.

Mr. GORDON: No. I do not know what it is. It is suggested that we do have some cars coming up from Mexico and there probably is a taxation feature involved in that. It is an income absentee tax referring to boxcars and not to individuals. Then there are a great number of small taxes in various provinces including such things as sales tax and corporation tax in some provinces. The total in 1960 was $1,517,000. Then in another group we have taxes by municipalities for which the total is $5,238,000 in the year 1960. Then we have another

group of taxes of various types in the various states in the United States; the total is $2,444,000. We operate in ten states of the United States and their combined taxes amount to $2,444,000.

Mr. BROOME: Are they included in the deficit of United States operations?

Mr. GORDON: Yes.

The CHAIRMAN: Does that satisfy you, Mr. Creaghan?

Mr. CREAGHAN: No. What I am more concerned about is that you have given figures representing roughly $5,200,000 in municipal taxes. I presume it is confined in great part to real estate assessments.

Mr. GORDON: Yes, as I told you yesterday, there are agreements which we enter into with various municipalities in lieu of their right to tax us. There are some places where they do not have a legal right to charge taxes. We have worked out agreements whereby we recognize this and make a bargain with them.

Mr. CREAGHAN: You are getting very close to my question now. In other words, in some of the municipalities you are subject to normal assessment and taxation.

Mr. GORDON: Yes.

Mr. CREAGHAN: While in others you are not subject to taxation because of the fact that the land is still owned by the Crown rather than by the Canadian National Railways. Am I right so far?

Mr. GORDON: Yes.

Mr. CREAGHAN: I have had quite a lot of correspondence concerning this in respect of municipalities within the maritime provinces. Some of them resent the fact that they cannot assess the C.N.R., while municipalities in Central and Western Canada can assess the C.N.R.

Mr. GORDON: Yes.

Mr. CREAGHAN: I am not speaking about Moncton, because I know they have negotiated a very acceptable tax rental arrangement, or grant arrangement. I am more concerned, however, with the smaller communities scattered throughout the maritimes which do not qualify at all for any type of grant assessment. I am wondering if the management of the C.N.R. has given any thought to approaching government to have the crown lands assessable in the maritimes—crown lands used by the railway—in order that there will be uniformity in eastern, central and western Canada in so far as municipal assistance from the C.N.R. is concerned.

Mr. GORDON: This is an old old hot potato.

Mr. CREAGHAN: I know.

Mr. GORDON: In general the situation is something on which I could give you a great deal of information, but I will try to summarize it quickly. Our position in this matter is limited by the authority which we have by order in council because we are really dealing with a trusteeship of Canadian property. Various orders in council have been passed in 1948, 1950 and 1951 whereby the railway was given authority to make settlements on a formula basis along the lines which have just been described. Generally speaking what we have tried to do is establish a formula based on section 44 of the Ontario Assessment Act. We felt that what is fair for Ontario should be fair for the maritimes. That is about the basis on which we are operating.

Mr. CREAGHAN: Would the situation be any better for the municipalities, and possibly the C.N.R., if instead of getting authority by order in council to pay grants it were possible to convince the government to transfer to the C.N.R. outright ownership to these scattered pieces of real estate in Canada rather than have them remain in trust.

Mr. GORDON: I would not like to express an opinion on that one. I think whatever method is followed, we will be criticized about it. However, what you did suggest would mean a change in legislation, and I would not like to express a view as to what the government might feel about that type of legislation. If that is done, it will involve other kinds of government property, as well as our own. There are other types of crown property involved which are also exempt, and I feel the government would feel that the principle that would have to be recognized in any legislation affecting the crown-owned railway would be applicable, and they might not like it.

Mr. CREAGHAN: The cause of the resentment, particularly in municipalities that have both C.P.R. and C.N.R. holdings is, according to my understanding, that in the city of Saint John, the C.P.R. is subject to normal assessment and taxation on all its holdings, and yet the C.N.R. is in a position where they do not have to pay a cent. However, they say: We will negotiate and pay something, more or less, to accommodate you for the service.

Mr. GORDON: Perhaps Mr. Pickersgill could tell you something about the situation in Winnipeg, where the C.P.R. is exempt, and the same sort of story applies there.

Mr. CREAGHAN: I am not familiar with that problem. I was just curious to find out—and I think you have answered me—there has been no approach by the C.N.R. to take over the ownership of the trustee lands?

Mr. GORDON: No.

Mr. FISHER: I have a supplementary question: Is the increase in the tax and rents with a view to the 3 per cent Ontario sales tax?

The CHAIRMAN: What is your question?

Mr. FISHER: Is the increase in tax and rents related to an assumption of the effect of the Ontario sales tax?

Mr. PICKERSGILL: That is a pretty frosted question.

The CHAIRMAN: Anyway, it is a cold one.

Mr. GORDON: What increase?

Mr. FISHER: Taxes and rents went approximately $276,000 in 1961 over 1960.

Mr. GORDON: Are you looking at page 9?

Mr. FISHER: Yes.

Mr. GORDON: The figure is about the same.

Mr. FISHER: No, it is up.

Mr. GORDON: Oh, I see. You mean the difference between the twenty-four and three hundred. This is just an estimate.

Mr. FISHER: You have the note at the bottom, with the forecast based on material supplies, wage rates and freight rates. You have not taken into account the impact of the Ontario sales tax.

Mr. GORDON: Not if it is a new tax.

Mr. FISHER: I am now about to embark on a different line of questioning.

Mr. BROOME: Mr. Chairman, I have two questions. One is in regard to the receipts from T.C.A., in the amount of $10,600,000. Is that in payment of loans?

Mr. GORDON: No. It is the interest charges that they are responsible for in connection with the money we have advanced to them. In other words, we break even on it.

Mr. BROOME: And if they have a deficit, does that appear in your deficit?

Mr. GORDON: No; it is entirely in their own accounts.

Mr. BROOME: The figure in regard to your projected deficit for next year is $64 million.

Mr. GORDON: Yes.

Mr. BROOME: Is this a very hefty hedge on this? Do you expect it to be that high?

Mr. GORDON: I expect it to be considerably more, unless we get some offset in connection with the wage awards.

Mr. HORNER (*Acadia*): What was the figure the C.N.R. had figured out that this wage increase would cost them?

Mr. GORDON: Our estimate is about $30 million.

Mr. HORNER (*Acadia*): And this budget was drawn up before this increase was granted?

Mr. GORDON: That is right, and that is what the note means.

Mr. HORNER (*Acadia*): Then, unless you get something to offset this $30 million-odd expense, the deficit is more than likely to reach $94 million than it is $64 million?

Mr. GORDON: Yes.

Mr. FISHER: In connection with these fixed charges—

The CHAIRMAN: Pardon, me, Mr. Fisher; Mr. Broome is not finished.

Mr GORDON: When you said $94 million, we also have to keep in mind, thinking about our forecast, that we are assuming an operating revenue figure of $700 million. Now, to the extent that that is not realized—and that is only a round figure guess—our deficit is likely to be greater. On the other hand, if we go higher than that, our deficit will be less. Our traffic has not been running at this rate so far, and we feel we are going to have real difficulty in meeting that estimate by the end of the year.

Mr. BROOME: But your actual, in 1960, was within $7 million of this, and in previous testimony you have indicated the last quarter has shown a fair upturn from 1960.

Mr. GORDON: No, that is not correct.

Mr. BROOME: That was for the first quarter?

Mr. GORDON: I was saying, the first and second quarters of 1961 has been quite disappointing. I said we are beginning to see an upturn in the third quarter, and we hope that the third quarter will be closer to our estimate and, together with the fourth quarter will overtake the short fall in the first and second quarters although, I hope we will make up the early shortfall I cannot say for sure that we will.

Mr. BROOME: How far down are you on your short fall? Five per cent?

Mr. GORDON: On revenues only?

Mr. BROOME: Yes, 5 per cent.

The CHAIRMAN: Perhaps last night's budget may change the whole picture.

Mr. PICKERSGILL: It would hardly be fair to ask Mr. Gordon what he feels the prospects are.

Mr. GORDON: I do not know. I have not had a chance to read the budget.

Miss LAMARSH: In line with that, perhaps the president might say what effect would be felt by the softening of the dollar, by forcing the exchange rate down, in respect to the American position?

The CHAIRMAN: I do not think the president wants to get into the budget debate any more than we do at this stage.

Mr. GORDON: That really would be a question of my judgment as to the present forecast. I would not get into that.

Mr. BROOME: I was asking about your short fall.

Mr. GORDON: About 4 or 5 per cent. We may make it up; we hope so.

Mr. BROOME: In that case, if you make it up, the basic figure of $700 million—

Mr. GORDON: —may not be too far out.

Mr. BROOME: Have you taken into account any of the accelerated savings you propose to make this year, say in the way of a reduction in your passenger services?

Mr. GORDON: No.

Mr. BROOME: Have you given any credit to the fact you may be able to improve your position?

Mr. GORDON: No, nor any action that might be taken under the Royal Commission report, either.

Mr. BROOME: So there would appear, then, to be a fairly reasonable cushion in here, in regard to that $64 million, outside of this wage increase?

Mr. GORDON: Yes, but I do not see any other offsetting factors that will have a favourable effect.

Mr. FISHER: I would like to ask Mr. Gordon again about his approach to the government in relation to the debt structure of the C.N.R. as he gave his aside shortly after he finished page 4 of his financial memorandum. We have a figure for 1961 which projected $63,100,000 fixed charges. Am I correct in assuming that should you be successful in this approach to the government, these net fixed charges could show a substantial drop?

Mr. GORDON: Yes. However, I am not stating we are going to be successful in selling the case to the Government soon enough to affect the 1961 year, because I would think that if any action is taken, it would require legislation.

Mr. FISHER: But, your deficit is a hypothesis—and Mr. Horner suggested one thing that may affect it, the wage increase, and Mr. Broome has suggested another thing, the Royal Commission recommendations. Now, this proposal you are taking to the government is potentially another means of affecting your deficit.

Mr. GORDON: Yes.

Mr. FISHER: So, if we are concerned with seeing that the C.N.R. have a better financial picture, we should support the recommendation with regard to the debt structure—and that would be a fine point.

Mr. GORDON: You are absolutely right.

Mr. PICKERSGILL: I was going to observe that Mr. Fisher has a naive confidence in the capacity of the government for decision.

Mr. FISHER: I am dealing with hypotheses. We all, Mr. Pickersgill, have, to a greater or lesser degree, equal vision.

Mr. BROOME: I think Mr. Pickersgill is still rankling under Mr. McPhillips' remark about law students.

Mr. FISHER: You indicated the other day this was just a bookkeeping change, and I have not been able to assimilate that at all. It seems to me, even though it may be a bookkeeping change, it will show a radical difference in your financial operating picture.

Mr. GORDON: Yes, but what I mean by bookkeeping change is, if we were relieved of the existing burden by any action of government legislation, then the government would have to find the money, and it would be paid out of the public budget.

Mr. FISHER: But if I can relate your thesis the other day to this operating budget which we have before us, it would be your company's thought that a

substantial portion of that $63 million—I assume in the neighbourhood of $40—should not really be there, in the interests of justice and as an aspect of your present management.

Mr. GORDON: I would rather not confirm your interpretation of what I said, Mr. Fisher. What I said is on the record; I think you have it right, but I would not like to put it in the words you use, because you use such words as "justice" and I am not claiming injustice in my reference to the government, but merely pointing it up in terms of the actual results of the railway as they might be shown if another attitude had been taken about the bookkeeping.

Mr. HORNER (*Acadia*): I asked a question; it was not on this, but in connection with expense accounts, and Mr. Gordon said they would try to look it up. Could this be given to the committee, if not today, soon?

Mr. GORDON: We are going to try to answer all the questions in a clean-up show five minutes from now, when the budget is passed.

The CHAIRMAN: What is your pleasure now, in connection with the budget?

Some Hon. MEMBERS: Agreed.

The CHAIRMAN: It has been moved by Mr. Pickersgill, and seconded by Mr. Carter. What is your pleasure, gentlemen?

Mr. MCPHILLIPS: Was it not the understanding that it would be passed subject to the T.C.A.?

The CHAIRMAN: Yes. Subject to that, is it carried? Would you indicate? Contrary, if any? I declare it carried.

Mr. PICKERSGILL: Mr. Chairman, before we go on to the next item, I would like to make a personal statement.

Mr. FISHER: What is the next item?

Mr. PICKERSGILL: I do not know. Could I make a personal statement? I just wanted to explain to the committee, in view of the fact that Mr. Broome brought the matter up, that I may be bloody, but I am no longer a law student.

Mr. BROOME: Does that mean you are not even attempting to be a lawyer?

Mr. PICKERSGILL: With some of the awful examples, I gave it up.

Mr. FISHER: Before we move to the next item, I would like to know what the next item is.

The CHAIRMAN: We shall now deal with the Canadian National Railways securities trust:

Editor's Note: The report referred to is as follows:

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

TRUSTEES

Chairman—Donald Gordon, C.M.G., LL.D.
Wilfrid Gagnon, C.B.E.
J. A. Northey
J. R. Griffith
E. W. Bickle
W. G. Stewart, Q.C. L.L.B.
H. W. Marsh

OFFICERS

Secretary .....R. H. Tarr
Comptroller .....L. J. Mills
Treasurer .....E. J. Denyar

MONTREAL, February 21, 1961.

The Honourable Leon Balcer, P.C., Q.C., M.P.,
Minister of Transport,
Ottawa.

Sir:

In conformity with Section 17 of The Canadian National Railways Capital Revision Act, 1952, the Trustees of The Canadian National Railways Securities Trust submit the following report of the transactions for the calendar year 1960.

Consistent with the procedure followed in 1958, the book value of the capital stock has been decreased during the year by $26,651,968 due to capital losses of Canadian National Railways in 1960 arising from the early retirement of steam locomotives and the insufficiency of the related reserve for depreciation. The total of such losses charged to capital stock up to December 31, 1960 amounted to $36,555,118.

The Trustees present herewith the Balance Sheet at December 31st, 1960.

D. Gordon,
For the Trustees.

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

BALANCE SHEET AT DECEMBER 31ST, 1960

ASSETS			LIABILITIES	
Claims for Principal of Loans—			Capital Stock Owned by Canadian National Railway Company—	
Canadian Northern Railway	$ 312,334,805.10		5,000,000 shares of no par value capital stock	$ 341,963,017.02
Grand Trunk Railway	118,582,182.33			
Grand Trunk Pacific Railway	116,006,599.08			
Canadian National Railway Company	96,936,971.75	$ 643,860,558.26		
Claims for Interest on Loans—				
Canadian Northern Railway	$ 309,702,897.65			
Grand Trunk Railway	103,250,802.95			
Grand Trunk Pacific Railway	107,326,622.84			
Canadian National Railway Company	54,501,313.57	574,781,637.01		
Transactions of Canadian National Railway System subsequent to January 1st, 1937, affecting the book value of the capital stock of the Securities Trust		71,925,579.14		
Securities Held—				
Collateral Securities—Schedule A.1			Amount by which the book value of claims and interest thereon exceeded the initial stated value as of January 1st, 1937	948,604,757.39
Other Securities —Schedule A.2				
		$ 1,290,567,774.41		$ 1,290,567,774.41

L. J. MILLS,
Comptroller.

CERTIFICATE OF AUDITOR

I have examined the books and records of The Canadian National Railways Securities Trust for the year ended December 31st, 1960.

The Collatoral and Other Securities, as set out in Schedules A.1 and A.2 attached hereto, were verified by examination

In my opinion, the above Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the Trust's affairs at December 31st, 1960, in accordance with the provisions of The Canadian National Railways Capital Revision Act, 1952.

J. A. DE LALANNE,
Chartered Accountant.

Dated at Montreal,
February 21, 1961.

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

Summary of Indebtedness Transferred from the Government of Canada to the Securities Trust

LOANS OUTSTANDING		NOTES AND COLLATERAL HELD	
Canadian Northern Railway:			
3½% Loan, Chapter 6, 1911	$ 2,396,099.68	None. Charge is on premises mortgaged October 4, 1911.	
4% Loan, Chapter 20, 1914	5,294,000.02	None.	
5% Loan, Chapter 4, 1915	10,000,000.00	None.	
5% Loan, Chapter 4, 1915	10,000,000.00	None.	
6% Loan, Chapter 29, 1916	15,000,000.00	Mortgages dated June 23 and June 26, 1916.	
ø6% Loan, Chapter 24, 1917	25,000,000.00	6% Demand Notes	$ 33,012,414.32
ø6% Loan, Vote 110, 1918	25,000,000.00	6% Demand Notes	27,203,003.65
ø6% Loan, Vote 108, 1919	35,000,000.00	6% Demand Notes	40,031,122.27
ø6% Loan, Vote 127, 1920	48,611,077.00	6% Demand Notes	53,008,779.65
ø6% Loan, Vote 126, 1921	44,419,806.42	6% Demand Notes	50,259,312.47
ø6% Loan, Vote 136, 1922	42,800,000.00	6% Demand Notes	46,691,634.60
		{6% Demand Notes	5,700,000.00
6% Loan, War Measures Act, 1918	1,887,821.16	{3½% Debenture Stocks	5,109,999.99
ø6% Equipment Loan, Chapter 38, 1918	56,926,000.82	6% Demand Notes	56,858,496.44
øMortgage covering loans above	.....	Mortgage dated November 16, 1917	.....
Total Canadian Northern	$ 312,334,805.10		
Grand Trunk Railway:			
6% Loan, Vote 478, 1920	$ 25,000,000.00	6% Demand Notes	$ 25,479,226.97
6% Loan, Vote 126, 1921	55,293,435.18	6% Demand Notes	56,646,816.12
6% Loan, Vote 137, 1922	23,288,747.15	6% Demand Notes	23,288,747.15
4% Loan to G.T. Pacific, Chapter 23, 1913, guaranteed by Grand Trunk	15,000,000.00	{4% Demand Note	15,000,000.00
		{4% G.T.P. Debentures	15,000,000.00
Total Grand Trunk	$ 118,582,182.33		
Grand Trunk Pacific Railway:			
3% Bonds, Chapter 24, 1913	$ 33,048,000.00	3% 1st. Mortgage Bonds	$ 33,048,000.00
6% Loan, Chapter 4, 1915	6,000,000.00	4% Sterling Bonds	7,499,952.00
6% Loan, Vote 441, 1916	7,081,783.45	Mortgage, June 28, 1916	.....
6% Loan, Vote 444, 1917	5,038,053.72	Mortgage, October 18, 1917	.....
6% Loan, Vote 110, 1918	7,471,399.93	Mortgage, October 18, 1917	.....
Receiver's Advances, P.C. 635, March 26, 1919	45,764,162.35	Receiver's Certificates	53,339,162.74
Interest guaranteed by Govt. of Canada	8,704,662.65	Cremation Certificates, coupons destroyed	8,698,170.42
Interest guaranteed by Provinces of Alberta and Saskatchewan	2,898,536.98	Cremation Certificates, coupons destroyed	2,925,723.88
Total Grand Trunk Pacific	$ 116,006,599.08	Forward	

SCHEDULE A.1—*Concluded*

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

SUMMARY OF INDEBTEDNESS TRANSFERRED FROM THE GOVERNMENT OF CANADA TO THE SECURITIES TRUST

LOANS OUTSTANDING		NOTES AND COLLATERAL HELD	
CANADIAN NATIONAL RAILWAY COMPANY:			
6% Loan, Vote 139, 1923	$ 24,550,000.00	6% Canadian Northern Demand Note	$ 12,655,019.57
		G.T.P. Receiver's Certificates	3,313,530.01
		G.T.P. Interest Coupons (Cremation Certificates)	1,530,831.96
5% Loan, Vote 137, 1924	10,000,000.00	5% Canadian Northern Demand Note	1,318,315.86
		G.T.P. Receiver's Certificates	4,691,173.58
		G.T.P. Interest Coupons (Cremation Certificates)	1,530,822.24
5% Loan, Vote 377, 1925	10,000,000.00	5% Canadian Northern Demand Note	9,496,718.21
		G.T.P. Receiver's Certificates	Cr. 1,422,425.17
		G.T.P. Interest Coupons (Cremation Certificates)	1,530,802.80
5% Loan, Vote 372, 1926	10,000,000.00	5% Canadian Northern Demand Note	9,062,624.30
		G.T.P. Receiver's Certificates	Cr. 364,898.78
		G.T.P. Interest Coupons (Cremation Certificates)	1,530,880.56
5% Loan, Vote 336, 1929	2,932,652.91	5% Canadian National Railway Company Demand Notes	2,932,652.91
5% and 5¼% Loans, Chapter 22, 1931	29,910,400.85	5% and 5¼% Canadian National Railway Company Demand Notes	29,910,400.85
5¼% Loans, Chapter 6, 1932	11,210,815.56	5¼% Canadian National Railway Company Demand Notes	11,210,815.56
Less: Adjustment authorized by the Capital Revision Act, 1937	Cr. 1,666,897.57		
Total Canadian National Railway Company	$ 96,936,971.75		
Total Loans	$ 643,860,558.26		

SCHEDULE A.2

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

SECURITIES TRANSFERRED FROM THE GOVERNMENT OF CANADA TO THE SECURITIES TRUST PURSUANT TO THE PROVISIONS OF THE CANADIAN NATIONAL RAILWAYS CAPITAL REVISION ACT, 1952

Description of Issue	Amount Sterling Currency
Canadian Northern Alberta Rly. Co. 3½% First Mortgage Debenture Stock, due May 4, 1960	£ 534,097
Canadian Northern Ontario Rly. Co. 3½% First Mortgage Debenture Stock, due May 19, 1961	6,294,345
Grand Trunk Pacific Rly. Co. 3% First Mortgage Sterling Bonds, due Jan. 1, 1962	1,754,500
Grand Trunk Pacific Rly. Co. 4% Sterling Bonds, due Jan. 1, 1962	90,900

The CHAIRMAN: We need a motion on this.

Mr. CREAGHAN: I am quite prepared to move the adoption of the report.

Mr. SMITH (*Simcoe North*): I second that.

Report agreed to.

The CHAIRMAN: We shall now deal with the auditors' report.

Editor's Note: The auditors' report is as follows:

J. A. de Lalanne
Chartered Accountant
507 Place d'Armes, Montreal

March 15, 1961.

To the Honourable The Minister of Transport,
Ottawa, Canada.

Sir:

As auditor of the Canadian National Railway system, I report, through you, to parliament on my audit of the accounts for the year ended December 31, 1960.

I have signed a separate report in the following terms which, together with the related financial statements, is included in the annual report of the system.

> "I have examined the consolidated balance sheet of the Canadian National Railway system at December 31, 1960 and the consolidated income statement for the year ended on that date. My examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as I considered necessary in the circumstances.
>
> In my opinion, subject to the position with regard to depreciation accruing prior to the adoption of depreciation accounting as referred to in note 1, the accompanying consolidated balance sheet and the related consolidated income statement are properly drawn up so as to give a true and fair view of the state of the affairs of the system at December 31, 1960 and of the results of its operations for the year ended on that date, according to the best of my information and the explanations given to me and as shown by the books of the system, and in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change in the method of funding of liabilities under the company's pension plans as referred to in note 4.
>
> I further report that, in my opinion, proper books of account have been kept by the system and the transactions that have come under my notice have been within the powers of the system."

I offer the following further comments:

Property Investment

Expenditures on additions to property were lower in 1960 than in any year since 1955, while depreciation accruals were the highest, as shown in the following table:

	Expenditures	Depreciation accruals
1960	$169,823,000	$88,712,000
1959	222,070,000	86,311,000
1958	247,144,000	72,338,000
1957	255,428,000	78,660,000
1956	203,300,000	63,851,000

The lower expenditure in 1960 results mainly from the reduction in additions to rolling stock, the relative cost in 1960 being about one quarter of that in the peak year—1957, and less than one third of the average for the four years, 1956-1959.

The above figures do not include government of Canada expenditures on Canadian government railways.

Upon the retirement of the remaining steam locomotives in 1960, a further capital write-off of $26,651,968 was charged against shareholders' equity, bringing the aggregate so charged over the past three years to $36,555,118.

Such write-offs have not, therefore, formed part of the system deficits nor reduced accumulated depreciation.

Investments in Affiliated Companies not Consolidated

Additions during 1960 amounted to $75,229,616 of which $74,000,000 applied to Trans-Canada Air Lines, bringing the total investment in and advances to this company to $214,100,000.

Long Term Debt

During the year there was an increase of $141,586,921 in long term debt, being a net increase of $339,249,273 in issues to the public and a reduction of $197,662,352 in the government of Canada loans and debentures.

As regards the $700,000,000 bonds issued during 1959 and 1960, amounts of ½% or 1% of the respective original issues may be purchased quarterly provided the bonds are available in the open market at prices not exceeding the relative original issue prices. During 1960, bonds of a par value of $7,750,000 were purchased under this authority. To implement this condition in full, the annual cash requirement in future years might be in excess of $16,000,000.

Debenture stock and equipment trust certificates in an aggregate of $3,000,727 were redeemed during the year. The remaining $675,000 equipment trust certificates outstanding at December 31, 1960 were subsequently redeemed on January 15, 1961.

It will be seen that temporary advances by the government of Canada under financing and guarantee acts stood at $31,037,938 at December 31, 1960, the lowest at any year-end since 1955.

Discount of $8,871,350 on new bonds issued during the year has been added to unamortized discount on long term debt. At December 31, 1960 the unamortized balance in this account was $26,762,278.

Source of Funds

The proceeds from sale of preferred stock were the lowest in any year since 1955, as a result of the decrease in railway operating revenues.

If the financial requirements of Trans-Canada Air Lines are deducted, the net increase in long term debt in 1960 will also be found to be the lowest during the same period. This is a reflection of the completion of the dieselization programme, the reduction in the purchase of other equipment, mainly freight, and of the increase in the funds provided through somewhat higher depreciation accruals.

Shareholders' Equity

Government of Canada equity decreased during 1960 by an amount of $2,766,560 as under:

Capital write-off arising from early retirement of remaining steam locomotives		$26,651,698
Less: Additional preferred stock issued	$21,096,001	
Increase in investment in Canadian Government Railways	2,789,407	23,885,408
Decrease		$ 2,766,560

Insurance Fund and Reserve

At December 31, 1960 the Fund consisted of the following:

Securities—at cost or amortized value	$14,642,842
Cash, accrued interest, etc., less accounts payable	357,158
	$15,000,000

The value of the above securities, based on market quotations, was approximately 15% lower than as shown above, as compared with 21% at December 31, 1959—a recovery of about $855,000.

At December 31, 1960 there were some 325 outstanding claims of varying amounts, the respective cost of which had not been completely established. The aggregate amount which will eventually be charged against the reserve in this connection has been estimated at $800,000.

Results of Operations—Year 1960

The deficit from all operations for the year was $67,496,777, an increase of $23,908,487 over that for 1959.

There was a decline in the overall railway operating revenues, offset in part by reductions in operating expenses and in pension costs under the revised method of funding.

Charges to operations for depreciation were slightly higher, with another sharp increase in fixed charges, due in large part to the higher level of interest rates.

No provision has been made in the 1960 accounts for any retroactive costs which might result from wage negotiations in progress.

Pensions

Attention is respectfully directed to Note 4 to the consolidated financial statements which describes the change in the method of funding of liabilities under the 1935, 1952 and 1959 pension plans and its effect on the annual charge to operations.

Such charge now includes a contribution related to current service and an amount for interest on the acknowledged outstanding liability of the company in respect of prior service of active employees, as established by actuarial appraisal at $325,000,000. While this indebtedness is not included in the liabilities as shown in the consolidated balance sheet of the system except by reference

in the above-mentioned note, it does appear as an asset in the pension trust funds balance sheet, thus giving a lucid presentation of the position of such funds at December 31, 1960.

Corporate Structure

During the year 1960 there was a further reduction in the number of companies comprised in the system through the amalgamation of five railway companies and the dissolution of two land companies.

On the other hand, trucking services were extended through the acquisition of four trucking and two terminal holding companies, the assets and liabilities of which have been incorporated under the relative classifications in the consolidated balance sheet of the system.

General

The cost, including interest, of track diversion and rearrangement of approaches to Victoria Jubilee bridge is being accumulated in an account classified under other assets in the balance sheet, pending settlement with the St. Lawrence Seaway authority.

Further progress was made during the year in the modernization and improvement in the accounting methods and procedures. In addition, steps have been taken to modify the accounting system to meet the needs under the new management organization structure. In view of the size and complexity of the overall undertaking of the system, the full benefits from these changes and improvements can, of course, only be achieved over an extended period.

I wish to take this opportunity of expressing my appreciation to the officers and staff of the System for their full co-operation and assistance throughout the year.

Yours faithfully,

J. A. deLalanne,
Chartered Accountant

Mr. FISHER: Mr. Chairman, I assume we examine the auditor, and not Mr. Gordon, on this. Is that correct?

The CHAIRMAN: The auditor is here. He is Mr. J. A. deLalanne.

Mr. FISHER: Before we go ahead with this witness, you allowed Mr. Pickersgill to make a short statement and I should like to make one also.

Mr. BALCER: Another confession?

Mr. FISHER: Because of the issues which have arisen in this committee, particularly as reported in the press, I feel that I must make a very concise statement.

I have been charged in this committee with being a "braggart", a "lawbreaker", a member who is smearing persons or an organization, and as someone who connived in stolen property. This is no forum for me to debate such charges. I plan to go into them fully in the House of Commons.

I should like to make it as clear as possible that my so-called attacks on the C.N.R. president are not personal attacks, unless one considers that an opinion expressing lack of confidence in the president of the C.N.R. is a personal attack.

I have requested in the house that a new president be found for the C.N.R. by the government and I intend to move, or support, a motion in this committee's proceedings that the committee should advise the government to consider removing the president of the C.N.R. and replacing him with someone

charged with restoring the confidence of the employees because, as someone has put it, to have the services of the workers' hands, you must have their hearts.

I wish to put that statement on the record.

The CHAIRMAN: The president's tenure of office is not in the terms of reference, but we as a committee, when we are making our final report, I suppose are masters of our own house and are masters of how we report. However, the terms of reference have been clearly set out and, indeed, in extraordinary volume, much more so than usual, and we have not been selected as a committee—

Mr. FISHER: I am not making a motion.

Mr. SMITH (*Simcoe North*): Mr. Fisher was making a personal statement but, on the other hand, it is most unusual to disclose what is proposed to be in the report or what is proposed not to be in the report, except when the committee sits in camera at the end of its hearings.

The CHAIRMAN: That is why I say that part is out of order.

Mr. HORNER (*Acadia*): Let us press on.

The CHAIRMAN: Gentlemen, the auditor is Mr. J. A. deLalanne. Have you all copies of his report?

Are there any questions before you move for the adoption of the report?

Mr. CREAGHAN: I think it is usual for the auditor to make a statement and then be examined afterwards. I understand he is appointed by act of parliament and is a non-railroad man. I should like to hear him make a statement other than what is in his report.

Mr. MCPHILLIPS: We have got his statement before us.

The CHAIRMAN: We have, and Mr. deLalanne says he has no other statement to make.

Mr. FISHER: I want to ask a question.

The CHAIRMAN: Very well, ask the questions.

Mr. FISHER: Did your firm make any preliminary examination of the trucking lines that were purchased by the C.N.R. in 1960?

Mr. J. A. DELALANNE (*Chartered Accountant*): As I explained last year, I am not a member of a firm and have not been for the last three years. The firm of which I was a member was engaged to make certain investigations in response to requests of Canadian National Transportation Limited.

Mr. FISHER: But you had nothing to do with those particular investigations?

Mr. DELALANNE: I had no part in them whatsoever.

Mr. FISHER: In your work this year did you go into the operations and the accounts of these subsidiaries?

Mr. DELALANNE: Once these companies were actually 100 per cent or partially owned C.N.R. companies, I naturally considered it was part of my duty to satisfy myself with regard to whatever was being accumulated in the accounts of the C.N.R., for consolidation in these statements, and that the accounts were reasonably accurate, the same as I would in regard to hotels, telecommunications, and other things.

Mr. FISHER: To any extent in 1960 did the C.N.R. management seek your advice with respect to the prices of any of the trucking companies they were considering purchasing. Did you do any pre-audit examination?

Mr. DELALANNE: No sir, not at all.

Mr. FISHER: Did you have a separate check for auditing trucking companies in 1960?

Mr. DELALANNE: No.

Mr. FISHER: Your fees come from parliament?

Mr. DELALANNE: My fee is set by order in council authorized by parliament.

Mr. FISHER: The job you have takes you into a certain amount of detail. Does that detail include examining the expenses accounts of the officials of the C.N.R.?

Mr. DELALANNE: It would not be possible, with the number concerned, to check them in detail, but I satisfy myself that any rules and regulations prescribed are followed. I am satisfied nothing was paid which was not appropriately approved, but I have no detail.

Mr. FISHER: For example, you do not take a test audit?

Mr. DELALANNE: I do test audits from time to time.

Mr. FISHER: In 1960 did you do any test auditing of expense accounts?

Mr. DELALANNE: I am quite sure there were tests made, but these expenses come from the whole gamut of the railway, and are not necessarily in one place.

Mr. FISHER: Did you make any examination of the charges that are made against company officers in relation to services carried out, either by employees or in the provision of services?

Mr. DELALANNE: I do not think I would be capable. Those who are responsible for approving would be in a much better position to say, and I would prefer to see their confirmation.

Mr. FISHER: What do you mean by those who are responsible?

Mr. DELALANNE: The general practice is that the officer above the person carrying out the work would approve or disapprove of the accounts.

Mr. FISHER: You did not check into that as a phase of your operations?

Mr. DELALANNE: In checking cash and disbursements it would come along as part of the audit. If the person carrying out the audits saw something he thought was excessive he would probably bring it to my attention, but I have had nothing brought to my attention.

Mr. FISHER: We have had an indication the government has concern in relation to expense account operations, as stated last night. In your role as an auditor, and I imagine it is a continuing role, would you be in a position to make a more thorough examination of expense accounts in future?

Mr. DELALANNE: I would. I am quite sure I can see anything I ask for.

Mr. BROOME: On a point of order, I do not think Mr. Fisher should have used the word "government".

Mr. PICKERSGILL: Do you mean the Minister of Finance was not speaking for the government?

Mr. FISHER: I just want your assurance this aspect of proceedings has been checked thoroughly by audit.

Mr. DELALANNE: After the discussion here, I shall take a look at it personally.

Mr. HORNER (*Acadia*): It is not your usual rule to check it very closely or go into it very deeply?

Mr. DELALANNE: I am not the only person checking the accounts. In the railway itself there are many internal audits.

Mr. FISHER: I should like to ask did you check into the payments that are noted in your audit which were made to management consultants and various firms.

Mr. DELALANNE: I have seen payments made to firms which were brought in to give advice, which the president referred to in his evidence.

Mr. HORNER (*Acadia*): In what circumstances can you look into them?

Mr. DELALANNE: I have looked into the firms that were mentioned to determine payments for the purposes of the accounts.

Mr. HORNER (*Acadia*): For trucking?

Mr. DELALANNE: I am not speaking of trucking. I think it is called the general reorganization.

Mr. HORNER (*Acadia*): I was referring mainly to the consultants who were hired to go into the operations of companies that were going to be purchased.

Mr. DELALANNE: That would go through the ordinary salary list of the particular company concerned.

Mr. MCPHILLIPS: I notice on page 5 of your report you go into shareholders equity. I have heard quite a lot in regard to real estate owned by the C.N.R., but they have not made a separate item for it in their balance sheet. Did you, or your staff, check over certificates of title?

Mr. DELALANNE: I could not possibly do that. There are thousands of them. The president, in his evidence, mentioned that study is being made of property holdings, but I could not possibly check on all of them.

Mr. MCPHILLIPS: You simply take the company's word?

Mr. DELALANNE: I know they have a department which follows this up in cooperation with the legal department.

Mr. MCPHILLIPS: When you see their balance sheet, and you see there is no item for real estate, how do you know there is any real estate?

Mr. DELALANNE: The balance sheet of which company?

Mr. MCPHILLIPS: The C.N.R.

Mr. DELALANNE: It is listed with the property accounts. There is an item in property accounts for real estate.

Mr. MCPHILLIPS: Can you show it to me in their balance sheet because I cannot find it?

Mr. DELALANNE: It is in the item under property investment.

Mr. MCPHILLIPS: What page is that?

Mr. DELALANNE: Page 16. It will be under "road" which is $2,300,000,000 odd. There will be quite a substantial item there for real estate and for other physical property other than "road".

Mr. MCPHILLIPS: That "road" deals with right-of-ways?

Mr. DELALANNE: But other lands, whether used or unused, will be there.

Mr. MCPHILLIPS: Other physical property?

Mr. DELALANNE: There is a separate item for other physical property, and the equipment of the railway.

Mr. MCPHILLIPS: Is that real estate?

Mr. DELALANNE: Some of it, land and buildings.

Mr. MCPHILLIPS: The reason for my question, Mr. deLalanne, is because I find it very hard to understand why a corporation, which owns so much real estate, does not have an item as real estate in its annual balance sheet.

Mr. DELALANNE: I do not think railways generally show their accumulated real estate. Additions to road and equipment are shown each year, and they will be found on page 20 of this year's report.

Mr. MCPHILLIPS: Taking, for example, this Ville Marie project on Dorchester boulevard, the C.N.R. owns that property?

Mr. DELALANNE: The land.

Mr. MCPHILLIPS: Owns the land—would that be in this inclusive figure of $105,000,000?

Mr. DELALANNE: I think I should defer to the officials behind me but I would think it is in the $2 billion figure.

The comptroller agrees with me. He thinks that in the railroad properties there would be an item for the land that was being used for the Place Ville Marie development. It would be in the $2,319,000, because the land was part of the station area, of what we commonly call "the hole in the ground" in Montreal.

Mr. CREAGHAN: I would like to ask the auditor one question. On page 5 of your report, under the heading "source of funds", the following appears:

> The proceeds from sale of preferred stock were the lowest in any year since 1955.

I wonder if you could explain to me what you mean by the words "sale of preferred stock"?

Mr. DELALANNE: It is based on the percentage of revenues.

Mr. CREAGHAN: To whom is that stock sold?

Mr. DELALANNE: It is sold to the Minister of Finance. The Minister of Finance buys monthly preferred stock to the extent of 3 per cent of the gross revenue for the month.

Mr. CREAGHAN: Have you any idea of how much investment the Minister of Finance might have under such a heading as that? It is something new to me entirely.

Mr. DELALANNE: It first appears on page 17, on the right-hand side, under government of Canada, a total of $925 million. About $700 million odd was set up at the time of the Capital Revision Act, and the balance would have been taken up by the Minister of Finance since that time. It is an average of around $20 million a year. The amount that came in this year will be found on page 21, just near the bottom of the page, in the second to the last column.

The CHAIRMAN: We had all that in the other report.

Mr. FISHER: Has the Glassco commission approached you at all in relation to any studies that they may be making on the C.N.R. organization? Have you any idea whether they are coming in and are likely to ask questions?

Mr. DELALANNE: I have not seen Mr. Glassco. I did meet his wife on the street and that is the closest I got to him.

Mr. PICKERSGILL: Mr. deLalanne, do you attempt to find out what is the total manpower employed in the C.N.R., and where it is distributed?

Mr. DELALANNE: I see the figures from time to time.

Mr. PICKERSGILL: Do you find them easier to reconcile than other manpower figures you may have had to consider on other occasions?

Mr. DELALANNE: I have never dealt with any quite as large.

Mr. PICKERSGILL: Never?

Mr. DELALANNE: I am sorry, sir, I must take that back. I did, when you and I co-operated together some years ago. We were then dealing with a million men on my side, and you had several others in two other services.

Mr. PICKERSGILL: And sometimes you had difficulty balancing your accounts.

Mr. SMITH (*Simcoe North*): I do not think there should be any imputation in the last sentence about difficulty in balancing accounts when, presumably some time during the war, Mr. Pickersgill and Mr. deLalanne were accounting for the members of the armed services. There might be a suggestion that there were other accounts Mr. deLalanne had been balancing.

Mr. PICKERSGILL: Any imputation on Mr. deLalanne's honour that may have been implied in my remarks, I wish to withdraw unreservedly.

Mr. BROOME: In regard to the general format of the statement, is it good in your opinion and can it be improved upon in the way of more breakdown but not getting into too much detail? Is it adequate?

Mr. DELALANNE: I rather feel that there is sufficient information given. If you go beyond this, the question would be where one would stop. This seems to give a fair idea.

Mr. BROOME: I am thinking of major divisions of the railway systems and operations and the showing of revenue expense, profit or loss, in dividing the system up into major components, like hotels, telecommunications and so on, as well as U.S. lines.

Mr. DELALANNE: Hotels are shown separately from telecommunication expenses, which are combined with other expenses. It is difficult to separate what is strictly expense in connection with outside telegraph and services used for the railway itself.

Mr. BROOME: And passenger operations?

Mr. DELALANNE: With new regions and new accounting which is going to go down to area accounting, the railways may have those figures in future years.

Mr. BROOME: You may be able to show performance by regions.

Mr. DELALANNE: I cannot speak for the railway. In the past it has been very difficult, and I know that both railways in the years gone by have found it very difficult to break down the common expenses in many instances as between regions and areas.

Mr. BROOME: But you do have to do it in regard to the breakdown you have now. It would be silly to have just one total income, total outgo deficit—a three-line statement. You have to differentiate now.

Mr. DELALANNE: The management have to have some breakdown for their own information.

Mr. MCPHILLIPS: The auditors are appointed by resolution of the Senate and the House of Commons. Do you have your staff during the year look these accounts over?

Mr. DELALANNE: Yes, we have a relatively small number on call, and at the year's end a larger number go in to do the final work.

The CHAIRMAN: The report is carried; moved by Mr. Browne and seconded by Mr. McFarlane.

Mr. CREAGHAN: That completes the accounts and estimates.

The CHAIRMAN: Gentlemen, that deals with the first part of our terms of reference.

To deviate for a moment, I have a letter here from Mr. McGregor of T.C.A. He wishes me to apologize to the committee. Mr. Gordon is more familiar with the situation. Mr. Gordon, will you tell the committee something about the sad and disturbing news? There is a hold-up so far as the Trans-Canada part of our deliberations is concerned.

Mr. GORDON: Mr. Chairman, I received word that Mr. McGregor, on the advice of his doctor, has entered the hospital for the purpose of a complete check-up and a series of tests to discover the cause of a condition which his doctors are rather puzzled about. It is causing him weakness and severe headaches generally.

I would not wish to have this statement regarded as in any way an alarmist one, but it does mean that, on the advice of his doctor, he will not be able to leave the hospital to attend this committee. The tests will be rather extensive and take some time, so that he will not be able to attend the committee. However, he has his senior officials, Messrs. H. W. Seagrim, Vice-president of Operations, W. G. Wood, Vice-president of Sales, and W. S. Harvey, Comptroller, who will appear and deal with the actual annual report and assist the committee in any way they can with the details of the report.

I intend to be present myself at the beginning to lend them some moral support if they need it, but I am quite confident that they are thoroughly familiar with the operations of T.C.A. and will be able to give you all the information you might require.

We thought it would be advisable to make this statement publicly so as to allay any extreme rumours in regard to his condition. I will repeat, he is in hospital now for the purpose of tests and examinations to establish the reason for his headaches and general weakness which is causing his doctors some concern.

The CHAIRMAN: When Mr. McGregor and Mr. Harvey brought us the report of T.C.A. the other day, I thought you had enough on your hands at the time and I did not want to deliver it. I can deliver it now, however, and any members who are not present today can get the report later.

The report contains charts just as the C.N.R. had last year. You decided it would be preferable to have them in a smaller form, the same as the C.N. produces this year. It is a list of charts.

Mr. CREAGHAN: Should we make a decision as to when we will go on to consider the T.C.A. annual report?

The CHAIRMAN: On Tuesday of next week.

The next item of business I can pass on is a reply to the letter Mr. McGregor sent me expressing the regards and sympathy of the committee to Mr. McGregor who unfortunately will not be with us this year.

Mr. SMITH (*Simcoe North*): Will we start with T.C.A. on Tuesday?

The CHAIRMAN: On Tuesday in the railway committee room at 9.30 in the morning.

Is it your wish that we complete the questions put by members to Mr. Gordon before we proceed with pension funding?

Mr. GORDON: There is a question by Mr. Horner which covers the diesel usage in hours per day of service. Will it be all right to table it? It is as follows:

DIESEL USAGE IN HOURS PER DAY
(Excludes Repair and Servicing Time)

SYSTEM AVERAGE

APRIL 1961

Switchers (Yard) — 15 hours 15 minutes per day
Road Freight — 14 hours 25 minutes per day
Road Passenger — 16 hours 25 minutes per day

FEBRUARY 1960

Switchers (Yard) — 14 hours 40 minutes per day
Road Freight — 16 hours 25 minutes per day
Road Passenger — 16 hours 45 minutes per day

The CHAIRMAN: We also have questions asked by Mr. Broome which will be tabled.

Mr. GORDON: Next comes Mr. Horner's questions on company service expenses. The totals are given here.

CANADIAN NATIONAL RAILWAYS
ON COMPANY SERVICE EXPENSES—SYSTEM

	Year 1960	Year 1959
Total On Company Service Expense ..	$ 5,565,649	$ 5,541,115
Total Railway Operating Revenues	$693,141,106	$740,165,041
On Company Service Expense as a portion of every Revenue Dollar	8/10 of 1c.	7/10 of 1c.
Average report of On Company Service Expense	$ 67.78	$ 67.14

Expenses paid on the Company's behalf are reimbursed to all officers and employees incurring these in discharge of their duties.

Mr. Chevrier asked a rather technical question on the basis of exchange of property in the city of Montreal. I have the full details here. It is rather a legal document.

In the Eighth Exchange with the City of Montreal entered into before L. A. Marchessault, Notary, On June 17, 1960, the City transferred to the Railway, land which had a total assessed value of $494,246 and the land which the Railway gave in exchange had a total assessed value of $252,450. This left a deficiency in favour of the City of Montreal in the amount of $241,796, for the payment of which the Railway undertook to transfer to the City whenever requested to do so, but prior to January 1, 1962, other parcels of land owned by the Railway having an area such that their value on the basis of their assessed valuation for municipal taxes in effect in 1959, would be equal to the amount of the deficiency.

The Deed provides that the land the City may take to make up the deficiency may be taken to the extent required from certain lots which adjoined the northerly boundary of the Railway's Turcot Yard between Brock avenue in Montreal West, and Decarie Boulevard in the City of Montreal. The Deed also provides that should the land be taken at that point and used for an expressway, that the City would have to provide an exit in that area to serve the remainder of our land in the Yard.

The land which the City may elect to take as described in the Deed, is not required for railway purposes.

The City has not yet expressed its option for the payment of the deficiency in question.

Mr. GORDON: Mr. Horner had a question on the breakdown of the yards, the 116 yards where switching power was assigned. We have the details here. This looks like a Sunday school prize-giving. The particulars are:

On the Canadian National System lines in Canada there are 116 yards where switching power is assigned, broken down by operating territories as follows:

Atlantic Region excluding Nfld.	21
Newfoundland Area	5
St. Lawrence Region	22
Great Lakes Region	32
Prairie Region	21
Mountain Region	15
Total	116

Lines in the United States:

Grand Trunk Western	14
Central Vermont	3
Duluth Winnipeg & Pacific	2
Total	19

System total—135.

The foregoing includes every yard where yard power is assigned.

We also have a summary, for which Mr. Horner asked, of the depreciation charges over the last five years.

Mr. HORNER (*Acadia*): I wanted them prior to 1956.

Mr. GORDON: This starts at 1955.

Mr. HORNER (*Acadia*): I have it here in the Auditor's Report.

Mr. VAUGHAN: If it is not satisfactory, you can let me know.

Mr. GORDON: It is taken out of the annual reports. We could easily give it to you.

Mr. HORNER (*Acadia*): Very well.

Mr. GORDON: The particulars are as follows:

CANADIAN NATIONAL RAILWAYS

SUMMARY OF DEPRECIATION CHARGES

Year	Total Property Investment	Recorded Depreciation
	$	$
1955	2,757,290,868	63,932,427(1)
1956	3,093,411,876	63,851,072
1957	3,301,645,288	71,160,230(2)
1958	3,548,330,290	79,837,736(3)
1959	3,709,079,052	86,310,651
1960	3,767,316,630	88,711,639

(1) Restated to reflect B.T.C. Depreciation policy effective 1 January 1956.

(2)	Depreciation Charges in Annual Report	$ 78,660,230
	Less Supplementary Depreciation—Steam Locomotives	7,500,000
		$ 71,160,230
(3)	Depreciation Charges in Annual Report	$ 72,337,736
	Reversal of Supplementary Depreciation on Steam Locomotives	7,500,000
		$ 79,837,736

Mr. GORDON: This is an oral answer. The other day Mr. Fisher made an inquiry with reference to the B & M company in connection with our purchasing officers; and we cannot identify the company.

Mr. Chevrier also had a question covering the analysis of car rentals, that is, the cars in use between the United States and Canada. This table will cover that.

ANALYSIS OF—CAR RENTALS—NUMBER OF CARS

	Average Number of Cars per Day	
	Year 1960	Year 1959
ALL FREIGHT TRAIN CARS		
Foreign Line Cars on C.N.R. System	14,554	17,748
C.N.R. System Cars on Foreign Rys.	19,259	20,633
	(4,705)	(2,885)
Private line cars (tank cars etc.) on C.N.R. System	8,816	9,651
Average number of cars daily on which C.N.R. paid rental	4,111	6,766

	Actual One Day Count	
	Jan. 1, 1961	Jan. 1, 1960
BOX CARS		
U.S. Foreign box cars on System Lines (Not including C.V., D.W.P. or G.T.W. cars on our rails)	5,021	5,755
C.N.R. Box cars on U.S. Lines (Including cars on C.V., G.T.W., D.W.P. and G.T.N.E. Lines)	9,613	9,928
U.S. Box cars on C.N.R. Lines (including U.S., D.W.P. and G.T.W. cars on C.N. but not on G.T.N.E. Lines, D.W.P., C.V. or G.T.W.)	2,182	2,522
System box cars on foreign U.S. Lines (not including C.V., D.W.P. or G.T.W. cars on own rails)	11,091	12,457

I have a reply here to a question which was asked by Miss LaMarsh. Is she here?

The CHAIRMAN: She has gone.

Mr. GORDON: Then perhaps I may table it. It is in regard to the reduction in yard personnel at Fort Erie and Niagara Falls in the case of the Wabash Railroad. It gives the answer that the Wabash Railroad discontinued an arrangement they had with us. The details are as follows:

> The reduction in yard personnel at Fort Erie and Niagara Falls has been the result of (*a*) a change in operating procedures by the Wabash Railroad and (*b*) the progressively lower traffic level during the past year.
>
> Prior to August 1960 the CN, under agreement, did all of the switching to marshal Wabash trains at Fort Erie and Niagara Falls. However in August last year the Wabash Railroad changed their operating procedure by discontinuing this arrangement. The Wabash now have all of this switching work done on the U.S. side of the border, and they "main-line" their trains through the CN yards at both Fort Erie and Niagara Falls, making no use whatever of CN yard facilities excepting only two tracks in each yard from which their trains are despatched. The CN merely attach and detach Wabash locomotives and cabooses and make the regulation brake test.

I believe Mr. Browne asked these questions about the agreed charges on piggyback operations. We have extracted the following table:

(*a*) Agreed Charge No. 1187 was made March 27, 1961, between Liquid Carbonic Canadian Corp. and Canadian National Railways and Canadian Pacific Railway Co. for 95% of their traffic between Montreal and Toronto for the handling of compressed or liquefied gases carried in trailers owned by the shipper, i.e., Liquid Carbonic Canadian Corp.—this, in other words, is a Plan III operation.

(*b*) I found also that Agreed Charge No. 1134, effective January 31, 1961, has been made between Canada Packers and Canadian National Railways for the handling of canned goods between Burford and Winnipeg. This Agreed Charge was made for a piggyback operation because the Burford plant is offline. This is a Plan II operation.

(*c*) Agreed Charge No. 1128, effective January 18, 1961, has been made between Hart Battery and the Canadian National Railways and Canadian Pacific Railway Co. for the handling of shipments between St. Johns, Quebec, and Toronto. This is an interplant movement; this is also a Plan II operation.

These are the only three Agreed Charges with reference to piggyback operations.

Mr. GORDON: Then there was a request by Mr. Horner for a breakdown of diesel units by horsepower. It is as follows:

BREAKDOWN OF DIESEL UNITS BY HORSEPOWER

Switchers between 250 hp and 1000 hp	480
Road Switchers between 380 hp and 1000 hp	72
Road Switchers 1200 hp	444
Road Switchers 1400 hp	4
Road Freight, Road Switchers & Road Passengers units between 1500 hp and 1800 hp	1133
Road Switcher Passenger 2400 hp	1
Total	2134

Mr. GORDON: Mr. Kennedy asked a question on the Atlantic region. The answer is as follows:

On the Atlantic Region prior to reorganization there were 177 supervisory and managerial personnel above the rank of Train Despatcher and at present there are 180.

Mr. GORDON: Miss LaMarsh asked about the Lehigh Valley Railroad. The answer is as follows:

The Lehigh Valley Railroad has made a tentative approach to our local officers in Toronto concerning some changes they propose in handling their freight traffic through the Niagara Frontier in which the Canadian National would be concerned. This is a tentative proposal and still under discussion.

Mr. GORDON: Mr. Broome, I was hoping to have a personal word with you about this statement in regard to United States lines, but I have not had an opportunity so I will just table it. I have taken the trouble to qualify the statement carefully. I have said here, that the figures given under these headings are based upon an economic appreciation and are, of course, not figures appearing in any of our corporate accounts, nor do they have any meaning in respect of reports required under United States law. I would be glad to have a word with you about that afterwards. The qualification is there for a purpose.

The table is as follows:

CANADIAN NATIONAL RAILWAYS

U.S. LINES

INCOME STATEMENT FOR THE YEARS 1959–1960

Showing Advantage of Ownership to Canadian National Railways

	1959				1960			
	G.T.W.	C.V.	D.W. & P.	Total	G.T.W.	C.V.	D.W. & P.	Total
	$	$	$	$	$	$	$	$
RAILWAY OPERATING REVENUES								
Freight	48,685,000	9,077,000	5,804,000	63,566,000	44,724,000	8,232,000	5,475,000	58,431,000
Passenger	2,625,000	586,000	10,000	3,221,000	2,530,000	603,000	9,000	3,142,000
Mail	1,518,000	417,000	53,000	1,988,000	1,173,000	358,000	21,000	1,552,000
All Other	3,613,000	500,000	16,000	4,129,000	3,583,000	474,000	18,000	4,075,000
	56,441,000	10,580,000	5,883,000	72,904,000	52,010,000	9,667,000	5,523,000	67,200,000
Railway Operating Expenses	51,802,508	8,796,711	4,420,433	65,019,652	48,123,517	8,555,674	4,327,154	61,006,345
Net Revenue from Railway Operations	4,638,492	1,783,289	1,462,567	7,884,348	3,886,483	1,111,326	1,195,846	6,193,655
Taxes and Rents	10,663,141	2,094,375	1,437,901	14,195,417	9,983,312	1,994,387	1,483,672	13,461,371
Net Railway Operating Loss	(6,024,649)	(311,086)	24,666	(6,311,069)	(6,096,829)	(883,061)	(287,826)	(7,267,716)
Other Income	455,773	76,371	(570)	531,574	394,582	16,570	(19)	411,133
	(5,568,876)	(234,715)	24,096	(5,779,495)	(5,702,249)	(866,491)	(287,845)	(6,856,583)
*Adjustment to replace inter-company equipment rentals with appropriate depreciation charges. (This places the U.S. and Canadian records on a like basis)				2,377,776				2,418,192
Net Income or (Loss) before Fixed Charges				(3,401,719)				(4,438,391)
*Estimated Net Revenue from Traffic Vulnerable to Loss (Gross Revenue less Variable Costs)				10,597,000				10,183,000
*Advantage to C.N.R. of Retaining U.S. Lines				7,195,281				5,744,609

* The figures given under these headings are based upon an economic appreciation and are, of course, not figures appearing in any of our corporate accounts, nor do they have any meaning in respect of reports required under United States law. They are our best estimates of the net benefit accruing to Canadian National for the traffic handled. There is, of course, a two-way movement of freight, i.e. Canada to U.S. and U.S. to Canada. The vulnerability to loss is also our best guess and is based on our appraisal of the reaction of shippers and connecting railways who may be left with a choice of routing following a change of interest. This may be largely a psychological factor.

We have shown the total results for all U.S. lines, namely, Grand Trunk Western, Central Vermont and Duluth, Winnipeg, and Pacific because our studies do not show a breakdown of the influence exerted between the three operations through a community of interest.

So far as salvage value is concerned, this would require a physical valuation that would be very costly and time consuming and would in any event be meaningless from the point of view of establishing a disposal value at any point in time. The book figures, less depreciation, are as follows:

Property Investment	$ 186,067,084
Less Depreciation	29,228,040
	$ 156,839,044

Mr. VAUGHAN: We brought the Senate Manpower Committee briefs for each member of the committee, and the Clerk can pass them around. We have also a copy of our general submission to the Royal Commission, and you can have that as well.

The CHAIRMAN: I think that completes all that has to be added to the record.

Mr. GORDON: I would like to clear up one other point and I do hope this will not start us off again. I want to make this statement, that in the discussion on the point of order raised by Mr. Browne in regard to some references which I made when I was making a statement, he objected to the use of certain adjectives—"malicious", "irresponsible", and things of that kind, and I said that I could not find it in my statement. I was looking at the prepared statement at the time. Upon thinking it over afterwards I realized that in my extemporaneous remarks at the time I had used those adjectives. I want to make it clear that the adjectives were put in my mind by reading editorial comments across the country; whether or not it is out of order, I do want to say that I stand by my original statement. I made this statement in order to clear up the denial I may have made the other day.

The CHAIRMAN: Now, gentlemen, may we proceed for a few minutes on the matter of turn-around benefits and pensions? I believe Mr. Fisher has something to say about turn-around benefits.

Mr. MCFARLANE: Mr. Chairman, it alarms me to think that if we are going to try to embark on our other terms of reference between now and the time the Trans Canada Airlines appear before us, we shall never hit the target. This is a very important matter. There are associations of people across the country such as the old Grand Trunk Railway employees, and the Canadian Northern employees who should be heard from. I am not so much concerned about turn-around benefits, because I think they are a matter of negotiation. But we cannot deal with this matter in just a few minutes.

Mr. SMITH (*Simcoe North*): May I say something in support of what Mr. McFarlane has said?

The CHAIRMAN: Yes.

Mr. SMITH (*Simcoe North*): It seems to me that this may be fairly far-reaching; it could be a fairly far-reaching inquiry, and it might be useful for those people who wish to come before the committee subsequently if at this time, we got on the record, or if we had some preliminary indication from the Canadian National as to possibly how they have arrived at their position in relation to this matter, I refer to such things as time loss pensions; because then subsequent witnesses might have a better chance to prepare answers, or to prepare their positions before the committee at a later date.

The CHAIRMAN: I think the minister may have a word to say about it.

Mr. FORBES: On that point I was going to make a partial submission on behalf of the group of railroad employees who lost part of their pensions, or who would have pensions during the thirties, because there is present today a representative of that group from the city of Winnipeg. He has been here for two or three days; and after presenting my submission I was going to suggest that he be called as a witness before the committee. I would not suggest that he proceed tonight, but I would like to have him proceed tomorrow morning. It is now after five o'clock and we have a dinner appointment, so I suggest we adjourn now and come back tomorrow morning and give this thing a fairly good hearing.

The CHAIRMAN: I think the minister has something to say.

Mr. BALCER: All I have to say is that after discussing this matter with Mr. Gordon prior to the committee, he told me that he would get a full statement ready on the position of these two matters, and on what the railway has done in the past, and what the situation is at the present time, and all that. Mr. Gordon has a statement to make. I was thinking that after he had presented his statement, the members of the committee might wish to question him upon it.

Mr. SMITH (*Simcoe North*): Would it be possible to have copies of that statement—having regard to the delay that there is in the transcript? Perhaps we might be supplied with copies of that statement as soon as possible.

Mr. BALCER: Might I just finish what I was saying: you see, this statement may or may not cover the two points brought up in the terms of reference. Of course pensions is a very wide field. I do not know, but I do not believe the idea behind the terms of reference is that all pensions should be discussed. This could be something which would never end. My suggestion is that the questions should be related to this statement of the president.

Mr. SMITH (*Simcoe North*): I agree.

The CHAIRMAN: It is a question which the committee will have to decide, and also in respect of the turn-around benefits in which collective bargaining is involved and other agreements. This is a very complicated affair. I can see that if we went into this fully we could meet and meet until the next session of parliament. I think what Mr. Gordon has in mind, if it is your wish, is that he will give you a statement without reading it here, so that you may study and review it tonight or before our next meeting, whenever that may be.

Mr. SMITH (*Simcoe North*): Would it be agreeable to have this taken as read and included in our minutes of proceedings and evidence.

Mr. FORBES: And meet tomorrow morning at 9:30 here.

The CHAIRMAN: Would you like to take the statement now, read it, and have it printed in tomorrow's proceedings?

Mr. HORNER (*Acadia*): Yes.

Mr. GORDON: Perhaps I should explain that this statement is not in any way a controversial statement. It is simply a statement telling you about the pension rights of existing and retired Canadian National Railways employees. It gives all the factual information about anomalies which may have occurred as a result of break in service. It also includes a factual statement about turn-around benefits. I thought that if I gave you such a statement you would be in a position to determine tomorrow morning whatever procedure you wish to follow. The only hesitation I have is that if I read it out loud I know everybody has heard it, but if not, then I do not know.

Mr. SMITH (*Simcoe North*): We will read it.

The CHAIRMAN: We can deal with it tomorrow morning.

APPENDIX

CANADIAN NATIONAL RAILWAYS

LAW DEPARTMENT

MONTREAL 1, May 12th, 1961.

Mr. Donald Gordon,
President,
Montreal, Que.

In our recent discussions concerning the authority of the C.N.R. to make capital expenditures you asked me to record my views on the legal aspects of the matter.

There are two main aspects of this problem, the first being the extent of the corporate power of the Company to carry out capital projects, acquire equipment, etc., and the second, the budgeting and procurement of moneys to pay for these projects and acquisitions.

On the first aspect, the Company has, generally speaking, the necessary power to discharge its functions in this regard. Under the C.N.R. Act, it can expropriate land (section 17), construct new lines (subject to certain restrictions—section 22), make agreements with other companies for various purposes (section 23), operate as an express company (section 25), buy and lease motor vehicles (section 26), construct or acquire vessels (section 28), acquire docking and warehouse facilities, hotels and other buildings convenient for its purposes (section 29), etc. Under the Railway Act, which is made applicable to the Company by section 16 of the C.N.R. Act, it has power to construct structures, acquire rolling stock, alter and repair its plant, and, generally, do all acts necessary for the construction and maintenance of the railway (Railway Act, section 164) and it also has all the powers which are incident to the Company and are necessary to carry into effect the objects of both the Railway Act and the C.N.R. Act (Railway Act, section 73).

On the second aspect, namely, actual budgeting and the procurement of funds to pay for capital projects, one must look first at various provisions of the C.N.R. Act. By virtue of Section 6 of the Act, the direction and control of the Company and its undertaking are vested in the Board of Directors. Section 37 provides that the C.N.R. annual budget shall be under the control of the Board of Directors and shall be submitted by the Board to the Minister of Transport; and that the Minister of Transport shall annually lay before Parliament the budget of National Railways approved by the Governor in Council on the recommendation of the Minister of Transport and the Minister of Finance.

At the moment, and for some time since the beginning of the year, we have fully complied with these requirements. The directors have exercised their responsibility and authority by submitting the 1961 Budget to the Minister of Transport. The latter, acting jointly with the Minister of Finance, has sponsored the budget before the Cabinet. The Government has committed itself in the form of an Order in Council. Our budget is before Parliament and, strictly speaking, nothing more is required by the statute. In the normal course of events, the budget will be considered by the Select Committee of the House at the same time as our annual report and the annual report of the auditors; all three items will be reported upon by the Committee and legislation will be introduced in the form of a Financing and Guarantee bill. I am of the opinion that there is sufficient authority in the meantime to carry out the projects

called for in the budget, the reasons being that (a) there is no statutory requirement for the approval of the budget by Parliament; all the statute calls for is approval by the Governor in Council and the laying of the budget before Parliament; (b) the Management could not operate and discharge its functions properly if it had to await the passage of the Financing and Guarantee Act before expending moneys on capital projects that have been approved; and (c) the action taken by Parliament through the enactment of the Financing and Guarantee legislation, in so far as it covers authority for capital expenditures (as distinct from authority for financing by borrowings) is in the nature of ratification, rather than approval.

In expressing this view, I am not unmindful of the general importance of the annual Financing and Guarantee Act and of the absolute necessity for legislation of this kind to enable us to obtain loans for financing purposes. I should stress, too, that if this particular legislation was considered alone, without a proper understanding of the significance of the various statutory provisions which I have mentioned, the impression might well be gained that our authority to make capital expenditures during the first half of the year is restricted by certain limits set out in the Financing and Guarantee Act of the previous year. As you know, the 1960 Financing and Guarantee Act authorized us, by section 3(1)(b), to make capital expenditures in the first six months of 1961 to discharge obligations incurred prior to that year—or what I might term *continuing contracts*—and, by section 3(1)(c), to enter into *new contracts* in the first six months of 1961 for the acquisition of equipment and for general additions and conversions that would come in the course of payment after the end of 1960. It is inconceivable, and inconsistent with the legal framework in which the C.N.R. operates, that Parliament could have intended, by this language, to authorize us during this period to make capital expenditures only in respect of work covered by contracts, and thus restrain us from carrying out the work with our own forces.

My conclusion is that we are justified in relying on the approval of our 1961 Budget by the Governor in Council as our authority to carry out the capital projects contemplated in that budget.

(Sgd) A. D. McDONALD
General Solicitor.

HOUSE OF COMMONS
Fourth Session—Twenty-fourth Parliament
1960-61

SESSIONAL COMMITTEE

ON

RAILWAYS, AIR LINES AND SHIPPING

Owned and Controlled by the Government

Chairman: HONOURABLE W. EARL ROWE

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 6

THURSDAY, JUNE 22, 1961

Pension rights of existing or retired Canadian National Railways employees and turn-around benefits for employees of the Canadian National Railways.

WITNESSES:

The Honourable Leon Balcer, Minister of Transport.

From the Canadian National Railways: Mr. Donald Gordon, Chairman and President; Mr. R. T. Vaughan, Assistant to the Chairman; and Mr. R. H. Tarr, Vice-President and Secretary.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1961

25503-4—1

SESSIONAL COMMITTEE

ON

RAILWAYS, AIR LINES AND SHIPPING

owned and controlled by the Government

Chairman: Hon. W. Earl Rowe

Vice-Chairman: Mr. Heber Smith

and Messrs.

Brassard (*Lapointe*)
Broome
Browne (*Vancouver-Kingsway*)
Campeau
Carter
Creaghan
Fisher
Forbes
Granger
Grills
Horner (*Acadia*)
Howe
Kennedy
Miss LaMarsh
Martini
McFarlane
McPhillips
McWilliam
Mitchell
Monteith (*Verdun*)
Pascoe
Pickersgill
Robinson
Smallwood

R. L. Boivin,
Clerk of the Committee.

ORDER OF REFERENCE

HOUSE OF COMMONS

MONDAY, May 15, 1961.

Resolved,—That a Sessional Committee on Railways, Air Lines and Shipping owned and controlled by the Government be appointed to consider the accounts, estimates and bills relating to the Canadian National Railways and Trans-Canada Air Lines, saving always the power of the Committee of Supply in relation to the voting of public monies, and *to consider the pension rights of existing or retired Canadian National Railways employees with respect to anomalies which may have resulted from breaks in the continuity of service,* and also *to consider the arrangements for turn-around benefits for employees of the Canadian National Railways,* and the said Committee should be empowered to send for persons, papers and records and to report from time to time, and that notwithstanding Standing Order 67, the said Committee shall consist of twenty-six members.

Attest.

LÉON-J. RAYMOND,
Clerk of the House.

25503-4—1½

MINUTES OF PROCEEDINGS

THURSDAY, June 22, 1961.
(13)

The Sessional Committee on Railways, Air Lines and Shipping met at 9.40 o'clock a.m. this day. The Vice-Chairman, Mr. H. Smith (*Simcoe North*), presided.

Members present: Miss LaMarsh, and Messrs. Broome, Browne (*Vancouver-Kingsway*), Carter, Creaghan, Fisher, Forbes, Grills, Howe, Horner (*Acadia*), Kennedy, McFarlane, McPhillips, Martini, Pascoe, Pickersgill—17.

In attendance: The Honourable Leon Balcer, Minister of Transport. *From the Canadian National Railways:* Mr. Donald Gordon, Chairman and President; Mr. R. T. Vaughan, Assistant to the Chairman; Mr. R. H. Tarr, Vice-President and Secretary.

The Vice-Chairman indicated that, while the Committee was considering pension rights and turn over benefits, he would rule out of order the submission of individual cases.

At the Vice-Chairman's request, Mr. D. Gordon read to the Committee a Memorandum on Pension Rights and Turn Around Benefits and was questioned thereon.

Mr. Forbes then read into the record submission from two employee groups and commented on them.

Mr. Gordon was further examined on Pension Rights.

At 11.00 o'clock a.m. the Committee adjourned until 2.30 o'clock p.m. this day.

AFTERNOON SITTING
(14)

The Committee reconvened at 2.35 o'clock p.m. The Vice-Chairman, Mr. H. Smith (*Simcoe North*), presided.

Members present: Miss LaMarsh, and Messrs. Broome, Browne (*Vancouver-Kingsway*), Carter, Creaghan, Fisher, Forbes, Granger, Grills, Howe, Horner (*Acadia*), Kennedy, McFarlane, McPhillips, Martini, Mitchell, Pascoe—18.

In attendance: The Honourable Leon Balcer, Minister of Transport. *From the Canadian National Railways:* Mr. Donald Gordon, Chairman and President; Mr. R. T. Vaughan, Assistant to the Chairman; Mr. R. H. Tarr, Vice-President and Secretary.

The Committee resumed its examination of the witnesses on the submission of the Canadian National Railways on pensions.

The Committee agreed to reprint as Appendices to today's Minutes of Proceedings and Evidence a telegram addressed to the Chairman by Mr. Francis W. Winspear (*See Appendix "A"*) and a Memorandum sent to the Chairman on June 16 by Mr. W. A. McLennan, M.P. (*See Appendix "B"*), as well as a letter forwarded on May 15, 1961, to the Right Honourable John G. Diefenbaker by the Retired Employees Association. (*See Appendix "C"*).

On Mr. Creaghan's suggestion, the Committee adjourned at 3.55 o'clock p.m. to the call of the Chair.

SECOND AFTERNOON MEETING
(15)

At 4.00 o'clock p.m. the Committee reconvened and proceeded *in camera*. The Vice-Chairman, Mr. H. Smith (*Simcoe North*), presided.

Members present: Messrs. Browne (*Vancouver-Kingsway*), Carter, Creaghan, Fisher, Forbes, Grills, Howe, Horner (*Acadia*), Kennedy, McFarlane, McPhillips, Martini, Mitchell, Pascoe—15.

The Committee agreed not to hear any further witnesses on pension rights and not to hear any witnesses on turn around benefits.

At 4.20 o'clock p.m. the Committee adjourned until 9.30 o'clock a.m. Tuesday, June 27th, 1961.

R. L. Boivin,
Clerk of the Committee.

EVIDENCE

THURSDAY, June 22, 1961.

The VICE-CHAIRMAN (*Mr. Smith, Simcoe North*): I see a quorum now. Before we start, I should like to say that Mr. Rowe was urgently and unavoidably called out of the city last night after the committee had adjourned and that is the reason I am acting as chairman this morning.

This is the matter we have to deal with today. I would like to read from part of the reference:

(*a*) The pension rights of existing or retired Canadian National Railways employees with respect to anomalies which may have resulted from breaks in the continuity of service.
and

(*b*) The arrangements for turn-around benefits for employees of the Canadian National Railways.

Last night, at the adjournment, Mr. Gordon had filed a memorandum setting forth the railway position. I understand that we all promised faithfully we would read it, and I am quite sure we all did not read it. Therefore, it might put the matters into focus if we had him read his memorandum this morning.

Mr. MCFARLANE: Before Mr. Gordon starts, I should like to make a suggestion that individual cases regarding pensions should not be discussed. I believe we should discuss the over-all picture, but not individual cases. This meeting could go on indefinitely if we got into individual cases of various employees. I believe we have one brief in which possibly some sections should be discussed, but in the case of other sections I believe we should not discuss them at this meeting, except on general grounds.

The VICE-CHAIRMAN: I think that is a sound suggestion.

Mr. DONALD GORDON (*President, Canadian National Railways*): This memorandum is in respect to pensions. During 1960 the average number of employees engaged in the Canadian operations of Canadian National Railways was 96,227. As at December 31, 1960, 79,826 individuals were contributing under a pension plan. The remainder had not taken advantage of the contributory pension plan but on fulfilment of certain service requirements these employees become entitled to a basic or minimum pension at the sole expense of the company.

As at December 31, 1960, there were 23,036 individuals in receipt of pensions and 4,531 in receipt of survivor benefits.

The administration of the Canadian National Railways pension plan and the making of regulations concerning it comes within the jurisdiction of the pension board which consists of four officers of the company appointed by the board of directors and three members elected among and by officers of the General Chairman's Association (which is an association of the General Chairmen of the various Brotherhoods which represent Canadian National employees). The members of the Pension Board are:

R. H. Tarr, Vice-President and Secretary (Chairman)

W. T. Wilson, Vice-President, Personnel and Labour Relations

J. L. Toole, Vice-President, Accounting and Finance

L. Côté, Assistant General Solicitor

D. O. Spicer, General Chairman, Brotherhood of Maintenance of Way Employees

J. R. Blais, General Chairman, Order of Railroad Telegraphers

C. Berckerton, General Chairman, Canadian Brotherhood of Railway Transport and General Workers

History of Canadian National Railways Pension Arrangements

It might be useful to indicate the developments which have taken place over the years in the Railways' general pension arrangements:

(*a*) Prior to January 1, 1935, the C.N.R. had an entirely non-contributory pension plan which provided—subject to certain age and service qualifications—for pensions of 1 per cent per year of service of an employee's highest average salary for any ten consecutive years, with a minimum of $25 per month. On January 1, 1935, a revised plan was introduced under which

(i) The right to non-contributory pensions which employees then in service had accrued was preserved, i.e., on normal retirement they would become entitled at the sole expense of the company to the greater of a service pension equal to 1 per cent of their highest ten years' average salary up to December 31, 1934, multiplied by their years of service to that date, or a minimum basic pension of $25 per month.

(ii) Employees entering service on or after January 1, 1935, at not over age forty-five and remaining to normal retirement age, became entitled at the sole expense of the company to a basic pension of $25 per month.

(iii) In addition, all employees with ten years' service were provided with the opportunity of supplementing their service or basic pensions by contributing up to 10 per cent of salary, contributions up to 5 per cent of salary being matched by the company. (Commencing in 1947, employees were permitted to contribute during their first ten years' service without matching by the company.) On retirement, the total employee and company contributions, plus interest, became payable in the form of an annuity.

(*b*) Effective January 1, 1952, a major revision of the pension plan was made by adding to the foregoing arrangements—which became known as Part I—an alternative arrangement—known as Part II —the main features of which were:

(i) An employee willing to contribute 5 per cent of his salary to the pension fund could obtain—subject to certain age and service requirements—a pension at retirement based on a percentage of his average salary for the last five or ten years of service, whichever was greater. The percentage was the aggregate of 1 per cent for each year of service up to twenty, 1¼ per cent for each of the next ten years' service, and 1½ per cent for each additional year of service.

(ii) Subject to certain age and service qualifications, provision was made for the payment of pensions on early retirement both voluntary and on account of disability, and for benefits for surviving dependents on death of an employee, either before or after retirement.

(iii) All employees in service on January 1, 1952, were given the opportunity of transferring to Part II even if they had not contributed under Part I, the contribution liability for obtaining a full pension being 5 per cent of salary from the date of entering service, or January 1, 1935, whichever was later. (If the full contribution obligation was not met, the pension was reduced proportionately to the deficiency.) Other employees could transfer to Part II at any time within ten years of entering service.

Although a main purpose of the introduction of Part II was to give further incentive to employees to contribute toward securing better pensions, over 50 per cent of them did not elect to do so and therefore remained in the position where they would become entitled on retirement only to the small non-contributory pensions provided for under Part I.

(c) Effective January 1, 1959, a revision of Part II of the pension plan —now known as the 1959 Plan—was brought into force after careful review by the pension board (which, as already mentioned, includes three representatives of C.N.R. labour organizations).

(i) Members on December 31, 1958, of the former Part II plan automatically became members of the 1959 plan.

(ii) Membership in the 1959 plan was made compulsory for all employees entering service on and after January 1, 1959.

(iii) All employees in service on December 31, 1959, who were not members of the former Part II plan were given the opportunity, exercisable by December 31, 1959, to transfer to the 1959 plan.

At the same time a number of other improvements were incorporated in the 1959 plan, including a change in the basis of calculating service for pension purposes which is dealt with in detail below. Following an intensive campaign carried on jointly by labour and management representatives, about 32,000 employees who had not previously been contributing to the Part II plan elected to become members of the 1959 plan. As a result more than 80 per cent of employees are now making pension contributions and, since membership in the 1959 plan is compulsory for new employees, the old Part I—now known as the 1935 plan—will eventually disappear and the 1959 plan will become the company's only pension plan.

History and Significance of Changes in Basis of Calculating service:

(1) Up to July 1, 1942, service for pension purposes was computed on the basis of days actually worked, except that the period of vacation leaves and leaves of absence for sickness and due to injury on duty were also counted. On that date, this was modified to allow thereafter a full month's service for any month during which an employee performed any work and, in addition, the allowance of time lost due to injury was continued.

(2) The Part II rules that came into effect on January 1, 1952, provided for the calculation of service up to July 1, 1942, of employees retiring thereunder on the same basis as in Part I. After that date a full month was allowed for each month during which a Part II employee performed any service—even if only for one day—in respect of which salary was paid. Time lost for injury or other reasons was not counted except in respect of calendar months in which an employee performed some service.

(3) The 1959 plan rules that came into force on January 1, 1959, provided that with respect to members of that plan retiring thereafter, service prior to July 1, 1942, would be calculated on the same basis as service subsequent to that date. In other words, a full month's service for pension purposes is now allowed for any month throughout an employee's service in which he performed any work. (In addition, provision was made to enable an employee suffering injury on duty, for which he receives Workmen's Compensation, to obtain credit for time lost as a result thereof). This change has reduced the impact of layoffs prior to July 1, 1942, on the pensions of a considerable number of employees. Records kept for the months of May to November, 1959, showed that out of 818 employees granted pensions under the 1959 plan in those months, 534 had their allowable service increased by periods ranging up to as much as five years.

(4) Under the pension arrangements in force on July 1, 1942—and still existing under Part I of the pension plan—(now known as the 1935 plan) the length of service allowed after January 1, 1935, became of limited significance for a person in the Railway's employ prior to that date, inasmuch as the amount of his free service pension was then crystalized and any addition to that pension became dependent on the amount of his contributions toward a supplementary annuity. For employees entering the service after January 1, 1935, and remaining under Part I (1935 plan), the significance of length of allowable service is largely confined to whether they have or will accumulate the required twenty years' service necessary to qualify for the free basic pension.

(5) It was the adoption of Part II and subsequently of the 1959 plan that gave significance to the length of service allowed to employees who elected to contribute thereunder because each year's addition they might be able to obtain to their allowable service means an increase in pension of from 1 per cent to 1½ per cent of their terminal salary.

(6) It should be borne in mind that the introduction of Part II in 1952 and of the 1959 Plan provided an opportunity—at a substantially increased cost to the Railway—to employees in service to improve greatly the pensions they would receive at retirement.

Inclusion of Full Periods of Layoffs as Allowable Service:

From time to time suggestions have been made that the *full period* of all layoffs should be allowed for pension purposes.

It is a basic feature of a contributory pension plan that an employee contributes toward his pension by deduction from salary paid to him. In consideration thereof the employer assumes—in effect, as an addition to the employee's salary—the cost of the pension liability accruing to the employee over and above that met by his own contributions. (In the case of the C.N.R. Pension Plan, this cost substantially exceeds the amounts contributed by employees.) The crediting of service for pension purposes, therefore, necessarily is related to periods of work performed for which salary is paid. The allowance of a full month's credit for pension purposes for any month in which an employee draws any wages is a generous application of this principle.

Emphasis has been placed on layoffs which occurred during the 1930's, but actually there is no difference between those layoffs and layoffs at other times and in other circumstances. Service credit for pension purposes could

scarcely be allowed for any specific layoff without allowing it for all layoffs, both past and future. To do so would mean the acceptance of an obligation to compensate employees for periods in which no work was performed and would constitute a major departure from the principle of contributory pension plans.

General:

The C.N.R. is engaged in a highly competitive commercial business. With respect generally to the pension arrangements for its employees, the Company's view is that

(*a*) As a good employer and in order to attract and hold its share of capable employees it should, so far as practical, provide pension benefits at least comparable to those made available by its competitors and other employers with similar employee requirements.

(*b*) On the other hand, it should not—particularly as a public-owned enterprise—incur the expense involved in providing pension benefits at a level markedly above those of its competitors.

The present C.N.R. pension arrangements, as a whole, compare favourably with those of the C.P.R. and other comparable Canadian employers. So far as concerns the basis of determining allowable service for pension purposes, the C.N.R. and C.P.R. Plans are identical. The same basis is applicable to all railroad employees in the United States under the U.S. Railroad Retirement Act.

That finishes the portion of the memorandum on pensions. I go now to turn-around benefits.

Turn-Around Benefits:

It is assumed that this reference is concerned with the submission which has been made to the Government by the National Legislative Committee International Railway Brotherhoods to the effect that:

> "the Government provide for the health and comfort of railway employees by requiring that toilet facilities be provided and maintained in a sanitary condition for towermen, crossing watchmen, enginemen on all types of Diesel locomotives, all yard service employees, trainmen when occupying cabooses, and in all boarding cars, railway shops and rest-houses at terminals. Further, that drinking water facilities, sleeping accommodation and eating facilities be provided and maintained in a sanitary condition."

(cf, Submission to the Government of Canada by The National Legislative Committee International Railway Brotherhoods, Ottawa, February 3, 1961, page 22.)

You will note that the submission from which that quotation is taken is dated February 3, 1961.

Canadian National Railways has no collective agreements with the National Legislative Committee but does with its members organizations, viz.—

Brotherhood of Locomotive Engineers.
Brotherhood of Locomotive Firemen and Enginemen.
Brotherhood of Railroad Trainmen.
Order of Railroad Telegraphers.
Brotherhood of Maintenance of Way Employees.
Division No. 4, Railway Employees Department—A.F.L. (Shop Crafts).
Brotherhood of Railroad Signalmen.

Of the foregoing organizations, the agreement with the brotherhood of locomotive engineers expired April 30, 1961, and the contract was opened for re-negotiation March 1; the agreement with the brotherhood of locomotive firemen and enginemen expired March 31 and was opened for re-negotiation February 1; the agreement with the brotherhood of railroad trainmen expired May 31 and the contract was opened April 1. The remaining organizations listed form part of the fifteen union non-operating group. The following are some extracts selected from collective agreements with the aforementioned organizations:

Brotherhood of Railroad Signalmen,
System Agreement
Article 12
Sleeping Quarters

Road gangs shall be furnished with suitable cars equipped with clean mattresses and having end doors. Not more than one man for every one hundred and fifty (150) cubic feet shall be required to sleep in such cars.

Brotherhood of Railroad Trainmen
Central & Atlantic Regions
Article 38
Condition & Equipment of Cabooses

Cabooses will be equipped with spring beds and spring mattresses, cushions, screens, blinds, storm doors and storm windows, where climatic conditions justify, and refrigerators. Ice for cabooses will be made available during summer months, also supply of fuel during winter months, hard coal, if used in the terminal for company's purposes. It is understood that spring beds will not be supplied to cabooses such as those in transfer service where sleeping accommodation is not required.

Brotherhood of Locomotive Engineers
Central & Atlantic Regions
Article 32
A.—Sleeping Quarters. (Other than Work Trains)

Comfortable and sanitary sleeping quarters will be provided where reasonably required for use of enginemen only. There will be spring beds, mattresses, blankets, sheets, towels, pillows and pillow cases free of charge. Sleeping quarters to be equipped with screen doors and windows, same to be kept in good condition; sleeping quarters to be for use of enginemen only. All sleeping quarters will be equipped with a cook stove and cooking utensils. Lavatories will be supplied where sewer connection is available. Such sleeping quarters will be kept in good condition.

B.—Sleeping Quarters. (Work Trains)

Suitable sanitary sleeping accommodation, including beds, clean blankets, sheets, mattresses, pillows, tables, chairs, wash basins and cook stoves will be provided for the exclusive use of enginemen in work train service, otherwise enginemen will be run to terminals where suitable sleeping accommodation is provided. When bunk cars are used they shall be stencilled "Enginemen's Bunk Cars" and to be solely for the use of enginemen. Cars to be equipped with screen doors and windows.

Brotherhood of Locomotive Firemen & Enginemen
Central & Atlantic Regions
Article 32
Sleeping Quarters

The company will supply comfortable and sanitary sleeping quarters where reasonably required, for use of enginemen only. There will be spring beds, mattresses, blankets, sheets, towels, pillows and pillow cases free of charge. Sleeping quarters to be equipped with screen doors and windows, same to be kept in good condition; sleeping quarters to be for use of enginemen only. All sleeping quarters will be equipped with a cook stove and cooking utensils. Lavatories will be supplied where sewer connection is available. Such sleeping quarters will be kept in good condition.

Brotherhood of Maintenance of Way Employees
Section 8
2. Sleeping Cars for Road Gangs

Bridge and building road gang cars, welding gang and extra gang foreman's cars or other cars generally used throughout the year, will be equipped with clean mattresses, and with end doors if required, and as conditions permit such cars as are not fitted with sleeping car type berths will be equipped with steel bunks with springs, and the number of bunks per car will be so regulated that there will be not less than 200 cubic feet of space per man sleeping in the car.

Division No. 4—Railway Employee's Department
A.F. of L.—C.I.O.
Rule 57
Conditions of Shops, etc.

Good drinking water and ice where required will be furnished. Sanitary drinking fountains will be provided where necessary. Pits and floors, lockers, toilet and wash rooms will be kept in good repair and in a clean, dry and sanitary condition.

As these extracts from the collective agreements indicate, certain aspects of the turn-around benefits form part of the contracts with the unions. Apart altogether from this, I can state quite definitely that it is the policy and the objective of the Canadian National to provide healthy, sanitary, comfortable working conditions for its employees.

The Canadian National has a large, well-equipped and efficient medical department and its sanitation officers in the field maintain a close supervision over bunkhouses, terminals, stations and other facilities, both individually and in association with the federal department of national health and welfare inspectors. In addition, the railway complies with provincial and municipal by-laws dealing with sanitation conditions.

A brief resume of the work in the sanitation field by the Railway might be useful background for the committee. The department of sanitation, a branch of the medical service, was established in 1931 and the work of this department since its inception has, year by year, become more and more important. It consists of a general supervisor of sanitation, a laboratory chemist at system headquarters and five sanitary officers, one functioning on each region. The scope of the work of the department may be divided into four fields: applied sanitary science; investigations of food products; industrial and chemical analyses and research and miscellaneous investigations. The sanitation

officers are all well-trained and are holders of certificates in sanitary inspection of the Canadian public health association. In 1960, these inspectors made nearly 4,000 inspections of stations, shops, freight sheds, yard offices, coach yard buildings, diesel shops, car repair points, bunkhouses, etc. There were some 200 general inspections made of road construction camps, telegraph, bridge and building and extra gang camps. A progressive improvement has been noted each year with respect to the renovation of boarding cars to conform to the recommendations of the federal department of national health, public health engineering division. The railway company itself has made wide distribution of sanitary regulations for mobile camps and this has created a sanitary consciousness with supervisors and employees alike and has resulted in better sanitation conditions in and around the work camps.

Sanitary officers schedule their work program in order to enable them to inspect most facilities—stations, bunkhouses, shops camps and so on—three to four times a year. Recommendations to correct unsatisfactory conditions which may be found during these inspections are immediately referred to the department concerned for the corrective action to be taken.

There are some specific matters which I think should be mentioned:

Diesels—All diesel units are being equipped with drinking water coolers made of stainless steel and with separate ice and water compartments. Reports received indicate that these coolers are operating satisfactorily and are being well received by the crews. Toilet facilities were installed on some diesel units when first manufactured but these have now been removed because of unsatisfactory results. From the experience gained on the first applications, the manufacturer has completely re-designed the toilet unit and we expect to have a much improved unit available in the near future for further tests. As far as I am aware the Canadian National is the only major Canadian railroad which is trying to develop a clean, sanitary and reliable toilet for diesel electric units.

Cabooses—Tests are similarly being carried out for a toilet facility on cabooses. Five cabooses are now being so equipped and will be in service the latter part of the year. Further installations will depend on experience.

Boarding Cars—Passenger equipment has been converted for the use of maintenance gangs. Shower cars and recreation cars are also being provided. As an indication of the progress that has been made, nearly 600 kerosene-type refrigerators have been installed in the cooking cars attached to the work gangs during the past three years. These replaced the old wooden ice refrigerators. Further improvements are going on steadily and, as an example, our 1961 Budget contains an item in excess of $1 million for conversion of equipment for the use of work gangs.

Bunkhouses—Every new rest house being constructed in the well settled areas of the country has running water available and is being equipped with modern washing and toilet facilities. All existing rest houses within the settled areas have been equipped with similar facilities. The only exception is in the northerly isolated areas where it is impossible to provide running water and install proper facilities because of the difficulties encountered. An example of the new and pleasant type of facility which is being provided for the men may be seen at the Hump yard at Moncton where railway constructed a modern facility at cost of $250,000 to be operated by the Y.M.C.A.

In this whole matter of sanitation there is a dual responsibility—resting on those who provide the facilities and on those who use them, to ensure that they are properly maintained and kept in a sanitary condition. I am not suggesting for a moment that there are not conditions in existence which need correction, nor that all our facilities are modern, but I do submit that under the procedures I have outlined and through the exercise of constant

vigilance, our standards have continuously improved. Moreover, the development of better techniques in the field of sanitation has been followed up by the company so that our standards bear favourable comparison with any other railway on this continent.

Mr. FORBES: Apparently there have been a lot of improvements made in the sanitation department, the sleeping conditions and so on, for the employees of the C.N.R. However, recently I received what might be regarded as 39 form letters, outlining some of the recommendations of the employees of the C.N.R. at this time. I would like to put this on the record.

The VICE-CHAIRMAN: Mr. Forbes, do those recommendations relate to the pensions or to turn-around benefits?

Mr. FORBES: To pensions.

The VICE-CHAIRMAN: I was wondering if we would want to discuss the two items separately, although Mr. Gordon has read them together. What is the committee's wish in this regard?

Mr. FORBES: I think we should deal with pensions first.

Mr. BROOME: No, turn-around benefits.

Mr. BROWNE (*Vancouver-Kingsway*): In running through this report which Mr. Gordon has made, it seems to me it is quite clear that we are close to and are involved in matters that are also involved in collective bargaining. I think that before we get too far into the question of either pensions or turn-around benefits, we should be clear in our own minds exactly what is involved here. I am sure that most of the members of the committee would not want to become involved in making comments on matters that should be for collective bargaining. I notice that there have been some complaints made here already in connection with this *Brotherhood of Maintenance of Way Journal*. I notice that the vice-president, Mr. C. Smith, says:

> I have always jealously upheld the prestige of the general chairman's association as the proper body to represent railway employees in such matters as pass regulations, pensions, et cetera.

Then he went on to complain about the whole idea of government becoming involved in this. Of course, Mr. Gordon has referred to the general chairman's committee in his report. I would like to be clear, before we get into it, as to how far we are going to go, and to ascertain whether we are going to entertain any matters that are purely for collective bargaining.

Mr. FORBES: I think it is important that we place on the record the suggestions made by the employees of the C.N.R., and I do not think that would overlap in any way Mr. Browne's suggestion.

The VICE-CHAIRMAN: I think if representations have been made in writing by petition, they should—

Mr. BROWNE (*Vancouver-Kingsway*): I have no objection. I was just raising the point that we should give consideration to this.

Mr. FORBES: May I proceed.

The VICE-CHAIRMAN: I had not expected to be up here this morning, and there is one matter I would like to take up. I thought I would be sitting down there and asking some questions. I had hoped I would be.

One matter I would like to question Mr. Gordon on, if the committee would give me their indulgence to that extent, is composition. On the composition of the pension committee of the C.N.R., Mr. Gordon, I see three men, Mr. Spicer, Mr. Blais, and Mr. Beckerton. Are they elected officials of their union?

Mr. GORDON: Yes. As I said, above, it consists of four officers of the company appointed by the board of directors and three members elected among and by officers of the general chairman's association.

The VICE-CHAIRMAN: "Of the general chairman's"—I am very ignorant in union matters, and in the matter of elections and so on. Are the general chairmen, in turn, elected democratically by the personnel of their unions?

Mr. GORDON: Oh, yes.

The VICE-CHAIRMAN: So these are elected from the general chairmen's committee which is, in turn, elected by the general membership of the union?

Mr. GORDON: Yes.

The VICE-CHAIRMAN: Is that an accurate conclusion?

Mr. GORDON: Yes.

Mr. FORBES: This submission is made on behalf of the members of the railway operating and non-operating unions and brotherhoods of the C.N.R. They respectively submit the following items for the consideration of the committee to be appointed for the consideration of the revision of the Canadian National Railways pension plan:

No. 1: That all time spent being available for service be made computable for pension purposes, retroactive to entry into service.

No. 2: Revision of the pension plan resulting in a computation of 1½ per cent per year of service.

No. 3: Amendment to the effect that employees' time on compensation during tenure of service be made computable. This to be retroactive.

No. 4: That an additional rule relative to vested rights and portable pensions be included in the plan.

No. 5: That consideration be given to an amendment to the plan providing for retirement at age 60, retaining the benefits presently accruing at age 65.

May I say a word on behalf of that group that were on call for service in connection with the C.N.R. during the 1930's. I do not think it is a very large group by this time, as most of those men will be about due for retirement. You can well imagine anyone receiving only $25 or $30 a month pension would have difficulty in meeting cost of living expenses. The pension fund at the present time seems to be in a very healthy condition and I can see no reason why you could not extend it in order to assist those employees who were on call and yet, through no fault of their own, were not called out to give service during the 1930's.

I have another short submission by Mr. Folliott, who says:

> Mr. Chairman: At this time I would like to take the opportunity to congratulate Mr. Gordon and the pension board for benefits that we got in the 1959 pension plan, especially the revision which makes it compulsory, as a new employee from 1960. Our problems are the service that we lost in the 30's for pension purposes. These problems have been on fire for a great many years and been bounced around like a rubber ball. In our 1959 plan, if we worked one day in any month from the time we hired on, which was very good, but an employee that was fortunate enough to get on snow gangs or ice gangs and close to the crew clerk would pick up a great deal of time, which some of them picked up all their service for pension purposes. But those who got jobs elsewhere could not do this and we were on call at all times, but those who had leave of absence we could not expect to get their service, and what we called the wheat rush in those days in the fall of the year we got in touch with the crew clerk or he got in touch with us, and if we did not show for work this meant that we were refusing duty, as our schedule reads a spare man is on call at any time.

We are asking 1½ per cent across the board as there are 81 per cent in the pension plans and, by the financial report, there is a large sum of money in the reserve fund which is $703,839,982.00. We feel we should get a larger percentage.

The rest of the items I have included already.

The VICE-CHAIRMAN: Who is Mr. Folliott?

Mr. FORBES: He is present here today.

The VICE-CHAIRMAN: What is his position? That was my question.

Mr. FORBES: What is your position?

Mr. A. FOLLIOTT (*Legislative Representative of Beaverlodge 61*): I am legislative representative of Beaverlodge 61.

The VICE-CHAIRMAN: Is that a local?

Mr. FOLLIOTT: Yes.

Mr. FORBES: Mr. Chairman, apart from my reference to individual cases, upon which you have ruled already, I think that is all I have to say at this time, but I do hope the committee will give every consideration to this group of employees respecting their 1930 claim.

Miss LAMARSH: May I inquire of the president whether the cases I raised the other day regarding employees who have been in the N.S. and T. are on exactly the same footing as other employees in the railway? There is no special provision regarding their pensions just because they were in bus service?

Mr. GORDON: They were members of the CNR pension plan on the same basis as other employees.

Miss LAMARSH: But regarding their termination of service this cannot apply to other members of the C.N.R. in the same way, because at least in the foreseeable future the C.N.R. is not going to abandon all its lines everywhere and go out of business. The people whose case I was trying to put forward the other day are employees who are incapable of being employed further by the C.N. because it does not have any service of this kind and, according to the memorandum which Mr. Wilson so kindly provided me with, the most they can obtain back is their own contributions plus interest. Some of them are not even in that position and the amount which had been contributed by the C.N.R., though actually you said it was a bookkeeping entry, goes back into the general revenue fund and is of no benefit whatsoever to them. I wonder if the C.N. considers these are special cases. They exist in only three communities, and the pension scheme does not include this type of termination, nor does it contemplate it. I think its phraseology is "terminated for any reason other than retirement", but termination is not considered to include a lay-off.

I wonder if the railway had considered by virtue of the relatively small number involved—I think there is a maximum of 150 who cannot be reemployed and who are left in a very difficult position apropos their pensions—it should make arrangements to return to them, or transfer to their new employees, not just their own contributions but in addition the employer's contributions.

Mr. GORDON: As I say, we are in the position that we cannot deal with special cases in respect of the pension fund. Every case which we accord special treatment becomes a precedent for other exceptions, but in the particular cases you mention there is a meeting being arranged between the town officials, the railway officials and the employees' representatives, to see whether or not the town can see if some recognition might be made for these men who are transferring into its service. I should not like to say anything more than that because I think I would be pre-judging the discussion, and it might be harmful to the negotiations that may take place.

In a general way, I reiterate that we cannot select any particular group and say the special circumstances surrounding them would enable us to make an exception to the rules of the pension fund, because the fund has to be administered on a national basis. If the discussion I mention points to any attitude on the part of the town in which we might find some means of co-operating with them, we shall certainly do our utmost, but I do not like making even that much mention of the matter because it may interfere with the discussion that takes place next Monday.

Miss LAMARSH: I certainly would not want anything to be harmful to their interests.

Mr. GORDON: I am not suggesting it would be harmful. I am just saying I do not know what the discussion will be, and I do not want to say anything here which might have an influence on the situation.

Miss LAMARSH: I think you told me the other day the street railway and bus services operated by the C.N. in Oshawa, Niagara and St. Catharines were the only three instances of the type, and this now means all the services will be given up by C.N.

Mr. GORDON: Yes.

Miss LAMARSH: Which puts these people into a very special category.

Mr. GORDON: The rules applicable to the Canadian National pension plan must be administered, regardless of what particular section of employment it may be.

Miss LAMARSH: I understand this, but surely you will agree with me that when the pension scheme was set up it was not contemplated there would be an involuntary termination so far as the employees were concerned?

Mr. GORDON: No. I could not agree with that. On the contrary, the tremendous change by reason of technology which has taken place on the railway has removed whole areas of employees. Take, for instance, the trades involved on a steam locomotive; the trade of boiler maker is a good example—it is a thing of the past; also the man who was employed to deal with ash pits in and around the steam locomotive, and also the man on the turntables. They have all gone.

Miss LAMARSH: The people or the trades?

Mr. GORDON: The trades have gone as well as most of the people associated with them. We re-trained all we could, but nevertheless, there were groups of men whom we could not re-employ.

Miss LAMARSH: In a general way, what was their position in respect of pension?

Mr. GORDON: It was in accordance with the rules of the pension fund. They had the rights as spelled out in the formula provided therein.

Miss LAMARSH: In the pension provisions I think it is spelled out that a lay-off is not considered as a termination of service.

Mr. GORDON: No; because, by definition, a lay-off is intended to be temporary. The word "lay-off" usually signifies that it comes about because of lack of business, traffic, or a declining volume of work. There are, however, other types of separation from service.

Miss LAMARSH: There is death, resignation or dismissal.

Mr. GORDON: Yes.

Miss LAMARSH: These are terminations. I suggest that neither death, resignation nor dismissal—dismissal in the general sense—apply here. I do not want to take up too much of the time of the committee on this, but it seems to me to be eminently unfair, particularly when there are individuals who are as close as six months to normal retirement, that these seventy-five should be left in this position, especially when in the budget address the other

night there was some question of portability. I would assume that if it was possible to bring this into effect, one place to start would be in these federal agencies where the government has, if not control, some influence.

Mr. GORDON: Are you speaking about the general question of portability now?

Miss LAMARSH: I am trying to work this into the question of portability.

Mr. GORDON: Of course, portability is a very vast subject.

Miss LAMARSH: You will appreciate that while your officials are relatively remote from this situation where a transportation of this kind is taken over by a municipality—and taken over by reason of the fact that a municipality cannot get anybody else to operate it for the same reason that you got out of the field—nobody else will take it over. So, when the municipality has to take it over, it has to be paid for by the money of the people brought in in the form of taxes. Those municipal representatives really are close to the people; they are right under the gun.

Mr. GORDON: That is right. They are the people who will be dealing with this subject at this meeting next Monday.

Miss LAMARSH: They have to provide the employer's contribution if you do not. That is what is happening in both Oshawa and Niagara Falls.

Mr. GORDON: As you can see I am being more than usually cautious in respect of this matter for the simple reason that I am very anxious not to prejudice the interests of the people about whom you are speaking.

Miss LAMARSH: I have made whatever point I can and I too would hesitate getting into a possibility of prejudicing them.

The VICE-CHAIRMAN: The vice-chairman can sympathize with you, because a division point in my riding was closed in 1957 or 1958 and many people such as boiler makers and other trades were left without much pension when they were very close to retirement age.

Mr. HORNER (*Acadia*): The first question I would like to put at this time is in respect of this employment during the thirties and this matter of on-call duty. Would any of these people to which this on-call duty refers, generally, now be receiving the basic pension at least.

Mr. GORDON: Yes. They all would be receiving the basic pension. As I said in my memorandum, some of these men did not take up their rights—the option—which they had from the time they came into the service. If they did not take up that option, it is only the basic or free pension to which they are entitled.

Mr. HORNER (*Acadia*): I wanted to establish this. They would be getting the basic or free pension of $25 a month. According to an answer tabled in *Hansard* at page 2776, this then would concern those persons already on pension—about twenty-seven hundred. Am I right in assuming that the persons to whom this on-call duty would now apply are getting a pension?

Mr. GORDON: I presume we are looking at the same document. It is the document on page 2776.

Mr. HORNER (*Acadia*): Yes.

Mr. GORDON: You are referring to the twenty-seven hundred and forty-nine?

Mr. HORNER (*Acadia*): Yes.

Mr. GORDON: That is simply the number of persons all over the system who are in receipt of the $25 basic pension, and by definition they would not be contributors.

Mr. HORNER (*Acadia*): They would not be contributors, so it would not matter, in regard to this particular group, whether or not they received any allowance for "on call" duty.

Mr. GORDON: Yes.

Mr. HORNER (*Acadia*): Then this assumption of mine was in error. Thank you for putting me right. What number would this apply to? Could you give the committee some idea?

Mr. GORDON: I do not know. I do not know that there is any way of establishing it. First of all, as I pointed out in the memorandum it is quite impossible to contemplate any such action being taken regarding the group in the thirties, because there are other people in the twenties, the forties and the fifties, or any other time, who have just the same right in principle. If we parted from the basic principle of paying a pension based only on service, we would have to ascertain from the service record of the employees concerned the conditions under which they were not in service. In other words, were they out of service due to sickness; or were they out of service because of their own or some other action? I do not believe the answers could be found in the service records.

Mr. HORNER (*Acadia*): I have some other questions to ask, but I will leave them until later.

Mr. FISHER: I want to ask some questions in connection with this point in a paragraph on page 6, which reads as follows:

> Emphasis has been placed on layoffs which occurred during the 1930's but actually there is no difference between those layoffs and layoffs at other times and in other circumstances. Service credit for pension purposes could scarcely be allowed for any specific layoff without allowing it for all layoffs, both past and future.

While one might agree, as far as the individual is concerned, whether you were laid off in 1934 or 1944, it is a layoff. Is there not a special circumstance applying to the thirties in that for a period of roughly five or six years you had a situation where a great many people were without work of any kind, as an alternative, and a great many of them held themselves ready for railway work and never had an opportunity.

I know in one region, for example, where the seniority list in one of the running trades did not have a person added to it from 1930 to 1938. To me, this indicates that you—the C.N.R.—had, during that period of time, a remarkably static labour force with a great many people on layoffs that lasted for years at a time. An example is a relative of mine who was a brakeman, and I think he had about three trips in five years. So, in this sense, it seems to me that the 1930's situation was unique and unusual, and we are not going to have, and have not had since that time a big depression period like that.

Another factor which is involved in connection with the 1930's situation—Mr. Horner touched on it, and Mr. Forbes has—is that it is a remarkably neat package of people, because of the fact that you were not hiring to any degree in those years in the 1930's.

On the matter of service record, I would like to ask you what is your difficulty about tracing service records for what is a small and declining group of people? Have the records been put away in archives? Have they been destroyed in order to clear up your files? What has taken place that determines this? Or, is it that the search would take so much time and money to determine the nature of the layoffs?

Mr. GORDON: Well, this sets up a lot of administrative question marks as to how we could trace the allowable service along the lines you mentioned. The claim is always made that the men were on call and available, at any

time. Whether we are talking about the period of the 1930's or the 1920's, I do not know how we can possibly establish the facts of the situation—whether the individuals in question did not have some other work, or, in fact, were temporarily employed elsewhere, and things of that kind. What we are discussing now is a question of a principle; and the principle involved in this pension fund is that, as in all contributory pension funds which is based on actual service, the only way to establish service is by establishing the time for which salary was paid. That is the only concrete fact that we can get hold of in the matter of service credits. If the man has been paid for any period of service, on the basis of the principle I am talking about, he would be entitled to a service credit for pension purposes. On your general point there is not, as we see it, any difference in the layoffs in the 1930's.

The declining employment in the 1930's was a more spectacular period than most people remember, but the man who was laid off during the 1920's, or the 1940's was no different from the man laid off in the thirties. You could not get away with a principle that would give preferred treatment to a group, even if they could be identified and even if it happened in the 1930's. I do not think you can really consider those, then, in terms of the principle on which service for pension fund purpose is established.

Mr. FISHER: You did state that the Canadian National provided a situation where, if a man had worked only one day in a month, he was eligible for pension purposes.

Mr. GORDON: That is right, but that was readily established. We established it by reason of the fact we paid him for one day. For instance, if it were demonstrated on his record that he was paid for one day, say, in the month of January, we gave the whole month.

Mr. FISHER: But the difficulty for the people in those depression years was that there was a very unique situation, it seems to me, when they could go one, two, three or even four years without having an opportunity of even one day a month. It seems to me we have not had that character of a layoff until just recently, with the whole changes in the employment structure. Could I just put this question: Is it possible that one might ask a single person who is knowledgeable or expert in pension affairs—that is, this committee might—to examine this special situation and the depression layoffs, and to make a recommendation for the advice of the railway.

Mr. FORBES: There is one further thought. Due to the depression of the 1930's, a man was laid off a much longer period than at any time, possibly, during the history of the C.N.R. Also, this group of men have no organization representing them—or, so I undertand.

Mr. GRILLS: The situation in the 1930's and what happened in the last eight years, is entirely different. What has happened since 1952 is caused, to a considerable extent, by automation; progress has been made with the railways whereas, in the 1930's, the situation was a national one. It affected a special group of people.

Mr. GORDON: No. I think we should have a realization of what we are discussing here, in this sense: that we are groping and searching around. We have a different type of sympathy in respect of people in this group in the 1930's. Quite apart from the difficulty of identifying them, any principle of that kind, I think, would raise a serious question of principle for other pension funds. I doubt very much if you could justify a special act on behalf of Canadian National employees only, without raising the question for the C.P.R. and, indeed, for other industries, and it is not a defensible principle because it cuts right through the basic formula of the manner in which pension funds are administered, in establishing the service-for-pension principle. Mr. Fisher, there has been a great deal of discussion on this matter, and indeed it was intensively

discussed when we decided to put in this special provision for the one day a month. We did not do that without a great deal of hesitation and concern as to whether or not we were departing from the principle so far that we would get into difficulty. Inevitably what happens when we meet one situation and try to remedy it, is that pressure mounts up for another.

The 1952 revision of the pension fund was a completely voluntary act of management and it came about at that time through a realization by management that, in point of fact, the C.N.R. pension was not, so to speak, up to date. We looked at other plans, examined pension fund principles generally and we came to the conclusion we could modernize the C.N.R. pension plan, and do it as an act of management. That was a very costly thing to do and it produced benefits that the employees of the railway never dreamed of getting at the time they first entered the company's service. Since then we have determined, as a matter of management policy, that we shall keep our pension fund progressively updated and comparable with all the modern thinking that has been going into that subject over recent years.

There has been a much bigger acceptance of the right of pension, and pension rights of various kinds, by industry generally over the last ten years than ever before. We have watched it very carefully and I think I can say our pension fund, in the matter of pension fund rights, compares most favourably with major companies in Canada and the United States. However, I feel it would be a mistake and inadvisable to pick out a particular group and try to change the principle of administration as it applies to that group. Of course we are perfectly willing at all times to study any representations along that line which come either from members or from local lodges, or any other place. We are always willing to examine them and we constantly keep the pension fund under review.

Mr. BALCER: Mr. Gordon, do you know of any company that has a special pension plan to cover those who were laid off between 1930 and 1935?

Mr. GORDON: I have never heard of any. In fact I am almost certain there is no pension fund in existence that would recognize a proposal of this kind.

Mr. FISHER: If—and this is a very long "if"—parliament should act in such a way as to provide special support for your pension fund to treat a problem such as this, do you think it would wreck the principle which you are talking about?

Mr. GORDON: I should not like to predict the reaction to parliamentary action, but I certainly feel if this principle becomes written into any legislation it will open the door to other representations. That is only a matter of judgment again, but I cannot predict it.

Mr. FISHER: There are two other suggestions. You had a deadline a couple of years ago stipulating when people had to take up their options. Would you consider reopening that with a penalty clause for those who did not, and coordinate it with some kind of cooperative action with the credit unions or some other organizations of that nature related to the C.N.R. employees, so that there might be a concerted possibility or chance for those employees who did not take up their options because they could not see how they could raise the money to fill in their back time? I thought of a penalty clause in the nature of $10 per month.

Mr. GORDON: If we were to reopen it, I should not like to see any penalty attached to it. We have already given two options, the first in 1952 when we originally reviewed the fund, and then in 1959. At that time we put on an intensive drive, I think with the assistance of most of the unions, but I shall ask Mr. Tarr, Vice-President and Secretary of the C.N.R., to say a word on

that. He is Chairman of the Pension Board, and I should like him to tell the committee what took place during the last drive when we reopened the options.

Mr. R. H. TARR (*Vice-President and Secretary, C.N.R.*): Leading up to the adoption of action in 1959, we in the pension board made a very thorough review of our experience with the 1952 plan, and the labour representatives on the board brought forward various proposals which were going through the minds of the employees as to possible changes in the plan. These were discussed in great detail. The main thing which was felt by all concerned was the difficulty in reaching all the employees, due to the fact that half of them had not taken advantage of the previous opportunity to transfer to the new plan. That was the reason for recommending that the 1959 plan be made compulsory, and that a really intensive drive be put on to interest employees who were not contributing, to do so in respect of the new plan.

Labour management teams were set up across the country and an extremely intensive campaign was conducted by them. Individual interviews were held with employees and, as Mr. Gordon has said in his statement, about 32,000 employees transferred.

Mr. FISHER: I know it was a thorough campaign and an excellent job, but it has been put to me by several people, and perhaps you may comment on it, that the ratio of success was higher with the non-ops than the running trades, one of the causes being it was so difficult to approach the running trades because of the nature of their work. You could not bring those people together at a meeting and give them a thorough analysis of the situation. Is there any substance in that suggestion, that you had greater success with the non-ops than with the running trades because of the nature of their work?

Mr. TARR: I cannot really speak specifically about that, but at all events we did make some analysis to determine whether particular categories had decided not to contribute. We did not find any pattern, and my impression is that in both the 1952 and the 1959 campaigns the running trades had a considerably higher proportion of contributions to the new plan.

Mr. FISHER: What about the problem of the payback, especially for those employees who were not on a high level of earnings? I had two examples given to me of people whose financial circumstances were such that they just could not raise the money for the payback.

Mr. GORDON: They could still take up the option and leave themselves in a position to make payments from time to time as they could. In that way they would be protecting their option.

Mr. TARR: Most of them are making up their deficiency by contributing an additional one or two per cent per month out of their payroll. The other thing we pointed out throughout the campaign was that it was not necessary to pay up the whole of the deficiency in order to improve their pension status. If at retirement they had a deficiency, they would get the pension reduced proportionately; they would still be in a far better position than if they had not contributed anything.

Mr. FISHER: There is a case of an operator laid off at age 61. There are a number of personnel in that category. If he had been in the position to put up $3,100 of back pay he would have had a pension now of $89 a month. He could not raise this amount, and now his pension is $19.90 a month. There are several examples like that which led me to bring this up.

Mr. TARR: Yes. There were cases like that.

Mr. FORBES: Mr. Chairman, I had some specific questions which you would not allow me to bring in.

The VICE-CHAIRMAN: I was just about to bring up this point. Some people are waiting patiently, Mr. Fisher. I think Mr. Broome and Mr. Carter have questions to ask.

Mr. BROOME: Thank you very much, Mr. Chairman. Some of the submissions seem to imply that there is a terrific amount in the pension fund and therefore it can be treated almost as a welfare fund. I think you, Mr. Gordon, should set the record straight to the effect that this is on an actuarial basis and that you had to guarantee $325 million because of future commitments. I think this is one point which is being lost sight of. I think it should be stressed from the point of view of the railway.

Mr. HORNER (*Acadia*): Is Mr. Broome correct?

Mr. GORDON: He is quite correct, that because there is an accumulation of money in the pension fund this sometimes causes people to think that, with all this money, there is no reason why it should not be paid out; but, the fund is on an actuarial basis. As we said yesterday, the fund on an acturarial basis is technically short in that sense; by $325 million there is no risk because the company has guaranteed that contingent liability. Therefore the men's pensions are never in danger so long as the C.N.R.'s undertaking is good.

Mr. BROOME: On an actuarial basis there is $325 million which the company had to guarantee to make it a sound scheme.

Mr. GORDON: Yes.

Mr. BROOME: The next question is in respect of a statement on page 7:

> The present C.N.R. pension arrangements, as a whole, compare favourably with those of the C.P.R. and other comparable Canadian employers. So far as concerns the basis of determining allowable service for pension purposes, the C.N.R. and C.P.R. plans are identical.

Mr. GORDON: Yes.

Mr. BROOME: This is from 1959. Were you very comparable to them back in 1952?

Mr. TARR: No. We became identical in January, 1959.

Mr. BROOME: Was there much variation?

Mr. TARR: Yes. Previously we had gone on the basis of allowing a day for any calendar month.

Mr. GORDON: From July of 1942, until 1959 the one day a month requirement was in force. What we did in 1959 was to make it applicable to anybody in the service at any time; that is, we eliminated the restrictive date.

Mr. BROOME: This was bringing yourself in line with the C.P.R.

Mr. GORDON: Yes.

Mr. BROOME: An again in line with the U.S. Railway Retirement Act.

Mr. GORDON: Yes.

Mr. BROOME: Were there anomalies in respect of your scheme and the C.P.R.'s scheme in those prior years?

Mr. GORDON: Yes. There was an anomaly in this regard. Their plan was compulsory and ours was not. In our 1959 revision we made it compulsory for new employees. I think the C.P.R. had that feature back to 1937.

Mr. BROOME: Would this be a case where you could say that management was to blame because people are silly and pension schemes are good. At the time people have to pay out some money they cannot see the benefits later on. It is up to management to set conditions which will not leave management

in the position where people who have given long service can come back and say they have spent their life on the railroad, say that they are now destitute, and ask what are you going to do about it.

Mr. GORDON: That is right. We have wondered about it for a long time. If you make it a compulsory feature, you affect people; but we came to the conclusion that it was an obligation of management.

Mr. BROOME: It would have been better if the decision had been made prior to that.

Mr. GORDON: Yes; I think so.

Mr. BROOME: I would like to come to my other point in respect of portability. I think portability is a very desirable feature. It takes away what I think is an injustice in the case where a man would be eligible for pension two years from now and something happens and he leaves the railway for some reason or other. He should have a vesting in that pension. I do not think it will actuarially affect the fund.

Mr. GORDON: We have given them the vesting now. Portability is a huge subject. The only way to make it truly portable is through government action in establishing the fund.

Mr. BROOME: If you give vesting, this is portability, is it not?

Mr. GORDON: No. Vesting simply means that if a man has accumulated pension rights up until a given date, when he leaves the service we undertake to pay him that pension when he reaches the pensionable age. Portability is transferring, which brings up another question.

Mr. BROOME: I know; but in effect it is portability in that if he has an $80 pension as of that date and then goes to another company, the plans could be so adjusted that they would take that into account.

Mr. GORDON: No.

Miss LAMARSH: Surely not. If a man at age 63 leaves the railway and goes somewhere else, while he has his pension from the railway at age 65, from the period of age 63 and age 65 it would cost the new employer a fabulous sum to make it up.

Mr. BROOME: No. It is on a percentage.

Mr. GORDON: Miss LaMarsh is quite right. It is the new employer who is affected. Vesting simply establishes our obligation up until the point the man leaves. At a certain age, age 63, or whatever it is, if he goes to work with another employer, portability means that his pension rights will be transferred to the pension fund of that new employer who would undertake to see to it that the amount of the pension he would have received if he had stayed until age 65 would become payable to him at age 65. That would cost the new employer a lot of money.

Mr. BROOME: Say it is one and a half per cent per year of service. If his age is 63 and he has had 24 years service, then at one and a half per cent that is thirty-six per cent of his pay.

Mr. GORDON: There is nothing in the world to prevent the new employer doing it if he wants to.

Mr. BROOME: That is what I mean.

Mr. GORDON: That is a voluntary action; but portability is suggested as being a right, so to speak and you cannot do that, except through a national fund.

The CHAIRMAN: We will meet in this room at 2.30 this afternoon.

AFTERNOON SITTING

THURSDAY, June 22, 1961.

The VICE-CHAIRMAN: I see a quorum. Mr. Horner is here. Would you proceed, Mr. Horner, and then Mr. McFarlane?

Mr. HORNER (*Acadia*): Thanks for acknowledging that you see me.

My first question this afternoon in connection with pensions is this: Since this revision in 1959, a person now, no matter how many years in service, can retire and still collect his pension and portion the company has paid into it. Am I right in that?

Mr. TARR: Normal retirement.

Mr. HORNER (*Acadia*): Whether he is retired or laid off.

Mr. TARR: Well, under the pension rule, there are certain requirements for a pension being payable immediately on retirement in advance of age 65.

Mr. HORNER (*Acadia*): I realize that. However, if his service is terminated, there is no time that he would have to serve to draw a pension.

The VICE-CHAIRMAN: Are you talking about a pension, or how he could get the return of his contributions toward a pension?

Mr. HORNER (*Acadia*): I am talking about a pension.

Mr. TARR: It goes beyond that.

There was a rule passed some months ago providing for deferred pensions; in other words, for vesting. This provides a man with 15 years of service, whose years of service plus his age add up to 60 or more, and whose service is terminated for whatever reason, is entitled to a deferred pension. That is based in accordance with a formula on the years of service he has had, and it becomes payable when he reaches 65.

Mr. HORNER (*Acadia*): I understand that, but the point on which I am somewhat hazy is this: Say, a person has maybe only five or six years' service and he is laid off, however, he has paid into a contributory pension plan since joining. Would he then be able to draw a pension?

Mr. TARR: In that case, if his service is terminated with that length of service, he would be entitled to get his own contributions back, plus interest on them.

Mr. HORNER (*Acadia*): I see. In connection with this same point of vested interest, supposing a pensioner dies, why is it his widow cannot collect a full pension, or continue to collect a pension?

Mr. GORDON: At the same rate as he would have done?

Mr. HORNER (*Acadia*): If there is any money left in it.

Mr. GORDON: The pension benefit, roughly speaking, is that the widow gets half of the pension that would have been payable to the pensioner.

Mr. HORNER (*Acadia*): Until she dies?

Mr. GORDON: Yes.

Mr. HORNER (*Acadia*): In other words, the pensioner could benefit from it, or his beneficiaries?

Mr. GORDON: Yes.

Mr. HORNER (*Acadia*): It would also apply to his beneficiaries if his widow had preceded him?

Mr. GORDON: No.

Mr. TARR: To this extent, the payment is guaranteed for ten years from the date of retirement; in other words, if the pensioner died and then his wife died, the benefits payable to his wife would continue to his estate for the balance of

the ten-year period. There also is a provision that if that does not amount to what he has paid in himself, plus interest, any difference is paid to his estate.

Mr. HORNER (*Acadia*): That is the point. I was wondering if there was a time at which this would be the case.

Mr. TARR: There is a ten-year guarantee

Mr. HORNER (*Acadia*): I have a further question—and it already has been mentioned—in connection with section 2(c), that if a person retires before 65—say he retires at 60—the number of years between his age at retirement and 65 is taken into consideration in his pension. I understand there is a factor in there which reduces his pension if he decides to retire early.

Mr. TARR: Yes.

Mr. HORNER (*Acadia*): Particularly, why is this?

Mr. TARR: It is, more or less, an actuarial reduction to reflect the longer period during which the pension would be payable.

Mr. HORNER (*Acadia*): Does he then collect the pension, or if he retires at 60, can he get it?

Mr. TARR: Yes, he starts getting a pension immediately.

Mr. HORNER (*Acadia*): The reason I bring this up is because I know of a few cases where employees have been in rather poor health but do not want to retire because of this clause; they feel they can continue on until they are 65, in order to get the full pension. I have thought, at times, that it would have been better for their own health, and perhaps better for the C.N.R. and the younger men coming up, if they would be retired earlier, say at the age of 60 instead of 65? If there had not been this reduction in their pension, I think they would have. Has this been considered, and also what cost would be incurred in this?

Mr. TARR: No. Of course, if it is a real case of disability on health grounds, you can retire without a reduction.

Mr. HORNER (*Acadia*): I know in one case this actually has happened.

Mr. GORDON: That is the case.

Mr. HORNER (*Acadia*): This person was on sick leave and he was retired. Surely there would be a number of cases which would fall within a category which would be hard to define as a disability, and yet the person would be suffering to some extent from ill health and would continue in his job. If this 65 age limit was reduced to 60—and I am not suggesting for one minute that a person be retired at 60, but that he be allowed to without a reduction in pension.

Mr. GORDON: In that case, everybody would retire at 60.

Mr. HORNER (*Acadia*): I do not think so.

Mr. GORDON: If you had a situation where a man could retire at 60, and nevertheless get the pension he would have received at 65, he would be crazy if he did not.

Mr. HORNER (*Acadia*): Well, no.

Mr. FORBES: His pension would not begin to equal his earnings.

Mr. GORDON: No, but he could take his pension on that basis at the age of 60—he has lost nothing by doing it—and he could get another job.

Mr. FORBES: But who would hire a fellow of 65? This is the point in connection with those people during the thirties. When they reach the age of 65 and are drawing $30 or $35 a month, who is going to give them a job? You would not hire anybody at 65?

Mr. GORDON: I would, if he was a good man.

Mr. FORBES: How do you determine a good man?

Mr. HORNER (*Acadia*): On this last point, although I realize there are complications, still if a person was allowed to retire at the age of 60 without receiving a drastic cut in his pension, there is the other possibility it might make room for more of the younger men coming along.

Mr. GORDON: You see, there is that privilege. You can retire at 60 and the difference involves an actuarial examination to determine the value of the pension which is going to run for a longer period. Let us say the man dies at age 75; if he had quit at age 65 he would be paid a pension for ten years. However, if he quits at age 60, he would be paid a pension for 15 years, and the amount of money is quite different.

Mr. BROOME: Would Mr. Horner put that argument he is using to the honourable members of the Senate?

Mr. HORNER (*Acadia*): I am fully in favour of senate reform, if that is what you are talking about.

I have one more question, and it is in regard to this 1 per cent and the graduated way it works itself up to 1½ per cent. Could you give the committee any idea as to what increase in cost would be needed if this was 1½ per cent right across the board? Would it be substantial?

Mr. GORDON: Have you worked that out?

Mr. TARR: We have never attempted to.

Mr. GORDON: It would mean an increase in cost, of course, to the individual as well, on a contributory basis.

Mr. HORNER (*Acadia*): Is it not prohibitive now to contribute more than 5 per cent under the 1959 plan?

Mr. GORDON: Yes, but if the benefits were improved the rate of contribution would have to be increased.

Mr. TARR: The contribution is 5 per cent.

Mr. HORNER (*Acadia*): It has to be? It cannot be less or more?

Mr. GORDON: No.

Mr. HORNER (*Acadia*): You used to be able to contribute more than 5 per cent.

Mr. TARR: Yes, under the old plan.

Mr. GORDON: It was up to 10 per cent, but the individual contributed more than an equal 5 per cent in this case.

Mr. HORNER (*Acadia*): Do you feel that if this was increased to 1½ per cent for each year of allowable service that the contributed amount would have to be increased by 6 or 7 per cent, at least?

Mr. GORDON: Mr. Tarr reminds me that we have had discussions on this point, and perhaps he could say something about it.

Mr. TARR: The question of the rate of calculation of a pension was discussed at some length in the pension board at the time we were working up to the 1959 plan. Generally speaking, I think it is accepted that in this plan, as in other contributory pension plans, the cost of changes is more or less equally shared as between the employee and the company. What we felt was most important was to encourage more employees to contribute, and that led to the campaign which was quite successful. Changes made at that time which would have increased the pension and improved other benefits to any considerable extent, would have meant considerably increased cost. This, in turn, probably would have necessitated an increase in the employees' contribution rate to absorb part of that increased cost.

I think it was the general view of the pension committee that, having in mind that the main objective was to get people contributing, it would not be wise at that particular time to make changes which would involve an increase in the contribution rate, because the people we were trying to get to contribute would, in most cases, have contributory deficiencies which would mean that they would have to contribute more than 5 per cent. To add anything more to that would tend to discourage people from starting to contribute and might have defeated the main object of the revision.

Mr. HORNER (*Acadia*): I can fully understand that point. You have now got a compulsory plan and those who have not joined it are too late, as I understand the regulations.

Mr. TARR: Yes, but many of the people who did join it are still paying their deficiencies. They paid a large amount last year on account of the fact that deficiencies extended over a considerable period.

Mr. HORNER (*Acadia*): If this were increased from one per cent to 1½ per cent, it would again call for an increase in the contributions?

Mr. TARR: I think it would, but I am not sure.

Mr. MCFARLANE: What interest rate is paid on contributions made by the employees? I am referring now to the case when a refund is made.

Mr. TARR: Three per cent.

Mr. MCFARLANE: I have just a couple of other questions. In the case of an employee who is medically unfit, and receives a medical certificate from his doctor or other medical practitioner, is it possible for him to receive a pension between the ages of 60 and 65 years of age, without loss?

Mr. TARR: The medical certificate has to be given by our own chief medical officer. When that has been given he could get his pension without any loss.

Mr. MCFARLANE: I just want to clear up a few points. Presuming a man is laid off at the age of 60 years, is there any arrangement whereby he can pay into the pension fund the equivalent that he would have paid had he been working until he reached the age of 65, in order to protect his pension?

Mr. TARR: No, there is not.

Mr. MCFARLANE: Has any consideration been given to any requests of that nature?

Mr. TARR: That is really coming to the point which was discussed this morning, is it not? It involves getting pension credit for time laid off.

Mr. MCFARLANE: No. The angle I was getting at is that he would still contribute to the pension fund an equivalent amount of contributions as if he had been working.

Mr. GORDON: The principle of the pension fund, as I said this morning, is the time he has served. The employee contributes to the pension fund on a calculation of service in respect of actual time served in the railway and the time for which he has been paid.

Mr. MCFARLANE: I have one other question. I notice the pension plan was not made compulsory until 1959. Now, pardon me for making the comparison, but the C.P.R. made it a compulsory condition of employment in 1937. Was there any reason why there should have been such a lapse of time before this was made a condition of employment in the C.N.R.?

Mr. GORDON: I suppose there was just a difference in the points of view. I think I explained earlier, in answer to a question when we were dealing with financial results on our balance sheet, it was to the interest of the company not to make it compulsory. The more people who were not contributing to the pension fund, the cheaper it was for the company.

As I explained this morning, there was a drive made, so to speak, to let people know their rights and encourage them to get into the pension fund. The existing management thinks it is better to let people know their rights and encourage them to exercise them, rather than be in a situation where we are constantly being harped at by people who have served a long time and who have ended up with no pension, although we have a perfectly logical answer. We can say to such an employee: "you did not take advantage of the scheme to secure these benefits and it is your own fault". That answer is not very good, and we find in practice the person who has been in the railway 30 or 40 years can generate a lot of sympathy, especially when he forgets to mention that he did not exercise his right to join the contributory plan, and as a result he has got no pension. Had I been in control in 1937, and knowing as much as I do today, I would have made it a compulsory plan.

I should mention there was another feature in that we had a much messier situation, if I may use that adjective, than the C.P.R. because we inherited so many different kinds of pension arrangements from the component parts of different railways. The C.P.R. has had an integrated plan from the beginning, whereas we have had a half a dozen and the overall situation was completely mixed up.

Mr. McFARLANE: The only argument I am making is that a lot of our difficulties today would be alleviated had it been made a condition of employment many years ago.

Mr. GORDON: I agree with you. We are benefiting future management in that respect by making the plan compulsory now. All the people who did not take up their options will gradually be dying off, and the compulsory plan will ultimately cover all employees.

Mr. BROWNE (*Vancouver-Kingsway*): May I inquire if any representations have been made to the pension board along the lines which members of parliament have been receiving, such as Mr. Forbes referred to this morning?

The VICE-CHAIRMAN: I think Mr. Forbes' comments on behalf of Mr. Folliott were very useful and perhaps Mr. Gordon or Mr. Tarr might like to deal with them in some little detail, if that suits you.

Mr. BROWNE (*Vancouver-Kingsway*): Have these actual representations, or similar representations, been made to the pension board at any time?

Mr. GORDON: These particular ones did not reach us.

Mr. BROWNE (*Vancouver-Kingsway*): Or anything similar?

Mr. GORDON: Many representations have been made, but these particular ones did not reach us.

Mr. BROWNE (*Vancouver-Kingsway*): While I realize the meetings of the board would probably be confidential, has there been a tendency to have a split between labour representatives and management on it?

Mr. GORDON: Mr. Tarr will tell you about that.

Mr. TARR: When we started again to look at the pension plan in 1957—

The VICE-CHAIRMAN: A little louder, Mr. Tarr.

Mr. TARR: —which eventually led to the 1959 revision, we asked the members of the pension board to bring up any points that were bothering people so that we could talk about them, see what we could do, and see if we could agree on what was reasonable. The one on service, which was referred to this morning, was discussed at great length, and the change we made in applying prior to 1942 the one month credit for any month in which an employee worked at least one day was greatly welcomed by all members of

the pension board. The labour members were obviously quite happy about making a change to improve the benefits. I think I can honestly say they felt the action we took was reasonable.

With regard to the question of pension percentage, I have already expressed the point of view of the pension board on that, and I think I can say there was really no difference of opinion on it.

Another point in this document is the question of allowing credit for time when an employee is off due to injury, for which he is receiving Workmens' Compensation. That was brought up and provision was incorporated in the rules, to meet that point.

The next point in this memorandum was the question of vested rights, and this has been done to a large extent, not at the time of the 1959 revision but subsequently.

The question of retirement at the age of 60 years, which was already mentioned, so far as I can recall was not raised.

On this other point, about the atmosphere in which these things were discussed, never at any time were these discussions conducted in any atmosphere of bargaining and negotiation. We all sat down trying to decide what the weaknesses were of the pension plan and what could be done about them. Votes were never taken or anything of that sort. This kind of discussion goes on continuously.

Mr. BROWNE (*Vancouver-Kingsway*): On the question of continuity of service, I notice the labour representations on it. There is one from the non-operating trades and I was wondering were the operating trades more affected by this continuity of service than the non-operating ones?

Mr. TARR: The representatives on the pension board are elected by the general chairmen's association from among its own members, but I do not know how they decide the elections.

The VICE-CHAIRMAN: Does the general chairmen's association include general chairmen of the running trades?

Mr. TARR: Yes, of all the organizations.

Mr. BROWNE (*Vancouver-Kingsway*): How often do they change? Do they remain in office constantly, or is there a fixed period of office?

Mr. TARR: The practice has been to continue with the same man—

Mr. GORDON: Until he gets his pension.

Mr. TARR: Usually, as a matter of fact, they get promoted to the vice presidencies of their organizations and they are no longer eligible. When that happens they are replaced.

The VICE-CHAIRMAN: You do not have anything to do with that? It is just a matter of the choice of the unions?

Mr. TARR: Yes.

Mr. BROWNE (*Vancouver-Kingsway*): Leaving aside that question, is there any difference between the non-operating and operating trades in so far as some of these representations in regard to continuity of service are concerned?

Mr. TARR: Not that we are aware of. Presumably the viewpoints we get are the consensus of the general chairman's association. There may be differences of opinion within the association, but we would not know about that.

The VICE-CHAIRMAN: Before Mr. McPhillips starts, and following Mr. Browne's question, if a local felt there was an anomaly on inequity in the pension scheme and brought it to the attention of the pension committee, would those representations be given consideration by the committee?

Mr. TARR: Normally we would expect that representations of that sort would come through the representative of the general chairman's association.

The VICE-CHAIRMAN: Assuming that these representations which many of us have received had been sent, not through the general chairman but directly to your board, would they have been answered?

Mr. TARR: We would certainly answer any letter we received. We would normally expect to discuss it at a pension board meeting.

Mr. MCPHILLIPS: I would like to know what occurred in respect of the old pension funds of, say, the Grand Trunk and the Canadian Northern. How were they taken into the pension plan of the C.N.R.; or have they been taken in?

Mr. TARR: There was a Grand Trunk Railway fund established back as far as 1874. That was closed to new members in 1907; I do not know for what reason. That was long before the Canadian National came into being. In any event this fund was continued separately for the members who were already in it. They all have retired now, but a few are still drawing pension.

Mr. MCPHILLIPS: But the funds never went into the fund we are dealing with now.

Mr. TARR: No.

Mr. MCPHILLIPS: How about the Canadian Northern. Did they have one too?

Mr. TARR: I do not believe Canadian Northern had a pension fund.

Mr. MCPHILLIPS: Under the C.N.R. plan, do you pay a death benefit? When a man dies who is on pension is there a funeral allowance or anything like that?

Mr. TARR: No. His widow gets half the amount of his pension for the rest of her life.

Mr. MCPHILLIPS: In the estates going through my office I have come across old Grand Trunk pensions. When they died they got a sum of money—a couple of hundred dollars or something paid by way of a death benefit.

Mr. TARR: That was not under the pension plan; that was a separate insurance society or something of that type.

Mr. MCPHILLIPS: Take the Grand Trunk people; you say their plan was never merged, but they receive the same amount as the C.N.R.

Mr. TARR: They received whatever was the amount in the plan.

Mr. MCPHILLIPS: They do not necessarily receive the same amount as the C.N.R. pensioner.

Mr. TARR: No. There are only fifty-six pensioners left.

Mr. MITCHELL: I was not able to be here this morning, and this question may have been asked. Has the C.N. a portable pension plan?

The CHAIRMAN: That was discussed at some length just before the adjournment. I believe it was explained at fair length that they do not have a portable pension plan, but now do have vested rights; in other words the employees after a certain length of time have an absolute right in the pension funds. It is not, however, portable in the sense that it can be moved from one company to another.

Mr. GORDON: The vesting right is a recognition that at the time a man leaves he becomes entitled to a pension for the period of his service up to that point payable at retirement age of 65. He carries that pension with him which is payable at age 65. That is vesting.

Mr. MITCHELL: One of the suggestions in the budget was that this railway system was considering that type of pension.

Mr. GORDON: There is nothing we can do about it. We are only one side of the bargain. So long as we make our pension payable to him, that is one side of it. It is the new employer who becomes involved. The only way to have this portable is to have a national fund administered by the government and some kind of a law that would make pensions compulsory for everybody, so that if a man left employer "A" and went to employer "B" his rights with employer "A" would be paid into the national fund.

Mr. BROOME: The point I was trying to make this morning is that for all practical purposes, so that we do not get into the semantics of the word "portability", if a person works thirty years and gets a pension, if he has vesting rights, it does not matter whether or not he works with three firms. At the end he has the same pension that he would have if he worked for one employer. So, for all practical purposes, the way you work your plan infers portability.

Mr. GORDON: Yes; so far as our side of it is concerned.

The VICE CHAIRMAN: It has some of the elements of portability.

Mr. FISHER: I asked a question, No. 385, through the machinery of the house, relating to reinstatement of C.N.R. pensions. I could not get much of an answer to my sixth question. This is a fairly complicated issue related to people who are pulled out of service. I could give a hypothetical example: a man pulled out of service in 1947 or 1948 who was out for four months and lost his pension rights because of the requirement. Since then the period has been lengthened to two years, but was not made retroactive. Therefore, in a sense, this morning when you were talking about a consistent principle, I wondered whether the principle of consistency is not being violated in this kind of case. I understand that in so far as the C.N.R. is concerned there are employees who face this problem, in that they have no pension rights for periods out of service. My question 5 was:

> If the period out of service was lengthened at any time, in order to give employees a better chance for pension time rights, was the benefit of this extended to those employees penalized previously when a shorter period was in effect?

And the sixth question was:

> If not, for what reason?

The answer to questions 5 and 6 is:

> As indicated above, the regulation which became effective as of January 1, 1952, applied only in the case of suspension or discharge subsequent to December 31, 1951.

It seems to me there is an anomaly here and I would like an explanation.

Mr. TARR: Until the date you mentioned, the regulation of the company was that if a person was discharged not reinstated or re-employed within a year, and later became re-employed or reinstated he did so as a new employee.

Mr. FISHER: Now it is a two-year period.

Mr. TARR: From the date you mentioned, that period was extended to two years. In other words, if he was out of service for less than two years, now when he is re-employed he does not lose the time.

Mr. FISHER: Is there not a conflict between this and what we were talking about this morning?

Mr. TARR: What we are really involved with is the principle of making changes retroactive, which always gives rise to many difficulties.

Mr. FISHER: If a person was prepared to pay back his share of the pension, it seems to me that in a sense you have a rule for two categories of employee. If I could use Mr. Gordon's argument of this morning, a man fired in 1948 is not fired in any different way than a man fired in 1958. Why is it that here the man fired in 1958 gets something different than the man fired in 1948?

Mr. TARR: The difficulty you are faced with, I think, is that any improvement in a pension plan, almost invariably causes discrimination, if you will, or at least differences of treatment, between the person who, say, retired just before the change was made and the one who retired just after. The problem you are really faced with in all these things is, if you go back at all where do you stop? There is no other yardstick that you could take to a cut-off.

Therefore, normally in any pension rule changes in most pension plans, the practice is to make the change in rule applicable just to events occurring after a specified date. Another factor about this is that, if you do accept the principle of retroactivity, and it may have to go back years and years,—in some changes it may be a very expensive thing. If you were committed to incurring too great an expense, I rather think that would be a deterrent to other improvements.

Mr. FISHER: If you are going to have a rule for pension plans, why do you not have the same rules for pass privileges?

Mr. GORDON: I do not think the two things tie together at all.

Mr. FISHER: The man fired in 1948, and who is out for more than 12 months is not recognized as an employee for pension purposes, but he is for seniority, and he is for pass. It seems to me somewhat of an anomaly—I do not want to use the word injustice, because I do not know the problems which you face. The guy fired in 1958, it seems to me, should have no advantage over the guy fired in 1948. As a matter of fact, if the man fired in 1948 is put back in service and has had a satisfactory career, it seems to me that he should be entitled to the same privileges as the man fired in 1958.

Mr. GORDON: As Mr. Tarr has pointed out, if we were put in that position, of having to make everything we ever did retroactive in regard to pension fund benefit, it could be a very definite hazard in the way of getting benefit, because it would put management in a very difficult position. Retroactive adjustments at any time are very difficult to handle, so the rule of equity, so to speak, has been that when any change in the plan takes place, by definition it is an improvement. We have never changed a pension fund, and we are not likely to do so, in any way that will water down the benefit. It is always on the way up. We start as from today with some improvement. Faced with the prospect that in making an improvement, we have to go right back through all the pensioners we have, and consider the circumstances under which various rules may have applied over the last thirty years, I am sure we would find almost any change too expensive. We have not had any complaint because of our position. In fact, I do not know of any, and it has been pretty well accepted by the people administering the pension fund, that when you make a change in benefit it becomes effective from the date the change takes place.

Mr. FISHER: When you extend this, that is, two years of service instead of one year, in a sense you are wrenching equity right through.

Mr. GORDON: I do not know. I do not proceed by the same analogy because it usually leads into an argument as to whether the analogy is justified. I would say this—that certain crimes which may have happened in 1948 carried a stipulated punishment; and if you come along now and pass new legislation, you do not make it retroactive to the fellow in the penitentiary, to see that he gets punishment in the same degree. You very seldom find legislation which is

retroactive, particularly when it covers financial matters. I would not want to get retroactive income tax legislation.

Mr. FISHER: Every time you made these improvements—and I am not criticizing improvements in the pension—there has been a retroactive character in that. Those people who took the option they got, to sign it, had a retroactive right to pay in certain moneys for periods for which previously they had not paid.

Mr. TARR: But only people who were in the service. It was not extended back to people who had retired.

Mr. FISHER: No, no, I quite agree; but the man fired in 1948 and called back in service in 1960, who was able to take advantage of your choice and pay back in respect to that period. I would like you to examine this anomaly and see whether there is not a case for a change. I am sure it would not apply to very many employees.

Mr. GORDON: We are here to listen to views. That is what we are doing. I said we would not want to be in a position of declining to consider it. Certainly we will listen to views. We are just trying to explain now what the view has been and the reason for it.

Mr. FISHER: In this particular case, I would like some indication as to whether many employees would be affected.

Mr. GORDON: There is another thing about it. When we discuss here a matter of that kind, before we could give a definite judgment on it we certainly would want to analyse it. That is why I say we should take note of your point and examine it in the light of what it really means, and the amount of difficulties there are, and we certainly can do that.

Mr. FISHER: Perhaps I could take your analogy—the gist of it.

Mr. GORDON: I may have been wrong.

Mr. FISHER: If I could take your analogy, you cannot have a retroactive feature inasmuch as a person has gone to jail for a longer period at an earlier time than he would have gone at a later time. The whole idea of pension is that you are looking towards the future.

Mr. GORDON: Having regard to the people in the service at the time the change is made.

Mr. FISHER: I will go no further on this.

Mr. GORDON: We certainly will review it and any other points raised in this discussion. I am just explaining that we had the principle.

Mr. KENNEDY: My first question is, what is the latest date that a man was required to retire in order to qualify his widow for a pension?

Mr. GORDON: When a man retired he certainly would not have a widow, would he?

Mr. KENNEDY: No. How far back?

Mr. GORDON: Sixty-five is the retirement date.

Mr. KENNEDY: Supposing the man retired ten years ago and is dead now.

Mr. GORDON: It was the 1952 pension plan which gave automatic benefit for the dependents, namely the widow. Before that the fund which we had was based on what we called the "money purchase plan", which meant that when the person retired, then the money that he had paid into the pension fund, plus interest, was matched by the company and the gross sum then was treated on an actuarial basis; so you had four or five different options at that time in the form of annuity. He might pick the form of annuity under those circumstances which would have given a pension to his widow; that is one of the annuity forms. That was not always the case. He had four different options,

four types of annuity; it was the 1952 amendment of the pension fund which made the benefit to the widow within the rules of the pension fund.

Mr. KENNEDY: He could have taken his own choice.

Mr. GORDON: He could have taken one of these four choices, if he wished.

Mr. KENNEDY: This is my second question. Retired personnel have always looked on the benefits of free transportation as part of the retirement reward. Is there any intention to interfere with the traditional setup in that regard?

Mr. GORDON: I do not like to commit myself offhand in regard to something which will happen in the future, in this regard. I do not like to tie the hands of future managements; but as far as the existing management is concerned, there is no intention.

Mr. FISHER: There is a standard argument on basic pensions that if adjustments had not been made in the light of changing conditions, they would lose the fairness they may have had when they were originally introduced. I do not know whether you have gone into this. The basic pension of $25 still applies to a great many pensioners and I was curious as to whether this actual figure has been reviewed at any time with a view to making adjustments in it which would make it more relevant to today's cost of living.

Mr. GORDON: No, there has been no intention to change the amount of the free pension, which is really what it is. The fund is a contributory pension fund and pensions are based on the assumption that the person concerned will contribute towards his share of the pension. The "free pension" itself is an anomaly.

Mr. FISHER: Yes, but it was an anomaly when it was introduced.

Mr. GORDON: I am just checking that. The free pension in the C.N.R. pension setup is an anomaly. There is no such pension as far as I know in the C.P.R.

Mr. FISHER: It is true that there must be a considerable number of pensioners with the C.N.R. who have this basic pension. What was the intent of the $25 at the time? Was it looked upon as just a partial thing, or did it have some kind of standing as a reasonable pension benefit in toto at the time it was introduced?

Mr. GORDON: I cannot say, offhand, what motivated that decision in 1935.

Mr. FISHER: The word "basic" pension—

Mr. GORDON: —is descriptive only.

Mr. FISHER: I keep thinking in terms that the $25 basic pension in the 1930's was a lot better than the basic pension now.

Mr. GORDON: That is right and of course we have recognized the changed conditions by substantial improvements in the benefits of our pension funds as a whole. We have not done that with any idea of the theory that because it was a $25 free pension in 1935, it should be a $50 free pension now—because we regard a free pension as an anomaly.

Mr. BALCER: And we have not tried to turn the anomaly into a precedent.

Mr. TARR: It will disappear, of course.

Mr. GORDON: It will disappear. When everything becomes compulsory the basic $25 pension will disappear.

Mr. CREAGHAN: I am concerned about the 1959 plan because I think it is a very, very good and fair one and it was negotiated and accepted by your company and the employees. However, I would like to get some comment as far as management is concerned, in regard to a group of older citizens. Before putting this question, I should like to give a little background. You probably remember, Mr. Gordon, in 1958 the federal government enacted legislation to increase the pensions of retired members of the R.C.M.P., civil servants and national defence employees. That was a precedent unheard of before, and it was

done entirely by treasury assistance justified because of poor pension schemes or inflation. I think those were the two principal considerations.

I am thinking now of employees who have a record with the railway and used to work on the railway prior to 1932. There has been a substantial reduction in that number because of death, but I am wondering what the reaction of the railway would be if the government as such, by treasury vote, decided to assist those people. Would it be possible with your statistics, to administer it as you do now?

Mr. GORDON: You are talking now about the provident fund?

Mr. CREAGHAN: Not necessarily. You would have a record of the railway employees who are now in receipt of pensions, pensions based on the actual records of service. Should the government in its wisdom at a later date decide that those people who, through no fault of their own, or because of inflation, or because of inadequate pension provision for them years and years ago, or because of a one per cent contribution by them perhaps—rather than a five per cent contribution—were like the forces in the R.C.M.P. who were employees of Her Majesty, as opposed to C.N.R. employees, could you administer that type of assistance?

Mr. GORDON: If it is a matter of administration I think we could administer anything no matter what it is, if we are given the responsibility and very clear rules as to how it is to be administered. I do not think the administration itself presents any problem.

Mr. CREAGHAN: I was thinking that perhaps Mr. Tarr, Mr. Hamilton and yourself would be very familiar with the attitude of those railroad workers. I am thinking of the people who worked before the first world war and during it, and up to 1922, before your large structure came into existence. The ones I came in contact with repeatedly suggested to me that they look upon themselves as mere employees of Her Majesty or of His Majesty, because they classified themselves as the forces of the R.C.M.P. My understanding of it is that there are only a few thousand of them alive today and that the government through the D.O.T. vote every year makes a little grant. Last year I think it was either $9,000 or $10,000. When that vote was brought in years ago it was a substantial amount of money, but it has been successively reduced because of deaths, so that now it is less than $10,000; and every year the D.O.T. and the rest of us carry that little vote forward, to look after that diminishing number of people.

Mr. GORDON: I think that is strictly a matter of government policy.

Mr. CREAGHAN: I realize it is entirely a matter of government policy; but the cheques still come from the D.O.T., and they are administered by your full-time employees. I want something on the record for the government to consider, so they may decide whether or not this was the type of people that they had in mind when this legislation was drafted.

The VICE CHAIRMAN: That was not a question; it was a statement. Mr. Gordon has said that they could administer anything.

Mr. CREAGHAN: Do you have sufficient records on that type of employee?

Mr. GORDON: Yes. If I understand you correctly, I would think it was something the government might propose. But I would have to examine it. If the government had something like that in mind, I presume they would discuss it with us, and we would point out at the time any difficulty there was in the administration. But generally speaking on the basis under which you describe it, I do not think there would be any particular difficulty.

Mr. FISHER: Are the members of the pension board also charged with the investment of the pension fund?

Mr. GORDON: We have an investment committee.

Mr. FISHER: Has any consideration been given to putting the pension fund up for bid to any investment syndicate or firm, with the chance of getting a higher return?

Mr. GORDON: Yes, that has been discussed very often. But we have not come to the conclusion that it is advisable. It is a moot point which we discuss from time to time.

Mr. FISHER: I understand that Harvard University has one of the largest endowment funds of any university in the world.

Mr. GORDON: There are a number of universities which do it. I think there would be some difficulty about the Canadian National in putting it up just for an open bid. At all events we have not made a decision along that line, but we have discussed it at various times. However, we are not satisfied that it would be in our best interests.

Mr. FISHER: Is there any secret about the average return that they are getting?

Mr. GORDON: If this does not draw me into details of investment, I do not mind giving you the overall picture. I do not think there is any secrecy in regard to the nature of the investments. I think they are getting about 4½ per cent.

Mr. CREAGHAN: Are the members of the pension board on the investment committee?

Mr. GORDON: Not all of them. Mr. Tarr is the chairman.

Mr. CREAGHAN: I mean the employee representatives.

Mr. GORDON: No.

Mr. FISHER: I know it is unfair to make comparisons between a fund which has been in existence for so long, and a relatively new fund, but I might say that the Canada Council in the last several years has been obtaining between five per cent and six per cent.

Mr. GORDON: That is right.

Mr. FISHER: I would like to ask a question which may be involved in the answer you gave to Mr. Forbes in relation to this question of allowing a period of time out under the Workmen's Compensation Act, to apply to the pension time.

Mr. TARR: You mean what is the rule?

Mr. FISHER: I know what the rule is, but is there any intention to broaden it?

Mr. TARR: The rule is pretty broad now. The rule provides that any employee who loses one or more full calendar months due to injury on duty for which he is in receipt of Workmen's Compensation, may obtain credit for pension purposes for that month upon contributing for that month on the basis of his average salary over the preceding six months.

Mr. FISHER: When did this rule come into effect?

Mr. TARR: It was part of the 1959 revision, which came into effect on January 1st of that year.

Mr. FISHER: It was not made retroactive after that time?

Mr. TARR: No.

Mr. FISHER: It is a similar pattern to this?

Mr. TARR: Yes, it is the same problem.

Mr. FISHER: I would like to go back to a question we were dealing with this morning, on the possibility of doing something for the people in the

thirties. This is probably even more feasible or "unfeasible" than the suggestion I made this morning, but would it be possible to give pensioners who were, let us say, in the low pension categories because of this situation, an opportunity to option for an extra year or two years of service?

Mr. GORDON: You mean to permit them to work beyond their retirement age? I think that would create a great deal of difficulty, would it not? I come back to the same principle; it seems to me that I do not think it is feasible to give any preference position to any particular group of employees merely by reason of or reference to a period of years; in other words, if we are going to give that right to the group in the thirties, then I think anybody in the service would have an equal right to expect it, and almost certainly they would press to get it.

Mr. MCFARLANE: May I comment on Mr. Fisher's question. I feel that at that time the railways would run into a situation when the men who have looked forward to getting this pension would be very much against any extension of time. I know that during the war there were several employees whose time had expired for one, two or three years, possibly in one or two categories, and the complaints received were quite extensive, especially after the labour market and the staff became more proficient and were able to take over the jobs. I think we would run into a situation which would be very difficult to handle.

Mr. GORDON: Yes, we have enough former employees with regular rates to look after, as it is, without opening any proposal to increase the retirement age.

The VICE CHAIRMAN: Is that the end of the questions on the matter we have had under discussion today?

Mr. FISHER: What about turn-around benefits?

The VICE CHAIRMAN: All right.

Mr. MCFARLANE: In connection with these turn-around benefits, I do not know whether this comes under our jurisdiction or not. I feel that a lot of these turn-around benefits are a matter of negotiation and I certainly do not think we should take over the position of negotiating parts of the contracts or the contract itself at this time. I feel this is a matter to be negotiated between the company and the organizations concerned.

The VICE CHAIRMAN: I believe the unions have something of the same feeling.

Mr. GORDON: As a matter of fact, I can say right now that all of the running trades contracts which are the ones affected by the turn-around benefits I described here, are now open and within the process of negotiation at this moment. So I think it would be quite unfortunate if any discussions took place here on them because the matter is in negotiation between labour and management right now.

Mr. MCFARLANE: We could find ourselves in a very embarrassing situation if we made any recommendations in view of the fact that they are practically under negotiation at the present time.

Mr. MCPHILLIPS: Mr. Chairman, have we no terms of reference from the House of Commons? For one thing, I would like to know, as I am not familiar with it, what is the proper definition of turn-around benefits. This report which Mr. Gordon read us this morning is very sketchy on this point, and I am sure turn-around benefits involve something more than work trains and sleeping quarters. It must have reference to train crews at the end of the run—a trans-continental run.

Mr. BROWNE (*Vancouver-Kingsway*): I wonder if I might say on this question that my feeling is this: there certainly are aspects of collective bargaining

involved in this matter, and if we are going to hear statements from management, we would be obligated to hear a statement from the unions involved. We are then going to find ourselves involved in the whole field of collective bargaining, and I think they have got to make the decision if we are going to hear management, to hear the whole thing, or else not do anything. I think this applies to some extent, and I have some doubt even as far as we have gone on pensions because we had some of the members who are on that pension board who are on management, but we have not had anyone from the chairman's committee of the labour representatives on this. We are getting ourselves into a very dangerous situation, and something that needs a decision right now.

Mr. FISHER: Could I ask—I think I know how—but how did this particular reference, come to the committee?

The VICE CHAIRMAN: It came to the committee in the terms of reference of the committee in following certain suggestions that were made in speeches during the debate on the bill to extend the railway operations from December—or whenever it is—to May of this year.

Mr. FISHER: I think I know the person who made the suggestion.

The VICE CHAIRMAN: There is no secret; among others it was the Prime Minister.

Mr. FISHER: I think I can understand the reason why he made it, because of the representations that have come to many members in relation to these questions. This is why, since we got started on this topic, I have had very grave doubts about our competence to handle either pensions or turn-around benefits unless we took upon ourselves a task which I think we cannot tackle in this session, and that is getting ourselves some staff help and throwing the thing wide open. I am coming around to the same position as Mr. Browne in that sense, that we have a unilateral presentation on the one side and people who are incompetent to make a judgment on the other.

The VICE CHAIRMAN: We have to agree with what you and Mr. Browne and Mr. McFarlane have all said, but we have to be guided by what has been said and what our experience with this committee is, and not what may have been said somewhere else in very different context. I think we could very easily fall into a trap of being a super conciliation board or an arbitration board without having the slightest qualification to do it.

Mr. CREAGHAN: The only thing about turn-around benefits that would be possible at this time is in so far as they affect the pensions of old time workers. They might have gone on a run and were put up in a hut or something and the time stopped while they were waiting for their return trip. That is the aspect that is related to pensions. I may be wrong, but I assume that years ago, and even today, but particularly years ago a man might, because of a break or a wreck, be able to be away for a week and be paid for only a day or two.

The VICE CHAIRMAN: That affects lay-overs rather than turn-around benefits; but once we start that, it seems to me we are embarking on a new field.

Mr. MCPHILLIPS: What are we going to do—go back to the House of Commons and say we refuse to carry out the terms of reference?

Mr. HORNER (*Acadia*): In a sense we have heard the report on turn-around benefits. I do not think we would be refusing to consider it.

Mr. MCPHILLIPS: We have not heard any such thing. This is about drinking fountains, and all that.

Mr. BALCER: That is what turn-around benefits are.

Mr. McPHILLIPS: The president admits that. He said "at the end of trans-continental runs".

Mr. GORDON: Did I make that statement?

Mr. McPHILLIPS: I put the proposition to you, and you said "yes".

Mr. GORDON: I say yes to Bill Wilson. I was not saying yes to you.

Mr. McPHILLIPS: Well, those are not turn around benefits.

Mr. GORDON: Let us begin again. Turn-around benefits are what I think we said in our submission here. They are described here in the first paragraph. On page 7 we have outlined what we assume is meant by the reference.

Mr. McPHILLIPS: Let me put this proposition to you. Some years ago, and I do not know if they still do it, the Canadian Pacific Railway had in the city of Vancouver a dormitory accommodation for their car porters, and they got a very good rate. Is that not a turn-around benefit? That is what I mean. There is no mention of that.

Mr. CREAGHAN: It is mentioned, because you refer to the existing railway Y's, which are the same sort of thing. Unfortunately, years ago there were very few of them and it is only recently that you have had any in the Atlantic provinces at all.

Mr. GORDON: Now they are the best of all.

The VICE CHAIRMAN: If I may refer the committee to the terms of reference, it says "to consider arrangements for turn-around benefits for employees of C.N.R.". Mr. Browne read into the record this morning the evidence of an article by the vice-president of CBRT, Mr. C. Smith, who says that in his opinion as a union man turn-around benefits are a matter of negotiation and collective bargaining between the railroad and the unions. We have the statement of management, also read into the record, to the same effect.

Mr. HOWE: We have to be careful with that, because on page 10 it says:

> In addition, the railway complies with provincial and municipal by-laws dealing with sanitation conditions.

So we also have provincial health laws coming up.

Mr. BROWNE (*Vancouver-Kingsway*): I might say that in regard to the sanitation question there are union representatives who want to make representations, and if we are going to hear any statement at all, then I feel we would be obligated to hear everything. We cannot start to hear what someone has to say about it, and not hear the other side.

Mr. McFARLANE: This would be a possibility for clarification of turn-around benefits. Does it apply to the arrangements for handling them at turn points, or is this an arrangement between the running crews of the trains concerned? They could have a turn-around benefit without having to go into any of the items that are specified in the article we have received this morning. Possibly we should get a clarification of that, either from the government or from someone, as to exactly what they mean by turn-around benefits. I do not know whether Mr. Gordon will agree with me.

Mr. GORDON: It seems to me you cannot get a precise definition of "turn-around benefits." At any point of time a turn-around benefit will be whatever we may have negotiated with the particular union affecting some particular thing. We are in negotiation right now, for example, and it is quite open to the men to bring up some entirely new subjects we have never thought of before. What is it? It is a new item in the collective bargaining agreement, and therefore it has got to be a collectively bargained item. It depends on the particular circumstances of the trade. What is a turn-around benefit for a man

who is on a train and lays over at some point? It is quite different from someone else who is not in that kind of service. The turn-around benefits are only known to the men in the particular union group with whom we are negotiating.

Mr. McFARLANE: It does vary from district to district.

Mr. GORDON: It varies, depending on the circumstances of work. There is no way of making a general interpretation of it. Those are simply matters affecting the conditions of work which the union representatives can quite properly bring up and suggest that they should get some recognition for something having to do with the manner in which they work. We think it is reasonable, and in the course of years various situations have arisen. What is good for an engineman may be quite different for an expressman.

The VICE CHAIRMAN: It seems to me that this might be a very good time to excuse the witnesses, because if we keep discussing the matter with the witness, we will get more on the management side of the discussion. The committee should by itself decide its future course of action, and if it does decide to call further witnesses on the matter, then we would call the management and have their views on the point.

Mr. BROWNE (*Vancouver-Kingsway*): I move we have an in-camera meeting to discuss the future of the committee right now.

The VICE-CHAIRMAN: Before the motion is put, might I have the indulgence of the committee for just a moment. The first matter is a letter from W. A. McLennan, M.P. concerning the pensions of retired railroaders. Could that be filed as an appendix? It is agreed.

(See appendix)

Do you think it would be in order if we noted on the record that representations were made by Mr. Forbes, the member for Dauphin, on behalf of Mr. Harry Folliott, legislative representative of the Beaverlodge brotherhood of railway trainmen at Winnipeg.

Mr. FISHER: I have no objection. I just want to underline that I have a number of representations which I could put on the record, but we would wind up with too big a list. I am quite agreeable in this particular case, since this lodge took the trouble to send a man to advise us.

The VICE-CHAIRMAN: His views were very helpful. They were presented in writing and we had a fairly extensive discussion on them. It is agreed.

We have a motion from Mr. Browne, seconded by Mr. McFarlane to the effect that we meet in camera.

Mr. FISHER: Do we have anything more in relation to C.N.R. that we have to consider? Are we all through with shipping?

Mr. GORDON: We have none. The ships belong to Cuba, subject to a suit being taken in the maritime courts.

Mr. McPHILLIPS: Is the money paid regularly?

Mr. GORDON: Yes, it is a five-year agreement that is guaranteed by the Bank of America. The third installment has been paid and there are two to go.

The VICE-CHAIRMAN: In the event we can have no further meeting today after we finish the in-camera meeting, if there is anything more to discuss we can do so at another time.

Mr. CREAGHAN: Could I make a suggestion? I suggest we adjourn our meeting now, dismiss the witnesses and hold an in-camera meeting. If we want to know any more on the subject, it will follow T.C.A.—if there is any more.

The VICE-CHAIRMAN: Gentlemen, I should like on your behalf to thank Mr. Gordon and other members of the Canadian National Railways staff for the excellent cooperation they have given us in providing the fullest information to the committee.

(The committee continued in camera)

APPENDIX "A"

CANADIAN NATIONAL TELEGRAPHS

JUN 21 PM 2 41

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MO DA 161 DH FRANK L6550—EDMONTON ALTA 21—

W EARL ROWE P C MP CHAIRMAN PARLIAMENTARY COMMITTEE
ON RAILWAYS AIRLINES AND SHIPPING—OTTAWA ONT—

DONALD GORDON, IN MY OPINION, IS A FIRST CLASS EXECUTIVE. THE CANADIAN PEOPLE ARE EXTREMELY FORTUNATE THAT HE IS WORKING IN THEIR INTERESTS, AND MANAGING THEIR LARGEST BUSINESS ENTERPRISE. GORDON HAS A COMBINATION OF QUALITIES VERY SELDOM FOUND IN A BUSINESS EXECUTIVE. HE IS A CLEAR THINKER, AND POSSESSES A CAPACITY TO ASSIMILATE DETAIL WITHOUT BECOMING ENMESHED. HE HAS COURAGE AND DETERMINATION AND THE QUALITIES OF A LEADER WHICH ENABLE HIM TO BALANCE THE INTERESTS OF THE ORGANIZATION WHEN SOMETIMES OPPOSED TO THE INTERESTS OF THE INDIVIDUAL. ABOVE ALL, HOWEVER, HE HAS CERTAIN HUMAN QUALITIES WHICH INSPIRE OUTSTANDING EFFORT BY THOSE WHO SERVE HIM. IN MY OPINION MR GORDON ENJOYS THE CONFIDENCE OF THE BUSINESS COMMUNITY IN CANADA AND IT IS INTERESTING TO OBSERVE THAT A SPOKESMAN OF LABOR HAS ALREADY EXPRESSED THEIR CONFIDENCE. I EXPECT, TOO, THAT MR GORDON ENJOYS THE CONFIDENCE OF MOST OF CANADA'S GOVERNMENTAL LEADERS AND PARLIAMENTARIANS—

FRANCIS W WINSPEAR.

APPENDIX "B"

Ottawa, Ontario,
June 16, 1961.

MEMO TO THE CHAIRMAN OF THE COMMITTEE
ON RAILWAYS, AIRLINES AND SHIPPING.

Dear Sir:

In view of the fact retired Civil Servants, R.C.M.P. etc. have received increases in their pensions, also considerable increases have been granted to War Disability Pensioners and those on War Veterans Allowances, it would seem reasonable and just that retired Canadian National Railway employees should also be given an increase in their pensions.

Many Canadian National Railroad employees retired a number of years ago on very small pensions, and the cost of living has increased for them percentage wise, the same as for all others who have retired.

I believe serious and sympathetic consideration should be given at once to those who have retired from Canadian National Railways.

Respectfully submitted.

(signed) W. A. McLennan,
W. A. McLennan, M.P.,
New Westminster, B.C.

WAMcL:HET

APPENDIX "C"

154 Reade Street,
Moncton, N.B. Can.
May 15th, 1961.

Right Hon. John G. Diefenbaker,
Prime Minister,
House of Commons,
Ottawa, Ont.

Dear Sir:

As Grand Secretary-Treasurer of the Retired Railway Employees Association Incorporated under Charter No. 247 I would like to draw your attention to a Brief forwarded to you some time ago by our Association.

Your T.V. appearance under date of May 12, 1961 was listened to with great interest by the Railway Pensioners, especially that portion where your Party wanted to assist all persons in Canada.

It was understood by the Grand Officers of our Association that a Commission would be appointed to deal with certain matters, among which would be pensions and that our submission to the Government of Canada as outlined in our Brief, copy of which is on your files in Ottawa. It was also understood that our Association would be given the opportunity of presenting our Brief to this Commission.

We read in *Hansard* and in the news where other Pensioners are receiving assistance, but no reference is made of the Retired Railway Employees, who are among the lowest paid Pensioners in Canada. Many of these Pensioners are suffering due to the high cost of living, etc.

We would like to be advised when Resolution No. 46, submitted to Parliament under date of January 22, 1961 will be acted upon.

We are the only Railway Pensioners Organized and working under a Federal Charter, In Canada.

With best personal regards, I am,

Sincerely,

(Signed) C. A. Dixon

Charles A. Dixon,
Grand Secretary-Treasurer.

HOUSE OF COMMONS

Fourth Session—Twenty-fourth Parliament

1960-61

SESSIONAL COMMITTEE

ON

RAILWAYS, AIR LINES AND SHIPPING

Owned and Controlled by the Government

Chairman: HONOURABLE W. EARL ROWE

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 7

TUESDAY, JUNE 27, 1961

Annual Report, Capital Budget and Auditor's Report to Parliament—
Trans-Canada Air Lines,
and
Capital Budget of the Canadian National Railways

WITNESSES:

The Honourable Leon Balcer, Minister of Transport; Mr. J. A. deLalanne, Chartered Accountant, Montreal.

From Trans-Canada Air Lines: Mr. Donald Gordon, and Mr. G. R. Hackett, members of the Board of Directors; Mr. H. W. Seagrim, Vice-President (Operations); Mr. W. G. Wood, Vice-President (Sales); Mr. W. S. Harvey, Comptroller.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1961

25519-0—1

SESSIONAL COMMITTEE ON RAILWAYS, AIR LINES AND SHIPPING

Owned and Controlled by the Government

Chairman: Hon. W. Earl Rowe

Vice-Chairman: Mr. Heber E. Smith

and Messrs.

Badanaï	Forbes	Monteith (*Verdun*)
Broome	Granger	Nugent
Browne (*Vancouver-Kingsway*)	Grills	Pascoe
	Howe	Pickersgill
Campeau	Kennedy	Robinson
Carter	McFarlane	Smallwood
Chevrier	McPhillips	Smith (*Calgary South*)
Creaghan	McWilliam	
Fisher	Mitchell	

R. L. Boivin
Clerk of the Committee.

CORRIGENDUM

In issue No. 1, Thursday, June 15, 1961, page 73, 12th line from the bottom of the page:

Delete 1957 and substitute therefor 1937.

ORDERS OF REFERENCE

HOUSE OF COMMONS,
TUESDAY, June 13, 1961.

Ordered,—That the Annual Reports for 1960 of the Canadian National Railways and the Canadian National Railways Securities Trust; the Auditor's Report to Parliament in respect of the Canadian National Railways for the year ended December 31, 1960, tabled on March 28, 1961; *the Budget for 1961 of the Canadian National Railways,* tabled on April 19, 1961; *the Annual Report of Trans-Canada Air Lines for 1960,* tabled on March 14, 1961; *the Auditor's Report to Parliament in respect of Trans-Canada Air Lines* for the year ended December 31, 1960, tabled on March 28, 1961; and the *Budget for 1961 of Trans-Canada Air Lines,* tabled on January 16, 1961; be referred to the Sessional Committee on Railways, Air Lines and Shipping.

MONDAY, June 26, 1961.

Ordered,—That the names of Messrs. Chevrier and Badanai be substituted for those of Mr. Brassard (*Lapointe*) and Miss LaMarsh respectively on the Sessional Committee on Railways, Air Lines and Shipping.

Ordered,—That the names of Messrs. Smith (*Calgary South*) and Nugent be substituted for those of Messrs. Martini and Horner (*Acadia*) on the said Committee.

Attest.

LÉON-J. RAYMOND,
Clerk of the House.

25519-0—1½

MINUTES OF PROCEEDINGS

TUESDAY, June 27, 1961.
(16)

The Sessional Committee on Railways, Air Lines and Shipping met this day at 9.35 o'clock a.m. The Chairman, Hon. W. E. Rowe, presided.

Members present: Messrs. Badanai, Broome, Browne (*Vancouver-Kingsway*), Carter, Chevrier, Fisher, Howe, Kennedy, McFarlane, McPhillips, McWilliam, Mitchell, Monteith (*Verdun*), Nugent, Robinson, Rowe, Smith (*Calgary South*), Smith (*Simcoe North*)—(18).

In attendance: The Honourable Leon Balcer, Minister of Transport. *From Trans-Canada Air Lines:* Mr. Donald Gordon, member of the Board of Directors; Mr. H. W. Seagrim, Vice-President (Operations); Mr. W. G. Wood, Vice-President (Sales); Mr. W. S. Harvey, Comptroller; Mr. G. R. Hackett, member of the Board of Directors.

The Chairman called the meeting to order and invited Mr. Gordon to introduce the delegation from Trans-Canada Air Lines. Mr. Gordon explained that the President of Trans-Canada Air Lines, Mr. G. R. McGregor, could not be present because he was undergoing tests on his doctor's orders. He introduced the officials present.

Mr. Seagrim read the Annual Report (1960) of Trans-Canada Air Lines, and assisted by Messrs. Harvey and Wood he was examined at length thereon.

At 11.00 o'clock a.m. the Committee adjourned until 2.30 o'clock p.m. this day.

AFTERNOON SITTING
(17)

The Committee reconvened at 2.35 o'clock p.m. The Chairman, Hon. W. E. Rowe, presided.

Members present: Messrs. Badanai, Broome, Carter, Chevrier, Creaghan, Fisher, Grills, Howe, Kennedy, McFarlane, McPhillips, Mitchell, Monteith (*Verdun*), Pascoe, Robinson, Rowe, Smith (*Calgary South*), Smith (*Simcoe North*)—(18).

In attendance: The Honourable Leon Balcer, Minister of Transport; Mr. J. A. deLalanne, Chartered Accountant. *From Trans-Canada Air Lines:* Mr. H. W. Seagrim, Vice-President (Operations); Mr. W. G. Wood, Vice-President (Sales); Mr. W. S. Harvey, Comptroller.

The Chairman called the meeting to order.

Mr. Seagrim provided answers to questions asked at the morning sitting and allowed to stand at that time.

The Committee continued and concluded its examinations, paragraph by paragraph, of Report of Trans-Canada Air Lines.

On motion of Mr. Chevrier, seconded by Mr. McPhillips,

Resolved,—That the Annual Report (1960) of Trans-Canada Air Lines be adopted.

On motion of Mr. Chevrier, seconded by Mr. Pascoe,

Resolved,—That the Committee convey to Mr. G. R. McGregor its regret of his absence and its wishes for a speedy recovery, and express its appreciation of the cooperation extended to it by officials of Trans-Canada Air Lines.

The Chairman tabled the capital budget of Trans-Canada Air Lines, which was adopted on motion of Mr. McPhillips, seconded by Mr. Broome.

On motion of Mr. Smith (*Simcoe North*), seconded by Mr. McFarlane,

Resolved,—That the Item of the Capital Budget of the Canadian National Railways which had been allowed to stand until the Committee had adopted the Capital Budget of Trans-Canada Air Lines be now adopted.

The Chairman thanked the witnesses from Trans-Canada Air Lines who were retired.

The Chairman tabled the Auditor's Report to Parliament on Trans-Canada Air Lines and called Mr. J. A. deLalanne as a witness. The witness was questioned on the said Report, which was adopted on motion of Mr. McPhillips, seconded by Mr. Monteith (*Verdun*).

At 5.10 o'clock p.m., the Committee having terminated its study adjourned to the call of the Chair.

R. L. Boivin,
Clerk of the Committee.

EVIDENCE

TUESDAY, June 27, 1961

The CHAIRMAN: Gentlemen, we have a quorum and the meeting will come to order. Naturally we all regret that the president of Trans-Canada Air Lines, Mr. Gordon McGregor, is not with us, but Mr. Donald Gordon is here. He is president of the C.N.R. and also a director of T.C.A. He can tell us about Mr. McGregor's condition and introduce to us those who are responsible for the management of T.C.A. in the absence of the president.

Mr. DONALD GORDON (*Member of the Board of Directors, Trans-Canada Air Lines*): Mr. Chairman and members of the committee, I appear for the directors of Trans-Canada Air Lines at the suggestion of the Minister of Transport and in the absence of Mr. Gordon McGregor, president of the company, who would normally present the annual report and budget on behalf of the board of directors. First, I should state for the record that on the advice of his doctors Mr. McGregor has, for the past week, been undergoing various tests and examinations in the neurological institute of Montreal, and as these are still in progress he is not able to be present at this meeting of the committee—the first, I may add, that he has missed since his appointment as president in 1948.

His condition at this moment is still under diagnosis, but I am glad to say that when I visited him yesterday afternoon he was feeling not only bright and cheerful but chafing to return to his office as soon as his doctors give the signal.

That is all I can say about his condition. It is still under diagnosis and the doctors expect to have some more definite word in a very short time.

My purpose in being here is to introduce to the committee the senior officers of the company who are authorized to present the annual report and budget, and to assure you they are fully qualified to answer any questions in respect of its operations and procedures. On my immediate right is Mr. H. W. Seagrim, Vice-President (Operations), who will be the chief witness. Supporting him are Mr. W. G. Wood, Vice-President (Sales) and Mr. W. S. Harvey, Comptroller, accompanied by such other assistants as they have thought advisable to bring along. These arrangements will, I am sure, give all necessary assistance to the committee so that its work may be completed as speedily as possible. That is all I have to say.

The CHAIRMAN: Now, gentlemen, you understand the situation. I believe Mr. Seagrim will read the annual report. I trust you have each got copies.

Mr. SMITH (*Calgary South*): Is it necessary to have the report read to us?

Mr. CHEVRIER: So far as I am concerned, I would be quite happy to take the report as read, and ask questions on it.

The CHAIRMAN: Since the report is in front of us, it might expedite matters to have it read. What is your pleasure, gentlemen?

Mr. BROOME: The report is not too long and I think it should be read.

The CHAIRMAN: Would you like it read paragraph by paragraph, and have each paragraph adopted as we go along?

Mr. BROOME: No.

Mr. SMITH (*Simcoe North*): I think that this year we found the reading of the report was useful when we were dealing with the C.N.R. I suggest you follow the same procedure in this case.

Mr. SMITH (*Calgary South*): After it is read I assume we shall be taking a particular subject and exhausting it before we proceed to different headings.

The CHAIRMAN: Very good, we shall have the report read.

Mr. H. W. SEAGRIM (*Vice-President, Operations, Trans-Canada Air Lines*): Mr. Chairman, before reading the report may I make a comment as to our approach to the committee?

The CHAIRMAN: That is fine.

Mr. SEAGRIM: In Mr. McGregor's absence we appear before you as a team, rather than as individuals. Mr. Gordon Wood our Vice-President (Sales), Mr. Harvey, our Comptroller, and myself each have a reasonably expert knowledge in our own particular fields, Mr. Wood in matters concerning sales, Mr. Harvey in matters concerning finance and myself in matters concerning operations. I think it would help if all questions were directed to me, because there is no one of us who has Mr. McGregor's broad knowledge of all the affairs of the company. Therefore, if questions are directed to me I, in turn can ensure our team member most competent to answer them will do so.

While we are still dealing with preliminaries, I should say we have assisting us Mr. R. C. MacInnes, our Director of Public Relations, Mr. N. E. Taylor, Chief of Economic Research, and Mr. H. Keil, our General Auditor. I shall now read our report.

BOARD OF DIRECTORS*

Appointed by Governor-in-Council: G. R. Hackett, Vancouver; A/V/M C. M. McEwen, C.B., M.C., D.F.C., LL.D., Toronto; G. R. McGregor, O.B.E., D.F.C., F.R.Ae.S., Montreal.

Elected by the Shareholders: E. W. Bickle, Toronto; Wilfrid Gagnon, C.B.E., Montreal; Donald Gordon, C.M.G., LL.D., Montreal; J. A. Northey, Toronto; W. G. Stewart, Q.C., Moncton.

*As at December 31, 1960.

OFFICERS

President: G. R. McGregor, O.B.E., D.F.C., F.R.Ae.S.
Vice-President, Operations: H. W. Seagrim.
Vice-President, Sales: W. G. Wood.
Comptroller: W. S. Harvey.
General Manager, Purchases and Stores: H. C. Cotterell.
Secretary: R. H. Tarr.
General Counsel: H. C. Friel, Q.C.
Executive Offices: International Aviation Building, Montreal, Quebec.

THE YEAR IN BRIEF

	1960	1959	% Change
Revenues	$148,986,526	$134,678,748	+ 11
Net Income	$ (2,607,350)	$ 152,554	
Seat Miles Made Available (000's)	3,108,506	2,749,228	+ 13
Seat Miles Occupied (000's)	2,050,600	1,828,902	+ 12
Ton Miles Made Available (000's)	402,892	356,732	+ 13
Ton Miles Used (000's)	233,401	208,208	+ 12
Average Return per Passenger Mile	6.25¢	6.31¢	— 1
Average Return per Revenue Ton Mile	63.16¢	64.12¢	— 2

FINANCIAL REVIEW

Operating results for 1960 compared with those of 1959 are as follows:

	1960	1959	Change
Income from operations	$14,723,881	$14,558,559	+$ 165,322
Provision for depreciation	13,671,303	12,145,082	+ 1,526,221
	$ 1,052,578	$ 2,413,477	—$1,360,899
Non-operating income—net	4,437,538	1,469,802	+ 2,967,736
Income before interest expense ..	$ 5,490,116	$ 3,883,279	+$1,606,837
Interest on loans and debentures	8,097,466	3,730,725	+ 4,366,741
Net income or (deficit)	$(2,607,350)	$ 152,554	—$2,759,904

ANNUAL REPORT

Montreal, February 28, 1961

To the Honourable,
The Minister of Transport, Ottawa

Sir:

The Board of Directors submit the Annual Report of the Trans-Canada Air Lines system for the calendar year 1960.

Financial

After nine years of surpluses, the Company suffered a loss of $2,607,350 in 1960. Some reduction occurred in the average amount of revenue derived from each passenger mile of transportation. The airline made available 13% more capacity at a cost per available seat mile lower than in 1959.

Revenue growth started slowly, reflecting the changed competitive situation. There was, however, marked acceleration in the latter half of the year under the stimulus of new equipment and lower Atlantic fares.

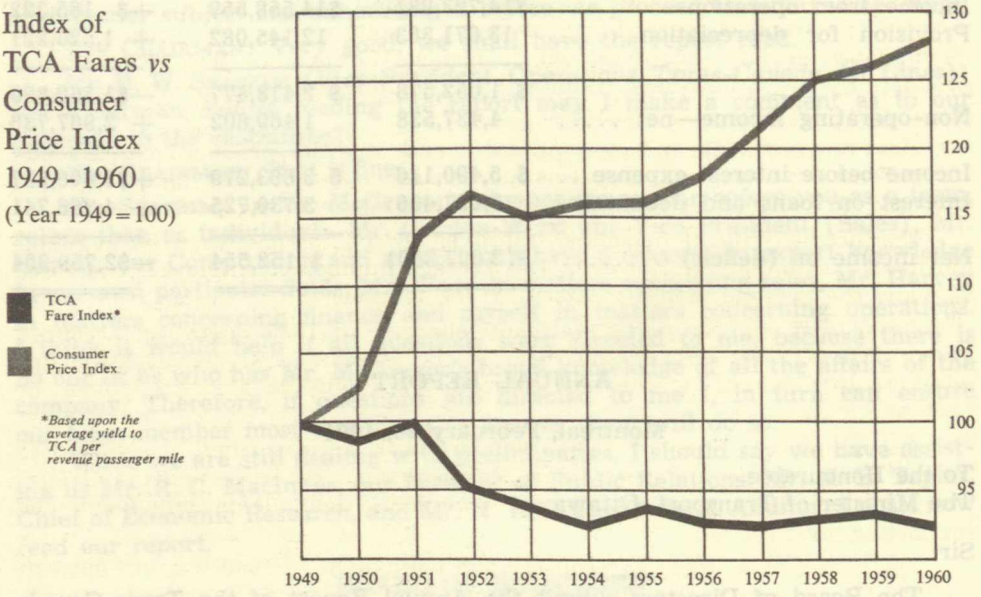
The Company's traffic and revenues increased as follows:

TRAFFIC	Domestic %	Atlantic %	Southern %	System %
Passenger Miles	11	27	— 2	12
Commodity Ton Miles	15	30	3	18
Mail Ton Miles	6	9	28	6
REVENUE				
Passenger	10	25	—	11
Commodity	9	8	10	9
Mail	1	6	22	3

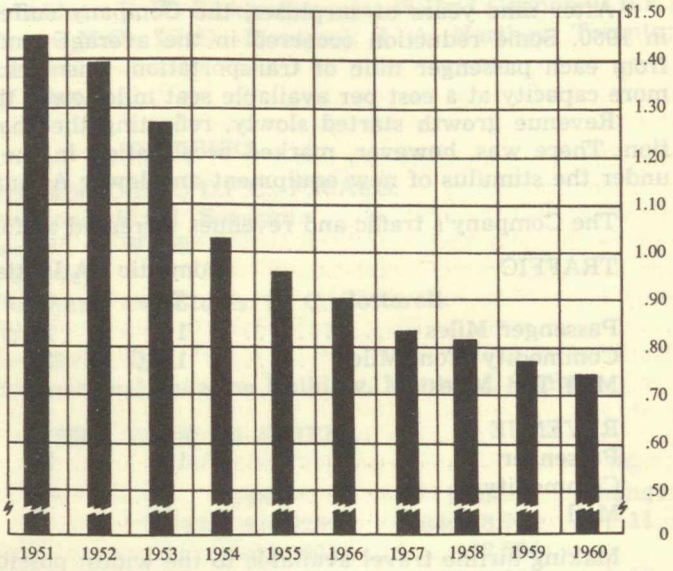
Making airline travel available to the widest possible market has the effect of lowering the average payment which TCA receives for its services. On North American services, for example, the proportion of Economy class passenger traffic increased from 27% in 1959 to 34% in 1960, and as a result the average return per passenger mile dropped from 6.31¢ to 6.24¢.

The percentage of occupancy of total available seat miles was, at 66, lower than the system load factor for 1959.

Index of TCA Fares *vs* Consumer Price Index 1949 - 1960 (Year 1949 = 100)



Mail Pay Per Mail Ton Mile — North American 1951 - 1960



It again proved possible to bring about a small reduction in total cost per available ton mile. This is particularly gratifying when it is realized that, with respect to net interest charges alone, unit costs increased by 56% to 1.03¢ per available ton mile.

In 1950 fuel prices declined slightly. The unit cost of maintenance labour and material showed marked improvement in spite of the difficulties of introducing new aircraft and of moving to a new Maintenance Base. The greater productivity of the new fleet, coupled with declining use of piston aircraft, were major factors in the improvement.

Heavy investments in new equipment and facilities produced corresponding increases in fixed costs. Depreciation, insurance and interest, taken together, exceeded $19,000,000 in 1960, an increase of 25% over the previous year.

The productivity of personnel improved by 5%, as measured by available ton miles per employee. However, the average number of employees increased 8%, and the average monthly salary by 7% in 1960.

Other than the proportion already charged to 1960 operating accounts, exceptional training costs in that year in the amount of $1,384,000 associated with the introduction of the new aircraft types will be amortized over the next four years.

The surplus balance of $6,842,000 has been appropriated to establish a reserve against anticipated net differences between book value and the amount realized on the disposal of the piston engine fleets, their major components and supporting inventories.

The added investment in property and equipment in 1960 was $87,006,000, representing progress and final payments for DC-8 and Vanguard aircraft, ground equipment and the Dorval Base facilities.

Service and Traffic Growth

During the year the Company introduced jet air service to Canada. This was a memorable event in the history of Canadian transportation, involving a revolutionary change in the speed of travel and shipment. It was perhaps the most significant forward step in the Company's two decades of operation.

Transcontinental jet service with DC-8 equipment began on April 1, a day that appropriately marked the 21st anniversary of TCA's inauguration of transcontinental passenger service. The initial schedule of a daily flight between Montreal, Toronto and Vancouver was introduced without complication, testifying to the planning and personnel instruction that had preceded the use of the new equipment. Flight time from Montreal to Vancouver was reduced from nine hours, fifteen minues to just over five hours. Similarly, with the introduction of a daily DC-8 trans-Atlantic flight on June 1, travel time from Montreal to London was cut from eleven hours, ten minutes to six hours. A second daily trans-continental jet flight was added later in the year, including a stop at Winnipeg. Although the limited number of jet aircraft available was a restricting factor, the 127-passenger, 550-mile-per-hour DC-8s flew 243,681,150 revenue passenger miles in 1960, almost 12% of the Company's total, and carried 173,900 passengers. The popularity of jet travel was immediate, with passenger load factors being uniformly high.

Use of the larger aircraft and the increase of flight frequencies on many domestic routes combined to produce a 13% growth in TCA's passenger carrying capacity. Over three billion seat miles of air transportation were made available to the travelling public in 1960. At the same time revenue passenger miles increased by 12% with the airline accommodating 3,440,303 air travellers. During the summer months TCA provided 725 round trip seats daily across the continent and 1,500 round trip seats weekly on the Atlantic. Approxi-

mately an equal number of trans-Atlantic seats were offered by British Overseas Airways Corporation with whom a commercial agreement became effective on March 1.

An important expansion of the Company's Overseas operations occurred on April 2 with the inauguration of trans-Atlantic service between Halifax and London, England.

These changes in the scale and quality of TCA's operations were supported by an intensive promotional campaign involving advertising, direct mail techniques and personal solicitation.

Although there was no significant change in the Company's domestic passenger fares, TCA conducted exhaustive research for a general revision to become effective on January 2, 1961. On November 3, following completion of its analysis and after consultation with the Air Transport Board, public announcement was made of the Company's intention to institute a revised fare structure of important economic significance for both the airline and the travelling public. This involved a new basic calculation of passenger fares in relationship with operating costs on flights of varying mileages. It has the effect of substantially decreasing domestic fares on the longer flights and of increasing them to some extent on the shorter trips. The Company's planning called simultaneously for abroad extension of Economy class service and the introduction of new low cost excursion fares. In addition, provision was made for an increase in domestic free baggage allowances to the levels applying on international flights. The broad effect of this general revision is to give TCA an economically rational tariff, as low as any in scheduled North American air transportation.

The autumn introduction of much lower trans-Atlantic excursion fares produced a gratifying increase in Overseas passenger traffic and it is of interest that TCA was one of the carriers most strongly advocating this fare reduction.

Air freight traffic was 19% greater than in the previous year and air express rose by 9%. Here too the airline engaged in energetic sales promotion in an effort to stimulate a great use of the very large air cargo capacity being offered. Scheduled transcontinental service with freight aircraft was supplemented by the space available on all other TCA flights for the carriage of commodities. The directional flow of traffic continued, however, to be predominantly East to West in spite of partially successful endeavours to encourage Eastbound traffic through the use of special commodity rates.

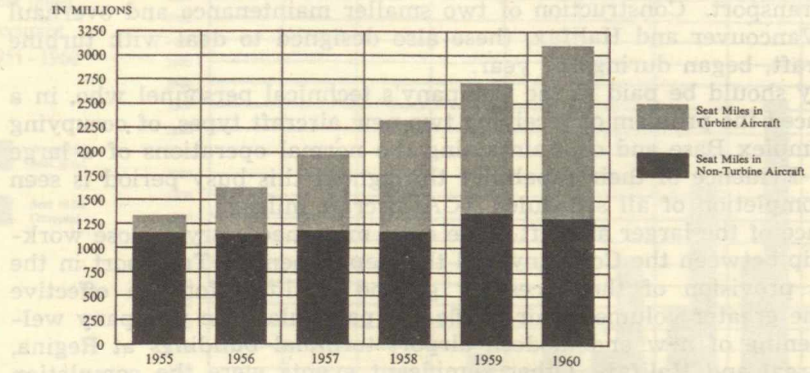
Mail traffic increased by 6%. Although the general carriage of first class mail by air has been in effect since 1948, Canada remains the only country in the Western Hemisphere to enjoy this expeditious delivery system which adds materially to the speed and efficiency of the nation's communications. TCA's relationship with the Post Office Department continued to be close and constructive. In accordance with the Company's mail contract, the carrier's remuneration per unit of mail transported again decreased as the volume of traffic continued to rise. This continuous trend over the past decade is illustrated on page 6.

At the close of 1960 the airline operated on 30,399 miles of domestic and international routes. TCA's aircraft now serve 59 communities in Canada, the United States, the British Isles, Continental Europe and the Caribbean. The Company, which began life in 1937 on a 122-mile Vancouver-Seattle route, is today rated by international standards as the world's seventh largest air carrier.

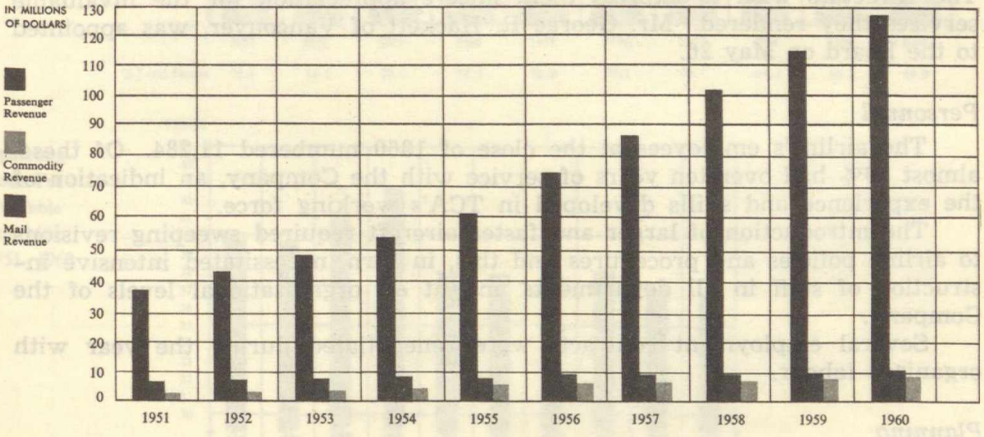
Equipment and Facilities

Delivery of the Company's first full jet aircraft, a Rolls-Royce powered Douglas DC-8, occurred on February 7, and December 7 saw the arrival of the first of the big turbine propeller Vickers Vanguards, also equipped with Rolls-Royce engines. This was the year in which TCA's transition from piston power to turbine power approached its climax. By the end of 1960 seven DC-8s and

Available Seat miles in Turbine and Non-Turbine Aircraft
1955 - 1960 (EXCLUDING CHARTER)



Sources of TCA System Revenue 1951 - 1960



three Vanguards had been received. The last passenger carrying North Star was retired from scheduled service West of Toronto at the end of October, heralding the beginning of the end of the Company's piston engined fleet.

At the close of 1960 TCA had in its possession 7 DC-8s, 3 Vanguards, 49 Viscounts, 12 Super Constellations, 21 North Stars and 7 DC-3s.

The new Base at Dorval, designed specifically for the care of turbine powered aircraft, engines and accessories, was ready to receive the first DC-8 and became fully operative during the year. This new facility, employing 3,000 persons, incorporates the most advanced design concepts and will ensure a continuance of the Company's high standards of aircraft engineering, maintenance and overhaul. The Base was officially opened on December 15 by the Minister of Transport. Construction of two smaller maintenance and overhaul Facilities at Vancouver and Halifax, these also designed to deal with turbine powered aircraft, began during the year.

Testimony should be paid to the Company's technical personnel who, in a single year, faced the problem of receiving two new aircraft types, of occupying a new and complex Base and of maintaining the normal operations of a large aircraft fleet. Evidence of their capability throughout this busy period is seen in the 98% completion of all scheduled TCA aircraft mileage.

Appearance of the larger aircraft made even more necessary a close working relationship between the Company and the Department of Transport in the planning and provision of the necessary ground facilities for the effective handling of the greater volume of air traffic. In particular, the Company welcomed the opening of new and modern airport terminal buildings at Regina, Ottawa, Montreal and Halifax. Other significant events were the completion of new and larger airports to serve civil aviation at Edmonton and Halifax.

Board of Directors

During the year, Mr. R. A. C. Henry and the Hon. F. M. Ross left the Board. The Directors wish to express their sincere appreciation for the invaluable services they rendered. Mr. George R. Hackett of Vancouver, was appointed to the Board on May 26.

Personnel

The airline's employees at the close of 1960 numbered 11,284. Of these, almost 30% had over ten years of service with the Company, an indication of the experience and skills developed in TCA's working force.

The introduction of larger and faster aircraft required sweeping revisions to airline policies and procedures and this, in turn, necessitated intensive instruction of staff in all departments and at all organizational levels of the Company.

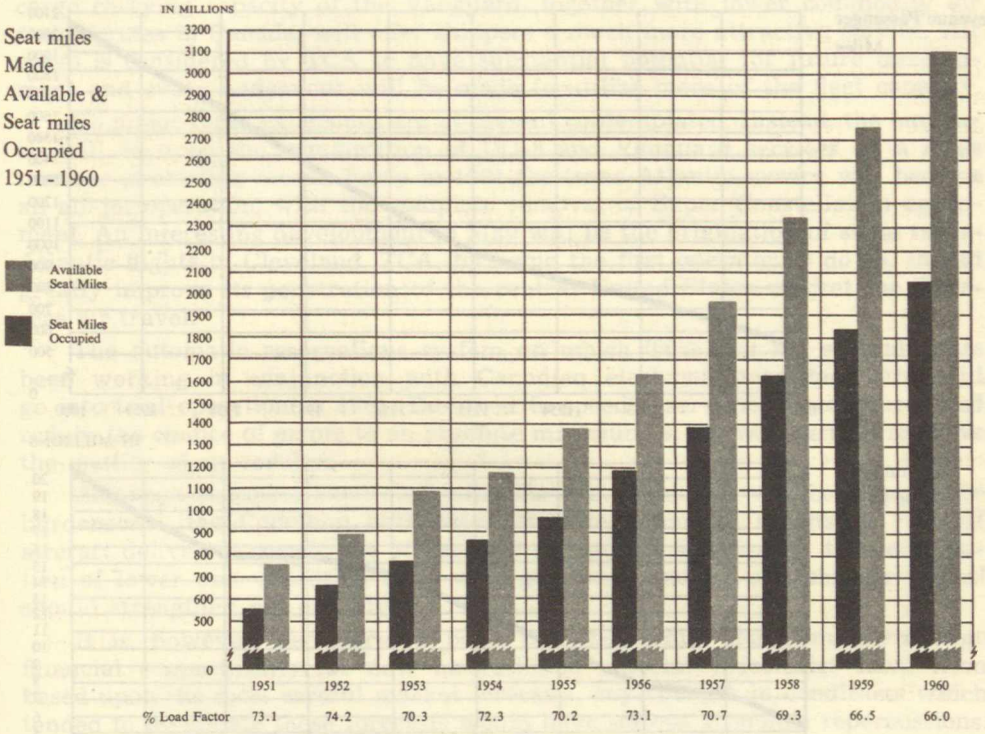
Several employment contracts were renegotiated during the year with organized labour.

Planning

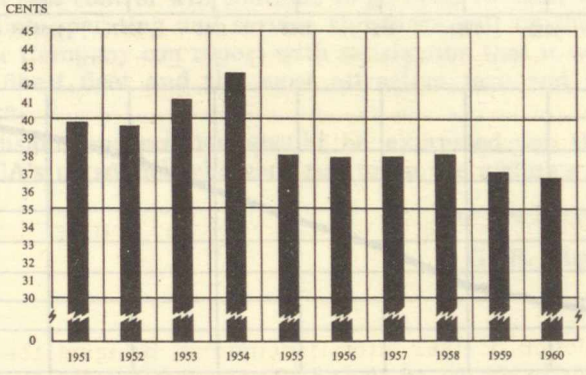
With the completion of 1961 aircraft deliveries, bringing the number of DC-8s and Vanguards in service to 10 and 20 respectively, all Super Constellations, North Stars and DC-3s will be retired from service. TCA will then become the world's first major airline to be all turbine powered, with augmented ability to offer Canadians a very high quality of air transportation.

Transcontinental Vanguard service will begin in 1961 and the following months will see this 96-passenger, 425-mile-per-hour turbine propeller airliner extended to a number of intercity, trans-border and Caribbean services. Fast, comfortable and economical to operate, this fine aircraft will, in general, be used on the Company's medium range routes. DC-8s will fly the long range

Seat miles Made Available & Seat miles Occupied 1951 - 1960

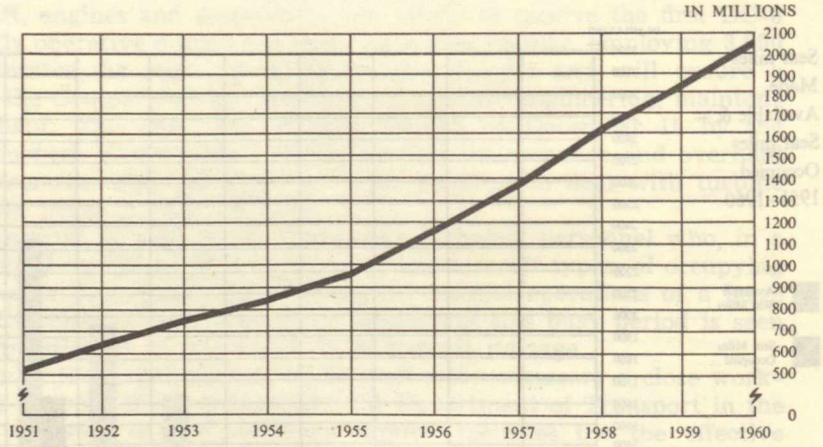


Operating Costs Per Available Ton Mile 1951 - 1960

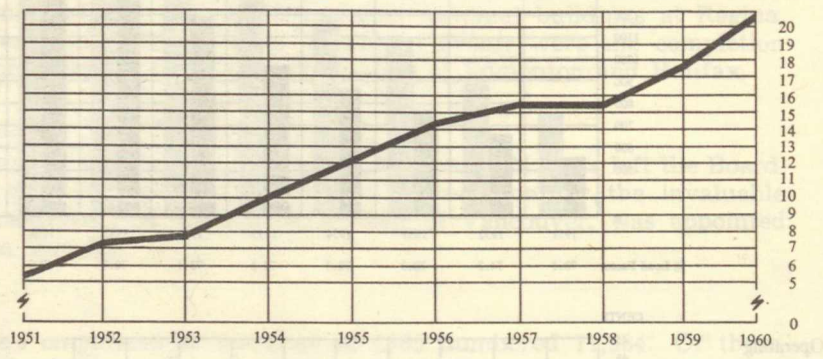


Growth of Passenger, Commodity & Mail Traffic 1951 - 1960

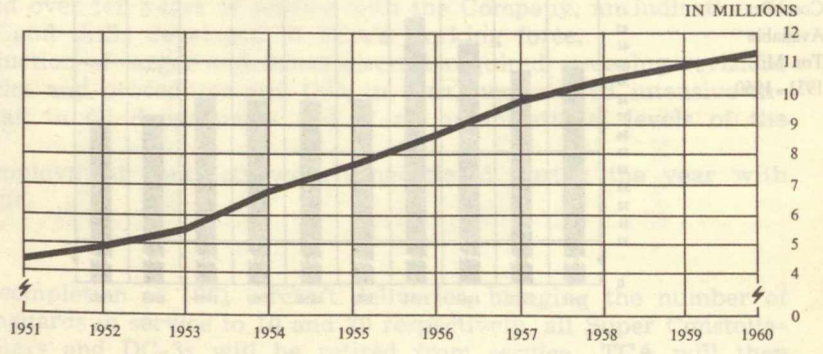
Revenue Passenger Miles



Commodity Ton Miles



Mail Ton Miles



services, while the Viscounts, a number of which have been converted to 54-seat Economy class aircraft, will provide the bulk of the short haul transportation.

The speed and comfort of the all-turbine fleet, combined with the new fares and a wider availability of Economy class service will, it is hoped, strongly stimulate passenger traffic.

There will be a parallel effort to increase commodity traffic. The very large cargo carrying capacity of the Vanguard, together with lower commodity air freight rates in Canada, will offer shippers a much more attractive service. Air cargo is considered by TCA to have substantial potential for future development and every endeavour will be made to utilize more of the fleet capacity.

No major route extensions are at present contemplated. Instead, the emphasis will be upon the inauguration of DC-8 and Vanguard services on a large number of existing routes. Early in 1961 the trans-Atlantic service will become an all-jet operation, with the complete removal of Super Constellation equipment. An interesting development in May will be the origination of some trans-Atlantic flights in Cleveland. TCA, by being the first operator to do so, should greatly improve its penetration of the central United States market for Overseas air travel.

The automatic reservations system on which TCA has for several years been working in conjunction with Canadian electronic manufacturers, will go into trial operation in 1961. Designed to speed reservations procedures and reduce the chance of errors to an absolute minimum, it too will further improve the quality of air services.

Although expenses associated with the fleet transition will continue to be burdensome, the Company anticipates improved financial results in 1961. If aircraft deliveries permit use of the new equipment as planned, the combination of lower unit operating costs with greater passenger and shipper appeal should strengthen net earnings.

It is, however, necessary to point out that while the Company's large financial commitments for new aircraft and associated facilities have been based upon the most careful market forecasts, any changes in conditions which tended to invalidate those forecasts would have serious economic repercussions.

Stringent cost control will continue to go hand in hand with vigorous sales promotion. High operating and service standards will be the airline's primary objective. The Company can report with satisfaction that it will offer to Canada in 1961 the finest fleet and the most attractive fare and rate structures in Norh America.

In conclusion, appreciation should be expressed for the loyal and able service of TCA's personnel who continue to be the airline's greatest asset.

For the Directors,

G. R. McGREGOR,
President.

BALANCE SHEET

as at December 31, 1960

ASSETS

Current Assets

Cash		$ 6,059,622
Accounts receivable		
Government of Canada	$ 2,232,698	
General traffic	7,986,611	
Other	4,486,571	14,705,880
Materials and supplies—at cost		17,104,449
Other current assets		589,452
		$ 38,459,403
Insurance Fund		5,690,067

LIABILITIES

Current Liabilities

Accounts payable		$ 6,072,626
Traffic balances payable to other airlines		5,415,005
Air travel plan deposits		1,722,100
Salaries and wages		2,440,965
Unearned transportation revenue		3,156,618
Interest payable		3,168,064
		$ 21,975,378
Loans and Debentures—Canadian National Railways		
Notes payable	$ 27,000,000	
Debentures	182,100,000	209,100,000
Reserves		
Insurance	$ 5,690,067	
Properties, plant and equipment	6,841,668	12,531,735
Capital Stock		
Common stock—authorized 250,000 shares par value $100 per share —issued and fully paid, 50,000 shares		5,000,000

25519-0—2½

Capital Assets		
Property and equipment—at cost	$ 217,086,596	
Less: Accumulated depreciation	72,550,665	
	$ 144,535,931	
Progress payments	58,537,217	203,073,148
Unamortized Training Costs		1,384,495
		$ 248,607,113

Surplus		
Balance, January 1, 1960	$ 6,841,668	
Appropriated for Properties, plant and equipment Reserve	6,841,668	
	—	
Deficit, year 1960	$ (2,607,350)	
Recoverable from Government of Canada	2,607,350	—
		$ 248,607,113

This is the balance sheet referred to in my report to the Minister of Transport dated February 10, 1961.

J. A. deLALANNE,

CHARTERED ACCOUNTANT,
Auditor.

Capital Commitments and Contingent Liabilities	
Balance of payments for equipment and construction under contract	$ 35,000,000
Notes under discount with banks in connection with the Pay Later Plan	2,258,000

W. S. HARVEY,
Comptroller.

STATEMENT OF INCOME

	1960	1959
OPERATING REVENUES		
Passenger	$ 127,595,694	$ 114,338,529
Mail	10,244,192	9,986,475
Express and freight	7,931,310	7,265,752
Excess baggage	1,131,729	1,040,975
Charter	506,872	876,611
Incidental services—net	1,576,729	1,170,406
	$ 148,986,526	$ 134,678,748
OPERATING EXPENSES		
Flying operations	$ 30,485,450	$ 28,338,907
Maintenance	37,032,782	34,019,516
Passenger service	11,572,876	9,636,870
Aircraft and traffic servicing	27,741,696	24,320,876
Sales and promotion	21,800,032	18,913,247
General and administrative	5,629,809	4,890,773
	$134,262,645	$ 120,120,189
Income from Operations	$ 14,723,881	$ 14,558,559
Provision for depreciation	13,671,303	12,145,082
	$ 1,052,578	$ 2,413,477
Non-operating income—net	4,437,538	1,469,802
Income Before Interest Expense	$ 5,490,116	$ 3,883,279
Interest on loans and debentures	8,097,466	3,730,725
Net Income or (Deficit)	$ (2,607,350)	$ 152,554

AUDITOR'S REPORT

TO THE HONOURABLE, THE MINISTER OF TRANSPORT,
OTTAWA, CANADA.

I have examined the balance sheet of Trans-Canada Air Lines as at December 31, 1960 and the statement of income for the year ended on that date. My examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as I considered necessary in the circumstances.

In my opinion, the accompanying balance sheet and the related statement of income are properly drawn up, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, so as to give a true and fair view of the state of affairs of the Corporation at December 31, 1960 and of the results of its operations for the year ended on that date, according to the best of my information and the explanations given to me and as shown by the books of the Corporation.

I further report that, in my opinion, proper books of account have been kept by the Corporation and the transactions that have come under my notice have been within the powers of the Corporation.

J. A. deLalanne,
Chartered Accountant.

February 10, 1961.

SIGNIFICANT STATISTICS

	1960	1959	% Change
Revenue Passengers	3,440,303	3,209,197	+ 7
Seat Miles Made Available (000's)	3,108,506	2,749,228	+13
Seat Miles Occupied (000's)	2,050,600	1,828,902	+12
Revenue Passenger Load Factor	66.0%	66.5%	
Mail Ton Miles (000's)	11,593	10,905	+ 6
Express Ton Miles (000's)	2,887	2,653	+ 9
Freight Ton Miles (000's)	17,981	15,100	+19
Ton Miles Made Available (000's)	402,892	356,732	+13
Ton Miles Used (000's)	233,401	208,208	+12
Weight Load Factor	57.9%	58.4%	
Total Aircraft Miles Flown (000's)	58,951	56,981	+ 4
% Scheduled Miles Completed	97.7%	97.9%	
Average Number of Employees	11,172	10,358	+ 8
Seat Miles Made Available per Employee	278,241	265,421	+ 5

Jet flight, introduced on April 1, met with immediate public favour. The 127-passenger DC-8s, cruising at 550 m.p.h., cut previous transcontinental and trans-Atlantic travel times in half.

The CHAIRMAN: Now, gentlemen, you have heard the annual report. Before you discuss the different features of it, I might say that we have present here Mr. G. R. Hackett of Vancouver. It has been my pleasure to meet him and I understand he is present.

Mr. CHEVRIER: I should like to ask a question in regard to the paragraph on finance. The report begins by saying that after nine years of service the company registered its first loss of $2,600,000 as compared with the surplus in 1959 of $152,000. Could Mr. Seagrim give us a short summary of the reasons for the worsening of the financial position?

Mr. SEAGRIM: A number of factors contributed to this red figure. I will ask Mr. Harvey to cite a few examples.

Mr. W. S. HARVEY (*Comptroller, Trans-Canada Air Lines*): I think we have tried to elaborate in the 1960 annual report some of the items, associated with the introduction of new equipment and facilities. We may even face these in 1961. In 1960 for example, the operation of a dual base at Dorval was costly as we did not move in as early as expected, which meant that we had to keep two separate staffs on each side of the operations. That, in itself, necessitated a fair amount of overtime.

Another major factor was substitution of low-cost aircraft—I am speaking of cost per available seat mile—namely, the Vanguard, substituted by high-cost aircraft such as the Super Constellation and North Star. Included in this transition period, as could well be expected, especially when you are introducing two new fleets into service, are the costly operations of planning, developing new procedures, class-room and on the job instruction. The exceptional training costs have been deferred.

Mr. SMITH (*Calgary South*): Before asking any questions, I should like to express my regret at Mr. McGregor's illness and an earnest wish for his speedy return. I would like to comment on the remarks of his comptroller when he suggests that perhaps some of these costs will be extended in the coming year, and perhaps he would relate this to the forecast of possible "serious economic repercussions" of changing market conditions. I assume by this that the directors are forecasting the possibility of some further competition.

Mr. SEAGRIM: The 1961 forecast has been predicated on certain assumptions, and obviously any deterioration in the conditions on which these assumptions were based will have an effect on the year-end figures. The expenses which were incurred in 1960 in connection with the introduction of new fleet types will continue into 1961, but I expect on a declining scale, as we get all our Vanguards and DC-8s introduced into service.

Mr. SMITH (*Calgary South*): You expressed the hope that the new fleet will strongly stimulate passenger traffic. Are you not able to tell us from the first few months of operation that it is already a fact? As a matter of fact, I noted that you cannot obtain a reservation now, and have not been able to for some time, on the 800 and 803. Does that not indicate that passenger traffic is going to be higher, and that the load factor for this period will be something in excess of 66 per cent?

Mr. SEAGRIM: I will ask Mr. Wood to deal with that.

Mr. W. G. WOOD (*Vice-President, Sales, Trans-Canada Air Lines*): The fact is that the stimulative effect of the new fare structure and new equipment is already apparent in the first few months of this year. In fact, we have enjoyed a growth of something in the order of 25 per cent in passenger miles in the first five months, while at the same time United States carriers have had a decrease of 4 per cent in the over-all traffic on major lines in the United States. I think the annual load factor will still be in the order of 60 per cent or 65 per cent because we have considered that there would be a slight deterioration in the volume of traffic moving, as we approached June and July, to that which was anticipated. Therefore, I think there will be a levelling off which will bring us roughly to the figures of the forecast.

Mr. SMITH (*Calgary South*): But you have shown a 25 per cent increase in the traffic.

Mr. WOOD: Yes.

Mr. SMITH (*Calgary South*): With the jet fleet?

Mr. WOOD: With the jet fleet and the Vanguards which are in service and with the effect of the new fare structure, providing a basic economy service which has given impetus to the total volume of traffic which is included in the 25 per cent increase.

Mr. SMITH (*Calgary South*): Mr. McGregor has made a number of speeches discussing the future competition, and I wonder if Mr. Seagrim will make some observations?

Mr. SEAGRIM: The competitive situation within Canada is a subject of study right now, as I understand it, by a committee of cabinet, and I believe it is not appropriate for me to discuss this. I understand, Mr. Chairman, that that is so.

Mr. SMITH (*Calgary South*): I will repeat my question. Mr. McGregor has made a number of speeches throughout Canada, working on the basis there should not be competition which would destroy the financial structure of the corporation, yet we see a situation in which T.C.A. has indicated a 25 per cent increase in jet traffic, and there is some difficulty, as I say, in obtaining reservations on the airline at present. I am just trying to reconcile this with the argument that there should be no increase in competition.

Mr. CHEVRIER: In the first place, could we find out where the competition is going to take place? Is it in the international field, or the domestic field? What I would like to know, apropos of the question asked by Mr. Smith, is what competition is likely to ensue from other carriers, first in the international field. Could we discuss that?

Mr. SEAGRIM: Mr. Chairman, I believe that this question of domestic competition is under consideration by a committee of cabinet. I believe that

you should indicate whether or not this is a fit subject for me to discuss at this point.

Mr. CHEVRIER: I have no objection as to what disposition you may take on that, but I suppose if you rule against discussion, then that appertains to the whole field.

Mr. BROOME: On that same point of order, or question, Mr. Chairman, there are many things in front of cabinet.

If we have to have the cabinet agenda before us to find out what we can discuss in committee, it is going to be a different way of operating committees than in the past. Regardless of whether it is before cabinet, this committee has the right and the power to check the operations of T.C.A. This matter of competition is referred to in the statement in a direct way. It has been referred to by management and it has been the subject of press comment. So, Mr. Chairman, I suggest that this is a proper subject to discuss in this committee, and if it is ruled against—that we do discuss it—then I think we will have to go to a vote in the committee.

Mr. CHEVRIER: May I say another word? If the matter is before the cabinet, I do not think there is any doubt about the decision in respect to what Mr. Broome has said. That ends it, because that has been the attitude of this committee. But whether it is before the cabinet or not, there is no doubt about it, that it has been discussed in many other areas. Aside from that, it would strike me that at least we could enter into a discussion of some of the things that have appeared in the press.

Mr. SMITH (*Calgary South*): This is my point: as Mr. Seagrim well knows, his superior has made a number of statements dealing with this subject. If he did nothing more than reiterate what had been said—and I assume Mr. McGregor's point of view is held by Mr. Seagrim—this indeed would be refreshing in the light of the present figures which T.C.A. are now offering us. I do not want to press it, but it seems to me this is a very important issue before the committee.

Mr. NUGENT: I would like to ask one question. Mr. Smith made reference, on page 15, to this statement in the company's report:

> Any changes in conditions which tended to invalidate those forecasts would have serious economic repercussions.

I would like to know if the company so planned and purchased aircraft that it is bounded to lose money if any further competition is allowed on either the domsetic or foreign lines?

The CHAIRMAN: As has been said, there has been a certain amount of discussion. That does not mean the order to which you referred is correct. The terms of reference, of course, ask that—

> —the annual report of Trans-Canada Air Lines for 1960, tabled on March 14, 1961; the auditor's report to parliament in respect of Trans-Canada Air Lines for the year ended December 31, 1960, tabled on March 28, 1961; and the budget for 1961 of Trans-Canada Air Lines, tabled on January 16, 1961; be referred to the sessional committee on railways, air lines and shipping.

I do not think there is anything in the terms of reference that is before the cabinet at all. However, we have had a certain degree of latitude. I feel that Mr. Seagrim's point is well made, that he does not want to enter into discussions as to his opinions on what the cabinet is trying to decide. Maybe Mr. Donald Gordon would have something to say about the view he thinks Mr. McGregor would take. As was mentioned before by Mr. Seagrim, the absence of Mr. Gordon McGregor leaves him rather embarrassed and he does not wish to enter his personal opinions on these points.

Mr. GORDON: Perhaps I could be of assistance to the committee in this respect? I discussed this point with Mr. Gordon McGregor yesterday afternoon. If he had been here, his position would be that the question of the general competitive climate is now definitely before the government for decision. He would not have been able to comment about the future climate until the government policy has been declared. There have been hearings before the air transport board in which Mr. McGregor's views have been fully put on the record. There has been a cabinet committee—it is a matter of public knowledge I understand—at which representations had been made. That matter is now pending for decision in respect of government policy. He would not have felt free to discuss this question in terms of forecasts, for the obvious reason that government policy has not yet been declared.

Mr. NUGENT: Mr. Chairman, that does not have any bearing on the question I asked.

The CHAIRMAN: No, but we are trying to deal with this first.

Mr. NUGENT: Perhaps, if we got an answer to my question, the committee would be in a better position to assess the necessity for further questions in which they are interested.

The CHAIRMAN: It would not alter the order of procedure.

Mr. BROOME: Why do we not take the questions as they come along and have them answered, because there are many aspects of competition we can deal with in this committee. There may be certain questions that Mr. Seagrim may not want to answer or of which he may not have knowledge.

Mr. SMITH (*Simcoe North*): On the question of competition, is T.C.A. required to file passenger capacity and similar information before the air transport board?

Mr. SEAGRIM: Yes.

Mr. SMITH (*Simcoe North*): And are the other lines similarly required to file passenger information?

Mr. SEAGRIM: Yes, they are.

Mr. SMITH (*Simcoe North*): And is that information being filed on a public basis or on a confidential basis?

Mr. WOOD: It is filed on a confidential basis.

Mr. SMITH (*Simcoe North*): In other words, the information on the C.P.A. file is not made available to you, and the information you filed is not made available to C.P.A.?

Mr. WOOD: That is right.

Mr. SMITH (*Simcoe North*): How long have you been filing this information with them?

Mr. WOOD: We have been filing a certain amount of information for many years ago, but the character of the information changed a year or two ago. We filed it on the basis that the A.T.B. adopted for airlines—filing information of all descriptions. This is what we file with the air transport board.

Mr. SMITH (*Simcoe North*): I have one more question in relation to the substantial increase in passenger travel the first three months of this year. On what date did the new economy fares come into effect?

Mr. WOOD: January 2.

Mr. CHEVRIER: I take it that the statement Mr. Gordon made a moment ago would not apply to regional competition, because the air transport board made a statement recently, following a public hearing as to the position of regional air carriers in eastern Canada. I take it that that being a public matter, it is one which we could discuss here in due course.

Mr. GORDON: Probably. The best thing is to ask the specific question you have in mind. I think T.C.A. officers can probably answer this.

Mr. CHEVRIER: My question is this, that in the statement made by the air transport board and commented upon by the Minister of Transport, the regional carriers east of the Ottawa river were given additional routes and rights. I am thinking now of Nordair, Quebecair, Maritime Central, and so forth. Has this decision of the air transport board affected T.C.A. in those areas?

Mr. WOOD: There are two ways to answer this. It depends a great deal on the dates when carriers implement service on the routes that have been awarded to them, what type of equipment they will operate, the schedules, and so on. To the best of our ability we have estimated what effect a full year's operation under competitive conditions would have on T.C.A., with the equipment we believe they might use. This would roughly represent $800,000.

Mr. CHEVRIER: Of loss?

Mr. WOOD: Diversion of revenue of $800,000.

Mr. CHEVRIER: Then there is some question that T.C.A. might withdraw entirely from some of those routes. Is there any truth to that?

Mr. WOOD: If I may answer that: to the best of my knowledge there is no intention of withdrawing.

Mr. CHEVRIER: Could you give me a reason for this loss? This is an amazing amount of loss—$800,000 a year. This would be competition from Montreal and east of Montreal?

Mr. WOOD: I did not understand your question. I thought it referred to all the announced new routes, both east and west of Montreal.

Mr. CHEVRIER: There was nothing announced for western Canada.

Mr. WOOD: But west of Montreal in Ontario.

Mr. CHEVRIER: That is what I have in mind. As far as Ottawa, I think.

Mr. SMITH (*Simcoe North*): As far as Windsor.

Mr. WOOD: That is gross diversion of revenue of $800,000.

The CHAIRMAN: We can proceed on different questions we are asking having in mind the general position of this being before the cabinet.

Mr. NUGENT: My question is on this statement in the annual report:

> Any changes in conditions which tended to invalidate those forecasts would have serious economic repercussions.

I wanted to know if those forecasts on the planes which have now been bought were based on the premise that T.C.A. was going to have a monopoly on those routes that it had at the time the forecasts were made and the decisions were made to buy these aircraft.

Mr. SEAGRIM: The forecasts were based on the competitive situation as it existed at that time.

Mr. NUGENT: That is on the monopoly you had at that time?

Mr. SEAGRIM: Such as it was.

Mr. NUGENT: When would the decision have been made to purchase this new fleet?

Mr. SEAGRIM: The decision with respect to DC-8's and Vanguards goes back five years.

Mr. NUGENT: Is that the time at which the forecasts were made of which you talk in your report, which any changes and conditions would adversely affect?

Mr. SEAGRIM: No, the forecasts are simply forecasts of 1961 operations.

Mr. NUGENT: Well, any change in conditions would tend to invalidate those forecasts. Five years ago the company was committed to the purchase of planes.

I imagine that on that commitment you made forecasts of revenue, and so on, and on conditions as far as you could envisage them coming. In your report you are speaking of forecasts made one year ago. Can you tell me what is the difference if any, in conditions as you forecast them when you made the decision to buy the planes, and the latest forecast you made of which you speak in this report?

Mr. SEAGRIM: I believe the forecast which was made some years ago when we were considering the purchase of these airplanes, has been quite closely borne out in actual operations. Can you confirm this, Mr. Harvey?

Mr. HARVEY: Very much so.

Mr. NUGENT: There should be some considerable difference. At the time, five years ago when you made that forecast, you said you made it on conditions existing at the time, but there was no competition existing then. Since that time, C.P.A. has entered the picture and I would have thought there would be drastic differences in the forecast.

Mr. WOOD: The forecast which was made five years ago did not take into consideration any competition that might exist in 1960 or 1961. Naturally there would be adjustments in the forecast as you proceed up to the current year, taking the new factors into consideration.

Mr. NUGENT: I would imagine the forecast made five years ago, which did not take into consideration any competition, must have been affected by the existence of this new fleet. Apparently even with that competition the company is going to make out all right and so the forecast, to that extent at least, was pessimistic.

Mr. WOOD: I would not say it is pessimistic. Any forecast made five years in advance is, of course, subject to considerable change over that period of time. A number of new factors must be considered and a number of factors change. I think we have been able to adjust to these changes by coping with the demand on the basis of the aircraft order placed five years ago.

Mr. NUGENT: From the information already given as to the reason for a loss, I gather once the transition is fully completed, and under present circumstances, the company expects to make a profit with this new fleet?

Mr. WOOD: This is our intention.

Mr. NUGENT: But the diversion in gross revenues which was accounted for by C.P.A., is something which was not forecast?

The CHAIRMAN: I beg your pardon, Mr. Nugent. Would you mind speaking a little louder? The reporter says it is difficult to hear. The acoustics in this room are very bad.

Mr. NUGENT: I am sorry, Mr. Chairman. The diversion to C.P.A. was something over and above what was taken into account in this analysis or forecast made five years ago. Can you give any information as to how much gross revenue that diversion has meant to the company in the last year?

Mr. WOOD: I have that here. As a matter of fact, we anticipated the question. Our calculation of the diversion caused by C.P.A. operations in 1960 amounts to $5,800,000.

Mr. BROOME: Is that transcontinental only?

Mr. WOOD: This is transcontinental only. It is domestic revenues only.

Mr. BROOME: On competitive routes only?

Mr. WOOD: It is only on the competitive routes.

Mr. BROOME: But there is only one competitive route.

Mr. WOOD: It is on domestic traffic, and it amounts to roughly $5,800,000.

Mr. BROOME: That would be the net revenue C.P.A. took in on their transcontinental route, or is it the gross revenue return?

Mr. WOOD: No. This would be the amount we calculated to be the diversion from T.C.A.

Mr. BROOME: How did you calculate it?

Mr. WOOD: Well, it is an involved process. What we do is take the gross revenues we planned to have on the transcontinental route, and calculate the proportion that we expected but which accrued to C.P.A. This only represents a portion of the gross revenues they would have on that route. In other words, there would be a little new business as well, which would make up their total revenues.

Mr. BROOME: You anticipate a certain amount of revenue, and you estimate how much C.P.A. will take of that?

Mr. WOOD: Not necessarily, but this becomes a fact.

Mr. BROOME: It seems to be picking figures out of the air, if I may say so.

Mr. SMITH (*Calgary South*): We are in the interesting situation where the witness leaves a statement on the record indicating the diversion of money because of competition, and yet we are unable to go further and examine the witness as to his views on competition.

Mr. CHEVRIER: Does that apply to the $800,000 figure which you gave me for regional carriers?

Mr. WOOD: No, this is a different figure.

Mr. CHEVRIER: With reference to the answer you gave Mr. Broome in connection with the $5,800,000 figure, as to the amount of traffic or gross revenues diverted from T.C.A. to C.P.A. in the case of domestic lines, is the manner in which you arrived at that figure the same as the manner in which you arrived at the figure of $800,000 which you gave me a moment ago in connection with regional carriers?

Mr. BROOME: Does this include any traffic which C.P.A. might engender in Tokyo, Hong Kong and Hawaii, and which is onward traffic into Canada?

Mr. WOOD: No, not the diversion figure.

Mr. BROOME: How do you make up this diversion figure? There seem to be two figures which T.C.A. dream up in their office, and by subtracting one from the other you get the answer. I should like to have more detail upon how you calculate this.

Mr. SMITH (*Calgary South*): You say these are gross figures. Would you please indicate to us on what basis they are established as gross figures? Do they include all operating costs? What we want to get is the real figure which would be shown in the audited accounts.

Mr. WOOD: If I may answer Mr. Broome first; these are not picked out of the air. There is a very involved process in calculating the results.

Mr. BROOME: Do you use the same formula which Mr. Gordon uses, and which he quoted to the committee a few days ago?

Mr. WOOD: I am sorry, I do not understand the question. I am not familiar with how the railway calculations are made. In reply to you, Mr. Smith, this is a gross revenue figure.

Mr. SMITH (*Calgary South*): Could you give an illustration of what factors in cost are taken into consideration in arriving at this figure? I think the committee would like to know how you arrive at it.

Mr. WOOD: Mr. Smith, I am trying to be helpful. The figure we come up with is the gross revenue diversion, and does not take into consideration any costs involved.

Mr. SMITH (*Simcoe North*): In calculating the $5,800,000, are any statistics and information made public by C.P.A. and other competing airlines used, or is that based entirely on internal calculations in T.C.A.?

Mr. WOOD: It is entirely internal.

Mr. SMITH (*Simcoe North*): So that you do not use any information you might have got from public returns filed by C.P.A., T.W.A. and other airlines?

Mr. WOOD: No.

Mr. NUGENT: To follow up that market forecast—

Mr. BROOME: May I just put one more question?

Mr. NUGENT: You cut in on my questioning about the market forecast. We were on the market forecast, and five years ago forecasts were made under which a decision was taken to purchase the plane. Now in this report we are warned about the changed conditions which would invalidate the report. We are talking about the new aircraft and associated facilities, and I am wondering how far do these market forecasts go ahead to meet changed conditions.

Mr. WOOD: First of all, we make a very long-range forecast, or at least what in our opinion is a long-range forecast for 10 years, and at the same time we make five-year, three-year, two-year and one-year forecasts. Does that answer your question? We revise them at least annually and sometimes semi-annually, in the light of new conditions.

Mr. NUGENT: To buy the aircraft I would imagine you would need a 10 year forecast to justify the capital expenditure?

Mr. WOOD: The forecast provides our available seat mile requirement and we try to come up with an answer which indicates the type and number of aircraft required.

Mr. NUGENT: You talk about invalidating those forecasts. Did you really mean to use the word "invalidate", and how much margin do you allow for unforeseen circumstances?

Mr. WOOD: Well, we are a little proud of the fact that we have usually been within 2 per cent of our forecasts in actual performance from year to year, and we do not really allow any particular percentage of margin. We endeavour to be as accurate as we can in determining our requirements from year to year.

Mr. NUGENT: I find that a little difficult to understand because you have told me the forecast did not take into account C.P.A. competition, and you have just finished giving a very substantial figure which C.P.A. competition has diverted from what would have been your gross revenue. Surely this is more than 2 per cent? It must be a very great variation, and I am just trying to find out the company planning upon that, since you say your figures and calculations were that close.

Mr. GORDON: Would you like me to say a word? This reminds me of a meeting of the board of directors of T.C.A. These very questions are the sort of questions which directors put to management on forecasts; but I can tell you that the presentation of evidence by the market research section of the company is a very exhaustive performance indeed, and the forecasts made as a result of market analyses, as Mr. Wood has said, have been remarkably accurate.

When the word "invalidate" is used, it is used in this sense, and my understanding is that when the market research people are making 3, 5 or 10-year forecasts they tell us the conditions under which each particular forecast is made, and they might have to point to future assumptions.

If any of these assumptions goes wrong, as they did in connection with C.P.A. when new competition appeared in the field, then to the extent of the

diversion of traffic that might be traceable to the new form of competition, that gets assessed in due course, but there may be some offsetting factors which have to be taken into account by reason of the new competition, which is the very point Mr. Broome was making. The essential point which I see is that the factor of new competition has got a bearing on the total amount of the deficiency we are discussing this year.

Let me put it this way, and this is one figure I am picking out of the air. Let us say it was 5 years ago, though it does not matter today at what particular point it was, when we were considering the capital budget for the company. If the forecast made at that time has changed by reason of a new competitive factor, that must have a bearing on the profits, and if this new competition had not taken place my opinion is that the company would not have shown a deficit for 1960 or, if there was a deficit, it would be much less.

Mr. BROOME: This is a point we shall have to go into very closely.

Mr. NUGENT: The witness has told us these forecasts are usually within 2 per cent of accuracy, and that is part of the record. I would find it a little difficult to understand how such usually reliable forecasts can cope with the large figure given as a diversion of traffic to C.P.A. Certainly it seems to me, although maybe I have got a suspicious mind, that T.C.A. is hedging a little here. Either T.C.A. was planning for a very substantial profit, or the forecast must have been out more than the usual 2 per cent to compensate for such a loss factor. Was T.C.A. planning for such a substantial profit that it could absorb most of this loss?

Mr. WOOD: I think we are talking here about the five year forecast with respect to equipment and aircraft, and in the five year forecast there were certain assumptions which did not include competition at that time. The fact that we had competition in 1960 is, as Mr. Gordon pointed out, partially and indeed to a large extent, responsible for our having a deficit in 1960.

Mr. BROWNE (*Vancouver-Kingsway*): In this figure of $5,800,000 that we have been given as a diversion to C.P.A., could you tell us what was the total amount that was anticipated in the first place in relation to the complete picture? Did you expect to get $100,000,000 and lose $5,000,000?

Mr. WOOD: I do not understand the question.

Mr. BROWNE (*Vancouver-Kingsway*): You say $5,800,000 of the revenues T.C.A. expected to get were diverted to C.P.A., and I should like to know the total you expected to get and what percentage was diverted from T.C.A.

Mr. BROOME: What is this total on the trans-continental route?

Mr. WOOD: I would like to answer that question later. I would have to look up figures.

Mr. SMITH (*Calgary South*): You indicated to us through the report, and rightfully so, that you are very proud of your all-turbo fleet. It is suggested that in order to achieve this you have incurred considerable expense to the corporation. You have also done so in the hope that you are going to retain pretty much your own way on certain domestic runs within Canada. Perhaps the question might be, have you advanced your planning to such a point that it was hardly economic for you to do so, keeping in mind of course that you are a crown corporation? The second portion of the question might be this, have you put into service some of your present equipment faster than perhaps you should have, in relation to—I do not want to use the word "safety", but perhaps operational efficiency—and I am thinking of course of your Vanguard fleet. What would be your reply to that?

Mr. WOOD: On the first question, if I understand it correctly, Mr. Smith, we have in our planning for 1961 taken into consideration not only the new fleet but the impact of the completely new approach in the fare structure and

in the basic pattern of service to the Canadian public as a whole. The forecast for 1961 includes as well our operations in the international field, and there is an intermingling of the two, of course. I do not know if this answers the first part of your question entirely or not.

Mr. SMITH (*Calgary South*): Would you proceed with the second part, and we will see.

Mr. WOOD: Would you repeat the second part, so that I will be clear on it?

Mr. SMITH (*Calgary South*): Let me make it clear. First of all, I want to congratulate the crews on their efficiency and operational record. You put into service your Vanguard fleet, and you experienced, I understand, some difficulty in putting it into service. Is that correct?

Mr. SEAGRIM: No. We do not believe that we put the Vanguard aircraft into service prematurely.

Mr. SMITH (*Calgary South*): The problems which you had with them were just normal operating problems?

Mr. SEAGRIM: I would not say that the problems were normal operating problems, but they are the problems that may be expected with the introduction of a new airplane type, and we have obviously suffered from some of those problems.

Mr. SMITH (*Calgary South*): The suggestion I have been endeavouring to make, sir, is that you have advanced the development of your fleet beyond actually the means of the corporation, well beyond the means of the corporation, and this desire to obtain the all-turbine fleet has been achieved at rather large expense; and this charge you deny?

Mr. WOOD: Yes.

Mr. FISHER: The $5,800,000 figure that you say has been diverted—how far is that from your forecast of what you are going to use in the conversion?

Mr. WOOD: The forecast given to the committee last year was $4,600,000.

Mr. FISHER: So the diversion has been greater. What percentage is it, if we take your relationship of total revenues to your cost in 1960? I am sure you have in mind what percentage of that cost revenue might be applied to your deficit figure.

Mr. WOOD: I think this is the same question which was asked before and I said I would have to check the figure, if I may, and give the answer later.

Mr. FISHER: How did you react to the factor of competition, the forecast of competition in so far as restraining or restricting your purchases or your putting into service of aircraft?

Mr. SEAGRIM: I think we have not reacted at all. The fact is that some of our airplane deliveries have been late, so that rather than being put into service prematurely, as suggested by Mr. Smith, we actually have put them into service later than we anticipated.

Mr. FISHER: How many aircraft at present, or how many seats are redundant, at mid-1960, in terms of passenger flow that you are getting at the present time?

Mr. SEAGRIM: I do not believe we have any redundant seats.

Mr. FISHER: I am not thinking of redundancy in terms of aircraft, but in terms of over-purchase or over-supply.

Mr. SEAGRIM: We have no over-supply as of mid-1960.

Mr. FISHER: Have you predicated a possible over-supply if competitor factors change?

Mr. SEAGRIM: We do not know this. Naturally if the level of competition rises sharply for a given year, we are in danger of being over-supplied with airplanes and facilities for that year and subsequently.

Mr. BROOME: Are you not in over-supply right now?

Mr. SEAGRIM: No.

Mr. BROOME: If you will refer to the chart on page 13, seat miles made available and seat miles occupied, the seat miles made available has shown a very marked increase. There is a marked difference between the two in 1960.

Mr. NUGENT: It is pretty close to the same percentage.

Mr. SMITH (*Simcoe North*): If you look at the bottom of the sheet there is a little percentage worked out for you.

Mr. BROOME: 66 per cent.

Mr. SEAGRIM: This is considered to be a reasonable spread in airline operations.

Mr. FISHER: Could you comment on this, that Mr. McGregor in the past year has made a number of public announcements in relation to a matter dealing with policy, that is, with government policy.

Mr. SEAGRIM: Certainly it has ben the case, that Mr. McGregor has made certain announcements. In this particular case I believe that his reaction to the situation would be similar to ours in that it is under consideration by a committee of cabinet. This is the over-all competitive situation. In addition to this being a matter of policy, and Mr. McGregor having been out of circulation, only for a matter of a few days, we are not as well up as he is on the matter.

Mr. FISHER: I want to put the question in another way. Mr. McGregor was aware in the past year that Mr. McConachie and the C.P.A. were lobbying in Ottawa with regard to the extension of their services. Is that correct?

Mr. SEAGRIM: Yes.

Mr. FISHER: Is it possible that he thought the information on the effect of possible competition should be in the minds of everyone, as well as the government?

Mr. GORDON: Mr. Chairman, I think I should claim privilege here to make this statement, that as far as I am aware Mr. McGregor has not been making speeches or statements about government policy as such.

Mr. FISHER: I did not say that in my question.

Mr. GORDON: You did refer to making speeches about government policy.

Mr. FISHER: I did not.

Mr. GORDON: I think the report of the proceedings will show that you did say that Mr. McGregor was making speeches about government policy.

Mr. FISHER: About the effect on the competitive situation.

Mr. GORDON: No, I think you said about government policy. However, I was going to make it clear that all that Mr. McGregor has ever done, as far as I know, was to discuss in any of these speeches about the impact on T.C.A. in respect of certain types of competition; but he did not make any reference to government policy as such.

Hon. LEON BALCER (*Minister of Transport*): I concur with that statement by Mr. Gordon.

Mr. FISHER: Would you repeat that?

Mr. BALCER: Would you repeat the question? I am not sure if I have heard the question properly.

Mr. FISHER: As I interpret it, the information that Mr. McGregor provided to the public, however he did it, was in reaction to the campaign which was being put on by C.P.A. and Mr. McConachie, and I also took it that he wanted to put to the public the cause or the effect of added competition such as any extension of privileges the C.P.A. would provide. Now, am I correct or incorrect?

Mr. BALCER: He was not expressing government policy. He might have stressed certain factors in the operation of T.C.A. and certain facts about T.C.A., but I do not think he was expressing government policy on these matters.

Mr. SMITH (*Calgary South*): May I ask you this? I do not want to leave any irresponsible suggestion of lack of efficiency of the Vanguard fleet, but I think perhaps you might like to make somewhat more clear your explanation of the problem that you had. I understand that these have been cleared up now, but I am sure you are aware of the frequency at which these aircraft—

Mr. SMITH (*Simcoe North*): I have more questions on finance.

Mr. SMITH (*Calgary South*): The reason I asked this is that I asked whether perhaps this fleet was put into service prematurely. This is also in relation to competition. I suggest it does in the long run involve financing.

Let me put this in another way. You have said, sir, that none of your fleet were put into service prematurely. In fact you said they were put in somewhat later than you had anticipated. Is this accurate?

Mr. SEAGRIM: Yes.

Mr. SMITH (*Calgary South*): Did you not put DC-8's in one of the fleets earlier than you anticipated?

Mr. SEAGRIM: I do not think so.

Mr. SMITH (*Simcoe North*): The implication in one of your statements has been that T.C.A. deliberately overbought and overexpanded with the idea of throttling any potential competition. In your statement you indicated that the last of the DC-8's and the last of your Vanguards will be delivered in 1961. When was the last DC-8 and the last Vanguard ordered?

Mr. SEAGRIM: The dates of order?

Mr. SMITH (*Simcoe North*): The latest date.

Mr. HARVEY: Mr. Smith, would you allow us to file that information? What you are asking—to make this quite clear—is the dates of our contracts for the DC-8's.

Mr. SMITH (*Simcoe North*): You have stated 10 and 20 respectively, and that completes your operational fleet. Relating that to the forecast, I would like to know the dates when the last of those orders were made?

Mr. HARVEY: We will supply that for the DC-8's and for the Vanguards.

Mr. BROOME: Can you also supply the latest date at which you could have cut down the number of aircraft that you were ordering without being penalized? In other words, you give to your supplier a tentative program, but this is subject to change up and down, up to a certain point. There must have been one point when you could no longer make downward adjustments in the fleets you could order.

Mr. SEAGRIM: That is right.

Mr. SMITH (*Simcoe North*): You had a letter of intent.

Mr. BROOME: It would be interesting to know the figure.

May I ask another question? It is in regard to traffic growth. Notwithstanding the fact of the air transport board, it appears to me that the policy of T.C.A. has been to absorb 100 per cent of all future airlines' growth along the routes they fly, and that, although limited and controlled competition was allowed, according to the testimony given us this morning no adjustment was made in the planning of T.C.A. in regard to the acquisition of aircraft taking into view this new condition which they knew about and which should have been taken into your operating conditions. In other words, going back to the point of the diversion, the diversion is not based on the fact that there is competition. Your argument is always based on the fact: this is what it would have been if there had been no competition.

I do not want to confuse you with too many questions at the same time, but how many transcontinental runs have you got at the present time? You have one competitive run. Are you going to say that, because there is one competitive run once a day, this has put you into a loss position, as Mr. Gordon intimated? I suggest this is just nonsense. It means you cannot adjust your operations to take care of one competing flight.

Mr. SEAGRIM: To answer at least one of your questions, we do have four DC-8 transcontinental flights a day.

Mr. BROOME: What about Vanguards and Viscounts?

Mr. SEAGRIM: Two Vanguard flights a day, which are not truly transcontinental flights but are stopping-off flights. All in all, how many east-west flights have we, Mr. Wood?

Mr. WOOD: I can state it better in seats—we have 1,000 seats daily.

Mr. BROOME: Is this one way?

Mr. WOOD: Yes.

Mr. BROOME: How much would your competition have one way?

Mr. WOOD: At the present time 124.

Mr. BROOME: It is something in the neighbourhood of 10 to 12 per cent. So your operations are such that a 12 per cent competitive factor makes you unable to take this into account and make adjustments so that you can operate efficiently on the basis of 88 per cent of the total traffic rather than 100 per cent. This causes you a deficit? This is what I say is nonsense.

Mr. SMITH (*Simcoe North*): They did not say that.

Mr. BROOME: They did. Mr. Gordon said that they would not be in a deficit position but for the competition. I would like to read from last year's testimony, Mr. Chairman.

Mr. NUGENT: In the meantime, I wonder if I could ask a question which you could bring back later and answer. I want to know the percentage of revenue from domestic and foreign flights.

Mr. WOOD: Can I reply to Mr. Broome first?

Mr. BROOME: It appears on page 286.

Mr. WOOD: Mr. Broome, I want to reply to your last question, if I may. We take all factors into consideration, but it is still the case that the competition, as provided by C.P.A. in 1960, did divert a certain amount of revenue which in effect was off the top of the total revenues that would have accrued to T.C.A. This is certainly a factor in the deficit we experienced in 1960. It is certainly a part of the reason for a deficit.

Mr. BROOME: On page 286 I asked a question last year:

> Mr. BROOME: Another question: in those five bad years would that not have been a transition period in regard to new types of aircraft and be represented by depreciating those aircraft? Whenever you go into new aircraft you have higher depreciation charges?
>
> Mr. WOOD: Yes, and other charges too, such as training and tooling for the maintenance, and it is quite true that in that period two new types were introduced.
>
> Mr. BROOME: So actually we can expect in the next year—because you are now going through another transition period where you will have in fact very much higher cost aeroplanes than you had before—that they will be more complex aircraft to operate, and therefore higher training charges and you will run into quite considerable losses, to follow that same pattern?

My words were: "quite considerable losses".

Mr. WOOD: I am afraid you may be right, Mr. Broome, because obviously when you put in a very much larger aircraft there is a time required for the traffic to grow up to the size of the aircraft, and there are the other expenses you have mentioned.

Mr. BROOME: But the major expense would be depreciation?

Mr. MCGREGOR: Yes, that is right.

In your own figures your extra depreciation is in the neighbourhood of $3,800,000, as taken from page 7 of your report where you say:

Depreciation, insurance and interest, taken together, exceeded $19 million in 1960, an increase of 25 per cent over the previous year.

Twenty-five per cent of which is $3,800,000. This seems to me to be the major change in your structure.

Also, when you were asked what caused the deficit, the only two points brought out were dual facilities at Dorval and substitution of the low cost Vanguards for the high cost Constellation.

Mr. HARVEY: I did mention training and other items.

Mr. BROOME: They were not mentioned.

Some hon. MEMBERS: They were mentioned.

Mr. BROOME: I am sorry, I did not hear it.

Mr. HARVEY: Going back to your figure of $19 million; the big increase over 1959 as you can see from the statement of income on page 18, is interest expense. Interest expense increased $4,300,000, depreciation increased a million and a half dollars. I am not correcting you, sir—and I hasten to tell you this—but you did mention depreciation. Actually this $19 million is the total of depreciation, interest and insurance in the year 1960.

Mr. NUGENT: Perhaps I could get this information? I want a breakdown of the income as between foreign and domestic flights.

The CHAIRMAN: Perhaps Mr. Harvey could get that for you.

Mr. HARVEY: We can give you, Mr. Nugent, something on that right now.

Mr. WOOD: Seventy-nine per cent of the total revenues were earned in North American service—those are our domestic services—21 per cent on our overseas services, which is Atlantic and Southern.

Mr. NUGENT: Do you have a breakdown of the 79 per cent on transcontinental main lines and feeder lines? Perhaps I can get those myself.

The CHAIRMAN: As you know, the house meets at 11 o'clock, but before you go I might mention that I understand Mr. Gordon has an important meeting this afternoon in Montreal and might not be present with us this afternoon. If there is anything with reference to general policy that you might wish to ask him before he leaves, you can do this in the five minutes that are left.

Mr. BROOME: Mr. Chairman, I wonder if I could have the details of the agreement with B.O.A.C., if it is possible to have a copy of the agreement filed with the committee. I would like to know figures on the sharing of revenues, how you participate in this pool plan you have.

Mr. WOOD: I have not got a copy of the contract, Mr. Broome, but I can give you the essential make-up of the agreement.

Mr. BROOME: I would also like to know whether there is any correspondence with Japan airlines in regard to any agreement with T.C.A. in the way of forward traffic into the Orient, and whether there are any with other foreign carriers concerning traffic to Hawaii forward into Canada?

Mr. WOOD: I can answer your first question right now. We have had discussions with Japan airlines, on the subject of a general agency agreement, such as we have with 17 other carriers, but we have not concluded any agreement with Japan airlines. Does that answer you?

Mr. BROOME: I will have a few more questions later.

Mr. WOOD: What was the other part of your question?

Mr. BROOME: It had to do with other points such as Hawaii.

Mr. WOOD: There is nothing to Hawaii.

The CHAIRMAN: We shall meet again at 2.30.

AFTERNOON SITTING

TUESDAY, June 27, 1960

The CHAIRMAN: Well gentlemen, we now have a quorum. Let us proceed with the report. Are there any more questions on the financial end of it? Let us try to stick to the order, so as not to get off too far.

Mr. CHEVRIER: I would like to get back to the question I had about regional carriers.

The CHAIRMAN: Did you not have some questions to be answered this afternoon?

Mr. CHEVRIER: We went into it very quickly this morning. The question is this: in these applications from Montreal to the west, to Kingston, Oshawa, Windsor, and Sarnia—sort of a milk route—is T.C.A. interested in operating these routes at all?

Mr. WOOD: No, we are not interested.

Mr. CHEVRIER: Did you at any time make application to the board for these routes, or did you at any time oppose the routes which were applied for by Northern Air, or Quebec Air Lines?

Mr. WOOD: As to the first part of your question, no, we did not apply for these routes. We opposed Quebec Air on the Montreal to Quebec, and Seven Islands route, which was directly competitive with us.

Mr. CHEVRIER: You did not enter any objection to routes west of Montreal?

Mr. WOOD: No.

Mr. CHEVRIER: Does it follow from that, that T.C.A. is not interested in these routes at all—I mean the intermediate points between Montreal and Sarnia?

Mr. WOOD: That is right.

The CHAIRMAN: I think Mr. Wood has some answers to questions asked this morning.

Mr. SMITH (*Simcoe North*): I have a supplementary question.

Mr. SMITH (*Calgary South*): And I too have a supplementary question.

Mr. SEAGRIM: I have prepared answers to certain questions asked before the recess. I would like to file a reply to Mr. Broome's question with respect to aircraft purchase dates, that is, with respect to the purchase dates of new aircraft.

Mr. BROOME: I think the answer should be read into the record.

The CHAIRMAN: Well, they are July, 1956, April, 1957, September, 1959, and February, 1960.

Mr. SEAGRAM: These are aircraft purchase dates; DC-8 aircraft, the number of aircraft four, and the date of order, July, 1956; again, under number of aircraft two; date of order, April, 1957.

Mr. BROOME: These are all DC-8's?

Mr. SEAGRIM: Yes. And again under number of aircraft, four; and date of order, September, 1959. And finally under number of aircrafts, one, with date of order, February, 1960.

Now with regard to the Vanguard aircraft, number of aircraft, 20, and date of order, July, 1957; and again number of aircraft, three, and date of order, June, 1960.

Mr. BROOME: I would like to ask a question about this.

Mr. SEAGRIM: I have a reply to another question asked by Mr. Broome with respect to the cancellation deadline of new aircraft. There are no practical cancellation deadlines for new aircraft. We are committed to the full price of those aircraft, except under certain conditions, namely, that the DC-8 aircraft contract stipulates that if delay in delivery exceeds 20 months from the stated contract date, the aircraft may be cancelled.

In the case of the Vanguard if there is delay in delivery of any one aircraft by nine months, then acceptance of such aircraft may be cancelled.

Mr. BROOME: Are there any such delays?

Mr. SEAGRIM: There are no such delays. Again, in reply to a question asked by Mr. Broome requesting information regarding the percentage of revenue diversion by C.P.A. expressed as a percentage of the total revenue, the answer is five per cent.

And the answer to a further question by Mr. Broome requesting information on the pooling contracts with B.O.A.C. This contract is regarded as a confidential document between B.O.A.C. and T.C.A. in so far as the details are concerned; but Mr. Wood will be glad to mention the highlights of the contract, which I hope will be sufficient for your purposes.

Mr. BROOME: Could he mention them now?

Mr. WOOD: I would be very glad to. Basically, of course, the agreement was entered into in order to provide greater availability of space and so on for the public, and to provide better schedules between Canada and the United Kingdom, and of course, to reduce costs. Now, the nature of the agreement calls for a sharing of the gross transportation revenues only, that is, excluding mail, and each airline is responsible for its own costs.

Mr. CHEVRIER: Is that B.O.A.C.?

Mr. WOOD: That is right.

The revenues earned by the two airlines are shared equally. This is in accordance with the intention to have each airline provide one half of the revenue—earning capacity.

Since passenger traffic is the predominant source of revenue, the equalization of capacity is based on seats. A value is assigned to each type of seat based on the appropriate agreed revenue per passenger. This evaluates the seats in respect to their earning potential.

It is recognized that equalization of capacity in each accounting period will not be achieved precisely. Therefore, to correct any imbalance which occurs, a fixed cost per "evaluated seat" has been agreed upon, and the airline which has provided less than half of the total pays the other airline at the agreed rate for the number of seats it its deficient. The revenue which is shared is only that earned over the trans-Atlantic sector. This is achieved by agreeing an average revenue rate per unit of traffic. Thus, the pool accounting is undertaken by reporting the number of passengers and pounds of cargo carried, and that is multiplied by the appropriate revenue rate to determine the earned revenue to be shared.

Mr. BROOME: In respect of the part where you refer to one air line carrying less than half the total number of people of the other, has that been T.C.A. paying B.O.A.C. or vice versa?

Mr. WOOD: Do you mean last year?

Mr. BROOME: Yes.

Mr. WOOD: Last year the B.O.A.C. paid T.C.A.

Mr. BROOME: Because you provided more seats than they did?

Mr. WOOD: Yes.

Mr. SMITH (*Calgary South*): Mr. Seagrim, I realize that the air transport board will shortly have hearings on what is generally referred to as the western Canadian milk run, or intercity run. Could you, however, perhaps advise the committee, by giving us a very brief summary, what is the position of T.C.A. in respect of this. I believe you have indicated that possibly you would like to drop certain segments of it or are prepared to make even certain combination switches which have been somewhat misunderstood. I have in mind, for example, the suggestion that you might perhaps drop the Calgary-Edmonton route or any exchange thereof with the four or five other cities involved. Would you give us a comment on what your brief will be to the air transport board?

Mr. SEAGRIM: T.C.A.'s planning over the years visualized that by the spring of 1961, we would have no more piston engine aircraft in our service and would be converted entirely to turbine-powered aircraft. This date, of course, has been deferred because of delayed airplane deliveries; but nevertheless, all our planning over the years has been directed accordingly. Our maintenance facilities, our overhaul facilities, our pilot training, and all the factors that contribute to an operation of this kind have had as an objective the discontinuance of the DC-3 operations at the time mentioned.

It had been our intention to use, as our next smallest type of aircraft for such runs, the Viscount. As you probably know, however, the so-called milk run airports, namely, Brandon, Yorkton, Swift Current and Medicine Hat, do not have runways of sufficient length to accommodate the Viscount aircraft. Therefore, the problem has arisen as to what T.C.A.'s course of action should be. It is uneconomical for us, to change horses in mid-stream and continue indefinitely to operate DC-3 airplanes. So the matter has been discussed with the air transport board a number of times. I think generally the problem is appreciated by the various towns involved. At one stage of the game, it is my understanding that we were requested by the air transport board to canvass the other smaller operators in western Canada as to their desire or ability to undertake this service. Again it is my understanding that after examination by various of the smaller air lines, their conclusion was that a subsidy would be required for them to perform this service. As matters now stand, T.C.A. is at least able to cross subsidize the cost of such operations from within the company. The smaller organizations are not. So, until the matter is resolved, we are continuing with the DC-3 operation and doing what extraneous overhaul work is necessary on the airplanes. I believe the matter once again is in the hands of the air transport board, who I understand are seeking a solution.

Mr. SMITH (*Calgary South*): I appreciate that explanation. Would you relate it to the suggestion you made about dropping the Calgary-Edmonton run as well?

Mr. SEAGRIM: I do not believe it was the suggestion of T.C.A. that we drop the Calgary-Edmonton run. Mr. Wood will correct me if I am wrong, but I believe it was included in propositions or inquiries which were put forward to the smaller air lines as part of a possible package deal designed to make the total operation sufficiently attractive to them.

Mr. CHEVRIER: May I revert to the B.O.A.C. agreement. May I ask when it came into operation, and why did T.C.A. come to the conclusion that it would be a profitable thing for its line to do.

Mr. WOOD: It came into effect on March 1, 1960. It was our opinion it would be a very good thing for both carriers. I think the results have borne this out. Both carriers are satisfied that we have been able to provide a better service to the public at the lowest cost and with better revenue results.

Mr. CHEVRIER: I, along with other members, have received letters from time to time. This is one of many I have received in connection with this agreement. I would like to read one paragraph. It states:

> I wonder if you have noticed, as I have, that within the last year or two—

The letter is dated January, 1961.

> —agreements have been made between T.C.A. and B.O.A.C., a foreign carrier, the main effect of which is that B.O.A.C. now carries all of the large surplus of passengers and more especially freight and that T.C.A. by virtue of not having provided itself with the ability to carry said freight and passengers, yet being loath to let this fact become known, lest other Canadian carriers attempted to take it.

He does not complete his sentence. The effect of it, however, is that T.C.A. is not carrying the amount of freight that it should. What have you to say in relation to that?

Mr. WOOD: We did provide more capacity than B.O.A.C.

Mr. CHEVRIER: You provided more space for freight?

Mr. WOOD: Not for freight. This is passengers you are referring to.

Mr. CHEVRIER: Yes. This letter also has to do with freight.

Mr. WOOD: In the latter part of 1960, there was more freight capacity provided by B.O.A.C. than by T.C.A., although very little of that was used in the pool agreement because we were able to carry most of the air cargo in our own aircraft.

Mr. CHEVRIER: According to you, you carried more passengers than B.O.A.C., but they carried more freight.

Mr. WOOD: In the latter part of the year; yes.

The CHAIRMAN: You will notice that we have been drifting into service and traffic growth as well as finance. Are there any other questions on service and traffic growth?

Mr. BROOME: Lots of questions.

Mr. SMITH (*Simcoe North*): Mr. Chairman, I have a couple of questions which are supplementary to Mr. Chevrier's first question in relation to the recent applications for local air service in places such as Kingston, Oshawa and Sarnia by other air lines.

Does T.C.A. have any new planes, or modern planes, which are of a size that would serve these areas?

Mr. SEAGRIM: No, we do not have any new type airplanes that would serve the stage lengths in question. As a matter of fact, I do not believe there are any airplanes being manufactured today that are specifically designed for this type of operation.

Mr. SMITH (*Simcoe North*): Assuming that the air strips were heavy enough to carry them, do your studies indicate that any of these areas would generate enough traffic to justify, for instance, a Viscount service?

Mr. SEAGRIM: Mr. Wood will answer that question.

Mr. WOOD: No, in our opinion, there decidedly would not be sufficient traffic to justify an operation for Viscount aircraft.

Mr. CHEVRIER: What kind of aircraft will, say, Nordair, be using on the Montreal-Oshawa-Windsor run?

Mr. SEAGRIM: I believe DC-3's; however, I stand to be corrected on this.

Mr. CHEVRIER: You have made studies providing for the use of aircraft other than the Viscount, have you not, on this run?

Mr. WOOD: The one you are referring to, we have not.

Mr. CHEVRIER: I thought you had, and that you came to the conclusion that even with aircraft other than the Viscount it would not be a profitable run.

Mr. WOOD: It seems to me that years ago we undertook a study and, at that time, it involved DC-3 aircraft, which we were operating and had available, and there was not sufficient traffic at that time to justify an economic operation between the points mentioned.

The CHAIRMAN: Have you a question, Mr. Broome?

Mr. BROOME: Yes. I would like to ask a question in regard to the disappearance of the surplus.

Last year there was a surplus balance, according to the report, of $6,842,000, and it states on page 7 that this surplus was appropriated to establish a reserve against anticipated net differences between book value and the amount realized on the disposal of the piston engine fleet, their major components and supporting inventories. I believe your DC-3's are written off, the North Stars are written off, so this would apply only against the Super Constellations, would it not? If so, how do you justify having this surplus and just washing it out of the picture this way?

Mr. HARVEY: A slight correction there, Mr. Broome; when you speak of the DC-3's,—the North Stars being written off our books,—that is not quite correct. They are written down to the residual value.

Mr. BROOME: To the final value.

Mr. HARVEY: Yes. Using the DC-3 as an example, the residual value is $5,000 per aircraft. At Dec. 31-1960 we had seven DC-3's, for a total of $35,000. The North Stars are written down, and have been, for a few years, to the residual value of $30,000 an aircraft. The Super Constellations are still being depreciated, and most of them will reach their residual value of $150,000 during 1961. Another factor to be considered is the remaining investment in inventory. A certain amount of inventory must be maintained until the aircraft are actually retired from service. Our practice when planning a fleet change is to run down the investment in inventory to the irreducible minimum. You may expect this to result in a very small figure remaining, however this is not the case. For instance, on the DC-3 the irreducible minimum, is roughly $270,000. On the North Star we have a figure over $2 million and, in the case of the Super Constellation we have a similar amount.

Mr. BROOME: What are the figures for the Super Constellation?

Mr. HARVEY: The value?

Mr. BROOME: Yes, the depreciated value that you got.

Mr. HARVEY: As at the end of the year?

Mr. BROOME: Yes, and on your inventory of parts, as well.

Mr. HARVEY: As at December 31, 1960—would you like it by type of aircraft?

Mr. BROOME: Just by that classification.

Mr. HARVEY: Just Super Constellations?

Mr. BROOME: All of them.

Mr. HARVEY: By individual aircraft or just the total for the fleet?

Mr. BROOME: The total of the fleet. In other words, you have not come anywhere near the $6 million you had to take out of surplus, and you would not take out of surplus—at least, I would not think that you would—when you had reduced their value to the irreducible minimum; so this must be for a special case.

Mr. HARVEY: I will give you the estimated net book value of these aircraft as of the date planned for their retirement from Service. Due to the delay of entry into service of the Vanguards, we have had to extend the life of the Super Constellations. So if, with your permission, I could give you the figures as we estimate them when the last Super Constellation—the last piston aircraft—is taken out of service,—

Mr. BROOME: Whatever figures you have to take to show that we are going to lose this surplus because we won't recapture enough depreciation.

Mr. HARVEY: The DC-3, including inventory, will be $300,000; the North Star, including inventory, will have a value on our books of $2,592,000; the Super Constellations—and this is for 11 aircraft—will have a value on our books, including inventory, of some $6,639,000. That totals $9,531,000, against which we have applied our accumulated surplus of $6,842,000, leaving some $2,700,000 which we will have to recapture from the sale of the Super Constellations the remaining North Stars and the remaining DC-3's.

Mr. BROOME: Well, this means that $2,892,000 was taken out of surplus to write down the DC-3's and the North Stars to $1—zero dollars. Then, the balance of it went to drop the value on your Super Constellations. Then, if the surplus had been $7 million or $8 million, the same thing would have happened. It seems to me this is a way of deliberately trying to show a worse picture than you had.

Mr. HARVEY: I personally would not agree with that.

Mr. BROOME: I think you are trying to show the worst possible picture as an indication to the government with regard to what they should do in connection with other applications before them. You have taken your entire surplus and washed it out so that you would be able to show a deficit.

Mr. SMITH (*Calgary South*): Could you put it another way?

Mr. BROOME: You mean more politely?

Mr. SMITH (*Calgary South*): Is not your write-off faster than what you would normally experience in the airline business?

Mr. HARVEY: No, our write-off, if we are speaking of depreciation—and in this connection I may say the DC3's and North Stars are down to residual value and in so far as Super Constellation aircraft are concerned, depreciation is based on 7 years both on the aircraft and related major spares which I may say is in keeping with the industry's practice.

Mr. BROOME: Then this is the question: why did you not operate them for 7 years?

Mr. HARVEY: We have operated a number of them for 7 years, but what is causing a problem is the last two aircraft we purchased.

Mr. BROOME: When were they purchased?

Mr. HARVEY: I believe they were purchased in 1958-59.

Mr. BROOME: That is when you had them, but I am going to refer back to their delivery. Did you take delivery of them in 1958 or did you purchase them in 1958?

Mr. HARVEY: If I could have a moment, Mr. Broome, I could give you the exact dates. We took delivery of one aircraft on November 22, 1957, and of the

other on December 20, 1957. These are the two aircraft which are at the highest value on our books at the present time.

Mr. SMITH (*Calgary South*): Those are delivery dates?

Mr. HARVEY: Those are delivery dates, and the depreciation started within a couple of weeks. With regard to the first, depreciation commenced on December 12, 1957 and on the other one depreciation commenced on January 16, 1958.

Mr. BROOME: What is the total value of those two aircraft, plus the necessary spares?

Mr. HARVEY: You just cannot relate spares to two particular aircraft.

Mr. BROOME: I know, but they would be a proportion of the entire amount.

Mr. HARVEY: I personally could not go along with that, Mr. Broome, because spares are not just purchased for two additional aircraft. With our then existing fleet of 9 aircraft we would have sufficient inventory other than possibly major spares such as engines. You are perfectly correct there. We did not set up depreciation, nor was it the practice of the majority carriers to set up depreciation against inventories.

Mr. BROOME: I did not get the value of the two aircraft.

Mr. HARVEY: I am sorry, but I would like to relate the value of these two aircraft to their value when they go out of service.

Mr. BROOME: Could you not relate them to the prices you paid for them?

Mr. HARVEY: Certainly.

Mr. BROOME: And also could you not relate them to the amount of $6,639,000 in the report?

Mr. HARVEY: Certainly we can do that. Now I can see where your question is taking me.

Mr. BROOME: Down the garden path, I would say.

Mr. HARVEY: No. After all, your questions are very direct, Mr. Broome. Some time after we purchased these 2 Super-Contellations there was a resale value in 1959 of $750,000. In the past when we sold an aircraft fleet we were fortunate enough to sell them as fleets, together with related inventories. In other words, there was always a package deal. Unfortunately, we may have a problem in this regard insofar as the Super Constellations are concerned but, when we purchased these aircraft and put them into service, there was a potential resale value placed upon them of $750,000, which gave us assurance that our depreciation approach to these two particular aircraft was more or less on the right lines.

The CHAIRMAN: Are there any other questions?

Mr. BROOME: We are not finished yet.

Mr. SMITH (*Calgary South*): May I ask, are you the only airline to become all turbine?

Mr. SEAGRIM: The only major airline, yes.

Mr. SMITH (*Calgary South*): This automatically presents me with the question whether a country of this size should attempt to live up with the Joneses, especially when that becomes a highly expensive operation. All I am concerned about, Mr. Seagrim, is whether we are advancing too quickly in relation to the total monies and services we require?

Mr. SEAGRIM: I do not believe so, Mr. Smith, because with respect to the turbine airplanes we bought, the DC8's and the Vanguards, the seat mile operating cost is much lower than any of the piston airplanes we have been using. This is a step forward economically.

Mr. SMITH (*Calgary South*): This has yet to be proven, Mr. Seagrim, has it not? You have indicated on the one hand you are not able to provide service on some routes because you are not going to have the equipment—because you are going all-turbine—and on the other hand we are going to have very heavy capital cost and write-offs on top of that, and you will be faced with competition, which in turn means the government are going to be concerned about your total costs and the size of your fleet. I wonder if it is not the old egg and chicken riddle.

Mr. SEAGRIM: I should like Mr. Harvey to comment on this, but first of all I should like to say there is no question about the comparative economics of piston engine aircraft and turbine aircraft. For instance, the DC3, as compared with the Viscount, goes approximately half as fast and carries approximately half as many people, and the seat mile operating cost of the Viscount is therefore greatly improved over the DC-3. Similarly this applies to other airplanes. I can assure you the piston airplanes, when they are disposed of, are written down to a reasonable degree. Would you like to comment further on that, Mr. Harvey?

Mr. HARVEY: I should like to comment on the alternative mentioned by Mr. Smith. I admit it is a frightening one, if it were allowed to happen. A similar write-off for turbine aircraft in the future would be bad. Commencing with the 1961 accounts—we are planning that, in the last foreseeable 5 years of aircraft life we shall set up the irreducible minimum for inventory and through regular accruals make provisions for the write-off of the inevestment to co-incide with the retirement of the related fleet.

In our 1961 accounts there will be an amount of $540,000, representing one fifth of $2,700,000, in other words, $2,700,000 being the irreducible minimum as forecast by our purchasing and stores department for the Viscount aircraft. This $2,700,000, representing the irreducible minimum, will be reviewed every year, and any adjustment necessary will be made.

Mr. SMITH (*Calgary South*): No committee member who has flown your aircraft is going to question the efficiency of the machine, but I am trying to relate this to the rather exclusive franchise which you have. In fact, you are the first of all major airlines in the non-competitive field to provide a complete turbine fleet, and I am wondering what would be the case if competition had been introduced to a greater extent. Again I ask the question, have you not advanced much faster than you should have?

Mr. SEAGRIM: No, I believe this is logical advancement, and under the strain of greater competition I think the transition to turbine aircraft would be even quicker.

Mr. CHEVRIER: What is happening in the other countries, in the United Kingdom and the United States?

Mr. SEAGRIM: In all countries, so far as we can see, the trend is moving very rapidly towards turbine aircraft.

Mr. SMITH (*Simcoe North*): You have said, Mr. Seagrim, that a turbine airfleet is much more economical and efficient than a piston driven fleet. Is that right?

Mr. SEAGRIM: This is in terms of seat-mile cost. And improved mechanical efficiency.

Mr. SMITH (*Simcoe North*): Would it follow from that proposition that even though you had extended competition, you would still be better able to compete with it with a turbine fleet than you would if you had a piston-driven fleet?

Mr. SEAGRIM: Very much so.

Mr. BROOME: On that same question, would you take into account accelerated depreciation on airplanes you bought in 1957 and still be able to make that statement? Maybe in your direct operating cost; but your statement has to take into account fixed charges, and we have seen a $7 million surplus disappear into accelerated write-offs. If you take that into account, I think your statement is not correct.

My question is that you are compressing all turbine operations on a straight operating cost without taking into account fixed charges, such as this extra $7 million write-off, and that if you take those into consideration, such as any company trying to show a profit would have to take into consideration, then it is not correct that it is a better, cheaper and more efficient operation to go at this time into an all-turbine fleet. Where did the $7 million go?

Mr. HARVEY: This is a case of hindsight. But I would suggest that speaking of cost-per-available-seat-mile for direct flying costs, excluding depreciation, as Mr. Seagrim has said, in the turbine fleet any individual aircraft is a lot cheaper and more economical to operate than a piston-engined aircraft.

Mr. BROOME: I would call your attention, sir, to your statement where income from operations in 1960 is $14,700,000, and provision for depreciation is $13,600,000. I would suggest this is a major cost that you cannot ignore. You have to take it into consideration, and I do not think T.C.A. has taken it into consideration.

Mr. HARVEY: If we are speaking of direct flying costs, omitting depreciation; but if you wanted to compare the figures including depreciation, there is still a difference. The turbine fleet is still a lot cheaper and more economical to operate than piston-engined aircraft.

Mr. BROOME: Yes, sir, except when you run into a situation such as you did run into.

Mr. HARVEY: Possibly.

Mr. BROOME: Then that is not so. In your operations last year you had much more income than you had in 1960. All the way through you were in a very good position until you came to depreciation and fixed charges; then you sank.

Mr. HARVEY: It is true. This morning, when you reviewed the figure of $19 million on page 7 of our annual report, you were referring to depreciation. I pointed out that interest charges had increased $4,300,000 from last year.

Mr. BROOME: But may I suggest that if you had a mothball fleet, which is not fully depreciated, and you bought a new fleet and paid interest charges on the fleet you are not using and interest charges on the fleet you are using, it would again be a case of having converted too soon.

Mr. HARVEY: No; with all due respect to you, that is not quite true. At the risk of being repetitious, I would say that in 1959 the price of second-hand Super Constellations were $750,000. We had hoped that if the Vanguard delivery had been according to the contract, we would have been in a position to sell the Super Constellation aircraft in 1960. However, with the delay in the delivery of the Vanguards an early sale of the Super Constellations was impossible. We will be operating Super Constellation aircraft well on in 1961. As you can well appreciate, the longer we operate them, the less chance we have of getting anything like a reasonable price for them.

Mr. SMITH (*Calgary South*): You have indicated that you have projections of what your future plans for equipment might be.

Mr. HARVEY: I do not recall having indicated our future plans. All I spoke of was the handling of the irreducible minimum of inventory for any future type of aircraft.

Mr. SMITH (*Calgary South*): I understood Mr. Seagrim to say that in establishing or assessing future cost, you had to make projections—10, 5 and 3 are the figures you gave us. Can you give us any indication of what your anticipated aircraft requirements are going to be in the future? Have you any projections of what we are going to be looking at again in terms of total cost?

Mr. SEAGRIM: Yes, Mr. Smith. For the years 1963 and 1964, to take care of anticipated growth within the airline—

Mr. BROOME: Total growth or growth that you can reasonably expect for T.C.A.?

Mr. SEAGRIM: Total growth. We expect that we will have to order something in the order of five DC-8 type aircraft.

Mr. SMITH (*Calgary South*): By "type", do you mean improvement?

Mr. SEAGRIM: I am talking in terms of seat mile capacity of the order provided by DC-8 aircraft.

Mr. SMITH (*Calgary South*): Is the individual cost about $6½ million?

Mr. SEAGRIM: $6 million.

Mr. BROOME: Might I suggest, Mr. Chairman, that there is a fundamental problem here. I made a speech in the house about it. It is summed up in the following, if I can quote from the Wheatcroft report, where he said:

> It could reasonably be assumed that, if the competitive service were limited in the manner suggested above, T.C.A. would regulate its own capacity to the balance of the demand. To do otherwise would be to court losses quite unnecessarily.

And the manner suggested above was that, in other words, T.C.A. would be able to retain all existing transcontinental traffic and would compete with the new carrier merely for the anticipated growth in transcontinental traffic. This seems to me to be basic, and yet it does not seem to enter into T.C.A.'s thinking at all. That is, everything you plan on, you plan it on the basis of equipment, as if all of the traffic would be going to T.C.A.?

Mr. FISHER: I would like Mr. Broome to clarify that. Does he mean to say that T.C.A. do not take into account C.P.A. entering the field?

Mr. BROOME: Mr. Seagrim, in answering my question, says they are basing acquisition of new aircraft on the basis that they would have all of the increase in air traffic.

Mr. FISHER: That is not now; that is before.

Mr. BROOME: That is now. That is still the policy.

Mr. SEAGRIM: In planning the requirements of the future, we have to forecast on the basis of factors of which we are aware. Right now we are aware of a certain level of competition. If this level of competition changes, our requirement for new equipment could change.

Mr. BADANAI: Do you anticipate any additional complication in the foreseeable future in the domestic service of T.C.A.?

Mr. SEAGRIM: Not for the purposes of our forecasting.

Mr. BADANAI: You are aware of an application made by Aerial Flight Services in Minneapolis for an air transport licence to operate in northwestern Ontario, Manitoba and Saskatchewan?

Mr. SEAGRIM: This does not conflict with our services particularly.

Mr. SMITH (*Simcoe North*): It seems to me it would be almost impossible for T.C.A. to make their forecast on any other assumption. They have to operate as the law is now and at the present time the C.P.A. functions are very strictly limited. What other assumption can T.C.A. make except that they

will have to carry all the increase, as things stand? I was making a statement, but I am quite sure I am not the only committee member who does that from time to time.

Mr. FISHER: I want to start my question with a quotation from Mr. N. R. Crump's annual address to the C.P.R. shareholders in 1961. It says:

> Airlines—Your company's subsidiary, Canadian Pacific Airlines, faces the problems that are inevitable in the period of transition from conventional type of aircraft to jet travel.

This seems to me to indicate that C.P.A. is facing exactly the same problem that T.C.A. has, and since it seems to have been implied here that you have made the transition too quickly, could you indicate more fully why T.C.A. is the first of the major carriers into the major transition?

Mr. SEAGRIM: In the first place, Mr. Fisher, I am sure we have not made the transition too quickly. As a matter of fact, as I indicated this morning, I do not believe we have made it quickly enough because of airplane delivery delays beyond our control. If you will repeat the second part of your question, I can be more precise.

Mr. FISHER: I am very curious about this matter, as to why T.C.A. is the first major airline to make this transition.

Mr. SEAGRIM: There comes a time at which an airline can no longer order what might be regarded as obsolete aircraft types to provide for growth in the future. We in T.C.A. simply had to observe a cut-off date, beyond which we could no longer order Super Constellations. Otherwise, the problems of obsolescence would be aggravated. Therefore, beyond the date that was decided upon, we had to turn to a turbine airplane. Assuming that an airline continues to grow, it must grow in terms of modern equipment and not in terms of obsolete equipment. Therefore, after a certain deadline which was, rightly established four or five years ago the all turbine decision was made.

Mr. FISHER: In other words, in so far as the trend is concerned, T.C.A. made the decision apparently before other airlines. There is either one possibility or the other—T.C.A. was better equipped financially to make the transition.

Mr. SEAGRIM: I think that when T.C.A. was making the decision to change from piston to turbine airplanes, practically all the other major airlines were doing the same thing.

Mr. SMITH (*Calgary South*): Also, they were in a privileged position, too.

Mr. BROOME: By your own planning, when you bought these last two Super Constellations you knew that you would not get seven years operation out of them to write them down to residual value, but your own plans only envisaged three years' use of these aircraft before switching to an all-turbine fleet. I suggest that a good many airlines in the United States still use Super Constellations. There is no quarrel with the transition to an all-turbine fleet, but it might not have had to take place at such an accelerated rate. You could have had a longer transitional time, and get more value out of aircraft that you paid high prices for and cannot sell and cannot write off.

Mr. SEAGRIM: We are still using Super Constellations.

Mr. BROOME: But you said in your planning you expected to be out of them in 1961.

Mr. SEAGRIM: That is right.

Mr. BALCER: Is that a fact, also, Mr. Seagrim, that you had a special price and special arrangement with the industry which sold these two last ones because they were bought to cover a gap, the changeover to DC-8?

Mr. SEAGRIM: Yes, this is right. It was a buy back arrangement.

Mr. BROOME: What was that price? I did not get that.

Mr. BALCER: There was a special arrangement.

Mr. HARVEY: We are speaking about another two aircraft, Mr. Broome.

Mr. BROOME: Beyond those two in 1957?

Mr. HARVEY: Yes.

Mr. BROOME: This is different?

Mr. HARVEY: In 1959. It was on a buy-back arrangement with Lockheed, and the amount that we took through our accounts each month was the equivalent of what the depreciation normally would have been. Unfortunately we lost one at Toronto and the second aircraft was returned to Lockheed on February 21, 1961 at the agreed buy-back price of $1,200,000. So there was no loss on this aircraft.

Mr. BROOME: There was no loss on the last two.

Mr. HARVEY: No.

Mr. BROOME: But referring to the other two in 1957, they would have been worth $1½ million apiece?

Mr. HARVEY: When we purchased them?

Mr. BROOME: Yes?

Mr. HARVEY: No, they cost more. Including sales tax, they were around $2.2 million.

Mr. BROOME: So $4.4 million for these two aircraft, which were only going to be run for three years?

Mr. HARVEY: Yes, that is right, but the other nine aircraft were depreciated well bellow $750,000 each in 1959, so the over-all sale of the 11 would more than take care of the loss between the purchase price and the depreciated value.

Mr. FISHER: Is it correct that T.C.A. took the initiative in lowering fares in 1960, both domestically and on trans-Atlantic routes?

Mr. WOOD: That is partially correct. Advance planning was undertaken to introduce the new domestic fares on January 2, 1961; but with respect to the other part of the question, on the international fares, I would like to say T.C.A. has for many years taken the initiative in negotiating lower fares on trans-Atlantic routes.

Mr. FISHER: In relation to this, what part did the re-equipping with turbine aircraft play in this sort of thing, in making sooner the move—that is one question; and secondly, what has been the forecast effect of lower fares in terms of revenue?

Mr. WOOD: I am very glad you asked this question because we have seemed to concentrate on a particular area of our operations. In forecasting requirements, based on our estimates of the potential air transportation market, we take into consideration not only our transcontinental services but also domestic and trans-border routes, and in addition the international routes; so we are examining the entire system and estimating the seat miles we will require for the period. This forecasting was taken into consideration with respect to international routes. While we could not tell too far in advance that the fares would be actually reduced, or that we would have special excursion fares in effect on the Atlantic, we hoped that this would be the case, and there was every reason to believe this would come about, based on the experience that the industry had in hand at the time. We feel that the results achieved have been most satisfactory. The trans-Atlantic business, which was influenced last year by a fare change, produced a tremendous increase in

traffic between Canada, the United Kingdom, and Europe during the last quarter of the year when they were in effect.

Mr. FISHER: You can look forward to the time when you are completely adjusted, and possibly to having another adjustment in domestic fares?

Mr. WOOD: This will depend on the forecasting of both costs and revenue. But it is our hope; since any reduction in fares, in our opinion, will widen the market and bring air transportation within the reach of more Canadians. That is part of our objective.

Mr. FISHER: I asked the question because we have noticed a great leap forward in bookings out of our area since fares have gone down, and the railways report fewer passenger fares because of this movement. How far can you go in reducing fares before you get into problems of reservation, with your present scale of equipment?

Mr. WOOD: Part of our plan has been to achieve a load factor which will normally enable us to provide space for the majority of passengers most times during the day, month or year when they wish to travel. The annual load factor we shoot for is in the area of 65 per cent. This is consistent with an economic operation, and as a matter of fact we achieved 66 per cent load factor last year. However other conditions prevented us from producing the result we looked for from a financial point of view. However this is the load factor which we believe will produce the least reservations difficulties for the public.

Mr. FISHER: Have you a trend showing in 1961 which indicates anything at all in regard to your load factor and the financial returns?

Mr. WOOD: I can answer your question in respect to load factors by saying that the domestic load factor for the first five months of the year was 65.6.

Mr. BADANAI: Would that displace some personnel from your operations?

Mr. WOOD: No, I think what Automatic Reservations will do is to bring about conditions in which we will not have to increase the number of personnel; but we are not displacing them.

Mr. BADANAI: Would that be a major item?

Mr. WOOD: Yes, we hope so; it should work in two ways; it will be a less expensive operation, but the most important thing is that we will be able to have better control of reservations, give better service to the public, and be able to protect a larger proportion of the traffic than we do at the present time.

Mr. BADANAI: What about your investment in equipment?

Mr. WOOD: The equipment which will be introduced into service this year will cost us $3,159,000.

Mr. SMITH (*Simcoe North*): Sometimes we hear this question; as to why there is such a wide differential between first-class fares and economy class fares on short routes, for example, as between here and Toronto where there is a difference in the fare of $8, one way, but with very little difference in the service.

Mr. WOOD: I am sorry, but I did not get your question.

Mr. SMITH (*Simcoe North*): You often hear this query; why is there so much difference between economy class fares and first-class fares on short routes such as between here and Toronto?

Mr. Wood: That is in keeping, I think, with the cost base we have used for determining both first-class and economy fares; the relationship is reached when you take into consideration volumetric capacity, weight space, and so on that you provide for first-class passengers as opposed to economy class passengers. It is not just reflected in service conditions. This is recognized, I would say, even more significantly on international routes where there is an even greater differential than there is on domestic services.

Mr. SMITH (*Calgary South*): Would you have some doubt that you may have categorized too many economy class fares as compared to first class?

Mr. WOOD: The answer to that, as of today, is no. As a matter of fact, in my view there should be more economy seats installed on DC-8's. Initially it is true that we were in short supply in first class seats.

Mr. MITCHELL: I would like to ask why liquor is not sold on the T.C.A.? Is it a company policy, or is it because of air transport regulations? Why I ask this question is that in Mr. Gordon's testimony it was said that there was substantial income derived from their liquor sales, their transcontinental sales. Maybe this might take away from your deficit a little, if T.C.A. sold liquor.

Mr. SEAGRIM: My understanding is that the legislation which pertains to the sale of liquor on surface transportation does not have practical application with airplanes, and the solution to this will have to be undertaken separately.

The CHAIRMAN: Do you mean that it is company policy?

Mr. SEAGRIM: No.

Mr. MITCHELL: Do you not supply that service for your overseas travel?

Mr. SEAGRIM: Yes.

Mr. MITCHELL: Then why do you not provide it for the domestic service?

Mr. SEAGRIM: We are permitted by law to do it on international service. But the provincial laws on the transportation of liquor between provinces is the stumbling block in so far as the domestic service is concerned.

The CHAIRMAN: You mean provincial governments might not like it, for example, at the Montreal terminal?

Mr. SEAGRIM: Montreal to Toronto to Winnipeg and so on; we are subject to provincial laws.

Mr. MCPHILLIPS: But so are the trains. They too are subject to provincial laws.

The CHAIRMAN: All right.

Mr. SMITH (*Calgary South*): I would like to ask a question.

The CHAIRMAN: I hope we may keep to a little better order in our procedure.

Mr. MITCHELL: We are still on finance.

The CHAIRMAN: I thought we might have exhausted that topic, but if not, it is my own fault, not yours. Are there any other questions on finance, or may we get along to other headings, and keep a little better order?

Mr. MCPHILLIPS: I do not think this matter of the $5 million diversion has been cleared up, to my satisfaction at any rate. As I understand, that diversion was on domestic operations, and I think you narrowed it down to transcontinental.

Mr. SEAGRIM: It was $5.8 million on the trans-continental.

Mr. MCPHILLIPS: I understood the $800,000 was on the short run.

Mr. WOOD: It just happens that the figures seem to be related.

Mr. MCPHILLIPS: If you expected this, and your only competitor was C.P.A., and they only ran one transcontinental trip a day, then why did your company proceed to put more transcontinental runs on?

Mr. SEAGRIM: The fact is, as I indicated to Mr. Smith, that our service is well patronized, and such level of service is required.

Mr. BROOME: This competition is not hurting you.

Mr. SEAGRIM: We have four transcontinental DC-8 flights, and I think the load factors justify those flights.

Mr. BROOME: Then this competition is not hurting you?

Mr. MCPHILLIPS: That is what I fail to understand.

Mr. WOOD: On the contrary, without competition we would have achieved a substantial amount of additional revenue; we had the capacity to carry it, and we had the ability to cope with it.

Mr. BROOME: You would have been able to write off far more of your non-obsolete planes too.

Mr. WOOD: That is right.

Mr. MCPHILLIPS: The public generally believes that you put on the extra run in order to squeeze your competitor and that you lost money in doing so.

Mr. SEAGRIM: That is not so. Our plans developed in previous years have been closely followed up.

Mr. WOOD: That is correct.

Mr. MCPHILLIPS: That is, when you had the whole field to yourself, would it not have been ordinary business prudence, if you had to have a diversion of $5 million, not to embark on a greater number of runs?

Mr. WOOD: If you are in business, you do your best to meet competition.

Mr. MCPHILLIPS: But you do not want to lose business.

Mr. WOOD: We did not plan to lose any business. The fact is that in a case such as this you have to make whatever adjustments you can to take care of the situation. But if there had not been competition during 1960, the fact remains that this additional revenue would have accrued to T.C.A. This is the total gross revenue.

Mr. MCPHILLIPS: If there had been but one passenger run, one flight, and if you had dropped that, then you would only have had to put one flight on; but you did more than that, notwithstanding your competitors' flights, and it does not make sense to me.

Mr. WOOD: I think we are talking about two different periods in time. We had planned a certain frequency of operation and capacity for 1960 which we in fact, provided. We also planned, recognizing the impact of competition what our capacity should be in 1961.

Mr. BROOME: Why did you put in $3.4 million more in promotional work in order to generate more traffic, if you would automatically get this traffic? In other words, you are not admitting that any promotional activity by other airlines could have brought in extra business, so, if this is true, and if the business is there, you would get it all. Therefore this money which you are spending on promotional work is, generally speaking, wasted, because it is not getting you extra passengers.

Mr. WOOD: This is your figure. I do not know where it came from. I did admit this morning that the $5,800,000 which we referred to was gross operating revenue.

Mr. BROOME: That is what you thought you would get.

Mr. WOOD: That is right.

Mr. BROOME: In relation to the yield; you expected a yield of 1000 transcontinental and you had 124 competition, as I think you said this morning; and you have 1,450 trans-Atlantic, and 1,450 competition. But suppose that all the seats on the other competing airlines such as Lufthansa, KLM, Air France and the C.P.A. airlines are filled, why are you not concerned about what you are giving away on the Atlantic, which numbers perhaps in thousands of seats a day, while here you are in the low position with 124 seats? Competition is fine on the Atlantic, you say, and you are doing well on your Atlantic service. But if you can do this on your Atlantic service, why can

you not do the same type of thing with your ordinary competitive situation, on your transcontinental, or are there two companies, one trans-Atlantic, and one transcontinental?

Mr. WOOD: There have been a number of new figures introduced with which I am not familiar.

Mr. BROOME: There were 122 or 124 seats mentioned this morning on the two flights, or on the one flight by C.P.A., yet in your report here at page nine you say that during the summer months T.C.A. provided 725 round trips; that is 1,450 seats.

Mr. SMITH (*Calgary South*): No; 725 would be a one-way run.

Mr. BROOME: It says: provided 1500 round trip seats weekly on the Atlantic and approximately an equal number of Trans-Atlantic seats were offered by B.O.A.C. Then on top of that you must add the other carriers.

Mr. WOOD: I am sorry; we are speaking about two different conditions. The 1000 seats daily to which you referred, and which I mentioned this morning and again this afternoon, were submitted in answer to a question regarding capacity on the transcontinental this year. The 725 seats each way daily in the report is correct, as is the 1500. I was referring to a different set of conditions, which means 1961 versus 1960. In any case, both on the Atlantic and domestic services we are very much concerned with competition. From our planning and our forecasting of the total market, we undertake to get the largest possible share of the market, international or domestic, and in doing this we try to achieve a load factor which we consider to be sound economically of 65 or 66 per cent. In answer to part of your question, the load factor in 1960 on Trans-Continental was 66.6 per cent.

Mr. BROOME: You can live with competition on the Atlantic, but you say you cannot live with domestic competition?

Mr. WOOD: I am not saying that. We are doing our best to meet the competition we have, and to do so in such a way as to provide the best service possible in order to capture as large a portion of the market as we can.

Mr. BROOME: But you could run more trips on the Atlantic if you did not have the B.O.A.C. agreement?

Mr. WOOD: No.

Mr. BROOME: Because you do not have enough equipment?

Mr. WOOD: No, sir.

Mr. CHEVRIER: Do most of the air lines in the world have a surplus today?

Mr. SEAGRIM: Mr. Harvey perhaps should answer this. My understanding is that most of the air lines in the world today are having trouble in this regard.

Mr. HARVEY: It is interesting to note that in 1960 the trunk air lines in the United States, which accounted for 70 per cent of the U.S. air transport industry, had total revenues of $1,942 million; out of that, after paying interest on long term debt, income taxes, they had a net profit of $1,188,000. Comparing that to 1959 in respect of the same carriers, they had an operating revenue of $1,800 million and a profit of $62 million.

Mr. CHEVRIER: In relation to this, are those United States trunk lines not subsidized by the United States government in various forms?

Mr. HARVEY: No sir. Subsidies so far as U.S. trunk carriers are concerned ceased quite a few years ago.

Mr. BROOME: Would you say that the Canadian domestic market is the second or third revenue market in the world?

Mr. WOOD: This is a difficult question to answer. There is only one other country of a comparable size and it is not as large as Canada; that is Australia. The movement of people by air in Australia per capita is perhaps higher than in Canada, but I think Canada is the third largest. The U.S. would be the first.

Mr. BROOME: The U.S. is first, but which is second?

Mr. WOOD: Australia.

Mr. BROOME: I am speaking about total revenue.

Mr. WOOD: You cannot very well talk about total revenue unless you relate traffic to population on a per capita basis.

Mr. BROOME: No: the total amount of money spent on air travel. The U.S. would be first and I am suggesting to you that Canada is second.

Mr. WOOD: I do not really know, but I would suggest that France would be ahead of us.

Mr. BROOME: In domestic?

Mr. WOOD: Yes.

Mr. BROOME: Are those figures available through I.A.T.A. or any other means?

Mr. WOOD: I do not know. They might be available through I.A.T.A.

Mr. BROOME: Most of the European countries are so small that they are dependent upon foreign carriage.

Mr. WOOD: Yes; except in the case of France or one or two others who did have colonies which they served and regarded as domestic transportation. In the case of France there is a tremendous volume of traffic between France and North Africa, Central Africa, South Africa, Madagascar and a little to the Middle East.

Mr. SMITH (*Calgary South*): You would not know of any other country which would have the privileged position you have of functioning in such a lucrative market?

Mr. WOOD: Most countries have one major national carrier, other than the United States and Australia.

Mr. MITCHELL: In respect of the total figures you gave us of the American trunk lines, have you a breakdown by naming the companies or not naming the companies, or a percentage of the companies, which might give us the percentage of the American companies which did not make money.

Mr. HARVEY: No, sir. The figures I quoted are from a press release of the Air Transport Association of America dated April 11, 1961.

Mr. FISHER: Have you any figures in respect of the six companies larger than T.C.A., who are in an allied position, as to how they made out in the past year?

The CHAIRMAN: What is the question?

Mr. FISHER: I want to know how many of them had deficits and how many had surpluses?

Mr. HARVEY: You are speaking of net operating income. So far as T.C.A. is concerned, I am speaking of a figure which you will find in our statement of income on page 18 of our Annual Report where we show a figure of $1,052,000. That is immediately after provision for depreciation. Have you located that figure?

Mr. FISHER: Yes.

Mr. HARVEY: I will relate that to some of the trunk carriers. Before I give you these figures, I would remind you that the figure I quoted of $1,188,000 net profit was for the trunk carriers. These figures I will give you now do not

include—nor do T.C.A.—figures interest or income tax. Eastern Air Lines had an operating loss of $5,354,000, Capital Air Lines a loss of $6,342,000, Delta a profit of $8,264,000, and Braniff a profit of $2,607,000.

Mr. BROOME: Are they the six largest carriers and you are the seventh largest?

Mr. HARVEY: No. Pardon me, sir; if Mr. Fisher was—and I do not think he was—relating T.C.A. as being seventh in revenue, I must say that I do not have that information.

Mr. FISHER: I notice that Canadian Pacific Air Lines Lost $4.7 million in 1960. Do you watch C.P.A. as a competitor very closely? I am thinking in financial terms.

Mr. HARVEY: If, you are asking do we watch their monthly, financial results by services, I am afraid this is impossible, because we have no knowledge whatsoever of their results and I would like to think they do not have any knowledge of ours.

Mr. FISHER: You do not have any indication of what percentage of their loss is on their international traffic?

Mr. HARVEY: I have no idea whatsoever of their losses or profits on any of their routes.

The CHAIRMAN: I think we should get back to our report.

Mr. FISHER: The key point in these hearings seems to revolve around the financial position of T.C.A. vis-a-vis C.P.A. competition. That is why I am interested in this. You will probably rule this question out of order. I would like to know what would be the effect on your projected revenue if C.P.A. were given more trans-continental flights?

Mr. HARVEY: We would lose our shirts.

Mr. SMITH (*Calgary South*): Would you like to qualify that?

Mr. HARVEY: We are already in a loss position in 1960. As we have implied in the annual report, if we are left alone—if the status quo remains—T.C.A. will come out of it. I had thought the chairman ruled any discussion on this subject more or less out of order, but to answer Mr. Fisher's question, if there is any additional competition allowed, we would be in serious financial difficulty. To put it more politely.

Mr. SMITH (*Calgary South*): I would point out that we have kept away from this; but the witness, in reply to a question, stated they would lose their shirts. I think this bears some examination, in the circumstances.

Mr. BROOME: I think so, too.

Mr. CHEVRIER: Which of the three fields, international, domestic or trans-border, do you think you could expand in and make money, if at all.

Mr. WOOD: I think you are talking about expansion of the air line. In all three areas we hope to grow and expand. This is a simple matter of natural growth which would occur in the populations and in the capacity and ability of people to use air transportation. We hope and expect to expand in all three areas.

Mr. CHEVRIER: I think your international operations have been profitable up until 1961; some of them have not been too profitable, because I do not imagine the Valleyfield run is a profitable run, although I think Dusseldorf is. Are there any prolongations of your present runs which you would like to have which would improve the financial position of the air lines.

Mr. WOOD: At the present time we have no plans for further expansion during 1961. What I was referring to is the growth on the routes which we now

operate nationally, internationally and trans-border—the latter is part of our North American services—on the existing routes. This is what I thought your question related to. Here we hope to grow in all three areas.

Mr. CHEVRIER: What about trans-border routes? Are there not some areas which should prove very profitable to the air lines.

Mr. WOOD: If such routes do become available in the future, they are still subject to agreement between the Canadian and United States governments and would not be available to a carrier until such time as the governments concerned have negotiated new bilateral agreements between this country and the United States.

Mr. SMITH (*Calgary South*): Might I pursue this reply of the witness, that you would lose your shirt if any competition was introduced by C.P.A. Earlier you indicated you would not even anticipate sizable write-offs due to the new highly efficient but expensive jet fleet; you said you would not run into a financial situation like that again. You have indicated that 65 per cent would be the target you would like to reach in connection with the passenger load factor—which you have achieved, and more. You also have indicated that you anticipate a sizable growth in air traffic. Then you say that if any competition at all was introduced, you would lose your shirts. To me, these seem like contradictory statements.

Mr. FISHER: He did not say "any competition". My question concerned whether C.P.A. was given several more transcontinental runs.

Mr. SMITH (*Calgary South*): Well, even with that wording, I think they are contradictory statements.

The CHAIRMAN: I submit, gentlemen, that this is sub judice. I think it is rather interesting that you have this little breach here from the proper order of procedure; however, we are here to study the annual report of the T.C.A. and their budget. There are a lot of figures you have not touched on which are relevant, and a lot of figures on which you have touched which are irrelevant.

Mr. SMITH (*Calgary South*): I agree with you.

Mr. CHEVRIER: Getting away from that field, Mr. Chairman, I have one or two questions to do with the transfer of your piston equipment to the turbine equipment, and the loss of pilots.

How many pilots found themselves without employment because of this changeover, and what has been done so far to find them positions elsewhere?

Mr. SEAGRIM: Mr. Chevrier, we have 104 pilots slated for furlough, and 59 of these have been furloughed. 45 are to be furloughed by the 31st of August. 54 of them have jobs now, and the prospects for the remaining 50 are quite good, in our opinion, and we will help them in any way that we possibly can.

Mr. CHEVRIER: Where have the 54 found jobs?

Mr. SEAGRIM: A good number have jobs with B.E.A., and a good number with Aer Lingus, the Irish air line. Many of them have gone to the smaller carriers throughout Canada, including two to the Department of Transport.

Mr. CHEVRIER: Are the 104 all out of employment now?

Mr. SEAGRIM: No. Actually, 54 of the 104 have other employment already.

Mr. CHEVRIER: But the others are still with T.C.A.?

Mr. SEAGRIM: This is right. 45 are still to be furloughed, and they are in search of employment. Of course, we are assisting them in every possible way we can.

Mr. CHEVRIER: Are you making representations to Aer Lingus and B.E.A.?

Mr. SEAGRIM: Yes. We established the contact, made the arrangements, and brought their interviews over here and set the stage in that respect.

Mr. CHEVRIER: Are the working conditions the same as on T.C.A.?

Mr. SEAGRIM: They are very similar. They are quite large air lines and are flying similar types of aircraft in some cases.

Mr. CHEVRIER: And you do think that before they leave the employment of T.C.A., the remaining pilots will find employment with other European or Canadian lines?

Mr. SEAGRIM: I believe so. We feel quite optimistic about this.

Mr. SMITH (*Calgary South*): Could I repeat the question I put to you this morning, Mr. Seagrim, concerning the Vanguards.

I am sure that any of us who have flown in other air lines will agree that your equipment is very good; however, although you did experience some difficulty with your Vanguards, you indicated to the committee this was normal. Would you reflect, sir, and adivse us if this is exactly as you had intended to say it? I would hope you could give us some assurance that the number of mechanicals you had on this aircraft were not due to bringing the aircraft into service too quickly and that it was, by comparison with the Viscount, to be expected. If this is the situation, it is quite clear; however, I think it is correct to say the mechanicals you have had on Vanguards, and are still having, are unusually high—or, is it normal?

Mr. SEAGRIM: If I used the word "normal", I used it wrongly. Mechanically, the Vanguard has given us a good deal of trouble. As you know, we inadvertently became the first operators of this aircraft. When we ordered the airplane, it was anticipated that B.E.A. would have the planes in service for five or six months beforehand and we would have had the benefit of knowing some of their problems, as the result of which our road would be relatively smooth. The airplanes—both B.E.A.'s and our own—were delayed largely because of troubles with the engines during the course of manufacture, to the point where we ultimately became the first, with B.E.A., to introduce the airplane into service. It has not been as good an airplane as some others in the initial stage, with respect to mechanical problems that are generally known in the industry as "bugs" or growing pains. We have had quite a few problems with the engines. These have been tackled with considerable vigour by the manufacturer, and the problems, one by one, are being overcome. However, we still have some problems with the engine.

Mr. SMITH (*Calgary South*): I am sure you would like to give some assurance that there is no question of a safety factor involved here, and that the aircraft, you still believe, is essentially a very good one, and that the majority of these problems have been worked out.

Mr. SEAGRIM: Yes. We have very great faith in this airplane. Our pilots like to fly it. It is a good airplane, from most points of view. We have no question at all with respect to the safety of operations. The type of problems we are having are mechanical ones that show up on the ground and cause delay, as you know, in the rectification of them, as well as problems in the air having to do with noise and vibration, which the airplane and engine manufacturers have been working on. This has to do with synchronization and synchro-phasing of the propellers, largely, and they are tackling them with reasonable success. I think before many months we will have an airplane which we can be proud of, in all respects.

Mr. SMITH (*Calgary South*): I think you for that answer, and I would like to ask this question: Have you ever looked into the possibility, as you did some years ago, with the Viscount, of having this aircraft built in Canada?

Mr. SEAGRIM: No. I do not think this possibility was looked into seriously, because we were never concerned about the manufacturing end of the business. Most manufacturers feel they have to construct airplanes in excess of 100 in

number before they can break even and justify the tooling, jigs. With the airplane being manufactured in England, to split an order or to divert part of the order to Canada to build 20 or 30, as required by T.C.A., I am sure would not be economically advisable. If it was 130, there would be a case for that.

Mr. SMITH (*Calgary South*): That sounds like a logical answer to me, but I was under the impression that it is a question of fact that T.C.A. did consult a local Canadian manufacturer to build, under licence, the first Viscount and, for some reason, this did not take place.

Mr. SEAGRIM: Are we still talking about the Vanguard?

Mr. SMITH (*Calgary South*): I am talking about the Viscount.

Mr. SEAGRIM: Not to my knowledge.

Mr. BROOME: Have you plans for a medium-range jet?

Mr. SEAGRIM: Yes. We have under study medium jets for the 1964-65 era, but we do not have specific plans as to an airplane.

Mr. BROOME: They would be produced in sufficient numbers so that you could well have conversation with Canadian manufacturers at that time, I would think.

Mr. SEAGRIM: I would think not. An airplane of the medium jet variety which we would order to provide for what we hope to be the normal growth of the air line during that period, would be ordered I think, in numbers of 5, 6 or 7 a year over a considerable period of time, and unless there was some very great market potential other than T.C.A., I do not think it would be practical to have them manufactured in Canada.

Mr. SMITH (*Calgary South*): Although your answer seems very logical, again, would it not seem useful to discuss this possibility with Canadian manufacturers?

Mr. SEAGRIM: Well, I think it is largely a question of what airplane is finally decided upon. And in what numbers.

The CHAIRMAN: Have you a question, Mr. Howe?

Mr. HOWE: A lot of discussion has taken place about obsolescence of these airplanes and T.C.A. business. Are any of these planes—the North Star or the Super Constellation—transferred or changed over to carry air freight alone?

Mr. SEAGRIM: Yes, sir. The answer is that some of our North Stars were converted to freighters. We have used these over a period of years. In so far as freight capacity is concerned, they have now been replaced by the Vanguard, which have equal freight capacity to the all-cargo North Stars; the North Stars are nearly all disposed of now, or well on the road to disposal.

Mr. MITCHELL: Mr. Chairman, I want to ask my annual question, as usual. Has the air line considered any further the use of the Sudbury airport for any east or west flights? The answer given by Mr. McGregor each year is that they are watching the traffic in and out of that airport. However, it is rather difficult, shall we say, for anyone in northern Ontario to go either east or west; they must come to Toronto to do so.

Mr. SMITH (*Simcoe North*): That is a good thing.

Mr. MITCHELL: I also was wondering if the new airport in the Canadian Sault, which is under construction, would add any power to our request for a continuing service across, instead of going south before we could go east or west?

Mr. SEAGRIM: I will answer your second question first. I do not believe the advent of an airport in the Canadian Sault would make any material difference to our route pattern.

With respect to your first question, Mr. Wood will reply.

Mr. WOOD: Mr. Mitchell, I am afraid the answer is very much the same. Of course, the situation changes as time goes on, and when we did operate that particular service before, as you remember—and I think it was routed via Montreal-Ottawa-North Bay-Sudbury—

Mr. MITCHELL: It was never put into service as far as Sudbury is concerned. That is fine; I will ask my question again next year.

Mr. WOOD: You must bear in mind that aircraft are larger now, and require more traffic.

Mr. MITCHELL: Well, this is the third or fourth year I have asked it.

Mr. BROOME: In 1959 I asked Mr. McGregor certain questions in regard to the control of the air transport board over T.C.A. I asked, with regard to the air transport board, whether T.C.A. was on exactly the same basis as any other carrier in Canada, and he said: Yes, exactly the same with regard to class 1 carriers, which we are, and other scheduled air lines are. There are several carrier classifications.

Now, Mr. Chairman, I do not think I could have phrased my question right. I had understood that T.C.A. had to file with the air transport board, but they were not under the control of the air transport board in regard to frequencies or modifications of routes, and that all the points served by T.C.A. were on a single licence and you could combine flights any way you wanted to; whereas other carriers receive a separate licence for each route and could not marry in between their routes. I believe that has been changed so that T.C.A. now do have to apply to the air transport board for variations in their route. Is this correct?

Mr. SEAGRIM: This is my understanding.

Mr. BROOME: In other words, you could not have the situation which occurred a few months back where you were advertising an across-the-pole flight from Vancouver to London? You advertised that because you did not have to go to the air transport board to get permission because London, Prestwick and Shannon were in this all inclusive licence?

Mr. WOOD: There is a bit of a misunderstanding here regarding this so-called polar route. I do not believe we ever advertised a flight as such. This is an international route covered by bilateral agreements between two governments concerned, and the international route licence is issued at the discretion of the Minister of Transport.

Mr. BROOME: But you did advertise it.

Mr. WOOD: With regard to the particular route to which you are referring, there was a misunderstanding at the time involving the bilateral agreement between Canada and the United Kingdom.

Mr. BROOME: But you did advertise it, even though you did not have the authority to fly it.

Mr. WOOD: That is right, and we rescinded it.

Mr. BROOME: I was wondering how you could make a mistake such as that.

Mr. WOOD: I can only refer you to the bilateral agreements and the individual interpretation of them, which is sometimes extremely difficult.

Mr. CHEVRIER: Under the bilateral agreements, would you not have the right to fly this polar route.

Mr. WOOD: Yes.

Mr. MCPHILLIPS: In the financial accounts, on page 18, I notice there is quite a substantial sum of money, upwards of $5 million, put down as non-operating income. What does that consist of?

Mr. HARVEY: You are referring now to the figure of $4,437,000?

Mr. MCPHILLIPS: That is right.

Mr. HARVEY: It is made up of a number of items, principally interest on progress payments on aircraft which we have made to Douglas, and to Vickers. There is a certain amount of capitalized interest. In fact a large share of it, approximately 50 per cent, is capitalized interest. This relates to money we advance to manufacturers for progress payments. We have to pay interest on it and our practice which is fairly common throughout the industry, is that we would capitalize that particular amount of interest until such time as the aircraft was delivered.

There is about $110,000 in cash discounts, that is where we take advantage of discounts allowed by suppliers. There is a certain amount of investment income, profit from foreign exchange and a few small miscellaneous items. The situation so far as our bank account is concerned—

Mr. MCPHILLIPS: When you say you pay interest on progress payments, I take it you have borrowed the money from the bank?

Mr. HARVEY: No, we borrow the money from the C.N.R. and, incidentally pay the prevailing rate of interest. Then we capitalize that portion insofar as progress payments are concerned. Let us say an aircraft costs $5 million and we have made progress payments to the total of $2½ million, and on that $2½ million we have to pay interest over a period of time. Rather than charge ourselves with interest on that we capitalized it. It is a common practice throughout the industry.

Mr. MCPHILLIPS: I can understand that, but how does it show up as income?

Mr. HARVEY: We treat it as non-operating income rather than absorb a charge related to an asset not yet in service. We set this up as part of the cost of acquiring the asset and amortize the amount through future depreciation provision.

Mr. SMITH (*Calgary South*): Undoubtedly your safety record is something of which you are very proud, and on this subject I have a question in two parts. First of all, can you tell me if you are carrying out any new research, recognizing that the skies are becoming pretty crowded right now, or are you really using the machinery and the more expensive research of the United States? Secondly, have you made any representations, or do you think it is necessary to make representations to the Department of Transport or, for that matter, to the civil authorities in the hope of providing alternate fields for civilian navigation? This is something which has been suggested in many circles. Our airports today are becoming crowded, and I would appreciate a general comment from you on this.

Mr. SEAGRIM: In so far as research is concerned, with the modern facilities, particularly landing devices and that sort of thing becoming so expensive we have taken the position, in common with other airlines, of accepting the research carried on by the various governments, and particularly the military services who are doing research and developing new devices.

Mr. SMITH (*Calgary South*): There are no new systems being introduced this calendar year?

Mr. SEAGRIM: Nothing new and spectacular. The older systems are being improved. For instance in runway approach lighting, each year there is some improvement, and the airlines through the medium of associations such as the air transport association are instrumental in spearheading such improvements with the cooperation of the governments of Canada and the United States.

Mr. SMITH (*Calgary South*): What about the second part of my question?

Mr. SEAGRIM: For years we in Trans-Canada Airlines have been advocating satellite airports in congested areas such as Montreal, Vancouver, Toronto, for use by flying schools, etc. We have never regarded this as having received proper attention but I believe D.O.T. have taken a very serious approach to the problem. I know they realize the difficulties, particularly where they are faced with A.T.C. situations, and I think in most cases there are plans on foot with the object of ultimately providing satellite airports.

Mr. CHEVRIER: Arising out of the first question, what advantage, if any, do you find as between the ground control approach and the instrument landing system?

Mr. SEAGRIM: They are two quite different systems and they tend to complement each other. The ground control approach was primarily a military aid and the I.L.S. was primarily a civil airline landing aid. They are both very good. The first calls for someone in the form of a ground controller to provide directions to the pilot. The other system puts the onus on the pilot of the airplane to fly a beam down to the end of the runway. We take the view that for civilian operations G.C.A., or some sort of radar, is a very good monitoring system for the I.L.S., and if we could have both, or variations of them at high density centres it would be very good.

Mr. CHEVRIER: Have we many G.C.A.'s as compared to I.L.S.'s?

Mr. SEAGRIM: No, but at all major airports we do have radar which is designed for keeping traffic separated during the approach and during departure. Certainly it is a very important and very valuable safety aid.

Mr. CHEVRIER: What about the United Kingdom? Is it the other way around there?

Mr. SEAGRIM: I think in the United Kingdom the situation tends to be in reverse. The principal aid there would be G.C.A. as against I.L.S. except at international airports.

Mr. BROOME: In the financial statement under charters, in 1959 you had $876,000 on charter flights and this dropped to $506,000 in 1960. I remember the last time I went through Montreal to Toronto they seemed to empty the airport into one big Lufthansa Constellation on a charter flight. I wonder why charter flights dropped, and why you did not use some of these redundant airplanes to push extra traffic from charter flights?

Mr. WOOD: I shall try to answer that. There are a number of charters always available to the industry, both in Canada and the United States, and in particular, charters for the atlantic route, which I take it is what you are talking about. In many cases it is a question of price and in other cases it is the question of the availability of aircraft to meet the requirements of the particular charterer.

In answer to your question as to the difference in revenues, we were reasonably well occupied with our fleet during this particular period of time, or at the time the charters themselves were requested. Incidentally they seemed to peak on a certain period of the year during which we found it uneconomic to compete for certain charters, or else we were unable to provide the aircraft at that time. There is not a significant amount of profit involved in this traffic.

Mr. BROOME: It would appear to me this is the only figure which did not really climb. All other operating revenues are up, except charters, and with your fleet of 12 constellations available I would have thought charters would have been a good place to use them.

Mr. WOOD: During this particular period the Super Constellations were heavily committed to scheduled services.

Mr. BROOME: In regard to sales and promotion, I note that extra money is being spent on them. These costs went up from $18.9 million to $21.8 million last year. Surely this must include more than the sales and promotion?

Mr. WOOD: I do not have the breakdown on this, but you would expect in any enterprise to increase your sales effort if you wish to generate more business. Part of this amount would be $600,000 on additional commissions paid on increased business developed by sales agents. Our advertising increased by $700,000, and again the best yardstick you can find with respect to advertising as against revenue is a figure which varies between 2.7 and 3% of your anticipated revenues. Our volume was expanding, and I think advertising expense came out at 2.8% of revenues if I remember rightly. I shall check that, if necessary.

Mr. BROOME: That is good enough.

Mr. SMITH (*Simcoe North*): Does that include the rental of ticket offices?

Mr. WOOD: Yes, that is all part of it, and we opened several offices during the year.

Mr. BROOME: There seemed to be a large increase of almost $3 million, and even after you take out the extra commissions and advertising there is still $1½ million left.

Mr. WOOD: That is quite true, Mr. Broome. It is a large sum but if it is broken down into its component parts you will see how it works out. Rentals increased by $100,000, and salaries increased by approximately $1,000,000.

Mr. SMITH (*Simcoe North*): Does this include the people who sell me my ticket when I get to the airport? Are they included in this $21 million?

Mr. WOOD: That is right, and when you consider the system as a whole it was necessary to increase our staff to cope with the increased volume of business.

Mr. BROOME: Your operating revenues went up 11 per cent over the previous year?

Mr. WOOD: Yes.

Mr. BROOME: Most companies would consider that would be a very healthy yearly increase.

The CHAIRMAN: Are there any more questions on finance? You seem to have left that field.

Mr. BROOME: We never left finance.

The CHAIRMAN: Yes, you did. You have been dealing with international services.

Mr. BROOME: Can you tell us the headings which you are going to take?

The CHAIRMAN: You can tell me the headings on which you are going to question.

Mr. BROOME: Well, are you going to take them according to the headings in the report?

The CHAIRMAN: We more or less agreed on that. You have had a lot of latitude and that is principally my fault.

Mr. MCPHILLIPS: The next item is service and traffic growth, and we have been over that.

The CHAIRMAN: We have been over equipment and facilities too.

Mr. CHEVRIER: I think we have covered the field fairly well.

Mr. BROOME: Did the board of directors approve the use of this surplus in this consolidated write-off, or was it a decision of management?

Mr. HARVEY: This was thoroughly reviewed. Not only by the board of directors but two government departments, the Department of Transport and the Department of Finance.

Mr. SMITH (*Simcoe North*): Since we are back on finance and depreciation, is there some length of time given for writing off a jet plane?

Mr. SEAGRIM: This varies. So far as the DC8's are concerned they are currently on 10 years.

Mr. SMITH (*Simcoe North*): I have seen reports in newspapers that when you are depreciating these planes, if you buy one on December 30, you depreciate it for the full year. Is that so?

Mr. HARVEY: No, sir.

Mr. SMITH (*Simcoe North*): The statement has been made more than once.

Mr. HARVEY: It may have been made, but it does not apply to airlines, especially T.C.A. Depreciation commences from the date the aircraft enters revenue service.

The CHAIRMAN: Are there any other questions now, before we leave that? Service and traffic growth. Is there anything further on that?

Mr. BROOME: Yes. In the board of transport commissioners report they outlined the philosophy of non-competition between Canadian carriers as fas as possible; that they should compete with other carriers rather than among themselves. Would you not consider it better to have two Canadian carriers on your trans-Atlantic route and to compete with another Canadian carrier rather than to compete with foreign carriers? Would this not be in the better interests of this country?

Mr. SEAGRIM: It would seem to me this is not eligible for discussion here Mr. Chairman.

Mr. BROOME: If you are going to have competition, is it not better to have two Canadian companies competing? If you are going to divide business with B.O.A.C, would it not be better to divide it with propeller-driven aircraft run by B.O.A.C. because you have left the propeller-driven field? You are not competitive there.

The CHAIRMAN: I understand it is under agreement now.

Mr. BROOME: This is not the same as the "losing one's shirt" statement. I am just getting it on the record also.

The CHAIRMAN: You are getting back into the competitive field, of course.

Mr. BROOME: Well then, on the same question of cooperation between Canadian carriers, any arrangements made to promote the Japan airlines traffic into Vancouver and then onward by T.C.A. will be cutting the ground out from beneath your brother Canadian carrier, would it not? Any efforts made by T.C.A. will be efforts directed to help the foreign carrier and hurt a Canadian carrier. This will be the result.

Mr. WOOD: That would be one way of looking at it, from the C.P.A. point of view. From the T.C.A. point of view it would involve a commercial agreement designed to increase revenues of Trans-Canada Air Lines, which is your national airline. We have no agreement with Japan Airlines.

Mr. BROOME: Have you not been working on one?

Mr. WOOD: We discussed such an arrangement. As a matter of fact, it has been discussed once or twice in the last year. C.P.A. has commercial agreements with other foreign carriers.

Mr. BROOME: I suggest it would react in the same way. Can you tell me of any agreement which would hurt T.C.A.?

Mr. WOOD: No, I cannot definitely answer that question, Mr. Broome. I believe there are such agreements, but I am not certain.

The CHAIRMAN: Is there anything further on service and traffic growth? Have you any questions on equipment and facilities?

You mentioned the board of directors, Mr. Broome.

Mr. BROOME: I move they be abolished.

The CHAIRMAN: Anything on personnel?

Mr. FISHER: I am curious as to the rate of growth of 8 per cent. It seems fairly high. I would like an explanation. I like to see jobs created, but in view of the fact that you are introducing a new reservation system, I am wondering whether this will stabilize employment in 1961, or will it drop?

Mr. SEAGRIM: I think it should drop in 1961. With all the new developments that were facing us in 1960, I believe it was inevitable that we were going to have a rather critical staff situation which we were trying to hold down. For example, for a good portion of the year we were in effect operating two maintenance and overhaul facilities in Montreal—the new one and the old one—and we required more people to get us over this hump. I hope that next year the situation will be improved.

Mr. FISHER: What percentage of your employees are covered under contracts with organized labour?

Mr. SEAGRIM: Seventy per cent.

Mr. FISHER: Have any problems existed in this particular area due to your change to a larger type aircraft?

Mr. SEAGRIM: Our relationship with our organized groups by and large have been very amicable. Some of our contracts have had to be altered in one way or another to provide for the bigger and faster airplanes, and so forth. But this has not been a major problem with us.

Mr. FISHER: Have you any comparative indications of T.C.A. wages and salaries as compared with other air carriers? Could you indicate whether they are above the norm or below the norm?

Mr. SEAGRIM: Compared with the U.S. trunk carriers by and large they are in the order of 85 per cent. Is that correct, Mr. Harvey?

Mr. HARVEY: Yes.

Mr. FISHER: How do you compare with other Canadian carriers?

Mr. SEAGRIM: I do not know exactly, but I believe that we are about on a par.

The CHAIRMAN: Any other questions?

Mr. FISHER: I have another question. I would like to know what is the situation in Winnipeg in so far as personnel is concerned, and especially in the light of what seems to be a feeling in that centre that they have a short deal in the airport facilities. This had led to a consequent drying up of repair work that is done there with supplies. The big issue at the present time is with C.P.A., but the same issue existed with regard to T.C.A., and I wanted to know what the situation was out there.

Mr. SEAGRIM: As far as we are concerned, the situation in Winnipeg is simply that we continue, and will continue, to maintain and overhaul our Viscount airplanes and their engines at our Winnipeg base. The engine shop at which our DC-3 engines, North Star engines, were overhauled, is also in Winnipeg, and this work has simply dried up. So that Winnipeg is a Viscount base and I expect it will carry on as long as we have Viscounts in service in appreciable numbers.

Mr. FISHER: So the employment will not shift and alter the market?

Mr. SEAGRIM: I would not think so.

Mr. SMITH (*Calgary South*): I have a question on personnel. You recall, Mr. Seagrim, that under previous examination the committee has had some rather unkind things to say about the whole problem of reservations. Incidentally, Mr. McGregor recognized the necessity of the public relations problem involved here, and he has made comments on it. Would you feel that your improved technical equipment has assisted you materially in recognizing the human elements involved, which was always going to be a problem, but it has now reached a point where you think you have things relatively under control?

Mr. WOOD: We hope so, Mr. Smith. I think we have shown some improvement in this area during the past year. We have the same problem existing from year to year with turnover in personnel, with growth, and so on, continuous training, observation and retraining. However, I think we are improving. We are doing better training and have better supervision, which is helpful. But with the automatic reservation system, the electronic system that is coming into effect this year, we hope to produce a very substantial improvement in this particular area to which you referred.

Mr. MCPHILLIPS: My question is on personnel. Just because you are flying aircraft to the United Kingdom, do you find it necessary to hire English personnel on the aircraft, rather than Canadian? I made a trip recently, and all these girls on T.C.A. were English; so was the chief steward. Why do you not employ Canadians?

Mr. SEAGRIM: This would be a coincidence. We employ as many Canadians as we possibly can. We have a problem, and that is getting people who are bilingual or multilingual for our continental services, and for that matter for our services in eastern Canada. We have had to go out of the country of necessity in many cases to hire people who are bilingual. It would seem that people from the continent, and even from England, are much more proficient in the matter of languages than we are over here.

Mr. MCPHILLIPS: When you say "bilingual", you are just dealing with English and French?

Mr. SEAGRIM: Or multilingual, if possible. We also operate into France, Germany, Belgium and Switzerland.

Mr. MCPHILLIPS: Would you turn down a girl who is qualified to be a stewardess and speaks both French and English if another girl came along who could speak German as well?

Mr. SEAGRIM: We are only too happy to hire any girls who meet the standards in other respect and can speak both French and English.

Mr. SMITH (*Calgary South*): When you say "flying in the east", you are not restricting it to Montreal and Winnipeg, but on all your routes you also carry a fairly large number of continental stewardesses for the same reason.

Mr. CHEVRIER: Do you put any of your bilingual stewardesses on your western Canadian routes?

Mr. SEAGRIM: Yes. As far as possible.

The CHAIRMAN: Anything further on personnel?

The next one is on planning.

Mr. BROOME: On planning, Mr. Chairman, does T.C.A. enter into projected new routes into the United States? The U.S. carries services to practically all major Canadian points, and yet well down the west coast we have no Canadian service flying into Los Angeles or San Francisco. We have no Toronto or Montreal route across the continent to San Francisco or Los Angeles. We have not any real deep penetration into the deep west down towards New Orleans

and we have not really good penetration on the eastern seaboard. It seems to me that this is an area where we are entitled to more points in the United States.

Mr. SEAGRIM: I think you will find that we are in complete agreement with you. This again is a matter of bilateral negotiations between governments. Certainly we aspire to some of these routes that you mentioned. Would you comment on this, Mr. Wood?

Mr. WOOD: I have very little to add except that I am in complete agreement with Mr. Broome.

Mr. BROOME: I am glad we agree on something.

Mr. WOOD: It is very nice to be able to do so.

Representations have been made by Canadian carriers at the request of the air transport board, to give some indication of the points that would be valuable to a Canadian carrier. Those that you have mentioned are certainly very important indeed, and they are points on which I hope some agreement will be reached. As a matter of fact, as I understand it, negotiations are under way at the present time and I hope they will be successful.

Mr. BROOME: Negotiations for deeper penetration into the United States?

Mr. WOOD: That is right.

Mr. BROOME: I hope they are successful.

Mr. MCPHILLIPS: I do not know if this comes under this point, but how many vacancies are there on the board of directors?

Mr. BROOME: Are you looking for a job?

Mr. SEAGRIM: I cannot answer the previous question.

The CHAIRMAN: The report says:

Board of Directors

During the year, Mr. R. A. C. Henry and the Hon. F. M. Ross left the Board. The Directors wish to express their sincere appreciation for the invaluable services they rendered. Mr. George R. Hackett of Vancouver, was appointed to the Board on May 26.

Mr. BROOME: There must be one short.

Mr. MCPHILLIPS: Mr. Bickle died, did he not, so there would be two vacancies.

Mr. MCFARLANE: How often does the board meet?

The CHAIRMAN: I suppose it is for the government to decide the naming of the board of directors. We cannot do that.

Mr. SEAGRIM: Four are appointed by order in council and five are elected by the shareholders.

The CHAIRMAN: While we have not the latitude to approve it, Mr. G. R. McGregor himself is on the board, and Mr. McEwen is still on the board, is he not; and also Mr. Hackett; so there is no one to be appointed by the governor general.

Mr. MCPHILLIPS: No.

Mr. CHEVRIER: I move that the report be adopted.

Mr. MCPHILLIPS: I second that.

Agreed to.

Mr. CHEVRIER: I should like to make another motion now, if it is agreeable to the committee, that since Mr. McGregor is not with us today, we regret his absence and hope that he will have a prompt recovery. I would like to add also our thanks to those members of the T.C.A. who have given this evidence under difficult circumstances today.

Mr. PASCOE: I second that.

The CHAIRMAN: I know it is your pleasure to accept this motion. I will see that it is conveyed to Mr. Gordon McGregor and wish him well, and express our regrets that he is not with us today.

Agreed to.

The CHAIRMAN: We turn now to the capital budget. Mr. Harvey will deal with any question on that. It is not very long. In fact, it is bigger than it is long.

TRANS-CANADA AIR LINES

CAPITAL BUDGET

1961

(Expressed in Thousands)

APPLICATION OF FUNDS:		
Property and Equipment (details appended)		$ 38,992
Increased Material & Supplies (due introduction of new aircraft types)		6,208
		$ 45,200
SOURCE OF FUNDS:		
Net Income	$ 500	
Depreciation Provision	23,400	
	$ 23,900	
Sale of Aircraft and Buildings	1,600	25,500
FINANCED THROUGH CANADIAN NATIONAL RAILWAYS ...		$ 19,700

TRANS-CANADA AIR LINES

PROPERTY AND EQUIPMENT BUDGET—1961

	Expenditure Commitments			1961 Expenditures		
	Projects Proposed Current Budget	All Projects Authorized Previous Budgets	Total	Projects Proposed Current Budget	All Projects Authorized Previous Budgets	Total*
	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)
AIRPLANES AND COMPONENTS						
Airplanes	107,350	29,762	137,112	5,904	19,660	25,564
Betterment Projects	677	468	1,145	571	453	1,024
Spare Engines	—	485	485	—	485	485
Total	108,027	30,715	138,742	6,475	20,598	27,073
GROUND FACILITIES AND COMPONENTS						
Flight Handling	651	422	1,073	651	422	1,073
Maintenance and Overhaul	732	1,093	1,825	732	1,093	1,825
Office Equipment	539	100	639	539	100	639
Flight Trainers	130	46	176	130	46	176
Miscellaneous Equipment	515	1,876	2,391	515	1,876	2,391
Total	2,567	3,537	6,104	2,567	3,537	6,104
BUILDINGS AND IMPROVEMENTS	115	6,000	6,115	115	5,400	5,515
CONTINGENCY FUND	300	—	300	300	—	300
TOTAL PROPERTY AND EQUIPMENT	111,009	40,252	151,261	9,457	29,535	38,992
EXPENDITURE PROGRAM:						
1961—Major Commitments	5,904	27,119	33,023			
—Other	3,553	2,416	5,969			
	9,457	29,535	38,992			
1962—Major Commitments	16,918	10,702	27,620			
—Other	106	15	121			
	17,024	10,717	27,741			
1963—Major Commitments	30,362	—	30,362			
1964—Major Commitments	25,009	—	25,009			
1965—Major Commitments	29,157	—	29,157			
Total—Major Commitments	107,350	37,821	145,171			
—Other	3,659	2,431	6,090			
	111,009	40,252	151,261			

* The expenditure with respect to each of the above items may exceed the amount shown by not more than 10% without further approval, provided the total expenditures on the said items do not exceed $38,992,000.

Mr. BROOME: This figure $38,992—is that expressed in thousands?

Mr. HARVEY: Yes sir, $38,992,000.

Mr. BROOME: Therefore, the other figure there is $45,200,000?

Mr. HARVEY: Yes, sir.

The CHAIRMAN: The footnote on the second page of this capital budget shows the figure in full, $38,992,000. That is the figure you mentioned, Mr. Broome.

Mr. BROOME: In regard to "source of funds" could I have some explanation on that?

Mr. HARVEY: In what way, Mr. Broome? Would you like an elaboration of the provision?

Mr. BROOME: Yes, the net income of $500,000.

Mr. HARVEY: The $500,000 for net income is what we are anticipating as our 1961 profit, this, after allowing for depreciation of $23.4 million. The reason for the big increase in depreciation over 1960, is due to the DC-8s being in service for a full year. The Vanguards will be in service for most of the year—

Mr. BROOME: So your new cash is $19,700,000?

Mr. HARVEY: Yes.

Mr. BROOME: In regard to this sale of aircraft and buildings, does this include the sale of T.C.A. North Stars to a United Kingdom firm?

Mr. HARVEY: Yes, sir. Unfortunately I wish we could say that particular sale was $1,600,000. However as we still have the Super Constellations to sell, I am quite confident that we will attain this $1,600,000.

Mr. BROOME: You know what we got for the Arrow.

Mr. MCFARLANE: This does not include the purchase of the Vancouver airport, does it? Perhaps we ought to vote against that.

Mr. MCPHILLIPS: I move that the capital budget be approved.

Mr. BROOME: I second that.

Agreed to.

Mr. SMITH (*Simcoe North*): Mr. Chairman, on a point of order, I do not know whether I should bring this up or not. When we dealt with C.N.R. you will remember we reserved the item that they were to have to put up for the T.C.A. Are we to take it that this motion now approves of that item in the C.N.R. budget? I guess we should.

Mr. MCFARLANE: In view of the fact that we held it out on the other investigation, would it not be a good idea to have it approved as a separate motion?

The CHAIRMAN: Yes, I think so.

Mr. SMITH (*Simcoe North*): I move that the reserved item as mentioned be approved.

Mr. MCFARLANE: I second that.

Agreed to.

Mr. SEAGRIM: Before Mr. Harvey, Mr. Wood and myself retire, could I take this opportunity of thanking the committee for its kind indulgence under the circumstances?

The CHAIRMAN: I am sure the committee appreciates your courtesy in that regard and, as Mr. Chevrier said, we think you have done a good job in view of the rather unfortunate circumstances and we appreciate your attitude.

Mr. SEAGRIM: Thank you very much.

The CHAIRMAN: We now come to the auditor's report, and we have Mr. deLalanne here, who will answer any questions. He is also the auditor of the C.N.R., so his face is familiar around here.

The auditor's reports is as follows:

J. A. DELALANNE
Chartered Accountant
507 Place d'Armes, Montreal

February 10, 1961.

To The Honourable The Minister of Transport,
Ottawa, Canada.

Sir:

As auditor of Trans-Canada Air Lines, I report, through you, to Parliament on my audit of the accounts for the year ended December 31, 1960.

I have signed a separate report in the following terms which, together with the related financial statements, is included in the annual report of the Corporation.

I have examined the balance sheet of Trans-Canada Air Lines as at December 31, 1960 and the statement of income for the year ended on that date. My examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as I considered necessary in the circumstances.

In my opinion, the accompanying balance sheet and the related statement of income are properly drawn up, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, so as to give a true and fair view of the state of the affairs of the Corporation at December 31, 1960 and of the results of its operations for the year ended on that date, according to the best of my information and the explanations given to me and as shown by the books of the Corporation.

I further report that, in my opinion, proper books of account have been kept by the Corporation and the transactions that have come under my notice have been within the powers of the Corporation.

I offer the following further comments—

Current Position—Working Capital

There was an increase of $6,025,352 in working capital during the year attributable as under:

Funds Provided from—		
Depreciation		$13,671,303
Net increase in advances by Canadian National Railways		74,000,000
Assets retired	$ 4,246,171	
Less: Amount charged against accumulated depreciation	2,313,901	1,932,270
		89,603,573
Funds Applied to—		
Additions to property and equipment including progress payments on capital commitments	82,213,968	
Training costs to be amortized	1,364,253	83,578,221
Net Increase in Working Capital		$ 6,025,352

Capital Assets

Property and Equipment

There was an increase of $75,478,664 during the year in the net investment in property and equipment, accounted for as under:

Additions

Aircraft and component parts—including 7 DC8's and 3 Vanguards	$58,521,398
Ground facilities and components including Dorval overhaul and maintenance base	32,730,970
	91,252,368
Less: Assets retired including— 1 Super Constellation, 2 DC3's and 1 Hangar at Dorval	4,246,171
	87,006,197
Increase in Accumulated Depreciation	11,527,533
Net Increase in Property and Equipment	$75,478,664

Depreciation has been provided on a "straight line" method as follows:

Aircraft—to reduce to residual values over periods of years from date of being put into service.

North Star and DC3—reduced to residual value in prior years.

Super Constellation —over seven years with a special rate for 1 aircraft acquired under a re-purchase agreement.

Viscount —over nine years.

DC8 —over ten years.

Vanguard —none in service at December 31, 1960.

Ground Facilities—to amortize over estimated useful life, the period depending upon the type of asset.

In accordance with the Corporation's policy of not depreciating aircraft until they are placed in service, no depreciation has been provided on Vanguard aircraft acquired in 1960.

Progress Payments

These amounted to $58,537,217 at December 31, 1960 and were $8,888,512 lower than at the end of the previous year.

They apply to the following commitments, including capitalized interest:

3 Douglas DC8's for delivery in 1961, including spare equipment	$16,833,284
17 Vickers Vanguards for delivery in 1961, including spare equipment	39,240,638
Buildings and ground equipment	2,463,295
	$58,537,217

Further payments totalling $35,000,000 remain to be paid either prior to or on completion of unfinished contracts.

Loans and Debentures

During the year there was a net increase of $74,000,000 in the loans and debentures payable to Canadian National Railways, being advances of $78,000,000 less repayments of $4,000,000. Demand notes aggregating $113,906,000 were converted to debentures during 1960.

Notes and debentures outstanding at December 31, 1960 become payable as follows:

Demand notes—3.5%			$ 27,000,000
Debentures—			
%	*Maturing*		
5.97	December 15, 1964	$34,994,000	
4.745	April 1, 1967	29,340,000	
5.23	May 15, 1968	2,680,000	
3.875	January 1, 1973	20,000,000	
5.22	May 15, 1977	4,020,000	
4.25	February 1, 1981	6,500,000	
5.94	January 1, 1985	17,497,000	
5.235	October 1, 1987	67,069,000	182,100,000
	Total.....		$209,100,000

It will be noted that interest charges on the above will exceed $10,000,000 per annum. This results from the heavy additional investment in equipment coupled with a sharp increase in the average interest rate to approximately 5%.

Materials and Supplies

Inventories rose during the year by approximately $5,000,000 as a result of provisioning for DC8 and Vanguard fleets.

The method of valuation is consistent with that followed in prior years.

Unamortized Training Costs

The introduction of new types of aircraft has increased substantially the cost of training of air and ground crews.

The Corporation has adopted a policy, consistent with the industry practice, of deferring the relevant training expenses. The period for amortization has been fixed at four years.

The amount so deferred at December 31, 1960 was $1,384,495.

Insurance Fund and Reserve

There was a reduction of $155,799 in fund during the year represented by—

Claims against the fund		$1,389,828
Less: Interest earned on securities	$ 226,739	
Accruals to the fund— charged to operations	1,077,290	1,234,029
		$ 155,799

At the end of the year the fund was compromised of —

Securities—at cost	6,318,740
Cash and accrued interest	64,706
	6,383,446
Less: Amount payable to Corporation	693,379
	$5,690,067

The quoted market value of securities at December 31, 1960 was 13.5% lower than cost as compared with 18% at the end of the previous year—or a recovery of $288,600.

Reserve for Properties, Plant and Equipment

In view of the imminent retirement of the three piston engine aircraft fleets and of the present indication that the Corporation may ultimately experience a substantial write-off in disposing of the relative assets, the balance in Surplus Account at January 1, 1960 has been appropriated to establish a properties reserve against this contingency.

Statement of Income

Income from operations, before providing for depreciation, was $165,322 higher than in 1959.

On the other hand, there were substantially higher depreciation and interest charges made up of increases in—

Depreciation	$1,526,221
Interest on loans and debentures	4,366,741
	5,892,962
Less: Increases in non-operating income mainly attributable to interest capitalized and interest earned on aircraft progress payments	2,967,736
	$2,925,226

The resulting deficit of $2,607,350 for the year 1960 has been shown as recoverable from the Government of Canada and offset against advances.

General

Where applicable, foreign currencies at December 31, 1960 have been converted at rates similar to those in effect in prior years—viz. United States dollars at par and Sterling at $2.80 to the pound.

I wish to take this opportunity of expressing my appreciation to the officers and staff of the Corporation for their full co-operation and assistance throughout the year.

Yours faithfully,

J. A. deLalanne
Chartered Accountant

Mr. McPHILLIPS: On page 18 of the annual report of T.C.A., there is an item shown as non-operating income. Mr. Harvey, the comptroller, in explaining it, stated that in that amount of $4,437,538 there was something in excess of $2 million that represented interest which they paid on moneys which they secured from the C.N.R. and were applied in purchase of aircraft. I think his answer to me was in pretty technical comptroller's audit language. What I want to know is how you can turn around money that you pay into income?

Mr. J. A. deLALANNE (*Chartered Accountant, Trans-Canada Air Lines*): It is on the second last line. The interest on loans and debentures of $8 million is the gross amount of interest paid out during the year, or accrued during the year, as applying through the year. That is not all charged to expense of the year, because the part which Mr. Harvey mentioned is, in this particular year,

added to the cost of the aircraft as interest capital on that. That will be written off in future years as part of the depreciation, so that had there been no interest capitalized, any year there is no interest capitalized, the total amount of interest will apply against the revenue. But while these aircraft are being purchased and before they come into service, there is part of that gross interest which is added to the capital cost and will be subject to depreciation.

Mr. CHEVRIER: Is there any difference in the accountancy practice in the accounts of the T.C.A. as compared with C.N.R.?

Mr. DELALANNE: As far as interest capitalized is concerned?

Mr. CHEVRIER: No, generally speaking. What I am coming at is that the president of the C.N.R. told us that because of an amendment to the Railway Act, I think, the methods followed by the I.C.C.—

Mr. DELALANNE: The I.C.C. controls the methods of accounting in the United States.

Mr. CHEVRIER: Is the method of accounting for the airlines similar to that for the railway—or vice versa?

Mr. DELALANNE: In so far as they can be compared, I would not think there would be any great difference, except in this matter of capitalization of interest. Depreciation is handled in much the same way, and expenses in the same manner.

Mr. CHEVRIER: Do you depreciate a steam locomotive or diesel locomotive in the same manner as you depreciate a DC-8?

Mr. DELALANNE: Over the estimated service life—and this is over the estimated service life, the best that can be gauged by the management.

Mr. CHEVRIER: So you say there is no difference in effect?

Mr. DELALANNE: Not that I can think of, sir. The depreciation bases in the United States and Great Britain and other countries are not necessarily the same as in Canada. The same basis may not be prescribed by the board of transport commissioners as by the I.C.C. or by comptrolling agencies in other countries. They all have their own methods of depreciation.

Mr. BROOME: In regard to depreciation on Vanguards, has that been set up? It says here "None in service on 31st December, 1960". Will it be nine years, ten years, or how long?

Mr. DELALANNE: I have not seen the number of years to be used for that as yet.

Mr. BROOME: Would you have any figure for the total amount of depreciation which was not written off over the working life of an aircraft, but which took place because of faster depreciation than the stated number of years, or where the aircraft is not used but is still being depreciated, sitting in a hangar somewhere but still carrying depreciation.

Mr. DELALANNE: No, I would not have any figure on that.

The CHAIRMAN: Are there any other questions? I do not want to hurry just because the clock is striking.

Mr. BROOME: In regard to the insurance fund, how was this fund built up?

Mr. DELALANNE: The insurance fund is built up by earnings on its investments and by contributions chargeable to the expenses.

Mr. BROOME: I mean, was there a capital sum set in there, to begin with?

Mr. DELALANNE: I think the company could probably give that answer better than myself. I think the fund grew up over the years. It has been around much the same figure for some years now. I am not too sure what the figure was initially.

Mr. BROOME: How did the figure grow to a figure of $5,690,000? The accruals to the fund are charged to operation. So this $1 million would be operating expenses, I suppose, would it not?

Mr. DELALANNE: I think there are some figures going back seven or eight years, and it was around $5 million then. It has come up a little more since. The accruals are charged to operations—that is right.

Mr. BROOME: How are these determined? Will there be $1 million next year charged against this? Is there a limit to which you build this fund up?

Mr. DELALANNE: I think it is considered continuously by the management, and if they feel there should be a larger fund, in view of these more expensive aircraft, the fund would be more likely to grow than anything else.

Mr. BROOME: What I am trying to find out is, if management has got a lot of extra money, can they put it into this fund in order to cut down the profit?

Mr. DELALANNE: No, I would not say so. It would not be the policy.

Mr. BROOME: But if there is no set basis?

Mr. DELALANNE: I see in the minutes where they consider from time to time what fund they feel it is desirable to have, in the light of the type of aircraft and type of expenditure there might be, which would be chargeable against this fund. Certain other losses are insured in the normal way by outside underwriters.

The CHAIRMAN: The fund is very little larger than it was six years ago.

Mr. DELALANNE: The fund now is just the cost of one aircraft, as mentioned by Mr. Harvey.

Mr. BROOME: If $1 million were placed in this fund last year out of operations—

Mr. DELALANNE: That is right.

Mr. BROOME: And if $1 million were placed in the fund each year, and there had not been any losses—the air safety record of T.C.A. is very, very good—

Mr. DELALANNE: That is right.

Mr. BROOME: Then it seems to me that this $1 million this year is a larger figure than would have been put in in previous years.

Mr. DELALANNE: Yes, I think the figure is somewhat larger.

Mr. BROOME: How does it compare with the last two or three years?

The CHAIRMAN: It would not be very large—if you had to use it.

Mr. BROOME: It would be up to $15 million if there were $1 million put in every year.

Mr. DELALANNE: Perhaps the officers of the company could get that figure more quickly than I. Mr. Harvey shows me a figure of $337,000 the previous year.

Mr. BROOME: And the year before that? Do you have it? I do not know.

Mr. HARVEY: I am afraid not, Mr. Broome.

Mr. BROOME: That is all right, Mr. Harvey. I was just wondering about the formula which is used, or how you decide that you place $1 million in this fund this year. Next year it will be $1¼ million or half a million? Do you go up to a certain peak and that is it?

Mr. HARVEY: Accruals to the fund are based on what we would normally pay outside underwriters. The board of directors a number of years ago agreed that when the Fund attained a ceiling of $6 million, accruals would cease. That is why Mr. deLalanne referred to the fund as remaining static for a number of years. It reached the $6 million ceiling in May 1954. In the last few years we have had some charges against the fund necessitating accruals to the fund.

The answer to the other part of your question is that because of the new turbine type aircraft the fund will be increased. It will be increased in 1961. Accruals to the fund will be based on what the Airline would have paid outside underwriters. It was decided as of April 1959 rather than pay huge premiums to outside underwriters we would be far better off to retain these monies and self insure. Therefore rest assured, Mr. Broome, that there is no question of just pulling $1 million out of profits and paying it into the insurance fund. It has a very definite basis.

Mr. BROOME: I was just thinking of that disappearing surplus, that is all, the amount paid to this, and the insurance claims against the corporation, $693,379.

Mr. HARVEY: I do not know the exact figure.

Mr. DELALANNE: That figure, the amount payable to the corporation, is the inter-company balance between the bookkeeping entries. It is an inter-company balance between the insurance fund and the T.C.A. general accounts. Because of the losses charged against the fund, the actual cash was not sufficient for the last two or three years, and therefore there has been a certain imbalance between the insurance fund on one side of the books and the general account on the other. That was gradually wiped off. If there are no more mishaps, that will be wiped out through interest coming in and the contributions in lieu of premiums. That amount will go down.

Mr. BROOME: I see. So the fund was brought up to par this year by the $1 million?

Mr. DELALANNE: Yes, the cost of the mishaps exceeded the so-called $1 million, in lieu of premiums, so the T.C.A. general funds had to put up the money and they are getting it back gradually.

Mr. MCPHILLIPS: I move that the auditor's report be approved.

Mr. BROOME: I second that.

Agreed to.

The CHAIRMAN: Thank you gentlemen, for your admirable expedition.

HOUSE OF COMMONS

Fourth Session—Twenty-fourth Parliament

1960-61

SESSIONAL COMMITTEE

ON

RAILWAYS, AIR LINES AND SHIPPING

Owned and Controlled by the Government

Chairman: HONOURABLE W. EARL ROWE

MINUTES OF PROCEEDINGS

No. 8

WEDNESDAY, JULY 5, 1961

THURSDAY, JULY 6, 1961

INCLUDING SECOND REPORT TO THE HOUSE

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1961

25521-6—1

SESSIONAL COMMITTEE ON RAILWAYS, AIR LINES AND SHIPPING

Owned and Controlled by the Government

Chairman: Hon. W. Earl Rowe

Vice-Chairman: Mr. Heber E. Smith

and Messrs.

Badanai
Broome
Browne (*Vancouver-Kingsway*)
Campeau
Carter
Chevrier
Creaghan
Fisher
Forbes
Granger
Grills
Howe
Kennedy
McFarlane
McPhillips
McWilliam
Mitchell
Monteith (*Verdun*)
Nugent
Pascoe
Pickersgill
Robinson
Smallwood
Smith (*Calgary South*)

Antoine Chassé,
Clerk of the Committee.

CORRECTIONS

Page 22:—Recorded depreciation in the Consolidated Balance Sheet at December 31, 1960 should read "$627,462.210" not "$647,462.210".

Page 28:—3% bonds due January 3, 1966 should bear the suffix "b" not "h". Interest rates for the two issues immediately following should be 2¾% and 4½% rather than 2⅞% and 4⅞% respectively.

Page 57:—In the fifth line of Mr. Gordon's first response the word "Weigh" should be deleted and "Ways" substituted therefor. In the tenth line of the same section the word "and" should be inserted between "transport" and "outside".

Page 62:—In the sixth line from the top of the page the word "restored" should read "restore".

Page 65:—In the ninth line from the bottom of the page the word "packed" should be deleted and "pooled" substituted therefor.

Page 66:—In the ninth line of the second paragraph the word "personal" should be deleted and the word "personnel" substituted therefor.

Page 71:—In the tenth line of Mr. Gordon's second response the word "according" should be substituted for "accounting".

Page 74:—In Mr. Gordon's second response from the top of the page the words "preferred stock" should be substituted for "deferred stock".

Page 84:—In the third line from the top of the page in Mr. Gordon's testimony, the word "revenue" should be deleted and "reserve" substituted therefor.

Page 90:—In the first line of the third paragraph the word "that" should be substituted for "what".

Page 220:—In Mr. Gordon's seventh response, tonnage in 1960 should read "607,306" not "670,306".

Page 286:—In the second line of Mr. Gordon's fourth response from the top of the page "$342," should immediately precede the figure, in the same line, of "$18,750," instead of following the word "debentures".

Page 321:—The fourth response from the bottom of the page should be credited to Mr. Gordon not Mr. Broome.

Page 346:—In the third line of Mr. Toole's second response, the word "ways" should be deleted.

Page 390:—In Mr. Vaughan's testimony (near the bottom of the page) the word "Training" should be deleted and "Financing" substituted therefor.

25521-6—1½

REPORT TO THE HOUSE

FRIDAY, July 7, 1961

The Sessional Committee on Railways, Air Lines and Shipping owned and controlled by the Government has the honour to present its

SECOND REPORT

By the Order of Reference of Monday, May 15, 1961, the Committee was appointed to consider the accounts, estimates and bills relating to the Canadian National Railways and Trans-Canada Air Lines ..... and to consider

(*a*) the pension rights of existing or retired Canadian National Railways employees with respect to anomalies which may have resulted from breaks in the continuity of service, and

(*b*) the arrangements for turn around benefits for employees of the Canadian National Railways

..... and should be empowered to send for persons, papers and records and to report from time to time ..... etc.

Later, on Tuesday, June 13, 1961, by further Order the House referred to the Committee the following:

1. The Annual Report of the Canadian National Railways for the year ending December 31, 1960;
2. The Auditor's Report to Parliament in respect of the Canadian National Railways;
3. The budget for 1961 of the Canadian National Railways;
4. The Annual Report of Canadian National Railways Securities Trust;
5. The Annual Report of Trans-Canada Air Lines for the year ending 31st December, 1960;
6. The Auditor's Report in respect of Trans-Canada Air Lines;
7. The budget for 1961 of Trans-Canada Air Lines.

The Committee held twenty meetings during which, under the authority granted by the Order of Reference of May 15, 1961, the following persons were called and examined, namely:

The Honourable Leon Balcer, Minister of Transport;
Mr. Donald Gordon, Chairman and President, Canadian National Railways,
Mr. J. L. Toole, Vice-President,
Mr. H. C. Grayston, Vice-President, Transportation and Maintenance,
Mr. J. D. Wahn, General Economist,
Mr. J. W. G. Macdougall, General Counsel,
Mr. C. Harris, Director, Public Relations,
Mr. W. T. Wilson, Vice-President, Personnel and Labour Relations,
Mr. D. M. Trotter, Assistant to Vice-President, Transportation and Maintenance,
Mr. R. H. Tarr, Vice-President and Secretary, Chairman of Canadian National Railways Pensions,
Mr. H. W. Seagrim, Vice-President (Operations), Trans-Canada Air Lines,
Mr. W. G. Wood, Vice-President (Sales), Trans-Canada Air Lines,

Mr. W. S. Harvey, Comptroller, Trans-Canada Air Lines,
Mr. J. A. deLalanne, Auditor,
Mr. R. T. Vaughan, Assistant to the Chairman, Canadian National Railways.

Mr. Donald Gordon and the other CNR witnesses made an extensive statement of the Canadian National Railways management position, were questioned at length and a wide discussion of general policy was held.

Your Committee learned with great regret the news of the illness of Mr. G. R. McGregor, President of Trans-Canada Air Lines, which prevented him from appearing before the Committee for the first time since his appointment as President. Mr. Donald Gordon, a director, together with Mr. H. W. Seagrim, Vice-President (Operations), Mr. W. G. Wood, Vice-President (Sales), and Mr. W. S. Harvey, Comptroller, appeared on behalf of the Company and were examined at length.

Subject to the observations and recommendations made herein the Committee has agreed to report its approval of all the reports and budgets under study as are contained in the Order of Reference of Tuesday, June 13, 1961.

In its Third Report the Sessional Committee of last year, stated it was mindful of the task the members have to perform in examining the spending of public funds. Your Committee, therefore, questions the propriety or the wisdom of any witness admonishing in the Committee members of Parliament on the manner in which they have expressed their own views on the floor of the House when discussing the voting of moneys for the public owned and controlled rail, air or water transportation systems.

Abandonment of Service

In view of the continuing deficits of the Canadian National Railways the Committee feels that the railway should not be unduly hindered in its efforts to abandon non-essential, unprofitable and redundant lines and services, particularly passenger services.

Deficits

The Committee noted with concern Mr. Gordon's evidence to the effect that consideration was given to asking the Government of Canada to take over from 700 ot 900 million dollars of the railways debt structure. This proposal had two unusual aspects: (1) the Royal Commission of 1950 dealt at length with debt problems of the CNR, recommending an alleviation which was carried out in 1952; (2) a most recent royal commission has completed its hearings without any evidence by the CNR on the need for another debt revision. In the light of this, the Committee suggests that the government should examine such a proposition with great care.

Trucking

Your Committee was critical of the methods of the Canadian National Railways in planning its entry into trucking operations and has fears that the Government may be put in the position of subsidizing competition to private trucking operations and for this reason your Committee recommends that the accounts of the trucking operations be so arranged that an annual statement of operating revenue, profit and loss, and net profit and loss is provided in the annual report.

U.S. Lines

The Committee noted that there was a deficit on all U.S. lines in 1960, and, therefore, recommends that a more detailed analysis be made of the freight and other revenues from U.S. lines, and particularly in relation to all

revenues derived from traffic carried over these lines for Canadian National Railways shipment in Canada with a view to determining what loss would be suffered by the Canadian National Railways system in Canada if these lines were sold.

Your Committee further recommends for the consideration of management the possibility of selling the U.S. lines preferably to a buyer who would accept an arrangement for the onward movement of freight over Canadian National Railways lines in Canada.

Employee Relations

Your Committee appreciated the undertaking of the Canadian National Railways President that still more effort will be exerted to make railway employees aware of changes in organization and operations and their consequent impact on the employees future and the future of the railway communities. Your Committee feels that it is very important that continual efforts be made to improve the esprit de corps and confidence of employees and that this is a prime responsibility of management.

Trans-Canada Air Lines

Your Committee noted with concern that the Trans-Canada Air Lines showed a loss of $2.9 million, its first deficit in 8 years; it appeared to the Committee that this largely was due to heavy investment in new planes and other capital equipment. In view of the unavoidable absence of the President, the Committee makes no recommendation concerning the effect of possible increased competition on domestic or international lines, but the Committee does not believe that present competition is of such strength that it interferes with the economical operation of Trans-Canada Air Lines.

Pension Anomalies

Your Committee is aware that its view of the pension situation was incomplete because of its limited capabilities in terms of time and research assistance. Therefore, it recommends that the Government give consideration to calling a meeting of the representatives of the Canadian National Railways and Canadian Pacific Railway and other class I railways and their pension boards, with representatives of the Minister of Transport and the pension officials of the Department of National Health and Welfare, to review pension anomalies that may exist particularly in regard to

(*a*) those railway pensioners who formerly worked for government railways in the Maritimes and Quebec,

(*b*) those railway pensioners who never had the opportunity for more than a basic pension,

(*c*) those railway pensioners whose scale of pension is low because of broken time in the years prior to 1940.

Turn Around Arrangements

Statements were received from the Management of the Canadian National Railways and the National Legislative Committee of the International Railway Brotherhoods. Your Committee agree that certain substantial aspects of these "turn around benefits" form part of collective bargaining and currently under negotiations between company and unions and makes no recommendation there-

on; however, certain matters dealing with sanitary conditions are not so affected and your Committee recommends that the Department of National Health and Welfare in consultation with the Provincial Health authorities study the question with a view to setting up a standard sanitary code for all railways in Canada and their employees.

A copy of the Minutes of Proceedings and Evidence is appended hereto.

Respectfully submitted,

HEBER SMITH
Vice-Chairman.

MINUTES OF PROCEEDINGS

HOUSE OF COMMONS, Room 238-S,
WEDNESDAY, July 5, 1961.
(18)

The Sessional Committee on Railways, Air Lines and Shipping owned and controlled by the Government, met *in camera* at 9.00 o'clock a.m. The Vice-Chairman, Mr. Heber Smith, presided.

Members present: Messrs. Badanai, Broome, Browne (*Vancouver-Kingsway*), Fisher, Forbes, Granger, McFarlane, McPhillips, McWilliam, Mitchell, Monteith (*Verdun*), Pascoe and Smith (*Simcoe North*)—13.

On Motion of Mr. Browne (*Vancouver-Kingsway*), seconded by Mr. McPhillips,

Ordered,—That copies of (a) a letter addressed to Honourable W. Earl Rowe, Chairman of the Committee, from the National Legislative Committee of the International Railway Brotherhoods, dated June 30, 1961, and (b) a letter addressed to each member of the Committee from and jointly signed by the Brotherhood of Railroad Trainmen, the Brotherhood of Locomotive Firemen and Enginemen, the Brotherhood of Railway Carmen of America, the International Association of Machinists, the Brotherhood of Locomotive Engineers, the Brotherhood of Maintenance of Way Employees and the Sheet-metal Workers International Association be appended to today's Minutes of Proceedings. (*See Appendices "A" and "B" hereto*).

The Committee then proceeded to the consideration of a report to the House. After some discussion it was agreed that the (Steering) subcommittee on Agenda and Procedure be convened at the earliest possible time and prepare a draft report for submission to the entire Committee for its consideration.

At 9.30 o'clock a.m. the Committee adjourned to the call of the Chair.

THURSDAY, July 6, 1961
(19)

The Committee met *in camera* at 3.30 o'clock p.m. The Vice-Chairman, Mr. Heber Smith, presided.

Members present: Messrs. Badanai, Broome, Browne (*Vancouver-Kingsway*), Fisher, Forbes, Howe, McFarlane, McPhillips, Mitchell, Monteith (*Verdun*), Pascoe, and Smith (*Simcoe North*)—12.

The presiding Vice-Chairman read a letter from Mr. R. T. Vaughan, Assistant to President of the Canadian National Railways, noting certain typographical errors and transpositions in the printed report of the evidence.

On motion of Mr. Forbes, seconded by Mr. McPhillips, it was agreed that these be recorded in the printed report of the Minutes of Proceedings for this day.

The Committee considered a draft report submitted to it by the presiding Vice-Chairman on behalf of the (steering) subcommittee on Agenda and Procedure.

Amendments to the draft report, in the form of modification of language, subtractions and additions, were proposed, discussed at length.

At 4.30 o'clock p.m., the division bells having rung to call the members for a vote in the House, the Committee decided to take recess until 8.00 o'clock p.m.

EVENING SITTING
(20)

The Committee resumed at 8.00 o'clock p.m. The Vice-Chairman, Mr. Heber Smith, presided.

Members Present: Messrs. Badanai, Browne (*Vancouver-Kingsway*), Fisher, Forbes, Grills, Howe, McFarlane, McPhillips, Monteith (*Verdun*), Pascoe and Smith (*Simcoe North*)—11.

Consideration of the draft report was continued.

After further discussion thereon, the draft report, as amended, was finally agreed to and ordered to be presented to the House as the Second Report.

At 8.40 o'clock p.m., the Committee adjourned to the call of the Chair.

Antoine Chassé,
Clerk of the Committee.

APPENDIX "A"

THE NATIONAL LEGISLATIVE COMMITTEE
INTERNATIONAL RAILWAY BROTHERHOOD

Brotherhood of Locomotive Engineers
Brotherhood of Locomotive Firemen and Enginemen
Order of Railway Conductors and Brakemen
Brotherhood of Railroad Trainmen
The Order of Railroad Telegraphers
Brotherhood of Maintenance of Way Employees
Division No. 4, Railway Employees Department, A.F.L.
Brotherhood of Railroad Signalmen

June 30, 1961

Honourable W. Earl Rowe, Chairman
Sessional Committee on Railways, Air Lines
and Shipping Owned and Controlled by the Government
House of Commons
Ottawa

Dear Mr. Rowe,

We would be most pleased if you would arrange for this letter to be read into the Proceedings of your Committee.

The National Legislative Committee of the International Railway Brotherhoods has reviewed the memorandum which Mr. Donald Gordon, President of the Canadian National Railways, presented to your Committee on June 22 in which he referred at considerable length to "The arrangements for turn-around benefits for employees of the Canadian National Railways". This matter was referred to the Sessional Committee as the result of the Annual Brief which this National Leglislative Committee presented to the Government of Canada on February 3 last, in which it was stated:

> In our last three submissions, May 1958, January 1959 and February 1960, we requested "that the Government provide for the health and comfort of railway employees by requiring that toilet facilities be provided and maintained in a sanitary condition for towermen, crossing watchmen, enginemen on all types of Diesel locomotives, all yard service employees, trainmen when occupying cabooses, and in all boarding cars, railway shops and resthouses at terminals. Further that drinking water facilities, sleeping accommodation and eating facilities be provided and maintained in a sanitary condition.

It is true that certain aspects of the "turn-around benefits" form part of the collective agreements between the trade unions and the Canadian National Railways; surely, however, the terms "clean", "good drinking water" and "good condition" do not come within the scope of collective bargaining—sanitation must of necessity remain the responsibility of the federal, provincial and/or municipal health authorities. May we draw your attention to the following extract from the unanimous Report of the Board of Conciliation in re the Brotherhood of Railroad Trainmen and the Canadian Pacific Railway Company under the chairmanship of His Honour Judge J. C. Anderson, dated November 1959:

> Sanitary Conditions: The Board recommends that the Company's negotiating committee immediately recommend to the appropriate committee of the Company the remedying of unsanitary conditions where complaints are bona fide.

May we also direct your attention to the following extract from letter of April 30, 1949, from the then Minister of National Health and Welfare (Honourable Paul Martin) to the Brotherhood of Locomotive Engineers:

> We have . . . been advised that this Department has authority with regard to health and sanitation in buildings on the property of international or interprovincial railway companies. However the provinces have also a right to require cleanliness on such properties if a public nuisance exists as a result of failure to maintain them in satisfactory condition.

As a result of the foregoing and on enquiry of the Brotherhood of Locomotive Engineers as to "standards" for bunkhouses, the Department of National Health and Welfare issued in March of 1950 the enclosed "Railway Sanitation—Sanitary Requirements for Bunkhouses". As far as we know the Department has issued no "standards" for railway buildings other than the bunkhouses referred to above.

We appreciate the improvements which Mr. Gordon has stated will take place in the future on the Canadian National Railways; however, this does not alter our position that Parliament should legislate to the effect that international and interprovincial railway companies shall provide that its buildings and rolling stock be equipped with toilet and drinking water facilities of a standard comparable to that provided for the travelling public. The maintenance of these facilities in a sanitary condition could or should be regulated by the Department of National Health and Welfare, in co-operation with other public health authorities.

The need for legislation is clearly evident in the following extract from letter of October 21, 1960, addressed to the Minister of Transport by the President of the Canadian Pacific Railway Company:

> Regarding the question of toilet and drinking water facilities on diesel units: During the course of negotiations with the Brotherhood of Locomotive Engineers the matter of toilet facilities on diesels was discussed at some length and the union representatives were informed that the expense to provide these facilities was too great and the maintenance problem with respect to freezing and so on, were such as to make installations impracticable . . .

Yours very truly,

(sgd) H. E. Campbell
Secretary

mar/m
encl.

COPY

DEPARTMENT OF NATIONAL HEALTH AND WELFARE
Railway Sanitation—Sanitary Requirements for Bunkhouses

Section 1—Construction

(a) The building should be constructed and maintained to exclude rats and vermin.

(b) Lighting—artificial lighting in all rooms should be equivalent to at least one watt per square foot of floor area for general illumination. Additional local lighting at chairs, beds, etc. is also desirable.

(c) Heating—all living rooms and sleeping rooms should be provided with heating arrangements that will assure a temperature of at least 65°F during the season in which the buildings are occupied.

(*d*) Ventilation—windows fitted to open should be equivalent to approximately 5% of the floor area. Ventilation should be sufficient to prevent accumulation of disagreeable odors and condensation.
(*e*) The floors and walls of all rooms used for living, sleeping, or eating purposes should be of a smooth finish to permit easy cleaning and should be kept clean. The use of "Vee-joint" finish on walls of eating rooms is not recommended.
(*f*) All windows and doors should have screens sufficient to prevent the entrance of flies.

Section 2—Room Dimensions and Occupancy

(*a*) Minimum floor area for single occupancy—80 square feet.
(*b*) Recommended floor area for multiple occupancy—50 square feet for each person.
(*c*) Minimum height—8 ft.

Section 3—Sleeping Quarters

(*a*) A separate bed or bunk should be provided for each occupant. Double deck or multiple tier bunks are not desirable, although their use may be permitted in the case of mobile work camps.
(*b*) All mattresses, sheets, pillow cases, blankets, and bed covers should be kept in a clean and sanitary condition.
(*c*) Clean laundered sheets and pillow cases should be supplied to every new occupant and to every occupant at least once a week.
(*d*) No employees should be permitted to use their own blankets in a bunkhouse. Where vermin are found arrangements should be made for fumigation or alternate use of suitable insecticide.

Section 4—Water Supply

(*a*) Quality and Source—an adequate supply of potable water should be provided at all times. Where a potable public water supply is available within a reasonable distance of the building, connection should be made thereto; otherwise, the supply should be obtained from a supply approved by the Department of National Health and Welfare.
(*b*) Water Storage Containers—all potable water storage containers should be securely closed and so arranged that water can be drawn only from a tap. Such containers should be kept clean and free from contamination. All taps and faucets used for potable water should be located so as to be free from contamination.
(*c*) Dispensing Water—the common use of a drinking cup or dipping water from springs, wells, or water containers should be prohibited.

Section 5—Toilets and Waste Disposal

(*a*) No toilet should be located in a building containing sleeping, eating, or other living accommodation unless the toilet is water-flush. Such toilets should be at a distance of not more than 25 feet from any sleeping room.
(*b*) Sanitary privies, where used, should not be located within 25 feet from a building and should be so constructed and maintained that flies, insects, rats or small domestic animals cannot gain access to the waste materials, that the surface or ground water cannot enter the pits, that waste material in the pit cannot contaminate a water supply, and that self-closing doors are in operation at all times.

(c) The floor of every room containing a toilet, and every bathroom and shower room, should be of concrete, wood or other suitable material finished with a smooth, tight surface.

(d) Toilet rooms should be maintained in a clean and sanitary condition.

(e) Fixtures—the minimum number of fixtures in any bunkhouse should be one water closet, one wash basin, and one shower or tub bath.

For group occupancy the minimum number of fixtures should be as follows:

No. of Persons	Water Closets	Wash Basins	Showers
1-5	1	1	1
6-15	1	2	1
16-30	2	2	2
31-50	3	3	3

(f) Water flush toilets should not be installed in connection with a bunkhouse unless they are connected to a public sewage system or to a properly designed and constructed septic tank with ground absorption system.
In reporting on method of sewage disposal note should be made of whether treated or partially treated sewage creates a nuisance outside the right-of-way.

(g) Garbage and other waste should be disposed of by burning, burying, or other suitable methods so as not to create a nuisance or fly-breeding area within or adjacent to the right-of-way.

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APPENDIX "B"

610 Broadway Avenue,
Winnipeg 1, Manitoba,
June 30th, 1961.

Member of Railway Committee,
House of Commons,
Ottawa, Ontario.

Dear Sir:

May we first thank the Committee for giving us the opportunity to present our views on the Canadian National Railway Pension Plan which were presented by H. Folliott, who acted as our spokesman.

To add further to our previous brief we would respectfully urge your Committee to study the following proposed changes and our reasons for same, before your Committee meets The House:

No. 1: That all time spent being available for service be made computable for pension purposes retroactive to entry into service.

We feel that the employees of the operating group in being denied service time, during periods of lay-offs etc., are being penalized unduly.

In order to protect their seniority and service it was necessary for them to be available for work even though in many instances it merely meant being placed on the spare board and taking whatever work happened to be available —often away from their home point, thus incurring additional expense.

The reason for requesting the same consideration for the non-operating group is similar to those above. In addition, the non-operating employees were penalized by dismissal should they refuse a recall even on a temporary basis.

No. 2: Revision of the pension plan resulting in a computation of 1½% per year of service.

We feel that because the majority of railway employees who are or will be drawing pensions in the future are not in the high income bracket the present percentage does not afford them sufficient to maintain a reasonable living standard, many, despite age and physical condition are forced to seek employment in order to eke out their pension.

We feel that this is a situation that should not be tolerated. When a pension has spent all, or most, of his working life with one company he should at least have the means to enjoy a comfortable retirement.

No. 3: That consideration be given to an amendment to the pension plan providing for retirement at age 60, retaining the benefits accruing at age 65.

Re the above, we believe that because of the present and anticipated high unemployment, those who so desire should be able to retire at age 60 without a cut-back in pension.

We think it can be assumed, because of various factors—modernization, competition and discontinuance of unprofitable lines etc., that there will be other railway staff reductions which will further aggravate the existing unemployment problem.

Earlier retirement will do much to relieve this situation.

Further to the above, we feel that the Canadian National Pension Plan is a plan of its own applying to the conditions of railroad employment and should not be tied in with other industrial plans.

We also feel that Clause B of Mr. Gordon's Memorandum to the Railway Committee should not have been included with pension business as these matters are of a schedule nature and as such are subject to direct negotiation.

We respectfully suggest that you study all phases of this question so you may readily understand the problems of the employees of the Railway as well as those of Management. This is a special appeal to the Committee because of the peculiar conditions of employment on the railway.

Respectfully submitted by the undersigned:

Brotherhood of Railroad Trainmen:
(Sgd) K. W. Scales Lodge 691.
(Sgd) W. L. Dampier Lodge 691.
(Sgd) H. Folliott Lodge 691.

Brotherhood of Locomotive Firemen and Enginemen:
(Sgd) K. F. Schmidt. Lodge 597.

Brotherhood of Railway Carmen of America:
(Sgd) A. Walker Lodge 550.

International Association of Machinists:
(Sgd) W. Young Local 484.
(Sgd) R. G. Barker Local 189.

Brotherhood of Locomotive Engineers:
(Sgd) R. N. Robertson Division 583.

Sheetmetal Workers International Association:
(Sgd) G. J. Champagne Local 155.

Brotherhood of Maintenance of Way Employees:
(Sgd) M. Mann Lodge 307.

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