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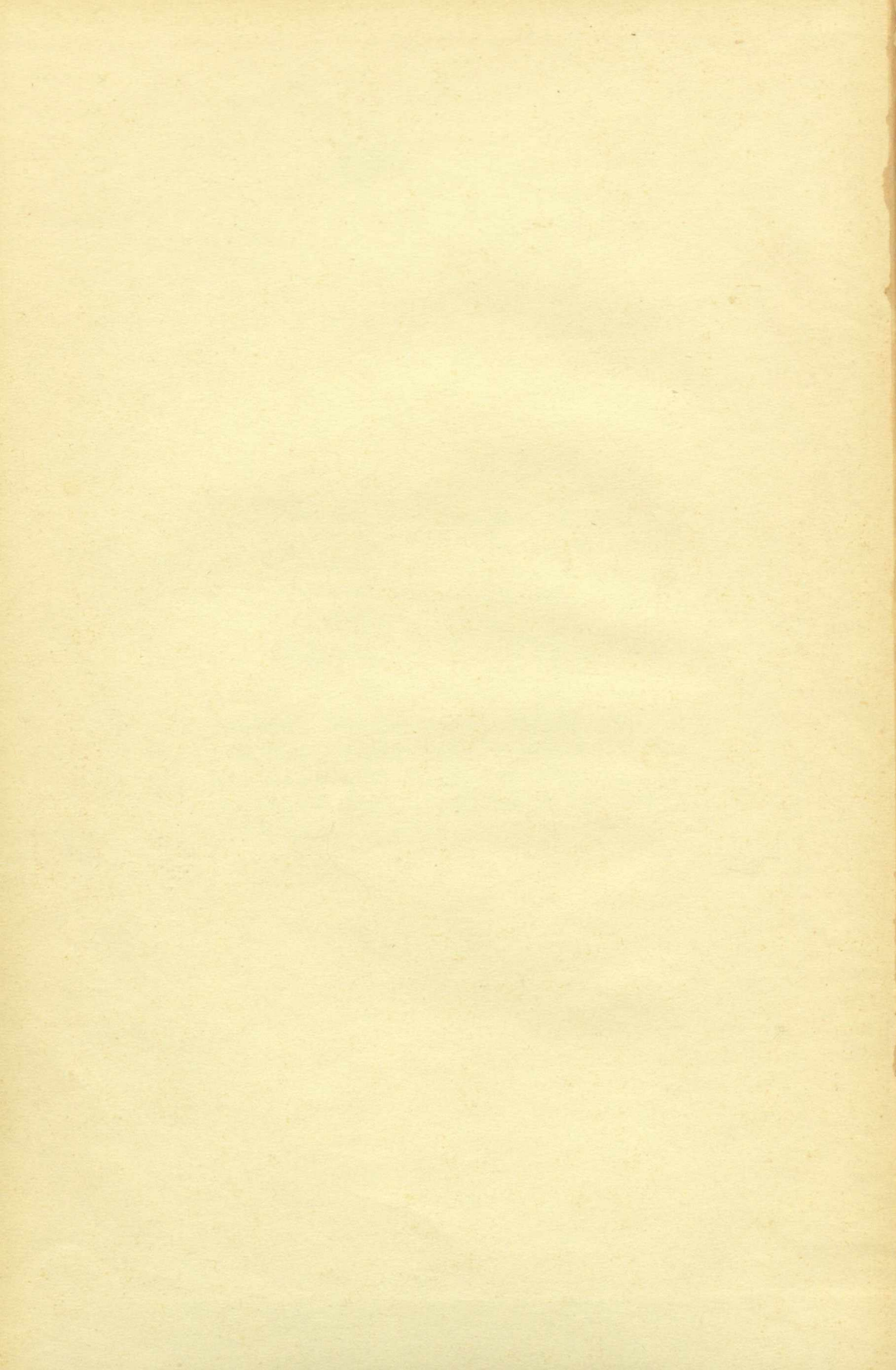
Canada. Parliament. House of
Commons. Standing Comm.on
Railways and Shipping Owned,
Operated and Controlled by the
Government, 1936.
Minutes of proceedings and
evidence.

DATE

NAME - NOM

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Commons. Standing Comm.on
Railways and Shipping Owned,
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SESSION 1936

HOUSE OF COMMONS

SELECT STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

THURSDAY, APRIL 23, 1936

THURSDAY, APRIL 30, 1936

WITNESSES:

Hon. C. P. Fullerton, Chairman, Board of Trustees, Canadian National Railways; Mr. S. J. Hungerford, President, Canadian National Railways; Mr. S. W. Fairweather, Director, Bureau of Economics, Canadian National Railways; Mr. T. H. Cooper, Auditor of General Accounts, Canadian National Railways; Mr. B. J. Roberts, Assistant Deputy Minister, Department of Finance.

OTTAWA

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

PRINTER TO THE KING'S MOST EXCELLENT MAJESTY

1936

MEMBERS OF THE COMMITTEE

Sir EUGENE Fiset, *Chairman*

AND

MESSIEURS

Barber,
Beaubien,
Beaubier,
Bothwell,
Elliott (*Kindersley*),
Ferland,
Fraser,
Gray,
Hanson,
Heaps,
Howard,

Howe,
Kinley,
McLarty,
Maybank,
Moore,
Parent (*Quebec West and South*),
Stewart,
Veniot,
Vien,
Walsh,
Young.

R. ARSENAULT,
Clerk of the Committee.

ORDERS OF REFERENCE

HOUSE OF COMMONS,

MONDAY, April 6, 1936.

Resolved,—That Standing Order 63 of the House of Commons, relating to the appointment of Standing Committees of the House, be amended by adding to the Standing Committees of the House for the present session a Standing Committee on Railways and Shipping owned, operated and controlled by the Government to which will be referred the accounts and estimates of the Canadian National Railways and Canadian Government Merchant Marine for the present session, for consideration and report to the House; provided, however, that nothing in the resolution shall be construed to curtail in any way the full right of discussion in Committee of Supply, and that said Committee consist of Messrs. Barber, Beaubien, Beaubier, Bothwell, Elliott (*Kindersley*), Ferland, Fiset, Fraser, Gray, Hanson, Heaps, Howard, Howe, Kinley, McLarty, Maybank, Moore, Parent (*Quebec West and South*), Stewart, Veniot, Vien, Walsh and Young.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

FRIDAY, February 21, 1936.

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

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

THURSDAY, April 23, 1936.

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

Ordered,—That the said Committee have leave to sit while the House is sitting.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

REPORTS TO THE HOUSE

FIRST REPORT

THURSDAY, April 23, 1936.

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

Your Committee recommends:

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

2. That the Committee have leave to sit while the House is sitting.

All of which is respectfully submitted.

EUGENE Fiset,
Chairman.

SECOND REPORT

THURSDAY, April 30, 1936.

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

SECOND REPORT

Your Committee has had under consideration items Nos. 426, 427 and 428 of the Special Supplementary Estimates for the Fiscal Year ending March 31, 1937, and item No. 286 of the Supplementary Estimates for the Fiscal Year ending March 31, 1936, and approves of said items of the Estimates.

Your Committee has also considered provision for capital expenditures and debt retirements involving \$9,959,000 which is to be provided by way of loan to the Canadian National Railway Company, and is covered by a Resolution standing on the Order Paper of the House in the name of the Minister of Finance, and approves of same.

All of which is respectfully submitted,

EUGENE Fiset,
Chairman.

MINUTES OF PROCEEDINGS

THURSDAY, April 23, 1936.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government, met at 10.30 a.m.

Members present: Messrs. Beaubien, Beaubier, Bothwell, Elliott (*Kindersley*), Ferland, Fiset, Heaps, Kinley, McLarty, Maybank, Parent (*Quebec West and South*), Stewart, Young.

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

Sir Eugene Fiset took the chair and expressed his thanks to the members of the Committee for having selected him to direct their proceedings.

The Clerk having read the Order of Reference, it was resolved, on motion of Mr. Beaubien;

That the Committee request permission to print, from day to day, 500 copies in English and 200 copies in French, of its minutes of proceedings and evidence.

On motion of Mr. Young.

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

The Chairman asked the opinion of the Committee as to the best procedure to follow while considering the Accounts and Reports of the Canadian National Railways. After some discussion, the matter was left in abeyance until the next meeting.

It was suggested that the Committee ask leave to reduce its quorum. It was however agreed that this request could be made later if considered necessary.

On motion of Mr. Heaps, the Committee adjourned until Thursday, April 30th, at 11 a.m., when Officials of the Canadian National Railways will be in attendance.

R. ARSENAULT,
Clerk of the Committee.

THURSDAY, April 30, 1936.

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

Members present: Messrs. Barber, Beaubier, Bothwell, Elliott (*Kindersley*), Ferland, Hanson, Heaps, Howard, Howe, Kinley, Parent (*Quebec West and South*), Stewart, Veniot, Vien, Young.

In attendance: Hon. C. P. Fullerton, Chairman, Board of Trustees, Canadian National Railways; Mr. J. E. Labelle, K.C., and Mr. F. K. Morrow, Trustees, Canadian National Railways; Mr. S. J. Hungerford, President, Canadian National Railways; Mr. S. W. Fairweather, Director, Bureau of Economics, Canadian National Railways; Mr. T. H. Cooper, Auditor of General Accounts, Canadian National Railways, and Mr. B. J. Roberts, Assistant Deputy Minister, Department of Finance.

The following documents were distributed to members of the Committee:—

1. Annual Report of the C.N.R. System for 1935.
2. Annual Reports of the Canadian Government Merchant Marine, Ltd., and Canadian National (West Indies) Steamships for 1935.
3. Canadian National Railways and Canadian National Steamships—Summary of 1935 estimated financial requirements compared with actual requirements.
4. Canadian National Railways—Analysis of 1935 operations.
5. Canadian National Railways and Canadian National Steamships—Budget year 1936.
6. Auditors' Report on the accounts of the C.N.R. System for the year ended 31st December, 1935, by Clarkson, Gordon, Dilworth & Nash, Chartered Accountants.
7. Memorandum of depreciation accounting, Canadian National Railways.
8. Special problem of equipment retirements resulting from the depression and highway competition—Canadian National Railways.

The Committee proceeded immediately with the consideration of the Consolidated Balance Sheet at December 31, 1935, as appearing in the Annual Report of the C.N.R. System.

In order to facilitate the presentation of a report to the House this day, the Chairman suggested that certain items of the Supplementary Estimates laid before the House be considered before adjournment.

The Committee then considered item 286 of the Supplementary Estimates for the fiscal year ending March 31, 1936, and items Nos. 426, 427 and 428 of the special Supplementary Estimates for the fiscal year ending March 31, 1937.

The said items of the Estimates were approved, on motion of Mr. Vien.

The Committee also considered an item of \$2,500,000 and an item of \$7,459,000 appearing in the Budget of the Canadian National Railways, identified respectively under the headings "Capital Expenditures" and "Retirement of Capital Obligations," and approved of same.

Ordered that said items of the Estimates and of the Budget be reported.

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

AFTERNOON SITTING

The Committee resumed at 4 p.m.

Further consideration having been given to the Budget of the Canadian National Railways and Canadian National Steamships, an item of \$199,450, being total requirement for Canadian National Steamships, was amended by substituting therefor an amount of \$399,450.

The said item, as amended, was approved without dissent.

The Committee reverted to the consideration of the Annual Report, the officials in attendance being examined on the following:—

- Profit and Loss Statement.
- Consolidated System Income Statement.
- Operating Revenues.

In the course of the Committee's proceedings, leave was granted Mr. R. E. Finn, M.P., and Mr. W. J. Ward, M.P., to address the Committee.

The Committee adjourned at 5.45 until to-morrow, Friday, at 11 a.m.

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,
Room 268,

April 30, 1936.

The select standing committee on Railways and Shipping met at 11 o'clock, Sir Eugene Fiset, the chairman, presided.

THE CHAIRMAN: Gentlemen, we have before us at the present time the annual report of the Canadian National Railway System, the report on Canadian Government Merchant Marine, and there are five other pamphlets that are going to be distributed to you by the clerk which deal with an analysis of the operations for 1935 and include a report of the auditor. There is a summary of the estimated financial requirements compared with the actual requirements, and, last of all, there is the budget for 1936. In other years, when considering the report of the Canadian National Railway we usually asked either the president of the or the chairman of the board of trustees if he had any further comment to make on the report than what appeared in the report itself. I proposed at the last meeting that we should examine the report of the board of trustees as it covers, practically speaking, all the road. Some objection was taken to that, and I would like the committee to decide whether we are going to go on with the report of the board of trustees or shall we consider the balance sheet first.

MR. HEAPS: I am wondering if the chairman of the board of trustees would care to make a statement to the committee before we proceed with the examination.

HON. MR. FULLERTON: No, gentlemen, I have no particular statement to make this morning apart from the report which is before you—the report of the trustees and the analysis. We are here with our officers prepared to give you any information that you desire in connection with the operation of the road.

THE CHAIRMAN: Gentlemen, then we will start with the consolidated balance sheet. I think I will ask Mr. Fairweather to enumerate these items one after another. It appears at page 16 of the report. On the other hand, you have a pamphlet prepared by the auditor of the road which deals, practically speaking, with the balance sheet which you can take up at the same time.

MR. HOWARD: You mean the analysis of the 1935 operations.

MR. FAIRWEATHER: I will deal with page 16 of the annual report. The various items are: assets investment in road and equipment; improvements on leased railway property; sinking funds, etc.—they are shown as totalling \$2,207,793,741.18—current assets: cash; special deposits; traffic and car service balances receivable; net balances receivable from agents and conductors; miscellaneous accounts receivable; Dominion government, balance due on deficit contributions; materials and supplies; interest and dividends receivable; rents receivable; other current assets—a total of \$74,787,953.24. Deferred assets: working fund advances; C.N.R. insurance fund; other funds which are deferred assets \$18,837,219.76. Unadjusted debits: rents and insurance premiums paid in advance; discount on capital stock; discount on funded debt; other unadjusted debits \$23,730,922.06. Total of assets \$2,325,149,836.24.

MR. HEAPS: In that item of assets totalling \$2,325,000,000.00 would any of those assets include such things as bridges which have disappeared?

MR. FAIRWEATHER: This statement shows the assets as they were at December 31, 1935 at their book values.

MR. HEAPS: What do you do in the case of ties, rails, bridges and so on which have disappeared and for which the company is still liable?

MR. FAIRWEATHER: Well, any loss that is realized is written out of the asset side of the balance sheet and is written into profit and loss—either from income account or profit and loss.

MR. HEAPS: You have lost bridges in the last ten or fifteen years. The liability which is not in existence today is still with the company, is it not?

MR. FAIRWEATHER: The liability? If a piece of property has actually disappeared it is written out of the assets.

MR. HEAPS: It is not a liability any more?

MR. FAIRWEATHER: It would appear in the profit and loss surplus or deficit.

MR. HEAPS: I take it that this item represents the actual book value of the physical assets of the company?

MR. FAIRWEATHER: As nearly as it can be obtained, the actual ledger value.

MR. KINLEY: Is there the ordinary provision for depreciation?

MR. FAIRWEATHER: There is no provision for depreciation.

MR. PARENT: What comprises that sum of \$18,000,000?

MR. FAIRWEATHER: The large item is C.N.R. insurance fund, \$11,609,000, made up of system securities at par \$4,241,000 and other assets at cost, \$7,367,000. That is a reserve that is set up against insurance.

MR. PARENT: And the interest and dividends receivable \$579,000?

MR. FAIRWEATHER: Well, of course, that simply means we own securities of other companies. You see the corporate structure of the Canadian National is very intricate and we hold securities of other companies.

MR. PARENT: Are they railway companies?

MR. FAIRWEATHER: Well, there are a lot of different kinds; but a good illustration is the Detroit and Toledo Shore Line railway which is a line of railway running from Detroit to Toledo and controlling terminal facilities in Toledo. We own an interest in that property.

MR. PARENT: Net balances receivable from agents and conductors \$4,000,000; what is that?

MR. FAIRWEATHER: Well, that simply means the amount of working capital of the company that is out in the hands of agents. They remit through the banks currently, and that is the amount they are responsible for.

MR. YOUNG: I should like to ask how many distinct entities now comprise what is known as the Canadian National Railways?

MR. FAIRWEATHER: I could get you that information. I think it is somewhere over 100.

MR. VIEN: Is it listed in your annual report?

MR. FAIRWEATHER: You will find a statement in the back of the report.

The CHAIRMAN: Pages 31 and 32.

MR. FAIRWEATHER: There is a schedule of the companies comprising the Canadian National system on pages 31 and 32.

MR. VIEN: Do I understand you to say that so far as the property in Canada is concerned—both the railway property and the rolling stock in Canada—no depreciation is provided for?

MR. FAIRWEATHER: That is correct.

Mr. VIEN: Therefore, if that is so what is the value of the figures that are given here when you have your rolling stock, some of which has cost you a lot of money and has been depreciated by wear and tear, as well as antiquated conditions, and the same is true of your stations and other investments in railway property? Could you give us an appreciation in your own figures as regards these values?

Mr. FAIRWEATHER: Well, that opens a very wide subject indeed.

Mr. VIEN: I understand we are here on a wide subject.

Mr. FAIRWEATHER: Quite. I wish to make an explanation. I cannot answer in a word. The railways on this continent, including the United States and Canada, do not practise depreciation accounting, except to the extent that they are compelled to do so by governmental authority. Now, in the United States they are compelled to do so for railway rolling stock, but not for any other type of property. In Canada our regulations provide that we shall not practise depreciation accounting; consequently, our accounts are on another basis; what is known as retirement accounting—it is a big question indeed. I am speaking of the railway operators of the United States—the railway operators have opposed the practice of depreciation accounting as not being of any particular benefit to the management or improving the balance sheet as showing the earning power of the property or anything of that character in any degree. In retirement—

Mr. VIEN: What I had in mind, Mr. Fairweather, was this, and I am not trying to be unduly critical: I am simply trying to find out what is the value of those figures for this committee; in what way can these figures help the committee to appreciate the exact value of our property in the Canadian National Railways?

Mr. FAIRWEATHER: Well, these figures, sir, as they stand purport to show the amount of money that is actually put into the property of the system, and which property is still in existence.

Mr. VIEN: Have you any set of figures which would tend to enlighten the committee on what is the actual value of our property?

Mr. FAIRWEATHER: Well, of course, sir, that word "value" is something—are you speaking of the utility value or cost value, or what value are we speaking of? If we talk about depreciated value and all those things, I do not know that I can do better than read a little note here by the Railway Research Service Bureau of England which says, speaking of comparisons: "In Canada the comparable procedure may be entitled 'retirement accounting'; that is to say, the value is written off of the capital account as the rolling stock becomes due for retirement." That is when we write it off. It is not pyramided in the balance sheet; it is written off at the time; it goes out of service—"and its value is debited directly to operating expenditure less any residual value which is charged to material and other accounts." It will be appreciated, that the final result of these two systems of accounting is precisely similar.

Mr. YOUNG: Similar in effect.

Mr. FAIRWEATHER: Precisely . . . "because in each case the value is written off the capital account and the loss charged to operating expenditure, either directly in the case of Canadian methods or indirectly via depreciation accretments." Practically speaking, over a period of time, no matter whether you practise depreciation accounting or retiring accounting you get exactly the same result.

Mr. KINLEY: You maintain your properties up to standard out of revenue.

Mr. FAIRWEATHER: Yes; and when we no longer maintain a piece of property out of revenues we write it off.

Mr. VIEN: And residual value is salvage?

Mr. FAIRWEATHER: Residual value is salvage.

Mr. VIEN: Is that true of rolling stock?

Mr. FAIRWEATHER: Yes.

Mr. VIEN: Is it true of other property as well?

Mr. FAIRWEATHER: Yes, of other property as well. I might say, gentlemen, that if you care to have it we have prepared a little pamphlet bearing upon this point of depreciation accounting.

Mr. VIEN: I think I would like to have it.

Mr. FAIRWEATHER: And also retirement accounting.

The CHAIRMAN: If you look at page 11 of the annual report you will see a paragraph entitled "Retirement of Equipment." You will find there the full explanation.

Mr. FINN: Is this the same system as the C.P.R. has?

Mr. FAIRWEATHER: It is exactly the same in that particular thing. There are differences between our accounts.

Mr. KINLEY: Are you maintaining your properties up to standard?

Mr. FAIRWEATHER: Well, all I can say about that it—I am only expressing a personal opinion—

Mr. HANSON: As good as any other Canadian railway.

Mr. KINLEY: On the main line, yes; but not on the branch lines. Any old stuff on the main lines they send to you on the branch lines.

Mr. VIEN: The consolidated balance sheet is a picture of the actual amount of money that has been invested in the property.

Mr. FAIRWEATHER: And which is still represented by physical property.

Mr. VIEN: And which has not been retired.

Mr. FAIRWEATHER: Yes. Now, on page 17 you will see liabilities. They are as follows: capital stocks owned by Dominion government, \$265,000,000; capital stocks owned by the public \$4,584,000 or a total of \$270,000,000. Governmental grants: grants in aid of construction and so forth \$15,000,000. Long term debt, funded debt unmatured, \$1,154,000,000. Loans from Dominion of Canada: temporary loans obtained for redemption of funded debt \$74,000,000; other loans from the Dominion of Canada, \$679,000,000. Interest on above accrued but unpaid \$495,000,000, or a grand total of \$1,249,000,000.

Dominion of Canada expenditures for Canadian government railways \$405,000,000.

Current liabilities: loans and bills payable, traffic and car service balances payable, audited accounts and wages payable, miscellaneous accounts payable, interest matured unpaid, funded debt matured unpaid, unmatured interest accrued, unmatured rents accrued, other current liabilities, \$45,330,000.

Deferred liabilities \$3,423,000.

Unadjusted credits: tax liability, C.N.R. insurance reserve, accrued depreciation—road U.S. lines accrued depreciation—equipment U.S. lines accrued depreciation—miscellaneous physical property U.S. lines other unadjusted credits, total \$32,926,000.

Corporate surplus or deficit: additions to property through income and surplus U.S. lines funded debt retired through income and surplus U.S. lines appropriated surplus, profit and loss balance—deficit—total \$853,928,000. That figure is in italics. The two balance at \$2,325,149,836.24.

Mr. PARENT: With regard to capital stock owned by the Dominion, is that capital?

Mr. FAIRWEATHER: There are Canadian National stock \$100,000,000 and Grand Trunk stock \$165,000,000—that is common—

Mr. HEAPS: Very common.

Mr. FAIRWEATHER: In the case of the Grand Trunk it is partly preferred stock.

Mr. PARENT: That would be carried at \$1.

Mr. FAIRWEATHER: It is carried in this balance sheet at \$270,000,000.

Hon. Mr. HOWE: I might say that very extensive efforts are being made by the department in conference with the railway companies about writing out of the balance sheet some of those items that are in there. For instance Canadian National stock, as we all know, cost the government \$10,000,000 and Grand Trunk stock cost us nothing; and we propose to write out some of those charges which are fictitious anyway and which are a complete duplication of the public debt. We hope to have that before the committee this year.

Mr. HEAPS: We tried to get that last year.

Hon. Mr. HOWE: It involves a tremendous amount of work, and whether we can do it or not is somewhat contingent upon a case which is before the privy council on which decision has been reserved. The case has been tried but the decision has not been handed down. If the decision is in our favour we may be able to write that out this year; otherwise it will have to go over for another session.

Mr. HEAPS: If we could write out as much as possible of this it would be better.

Mr. HOWARD: Regardless of the decision of the privy council would it not be possible to have before the committee the proposal of what we would do providing the judgment is right?

Hon. Mr. HOWE: Yes, I think we could.

Mr. FINN: When was that case argued before the privy council?

Hon. Mr. HOWE: About a month or six weeks ago.

Mr. VIEN: Is the Canadian National involved?

Hon. Mr. HOWE: No; but while the Grand Trunk securities are in a doubtful position it does not seem wise to disturb the capital structure of the Grand Trunk Railway.

Mr. FAIRWEATHER: "*Certificate of Auditors*".

We have made a continuous audit of the accounts of the National Railways for the year ended 31st December 1935, including a general but not detailed examination of the accounts of all the regional centres and of the audit conducted by the railway's internal audit staff.

The accounts of the railway are kept in accordance with the rules and regulations prescribed for steam railroads in Canada and those of the Interstate Commerce Commission for lines in the United States.

The investments in road and equipment, miscellaneous physical property and in affiliated companies are shown at their book values which do not necessarily represent their present replacement values.

No reserve is provided for depreciation (except on the rolling stock and certain property of United States lines). When equipment is retired from service the ledger value less salvage is charged to operating expenses or to profit and loss account. Actual pension payments made are charged to operation expenses but no provision is made for pensions payable in future periods.

Subject to the foregoing and our report to parliament, we report that in our opinion the above consolidated balance sheet and related accounts set forth properly the financial position of the National Railways at 31st December, 1935, and the revenue and expenditure for the year ending that date, and are in accordance with the books.

Clarkson, Gordon, Dilworth and Nash.

Hon. Mr. VENIOT: On the question of auditing accounts, would you tell me how you audit your accounts for presentation to the railway commission with respect to Maritime freight rates, 20 per cent reduction?

Mr. FAIRWEATHER: Well, audited by whom, sir?

Hon. Mr. VENIOT: Are they audited by your railway in Montreal before presentation to the commission?

Mr. FAIRWEATHER: That would be done by our revenue audit department.

Hon. Mr. VENIOT: Yes, that is what I want to know.

Mr. FAIRWEATHER: That work would be done in Montreal. That is our presentation of accounts, and then the audit of that is performed by the departmental officers at Ottawa, representatives of the government.

Hon. Mr. VENIOT: When you audit those accounts, what system have you? For instance, to ascertain how much must be paid to the C.N.R. under that 20 per cent discount for reduction in rates?

Mr. FAIRWEATHER: Of course, the detailed method I am not familiar with. I know generally how it is done.

Hon. Mr. VENIOT: Give me a general idea. Do you take your freight bills?

Mr. FAIRWEATHER: Yes.

Hon. Mr. VENIOT: How do you proceed?

Mr. FAIRWEATHER: I think Mr. Cooper might more properly discuss that than myself.

Mr. COOPER: Speaking somewhat from memory, when the Act went into effect in 1927 certain tests were made of the reduced revenue as compared with what the revenue would have been if the 20 per cent reduction had not been made, and it was ascertained generally that the present revenue was, say, 81 per cent of what the old revenue would have been. It was not actually 80 per cent but based on the tests the relationship of the new revenue was ascertained in relation to the old revenue.

Mr. VIEN: Could you speak a little louder, please?

Mr. COOPER: I will do my best.

Mr. VIEN: You are a strong man; you should be able to make yourself heard.

Mr. COOPER: To-day we take the revenues under the billing subject to the Maritime Freight Rates Act and based on the percentages obtained in the test, we say that the present revenue is 81 per cent of what it should be and so calculate the original 100 per cent.

Hon. Mr. VENIOT: How do you arrive at that 81 per cent?

Mr. COOPER: I had explained that that was obtained by certain tests of actual billing under the new rates as compared with the revenue which would have obtained had the old rates not been changed. We take those percentages and we take the current revenues and work back to what the revenue would have been if the rates had not be changed, and the difference between the amount and the present revenue is charged to the government. The government audit that.

Hon. Mr. VENIOT: To arrive at that total of what it would have been had the Act not been changed, how do you proceed?

Mr. VIEN: You take each bill on each shipment.

M. COOPER: Yes.

Mr. VIEN: And you compute what it would have produced on the standard and regular rate.

Mr. COOPER: Yes, that is what I thought I had explained.

Hon. Mr. VENIOT: After you have done that, what documents do you send up here to the railway commission?

Mr. COOPER: I do not know that. I am not in that department. But the necessary documents—

Hon. Mr. VENIOT: Are they copies of your way bills, or originals?

Mr. COOPER: They are not copies of way bills, I am sure of that. They are not copies of way bills or originals; they are statements built up from way bills.

Hon. Mr. VENIOT: Then the railway commission has to depend entirely upon such a report from you without having any originals before them for their audit?

Mr. COOPER: I assume they have their own means and ways of checking the statements prepared by the railway.

Hon. Mr. VENIOT: What means have they of ascertaining that those statements are absolutely correct?

Mr. COOPER: I do not know.

Hon. Mr. VENIOT: Not that I am throwing any suspicion on anybody, but I want the information.

Mr. COOPER: I do not know.

Mr. HEAPS: You are not throwing any suspicions, but you are making insinuations.

Mr. COOPER: I think that question should be answered by someone from the railway commission.

Mr. VIEN: The railway commission has ordered a form that each station agent has to compile, and from every station there is a report coming from the station agent to the railway commission giving the detail on forms approved by the auditor of the freight account. There is a branch of the railway commission wherein there is what they call the audit of Maritime freight accounts. There are five auditors there on the staff of the railway commission. From every station there is a form sent to the railway commission indicating every shipment that has taken place within the Maritime Freight Rates Act and so on, and there is compiled by the agent himself what shipment was carried and the rate under the Maritime Freight Rates Act and what the result would have been under the normal rate, and the difference. That is a form that has been approved by the Board of Railway Commissioners and which has been sent to the railway commission and the railway commission must certify to the minister every year the amount which the government must refund to the railways as the result of the application of the Maritime Freight Rates Act.

The CHAIRMAN: Is that the further audit that you have mentioned?

Mr. COOPER: What audit the railway commission officials give to this statement I do not know.

The CHAIRMAN: Outside of the audit carried on by the Board of Railway Commissioners, are those accounts submitted to the auditor general?

Mr. VIEN: The witness cannot speak with any personal knowledge of these facts because under the Maritime Freight Rates Act this item is certified by the Board of Railway Commissioners, not by the company.

Hon. Mr. VENIOT: Under the Canadian Audit Act the auditor general must audit all accounts for which money is paid.

Mr. VIEN: That is correct; but this is not money paid, this is only an account which the railway has failed to collect. It is not paid out. The Canadian National Railway has not collected that amount because of the operation of the Maritime Freight Rates Act.

The CHAIRMAN: That is not what Mr. Veniot has given; but rather that the amount is voted by parliament and is subject to audit by the auditor general.

Mr. VIEN: I do not believe the auditor general ever audited the account.

Hon. Mr. VENIOT: I know they are not audited.

Mr. HEAPS: I would like to know with regard to these accounts whether they are not audited by the auditors of the railway company?

Hon. Mr. FULLERTON: I am not sure of that.

The CHAIRMAN: Parliamentary auditors.

Mr. HEAPS: Would not that certificate on page 17 show?

Hon. Mr. FULLERTON: It does, and I assume they do audit it; but I do not know.

The CHAIRMAN: As stated by Mr. Fairweather the audit comprises the statement that has been prepared by the railway, but the detailed accounts are submitted to the Board of Railway Commissioners and they are examined and audited there, and over and above all that the deficits to cover the difference in freight rate is submitted to parliament every year and some money is provided to pay those deficits and, therefore, the auditor general has the right to audit those accounts. What Mr. Veniot claims is that the auditor general does not audit those accounts.

Mr. HEAPS: How many audits would that be of the same account, assuming that the auditor general did audit it?

The CHAIRMAN: There is the first statement examined by the auditors of the Canadian National Railways second the railway commission, and third—

Mr. HEAPS: Clarkson, Gordon and Dilworth.

The CHAIRMAN: I do not think they do examine them.

Mr. HEAPS: They may. Who is the fourth one?

The CHAIRMAN: The auditor general.

Mr. HEAPS: Is there any doubt as to the correctness of these reports or statements?

Hon. Mr. VENIOT: Yes, I have some doubt—not of these reports, no. I cannot bring it up here because the railway commission is not represented here, but I intend to bring it up later in some other way—nothing against the C.N.R.

Mr. PARENT: Have you any figures in regard to the difference between the replacement value and the book value of the railway?

Mr. FAIRWEATHER: When you talk about replacement value you get into a very difficult subject indeed. We have never prepared any statement on replacement value. To do so would be a very expensive job. It cost the United States railways \$800 a mile to prepare a statement of that kind.

Hon. Mr. FULLERTON: And what did they do with it when they got it?

Mr. FAIRWEATHER: It was no good when they got it.

Mr. PARENT: I asked you also if you provided for depreciation?

Mr. FAIRWEATHER: We do not provide for depreciation because that is not our practice; we have retirement accounting.

Mr. PARENT: Is this part of the Canadian National Railways—

Mr. FAIRWEATHER: It is the uniform practice of all railways on this continent except that in the United States the United States Interstate Commerce Commission forced the railways to practice depreciation accounting on railway stock and a few other items.

Mr. PARENT: Is it practised in Canada?

Mr. FAIRWEATHER: In Canada we practice retirement accounting for all railways in this country.

The CHAIRMAN: In order to verify that point about auditing, Mr. Roberts is here from the Department of Finance and I wonder if he could tell us if the appropriation voted by parliament yearly to cover the difference between the actual rate and the 20 per cent reduction is audited by the auditor general?

Mr. B. J. ROBERTS: The Auditor General accepts the certificate of the chartered accountants who audit the books of the railway, that is, the appointed auditors of the Canadian National Railways.

The CHAIRMAN: Therefore, Mr. Heaps was quite right in stating there were four audits—the railway audit,—the railway commission audit our auditors and the auditor general.

Mr. ROBERTS: No. I think there is no audit by the Board of Railway Commissioners with respect to that portion of the deficit of the Canadian National Railways which results from the reductions in the Maritime freight rates. We pay the whole deficit—a part of that deficit is allocated to the Maritime Freight Rates Act. Some time ago the Board of Audit acting for the government made an investigation into the effect of these reductions and they established a basis—a percentage amount—which could be taken as representing approximately the cost of the reductions in maritime rates. There is no actual detailed audit of freight bills as there is in the case of private companies that get relief from the government on account of the lowered rates. There is only one audit of the kind made in the case of the Canadian National. The amount involved is simply a portion of the total deficit and the audit of the deficit is the audit conducted by the auditor appointed by parliament to audit the Canadian National Railway books.

Hon. Mr. VENIOT: Can you tell us what system was adopted by the railway commissioners in connection with the audit submitted to them by the C.N.R.?

Mr. ROBERTS: I think that is a detailed audit of freight billings.

Hon. Mr. VENIOT: Do they get the billings or get the certificates?

Mr. ROBERTS: I cannot answer that. It is handle through the Department of Railways and Canals.

Hon. Mr. VENIOT: I was only putting that as a basis of audit in order to compare that with the private companies.

Mr. YOUNG: I would like to ask the officer this question. In the Maritime Provinces, if the railways hauls goods for its own purposes, such as hauling rails, is there an account charged up for freight?

Mr. FAIRWEATHER: Are you speaking of whether we charge freight charges on company service material? No, all company service material moves without freight billings. It is happens to move on capital account; if it happens to be in connection with a capital project then we do make a charge. That charge is, roughly, the out-of-pocket cost of handling freight, and you will find it—

Mr. YOUNG: I am not interested in the details.

Mr. FAIRWEATHER: If it is a maintenance account or operating account there is no charge made; if it is for capital account there is a small charge.

Mr. YOUNG: Assume that it is for capital account; that it is in the Maritime Provinces and that it is charged up at some certain amount, is there any portion of that on which there is a rebate of this 20 per cent and paid by the government?

Mr. FAIRWEATHER: No.

Hon. Mr. VENIOT: That is on the Canadian National?

Mr. FAIRWEATHER: It is a pure intercorporate figure in our own books.

Mr. FINN: What about the Atlantic region?

Mr. FAIRWEATHER: There is no charge made between one part of the Canadian National system and another part of the system for hauling any material used for company purposes.

Mr. FINN: What is the western boundary of the Atlantic region today?

Mr. FAIRWEATHER: The Atlantic region for operating purposes ends at Riviere du Loup, and the eastern lines for accounting purposes ends at Levis.

Mr. FINN: Take from Riviere du Loup to Montreal, which was made part of the Intercolonial; what division is that in?

Mr. FAIRWEATHER: That is in the central region.

Mr. FINN: From where is it directed?

Mr. FAIRWEATHER: From Toronto.

Mr. FINN: And originally was a part of the Intercolonial railway?

Mr. FAIRWEATHER: Yes.

Mr. FINN: Not originally, but when it was taken over it was made part of it.

The CHAIRMAN: Any further questions?

Mr. YOUNG: I see on page 3 of the report there is an item entitled "Result of Operations" and then on page 2 of the analysis it says, "Recapitulation of Results of Operation." Do those figures represent the same thing?

Mr. FAIRWEATHER: The analysis is detailed. It presents the accounts in more detail than the report and attempts to explain more.

Mr. YOUNG: I notice that operating expenditures and revenues are almost the same, and then it goes to the item "Taxes and Rentals" and they are different. I wondered where the difference lay?

Mr. FAIRWEATHER: Are you referring to the difference between the book income deficit and the cash deficit?

Mr. YOUNG: I am referring to page 3 of the report, and it is under the title "Result of Operations", and then on page 2 under "Taxes, Rentals, Etc.," it shows \$6,000,000, and in the other it is \$7,000,000 odd.

Mr. FAIRWEATHER: The difference is the difference between book deficit and cash deficit. If you go down that little table on page 3 you will see it draws down to the figure which is labelled "Cash Deficit, \$47,000,000". If you look at the analysis you will see that it draws down to a figure of \$48,000,000, and the difference between those two amounts represents non-cash deficits that are included in the income account but are not required in cash. This \$47,000,000 is the amount which parliament has to vote in cash. In addition to that we have taken into our deficit account the difference between the \$47,421,000 and the \$48,800,000 and that represents items in income loss that are not required in cash.

Mr. YOUNG: What is the difference between revenue and expenditure basis and a cash basis of accounting?

Mr. FAIRWEATHER: This is on a cash basis on page 3. In the analysis it is on an accrual basis in certain of the expenses. I was going on to explain. Take the discount on funded debt. We write into our operating loss each year a portion of the discount on securities which we issue, and you will find it in the income account. Now, that adds to our deficit account, but you do not need that money in cash; it is a book figure.

Mr. VIEN: Coming back to page 16, I would have liked you to give us some further explanation in respect of the retirements and on what basis you proceed to give us some further explanation in respect of the retirements and on what basis you proceed to give the depreciation of the rolling stock and what is your plan as regards depreciation and retirement of the rolling stock.

Mr. FAIRWEATHER: You wish to speak of Canadian lines' railway practice retirement account.

Mr. VIEN: Yes, first. On that point. Inasfar as the United States are concerned, you are governed by the regulations of the Interstate Commerce Commission.

Mr. FAIRWEATHER: Yes, but in Canada we practise retirement accounting which, as I said, comes to the same thing as depreciation accounting in the long run, but the procedure is this: each year the management reviews the rolling stock and makes a survey of the rolling stock, and when a car has reached the point where it no longer pays to repair it, where it is no longer economical to repair that car, it is retired, the car is scrapped, and whatever salvage can be got from it is determined; and the difference between the amount of salvage and the ledger value of the car—the car might have a value of \$2,000, and the scrap value might be \$150. First, the management decided that that car is no longer fit to repair, second, when that is certified to the ledger value, less the salvage, is written out of the investment account and is written into operating expenses as an item of maintenance of equipment expense under the caption of retirements, and that is presented to you in the accounts and forms part of the money which you vote and we use that money and apply it against our capital requirements, and that is tantamount to depreciation accounting. I might say this that in individual years there might be a considerable difference, but if you spread it out over a period of 30 or 40 years the difference between what you will charge in depreciation and in retirements could not be seen; it would come to the same thing in the long run.

Mr. YOUNG: In any given year it might be different?

Mr. FAIRWEATHER: In any given year it might be different. You might have a wide difference. You might have as much as several million dollars difference in one year—it might be as much as \$5,000,000 or perhaps \$7,000,000—but over a long period of time you would get exactly the same result by either method.

The CHAIRMAN: Gentlemen, the railway officials have prepared a memorandum which deals entirely with this. Should it be distributed?

Mr. VIEN: Does it touch the disposal of retired equipment?

Mr. FAIRWEATHER: No, sir. It deals with the theoretical basis of retirement and depreciation accounting.

Mr. VIEN: How do you come to appreciating the value?

Mr. FAIRWEATHER: Well, we determine it simply. We scrap the car. To the extent that there is any usable material—there may be some usable material on that car—an axle or a wheel or a journal-box or a bearing—we take them into store, and stores are charged with the value of them just as if it were purchased from an outside company.

Mr. VIEN: How do you dispose of the retired equipment? Do you sell it?

Mr. FAIRWEATHER: No, we do not sell it. We break it up ourselves, and the usable material we store and the scrap we sell to the big steel companies and people like that.

Hon. Mr. VENIOT: Under competition?

Mr. FAIRWEATHER: Yes.

Mr. FINN: Before the Canadian National Railway system came in and the roads were consolidated, when what was known as the old Intercolonial Railway extended from Halifax to Montreal, the deficit, if any, on that before the other roads were absorbed into the Canadian National system or government system—was not the whole deficit paid out of the treasury of Canada?

Mr. FAIRWEATHER: Yes.

Mr. FINN: Under the terms of Confederation?

Mr. FAIRWEATHER: Yes.

Mr. FINN: Why is that we are cut off at Rivière du Loup?

Mr. FAIRWEATHER: You must not ask me that question, sir.

Mr. FINN: No; but somebody can answer that. Is there somebody who can tell us why that was done?

Mr. HUNGERFORD: Convenience in operation.

Mr. FINN: You take freight moving from Halifax to Montreal. That proportion of the freight originating in Halifax from Rivière du Loup to Montreal goes into the central division.

Mr. HUNGERFORD: Over a portion of the central division.

Mr. FINN: From Rivière du Loup it goes into the central division accounting.

Mr. FAIRWEATHER: Yes. It is pro-rated. Of course, it does not take the expense—

The CHAIRMAN: I think there is a mistake. I thought that portion affects only that part of the line between Rivière du Loup and Charny because the act applies only to Lévis and not to Montreal.

Mr. FINN: The Intercolonial, before it went into the Canadian National, extended to Montreal.

The CHAIRMAN: Ste. Rosalie.

Mr. FINN: Yes, outside of Montreal. It included what was the Drummond road, first leased and then purchased. That was the Intercolonial through to Montreal. Now, outside of that what is included in what you call the eastern division? What mileage outside of the direct mileage from Halifax to Montreal?

Mr. FAIRWEATHER: There is considerable mileage. For instance, there is the Atlantic, Quebec and Western; there is the Quebec and Oriental, the Halifax and Southwestern, International railway and several others.

Mr. FINN: I mean outside of the Maritime provinces.

Mr. FAIRWEATHER: Outside of the Maritime provinces? Wait a minute. Let us not get at cross purposes. The mileage of the eastern lines. We are talking of eastern lines in the Atlantic region, are we not?

Mr. FINN: The Atlantic region goes to Rivière du Loup and the other stops at Lévis. I say extend the Intercolonial on the Montreal for the sake of argument—a straight line through—what other lines in the province of Quebec are included in the mileage of the eastern division?

Mr. FAIRWEATHER: None.

Hon. Mr. VENIOT: What about Temiscouata?

Mr. FAIRWEATHER: That does not belong to us; it is a separate company.

Hon. Mr. VENIOT: Take the roads taken over on the Gaspé coast.

Mr. FAIRWEATHER: I spoke of those. Oh, that is in Quebec. That is the Atlantic, Quebec and Western and the Quebec Oriental.

Mr. FINN: What is the mileage of that road?

Mr. FAIRWEATHER: Atlantic, Quebec and Western, 102 miles; Quebec and Oriental 100 miles; 202 miles together.

The CHAIRMAN: Before proceeding with the examination of the profit and loss statement, I think it would be advisable for this committee to consider the estimates submitted to the house and that could not pass because they have not been examined by this committee. The pamphlet has been distributed, and this

mentions 286 of the further supplementary estimates for the year ending March 31, 1936. "Amount required to provide for payment to the Canadian National Railway company of the net income deficit including profit and loss, incurred by the system during the year 1935 as certified to by the auditors in the annual report of the company for the year 1935, but exclusive of all non-cash items, including interest on Dominion government advances, as further certified to by the auditors and approved by the Minister of Railways and Canals; this payment to be applied in reduction of accountable advances made to the company from the consolidated revenue fund under authority of the Canadian National Railways Financing Act 1935: Canadian National Railways, excluding eastern lines. . . . \$41,795,757.24; eastern lines, excluding Prince Edward Island car ferry and terminals . . . \$5,265,373.20; Prince Edward Island car ferry and terminals . . . \$360,334.36." Now, these estimates have been before the house but they were not approved finally without examination by this committee, and all I am asking the committee to do is to pass on these estimates at the present time.

Mr. HEAPS: Perhaps we could have a statement from the board of trustees with regard to the deficit shown here of \$47,000,000, and what the expected deficit will be for the ensuing year?

The CHAIRMAN: You have also before you the budget for 1936 which gives you approximately the basis on which these estimates were passed, but these cannot be considered before the resolution which is at present before the house is passed. They are included in the further supplementary estimates tabled the day before yesterday. These are for 1936, and form part of the budget you have before you.

Mr. HEAPS: Perhaps I might have a little information from the chairman of the board. I see there is an item for the car ferry terminal P.E.I. of \$360,000. I would like a little information in regard to the whole operation of that ferry. I would like to know the amount of goods carried, the traffic in general and what it costs to operate the ferry.

Mr. YOUNG: Before giving that information, I should like to ask the officers of the road what their fiscal year is.

The CHAIRMAN: The 1st of January.

Mr. YOUNG: The calendar year?

Mr. FAIRWEATHER: The calendar year. This car ferry service runs from Tormentine to Borden, nine miles approximately across the Strait of Northumberland. There were 1,884 crossings in the year, net tons of freight transported 253,407, number of passengers carried 65,765, number of automobiles carried 13,806.

Mr. HEAPS: What is the cost of the operation of that ferry to the government?

Mr. FAIRWEATHER: The maintenance and operation of the steamers and terminals \$435,373; of the lunch room on the boat \$8,268; total \$443,641. Revenues which are apportioned to the car ferry and the nine mile basis amount to \$89,338.71, leaving net deficit of \$354,302. There is a small item on account of Canadian National expenditure.

Mr. HEAPS: Will you kindly repeat the amount of income?

Mr. FAIRWEATHER: The operating expenses \$443,641; operating revenues \$89,338; net revenue and loss \$354,302, and a small item of interest on Canadian National Railway company expenditures of \$6,031, making a loss of \$360,334.

Mr. HEAPS: Of course, it is a most extraordinary picture with that cost of operating a ferry there and a little over a thousand persons a week using the ferry.

Mr. HOWARD: That is quite a lot of people.

Mr. HEAPS: Yes it is, but when you figure that speaking strictly from the financial results of its operation, for every dollar of revenue you get it costs the government \$5.

Mr. LABELLE: The revenues are only counted on nine miles. In the matter of carrying potatoes leaving Charlottetown, for example, the ferry is only credited for the nine miles that it travels and the balance is credited to the National railway.

Mr. HEAPS: That is quite logical. You are not performing any extra service beside the nine mile service. All I am wondering at is why there is such an expensive service there for such a small revenue.

Hon. Mr. VENIOT: They have to maintain in under the terms of confederation no matter what it costs.

Mr. HEAPS: That may be so, but the fact is that when we are speaking about deficits to the railway system we will never get a true picture as to how these deficits are created. Here is one case. This is not the result of mismanagement on the part of the railway as is so often claimed in certain circles as it is one over which the railway has no control. I am wondering if there is not any other way whereby the terms of confederation could be lived up to.

Hon. Mr. VENIOT: By building a tunnel; but you are compelled under the terms of confederation to do that or give this service.

Mr. HEAPS: I am asking the management; I am not asking Mr. Veniot any questions—I am asking the management of the railway who have come here whether there is any other means of giving them that service without incurring a deficit of \$5 to \$1.

Hon. Mr. FULLERTON: I know of no other means.

Mr. HUNGERFORD: Of course, that is not quite the picture. As has already been stated only a proportion of the earnings are credited to this operation, but over and above that there is a great deal of revenue that is derived from traffic which is made possible by having this facility, and that accrues to the railway. So the picture is not complete.

Mr. FINN: That is all to the Atlantic or central region.

Mr. FAIRWEATHER: The Atlantic region.

Mr. FINN: You said a moment ago that it was the Canadian National.

Mr. FAIRWEATHER: I said I referred to the \$6,000 odd interest item, which means that the Canadian National Railway company made some expenditures down there for which they held this operation responsible—it held this service responsible.

Mr. FINN: That is the car service?

Mr. FAIRWEATHER: The car ferry service. The Canadian National Railway company under order in council is the agent to operate this service, and spent some money down there, and this was an interest charge on that money.

Mr. FINN: Is not the car service operated in connection with the Atlantic region?

Mr. FAIRWEATHER: Yes.

Mr. FINN: And it is not charged up to the Atlantic region?

Mr. FAIRWEATHER: It is charged up separately.

Mr. FINN: To the Central or Eastern or Atlantic regions?

Mr. FAIRWEATHER: No. It is shown as a separate item and voted as a separate item some years ago. Acting upon request, the income account of the car ferry service was separated from the balance of the eastern lines, and that is the way it is shown now, and it is voted separately.

Mr. FINN: There is one other question. What is the distance between the points on the eastern lines—Diamond junction and Levis—what is the distance from there to Montreal?

Mr. FAIRWEATHER: About 180 miles.

Mr. FINN: When you add that to 203 miles, that is the old Intercolonial...

Mr. FAIRWEATHER: I am afraid, sir, I must have misinformed you somewhere.

Mr. FINN: You said there were two railways in Quebec, one of which was 102 miles long and the other 100 miles long.

Mr. FAIRWEATHER: Those were lines added to the Atlantic region.

Mr. FINN: They were not part of the old Intercolonial?

Mr. FAIRWEATHER: No.

Mr. FINN: That is the very point. It is not part of our burden. It was not a part of the confederation pact under section 145 of the British North America Act.

The CHAIRMAN: The roads were not built then.

Mr. FINN: They were not built. It is not proposed that they should be built under section 145, but they have been taken in, and then you add on 180 miles to 202 miles and you get 382 miles.

Mr. FAIRWEATHER: That is mathematically correct, sir. The 180 miles, is not in the eastern portion; the 202 miles is.

Hon. Mr. VENIOT: They were taken over in 1928.

Mr. FAIRWEATHER: Yes.

Mr. FINN: The best paying section of what was the old Intercolonial between Riviere du Loup and Montreal is credited to the central division and we take on these two by-roads in the province of Quebec as part of the Intercolonial with this deficit of over \$5,000,000.

Mr. FAIRWEATHER: The Eastern Lines are defined by Act of Parliament.

Mr. FINN: I know that, and I am asking you is that a fact?

Mr. FAIRWEATHER: The Eastern Lines, as I understand it, are defined by statute, and we are obeying the statute.

Mr. FINN: I am asking you whether my statement is a fact?

The CHAIRMAN: Say "Yes."

Mr. FAIRWEATHER: I will say "Yes" under instructions of the Chair. It is a very complicated subject.

Mr. FINN: It is not very complicated. All you have to do is take the mileage from Diamond Junction to Montreal, and these two roads you speak of, one the Oriental—it must have been Oriental, I never heard of it—is 100 miles and the other is 102 miles, and is tacked on to the Atlantic region.

Mr. FAIRWEATHER: It is included in the Atlantic Region and also in the Eastern Lines.

Mr. FINN: Yes. Then the road from Levis to Montreal you say is 180 miles, and that was the old Intercolonial.

Mr. FAIRWEATHER: As far as St. Rosalie.

Mr. FINN: I am speaking now of the operating end of it. That is the best paying section, and the easiest grade on the whole original Intercolonial.

Mr. FAIRWEATHER: If you want my assent to the first part of the statement I can give it, but not to the second part.

Mr. FINN: What is the first part?

Mr. FAIRWEATHER: In regard to the mileage. But when you talk of it being the best paying section, that is a matter of opinion.

Mr. FINN: Perhaps it is not fair to ask you that question because you are a financial man, but I will ask the engineer if the grades are not easier from Levis—I am not asking you, Mr. Fairweather, because you are not an engineer.

Mr. FAIRWEATHER: But I am an engineer. As a matter of fact, the grades are not easier.

The CHAIRMAN: Have the other members of the committee any questions?

Mr. HANSON: I move that the estimates be reported.

The CHAIRMAN: It is only to comply with the request of the leader of the opposition that these estimates are submitted to the committee for consideration. We do not need to report. (Adopted.)

Mr. HOWARD: Before you proceed, why did you show the cost of operating the restaurant on the boat at \$8,000 and not show any revenue back from it?

Mr. FAIRWEATHER: These reports are synoptic. Undoubtedly the revenues are in there. I did not read the full detail, but they are probably in the upper part. The lunch room shows \$10,000 revenue, and privileges \$605. I was simply giving the synoptic figure.

The CHAIRMAN: Gentlemen, you have also before you the special supplementary estimates for 1936-1937, and at page 17 appear items 426, 427, and 428 with regard to the proposed budget of the Canadian National Railway Company. You have also before you the budget for 1936 prepared by the Canadian National Railway which gives you full details and explanations. I think it would be advisable for us to dispose of those matters as soon as possible, because those estimates may be considered in the House either to-day or at the beginning of next week.

Mr. HEAPS: The special supplementary estimates?

The CHAIRMAN: Yes, Item No. 426. Shall I dispense with reading it?

Mr. HEAPS: Is that the total amount expended?

The CHAIRMAN: This is a new procedure and I might as well explain it to the committee. You will remember that when the committee of 1930, 1931-1932 sat there was a discussion as to the advisability of the existence of the Canadian National Railway, and as to the estimates being submitted to the House and being voted by the House in advance. In years past we were examining those expenditures in arrears, and therefore we could not modify them nor suggest any modifications; but this year the government has adopted a new policy of submitting those estimates to parliament in advance, and the items 426, 427, and 428 are the result of those deliberations. If you look up the details of the budget of the Canadian National Railway Company you will find the full data.

Mr. HEAPS: In order to make that clear, this figure of \$39,900,000 is a comparable figure to the figure of last year of \$47,421,000?

The CHAIRMAN: I think it is immaterial, because the government is providing—

Mr. HEAPS: I think it is material.

The CHAIRMAN: Please let me finish.—the government is providing for a specified amount of money to be voted by parliament, and this amount of money cannot be exceeded by the officials of the Canadian National Railway for the next fiscal year of 1936. If further amounts are required they will have to be granted from supplementary estimates.

Mr. HEAPS: These two items I have tried to compare give to the committee an indication of the expected year's work of the railway?

The CHAIRMAN: Yes.

Mr. HEAPS: They expect that in the ensuing year the deficit will be approximately \$7,000,000 less than it was in the previous year?

The CHAIRMAN: That is the hope.

Mr. HEAPS: They are estimates and they give us the best understanding of the situation we can have. Perhaps the chairman of the board of trustees might give to the committee now some indication as to what the expected earnings of the road for the ensuing year will be.

Hon. Mr. FULLERTON: It is shown in the pamphlet.

Mr. HUNGERFORD: It is headed "1936."

Mr. YOUNG: I take it that this again refers to the calendar year of 1936. Item 426 shows an estimated decrease in deficit of \$7,000,000. Three or four months of this year have elapsed. What are the actual results shown thus far in this year? Do they actually warrant the estimate which is submitted?

The CHAIRMAN: What is your question?

Mr. YOUNG: There is an estimated decrease in the deficit of approximately \$7,000,000. You have had approximately three or four months of operation in this year. Does that operation warrant the estimate and the optimism expressed in the estimate?

Hon. Mr. FULLERTON: I do not know just how to answer that question. We are short up to the present time. To the end of March we have a surplus of \$76,741, and last year we had a surplus of \$481,000. We have had a tremendous amount of expense in connection with snow, floods, and that sort of thing.

Mr. HEAPS: Could you give us the amounts?

Mr. MORROW: Mr. Heaps is asking you how are your figures against your budget?

Hon. Mr. FULLERTON: They are below the budget figures by about \$2,000,000.

Mr. YOUNG: What do you mean by "below the budget figures"?

Hon. Mr. FULLERTON: We estimate the revenue each month, and our expenses each month. Then we find that our estimate of revenue has not been reached, has not developed to the extent we expected, and our expenses have been higher than anticipated, resulting in a deficit of about two millions.

Hon. Mr. YOUNG: That the moment the optimism expressed in the estimates is not borne out?

Hon. Mr. VENIOT: But we have passed through the worst period?

Hon. Mr. FULLERTON: Yes.

Mr. HOWARD: Three or four months.

Hon. Mr. FULLERTON: Three months, January, February and March.

Mr. HUNGERFORD: We make up a budget for the whole year and divide it by months on an estimated basis. We have fallen behind on the estimated monthly basis to this extent, but it does not follow that we are not going to pick it up again.

Hon. Mr. VENIOT: And, of course, when you started to make up the budget for 1936 you did not anticipate the troubles you were going to have last winter with snow, floods and so on?

Mr. HUNGERFORD: Quite right. It hit us two ways: The weather was so severe it interfered with traffic, and we lost revenue. In addition, the expenses of operating were greatly increased. In the spring we had flood troubles, which

also interfered with traffic, more particularly in the eastern part of the country, and added to the expense. We have gone through three months of particularly bad experiences.

Mr. HOWARD: But in order to arrive at your budget you take your estimate for one year and divide it by twelve?

Mr. HUNGERFORD: Not quite that. Experience has shown that the earnings each month throughout the year represent pretty closely a percentage of the total for the year, and we use that scale.

Mr. HEAPS: Could you give us an idea of the actual expenditure in those three months on account of floods and snow?

Hon. Mr. FULLERTON: We have that information and can give it to you.

Mr. FAIRWEATHER: You can get some idea of the cost of moving snow, sand and ice right there. We have here a statement. For 1936, January, February and March, our expense was \$1,900,000. The increase was \$600,000. Our expenses this year were \$619,000 more. That does not cover the flood damage.

Mr. HUNGERFORD: There is another factor, and that is the reduction in the tonnage of trains on account of the cold weather.

Hon. Mr. VENIOT: For many days at a time the train could not move.

Hon. Mr. FULLERTON: And we made an increase in wages.

Mr. YOUNG: I take it that unless we have very favourable conditions for the other nine months of the year we might anticipate a deficit larger than actually appears in the estimates?

Hon. Mr. FULLERTON: That might very well be.

Mr. HUNGERFORD: We are hoping for a substantial volume of traffic.

Hon. Mr. FULLERTON: If we got some grain to move from the West it would help us.

Mr. HEAPS: May I ask how the income and expenditures of the railway for the first three months of this year compare with the first three months of last year?

Hon. Mr. FULLERTON: Yes, our revenues for January, February and March this year amounted to \$40,279,771, as against, \$38,370,000 last year, an increase of roughly \$2,000,000.

Mr. HEAPS: And expenditures?

Hon. Mr. FULLERTON: There was an increase of \$2,313,000 in operating expenses by reason of floods, snow and ice, increases in wages, retirements, and so on.

The CHAIRMAN: Shall the item carry? (Carried).

Hon. Mr. STEWART: In prior years it has not been the practice to submit a budget similar to the one now presented. Is this the first year it has been done?

Hon. Mr. FULLERTON: We do it every year.

Hon. Mr. STEWART: Did you budget every year along the same lines as you indicate in this budget you are now submitting?

Hon. Mr. FULLERTON: Yes.

Hon. Mr. STEWART: Why was it not submitted to the committee in prior years?

Mr. FAIRWEATHER: It has been a uniform practice to do that.

Mr. YOUNG: But never made subject to the House.

The CHAIRMAN: In past years the budget was submitted to the committee for consideration, but no estimates were submitted to the House in advance.

Hon. Mr. STEWART: Then the answer to the question was wrong. I asked if in prior years a budget similar to this one had been submitted to the committee, and I was told "No."

HON. MR. FULLERTON: I did not think it had been.

HON. MR. STEWART: That is my recollection of the proceedings of the committee.

THE CHAIRMAN: This is the first time the budget has been submitted to the House dealing with the future expenditures of the Canadian National Railway. Moreover, the very fact that these figures are submitted to parliament makes them subject to the Auditor General.

MR. ROBERTS: The actual vote of the deficit by parliament has been done after the arrears, but the Canadian National has not \$40,000,000 or \$50,000,000 of working capital to carry on with, and therefore at the time the requirements of the railway were considered there was a bill which authorized the Minister of Finance to make temporary advances to carry them along, and against those temporary advances the actual expenditures were debited.

HON. MR. VENIOT: What is the advantage of this system?

MR. ROBERTS: That the accounts are being returned month by month.

HON. MR. VENIOT: I would like some information concerning some freight rates. What is the freight rate say from Montreal to the maritime ports, Saint John and Halifax, on wheat from the West? I know there is a differential.

MR. HUNGERFORD: I do not think any one here can answer that question, but we shall look it up for you.

MR. YOUNG: It has been suggested in the House, I think, that if these estimates were voted for the current year it might possibly indicate to the management: "Well, we have this money, and therefore we may not be just quite so keen on cutting the budget." Would there be any danger of that?

HON. MR. FULLERTON: Not the slightest danger.

MR. YOUNG: I almost apologize for asking the question.

HON. MR. STEWART: How does the management hope to overtake the deficit?

HON. MR. FULLERTON: I beg your pardon?

HON. MR. STEWART: With the knowledge that you are \$2,000,000 down on your budget, how do you hope to overtake that during the balance of the year?

HON. MR. FULLERTON: We hope that our revenues will largely increase, for one thing. Last year our revenues from grain were smaller than in the last four or five years. They have been getting smaller every year.

HON. MR. STEWART: That is shown in your budget?

HON. MR. FULLERTON: Yes.

HON. MR. STEWART: You do not hope to get anything more than is in your budget?

HON. MR. FULLERTON: We hope we will.

HON. MR. STEWART: How do you hope to overtake the \$2,000,000 you are now down if your budget is based on everything you hope to receive during the year?

HON. MR. FULLERTON: Naturally when your revenues go down you cut your expenses as fine as you can. You are going to do a certain job this year which perhaps ought to be done, but if you are going down in your revenue and that job can be put off, you put it off.

HON. MR. STEWART: Deferred maintenance?

HON. MR. FULLERTON: Yes.

HON. MR. STEWART: Is there anything in your budget that can safely and reasonably be deferred until next year?

HON. MR. FULLERTON: Mr. Hungerford can answer that question.

MR. HUNGERFORD: It all depends on the circumstances of the case. Those things that are necessary are not deferred. Those that can be deferred in the light of the latest evidence are deferred.

HON. MR. STEWART: I suppose you have been doing that in the last four or five years, deferring maintenance as far as possible.

MR. HUNGERFORD: As far as I know it has always been done. It is a common practice in railway work.

HON. MR. STEWART: And in times of stress you defer a little more than in times when revenues are good?

MR. HUNGERFORD: Quite true; but in general an effort is made to cut the cloth to fit the pocket.

HON. MR. STEWART: Suppose the Canadian National Railway goes along and it is found that the \$39,000,000 we are putting in our estimates, which is \$2,000,000 down now and may be down \$2,000,000 more in July, is insufficient, what will you do?

THE CHAIRMAN: Come back to parliament.

HON. MR. FULLERTON: That is the only thing we can do.

HON. MR. STEWART: Then what is the advantage of a figure that does not tie them down? They can come back and say: "We estimated \$39,000,000 but it is \$46,000,000."

THE CHAIRMAN: That applies to every department of the Crown. Estimates furnished by any department of the Canadian administration are only estimates.

MR. YOUNG: Certainly.

HON. MR. STEWART: What is the reason for adopting a new method? We have been going along every year. What is behind the adoption of this new system?

MR. HANSON: To get away from the blank check.

HON. MR. VENIOT: Is it not the case that it is not the policy of the railway but rather the policy of the government?

THE CHAIRMAN: Quite true.

HON. MR. STEWART: It is not on the recommendation of the management at all.

HON. MR. FULLERTON: No; I never heard of it until I read it in the papers.

THE CHAIRMAN: Still the officials of the Canadian National Railway were called upon to prepare a statement on which those estimates were based.

HON. MR. FULLERTON: We prepared our budget.

MR. VIEN: Mr. Chairman, what I want to know is this, and I think it is a question that might be cleared up a little more: what will the advantage be of a system such as the one now suggested over the system that prevailed in former years. As I understand, formerly a bill was enacted to give the Minister of Finance the right to advance from time to time to the Canadian National Railways according to their requirements. Now, what will the advantage be of this straight vote by parliament of a fixed sum of money over the other system. I am sorry to say I cannot see the advantages at first sight.

THE CHAIRMAN: Again we will ask Mr. Roberts to explain.

MR. ROBERTS: I think it simply represents the policy of the government of having every item of expenditure placed before parliament in specific estimates; so that the whole program of expenditures can be found in the annual estimates.

The CHAIRMAN: Is it not a fact, as far as the committee is concerned, that it places before us a future commitment for the year to come instead of examining the expenditures as in the past.

Mr. VIEN: Whatever the amount voted, if the Canadian National Railways are short a million dollars or two or three million dollars the government will have to advance it by a special warrant of the governor general. You cannot stop them there, apparently.

The CHAIRMAN: They may have some tall explaining to do.

Mr. HEAPS: May I ask if the Canadian Pacific make out an annual statement in advance?

Hon. Mr. FULLERTON: I do not know. I imagine they do.

Mr. HEAPS: Of their requirements?

Mr. FAIRWEATHER: Yes, I would think so.

Mr. HOWARD: It is a much more businesslike way to do business than the old way.

Mr. VIEN: It may be. I cannot see any disadvantage in doing it that way instead of the other. I must confess my inability to find any great advantage in it over the other, except to place before parliament in clear figures the estimated requirements for the year.

The CHAIRMAN: As a matter of fact, Mr. Roberts, is not that a fact, that up to three years ago the estimates of the Canadian National were introduced by resolution in the House of Commons providing that out of the consolidated revenue fund the expenses connected with the road would be paid? That was a new departure then. There was a resolution introduced, and on that resolution a bill was based?

Mr. ROBERTS: We have to go back several years to get the line of continuity. We might commence about 1927 or 1928. The railway earned a substantial part of its fixed charges, and the financial provision was being made under various statutes—not under any one statute—mainly for capital expenditures. The government provided for such requirements by an authority to guarantee the company's bond issues, with provision for the making of temporary loans from the treasury, pending the sale of bonds. Then you come to the time when they had large losses, and the first of the acts for their financial aid provided for the whole amount of their requirements including the deficit, to be raised by loans from the Dominion treasury or by guarantee of securities, and in one year there were loans issued for deficits. Later on when the royal commission report came in it was decided that in future the deficits should be paid by the government as an expenditure and that there would be no funding of deficits. Annual provision for the railways was then made through a financing act, by which, so far as deficits were concerned, we were permitted to make accountable advances to the company during the year. At the end of the year when the deficit was ascertained, we obtained a vote as a supplementary estimate and applied such amount against the accountable advances. This year we are getting the vote in advance.

The CHAIRMAN: A change of procedure, Mr. Stewart.

Hon. Mr. STEWART: Yes.

Mr. VIEN: I would like to move that we should report favourably on item 286 of the supplementary estimates.

Hon. Mr. STEWART: Mr. Roberts has pointed out that on previous occasions a bill has been introduced in the house authorizing an advance to the Canadian National Railways from time to time.

The CHAIRMAN: By resolution.

Hon. Mr. STEWART: It must have been an estimate.

The CHAIRMAN: A lump sum was provided for each case.

Hon. Mr. STEWART: The Minister of Railways must have before him an estimate from the Canadian National Railways for their own requirements, just as we have an estimate now for the budget. He had before him the very same material. He must have the same material. He must have had an estimate of the requirements, otherwise the bill would not have specified an amount.

The CHAIRMAN: Certainly.

Hon. Mr. STEWART: Instead of putting it in the bill, we put it in an estimate.

The CHAIRMAN: It is a change of procedure.

Hon. Mr. STEWART: Tweedledee and tweedledum.

Mr. HOWARD: Oh, it is not that. I take exactly the opposite view from that. The old system of allowing any concern that is financed by the government to spend the government's money practically without authorization and then come along after the money has been spent and ask the elected members of the people to vote a deficit was all wrong. At present we have passed millions of money for specific purposes under a specific vote, and we are also passing this under a specific vote. Now, it is up to the management to keep within their estimates exactly as a minister of the crown is obliged to keep within his estimates on another vote.

Hon. Mr. STEWART: It was done when they had an act.

The CHAIRMAN: Mr. Roberts told you that an act based on a resolution was introduced, usually at the end of the session. Is not that right? Therefore, we have nothing in advance.

Mr. HEAPS: When the management of the railways are asked to see that they absolutely keep within the estimates that is asking them to do something which no other department ever did or can do. If Mr. Howard will agree to regulate the weather it might be possible.

Mr. HOWARD: The answer to Mr. Heaps' statement is plain. They would have come within their budget if it had not been for floods or excessive snow or other things.

Hon. Mr. STEWART: Right now we ought to increase that estimate \$2,000,000 to be fair to the railways because they are down \$2,000,000 now.

The CHAIRMAN: If at the end of the fiscal year we find that condition existing nothing prevents them coming next session and asking for a supplementary vote, and if the House is not sitting they can get it by Governor General's warrant.

Mr. ROBERTS: A Governor General's warrant would not operate.

The CHAIRMAN: Even if the House is not sitting?

Mr. ROBERTS: As an actual fact, the Canadian National Railways has enough working capital to provide.

The CHAIRMAN: Therefore, there is no danger.

Hon. Mr. STEWART: They will borrow it first.

The CHAIRMAN: Shall item 426 carry?

(Carried).

Shall item 427 carry?

(Carried).

Shall item 428 carry?

(Carried).

Mr. HOWARD: That will not prevent discussion of these items on the floor of the house?

The CHAIRMAN: It prevents no discussion at all. Members of the committee are free to discuss anything they like.

Mr. VIEN: This is also without prejudice to our asking further questions in this committee.

The CHAIRMAN: Not only that, but we will examine the full details of the report of the Canadian National. Gentlemen, there are two other items. A resolution was introduced in the House by the Minister of Finance the other day. It was not passed because Mr. Bennett stated in the House that he preferred that his item be considered by the special committee before the resolution passed. If you look at your budget for the year 1936 you will find "Capital Expenditure — Additions and Betterments."

Mr. HEAPS: To what page are you referring?

The CHAIRMAN: Page 1. We are on the item of additions and betterments, less retirements, \$2,361,000. Shall the item carry?

Mr. HOWARD: What is the list of betterments and retirements?

Mr. FAIRWEATHER: On page 3 of the pamphlet you will see a general summary of what these additions and betterments consist of.

Mr. VIEN: What is the central region?

Mr. FAIRWEATHER: The \$2,862,631, made up of many hundreds of items.

Mr. VIEN: Are they detailed somewhere?

Mr. FAIRWEATHER: I have the detailed book here. This is our control of that item.

Mr. VIEN: Have you a copy of the book for the committee?

Mr. FAIRWEATHER: No, it is detailed to such an extent that I did not think—

Mr. VIEN: Mr. Chairman, I think at least one copy of the book should be laid on the table of the committee for reference purposes.

Mr. FAIRWEATHER: They are filed with the Minister of Railways and Canals.

Mr. VIEN: I understand; but a matter has been referred to the committee, and the committee is asked to pass an item of \$2,862,631 for the central region. I give this item as an example.

The CHAIRMAN: This statement will be filed with the clerk of the committee for reference purposes.

Mr. VIEN: Will there be any objection to having a copy for each member of the committee?

Hon. Mr. FULLERTON: It has not been customary to do that in the past. As a matter of fact, many of these items are of such a character that we do not think it wise to give them out. I do not think it would be wise to distribute this information to the public at all; that is the way it appeals to me. It has never been done any year previously.

Mr. VIEN: As long as the chairman has the information in a copy, I am content.

The CHAIRMAN: The clerk of the committee will have a copy.

Mr. VIEN: I can see the advisability of not publishing it from the house tops.

Mr. FAIRWEATHER: In previous years I might say we did pick out some important items and give the members of the committee a list of the more important items; but the total amount this year was relatively so small that we thought a synoptic presentation by regions would be satisfactory. We can take out the more important items, if you desire them.

Mr. HOWARD: What is that Montreal Terminal development item of \$100,000?

Mr. HUNGERFORD: It is simply for settlement of the amount owing.

Mr. HOWARD: Is that the balance?

The CHAIRMAN: I should like the members of the committee to look at page 3 of the budget, and a full explanation of the \$2,361,000 will be found there.

Mr. VIEN: Yes; but Mr. Chairman, a question is being asked as to the item of \$100,000 for the Montreal Terminal Development, and what it involves.

Mr. FULLERTON: It involves the payment of liabilities which have been contracted. For instance, payment of land. We do not know definitely what will have to be paid this year.

Mr. VIEN: It does not really mean an addition or improvement of works.

Hon. Mr. FULLERTON: No, it is for property that has been purchased in relation to the terminals.

The CHAIRMAN: \$100,000 is provided for it.

Hon. Mr. VENIOT: Does the C.N.R. provide anything for the reconstruction of the bridge washed out at Fredericton?

Mr. FAIRWEATHER: There is nothing in this budget, sir. This budget was prepared before the accident.

Mr. VIEN: The management has not recommended that anything be done with respect to the Montreal Terminals situation?

Hon. Mr. FULLERTON: No; that is a matter of government policy.

Mr. HEAPS: How much money has been spent up to date?

Mr. LABELLE: \$16,000,000.

Hon. Mr. FULLERTON: \$16,509,216.

Mr. HEAPS: I think that you gave us last year a rough estimate as to what it would cost if you completed the terminals and put them in shape where you could use them. Can you give us those figures now?

Mr. HUNGERFORD: It all depends on what you do. The minimum of expense to put them in use by the Canadian National Railways would be somewhere between \$5,000,000 and \$6,000,000.

Mr. HEAPS: If you spent that money would it save anything for the Canadian National Railway system?

Mr. HUNGERFORD: Well, it would save some because it would shorten the distance from the south and facilitate certain operations.

Mr. HEAPS: Do you think, from an engineering and railway point of view, it would be good policy to spend that five or six million dollars to complete the terminals and give you proper facilities in Montreal?

Mr. HUNGERFORD: Well, that is a difficult question to answer.

Mr. HEAPS: Perhaps I am getting too near politics.

Hon. Mr. VENIOT: That would not include what we call the Union station or Central station, in Montreal?

Mr. HUNGERFORD: The advantage of a union station is greatly exaggerated. It is going to cost a lot of money, and the added convenience and other features do not represent a very large sum.

Mr. HEAPS: There would be a considerable saving if you had the new terminal completed, insofar as the Canadian National is concerned.

Mr. HUNGERFORD: There would be some.

Mr. HEAPS: Would it be more than sufficient to compensate for the outlay of \$5,000,000?

Mr. HUNGERFORD: I would not say offhand. I am dealing with figures now that I have not seen for a long time.

Mr. HOWARD: May I ask when Mr. Hungerford is looking up this matter, the estimate of \$5,000,000 or \$6,000,000 to make the terminals livable, would he also estimate what he thinks the labour would amount to?

Mr. HUNGERFORD: Yes, we can do that.

The CHAIRMAN: Shall the item carry?

Mr. VIEN: Then there is the item of hotels.

The CHAIRMAN: Mr. Vien, we are dealing with those two specially.

Mr. VIEN: The item of \$2,361,000.

The CHAIRMAN: If you look at page 1 you will find that these two items have to be reported to the House in order that the estimates may be considered in the House.

Mr. HEAPS: Inclusive of the hotels?

Mr. VIEN: We should come to the details.

The CHAIRMAN: Yes.

Mr. YOUNG: I visited Montreal some time ago, and it seems to me that the facilities there, so far as the station and that kind of thing is concerned, are very inadequate.

Hon. Mr. FULLERTON: Very.

Mr. YOUNG: It seems to me that if the facilities are inadequate, this is one of the projects we might consider in order to give employment to people who are out of employment. This is one time when public bodies should be expending moneys on useful works, and I should like the management to say something about the possibility of completing what should properly be completed at Montreal at the present time. I feel this, Mr. Charman: In a few years from now we anticipate that labour will not be in the position in which it is at the present time, but will be employed. At the present time it is not employed. Should we not, as a public body, consider that matter and see if we cannot employ labour on useful and necessary works? I should like to know just what management feels about that, with respect to the Montreal terminals.

The CHAIRMAN: There is no doubt about it that the unemployment commission which it to be appointed, will consult with the officials of the Canadian National Railways, and whatever money needed will be provided by parliament in accordance with the recommendations of the commission. They are bound to consult with the officials of the Canadian National Railways.

Mr. YOUNG: I am not worrying about the unemployment commission at all. I am asking the management of this road whether in their judgment, the facilities at Montreal are adequate, and if in their judgment they are not adequate, is this a good time to proceed to make them adequate. That is what I am asking.

Hon. Mr. FULLERTON: We will have a report made that will be available at the next meeting.

The CHAIRMAN: Shall the item carry?

Item carried.

The CHAIRMAN: There is a second item, retirement of capital obligations, including sinking fund and equipment principal payments, \$7,459,000. Shall the item carry?

Item carried.

The CHAIRMAN: Shall I report the resolution?

Carried.

The CHAIRMAN: Now, Mr. Fairweather, will you go on with the profit and loss statement?

Mr. VIEN: It is almost one o'clock; I think we should adjourn.

The CHAIRMAN: Shall we proceed at four o'clock?

Mr. HEAPS: I would suggest tomorrow morning at 11 o'clock.

The CHAIRMAN: Do you not think we should sit this afternoon?

Mr. HOWARD: Yes.

The CHAIRMAN: Remember we have the officials of the Canadian National Railways here. We can sit tomorrow morning as well.

Mr. HEAPS: I have no objection.

Mr. HOWARD: Four o'clock.

The CHAIRMAN: Let me make an appeal for this afternoon.

Mr. HEAPS: All right.

Mr. FINN: May I ask if the officers of the Canadian National Railways would prepare a statement of the operating costs and operating revenue of the Atlantic region for the past year?

The CHAIRMAN: All right, Mr. Finn.

The committee adjourned at 12.55, to meet again at 4 o'clock this afternoon.

AFTERNOON SESSION.

The committee resumed at 4 o'clock.

The CHAIRMAN: I think I see a quorum. This morning we were considering the budget of 1936, and we had reached the Canadian National Steamships, the Canadian Government Merchant Marine operating income, \$200,000. You will find that item on page 1 of the budget submitted by the officials. I think we might as well go through the estimates and get rid of them while we are at it. The total amount to be provided is \$199,450.

Mr. KINLEY: Do these boats carry mail?

Mr. LABELLE: Yes.

Mr. KINLEY: Do they get a subsidy for carrying the mail? I notice something here from the West Indies, I think it is for the mails. It is not in the budget; it is in the other part.

Mr. MORROW: Page 5 of the budget.

Mr. KINLEY: That has to do with subsidies received from the West Indies countries.

Mr. MORROW: You are asking about the mails.

Mr. KINLEY: You are carrying mail, and I wondered if you got anything for it. Your boats are royal mail boats.

Hon. Mr. VENIOT: It may be on the same basis as the railways, so much per cubic foot.

Mr. KINLEY: On what?

Hon. Mr. VENIOT: Mail space reserved. The Canadian Pacific and the C.N.R. charge so much per cubic foot for all space, what is called the railway mail service.

Mr. KINLEY: Is the amount set out in the statement?

Mr. LABELLE: We have not got the information whether it is so much per cubic foot or not.

Mr. KINLEY: Do you know the amount received each year? The point I want to make is this: you are carrying our fish to the West Indies and the freight is an important matter. If you carry mails for nothing, that is a charge against our industry, that is all.

Hon. Mr. VENIOT: I know the C.N.R. does not carry anything from the Post Office department without asking pay for it; I am sure of that.

Mr. KINLEY: I know the boat running from Yarmouth to Boston gets a big subsidy for carrying mail.

Hon. Mr. HOWE: I may say I made inquiries from the department officer and he says they do not get any subsidy for carrying mail.

Mr. KINLEY: We carry the mails of the country for nothing?

Hon. Mr. HOWE: I cannot say that. I am not sure we carry them; I know they get no subsidy.

Mr. KINLEY: I know they carry mail. I have been on them and they carry mail. Take the boat from Yarmouth to Boston, the Eastern Steamships. I understand they get a very large subsidy from the American government for carrying mail. Here is a Canadian boat which carries our fish to New York and the West Indies.

Hon. Mr. VENIOT: These boats are not owned by the American government.

Mr. KINLEY: No, they are privately owned boats.

Hon. Mr. VENIOT: The Atlantic service have to carry the mails under the subsidy.

Mr. KINLEY: What is the subsidy here? There is no subsidy. The point is, industry is carrying the burden instead of putting it where it belongs.

Hon. Mr. VENIOT: The burden is carried here.

Hon. Mr. FULLERTON: We will get the particulars for you and give them to you to-morrow.

Mr. HEAPS: May I ask a question as to the item of \$200,000?

Hon. Mr. FULLERTON: That is a matter I was going to draw to the attention of the committee. We have here an item of operating profit of \$200,000 on the Canadian Government Merchant Marine. I understand that line has been sold, so instead of finding \$199,450 we shall have to find \$399,450.

Mr. HEAPS: I should like to ask if that represents actual profits or—

Hon. Mr. FULLERTON: Estimated profits for the year.

Mr. HEAPS: —operating income only?

Hon. Mr. FULLERTON: Operating income. Now at the end of March I may tell you that the Canadian Government Merchant Marine had an operating profit of \$78,078; the Canadian West Indies fleet had an operating profit of \$98,911.

Mr. HEAPS: What about the interest charges against the steamships?

Hon. Mr. FULLERTON: The West Indies fleet?

Mr. HEAPS: Against the Canadian Government Merchant Marine in the first instance, and then against the West Indies service.

Hon. Mr. FULLERTON: Against the West Indies service there is an issue of bonds. The actual yearly interest is \$470,000, and the estimated deficit for the year is \$399,450.

Mr. HEAPS: On income alone?

Hon. Mr. FULLERTON: After providing for bond interest.

Mr. HEAPS: That means you have to add the two together?

Mr. KINLEY: There is an operating profit.

Hon. Mr. FULLERTON: After providing bond interest the deficit is \$399,450.

Mr. KINLEY: The total deficit?

Hon. Mr. FULLERTON: Depreciation, of course, is not included in that.

Mr. KINLEY: Chargeable against revenue?

Hon. Mr. FULLERTON: We call this income deficit.

Mr. HEAPS: What do you do in regard to repairs to the ships?

Hon. Mr. FULLERTON: That is an operating expense. It is all charged to operating expenses.

Mr. KINLEY: Now with regard to those Canadian National Steamships—pardon me, Mr. Heaps.

Mr. HEAPS: I should like to go further into the item of \$200,000. Has the whole fleet been sold, Mr. Howe?

Hon. Mr. HOWE: Yes, the fleet has been sold.

Mr. KINLEY: Which one?

Hon. Mr. HOWE: The service to Australia.

Mr. KINLEY: Not the west Indies fleet at all?

Hon. Mr. HOWE: No.

Mr. HEAPS: The only ships the government has now are the West Indies service?

Hon. Mr. HOWE: That is all.

Mr. HEAPS: There will be no operating deficit next year?

Hon. Mr. HOWE: Yes. The West Indies estimated deficit, as the chairman points out, is \$399,000.

Mr. HEAPS: I am speaking of the other service.

Hon. Mr. HOWE: No; there will be neither a profit nor a loss.

Mr. KINLEY: The deficit is the bond interest, \$399,000, that is all?

Hon. Mr. HOWE: Yes.

Mr. KINLEY: There is an operating profit, but the bond interest brings it down to that deficit?

Hon. Mr. HOWE: Yes.

Mr. KINLEY: The point is this: In the whole setup of the Canadian National system, no part of it is doing much better than these boats have done in the last few years.

Hon. Mr. HOWE: No; they are doing very well.

Mr. KINLEY: They have been doing missionary work for the last few years, and now they are coming into their own.

Mr. HEAPS: That is right.

Hon. Mr. FULLERTON: We had an operating profit last year of over \$200,000.

Mr. HEAPS: A few years ago it ran over a million.

Hon. Mr. FULLERTON: Yes, if you include interest.

The CHAIRMAN: I should like to call the attention of the members of the committee to the following facts: The first item of \$200,000 should be struck off, and the amount of money to be provided would then be \$399,450.

Mr. HEAPS: The boats operated for a certain period in this year. When was the fleet sold?

Hon. Mr. HOWE: They are sold as they arrive at Canadian ports.

Mr. HEAPS: Are they all sold now?

Hon. Mr. HOWE: They are sold, but delivery is being made as they arrive in Canada.

Mr. HEAPS: There will be something to show for this \$200,000?

Hon. Mr. HOWE: Perhaps the chairman can give you the estimate. I think there is some little profit on the Australian fleet.

Hon. Mr. FULLERTON: Yes; there was a profit of \$78,000 to the end of March. A lot of our ships have yet to come in, and we possibly may make up that \$200,000.

Mr. KINLEY: The West Indies contribution is \$222,000, and therefore Canada's contribution is only about equal to the West Indies.

Mr. HEAPS: May I go into another aspect of this question? The fleet is being sold to private interests. What guarantee has the government or parliament that the services which Canada has had to Australia and other countries will be continued in a satisfactory manner to us?

Hon. Mr. HOWE: We have an agreement covering five years.

Mr. HEAPS: To give us a service equal to what we are receiving at the present time?

Hon. Mr. HOWE: Yes, or better. We expect the faster and more suitable boats to give a better service.

Mr. HEAPS: Will they use the same boats or other boats?

Hon. Mr. HOWE: They will use other boats as new boats can be delivered. There is one new boat sailing from Manitoba June first.

Mr. HEAPS: What firm or firms bought these boats?

Hon. Mr. HOWE: There were three firms, the Ellerman, Bucknall Steamship Company, the Commonwealth and Dominion Line, and the New Zealand Shipping Company Limited.

Mr. HEAPS: These three corporations purchased these boats jointly and are going to provide a new service.

Hon. Mr. HOWE: Yes jointly they are going to establish a Canadian service.

Mr. HEAPS: You feel from the investigation you made that the service they are going to give will be equal to the service we are receiving at the present time?

Hon. Mr. HOWE: Yes equal to or better than.

Mr. HEAPS: Do they expect to make it a paying proposition?

Hon. Mr. HOWE: They hope to.

Mr. KINLEY: Are we giving a subsidy?

Hon. Mr. HOWE: No subsidy.

Mr. KINLEY: It will be English ships that will be chartered to carry on the business?

Hon. Mr. HOWE: Presumably yes.

Mr. HEAPS: Is there any penalty in case of default in giving service?

Hon. Mr. HOWE: Of course we have the covenant and if they void that covenant I think we have recourse.

Mr. FINN: What was the name again?

Hon. Mr. HOWE: Ellerman, Bucknall Steamship Company, the Commonwealth and Dominion Line, and the New Zealand Shipping Company Limited.

Mr. FINN: The Commonwealth and Dominion Line of Australia have their own boats. Are they going to abandon them?

Mr. KINLEY: Are they in the shipping ring, I suppose they are?

Hon. Mr. HOWE: Oh, yes.

The CHAIRMAN: I should like to obtain from the chairman of the trustees what he thinks should be provided in the estimates?

Hon. Mr. FULLERTON: I think the estimates can stand as they are, because we have \$78,000 profit to the end of March and we have all our ships to come in, and I think possible we may reach the \$200,000.

Mr. HEAPS: You are selling the ships when business is on the up-grade?

Hon. Mr. HOWE: We are selling the ships before they disappear. We are immediately faced with the spending of another six million dollars to continue a service that has cost us over \$80,000,000.

Mr. KINLEY: In other words you have to pass the business over to some one who knows the business?

Hon. Mr. HOWE: Yes.

Mr. HEAPS: In other words these private interests feel they are going to lose money on the operation of the ships?

Hon. Mr. HOWE: I don't know; I did not ask them that. I daresay they think they can operate them at a profit; we know we cannot.

The CHAIRMAN: Shall the estimates pass?

Carried.

Mr. FINN: I was going to ask the minister if the agreement indicates what the intention is with regard to the captain, the officers, and the crew. If he has not the item there to-day, we can get it from him later.

Hon. Mr. HOWE: The agreement has not be completed as yet.

Mr. FINN: You tabled some documents to-day.

Hon. Mr. HOWE: No, I have not tabled any documents as yet. I won't be able to do so for two weeks. They have to go to England to get the seal of the English company.

Mr. KINLEY: There is an undertaking, I believe, to keep the crews, is there not?

Hon. Mr. HOWE: Yes, but if a man does not behave himself they will not keep him on.

Mr. KINLEY: They are all taken on anyway. What about replacements?

Hon. Mr. HOWE: Repairs?

Mr. KINLEY: Replacements of the men. I understand we have an agreement with the West Indies whereby we must take one-half of the crew from the West Indies on the West Indies' boats. There is some agreement with the West Indies about one-half of the crews being from the West Indies.

Mr. FINN: That is not so.

Mr. KINLEY: I think it is.

Mr. FINN: I have travelled on them and know it.

Mr. KINLEY: If these British ships are going to do business with this country there should be some provision whereby we ensure labour for our men upon the sea.

Hon. Mr. HOWE: They take over our crews. We assume the men will make good, will do their work and will continue in employment. That is about all you can do for any man.

Mr. KINLEY: Cannot we make a condition that their crews must always consist of a certain percentage of Canadians?

Hon. Mr. HOWE: A large number of these men are Englishmen as far as I can make out. That is what I have been told.

Mr. KINLEY: That is what I am complaining about. So long as we have that merchant shipping agreement which was passed concurrently with the statute of Westminster, we will never have a national marine in this country, and our men on the coast will not have the opportunity to become sailors.

Mr. PARENT: The C. P. R. have one per cent.

Mr. KINLEY: I know they do not do anything for the Canadian sailors.

Mr. HEAPS: They are not born sailors.

Mr. KINLEY: Yes they are.

Mr. FINN: It seems to me, Mr. Chairman, that I have had the opportunity, inasmuch as I have travelled quite often on these ships—

The CHAIRMAN: Pardon me. First of all I would like the members to know that Mr. Finn is not a member of the committee and would like the consent of the committee to hear Mr. Finn (Carried).

Mr. FINN: Of the ten boats that are to be sold the two largest are 10,000 tons, the *Challenger* and the *Cruiser*. The *Britisher*, *Highlander* and *Scottisher* are 8,000 tons. Now, on all these ships with one exception, I think, the captains are Nova Scotians, and the officers are also Nova Scotians. As a matter of fact, I know that there are to-day in Nova Scotia young men of 26 years and 27 years who hold foreign-going certificates whose hopes and aspirations were that there would be an opportunity for them to go in as others went out. It seems to me that these ten ships plying between Halifax and Saint John through the Panama Canal to New Zealand and Australia in the winter, and in the summer back to New York and Boston and up the St. Lawrence, should be manned by Canadians. They are mostly Nova Scotians. Unless there is some hard and fast binding agreement on these companies we will find within a year that the same condition exists as exists to-day in the C.P.R., where it is almost impossible to find a Nova Scotian or men from New Brunswick, Prince Edward Island or Quebec, or any Canadians on board of these ships. These ships of the C.P.R. are receiving subsidy. They buy all their supplies in England, and I suppose the same conditions will prevail in these ships that are going to take the place of the Canadian Merchant Marine, the Lady boats and the Vagabond boats that run down to the West Indies, Nassau and Kingston. If you give the right to the owners of these companies, the moment these boats become their own, or at any rate within six months or a year, these men will be let out in order to employ Australians or New Zealanders, and Canada will have lost a great asset. Our young men will be put out of employment, men who, as I say, have passed their examinations and hold these foreign-going certificates. I think it is really a question that is fraught with a great deal of misapprehension on the part of our people, and I think that if what I predict does take place the result will be that the people of the Maritime provinces at least, speaking particularly for the province of Nova Scotia and for my good friend Mr. Kinley, who is a member of your committee, our people will be stunned. We are trying to build up Canada and yet we sell our ships to New Zealand, Australian and English concerns, and then we find—and I say this kindly—that these very ships that we are selling because we do not want to replace them continue to operate and Canadians will be released and in five years the position will be very, very bad. I suggest to the Honourable Minister of Railways and Marine that every precaution should be taken to ensure that the greatest protection is afforded to our Canadians who are in these ships; otherwise it will be an awful blow. I look upon it as a great disaster and catastrophe to the men who love the sea and who follow it, and who are competent to command these ships and to fill the various positions on them from sailor lad up. I know a chap from Prince Edward Island who was third officer some years ago. He had been a bank clerk and ultimately captained one of the Lady boats, Captain E. Cameron.

Mr. HEAPS: We agree.

Mr. FINN: I beg your pardon?

Mr. HEAPS: We agree with you.

Mr. FINN: I do not want to say anything that is embarrassing, but I suggest to the Honourable Minister of Railways and Marine, with all due respect, that every precaution should be taken to protect our men, because otherwise I do not know just what will happen. Nor do I know what will be the opinion of our people in the maritimes. I speak, as I said before, for Nova Scotia, and I shall

not be able to offer any excuse to our people, and they will think I have been very lax in my duty, and I have always tried to avoid that in my public life. I have always tried to hew close to the line and stand by those who sent me here to look after their interests.

MR. KINLEY: I rather agree that Shipping should be put in the hands of people who know the business, but it seems to me that in the reorganization or cleaning up of the Canadian National Railway System we down on the sea coast are likely to receive the first blow. We cannot hope to compete with the Englishmen in the matter of sailors or ships. They pay their men less than we do. Their ships are heavily subsidized. The English heavily subsidize their ships, and so does the United States. Now they are forming a Canadian company, which is all to the good. To all intents and purposes it will be a Canadian company, but they will bring in British ships, and that means that so far as our aspirations with regard to shipbuilding in Canada for the next few years are concerned, they are doomed. They say they pay their men seven per cent less than we do. As conditions are to-day on our coast, pay does not mean very much; it is a chance to go to work. They can get men in the maritimes to-day just as cheap as in China, if they will give them a job at sea. There is no use talking about what has been done.

Can I impress upon the committee or the trustees or whoever are in charge that in the making of this agreement provision should be made that these ships shall be manned by Canadians, and that Canadians shall have the first opportunity. The United States have before their Congress at this moment a bill that provides that in their coastal trade and in their foreign trade their men shall be adequately protected. That is, they must represent a large percentage of the crew in the foreign trade and one hundred per cent in the coastal trade. After all, this part of the Canadian National movement has not served us so badly. These ships enormously increased our trade with Australia and the Antipodes. You cannot make a profit in any business during the first period. It appears that they received no subsidy from the Canadian Government. If you had given the subsidy to these boats it would have been a great deal more than the deficit. They carry the flag of Canada which is thought of with some little pride by the Canadian people. So far as the maritimes are concerned, there is nothing our men can do except go fishing or go to sea, and if you deprive them of the opportunity to go to sea there is nothing else left for them to do, because they must live by the sea. There was a time when Nova Scotia was one of the greatest shipping countries in the world. They have that tradition behind them. The centralizing of shipping has destroyed that condition. I thought that with the advent of Diesel power we might get back on the sea, but with the Merchant Shipping agreement scrapped in England we have no chance, because even our coastal trade is open to the whole Empire. I say it is not fair. I think we have a grievance; and when this bargain is made I must impress upon everybody that we must protect our men.

MR. HEAPS: Under what registry will these ships sail?

HON. MR. HOWE: British registry.

MR. HEAPS: But these ships that we are going to receive from the new company? It may be a Canadian company, but the ships could be registered in any part of the world. I am inclined to think that they will not be under Canadian registry, and that they will not perform the services that the Canadian Merchant Marine performed.

HON. MR. HOWE: I am inclined to think that is true. That is what we contemplated.

MR. FINN: Let me point this out as an illustration. We had the D.A.R. and the Dominion Atlantic Steamships, an English company. They built the Prince Arthur, Prince George and Prince Edward. These boats plied between Yarmouth

and Boston. All supplies were bought in Yarmouth and the crews were maritime men, practically all Nova Scotians. Overnight what happened? When a Prince boat arrived at the end of its usefulness, and the C.P.R. who were the owners of the stock, had to replace them, they went down to Boston and paid good Canadian money into the Eastern Steamships Company and the Eastern Steamships Company received from the American government under Mr. Hoover as President a loan of 60 per cent and 40 per cent without any return. These ships were built: the *Yarmouth*, the *Acadia* and *Evangeline*, and what was the result? The result was that men like Captain Crosby, who for years had been in the Prince boat as captain, and Captain McKinnon and other officers, went over to Boston, took up residence there, became American citizens, and took the United States marine examinations. They left Nova Scotia as Nova Scotians and came back on American ships as aliens. To-day all the supplies for those ships are bought in Boston, none in Yarmouth. Even the time-tables are printed in Boston.

Then if you go to the railways, you will find similarly depressing conditions to-day in Nova Scotia. At Kempville they even took the buttons off the men's coats and put on C.P.R. buttons. They changed the stationery. They took the engines and cars to Montreal to repair them, and I understand they are going to superannuate Mr. George E. Graham, Vice-president and General-manager, and it will not be long before the shops are absolutely closed at Kempville and there will be no more local interest and no more local employment, for everything will be centralized in so far as the D.A.R. or the now C.P.R. is concerned. They changed it over for the purpose of increasing the value of their assets, so that they would be able to go out and get directly or indirectly here or somewhere else \$40,000,000, \$50,000,000 or \$60,000,000, and show greater assets.

That is the condition that the little province of Nova Scotia is being placed in today, and if our people are going to be deprived of the opportunity of earning their livelihood at sea and on shore, in ships and on the railways, there is nothing left for them to do but to go to some other land or go down to that six feet of earth and requiescat in pace!

Mr. HEAPS: It seems to me to be an unusual procedure whereby the government, without the consent of the committee or of parliament can get rid of the ships of the Merchant Marine. The Minister of Railways and the man in charge of the Merchant Marine apparently can take hold of a utility owned and controlled by the government without even consulting the officials of the department—I think I am right in saying that—and without consulting parliament and dispose of the ships.

The CHAIRMAN: The question of disposing of the Merchant Marine came before us time and again, and it was the consensus of opinion that if it could be sold for one dollar it would be a good piece of business. It is hardly fair to say it did not come up before the committee.

Mr. HEAPS: Yes, but I think before action is consummated the committee should be apprised of all the facts and details.

Mr. KINLEY: We cannot sell the Canadian National Railway, because it cannot be moved out of the country.

Mr. HEAPS: If you carry that same principle out, when parliament is not in session they can get rid of the Canadian National Railway System without our knowing anything about it.

Mr. BOTHWELL: I have listened to these remarks with a great deal of interest. Personally I am not concerned about whether they close Kempville in Nova Scotia or not as long as the Canadian National Railway is making an advance by closing it. I am concerned, however, about the remark made by Mr. Finn to the effect that the time-tables are printed in Boston.

Mr. FINN: Not the Canadian National time-tables.

Mr. BOTHWELL: I think we should ascertain whether the time-tables are being printed in Boston and whether the work is being given to American workmen rather than Canadian.

Hon. Mr. HOWE: Mr. Finn's remarks with regard to time-tables referred to the Eastern Steamships Company, a wholly owned American shipping company.

Mr. FINN: And the C.P.R.

Hon. Mr. HOWE: Surely not the C.P.R. time-tables?

The CHAIRMAN: I think the whole of that discussion has been out of order for the last quarter of an hour. The chairman of the board informs me that the amount to be provided for will be \$399,000 and not \$199,000 as mentioned in the report. After mature consideration that is what the chairman of the board informs me.

Hon. Mr. FULLERTON: You cannot mix the two accounts.

Mr. YOUNG: What control is there over shipping rates?

Mr. KINLEY: None; they are in the shipping ring.

Mr. YOUNG: I am not asking you, I am asking the men who came here to tell us about these things.

Hon. Mr. FULLERTON: Of course, that is entirely a matter for the government. The government have made the contract. Mr. Howe will have to explain that.

Hon. Mr. HOWE: Do you mean under the new regulations?

Mr. YOUNG: Yes, when we had our own Merchant Marine I take it we had something to say about rates.

Hon. Mr. HOWE: Who?

Mr. YOUNG: I do not know. I am asking you.

Hon. Mr. HOWE: The operators of the line?

Mr. YOUNG: Is it controlled solely by competition?

Hon. Mr. HOWE: Yes.

Mr. YOUNG: There is no controlling body similar to the Board of Railway Commissioners?

Mr. HEAPS: Is there not a shipping ring?

Hon. Mr. HOWE: You have the Pacific Conference and the North Atlantic Conference, but that is an association of owners of ships.

Mr. HEAPS: Does not the shipping company that has taken over the Canadian Merchant Marine belong to what is commonly termed a shipping ring?

Hon. Mr. HOWE: I suppose so.

Mr. HEAPS: Would not the rates in that case be controlled by the shipping ring?

Hon. Mr. HOWE: Surely. All rates are.

The CHAIRMAN: Carried? (Carried)

Mr. FINN: I just want to say this—

The CHAIRMAN: Mr. Finn, I think you have been given a very full opportunity to address this committee. You have been out of order for some time.

Mr. FINN: I am sorry if that is so.

The CHAIRMAN: We will go back to page 18 of the report and I will ask Mr. Fairweather to read the profit and loss statement.

Mr. FAIRWEATHER: This is a comparative statement for the years 1934 and 1935:—

	Year	
	1935	
CREDITS:		
Credits from retired Road and Equipment	\$	24,631 40
Unrefundable Overcharges		3,301 90
Donations		30,328 73
Miscellaneous Credits		583,533 19
Total Credits		<u>\$641,795 22</u>
DEBITS:		
Surplus appropriated for Investment in Physical Property.....	\$	2,064 34
Debit Discount extinguished through Surplus.....		22,579 91
Miscellaneous appropriations of Surplus.....		27,681 07
Debits for retired Road and Equipment.....		29,111,717 21
Delayed Income Debits		48,295 61
Miscellaneous Debits		1,938,650 64
Total Debits		<u>\$31,095,626 64</u>
Net Profit and Loss Items <i>Debit</i>		\$30,453,831 42
Net Income <i>Deficit</i> transferred		48,878,181 67
Interest on Dominion Government Loans		35,949,676 70
System Net <i>Loss</i>		<u>\$115,281,689 79</u>
Deduct: Contribution for deficits from the Government		
	1935	1934
C. N. Railways	\$41,795,757 24	\$42,589,824 96
Eastern Lines	5,265,373 20	5,434,133 74
P.E.I. Car Ferry & Terminals	360,334 36	383,942 00
		47,421,464 80
Eastern Lines' interest on Government Loans		626,413 21
Change during year in Profit and Loss Account		\$ 67,233,811 78
Balance at January 1st		789,040,675 42
Balance at December 31st		<u>\$856,274,487 20</u>

Mr. BOTHWELL: Mr. Chairman, the profit and loss statement is rather general in the way it is worked out there. I would like to know something about what the operation of the Canadian National hotels has been, the profit and loss statement in that connection.

Mr. HOWARD: You get that under the operating expenditures.

Mr. BOTHWELL: It is properly under this head.

Hon. Mr. FULLARTON: We had an operating profit last year of \$101,770. The year before we had an operating profit of \$37,000.

Mr. BOTHWELL: That is operating profit?

Hon. Mr. FULLERTON: Yes.

Mr. BOTHWELL: How much money have we invested in these hotels?

Mr. LABELLE: About \$35,000,000.

Hon. Mr. FULLERTON: \$35,428,000.

Mr. HEAPS: In the hotel properties?

Mr. BOTHWELL: How much has the capital investment been increased in say 1934-1935 in hotels?

Mr. KINLEY: While you are getting that figure, can the chairman of the board tell us the loss on the Halifax and Southwestern Railway, the operating loss for the year.

Hon. Mr. FULLERTON: We can get that figure for you.

Mr. KINLEY: Do not let me interrupt Mr. Bothwell.

Hon. Mr. HOWE: Page 25 of the Annual Report, under Additions and Betterments less Retirements.

Hon. Mr. FULLERTON: \$258,000 in 1934 and \$535,000 in 1935.

Mr. BOTHWELL: That is the increase in the capital in the years 1934-1935?

Hon. Mr. FULLERTON: Yes.

Mr. BOTHWELL: What possible justification has there been for opening the Bessborough Hotel in Saskatoon, for instance?

The CHAIRMAN: Mr. Young may answer that question.

Mr. BEAUBIER: If the building was there, why not use it?

Hon. Mr. FULLERTON: We believed that in view of improving business conditions we were justified in opening the hotel, and we believe now that we can carry it on with a very small deficit. That is the opinion of our hotel manager. The building was standing there. Something had to be done. We still have the Vancouver Hotel. What we are going to do with that it is difficult to say. In that case we are spending a little money carrying out contracts that were let some years ago, spending just as little as possible. We feel that unless we do that we will have tremendous pressure brought on us to open that hotel, which we do not want to do at the present time.

Mr. BOTHWELL: Has the contract situation that existed some years ago anything to do with the Vancouver situation?

Hon. Mr. FULLERTON: I do not follow you.

Mr. BOTHWELL: I understood that there was an arrangement some years ago between the Dominion Government and the City of Vancouver in connection with certain things that had to be done, and this hotel was the result.

Hon. Mr. FULLERTON: It was the Canadian Northern Railway.

Mr. BOTHWELL: I wonder if what you are doing now has any relation to those arrangements?

Hon. Mr. FULLERTON: We constructed the hotel and we have been spending as little money as possible, but we are simply carrying on in order to prevent a lot of trouble. It has to be completed some day.

Mr. BOTHWELL: Has that agreement been declared to be ultra vires?

Hon. Mr. FULLERTON: The agreement between the C.N.R. and the City?

Mr. BOTHWELL: Yes.

Hon. Mr. FULLERTON: Not that I am aware of.

Mr. BOTHWELL: Is the C.N.R. carrying on in order to satisfy the people under that agreement?

Hon. Mr. FULLERTON: No. We have to protect the building, and do a certain amount of work there. That is all we are doing.

Mr. BOTHWELL: Could you tell me, Mr. Fullerton, how much money was spent last year on the Saskatoon Hotel?

Hon. Mr. FULLERTON: Yes, I can give you the exact figure: About \$480,000 was spent last year in furnishing the hotel.

Mr. BOTHWELL: Could you give us any information as to what has been spent since the opening of this year?

Hon. Mr. FULLERTON: Spent in the way of capital expenditure?

Mr. BOTHWELL: Yes.

Hon. Mr. FULLERTON: There is an amount of \$16,000 provided to meet certain contracts that were entered into last year.

Mr. BOTHWELL: Could you tell me what the total investment is in that hotel?

HON. MR. FULLERTON: \$3,531,000 including everything.

MR. BOTHWELL: You have not had time yet, I presume, to figure out whether it is a paying proposition or not?

HON. MR. FULLERTON: No; it is too early yet to figure that out.

MR. BOTHWELL: Has the Board come to any conclusion as to what they are going to do in connection with the Vancouver situation?

HON. MR. FULLERTON: No, it has not.

MR. HANSON: There is one item I do not understand: "Debits for Retired Road and Equipment (1935) \$29,111,717.21; (1934) \$2,875,306.11." Could you, Mr. Chairman of the Board, give us some explanation of that?

HON. MR. FULLERTON: The debits for retired road and equipment?

MR. HANSON: Yes.

MR. FAIRWEATHER: That was referred to last year in the committee, and a special pamphlet was presented to the committee last year showing that situation. Anticipating that it might come up again this year we have copies of that here for distribution, and it will tell the whole story.

MR. HANSON: May I have a copy of that pamphlet?

MR. FAIRWEATHER: Yes, there are copies for everybody.

HON. MR. VENIOT: Under the heading of Operating is it wise to ask what was the revenue from the Caraquez branch of the eastern division?

MR. HUNGERFORD: I do not think we would know. We do not keep it on an individual unit basis of that kind. We can get it, but we do not keep it otherwise.

HON. MR. VENIOT: Nor the expenditures?

MR. HUNGERFORD: No.

HON. MR. VENIOT: Just take a note of that.

MR. FAIRWEATHER: We will see if we can get it.

MR. PARENT: I want to know how much money has been spent on radio and colonization, and how much money has been spent for the printing of circulars every week which have ten to fifteen pages.

MR. FAIRWEATHER: I understand we do not pay anything.

MR. PARENT: On radio?

MR. FAIRWEATHER: I understand so.

MR. PARENT: What system are you using?

MR. FAIRWEATHER: I do not know.

MR. PARENT: I want to call the attention of the committee on this point and to tell Mr. Laforce that he is paid by the C.N.R. to work for the C.N.R. and not to make politics through colonization.

The CHAIRMAN: We will take note of it, Mr. Parent. Will you now take up the operating revenues, Mr. Fairweather, on page 20?

MR. FAIRWEATHER: This is a detailed statement of the operating revenues of the system from rail service:

Freight	\$132,086,587 75
Freight—Government contribution Maritime	
Freights Act, 1927	1,658,183 90

HON. MR. VENIOT: That is the share the C.N.R. got, with 20 per cent reduction?

MR. FAIRWEATHER: That is the share of the Canadian National Railways.

HON. MR. VENIOT: You have nothing to show what the C.P.R. gets?

MR. FAIRWEATHER: No.

Mr. HEAPS: It is in the estimates.

Mr. FAIRWEATHER: That is purely Canadian National. Next is:
 Passenger \$16,644,699 86.

Mr. HEAPS: Before you pass that item, I notice that the business of last year was better than the year before?

Mr. FAIRWEATHER: There was a decrease of about \$120,000 which was ascribable to the decrease in freight revenue on the eastern lines. That is of the category of traffic covered by the agreement.

Excess baggage.	\$ 76,295 07
Sleeping car.	957,319 97
Parlour and chair car	138,805 31

Mr. HEAPS: I noticed something in the newspapers about a reduction in the cost of sleeping car service.

Mr. FAIRWEATHER: A change in the rates.

Mr. HEAPS: Does that apply all over the system in Canada?

Mr. FAIRWEATHER: Yes, the C.P.R.

Mr. HEAPS: Could we have some particulars about that?

Mr. FAIRWEATHER: This is a summary.

Mr. HUNGERFORD: I might explain that there had been a movement in the United States covering a period of years in which the passenger rates have been ending to be reduced. The matter came to a head in the eastern territory through an order of the Interstate Commerce Commission to reduce rates all over the United States. It required a reduction in the northeastern territory, but the western territory and the southern territory have apparently reduced their rates. That created a situation in Canada that required consideration because of the international rates involved and the competition of American lines. After a great deal of consideration on the part of the Canadian railways it was decided to make a moderate reduction.

Mr. HEAPS: Will the reduction which you are making effective June 1st compete with the rates in the United States?

Mr. HUNGERFORD: No.

Mr. HEAPS: It will be much higher still?

Mr. HUNGERFORD: Yes.

Mr. HEAPS: What about your ordinary passenger rates? They have been reduced considerably in the United States by order of the Interstate Commerce Commission.

Mr. HUNGERFORD: The existing coach rate was 3.45 cents.

Mr. HEAPS: In Canada?

Mr. HUNGERFORD: It was the maximum rate authorized by the Board of Railway Commissioners in 1920, and that has been reduced to a basic 3 cent rate.

Mr. HEAPS: And it will be 2 cents in the United States?

Mr. HUNGERFORD: Yes.

Mr. HEAPS: Do you think you will be able to compete with passenger traffic in the United States?

Mr. HUNGERFORD: That class of traffic is not largely competitive with the American lines. The Canadian situation differs from the American situation from the fact that we have run these excursions to such an extent which the American lines, generally speaking, have not done.

Mr. HEAPS: In the western part of the United States you do get a very low mileage rate west of Chicago?

Mr. HUNGERFORD: 2 cents a mile.

Mr. HEAPS: It is less than that.

Mr. HUNGERFORD: May be it is on return trips.

Mr. HEAPS: On short tickets you get a very low rate.

Mr. HUNGERFORD: There has not been any unanimity with regard to it.

Mr. HEAPS: Mr. Hungerford, have these excursion rates not have had the effect of increasing the traffic on our railways?

Mr. HUNGERFORD: We believe that, Mr. Heaps. Undoubtedly a great many more people have travelled but the revenue has not increased a great deal. You have to carry so many more people in order to get the same amount of revenue.

Mr. HEAPS: Do you not think it possible that by lessening the rates to average citizens you might induce a much larger number of people to use the railways in this country?

Mr. HUNGERFORD: I think that is the tendency. I think lower rates tend to promote travel.

Mr. HEAPS: Do you not think that the proposed schedule of 3 cents a mile is still heavy?

Mr. HUNGERFORD: We do not know about that. It seemed unwise to go too far initially in connection with that matter. The best thing to do is to experiment and find out what the result is going to be. No one can tell to what extent the traffic will be increased.

Mr. YOUNG: I would like to ask Mr. Hungerford the reason behind the reduction of rates in the United States?

Mr. HUNGERFORD: The Western roads and Southern roads have lost so much of their passenger business to highway traffic that they felt they were compelled to do it in order to retain any reasonable proportion of their business. The Eastern roads took a different view, and they fought the reduction bitterly and are continuing to do so. They can see nothing but a great loss of revenue.

Mr. YOUNG: I wanted to say a word about that to the minister. I understand that you pay a tax on these tickets which is taken for governmental revenue. Is it a wise policy to tax an industry which in itself is not a paying industry? Is that a good place from which to get revenue? Perhaps I should be directing my remarks to the Minister of Finance, but inasmuch as we have only the Minister of Railways and Canals here, I thought I would ask him. It has always struck me as being a very doubtful way of deriving revenue for the country. We are adding something to birth tickets when we know the railways are in severe competition with other forms of travel. Is that the place where we should seek revenue from the country as a whole? I just want to leave that with the minister when he is thinking over some of these matters.

Hon. Mr. HOWE: I will be glad to discuss it.

Mr. BOTHWELL: Is it not a fact that both the United States railroads and the management of the Canadian National Railways have come to the conclusion that these reduced rates have been conducive to additional traffic which means revenue?

Mr. HUNGERFORD: Well, there is considerable difference of opinion about that, Mr. Bothwell. Some think one thing and some think another. The question is really to what extent you can increase your traffic, and on what basis of fares you can get the greatest amount of net revenue out of it. That can only be determined, I think, by experiment.

Mr. BOTHWELL: Have you not experimented?

Mr. HUNGERFORD: We have experimented in special fares for periodical excursions. There has been no change since 1920 in the basic fares until this time.

Mr. BOTHWELL: Is it not a fact that the American railroads have come to the conclusion that the special rates which they have given and which have more or less been adopted in Canada to a limited extent, have been of benefit to the railway systems?

Mr. HUNGERFORD: The southern and western railroads of the United States think that on the whole they have benefited in the reduction in fares. The eastern roads hold to the contrary altogether. None of them know. While their revenues have increased in recent years to a certain extent, none of them know how much has been due to the effect of reduced fares or how much has been due to the general business recovery. There is no way of measuring it.

Mr. BOTHWELL: Is it not a fact that the Canadian National Railways have made a summary of the success attained through these reduced rates?

Mr. HEAPS: Or special rates.

Mr. HUNGERFORD: You are speaking of the cent a mile excursions?

Mr. HEAPS: Yes, excursion rates.

Mr. HUNGERFORD: We know what the revenue has been.

Mr. BOTHWELL: The management of the Canadian National Railways have come to the conclusion that they have been advantageous to the railway system.

Mr. HUNGERFORD: In a general way, yes. But experience has shown that you can only run these excursions at certain intervals. If you run them too frequently, you do not get the patronage.

Mr. KINLEY: They are like a sale in a store, they are good once only.

Mr. HOWARD: The rate in the United States for coach passengers was 3 cents and they reduced it to 2 cents?

Mr. HUNGERFORD: No, it was 3·6 cents.

Mr. HOWARD: And it is now 2 cents?

Mr. HUNGERFORD: It is 2 cents.

Mr. HOWARD: The Canadian rate was 3·45 which has now been reduced to 3 cents?

Mr. HUNGERFORD: We have reduced it to 3 cents.

Hon. Mr. VENIOT: Mr. Hungerford, is it not a fact that there are no second class rates granted on C.N.R. branch lines taken over after the Atlantic system was merged into the Canadian National?

Mr. HUNGERFORD: I do not know that I can answer that, Mr. Veniot. The second class rate prevails in Ontario and Quebec.

Hon. Mr. VENIOT: My information is—I got it from Moncton, and I may have misinterpreted it—that there are no second class rates, for instance, on the Caraquet road. Why is it that there is no second class rate on a road of that kind?

Mr. HUNGERFORD: We will find that out for you definitely.

Hon. Mr. VENIOT: It is a shame and an injustice to the travelling public. Here you have lumber jacks coming down from the woods and you have no place where they want to go providing them with a second class rate. They have to pay the first class rate, and a great deal of discussion is raised over this point on the trains at times. The general travelling public have no protection.

Mr. HUNGERFORD: We will get all the information for you Mr. Veniot.

Mr. FINN: Has the Railway Commission jurisdiction over passenger rate as well as freight rates?

Mr. HUNGERFORD: Yes.

Mr. FINN: Then there cannot be any discrimination.

Mr. HUNGERFORD: No.

Mr. FINN: Therefore, if you grant it on one part of the line, you must grant it on the other?

Mr. HUNGERFORD: I think that is quite right.

Hon. Mr. VENIOT: I think that on the branch line taken over since 1927 or 1928 no second class rate is allowed.

Mr. HUNGERFORD: I am unable to answer you at the moment in regard to that.

Hon. Mr. VENIOT: It should be looked into.

Mr. FAIRWEATHER: Continuing:

Parlour and Chair Car.	\$ 138,805.31
Mail.	3,260,087.96
Express.	8,637,700.57
Other passenger train.	50,143.89

Mr. YOUNG: Are you in a position to inform the committee what proportion of mail in Canada is carried by both railways?

Hon. Mr. VENIOT: The C.P.R. carries more than the C.N.R.

Mr. FAIRWEATHER: In Canada our revenue for mail for 1935 was \$2,785,-484.49, and for the C.P.R. it was \$3,532,709.59.

Mr. KINLEY: There is an item of \$3,260,000.

Mr. FAIRWEATHER: Yes, but we have lines in the United States which also carry mail. This is in Canada only. The figure for the Canadian National Railways, was \$2,785,484.49 and for the Canadian Pacific \$3,532,709.59.

Mr. KINLEY: The C.P.R. has railways in the United States.

Mr. FAIRWEATHER: This is only the Canadian comparison.

Mr. YOUNG: What was the mileage of the C.N.R. in Canada and the mileage of the C.P.R. in Canada?

Mr. FAIRWEATHER: We have about 21,000 in Canada, and the Canadian Pacific mileage in Canada is 17,000.

Hon. Mr. VENIOT: You cannot regulate or compare the revenue in mail matters between these two railroads by the mileage. It cannot be done. I went into that very fully in 1929 and 1930 when I was Postmaster General.

Mr. KINLEY: What is the number of your mail cars as compared with those of the C.P.R.?

Mr. FAIRWEATHER: I could not tell, but I imagine it would be closely proportionate to the revenue.

Mr. KINLEY: I have heard it said that you did not have cars and therefore the C.P.R. got the business.

Mr. FAIRWEATHER: That is not true at all.

Hon. Mr. VENIOT: The C.P.R. furnishes better mail cars and better conveniences than does the C.N.R.

Mr. BOTHWELL: Is it a fact that the Canadian National, with the innumerable number of branch lines, are not running trains sufficiently frequently to be able to carry mail on account of the development that has taken place through Western Canada?

Mr. FAIRWEATHER: I hardly understand your question. I think we carry mail on nearly all of our branch line trains.

Mr. BOTHWELL: Where you have one train a week and giving a service as though twice a week the railway does not carry mail?

Mr. FAIRWEATHER: Quite possibly in a case like that.

Mr. BOTHWELL: Might that not have something to do with the difference in the figures as between the C.P.R. and the C.N.R.?

Mr. FAIRWEATHER: No. The difference is almost entirely due to the Transcontinental Mail Service.

Hon. Mr. VENIOT: You must not forget that the railway mail service, what we call the railway post office or the post office on wheels, is the same for both railways on the main lines, and very few of the branch lines carry a mail post office on wheels.

Mr. FAIRWEATHER: Mostly pouch mail.

Hon. Mr. VENIOT: But they do distribute from their baggage cars. There is no doubt about it that in the West the C.P.R. is distributing from their baggage cars to a far greater extent than is the C.N.R. It is reaching some small places, and that is one of the causes of the difference.

Mr. BOTHWELL: If that statement is not true, I would not like it to go on the record, because I live in an constituency that is served fairly well by the C.P.R. and I do not believe the C.P.R. is doing what Mr. Veniot has said.

Hon. Mr. VENIOT: What did I say? I said the C.P.R. is delivering more baggage car mail than the C.N.R. and I stand by that. I know it.

Mr. BOTHWELL: You will have to show me.

Hon. Mr. VENIOT: I know it.

Mr. FINN: It was stated in the House the other day by a competent authority that the reason the Canadian National was not getting the Transcontinental mail was because they did not have the postal cars and the C.P.R. had.

Mr. FAIRWEATHER: That certainly is not true.

Mr. FINN: A gentleman close to yourself, Mr. Veniot made that statement.

Hon. Mr. VENIOT: I did not hear that statement.

Mr. FAIRWEATHER:

Express	\$8,637,700	57
Other passenger trains.....	50,143	89
Milk	459,745	36
Switching	2,060,652	72
Special Service Train.....	70,680	56
Other freight train.....	1,223	15

Then there are a number of small items, such as Water Transfers—Freight, \$47,809.46. The next item is, Dining and Buffet \$677,718.83.

Mr. HEAPS: Before you pass that item, it seems to me that from my experience on the railroads, both here and abroad, we are not getting the best out of our dining car service. I suppose the management of the railways have given some consideration to this problem, but I notice that there has been a wholesale reduction in the United States in the dining car service there. I was wondering if there was not some way of getting more out of the dining service than the railways are giving us at the present time. There is no reason why a cheaper meal should not be provided, because there are a great many passengers who travel on the railways who perhaps do not care to spend \$1.50 or \$1.25 for a meal. I believe the dining car service could do something else by providing something in the seats, or something along that line, the same as is done in the United States. The men engaged in the dining car service would be glad to provide facilities for

the getting of food to the people on the train, but they are restricted, I suppose, by regulations or agreements between the railways, and the result is that these dining cars are operating at a great loss. I think if some means were devised, which I think could be devised, a greater revenue would be derived by the railways, and I think the travelling public would find it great convenience.

Mr. HANSON: Is the dining car service paying?

Mr. HUNGERFORD: No. I do not know of any subjects relating to railways that has been discussed as much as the places for and the character of meals than dining cars. For years and years and years we have been experimenting up and down and all around and the net result is just about the same.

Mr. KINLEY: What percentage of your traffic is carried on passes?

Hon. Mr. FULLERTON: I have not the least idea.

Mr. KINLEY: I think the Minister could very well take into consideration the cancelling of all passes in Canada and people who are entitled to travel by indent on what they want to do. It seems to me that on every train every second man has got a pass.

Mr. HEAPS: Referring back to the question of dining cars. I know it is a subject the management has given a great deal of consideration to, but is there anything the management have in mind as to providing cheaper meals on the dining cars for the travelling public.

Mr. HUNGERFORD: It is intended to be put in a new schedule about the 1st of June and that will comprise some lower priced meals. That is being done in conformity with the Canadian Pacific Railway. In addition to that we are trying out an experiment to sell food from the dining car in the front end car.

Mr. HEAPS: Do I understand you are going to carry the food from the dining car to the passengers?

Mr. HUNGERFORD: Yes.

Mr. HEAPS: Are the railways going to do that, or are you going to give it out on contract to someone?

Mr. HUNGERFORD: We distribute it by the Canadian Railway News agent on the train, but it comes from the dining car, and the dining car of course gets credit for the food.

Mr. HEAPS: I am just wondering why the Railway News Company should come into the picture at all.

Mr. HUNGERFORD: We would have to employ other help to do this work.

Mr. HEAPS: Is not the present help capable and willing to do it.

Mr. HUNGERFORD: I do not think so.

Mr. HEAPS: Well, is it not being done now under a contract arrangement on the government railway?

Mr. HUNGERFORD: We have an arrangement by which we sell the food according to a schedule of prices to the Canadian Railway News people. They simply take it out of the dining car at certain prices. It is carried by the agents and sold to passengers at a certain price.

Mr. HEAPS: Why should it be done that way? Why could it not be sold direct from the dining car direct to the travelling public?

Mr. HUNGERFORD: You mean, have the passengers go to the dining cars?

Mr. HEAPS: No. You say the agent of the Canadian Railway News will take the food from the dining car and will sell it at a certain price.

Mr. HUNGERFORD: Yes. He takes an order from the individual first and goes to the dining car and gets it.

Mr. HEAPS: Is there any reason why the dining car staff itself should not take the food around to the passengers?

Mr. HUNGERFORD: We keep the dining car staff down to the minimum required to serve meals, and in the vicinity of the meal period you would not have anybody available to do that.

Mr. HEAPS: Are you in a position to give to the committee an idea of the price that is going to be charged under the agreement that you have just referred to?

Mr. HUNGERFORD: I have not got those figures here.

Mr. HEAPS: According to my understanding of it the Canadian Railway News will get a profit out of all proportion to the service rendered.

Mr. HUNGERFORD: It operates on an agreed basis.

Mr. HEAPS: For instance I know that on the United States railway lines you can get a reasonable meal served to you right in your seat if you wish it.

Mr. HUNGERFORD: Yes. All kinds of things are being done in the United States—

Mr. HEAPS: Experimentally.

Mr. HUNGERFORD: —in the matter of bonusing passengers by serving very cheap and complete meals in various ways. There is no uniformity about it. Dining car prices there are as high if not higher than the prices in Canada.

Mr. YOUNG: Is there an agreement as to the price at which these meals shall be resold?

Mr. HUNGERFORD: Yes.

Mr. BOTHWELL: If the question of passes comes properly under this item I would like to say a word in connection with that. I rode in a coach not so very long ago in which there was not a single ticket collected. They were all passes.

Mr. KINLEY: Sure.

Mr. HANSON: They might have been members of parliament.

Mr. KINLEY: Well, everybody else too.

Mr. BOTHWELL: I believe it is a matter which the minister should take into serious consideration to see whether or not he could take action to see that passes are not issued in the way they are now. I do not care whether you cut out members of parliament, their families and dependents, and that sort of thing or not. We are facing a serious situation in this country in connection with our railways, and if the elimination of passes is going to help, let us eliminate some of them if not all.

Mr. KINLEY: Sure.

Mr. BOTHWELL: I know even since this session opened the opportunity that is given under the Act of getting passes for dependents has been, shall I say exploited; that is possibly not the appropriate word, but it is something like that.

Hon. Mr. VENIOT: Abused, anyway.

Mr. BOTHWELL: "Abused," is right. And I believe it is time for the minister to consider this particular section of the Act, and to deal with it, and see if we cannot stop the exploitation that is being made of our railways through the issuing of passes.

Hon. Mr. HOWE: I am anxious to say that I agree entirely with what Mr. Bothwell has said. Of course, the regulation as to who shall have passes is under the direction of the Board of Railway Commissioners, and I believe the chairman of the Railway Board did some very excellent work in curtailing the classes of persons entitled to passes. However, passes for members of parliament and their families and dependents is statutory, and we can cut down a lot of this burden if

members of parliament themselves would give their serious consideration to the matter. I think members of parliament have considerable power to curb the abuses you speak of.

Mr. BOTHWELL: In my opinion it should be eliminated entirely.

Mr. HUNGERFORD: The board watch it pretty closely.

Mr. KINLEY: As long as members of parliament hang on to their passes I do not see how you can cut them out, but if you cut out every pass in Canada and then said that a man who wants to travel shall requisition for a pass in order to get it I think you would eliminate much of the abuse. I think that would be a good way of getting rid of the whole matter.

The CHAIRMAN: That is what is being done at the present time. You requisition for a pass when you want one.

Mr. HEAPS: I wonder if the railway pass for a member is really an aspect. I find it is a liability. Constituents sometimes think that because you have a free pass on the railway it will save them sending a delegation to see you. They think all you have to do is jump on a train and go and see them.

Mr. KINLEY: What is the position in the United States?

Mr. HUNGERFORD: I do not think they have any passes in the United States.

Mr. BOTHWELL: I believe passes can be limited, to members of parliament alone. You can cut that out, as far as I am concerned. It will not hurt my feelings. But this thing of making out a requisition to get a pass for dependents in the way it has been done in the past is just fraud.

Mr. KINLEY: It takes in everybody in the country.

The CHAIRMAN: Go on, Mr. Fairweather.

Mr. FAIRWEATHER: Storage—baggage \$12,000; demurrage, \$263,000; telegraph and telephone \$4,009,000; grain elevators \$198,000; rents of building and other property \$290,000.

Mr. YOUNG: Before you pass telegraphs, would you tell us just how that service pays.

Mr. FAIRWEATHER: That is the railway telegraph revenue. We have to have telegraph service to operate trains, and the same pole lines and a good deal of the same wires are used for the commercial service.

Mr. YOUNG: There is no way of separation?

Mr. FAIRWEATHER: You could only separate it on a very arbitrary basis. But from studies I have made of it you get into this position, that it pays us to be in commercial telegraph business because if we did not we would have to pay more for the telegraph service we would have to have to operate our trains.

Mr. YOUNG: When you bought out Western Union was it a paying proposition?

Mr. FAIRWEATHER: The Western Union, that came in through the Canadian Northern.

Mr. YOUNG: Yes.

Mr. FAIRWEATHER: Then we bought the lines down east, the telegraph lines in the provinces of New Brunswick and Nova Scotia. It cuts in to the whole picture.

Mr. YOUNG: I see.

Hon. Mr. HOWE: I see you have an item, grain elevators; do you know just where they are?

Mr. FAIRWEATHER: It can be looked up. That includes elevators all over the system. Some of them are in Chicago.

Mr. YOUNG: What service have you got in the way of telephone?

Mr. FAIRWEATHER: There is one at Tiffin, one at Saint John. They are all over. I know we have one at Chicago, and there is one at Port Huron.

Rents of buildings and other properties \$290,000; miscellaneous \$997,000; joint facility — credit \$353,000; joint facility — debit \$54,000.

Hon. Mr. VENIOT: Does that relate to pool trains?

Mr. FAIRWEATHER: It is in connection with joint facilities that we have with other railways, and rental arrangements.

Hon. Mr. VENIOT: You have joint facilities at Fredericton with the C.P.R.

Mr. FAIRWEATHER: That would be another. That is what would come properly under revenue, part of it; you will find similar items under expense, but that part that comes under revenue would be properly in here.

Hon. Mr. VENIOT: Can you tell me what saving there would be in the joint operation with the C.P.R.

Mr. HUNGERFORD: You mean, in the cooperative movement. Have you got that?

Mr. FAIRWEATHER: What was your question, sir? I did not get it clearly?

Hon. Mr. VENIOT: What saving has there been to the C.N.R. in the joint cooperative movement at Fredericton?

Mr. FAIRWEATHER: I can get you that in a minute.

Hon. Mr. VENIOT: Where we are exclusively using the C.P.R. station.

Mr. FAIRWEATHER: It is about \$8,900 a year.

Hon. Mr. VENIOT: You say that we are saving \$8,900 a year. Do you think that that is a sufficient saving to justify all the inconvenience that is caused to the travelling public on the C.N.R. in that section?

Mr. FAIRWEATHER: It was carefully looked into by the responsible officers of the Canadian National and the Canadian Pacific Railways.

Hon. Mr. VENIOT: It has been carefully looked into by the travelling public too, and it has been very severely criticized. When I go to Fredericton I have to travel away up to the C.P.R. station, and when I want to leave Fredericton I cannot buy a ticket at the C.N.R. station. I have to go a mile and a half or a mile and a quarter further up to the C.P.R. station. The travelling public are beginning to kick, and kick awful hard. For the sake of saving \$8,000 — you are certainly not catering to the public.

Now, there is another question I want to ask. Since that cooperative business has been going on I am informed, I do not say that I am correctly informed, that C.N.R. agents are not permitted to canvass for passenger through rate to Montreal on the old Canadian Eastern. You know what I mean, from Newcastle to Fredericton, a distance of 110 miles. The C.P.R. have their agents in stations such as Blackburn and Boiestown who canvass for through rates to Montreal as against through rates over the C.N.R. from Boiestown to Blackburn via Fredericton to Montreal.

Mr. FAIRWEATHER: I can't believe that.

Mr. HUNGERFORD: We will make a note to look into that.

Hon. Mr. VENIOT: If that is the case it should be stopped.

Mr. HUNGERFORD: It is certainly contrary to the whole spirit of cooperation.

Hon. Mr. VENIOT: There is no cooperation there.

Mr. HUNGERFORD: It has certainly no connection with a cooperative movement.

Hon. Mr. VENIOT: Now, let me ask you this: Up to 1933 or 1934, 90 per cent of the car loadings of flour coming to Gloucester county came in C.N.R. cars. It is the reverse to-day, they are in C.P.R. cars. Why?

Mr. HUNGERFORD: Do you mean, they move by way of Saint John?

Hon. Mr. VENIOT: No, no; not by way of Saint John, they come down by way of the northern track.

Mr. HANSON: The suggestion there is that the co-operation is somewhat one-sided.

Mr. HUNGERFORD: That is just ordinary interchange of cars.

Hon. Mr. VENIOT: How is it, where the C.P.R. are now getting pick-ups at points the C.N.R. used to have? The flour to-day is coming in C.P.R. cars where they used to load it on Canadian National cars.

Mr. HUNGERFORD: You can't tell very much about it from that.

Hon. Mr. VENIOT: Well, it is being done. I have sat there and I have seen that. I have seen the change which has taken place during the last three years.

Mr. HANSON: Where do the cars originate?

Hon. Mr. VENIOT: I do not know; but formerly the flour coming from the same firms came in C.N.R. cars; and to-day flour coming from the same firms comes in cars of the C.P.R. It must be because of lack of looking for business somewhere on the part of the C.N.R.

Mr. HOWARD: Let me ask one pointed question, Mr. Chairman, to the chairman of the C.N.R.: Is there one case of co-operation that you know of, between the C.P.R. and the C.N.R. in Canada, that is equally as advantageous to the C.N.R. as it is to the C.P.R.? Is there one case?

Hon. Mr. FULLERTON: I would think so. We try to get an equal break every time we have any joint agreement.

Hon. Mr. VENIOT: You are not getting an equal break.

Hon. Mr. FULLERTON: It is pretty difficult. I will admit that.

Mr. HEAPS: It is pretty difficult to get an equal break.

Mr. HUNGERFORD: It sure is.

Mr. YOUNG: You are short all the time in the way this pooling business goes on.

The CHAIRMAN: Are we through with operating revenue?

Mr. BOTHWELL: There is one question I want to ask in connection with operating revenues. I do not see anything in there in connection with the hotel system.

The CHAIRMAN: That is separate.

Mr. BOTHWELL: That is being dealt with under a separate section.

Mr. FAIRWEATHER: Yes. That is on page 19.

Mr. BOTHWELL: Unfortunately I came from the meeting of another committee and I haven't got the file with me.

Mr. FAIRWEATHER: Page 19 shows the revenue from hotel operations.

Mr. BOTHWELL: I only wanted to ask this question in order to have it in Hansard. We are dealing with operating revenues. Can you tell me what the operating revenues for the hotel system of the Canadian National Railways was?

The CHAIRMAN: On page 19 of the report: Revenue from hotel operations, \$2,389,894.82. Then you have, expenses of hotel operations, \$2,163,040.77. Then, taxes on hotel property, \$125,083.29; and, net hotel operating income \$101,770.76.

Mr. BOTHWELL: Will you proceed with that particular statement so that you will have it all in the record?

The CHAIRMAN: Do you want me to read it all?

Mr. BOTHWELL: No, but I think you should give the conclusion.

Hon. Mr. VENIOT: I take it that we will come to that section later on.

The CHAIRMAN: Is it your wish that I should read the whole thing?

Mr. BOTHWELL: You presumed to do it.

The CHAIRMAN: I was just calling you attention to the page on which it would be found.

Mr. BOTHWELL: The final word on that page is, net income deficit.

Hon. Mr. FULLERTON: The hotels show a profit of \$101,770.76.

Hon. Mr. VENIOT: Don't say they are making money now.

Mr. KINLEY: They are not making money, they are making an "operating profit".

Mr. BOTHWELL: Operating income, \$101,770.76. I would like to know what the loss has been on this Winnipeg hotel they are operating. I realize that the Canadian National Railway system is not responsible for that hotel, but I would like to know just what the loss has been on that hotel for the year 1935.

Hon. Mr. FULLERTON: There was a loss of \$26,000 on the operation of the Fort Garry Hotel.

Mr. HEAPS: When was that built?

Hon. Mr. FULLERTON: It was built by the Grand Trunk Pacific.

Mr. HEAPS: What year?

Mr. FAIRWEATHER: It was built in 1913.

Mr. HEAPS: That was long before the government took it over.

Hon. Mr. FULLERTON: Yes. It has been a white elephant ever since it has been there.

Mr. BOTHWELL: I would like to get the figures on the Port Arthur hotel.

Hon. Mr. FULLERTON: Port Arthur—\$8,954.

Mr. BOTHWELL: Operating loss, do you mean; or profit?

Hon. Mr. FULLERTON: Profit.

Mr. BOTHWELL: What is the investment in the Port Arthur hotel?

Hon. Mr. FULLERTON: \$1,182,000.

Mr. BOTHWELL: What about the hotel in Saskatoon? When was that opened?

Hon. Mr. FULLERTON: That was opened on December 10th.

Mr. BOTHWELL: Can you give me information about the operating loss or profit during the early months of this year?

Hon. Mr. FULLERTON: I don't think I have that. We can get it for you.

Mr. KINLEY: Hotels are a great factor in controlling ticket sales. I was down in Toronto and bought a railway sleeper ticket, and I notice I got a C.P.R. ticket.

Mr. BOTHWELL: If I can get that, I shall be glad.

Hon. Mr. FULLERTON: Regarding the Bessborough Hotel. To the end of March the loss is \$7,000.

Mr. HEAPS: The operating loss.

Mr. MORROW: That is for three months.

Hon. Mr. FULLERTON: The manager expects to make a loss of not more than \$10,000 the first year.

Mr. MORROW: If we had kept it closed, we would have had a loss of \$30,000; that is if the hotel had been closed.

Hon. Mr. FULLERTON: That is right.

Mr. MORROW: We would have had a loss of \$30,000 if the hotel had been kept closed. You are only losing \$7,000 by opening it.

Mr. BOTHWELL: Will you illuminate the committee by telling us how you make a loss by keeping it closed?

Mr. MORROW: Heating and taxes—overhead. The reason the hotel was opened was because we lose less money with it open than we would if it was closed.

The CHAIRMAN: That is a good reason.

Mr. BOTHWELL: All I am trying to do is answer a lot of questions that have been asked me. I am trying to have them answered here, so that the public may have the information. If these gentlemen can give us any more information in connection with that, I should be glad to have it.

Mr. MORROW: Any time you want any information of that kind, I am sure the trustees or the management of the railway would be glad to give it to you.

Mr. BOTHWELL: It is the public that wants it.

Mr. MORROW: Yes.

Hon. Mr. HOWE: I think the hotels pay all their operating expenses, pay their taxes; I understand they pay for the upkeep of the furniture, provide a fund to keep the furniture in shape; pay for the fittings in general and show a small profit.

Mr. KINLEY: Do they contribute to the insurance fund?

Hon. Mr. HOWE: I cannot say as to that.

Hon. Mr. FULLERTON: They are covered by the insurance fund.

Mr. KINLEY: Charged against their operating expenses?

Hon. Mr. FULLERTON: Yes.

Mr. HOWARD: And the improvement in your operating of your hotels this year, taking off all the operating expenses, is \$67,000 better than it was last year.

Hon. Mr. FULLERTON: That is approximately correct.

Mr. HEAPS: May I ask a question as to the Vancouver situation, in regard to the Vancouver hotel?

Hon. Mr. FULLERTON: Yes.

Mr. HEAPS: Is it opening shortly there?

Hon. Mr. FULLERTON: We are considering that proposition and it is a puzzle what to do with it.

Mr. HEAPS: Is it a white elephant?

Hon. Mr. FULLERTON: I wish somebody could tell us what to do with it.

Mr. KINLEY: What is that.

Hon. Mr. FULLERTON: I say it is a puzzle what to do with it.

Mr. KINLEY: With what?

Hon. Mr. FULLERTON: The Vancouver Hotel.

Mr. KINLEY: Why?

Hon. Mr. FULLERTON: Do you want to open it?

Mr. KINLEY: I do not know anything about it. I asked you why it was a puzzle.

Hon. Mr. FULLERTON: Because if we opened it we would run into an enormous loss. We are bound to. We could not help it.

Mr. KINLEY: Who conceived it?

Hon. Mr. FULLERTON: I did not.

Mr. BOTHWELL: Could you salvage what is in there?

Mr. HEAPS: No, you cannot. I was going to ask if the operating surplus as shown does not include the Vancouver Hotel at all?

Hon. Mr. FULLERTON: No.

Mr. HEAPS: It is put under capital

Hon. Mr. FULLERTON: Yes.

THE CHAIRMAN: We are through with the operating expenses.

Mr. HEAPS: Except for one other factor in regard to the hotel situation. I wonder if the officials of the railway could give us information as to the hotels built up during the time the railways came under government jurisdiction, the hotels that were built that they had to take over as part of the railway problem.

Hon. Mr. FULLERTON: Do you want the figure?

Mr. HEAPS: I imagine it would come in.

Hon. Mr. FULLERTON: The Charlottetown Hotel is the first one.

Mr. HEAPS: Can you give the date?

Hon. Mr. FULLERTON: The Nova Scotian.

Mr. MORROW: He wants the date.

Hon. Mr. FULLERTON: The Charlottetown Hotel was the first one.

Mr. KINLEY: The Nova Scotian pays.

Hon. Mr. FULLERTON: The Charlottetown Hotel was opened in 1931. Then there is the Nova Scotian that was opened when?

Mr. FAIRWEATHER: 1930.

Hon. Mr. FULLERTON: June 23, 1930. The Bessborough is the only other.

Mr. HEAPS: You only had three hotels built in addition to the Chateau Laurier?

Hon. Mr. FULLERTON: That is correct.

Mr. HEAPS: Within the time the railways have been under the jurisdiction of the government.

Hon. Mr. FULLERTON: That is correct.

Mr. HEAPS: Could you give us perhaps the figures as to the values of the properties you erected in that period and the value of the total property. It was given earlier in the afternoon.

Mr. MORROW: You might add the Vancouver Hotel to that.

Mr. HEAPS: Yes. That was by the city of Vancouver.

Hon. Mr. FULLERTON: Between 1923 and 1935 we spent \$25,753,000 on hotels.

Mr. HEAPS: What was the sum prior to that?

Hon. Mr. FULLERTON: About \$10,000,000.

Mr. HEAPS: That includes all hotel properties, such as Hotel Vancouver, Chateau Laurier?

Hon. Mr. FULLERTON: Yes, that includes them all.

Mr. BOTHWELL: I have always understood that Jasper Park Hotel has been a real revenue maker.

Hon. Mr. FULLERTON: What is that?

Mr. BOTHWELL: I have always understood that Jasper Park Hotel has been a money maker for the Canadian National Railway System. Would it be fair to ask what the result is?

Hon. Mr. FULLERTON: Last year we lost \$7,900.

Mr. HEAPS: That is too bad.

THE CHAIRMAN: Gentlemen, that disposes of operating revenues.

Mr. WARD: Would I be permitted to ask a question of the department about something which has occurred to me many times at Winnipeg? There are two daily trains leaving Winnipeg in the evening, one by the C.P.R. at eight o'clock and one by the C.N.R. at six o'clock. Why that train leaves at six o'clock has

always been a mystery to me. I am sure that the C.N.R. loses hundreds and hundreds of passengers every year because it leaves at six o'clock. I have never been able to understand why it is. I had asked every official—that is every railway official—I have ever come in contact with since that train has been operating out of Winnipeg at six o'clock, as to why it left at six o'clock, and every one has expressed the same feelings as I have. They do not know why. Just a few days ago a friend of mine, his wife and daughter were coming east and they wanted to go by the C.N.R. It so happened that the train left at six o'clock. They could not take it owing to friends being there, and they took the C.P.R. A week or so ago another friend of mine was leaving for the east, and he said, "I would like to take the C.N.R., but they leave at six o'clock and I cannot get away. I will take the C.P.R. They leave at eight o'clock." I think there may be a valid explanation, but I think there should be some explanation given to the many inquiries that have been made as to why that is so.

The CHAIRMAN: Can you answer the conundrum?

Mr. HUNGERFORD: Well, in a general way we might say that the schedule that is in force today is that which is best adapted to the requirements of all the communities along the line. We have got to get into Montreal by a certain time to enable the steamship passengers to take their boats. That would be the limiting factor in the east end. Working back from that, we have to do the best we can. What we try to do, we try to leave Vancouver as late as possible. We are fixed as to the time at Montreal.

Mr. HEAPS: Did the C.P.R. not change all that? Did they not leave later at Winnipeg, which made it more convenient to leave at Winnipeg and made it more convenient to land here in Ottawa, and by that means deprive the C.N.R. of a good deal of traffic? If it is possible for the C.P.R., is it not possible for the C.N.R. to do likewise?

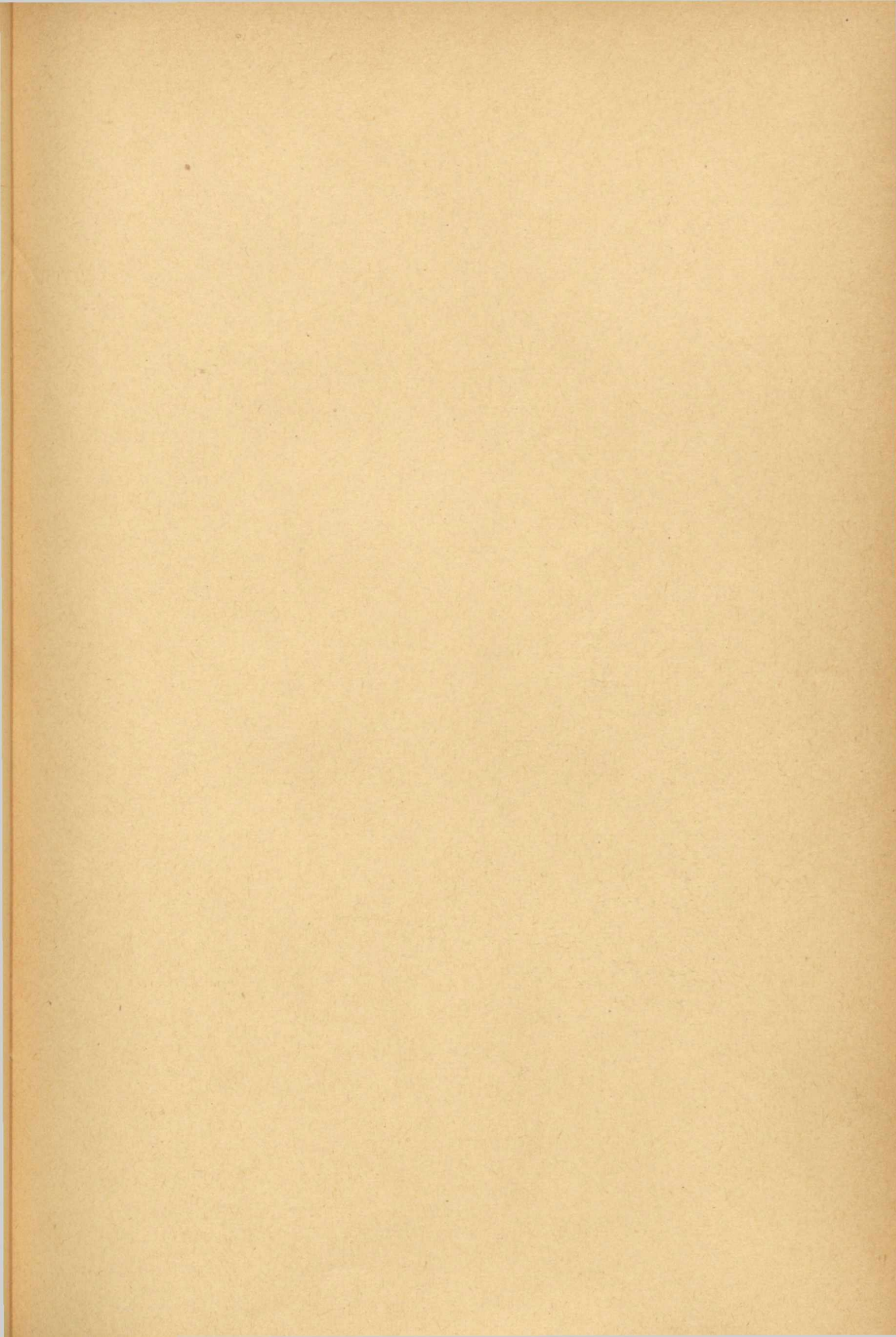
Mr. HUNGERFORD: Very doubtful.

Mr. HEAPS: I know you are losing lots of passengers. Taking passengers from Winnipeg, if they left Winnipeg at eight o'clock, they would arrive here about eight on the second morning following. The C.N.R. gets here about six. Passengers do not like getting off at six o'clock.

Mr. HUNGERFORD: Do not lose sight of the fact that the Canadian Pacific runs two trains a day over the transcontinental. The C.N.R. runs only one. Our one train has to do local work as well.

The CHAIRMAN: Gentlemen, if it is agreeable and meets with your wishes, we shall meet tomorrow morning at eleven o'clock. At that time, instead of considering the summary of operating expenses in toto, we will take them piecemeal in order not to duplicate our work.

The committee adjourned at 5.50 p.m. to meet again on Friday, May 1st, at eleven a.m.



SESSION 1936

HOUSE OF COMMONS

STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

FRIDAY, MAY 1, 1936

WITNESSES:

Hon. C. P. Fullerton, Chairman, Board of Trustees; Mr. J. E. Labelle, K.C., and Mr. F. K. Morrow, Trustees, Canadian National Railways; Mr. S. J. Hungerford, President, Mr. S. W. Fairweather, Director, Bureau of Economics, and Mr. T. H. Cooper, Auditor of General Accounts, Canadian National Railways.

MINUTES OF PROCEEDINGS

THURSDAY, May 1, 1936

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

Members present: Messrs. Beaubien, Elliott (Kindersley), Ferland, Heaps, Howe, Kinley, McLarty, Maybank, Moore, Parent (*Quebec West and South*), Stewart, Veniot, Vien, Walsh and Young

In attendance: Hon. C. P. Fullerton, Chairman, Board of Trustees, Canadian National Railways; Mr. J. E. Labelle, K.C. and Mr. F. K. Morrow, Trustees, Canadian National Railways; Mr. S. J. Hungerford, President, Canadian National Railways; Mr. S. W. Fairweather, Director, Bureau of Economics, Canadian National Railways, and Mr. T. H. Cooper, Auditor of General Accounts, Canadian National Railways.

Mr. Hungerford filed the following in answer to a question by the Hon. Mr. Veniot at the previous sitting:—

Question: What is the freight rate from Montreal to the maritime ports, Saint John and Halifax, on wheat from the West?

Answer: Montreal to Saint John, 16c. per 100 pounds. Montreal to Halifax, 16c. per 100 pounds.

The Committee resumed consideration of the Annual Report of the Canadian National Railway System, the Officials of the Railway being examined on the following items:—

Summary of operating expenses,
Maintenance of way and structures expenses.

With respect to the practice adopted in dealing with depreciation and the retirement of equipment, the Chairman of the Board of Trustees was requested to file with the Clerk of the Committee,

1. Classification of operating revenues and operating expenses of steam roads, prescribed by the Minister of Railways and Canals, effective on July 1, 1915.
2. Uniform system of accounts for steam railroads, prescribed by the Interstate Commerce Commission and revised to January 1, 1936.

At 1 o'clock the Committee adjourned until Tuesday, May 5, at 11 a.m

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

Room 268

May 1, 1936

The select standing committee on railways and shipping met at 11 o'clock. Sir Eugene Fiset, the chairman, presided.

The CHAIRMAN: I think I can see a quorum.

Gentlemen, we had reached, when we adjourned, the item of maintenance of ways and structures expenses. Instead of taking the report as it stands, I should like each member to take the analysis of the 1935 operations and turn to page 7. You will find there not only the determination of each item, but will also find a full explanation, and I think it would be much easier for us to follow what Mr. Fairweather will say, as well as the others.

Mr. FAIRWEATHER: Railway operating expenses. Proceeding now with an analysis of the operating expenses during 1935, the pamphlet entitled Analysis of 1935—

The CHAIRMAN: If you will look on page 21 of the main report you will find the items that are analysed in the other pamphlet.

Mr. FAIRWEATHER: It will be found on page 7 under the head of railway operating expenses. Proceeding now with an analysis of the operating expenses during 1935, it is found that the various charges in size of the physical property as represented by the mileage operated and number of equipment units owned, were as follows:—

Mileage operated:

	As at December 31st.		
	1935	1934	Decrease
Operated road mileage..	23,684·24	23,734·82	50·58
Miles of all tracks..	31,989·13	32,066·94	77·81

Mr. YOUNG: Before you pass that mileage figure, I should like to ask you a question in reference to it, but perhaps I had better leave it and ask the questions later on. It might be better to take it up all at one time.

Mr. HEAPS: You might take it out of the main report of the whole statement dealing with the co-operative services between the two railways. I do not know whether it should be taken up now or later.

Mr. YOUNG: Go ahead; we can find it some time.

The CHAIRMAN: You will find a full explanation in the board of trustees' report. We can come back to that whenever you like, doctor.

Mr. FAIRWEATHER:—

Rolling Stock owned:

	As at December 31st.		
	1935	1934	Decrease
Locomotives..	2,746	2,992	246
Freight train cars..	97,188	113,065	15,877
Passenger train cars..	3,070	3,661	591
Work equipment..	5,915	10,578	4,663

The accounts for 1935 include the retirement on Canadian lines of 16,912 units of obsolete equipment in addition to the normal yearly retirements. The total retirements charged against the 1935 accounts were as follows:—

	Normal Retirements	Extraordinary Retirements	Total Retirements
Locomotives.	26	220	246
Freight train cars.	3,938	11,682	15,620
Passenger train cars.	14	570	584
Work equipment.	550	4,440	4,990
Total	4,528	16,912	21,440

Mr. HEAPS: I do not know whether this is the proper place to raise the question of replacements and new equipment or not, or whether we should take the matter up later.

The CHAIRMAN: You might as well do it now.

Mr. HEAPS: May I ask the board of trustees if they can give the committee any idea as to the new equipment that the railway are ordering, and as to the character of the equipment. I am referring now particularly to the passenger equipment.

Mr. HUNGERFORD: It is in the annual statement.

Hon Mr. FULLERTON: Do you want to know what we ordered last year?

Mr. HEAPS: Yes, and also the character of the new equipment. Perhaps I might explain a little further. There is a tendency, particularly among the American railways, to use lighter equipment than is now in use; and it has occurred to me that our own railways were carrying too heavy a type of equipment, especially on passenger traffic, altogether out of proportion to its cost. I was wondering if in your passenger equipment you are likely to follow the American experiment.

Mr. HUNGERFORD: Mr. Heaps, there is no present intention of ordering any more new equipment; at least we have not given any consideration to it over and above the orders that were placed last fall. The development of new light types of passenger equipment is still in the experimental and development stage. I doubt if anyone has reached a final conclusion as to what the development should be. There is a general concensus of opinion, though, that in the production of additional passenger equipment for future use, alloyed steel, lighter materials, should be employed in order to reduce the weight. I think at the moment that will be the trend of development, that conventional types will be constructed of lighter material.

Mr. HEAPS: The equipment which you ordered last year was of the present type?

Mr. HUNGERFORD: We did not order any passenger equipment last year.

Mr. HEAPS: None at all? Perhaps we might get some idea of the new equipment.

Hon. Mr. FULLERTON: Four hundred automobile cars; 80 sand cars; 8 snow ploughs; 200 refrigerator cars; 250 gondola cars; 5 locomotives, type U-2-D; 5 locomotives, type U-4-A; and 5 locomotives, type S-4-B; and 250 refrigerator cars.

Mr. HEAPS: Was that part of the sum voted by parliament?

Hon. Mr. FULLERTON: Quite so.

Mr. HEAPS: Could we have some idea as to the cost of producing these cars in your own railway yards, and the cost on tender?

Mr. HUNGERFORD: We cannot tell you that yet, on account of the manner in which we treat the accounts. When the work is all finished and the bills are all rendered, we will be able to determine exactly what the cost of a car was.

Mr. HEAPS: I did not catch your last statement.

Mr. HUNGERFORD: After the work is completed in our own shops and we get the bills in and total up the cost from every source, then we will be able to tell what the average cost per car was. We have not been able to do that yet. We start out by estimating the cost in a general way. Heretofore the cost of producing cars of the types that we did build in our own shops, such as refrigerator cars, has been just about the same as when we buy them outside.

Mr. MAYBANK: The opinion seems to be held in railroad circles around Winnipeg that they were about 700 per unit less for the refrigerator cars you built at Transcona, but you think there is no warrant for that statement?

Mr. HUNGERFORD: I should think not, Mr. Maybank, because no one has the figures.

Mr. HEAPS: Is there much of a difference in the matter of wages paid in the railway shops as compared with the wages paid in the shops which do this work by private tender?

Mr. HUNGERFORD: I did not quite follow that; yes, I think that is true. On the other hand, we do not charge as high overhead cost as builders are compelled to do.

Mr. KINLEY: Don't you think that the policy of centralizing your repair shops has been carried a little too far in view of present day conditions? I have in mind places like Bridgewater on the Halifax and Southwestern railway. You have practically dismantled those shops and taken them to larger centres. I think it would be more advantageous to the railroads and to the communities to decentralize and do work in those centres where they have personal control. The superintendent there has personal control of the work, and he knows what he wants. It seems to me it would be important to go back a little to the decentralized idea.

Mr. HUNGERFORD: I think that railroad experience proves the contrary.

Mr. KINLEY: It has?

Mr. HUNGERFORD: Yes. More and more we are required to employ highly developed and expensive tool facilities in the doing of the work.

Mr. KINLEY: On some work, of course, that is true. But there is work that the little shop can do just as efficiently and just as well. It is worth something more to haul to Moncton rather than repair the equipment where it belongs.

Mr. HUNGERFORD: Yes, that is an item of expense; but on the whole our experience has shown it is far cheaper to perform the work in properly equipped shops, shops that have the best machine tools and other facilities, rather than undertake to do it in poorly equipped shops.

Mr. KINLEY: There is a conflict of opinion on that.

Mr. HUNGERFORD: Yes, but not in railroad circles.

Mr. VIEN: Have you any figures showing the ratio of the equipment built in your own shops and the equipment built outside, equipment bought from outside independent firms?

Mr. HUNGERFORD: No, I do not think we have any figures. We can prepare those figures; but in general the proportion of equipment that has been built in our own shops is small. It is only a small proportion of the total.

Mr. VIEN: Would you say it represents 10 per cent, or 15 per cent of the equipment that you buy?

Mr. HUNGERFORD: No, I would not think it would be that much.

Mr. VIEN: It would not be that much?

Mr. HUNGERFORD: I do not think so.

Mr. VIEN: Most of your equipment is bought elsewhere?

Mr. HUNGERFORD: Yes.

Mr. VIEN: Therefore your shops are repair shops mostly, and do repair work?

Mr. HUNGERFORD: Yes.

Mr. VIEN: Have you any past experience which would enable you to compare the cost of building equipment in your own shops with equipment bought elsewhere?

Mr. HUNGERFORD: Well, on previous occasions when we have built concurrently some equipment in our own shops and bought some outside, they have worked out to about the same price.

Mr. VIEN: About the same price. Had you taken into proper account the overhead and fixed charges? Did you take into account or properly apportion your overhead and fixed charges with respect to that?

Mr. HUNGERFORD: We have tried to do that, but there is an essential difference between overhead that has to be allowed for by a private firm and that allowed for by the railroad. The overhead we charge against this work on the railroad is a proportion of the general expenses of operating the plant, including its supervision and all that sort of thing.

Mr. VIEN: The plant proper, the plants themselves?

Mr. HUNGERFORD: And a certain part of the general supervision as well.

Mr. VIEN: Would you mean the overhead expense of the whole system or simply the general superintendency of this particular branch?

Mr. HUNGERFORD: Only to the extent of the supervision that is applied to that particular plant.

Mr. VIEN: Ten per cent or 15 per cent for supervision and engineering would be an arbitrary division.

Mr. HUNGERFORD: Let me give you an illustration. Work is done perhaps at Transeona or Moncton, any one of those shops, but a proportion of the drawings and a degree of supervision of the work is taken care of at the headquarters in the mechanical drawing office.

Mr. VIEN: Would that represent a percentage of the whole cost? For instance, if a car cost \$20,000 to build in your shops, would you add to that 5, 10, or 15 per cent for engineering and supervision, or would you add the exact figures in dollars and cents?

Mr. HUNGERFORD: We would lump those overhead expenses together. For instance, power plant operation, general supervision of plant, light, water and a thousand different things, maintenance of building, maintenance of tools, all come into this lump account and all other expenses are pro-rated on the work going through the shop.

Mr. VIEN: I can understand heating, lighting, taxes, snow removal and other expenses in respect of the plant itself. These are accounts that can easily be followed, but when it comes to your draftsmen in the head office, supervision and engineering and drafting, do you follow the expense and keep a special account of the expenses with respect to the various units built in your shops?

Mr. FAIRWEATHER: Oh, yes. You see, for any new work that is done in the shops as distinct from repair work, it is done concurrently at the shops; but all new work in the shops is subject to sales tax. We have to prepare exact cost figures with regard to that so far as they enter into the cost of the work for sales tax purposes.

Mr. VIEN: Would you have the time of the draftsmen in the head office itemized? I am now referring to the time spent on that particular drawing.

Mr. FAIRWEATHER: I do not think we would carry it to that fineness; that would be done by percentage.

Mr. VIEN: That is what I had in mind.

Mr. FAIRWEATHER: Yes.

Mr. FERLAND: Insofar as the repairs are concerned, Mr. Hungerford, do you not think it would cost less to the company to do more repairs in Joliette, where we have a terminal? My people are complaining. They say that repairs cost less in Joliette than in Montreal, especially when so many empty cars have to travel to Montreal. These cars are travelling empty on a very long run between line point and Joliette, and from Joliette to Montreal, and from some other places. In Joliette we have a contract binding the C.N.R. to do all their repairs there. At the present time you are not doing your repairs there. You are doing them all in Montreal, except a few minor ones. My people state it would cost less to do the work in Joliette than it does in Montreal.

Mr. HUNGERFORD: I think that is a wrong impression, because it is contrary to all experience of railroad administration.

Mr. VIEN: It seems to me if your experience, as you state, is to the effect that it does not cost more to build cars in your own shops than buying them outside, would it not be advisable to keep your shops busier by building more cars in your own shops? For instance, the member for Juliette has pointed out that the shops at Joliette are largely idle when you could be keeping them busy.

Mr. HUNGERFORD: The explanation I think is this—

Mr. KINLEY: On minor repairs, at least.

Mr. HUNGERFORD: Very few of our shops are equipped to build modern equipment. We have been building some refrigerator cars because they largely consist of wood, and our facilities for the construction of the refrigerator cars are comparable to those outside. But when we come to the construction of steel cars and other types of freight cars, large locomotives, our facilities generally are not nearly so good.

Mr. VIEN: What about the St. Malo shops?

Mr. HUNGERFORD: The St. Malo shop is equipped for repair work; it is not equipped for the construction of new rolling stock.

Mr. PARENT: It is a good shop?

Mr. HEAPS: Of course it is.

Mr. VIEN: In regard to the point brought out by my fellow member, are you carrying out repair work outside of your plants at the different places?

Mr. HUNGERFORD: What do you mean by "outside"?

Mr. VIEN: By contract to other firms.

Mr. HUNGERFORD: No.

Mr. MAYBANK: You do all repair work?

Mr. HUNGERFORD: Yes.

Mr. MAYBANK: You were saying, generally, our shops are not equipped—

Mr. HUNGERFORD: Yes.

Mr. MAYBANK: Are some of the bigger shops fairly well equipped for manufacturing?

Mr. HUNGERFORD: The answer to that depends upon the equipment you have under consideration. Generally speaking I do not think any of our shops are properly equipped for manufacturing new equipment of the modern types, with the exception of those refrigerator cars that consist very largely of wood.

Mr. YOUNG: From the experience you have would it be more economical in the long run to purchase the property from outside rather than build shops, if you have not got them now, and then build your own equipment?

Mr. HUNGERFORD: On the whole I would say it would be probably cheaper to buy them outside.

Mr. YOUNG: It would be uneconomical to purchase equipment so that you could make your own cars?

Mr. HUNGERFORD: I know certain railroads that have shops that are pretty well equipped to build new equipment, and in general after a lengthy experience they still pursue the policy of buying new equipment outside.

Mr. YOUNG: In other words, you buy them outside not from lack of capital to put up shops, but because you think it is a more business-like process?

Mr. HUNGERFORD: On the whole I think it would be so.

Mr. YOUNG: There seems to be a feeling among a lot of the workmen that work is done elsewhere that might very properly and very well be done at certain points. They have made some representations to the company with regard to this. I would just like to suggest that if it could be done equally well, in a reasonable and satisfactory way, we would appreciate having all the work which normally obtains there locally, done at that particular point. I have a lot of people coming to see me, and if I could avoid having so many callers of that kind, I should appreciate it very much.

Mr. HUNGERFORD: I think the feeling you describe, Mr. Young, exists at a great many points throughout the country.

Mr. MAYBANK: It would be helpful in Winnipeg as well.

Mr. HUNGERFORD: We have had representations for many years.

Mr. VIEN: Could you give me the places where your repair shops are located?

Mr. HUNGERFORD: We will give you the list.

Mr. FAIRWEATHER: Moncton, St. Malo, St. Albans with regard to the Central Vermont, Montreal, Stratford, Battle Creek, Transcona, Fort Rouge, Edmundston, Port Mann and Riviere du Loup.

Mr. HEAPS: That is the most important.

Mr. VIEN: Can you give a short summary of the relative importance of those shops?

Mr. FAIRWEATHER: Yes, I think so.

Mr. VIEN: I do not want to go into too much detail.

Mr. FAIRWEATHER: I suppose you want to judge from the number of employees.

Mr. VIEN: That might be a good guide.

Mr. FAIRWEATHER: Yes. I think I have it here, but on looking I find I have not. I can give you roughly the order, but I am afraid if you want it exactly we shall have to prepare a statement.

Mr. YOUNG: The relative importance would have a very different meaning according to who was looking at it.

Mr. VIEN: How would you distinguish a shop from the point of view of importance, the number of employees?

Mr. FAIRWEATHER: From the volume of work done in the shop.

Mr. VIEN: Will you file a statement with the committee showing the relative importance of these shops from the point of view of the work done and the number of employees engaged? Perhaps you could also give the relative cost of the shops to the system?

Mr. FAIRWEATHER: I think we can prepare a statement very simply on that.

Mr. HUNGERFORD: I think probably the employees will be the best representative figure to give. Any description of the work would lead into large complications, and I do not think it would be very much good. There is all kinds of work going on.

Mr. VIEN: It would be very confusing?

Mr. HUNGERFORD: Yes.

Mr. KINLEY: You realize that the Canadian National Railways get their business from the people of Canada in the small communities. It originates and terminates there.

Mr. HUNGERFORD: Yes, I appreciate that.

Mr. KINLEY: The point is this: In the interest of efficiency and unemployment and all these things, it is much better to leave a little money in the community where you get your business than to leave it in central points. The shops have all been dismantled in the smaller places, and I think you will find it advantageous to look after that. They are efficient shops.

Mr. HUNGERFORD: That is just the point. These shops are not efficient and cannot be.

Mr. KINLEY: Why not? Does it cost too much to develop power?

Mr. HUNGERFORD: They have not got the equipment to do it.

Mr. VIEN: The power in all these shops is steam or electric. Are these shops operated by steam, electricity or other power?

Mr. HUNGERFORD: All the larger shops have electrical transmission. In some places the tools themselves are operated by a motor. In some places we produce electricity but generally we buy it.

Mr. YOUNG: You buy it from places where you can get it?

Mr. HUNGERFORD: Yes.

Mr. KINLEY: You could produce it for a cent with a diesel engine.

Mr. PARENT: Can you tell me if the wages paid in all these repair shops are identical? I am referring to the three divisions, the eastern division, the central division and the western division. Then, in regard to railroad work, do you pay the conductor the same rate in the eastern division as you do in the western division?

Mr. HUNGERFORD: In general there is not much difference; there are some minor differences.

Mr. PARENT: Would you have one of your secretaries file a report on the wages paid in the different sections?

Mr. HUNGERFORD: Do you want them for all classes of labour?

Mr. PARENT: For instance, take an engineer or a conductor.

Mr. HUNGERFORD: I can tell you now.

Mr. PARENT: I am told you have a different wage scale in the province of Quebec and eastern Canada from what you have in the central and western region, and I want to know the reason for such wage scales. That information may not be correct; I am asking you.

Hon. Mr. FULLERTON: The rates are all the result of an agreement.

Mr. HEAPS: A union agreement?

Hon. Mr. FULLERTON: Yes.

Mr. PARENT: Identical in all Canada?

Hon. Mr. FULLERTON: No.

Mr. MAYBANK: Have you two schedules, one for the east and one for the west?

Mr. HUNGERFORD: Let me say this: Insofar as the shop men are concerned, there is one agreement for all railways in Canada, and it covers the entire territory right through to British Columbia and Nova Scotia. But when we come to engine men and train men, the schedules are divided up on a more or less regional basis. There are slight variations and very slight differences in rates that have been preserved for some time, but in general the rates are identical all over the country.

Mr. KINLEY: With regard to this union agreement, I am told that there is serious complaint by the junior men on the road that the senior conductors and the senior engineers have the right to 35 working days a month before they are let out to give another man a chance. If you tied each man down in your agreement to a 28-day month then there would be much relief of unemployment and the junior man would get a territory much oftener than he does now.

Mr. HUNGERFORD: After all that is largely in the hands of the organizations themselves. The scheduled agreement provides for a certain limit of work.

Mr. KINLEY: If there is injustice to the junior men it should be rectified.

Mr. HUNGERFORD: That has been the subject of a great deal of negotiation and consideration ever since it began, and the concessions have been made by the organizations themselves. Under persuasion they reduced the limits a certain degree in order to give junior men more work. That has been done to quite a considerable extent, but you are not going to be able to satisfy all junior men.

Mr. KINLEY: Is it true that the engineers and conductors can get 35 days a month before he must give his place to another man who is idle?

Mr. HEAPS: Is that a correct understanding, 35 days or 3,500 miles?

Mr. HUNGERFORD: The two terms are synonomous in road service; 100 miles represents a day.

Hon. Mr. VENIOT: Is it not a fact that the men in their conventions have agreed to that and asked the railway to accept their agreement? They have agreed to that system of working?

Mr. KINLEY: You can quite see that the senior men would control the convention.

Hon. Mr. VENIOT: I know, but I want to have that fact come out, or denied.

Mr. HUNGERFORD: There have been all kinds of negotiations in the different groups of employees, and developments have been different in different parts of the territory, so that there has been no absolute uniform treatment of the question. But in general, as I said before, we have been able to make arrangements with these groups whereby the work was shared on some basis.

Mr. VIEN: This may be informative, but it is a matter on which this committee can take no action.

Mr. KINLEY: We can bring it to the attention of the management, and they can call it to the attention of the railway men.

Mr. HUNGERFORD: Let me say that the so-called schedules are almost identical with those in force on all railways in North America, in the United States and Canada.

Mr. FAIRWEATHER: To a great extent the railway unions of Canada are controlled by the American unions.

Mr. KINLEY: We can have new schedules drafted, if we have to.

Mr. HEAPS: I am glad to hear the Liberal party talking that way.

Mr. VIEN: Is the McAdoo award still a factor in the schedule of wages?

Mr. HUNGERFORD: No, the McAdoo award as such is not in existence to-day. The scale of wages that was established under the McAdoo award persisted pretty well except there have been reductions here and there during the years.

Mr. VIEN: Do you say the scale of wages in Canada is about the same level as that in the United States?

Mr. HUNGERFORD: They were on substantially the same level, but a ten per cent reduction went into force during the depression, and that has been restored to them. It still remains in Canada.

Mr. MAYBANK: The 10 per cent reduction still obtains here?

Mr. HUNGERFORD: My statement is not quite complete. The maximum reduction in the United States was ten per cent. That has been restored. The maximum reduction for all employees in Canada, with the exception of some special groups, was 15 per cent. Five per cent was restored to them. So, under the existing conditions, Canadian railwaymen with substantially the same rate, had a ten per cent reduction. That does not exist in the United States.

Hon. Mr. VENIOT: Mr. Chairman, may I deal with the matter of railway ties now?

The CHAIRMAN: That comes on the next page.

Hon. Mr. VENIOT: All right.

Mr. HEAPS: I should like to take up for a moment the number of extra men that the Canadian National Railways employed last year as a result of the new equipment and extra repairs authorized by the government. Can one of the trustees give me any idea of how many extra men were put on last year?

Mr. HUNGERFORD: I do not know if I have it here.

The CHAIRMAN: Do you mean the special vote that was granted to help the small shops?

Mr. HEAPS: Yes.

The CHAIRMAN: I think you will find it in the trustees' report.

Mr. YOUNG: Are we on page 7?

The CHAIRMAN: Yes.

Mr. HEAPS: I am speaking in a general way in regard to the whole system.

Mr. YOUNG: I want to ask one more question.

The CHAIRMAN: I think it would be advisable to leave page 7 and turn to page 8, when you are considering the details of these accounts in accordance with the recommendation. For instance, you have maintenance of ways. If you start with maintenance of ways it won't have to be covered afterwards.

Mr. HEAPS: I wonder if it would be possible to get the information I have requested in regard to the number of extra men who were placed in employment in the C.N.R. shops last year as a result of the vote of parliament?

Hon. Mr. FULLERTON: If you look at page 9—

Mr. YOUNG: Are we at page 7 or what?

Hon. Mr. FULLERTON: Page 9.

The CHAIRMAN: We have been rambling all over.

Mr. YOUNG: I want to speak on page 7, and if it is in order, I should like to ask one question. It seems to me to be extraordinary to jump from one page to another. Let us get something finished.

The CHAIRMAN: Yes.

Mr. HEAPS: This is a question that Dr. Young raised himself.

Mr. YOUNG: I am now dealing with extraordinary retirements. Will you explain why there are extraordinary retirements this year, or does that item appear every year?

Mr. FAIRWEATHER: We distributed a pamphlet yesterday that undertook to explain that very thing. We had a program all mapped out for using up in

service a lot of equipment that was not entirely modern. We figured that wearing it out in service was a good way to do it. We made this program I think about 1926, and we figured that if traffic had continued along at a normal level, that equipment would have been needed in service. Well, the depression came along, and it was not possible to wear that equipment out in service, because naturally you would first use the best type of equipment for the traffic that offered. This equipment was put aside, and when the time came that we would normally have retired it through service, we found of course we had no service to retire it with, and consequently as a direct result of the depression we were presented with the situation—it was a situation that was common to all roads on the continent; the United States railways were faced with pretty much the same situation—

Mr. YOUNG: That is an item appearing this year and has not appeared before.

Mr. FAIRWEATHER. No; it is a non-recurring item, a very special thing, arising out of the depression.

Mr. HUNGERFORD: It really divides itself into two things. The constituent rule of the Canadian railways was such that they followed the policy of buying wooden freight cars much longer than other railways did.

Hon. Mr. VENIOT: Try and speak a little louder.

Mr. HUNGERFORD: I shall do my best. The result was that we had a disproportionate number of freight cars of wooden construction. The American railway association for years has been considering imposing a regulation that would prevent wooden cars being accepted and interchanged between railways.

Mr. MAYBANK: Would you allow me to interrupt you? How long did we continue building wooden cars? What was the year of our discontinuance?

Mr. HUNGERFORD: Well the last that I remember myself would be about 1915. I doubt very much if any were built subsequent to that date, but I am not sure. The American roads gradually disposed of their wooden cars. They had a lesser proportion to dispose of. They disposed of them, and the time came when the American railway association ruled that wooden underframe cars would not be accepted on interchange between different roads. There we were. We had those cars that we could have used freely in ordinary interchange service. We would have continued to maintain them because investigation had shown it was slightly cheaper to maintain those wooden cars in use than buy more expensive types of steel frame cars. We found ourselves in the position where we had those cars and could not use them fully. We were limited to the use of them on our own roads, without interchange; so there was nothing to do but dispose of the poorest of the cars in this group, dispose of all of them over and above that proportion that we could continue to use for purely internal movement. That is one thing. The other thing is this: With the growth of highway competition, branch line service has decreased and decreased, both freight and passenger.

Mr. KINLEY: Your branch line service decreased?

Mr. HUNGERFORD: Yes.

Mr. KINLEY: You have no interest there?

Mr. HUNGERFORD: Our branch line business decreased. Naturally train service decreased with it. We found ourselves with a lot of locomotives and passenger cars that could have been maintained and would have been maintained successfully if conditions had continued as they were. But that business had disappeared, and those passenger cars were no longer useful, and there was no purpose in keeping them.

Mr. VIEN: Would it not have been possible to have retained a lot of that business by buying more equipment which was cheaper to operate on branch lines like diesel engines and greater frequency of service?

Mr. HUNGERFORD: Let me say this: this service was not reduced until the business had disappeared, or decreased in proportion. There is a school of thought that claims that the business was lost on those branch lines because the railways reduced their service. Substantially that is not true. We reduced the train service when the business had gone away from us to a very large extent.

Mr. VIEN: The point I am raising is this, the competition of truck and bus became very much more intense when highways became good, and should not the railways have developed a system whereby they could have given a more adequate service, a service more comparable to the competitive service on the highway?

Mr. HUNGERFORD: We have gone a long way in that direction. For instance some ten years ago we developed oil electric cars to provide passenger service on branch lines, and they are run at lower cost. I think we were the first railroad in America to introduce that type of service, and we have done that very well.

Mr. VIEN: But is not the oil electric engine a lot more expensive than a diesel engine?

Mr. HUNGERFORD: That is the difficulty. Oil electrical equipment on the average costs from two to three times as much, and while the operating cost is much less, the fixed charges, depreciation and maintenance, is higher, and one tends to wash out the other.

Mr. KINLEY: Take this example, for instance. My plant is 70 miles from Halifax—

Mr. HEAPS: What do you mean by "my plant";

Mr. KINLEY: Our manufacturing plant. Suppose I want some goods from Halifax. The railway will only take the middle part of the haul. The goods must be trucked to the train from where they originate, and when it gets to the town, it must be trucked to the plant. That is No. 1. No. 2 is this: If I ask for goods this morning and go to the railroad to have them bring them to my plant, they will tell me it may be two or three days, or the next day, depending upon whether it is enough to make up a train. Time is an important item to me on that short haul.

Mr. HUNGERFORD: Quite.

Mr. KINLEY: Time destroys you, and the fact you have to deal with three people instead of one in the case of the truck. You have a serious situation there. That is one of the factors I was trying to tell you about a moment ago. Nobody cares about the railroad any more, because they are centralizing everything in the large cities. They say "The railroads do not care anything about us, and we do not care anything about them." I think there should be an effort made to have a little more co-operation in business.

Mr. HUNGERFORD: I think we do co-operate to a very large extent.

Mr. KINLEY: You took your shops away from Bridgewater.

Mr. HUNGERFORD: And when conditions change you must change the train business.

Mr. VIEN: What is lacking, in my opinion, is a rapid adaptation to new conditions when they arose. I think that the railways could have used a less expensive but more efficient equipment on branch lines, and they also should have been able to use auxiliary service on the highway so as to overcome the competition that comes from the door to door pick-up and delivery of the bus and truck. Is it not possible to do that in some way or another?

Mr. HUNGERFORD: That is a very very large question. That is a question the railways and the Canadian National have been studying very carefully, and experimenting with it for years. The situation was fully realized, but the

solution was difficult to find, and is still difficult to find. We could provide a service on the highway, but there is no guarantee that we would make any money out of it. The probabilities are we would lose money as many trucking lines have lost money.

Mr. VIEN: If you took the trucking end of the operation alone that may be so, but when you take the door to door pick-up and delivery and couple it with the rail haul, the revenues you would derive therefrom would make it a paying proposition. That is what is done with regard to the hotels. Take the Chateau Frontenac at Quebec, or any other hotels in the country. The hotel as a proposition may not be a paying proposition, but if you consider the attraction it has for the travellers who use the railways to get there and back home, the whole thing coupled together becomes a paying proposition. That is what I am trying to urge in respect to the trucking and bus situation. Use it as an auxiliary service to the railway service. It seems to me that as a truck or bus operation it might not pay, but it might have attracted to the railway a lot of traffic, and the rail traffic would have been a paying proposition to the company. I should like to have your opinion on that, I may be wrong.

Mr. MORROW: The volume of business available on the branch lines would not be sufficient to put the new equipment on these routes. You would never get the depreciation out of them. You would never earn your depreciation on the volume of business that you would get.

Mr. YOUNG: There is another factor to be taken into consideration when comparing the bus and the rail. You have to build your own roads, have you not?

Mr. HUNGERFORD: Very much so.

Mr. YOUNG: The country provides the roads for the busses.

Mr. VIEN: I do not believe so.

Mr. PARENT: Roads in the States have been trying that and have not made a success of it. They have a bigger population than we have, and if they cannot make a success of it there I do not think it warrants our trying it.

Mr. KINLEY: You look after the express that way. I was thinking of the short distance haul, and when you take into consideration the time that is lost, it is hard to compete in the matter of freight; your trains are too slow.

Mr. HUNGERFORD: You may not know that the Canadian National in conjunction with the Canadian Pacific is providing a pick-up and delivery service on freight in a large portion of the country. The trouble has been to determine what was the best method and the best arrangement to make, and the best schedule of rates to put into force, and all that sort of thing. We have been carrying on experimental work to secure accurate information for a long time. There is a pick-up and delivery service now, a combination of trucking and railway service over a large portion of the area, and it will be extended just as fast as we can see our way clear to make arrangements. But it does not meet the situation that Mr. Kinley speaks of, the distance of 70 miles.

Mr. KINLEY: You cannot compete with the trucks.

Mr. HUNGERFORD: No; under those conditions I think it is more or less hopeless to expect to get that traffic.

Mr. KINLEY: The average man who runs a truck does not know what his costs are, anyway.

Hon. Mr. VENIOT: The provincial governments are spending large sums of money to keep those roads open in the winter time in competition with the railways.

Mr. HUNGERFORD: Yes.

Hon. Mr. VENIOT: They should never have done that.

Mr. HUNGERFORD: What happens is when roads are blocked up by storms in the winter time is that our receipts of freight go up 30 and 40 per cent over night.

Mr. KINLEY: And passengers too.

The CHAIRMAN: I think we will have the opportunity to take up these points when we are discussing detail. We are not making much progress.

Hon. Mr. VENIOT: Are the railway authorities aware that any of their officials are interested financially in passenger bus traffic?

Mr. VIEN: That is a very serious question.

Hon. Mr. VENIOT: It is not a thing to be laughed at. If a railway official places his capital to encourage the establishment of bus lines, between two important points, and takes traffic from the railroad, I think the railway authorities should be made aware of it.

Mr. HUNGERFORD: I think so too.

Mr. YOUNG: I will concur in the last part of the statement, anyhow.

Mr. HUNGERFORD: I do not know of any such case.

Hon. Mr. VENIOT: I think it might be worth while to look into it in the province of New Brunswick. I will not go any farther with it just now.

Mr. VIEN: I should like to refer to an item on page 7, Mr. Chairman. Did I understand Mr. Fairweather correctly yesterday when he said that retirements and depreciation were synonymous?

Mr. FAIRWEATHER: In the long run as practised by railways there is no difference between the two.

Mr. VIEN: I read at page 11 of your annual report the amount of retirement that you have indicated for the years 1932 and 1936 inclusive vary from \$4,000,000 to \$6,000,000. Would that be any percentage of the investment?

Mr. FAIRWEATHER: Oh, it would be from 1½ to 2 per cent.

Mr. VIEN: Would it be as much as that?

Mr. FAIRWEATHER: Of the depreciable portion.

Mr. VIEN: You have a cash investment in your rolling stock. From 1932 to 1936 you retired from \$4,000,000 to \$6,000,000. What would be the ratio? Would you say it would be 1 per cent?

Mr. FAIRWEATHER: I would say it would be somewhere between perhaps 1½ and 2 per cent of the depreciable portion.

Mr. VIEN: I am not talking of that.

Mr. FAIRWEATHER: I know, sir. The depreciation does not apply on the total cost; it applies on the total cost less salvage. Now you see salvage runs about 10 per cent.

Mr. VIEN: You generally figure out your depreciation on the basis of your investment and then you deduct from that depreciation whatever salvage there is.

Mr. FAIRWEATHER: That is not the way the railroads do it. In the railway depreciation accounting as set out by the Interstate Commerce Commission—

Mr. VIEN: I shall be glad to hear you on that.

Mr. FAIRWEATHER: You determine the depreciable portion as near as you can on your value. For instance, if you had a car, for simplicity, that had cost \$1,000, if it had an anticipated salvage value of \$100 it would allow you a depreciation of \$900, you see.

Mr. VIEN: I see that.

Mr. FAIRWEATHER: Now, that is the way it was done. It was in that sense I spoke of it.

Mr. VIEN: From the depreciable value what would that represent?

Mr. FAIRWEATHER: You mean in total, sir?

Mr. VIEN: No, in percentage.

Mr. FAIRWEATHER: Well, I would say between $1\frac{1}{4}$ to 2 per cent.

Mr. VIEN: Would you say 1 or 2 per cent is a reasonable ratio for depreciation?

Mr. FAIRWEATHER: Not for depreciation, no sir.

Mr. VIEN: But you say retirements and depreciation are synonymous.

Mr. FAIRWEATHER: I said over a period of years, sir, if you went along further in the cycle. That is where we are in the cycle of retirements. The retirements are less than the depreciation. But if you look at it from another point, say ten years from now, the retirements would be greater than the depreciation, and over the whole period they would be equal.

Mr. VIEN: I should like to follow that, but I do not understand it. I understand if you take the depreciation which you would in normal times, and on a reasonable basis of 5 or 6 per cent add on a further 1 or 2 per cent; but I cannot understand that over a period of years depreciation and retirement would be on the same basis.

Mr. FAIRWEATHER: Well sir, it arises largely out of the difference in the size of the units and the difference in the price levels. It is not on my own authority I am making this statement. I would not perhaps expect you to accept it on my authority.

Mr. VIEN: Would you quote the authority?

Mr. FAIRWEATHER: I quoted one thing yesterday, the Railway Research Service of England, where they state quite definitely "It will be appreciated that the final result of those two systems of accounting is precisely similar." That is also borne out by the appearance before the Interstate Commerce Commission. When they came to the question as to whether or not the railways were to establish depreciation accounting for the property, the railways pointed out, and I may say also the Bell Telephone Company, because they were concerned, that over a period of time depreciation accounting and retirement accounting as practised by railways resulted in exactly the same figures.

Mr. VIEN: Where did the Bell Telephone company say so?

Mr. FAIRWEATHER: It is in their appearance before the Interstate Commerce Commission because they are also under their authority. For instance, the Bell Telephone company put in representations to the commission that depreciation accounting was entirely wrong as practised by them. Of course, the whole thing is very complicated.

Mr. VIEN: I am surprised, because they stated differently before the Board of Railway Commissioners in Canada. They insisted upon having depreciation and they asked for it by as much as 6 per cent, and they were very much incensed when the depreciation ratio was brought down to 4 and a fraction, 4.5 per cent, if I am not mistaken. It would seem to me that rolling stock of a railroad depreciates more rapidly than telephone equipment, and if it was necessary to have a 4.5 depreciation ratio on telephone equipment, it seems to me that the ratio should be at least that or more on railway equipment.

Mr. HEAPS: This discussion is very interesting.

The CHAIRMAN: It is more or less academic.

Mr. VIEN: I don't know. I am trying to find out if the report is a true picture of the situation. How can we find that out? The statement was made yesterday, and it involves millions of dollars. I was very much interested, Mr. Chairman, in seeing to it that the estimates were disposed of. We did that

yesterday, with a view not to stop procedure in the House of Commons, nor to deprive the railway system of the necessary money to carry on efficiently. Now that we have disposed of that, are we going to go fully into the financial statement of the Canadian National Railways to see whether some corrections should be made here and there? What I have in mind is to ascertain whether the financial report of the C.N.R. is a true picture of the situation. I asked Mr. Fairweather yesterday whether retirements and repreciation were synonomous, and he said over a period of 10 or 15 years they were equivalent.

Mr. FAIRWEATHER: I think I said 30 or 40 years.

Mr. VIEN: Well in 30 or 40 years I would imagine much of your rolling stock should be depreciated completely.

Mr. FAIRWEATHER: That is so, sir.

Mr. VIEN: You are not depreciating it on that ratio.

Mr. FAIRWEATHER: No, sir; but you see because it would be completely depreciated it would be retired, and because it would be retired it would be charged to operations, so that over a considerable period of time, 30 or 40 years, I am perfectly sure you could not find any difference between depreciation and retirement.

Mr. KINLEY: How do you dispose of repairs?

Mr. HEAPS: They are retired.

Mr. FAIRWEATHER: When a piece of equipment is worn out and can no longer be repaired, we charge it to operating expenses, charge the value.

Mr. HEAPS: You junk it.

Mr. FAIRWEATHER: Yes, we scrap it.

Mr. HEAPS: How do you sell it?

Mr. FAIRWEATHER: We—

Mr. HEAPS: Do you sell it by tender?

Mr. FAIRWEATHER: We salvage what we can, and use it again. What we cannot use we sell as scrap to steel companies.

Mr. HEAPS: By tender?

Mr. FAIRWEATHER: Yes, certainly. The purchasing department sells it. They offer it in the market to the highest bidder.

Mr. HEAPS: Is it a fact, according to your statement yesterday, that your method of accounting is similar to the one followed by railways in Great Britain?

Mr. FAIRWEATHER: No, not in Great Britain. They practise a form of depreciation accounting, but it is followed by all railways on this continent.

Mr. HEAPS: How about the Canadian Pacific railway?

Mr. FAIRWEATHER: The Canadian Pacific follow our practice, or we follow their practice.

Mr. KINLEY: It is actual instead of book depreciation?

Mr. FAIRWEATHER: There is one point that perhaps has not been developed. Depreciation in no sense affects the cash. Whether you depreciate or whether you do not depreciate, you do not affect the cash.

Mr. KINLEY: You do in this case.

Mr. FAIRWEATHER: No.

Mr. KINLEY: You get something.

Mr. FAIRWEATHER: In retirement accounting, yes. But sir, we show it in our accounts when we come to parliament for cash deficit. It is changed, because we do not get it in cash. For instance, if we had estimated a profit of \$5,000,000, that depreciation charge would not be reflected in our accounts.

We would have to take it out from our accounts when we presented them to parliament, otherwise we would have \$5,000,000 from capital.

Mr. VIEN: Would it not be the same if you had applied it to depreciation account?

Some hon. MEMBERS: No.

Mr. VIEN: I am sorry, I am asking Mr. Fairweather. I may be more stupid than some, but I am trying to find that out for my own information. That is why I am asking this question. If the chairman thinks I am out of order—

The CHAIRMAN: I do not, but I should like to call your attention to the memorandum which was supplied by the railway company.

Mr. VIEN: I read it, and it was because I did not understand it fully that I asked the question. I could not understand that depreciation and retirements were the same. I could not understand it for this reason. If you had depreciation the proper ratio would be at least 4·5 per cent, and if you had a 2 per cent retirement I cannot understand how the 2 per cent retirement could be equivalent to the 4·5 or 6 per cent depreciation account. Now Mr. Fairweather has just stated that it does not affect the cash. It seems to me if you build up a depreciation account and you put in that account 4 or 5 per cent of your cash investment in your rolling stock as a proper depreciation, the depreciation account can be used and is mostly used for buying new equipment; it is re-invested in the property for the purchase of new equipment and therefore that depreciation account would be reflected in your cash demands to parliament, inasmuch as you would not require so much money for your operating expenses.

Mr. FAIRWEATHER: Quite, sir. But what would you do if you had no capital expenses to apply it against? That is the position we have actually been in during the last two or three years. We have no capital expenditures to apply it against.

Mr. MORROW: In the ordinary course of business you would retain it in your treasury.

Mr. FAIRWEATHER: Yes, we would. I simply wish to point out, insofar as the cash requirements are concerned, depreciation accounting would not affect cash requirements at all. Whether it would present a clearer picture of the operations is quite another matter, and that is a matter, sir, upon which there is a great difference of opinion.

Mr. VIEN: I know.

Mr. MORROW: The American roads set up 3½ to 4 per cent on rolling stock. Now, if our investment in rolling stock is \$1,000,000,000, we would have to set up from 35 to 40 million dollars a year. On the basis that we are presently setting up, we are taking about 5 per cent over the years, which is not anything like 3½ or 4 per cent. That is the argument I have been using for the last 5 years on the Canadian National, and they have used the argument they do not operate the railroads on that basis. I do not care whether it is a railroad or any ordinary business, you have to set up proper depreciation to take care of renewals.

Mr. VIEN: That is my own understanding of accounting; I may be all wrong.

Mr. MORROW: That is true of firm accounting. Railroad accounting is not done in that way. They are doing what they are doing at the present time because in 1915 or 1916 that method of accounting was set up.

Mr. FAIRWEATHER: 1907.

Mr. MORROW: It was set up in 1907, but because it was set up in 1907, that does not make it good accounting.

Mr. VIEN: The point I was urging is this: I think the financial statement of the Canadian National Railways should be a true picture of the situation. The Canadian parliament and the Canadian people should know where they are at as regards that.

Hon. Mr. FULLERTON: We have to follow the Dominion government regulations. We are strictly following the regulations.

Mr. VIEN: Yes. But if these regulations are wrong, if they carry you into showing a wrong picture, I should like to find out in what particular respect those regulations should be changed.

Mr. HEAPS: The inference of Mr. Vien now is that we are not getting a true picture. Is he prepared to say as a member of this committee that the statement of the railway, as audited by the auditors and given to this committee, is not a true picture?

Mr. VIEN: Yes, I am prepared to say that. I am not suggesting that the figures that have been compiled in this report are not in strict conformity with the books of the company or that there has been any improper dickering with the figures. I am not suggesting that at all, but I am suggesting that the set-up of these figures is not a proper picture of the situation.

Hon. Mr. VENIOT: The system.

Mr. VIEN: The system is wrong, in my opinion. If I am wrong I should like to be corrected. I am willing to stand corrected if I am wrong, but I believe that the Canadian parliament and the Canadian people cannot understand the true situation from a report of this kind. Mr. Fairweather has very candidly said that he had built it up under the system that obtains and that he could not see any possible way of changing it. Judge Fullerton has just explained that it is governed by government regulation.

Mr. PARENT: The auditors in their report to parliament say:—

We have made a continuous audit of the National Railways for the year ended 31st December 1935 including a general but not detailed examination of accounts at all the regional centres and of the audit conducted by the railway's internal audit staff. The accounts of the railway are kept in accordance with the rules and regulations prescribed for steam railroads in Canada and those of the Interstate Commerce Commission for lines in the United States.

Hon. Mr. FULLERTON: They cannot do anything else.

Mr. PARENT: If a change is to be made it has to be made by the competent authority.

Mr. VIEN: Yes, I am coming to that. I should like to know where these regulations are.

Mr. PARENT: You have sat on the board of railway commissioners; you should know.

Mr. VIEN: Even an ex-board of railway commissioner may have his limitations and short-comings.

Mr. HEAPS: Oh, you have no short-comings.

Mr. VIEN: Yes, a number of them.

Mr. PARENT: You had a good reputation as a commissioner.

Mr. VIEN: I should like to know where these regulations are, and to what body of regulations the chairman of the board is now referring.

Hon. Mr. VENIOT: If these regulations come from the government—

Hon. Mr. FULLERTON: As a matter of fact the railway board send out a form which we fill in.

Mr. VIEN: It is news to me to hear that the railway board has ever passed an order directing in what way the accounting of the railway system should be carried on, and how depreciation should be regarded.

Hon. Mr. FULLERTON: Yes, that is true.

Hon. Mr. HOWE: In order to pour oil on the troubled water, let me give you my opinion. In 1917, I think it was, the Department of Railways issued a form. It was sent out, I think, with a letter of the minister. I do not know how authentic it is, or anything else, but I think that is the accounting system followed by the railway. The point at issue here, I think, is whether the allowances for retirement equipment are sufficient. Is not that the whole thing?

Mr. VIEN: Or whether proper depreciation should be built up.

Hon. Mr. HOWE: They use retirement accounting, which is an alternative to depreciation accounting. In other words, instead of writing off so much depreciation and putting it in the bank, they set aside a fund to replace the equipment as it is required. It is much the same thing. Now, the amount of that fund is in question. I do not think that is a matter of regulation. I do not think it is anyone's regulation. You will notice the amount has gradually been increasing over the years. The point that Mr. Vien is raising is whether the retirement fund in this year, \$6,000,000, is sufficient.: Is not that it?

Mr. VIEN: It would come to that.

Hon. Mr. HOWE: There is no question the railways are keeping their accounts in accordance with the instructions issued by the Minister of Railways in 1916 or 1917.

Mr. VIEN: In reality there are two points I should like to challenge. First, is a statement that retirements and depreciation are similar or equivalent. I challenge that. Secondly, I say that the retirement ratio as you have just mentioned, is shown on page 11 of the report, and I say that is inadequate. These are the two points. Mr. Morrow has pointed out that under the system in effect in the United States, 3½ per cent would be set up for depreciation of the rolling stock. According to Mr. Fairweather it hardly comes up to 2 per cent; therefore I cannot reconcile the statement that a retirement under 2 per cent a year is equivalent to a depreciation of 3½ per cent a year.

Hon. Mr. HOWE: I do not think anyone has said that. I think they said over a period of years retirement accounting and depreciation accounting come pretty close to the same figure.

Hon. Mr. VENIOT: May I be permitted to say a word? If it is a fact that this system of accounting is adopted by the railroads on the instructions of the regulations adopted by the government why should we spend so much time with the railway board here in discussing it? If this committee, after we are through with the railway officials, feel from the explanations given that the system of accounting is not an adequate one and does not give a true picture, then let the committee deal with the point and say what recommendations they should make to the government, not to the railway officials. They have nothing at all to do with it. They have to follow the instructions, and it is up to us, after we are through with the railway officials in this committee, to find out what recommendations in that respect we should make to the government of Canada.

Mr. VIEN: We have heard that there are regulations. I should like a copy of the regulations to be filed with the committee, Mr. Chairman.

Hon. Mr. HOWE: We will do that.

Mr. HEAPS: To bring the point to a head I should like to ask the board of trustees this question: In your operation of the railways do you consider the present retirement fund and depreciation fund sufficient to take care of the replacements?

Mr. MORROW: The fact that we retired about \$25,000,000 worth of obsolete equipment last year and had not set up any depreciation to take care of that, had not charged them to profit and loss, is the best indication that I can give you that ample depreciation has not been set up.

Mr. HEAPS: Then in your opinion as a commissioner the depreciation should be larger than it is at the present time?

Mr. MORROW: Yes.

Mr. HEAPS: Do the other commissioners agree with that statement, Mr. Morrow?

Mr. LABELLE: If we had sufficient earnings to set up such a depreciation, and if the regulations permit us, are two different things.

The CHAIRMAN: Is it not a fact that these funds would have to be obtained from the government? It would not be possible for the railway to set them up from its income; therefore it is a question for parliament. I am rather glad that Mr. Vien brought this to the attention of the committee, and I am going to ask the department to file a copy of its regulations with the committee. The minister is present here and has heard all the arguments on the case. He is familiar with the situation, and now it is a question of government policy.

Mr. HEAPS: No, I do not think it is a question of government policy at all. It is a question of complying with the regulations.

Mr. VIEN: The minister has said that there was no direction from the department or from the government directing the Canadian National railway to set up this ratio or any other ratio for retirement or depreciation. Did I understand you rightly?

Hon. Mr. HOWE: That is correct, as I understand it.

The CHAIRMAN: On the other hand, the minister has just stated also that if a depreciation fund is to be established, the money will have to be voted by parliament.

Mr. VIEN: Undoubtedly.

Hon. Mr. FULLERTON: The regulations are here, and we followed the regulations strictly. We must follow the regulations; we cannot do anything else.

Mr. VIEN: Can you give me from that book the regulations which govern depreciation or retirement?

Hon. Mr. FULLERTON: Yes.

Mr. MAYBANK: While this is being looked up, I should like to ask a question. Mr. Morrow has made a statement about retiring a certain amount of obsolete equipment, and he said having no fund it was simply charged to profit and loss. If we had had a fund that would not have been done. Now, then how long would it have taken, had percentages been allowed in the past, to build up the depreciation fund that would have permitted you to charge it to the depreciation fund, rather than profit and loss?

Mr. MORROW: Exactly the basis of the life of the equipment.

Mr. MAYBANK: That would be about—

Mr. MORROW: Say the life of the equipment is 20 years.

Mr. MAYBANK: So that over the last 20 years what we would have had to do in order to, in this year of our Lord, get ourselves in the position where we would like to be, would be to put money into the depreciation fund.

Mr. MORROW: Yes.

Mr. MAYBANK: We were losing money, generally, so if we had been putting it into the depreciation fund, the final figure in the railway would have shown that we had lost a little more.

Mr. MORROW: Yes.

Mr. MAYBANK: The place where we would have got the money would be the government.

Mr. MORROW: Yes.

Mr. MAYBANK: We would have been getting it for several years.

Mr. MORROW: Yes.

Mr. MAYBANK: Instead of getting it all this year.

Mr. MORROW: No.

Mr. MAYBANK: Or last year.

Mr. MORROW: It would have been spread over.

Mr. MAYBANK: We would have been getting a certain amount from the government every year to put into the depreciation fund.

Mr. MORROW: You would have had the equipment when you would have been setting it up. Your operating loss would have been greater to the extent of the difference between the depreciation and the present set-up for retirement.

Mr. MAYBANK: If you take it that we had the actual money we would have been getting it out of the treasury. If you take it we were only writing it down in the book, we would have been really writing down an asset, which, if we were to actually get it, in our fingers, we would have to get it from the government. Is not that what it would have amounted to?

Mr. MORROW: It is the same thing.

Mr. VIEN: Your annual report would have been a true picture of the situation. I am thinking of the actual operation of the railway.

Mr. MAYBANK: If we could look back 20 years and try to get to any extent this truer picture that Mr. Vien refers to—I am not disputing it, I am only trying to find out, we would find we have been following a method which in the last 20 years would have made our deficit a little greater.

Mr. MORROW: Our operating deficit would have been.

Mr. MAYBANK: Yes, the operating deficits. And our depreciation account would be a little greater.

Mr. MORROW: Yes. You do not lose any money when you set up depreciation, but you do get your actual operations.

Mr. McLARTY: Do I understand that the American roads set up a depreciation to a real extent?

Mr. MORROW: I would say 20 or 25 railroads that I know of set up depreciation of over 4 per cent of their rolling stock.

Mr. VIEN: In ordinary business if you do not set up a proper depreciation fund, you think that you have made a profit when you have actually had a loss?

Mr. MORROW: Right.

Mr. VIEN: Occasionally.

Mr. MORROW: Suppose we built a plant costing a million dollars along with equipment. You set up depreciation on the basis of 5 per cent, 7½ per cent for equipment, and 2½ per cent for building. Over that period you set up enough to amortize the plant and equipment in the 20 years, so that at the end of the 20 years the plant and equipment are free. At the end of 20 years most businesses have to be remodelled, and you have money in your treasury to build a new plant. If you did not do that at the end of 20 years, without any depreciation, what have you to do? You have to find new capital.

The CHAIRMAN: Is not this a fact, Mr. Morrow: This question has been called to the attention of the government by committees time and again, but they have not decided to set up a depreciation account because they have to vote the money. There the responsibility lies. It does not lie with the board of trustees nor with the railway officials. It lies with you, Mr. Minister. That is the whole thing.

Hon. Mr. HOWE: I think I can say that everyone realizes that this retirement fund for equipment is not large enough. You noticed the management themselves have been gradually increasing it from year to year. It is very difficult to take any radical step, for it simply means that much more charge against the government treasury. That is one of the things. When we are able to bring the road back to better conditions we will correct this. I think the management will agree to that; but I doubt if the committee can take any action now that will improve the situation very much.

Mr. HEAPS: Would not that apply to the other railways in Canada?

Hon. Mr. HOWE: Yes, I think so. I think our retirement fund is larger than the competitive road. That is my impression.

Mr. HEAPS: If a larger fund is found to be necessary on one railway and we have to make a request to the Board of Railway Commissioners to put it into legal effect, it would affect all railways in this country.

Hon. Mr. HOWE: Strangely enough, the argument is usually the other way in hearings before the Board of Railway Commissioners.

The CHAIRMAN: Is the committee satisfied that we have called the attention of the minister and of the government to this question?

Mr. VIEN: I should like to ask the chairman of the trustees if he has that section or regulation he referred to.

Mr. COOPER: You were speaking on the question of a regulating authority.

Mr. VIEN: Yes. I should like to see it.

Mr. COOPER: It is in the book entitled "Classification of operating revenues and operating expenses of steam roads."

Mr. VIEN: With amendments to date?

Mr. COOPER: I do not think there were any amendments to this.

Mr. VIEN: What is the page number?

Mr. COOPER: It will be found on page 62, under the classification which deals with depreciation of locomotives. There are a number of other accounts dealing with freight cars and passenger cars.

Mr. VIEN: Page 62 and following?

Mr. COOPER: Yes. I might say the accounting principles here were uniform with those prescribed by the Interstate Commerce Commission and in the Interstate Commerce Commission classification there is an account, No. 309, making provision for the depreciation on steam locomotives. Now, the Canadian classification takes that account No. 309, steam locomotive depreciation (eliminated). It reads in the Canadian classification as a departure from the I.C.C., the word "elimination" appears, and it goes on to provide in a new account, which is not in the Interstate Commerce Commission accounting for the loss on the equipment as retired.

Mr. VIEN: What is the other book you are referring to?

Mr. COOPER: This is the Interstate Commerce Commission statement.

Mr. VIEN: Can you leave a copy with the committee?

Mr. COOPER: Yes.

Mr. VIEN: What are the sections therein to which you refer?

Mr. COOPER: I might say, Mr. Vien, that this is an issue of January 31, 1936, which includes some revisions which went into effect in 1935, and to that extent it is not a real companion to the Canadian classification. I can file this.

Mr. HEAPS: Is there much difference in the two, may I ask?

Mr. COOPER: Between the old and the new, you mean?

Mr. HEAPS: Yes.

Mr. COOPER: No, not a great deal of difference.

Mr. VIEN: What sections of the I.C.C. book would you refer me to?

Mr. COOPER: I would refer you to page 117.

Mr. VIEN: And following?

Mr. COOPER: Yes.

The CHAIRMAN: Would it be satisfactory if the book is placed with the clerk of the committee to be at the disposal of every member of the committee?

Mr. VIEN: Yes.

Mr. YOUNG: I should like to ask Mr. Morrow one question following out his argument. Would it be a proper conclusion to come to, in your judgment, the management of the C.N.R. had not yearly been setting up a proper retirement fund?

Mr. MORROW: On a strictly accounting basis with any other business, other than railways, the amount set up is not adequate.

Mr. HEAPS: How does our accounting system compare with the accounting system of other railways both here and in the United States?

Mr. YOUNG: Before we get off this point, I think we should have the opinion of the other members of the board to compare with the opinion of the one member.

Mr. LABELLE: Personally I am satisfied to follow the rules and regulations in force just now. We have discussed that matter at our board meetings very, very frequently. Then the question has been pointed out to us that we have a profit and loss account, which is a deficit and always has been a deficit. We may charge depreciation but we will have to take it out of our earnings, and we would have to go to the government and ask for a little more money. Now, we have built up several funds; an insurance fund, for example, for some years. We have set aside an amount to build up an insurance fund, which actually is a large fund. On the Merchant Marine and the West Indies service we have a deficit, and we have been taking out of that deficit fund, if you like, a certain amount to build up that fund. That is the situation.

Mr. YOUNG: In other words, what you have done is in your judgment, all you could do, and you think you have gone far enough with it even if you have not a large enough retirement fund to show for it.

Mr. LABELLE: As the minister pointed out, and as the chairman pointed out a moment ago, I think the auditors of the government have always drawn the attention of the committee to that point.

Mr. VIEN: You said that last year \$25,000,000 of equipment had been retired. Where was that charged or shown?

Hon. Mr. FULLERTON: It was charged to profit and loss.

Mr. VIEN: Was it reflected in the operating account?

Hon. Mr. FULLERTON: No. This was obsolete equipment, and there was a special direction made that it could be charged up to profit and loss. We follow the same method as that used in charging up to profit and loss account all ordinary depreciation.

Mr. MAYBANK: Where is this shown now?

Hon. Mr. FULLERTON: It is in here.

The CHAIRMAN: Shall we go on with the report? Then, we will take page 21 of the report and go into full details, instead of following that analysis. Will you refer to the report of the Canadian National Railway system, at page 21. We are going to take each account in detail.

Mr. FAIRWEATHER: Maintenance of way and structures. Shall we read the amounts or just indicate the section headings?

The CHAIRMAN: Give the headings only, and the members will follow you.

Mr. FAIRWEATHER: Superintendence, roadway maintenance, tunnels and subways—

Mr. YOUNG: On roadway maintenance we would like to ask this question—

Hon. Mr. VENIOT: On roadway maintenance may I take up this question: I would like to know under what system contracts for railway ties are let? Is it proper that when an application is made by an individual to furnish ties to the railroad—

The CHAIRMAN: Ties come a little bit further on, Mr. Veniot. If you don't mind, we would like to follow each item as we come to it. We can take that up at the appropriate time, if you don't mind.

Mr. YOUNG: Is the management, in its own opinion, keeping its maintenance up to a standard which is a proper standard?

Mr. HUNGERFORD: What is that?

Mr. YOUNG: Is the management keeping the railways up to standard which in their judgment is a proper standard?

Mr. HUNGERFORD: Yes, having regard to all the circumstances. Yes.

Mr. YOUNG: But then, the condition would not be normal, would it?

Mr. HUNGERFORD: Yes. I think that our property as a whole, I am speaking of our physical property, our fixed property as apart from rolling stock, is in better shape to-day than it has ever been.

Mr. YOUNG: I thought I had understood that you were not doing as much work on road maintenance now as you had done in years past.

Mr. HUNGERFORD: That is quite true; but, on the other hand, we were building up the condition of the track and the facilities, aiming at a standard all the way through. It was only necessary to drop that to maintenance at this time.

Mr. YOUNG: You say you are maintaining it at the standard to which you built it up?

Mr. HUNGERFORD: Yes, with this exception; so far as the main line tracks are concerned they are probably in better condition on the average to-day than they have ever been. With the decrease in the volume of branch line traffic in some cases we have deliberately lowered the standard on branch lines to the requirements of to-day. We have done that as an economy measure, and it is justified.

Mr. YOUNG: That is not true with regard to main line tracks?

Mr. HUNGERFORD: That is not true in regard to main line track, main lines have been well maintained.

Mr. YOUNG: Have you got the same number of men maintaining that road that you had, say four or five years ago?

Mr. HUNGERFORD: No, probably not; for this reason—

Mr. YOUNG: On main lines, that is?

Mr. HUNGERFORD: For the reason I just spoke of, which was that at that time we were building up the condition of the property.

Hon. Mr. VENIOT: On the question of road maintenance: I understand there is a new regulation coming into force on the 1st of June which provides that section mileages shall be 10 miles, and that that would necessitate quite a number of track men abandoning their homes in order to get in the vicinity of their work. That order is going into effect on the Caraquet railway in Gloucester county. There is a great deal of dissatisfaction about that. I am receiving a great many letters from railway track men in protest. Now, is that based on a question of economy?

Mr. HUNGERFORD: Yes, sir.

Hon. Mr. VENIOT: If you extend the mileage to 10 instead of 8, are you employing more men or less men?

Mr. HUNGERFORD: We are employing exactly the same number of men on the average, but we are employing fewer foremen. The situation has changed materially from what obtained in former years, through the introduction of the motor-propelled hand car, in the use of which you can cover perhaps twice the ground that you could when using the old type of hand-propelled hand-car. With the improvement of the property and the general betterment of the situation section gangs in many cases have got down to the point where there are not enough men in them to handle the heavy rails. We are more or less doubling the thing up. The mileage in all cases is not being doubled, but it is being substantially increased, and the gangs are being put together; so, it does not affect the total number of men employed, but it does affect the number of foremen employed for purposes of supervision.

Hon. Mr. VENIOT: For instance, in a distance of 48 miles where you now employ 6 foremen under this arrangement you will only be employing 4 or 5?

Mr. HUNGERFORD: That may be so, Mr. Veniot.

Hon. Mr. VENIOT: Is that the fact?

Mr. HUNGERFORD: Under the new conditions we do not need any more men.

Hon. Mr. VENIOT: Then, if you dispose of 2 foremen now where you had 6 before and keep the same number of track men have you a sufficient number of men to keep up your track repairs?

Mr. HUNGERFORD: Yes. The working force will be just the same, or more, because some of the foremen that were supervising men will themselves be working.

Hon. Mr. VENIOT: They would be kept on the job?

Mr. HUNGERFORD: Yes.

Hon. Mr. VENIOT: Somebody will have to be put off or demoted. A foreman will have to be demoted if he takes the place of a regular section hand, and the regular section hand will be cut off.

Mr. HUNGERFORD: Under the scheme that is being adopted and put into force down there there will be the same number of men employed.

Hon. Mr. VENIOT: Where will the economy be? Will it be in the reduction of the wages of the foreman?

Mr. HUNGERFORD: Partly in that, and partly on account of the better arrangement by reason of the doubling up of gangs, which will mean that they can be worked more efficiently.

Hon. Mr. VENIOT: Will any allowance be made to foremen or to track men who have to leave their homes and go somewhere else along the line to live in order to comply with the new regulations?

Mr. HUNGERFORD: I have no information that indicates that that is going to be necessary. It may be in some cases.

Hon. Mr. VENIOT: It will be necessary in some instances. Supposing it is found to be necessary, will any arrangement be made to compensate these men with respect to expenses and so forth?

Mr. HUNGERFORD: It will depend on the circumstances, Mr. Veniot. I do not know that that condition exists.

Hon. Mr. VENIOT: Well, it will obtain on certain sections of your railroad.

Mr. HUNGERFORD: In a great deal of railway work the employee is required to go where the company has work for him to do. I have been doing that for a number of years.

Hon. Mr. VENIOT: If he has been working for 10 years on the road and has established himself, bought property as a residence and has his children going to school in that district, and on account of this change is compelled to dispose of his property and move elsewhere, and especially to live in a district where he has not the same school accommodation for his children, what steps would the government take to protect him?

Hon. Mr. HOWE: I can perhaps speak for the government. You have mentioned the government there. The government does not "take steps" in the railway business, any more than it does in any other business. I have had to move my children from schools during the past 20 years, and so have you. Why should we worry about these cases.

Hon. Mr. VENIOT: But, it was worth your while owing to the position you occupy. So have I had to do it. It is not worth while to these poor men who are, God knows, poorly paid enough now without having other burdens imposed on top of what they have. However, I just draw this to the attention of the railway authorities, and they may perhaps consider the matter with a view to looking into it and seeing what effect it will have on these men.

The CHAIRMAN: I might supplement what Mr. Veniot has said. I have also received a number of these letters and I pass them on to the railway department; and, of course, I got the usual answer; that it could not possibly interfere with the administration of the road under the present circumstances. But I would like to know from Mr. Hungerford, in respect to these changes which he is going to make, if the approach by the individual on the eastern division should be to the railway management direct, or through their union? I understand it only applies to the eastern district.

Mr. HUNGERFORD: It only applies to the Atlantic region.

Hon. Mr. VENIOT: You say, it only applies to the Atlantic region. Why is that?

Mr. HUNGERFORD: We have been experimenting with this in a number of areas all over the system, and the practice is going to be extended as rapidly as we can do it.

Mr. ELLIOTT: Does the railway not provide living facilities for their section foremen?

Mr. HUNGERFORD: Over a large portion of the territory we do.

Mr. HOWARD: You are providing power transportation for them now, instead of the old pump-control?

Mr. HUNGERFORD: Yes, we do. We provide motor-propelled hand-cars.

Hon. Mr. VENIOT: Is that provided all over?

Mr. HUNGERFORD: Practically all over. They are coming in just as fast as we can supply them.

Hon. Mr. VENIOT: I hope it will be all over soon.

Mr. HUNGERFORD: It will be, Mr. Veniot.

Hon. Mr. VENIOT: I mean, in any section where it is not now provided.

The CHAIRMAN: May I ask if every case will be investigated specially, and if the railway intends to take into consideration the circumstances of each case, and where there is real suffering or real loss on account of this change will they see that the men are compensated?

Mr. HUNGERFORD: Well, if representations are made to the local officials who have a knowledge of the situation and all the surrounding circumstances, and if they make a recommendation, that recommendation will be considered.

The CHAIRMAN: Now, may I ask you a further question: What is the proper way for these men to bring their claims to the attention of the proper officer of the railways; is it through their unions, or by individual approach?

Mr. HUNGERFORD: The unions provide the machinery for the handling of these cases, and that is the recognized manner through which they should be dealt with.

Mr. WALSH: Where is this deliberation leading to? I have a great deal of sympathy for Mr. Hungerford as president of the Canadian National Railways, and I do not think that he should have to put up with questioning of this sort.

The CHAIRMAN: We merely seek to ascertain certain information.

Mr. WALSH: My point, Mr. Chairman, is this: This Canadian National Railway is in competition with the Canadian Pacific Railway, and if they are going to be impeded in their management here—namely, in the Atlantic region—by such petty questions as the transfer of a man here and a man there, and the whole business of the country tied up, I can't for the life of me see how we are going to reduce the deficit on the Canadian National Railway or develop it into a really successful business enterprise. Now that is the point of view I take. I have a great deal of sympathy for the men, but I also have sympathy for the railway officials who have to operate this road, and who are being very severely criticized in the press and in parliament for the huge deficit that they are creating and for which the public has to pay. Now, we here as a committee ought to be assisting the railway officials; and if anybody writes in to a member of parliament complaining that he is being moved here, or there or anywhere else, we ought immediately to write back and say, it is none of our business,—but that they should get in touch with the management of the railway, where conditions I think naturally will be rectified. In that way we will throw the onus of management onto the railways; and if the railway officials can't handle that railway effectively under that system, why then we will get railway officials who can handle it. I think we should devote ourselves to a consideration of the more serious things which go to make up the handicap under which we are labouring at the present time.

The CHAIRMAN: I am sure that we are very thankful to the hon. member (Mr. Walsh) for the lesson he has read us. I was dealing with petitions which I have received, not only from my own county but all over the region, from the unions. I thought it was a matter of duty that I should bring it up; notwithstanding anything Mr. Walsh may say.

Hon. Mr. VENIOT: If you will permit me just one moment, I wish to deprecate the idea that we are dealing with petty questions. It is all right for my hon. friend over there to style our method of proceeding this morning as "petty"—

Mr. WALSH: I did not characterize the proceedings of this morning as "petty." I characterized the questioning that is taking place at the present time as "petty."

Hon. Mr. VENIOT: He characterizes them as "petty" questions. I would say to my hon. friend that that may be all right for him, where he is not affected, and where his constituency is not affected; but this affects only the Atlantic region.

Mr. WALSH: We were told it will affect the whole country.

Hon. Mr. VENIOT: I understood Mr. Hungerford to say that at the present time it only affects the Atlantic region.

Mr. HUNGERFORD: I said that the present decision affects the Atlantic region only; but a large proportion of the balance of the system is on this basis now, and that it was being considered for the remainder.

Hon. Mr. VENIOT: That being the case, we who represent the Atlantic region have a right to know why it is applied to that region.

Mr. KINLEY: And the humblest citizen has that right too.

Hon. Mr. VENIOT: I, as a member of parliament, would take second place to nobody in my endeavours to help the railway authorities to carry on effectively, and they know that; and I do not think my hon. friend has any right when I bring up questions of this kind to style my action as "petty." I have a perfect right here today as a member of parliament to lay before this committee, and the railway authorities, the grievances of my constituency, and I intend to do it, notwithstanding what my hon. friend may style my method of doing it. I do not want to hear any more of this "petty" business from him when we feel we are justified in pleading the rights of our constituents.

Now, there is a situation which is not understood generally by people living outside of the Atlantic region. They must not forget that so far as the Atlantic region is concerned, so far as the old Intercolonial Railroad is concerned, that you are bound, gentlemen of the railway board, to carry out certain terms and agreements under the Act. You must not forget, and this committee must not forget, that the management of the Canadian National have nothing whatever to do with the development and management of the Intercolonial railway, so-called, under the British North America Act, except by the Order in Council passed in 1919 naming them directors of that road. You are not in the same category in connection with the Intercolonial up to Levis as you are on other roads owned by the Dominion of Canada. You are as a company running or administering all the other roads in Canada, but you are merely directors for administrative purposes of the Intercolonial; and under that you are bound by certain agreements with the maritime provinces, constituted and agreed to by Old Canada—Quebec and Ontario—which you have to carry out. Now, we claim that in the maritime provinces the rights and privileges granted to us and accorded to us under the British North America Act, so far as our railroads are concerned, have never been lived up to. And this is one of the methods being adopted by the directors of the Intercolonial, not by the trustees of the Canadian National Railroad. And this is what we are complaining about. We have been at the wrong end of the stick long enough, we have been suffering long enough and we do not intend to suffer any longer. And when this applies to our people all over the Atlantic region and causes them problems and difficulties which they financially cannot overcome, we claim that the directors of the Intercolonial, not the board of trustees of the Canadian National Railways, should adopt some means of remedying these difficulties, and carry it out. If you think it is right, if you think it is proper administration, carry it out. I have no objection to your making it the same as in other places, but see that these men are compensated if they have to assume a financial burden in order to comply with your regulations. Why, there is not a railway station agent shifted that the railway does not pay his transportation cost, both for his furniture and his family, from one section to another. Nothing has been done in these cases where a man is affected financially by the extra cost he has to incur with respect to the transportation of his family and property to the place where he has to work. There is nothing in the regulation which is coming into effect in the month of June that will meet that situation. I claim that it should be done, that is the only reason for my taking the matter up.

Mr. HUNGERFORD: Insofar as transportation is concerned these employees will be treated just the same as any other employee of the road.

Hon. Mr. VENIOT: Will that include his family?

Mr. HUNGERFORD: And his family, so far as that is concerned.

Hon. Mr. VENIOT: They do not know that. That is not the way they understand it down there.

Mr. HUNGERFORD: They have the means of finding out.

Hon. Mr. VENIOT: They didn't know it, any way.

Mr. HUNGFORD: But, let me say this, that all these matters come within the administration of the region.

Hon. Mr. VENIOT: But the region informed me that they cannot do anything without the consent of central headquarters in Montreal.

The CHAIRMAN: I see it is nearly 1 o'clock. We will adjourn until we meet again on Tuesday morning at 11 o'clock.

The committee adjourned at 1 o'clock p.m. to meet again on Tuesday, May 5th, 1936, at 11 o'clock a.m.

SESSION 1936

HOUSE OF COMMONS

SELECT STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 3

TUESDAY, MAY 5, 1936

WITNESSES:

Hon. C. P. Fullerton, Chairman, Board of Trustees; Mr. J. E. Labelle, K.C., and Mr. F. K. Morrow, Trustees, Canadian National Railways; Mr. S. J. Hungerford, President, Mr. R. C. Vaughan, Vice-President, Purchasing and Stores Department, Mr. S. W. Fairweather, Director, Bureau of Economics, and Mr. T. H. Cooper, Auditor of General Accounts, Canadian National Railways.

OTTAWA

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

PRINTER TO THE KING'S MOST EXCELLENT MAJESTY

1936

MINUTES OF PROCEEDINGS

TUESDAY, May 5, 1936.

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

Members present: Messrs. Bothwell, Elliott (*Kindersley*), Ferland, Gray, Hanson, Heaps, Howard, Howe, Kinley, McLarty, Maybank, Parent (*Quebec West and South*), Stewart, Veniot, Vien, Walsh, Young.

In attendance: Hon. C. P. Fullerton, Chairman, Board of Trustees, Canadian National Railways; Mr. F. K. Morrow, Trustee, Canadian National Railways; Mr. J. E. Labelle, K.C., Trustee, Canadian National Railways; Mr. S. J. Hungerford, President, Mr. R. C. Vaughan, Vice-President, Purchasing and Stores Department, Mr. S. W. Fairweather, Director, Bureau of Economics, Mr. T. H. Cooper, Auditor of General Accounts, Canadian National Railways.

Hon. Mr. Veniot requested that a statement made by him on April 30, contained on page 41, line 42 of the evidence be corrected, viz.,—

“The C.P.R. furnishes better mail cars and better conveniences than does the C.N.R.”

which should read,—

“The C.N.R. furnishes better mail cars and better conveniences than does the C.P.R.”

Ordered,—That the above correction be made.

Mr. Heaps referred to a question he had asked in the House with respect to wages paid to employees of the Chateau Laurier, Ottawa. The Minister of Railways having made a statement in reply to Mr. Heaps, the latter agreed to discuss the matter confidentially with the minister.

The committee resumed consideration of the annual report of the Canadian National Railway System, the officials of the railway being examined on the following items:—

- Maintenance of ways and structures expenses,
- Maintenance of equipment expenses,
- Traffic expenses,
- Transportation expenses.

At 1 o'clock the committee adjourned until 8 p.m. this day.

EVENING SITTING

The committee resumed at 8 p.m.

It was agreed to give further consideration to the “Profit and Loss Statement” appearing on page 18 of the annual report, Mr. Cooper being requested to explain in details the items contained therein.

The following items of the annual report were also considered:—

Miscellaneous operating expenses,
General expenses,
Loans from Dominion of Canada,
Funded debt—principal and interest,
Receipts and expenditures (1923-1935),
Additions and betterments less retirements.

The committee adjourned until Wednesday, May 6, at 4 p.m.

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 231,

MAY 5, 1936.

The select standing committee on Railways and Shipping met at 11 o'clock a.m., Sir Eugène Fiset, the chairman, presided.

The CHAIRMAN: Gentlemen, let us commence our proceedings.

Hon. Mr. VENIOT: Before we proceed with the further consideration of the railway report I would like to bring to the attention of the committee an error in my remarks which appears at page 41 of the printed proceedings. I am reported as having said: "The C.P.R. furnishes better mail cars and better conveniences than does the C.N.R." What I said was the very reverse, and I would like to have that correction made: what I did say was, "the C.N.R. furnishes better mail cars and better conveniences than does the C.P.R."

Mr. HEAPS: Mr. Chairman, there is one matter I would like to take up while the minister is here. Last Thursday he answered a question of mine in the House of Commons in reference to wages paid at the Chateau Laurier. At that time the minister said he could not give the committee information because it was not in the public interest to do so. Now, I feel that a question of that character dealing with wages and conditions of work among the employees in any section of the operation of the Canadian National Railways should, at least, come under the consideration either of the house or of this committee. I think we have just as much right to know the conditions of the employees of the hotels as we have of the conditions of the employees of the railways. Now, I know the facts in regard to conditions in the hotels. I have them first hand from those who are there, and it is talked about publicly in the city of Ottawa. I think the facts cannot be hidden by the minister by saying that he cannot give the information in the public interest. Somehow or other, the conditions in the Chateau Laurier are not what they should be, and it is a known fact that some of the employees working in the Chateau Laurier have been compelled to accept relief. Now, if such is the case, I think it is well that the facts be looked into or be aired on the floor of the house or before this committee. I would far sooner say nothing about the situation if I had the assurance of the minister that these things would be rectified without any delay. I do not think, on the other hand, that information requested by any member of this house should be refused as it was refused in the house on Thursday last.

Hon. Mr. HOWE: Mr. Chairman, I might say that officers of the Department of Labour went to the hotel and examined the situation, and I also took it up with the manager of the hotel to make sure there was nothing there concealed that ought to be exposed. The reason I made the statement to which Mr. Heaps refers is, of course, that it has been the policy for the last fifteen years to refuse to give details of the operation of the Canadian National Railways. The Canadian National Railways is a corporation that is operated apart from the government service, and we feel that it should not be placed under any handicaps in a competitive way by investigating facts about that operation which we would not expose, for instance, in connection with the Canadian Pacific Railway or any other private corporation. It is simply a matter of protecting the business of the company. Now, if my friend, Mr. Heaps, knows of any regulation of the Ontario Fair Wage Board that is being violated, or anything of that sort, it would be the duty of this committee to examine it; but I am told

that the case in question was a case of charity where people came to the hotel—one couple—and claimed that they were being evicted from their home, were starving and one thing and another and, as a matter of charity they were given temporary work; and I believe all these complaints have emanated from them. I am told that.

If my friend has any real complaint and can bring satisfactory cases I think they can be examined into, but I do not know that the entire operation of the hotel should be put in the public press—hotel wages differ in some respects from other wages in that there are gratuities paid; for instance, the bell boys receive a large income and theirs is a job that is highly sought because of the gratuities, and the waiters are in the same position—and putting the hotel wage scale before the public that does not understand the business might be misleading and unnecessarily damaging to the hotel. However, I am assured by the management that the wages paid at the Chateau are equal to the wages paid in any hotel in the Canadian National system and that they are equal to, if not better than the wages paid in any competing hotel in Canada.

Mr. HEAPS: The minister may be quite right in some of the assertions he has just made, but in the first place I am correct in stating that the vast majority of the hotel assistants do not come under the Fair Wage Act—the female help may, but I do not think the male help does, and it is the male help particularly that I am thinking of now. I do not want to give undue publicity to this thing and I do not want to state any of the facts I have in my possession—that is not the purpose in view—the purpose in view is to rectify conditions. I know some of the conditions that prevail there. I am going to suggest to the minister that some time when he is not so busy as he has been in the past few days I will take up the matter with him personally in the hope of rectifying the conditions that prevail at the Chateau, and I think, perhaps, by that means we may do more than we could do by discussing the matter across the table. If the minister is satisfied with that course, I am quite prepared to discuss it with him upon the first opportunity that may be convenient to both of us.

Hon. Mr. HOWE: I shall be glad to discuss this matter with the honourable gentleman and to look into any matters that he cares to ask me to look into.

Mr. WALSH: Might I ask the indulgence of the committee for one moment. As you know, I am a new member of parliament and I am new to committee work, and I am trying to give careful study to the annual report and these other reports and figures that we have had placed before us. In making that complete study and in compiling certain facts and figures there are certain questions I would like to have answered, and to do so I might have to go back to other items. Would I be in order?

The CHAIRMAN: Certainly. As long as we consider each item as it comes up you may ask your questions when it comes in the proper item.

Now, let us proceed with the report. Where shall we commence, Mr. Fairweather?

Mr. FAIRWEATHER: Ties. Page 21. Maintenance of Way and Structures Expenses.

Hon. Mr. VENIOT: On the question of ties, I would like to know how the contracts are distributed or given out.

Hon. Mr. FULLERTON: Mr. Vaughan is here; he has full charge of that matter, and he can give any information you desire.

Mr. VAUGHAN: I understand that the question asked is how we distribute our tie contracts; is that correct? We get each year perhaps 3,000 or 4,000 applications for tie contracts. We distribute that business among those whom

we consider in a position to fill their contracts and give us ties such as we desire when we want them. These ties come from lumber mills, some from lumber dealers, some from store keepers—to whom the settlers deliver their ties in return for supplies—and some direct from settlers. These contracts are placed in the way that we consider to be in the best interests of the railway.

Hon. Mr. VENIOT: On what information do you base your opinion?

Mr. VAUGHAN: We have a complete record of everybody who sells ties. We know their ability to deliver ties, whether they are legitimately in the tie business, or simply trying to get a tie contract which they are not entitled to.

Mr. HEAPS: Is the price fixed by the railway, or is it competitive?

Mr. VAUGHAN: The same price is fixed by the railway for everybody in the same district.

Mr. HEAPS: May I ask if the two railways fix the same price?

Mr. VAUGHAN: The railways agree upon a price we will pay for ties in a district. I think both the railways pay approximately the same price.

Hon. Mr. VENIOT: Is there at the present time, or has there ever been since the depression took place, a clause in your contract whereby it is stipulated that the contractor shall pay to the farmer or colonizer so much?

Mr. VAUGHAN: There is a clause in all contracts which says that contractors shall not exact more than 5 cents from a settler, or anybody else.

Hon. Mr. VENIOT: The profit shall not be more than 5 cents. If his contract was 50 cents a tie, we will say, he then would have to pay 45 cents to the settler?

Mr. VAUGHAN: That is what he ought to pay to the settler.

Hon. Mr. VENIOT: Have you ever looked into it to see if that was carried out?

Mr. VAUGHAN: We have looked into it as far as we can. Of course, we have a great many contracts. We have between five and six hundred contracts and, of course, we cannot police them all but wherever a contract is made and it is found that a contractor, store keeper or anybody else is not treating the man who supplies the ties fairly, we immediately investigate the matter and correct any injustices. Of course, we have no opportunity of dealing with these cases unless they are brought to our attention.

Hon. Mr. VENIOT: You said a little while ago that contracts were given out to people whom you considered reliable to be able to furnish the amount of their contract—to fill the amount of their contract—generally lumbermen?

Mr. VAUGHAN: Yes.

Hon. Mr. VENIOT: Are you aware that contracts have been given to haberdashers and proprietors of pool rooms and so forth who farm out to parties who are buying from the settlers and making more than a 5 cent profit?

Mr. VAUGHAN: No. I am not aware of that. If you have any such instances I would like to have them.

Hon. Mr. VENIOT: I am going to give you them.

Mr. VAUGHAN: I know we have had a great many applications from people whom we consider are not legitimately in the tie business, and we have absolutely refused to give them a contract. I would be surprised to learn about these cases; if there are such cases, we should certainly be glad to know of them.

Hon. Mr. VENIOT: I may say to you in 1933 and 1934, 1933 especially, a large number of small tie contracts were given out to hardware merchants in certain counties—I am talking of the Maritime provinces—haberdasheries, pool room proprietors, etc. There was a contract for 3,000 ties given to a pool room proprietor in the county of Northumberland, New Brunswick; 3,000 ties given

to a haberdasher at Chatham, New Brunswick, and they farmed them out and made their profit of 5 cents a tie. The party to whom they farmed out the contract would most certainly pay those settlers a good deal less than what he should have been paid. Could not your inspectors be instructed to inquire into these matters when contracts are given out to such men as haberdashers and pool room proprietors, etc.?

Mr. VAUGHAN: I would say in response to that that a great many representations have been made to us, particularly on account of the unemployment situation, and people have been drawn to our attention whom it was said, were in a position to give employment or would engage a certain number of men. Now, there may have been some of these cases, but I do not think you will find any of these cases in existence at the present time, because wherever we found such a case we declined to give the party another contract.

Hon. Mr. VENIOT: They do exist at the present time.

Mr. VAUGHAN: Well if any exist at the present time I should be glad to know of them. We have no knowledge of them.

Hon. Mr. VENIOT: Have you a list of the contracts with you?

Mr. VAUGHAN: Yes, I think I have.

Hon. Mr. VENIOT: What contracts have you given in the county of Gloucester this year?

Mr. VAUGHAN: I have not got them divided up by counties. We have 88 contracts in the province of New Brunswick.

Hon. Mr. VENIOT: Eighty-eight?

Mr. VAUGHAN: Yes.

Hon. Mr. VENIOT: Are you sure they were given under such conditions that would best help unemployment? Have you looked into that matter?

Mr. VAUGHAN: So far as we could we have made an investigation of each case. Our general tie and timber department and our Moncton office have made investigations into the reliability of each person, who has got a contract, as to their facilities for filling a contract, and as to whether or not they were legitimately in the tie business.

Hon. Mr. VENIOT: Did you get any information in regard to the town of Bathurst and the village of Tracadie?

Mr. VAUGHAN: I have not got all the details of them; I don't know all the contractors.

Hon. Mr. VENIOT: Are you aware—if you are not I am going to make you aware now, and I want you to look into it—of the conditions prevailing. Have you two contractors down there by the name of Frank Sisk and John Coughlan, neither one of whom own an inch of crown land and are exploiting the settlers.

Mr. VAUGHAN: What is the other name besides Sisk?

Hon. Mr. VENIOT: John Coughlan. And notwithstanding that your attention was drawn to it, they still continued to receive a contract this year and have been receiving them for two or three years.

Mr. VAUGHAN: I do not see any such name as Coughlan on our list at all. He apparently has not a contract this year. Frank Sisk has a contract.

Hon. Mr. VENIOT: Coughlan may be doing it under the name of somebody else now.

Mr. VAUGHAN: He has not got a contract from us. So far as Frank Sisk goes, I will get some information.

Hon. Mr. VENIOT: Frank Sisk does not own one inch of crown lands.

Mr. VAUGHAN: Plenty of people have contracts who do not own any crown lands.

Hon. Mr. VENIOT: I know, but when names are represented to the railway of people who have crown lands, and it is pointed out that the giving of a contract, not political at all but purely on the basis of helping out unemployment, would be of great assistance, and the reply comes back "You cannot give this man a contract because he has been a barber," I should like to know the reason for a distinction there and no distinction made in regard to the haberdasher.

Mr. VAUGHAN: Well, I have given the reason. We try to weed out all the applications from people who represent they should get a contract on account of unemployment. I doubt if any one has a tie contract at present who is not entitled to it and whom we find are not entitled to a contract.

Hon. Mr. VENIOT: In this particular case the gentleman in question did not make any representation to the railway authorities. I made the representations and I gave my word of honour that he had ten miles of crown lands, and a portable saw mill. While it was true he had been a barber in years gone by, he was now a building contractor and a lumberman, and it was pointed out where the section of crown lands was and where he was to establish his mill would give employment to about 25 or 30 unemployed who were badly in need of it and who were on relief. The reply came back that it had been reported to your department that this man was a barber and that was one of the reasons they were not satisfied to give him the contract. However you give a contract to Frank Sisk and other fellows who do not own a foot of crown lands. If you look up your records you will find my letter.

Mr. VAUGHAN: I have seen your letter, Mr. Veniot. In the first place, the information which we got from Moncton was that this man—

Hon. Mr. VENIOT: You had better information than you could get from Moncton. You had it from me, right on the spot, who knew everything about it.

Mr. VAUGHAN: We cannot give everybody a contract in the first place.

Hon. Mr. VENIOT: I agree with you perfectly.

Mr. VAUGHAN: As I say, we got 4,000 applicants for tie contracts, and apart altogether from the merits of this case, if I recall when you wrote about this man, the tie contracts were all let.

Hon. Mr. VENIOT: Not at all.

Mr. VAUGHAN: Your letter came along in November; our contracts are usually let earlier.

Hon. Mr. VENIOT: Yes; but right after I had written contracts were given down in Tracadie to W. S. Logie company. They own no crown lands.

Mr. VAUGHAN: Logie has been supplying ties to the railway for perhaps 30 or 40 years; they are very reliable people.

Hon. Mr. VENIOT: In that case they have no right to be treated more fairly than any other body.

Mr. VAUGHAN: Anybody who gives traffic to the railway and is in the tie business, has a right to get some preference from the railway, I submit.

Hon. Mr. VENIOT: I submit they should not.

Mr. VAUGHAN: We have to look after our own interests. A good many tie contractors have a lumber mill down there.

Hon. Mr. VENIOT: Where have they got a lumber mill?

Mr. VAUGHAN: I am not talking about them, but a good many of these contractors are in the lumber business, and as a result of giving these tie contracts, we get a substantial revenue from earnings on the side cut from the ties.

Hon. Mr. VENIOT: W. S. Logie got a contract and farmed it out to a man who did not have a mill but applied for a contract and could not get it.

Mr. VAUGHAN: I think you will admit that Logie and company are in the tie business and have been for 50 years.

Hon. Mr. VENIOT: That is all right; Logie and company are friends of mine. I am not criticizing Logie and company, I am criticizing the way contracts are given out.

Mr. VAUGHAN: Well, I do not see that we can do very much more than investigate each individual case as we do. I do not know about Sisk, the case you spoke about. I do not know Sisk. I know each one of those cases is investigated very thoroughly by our tie and timber department before the tie contracts are given. I think it will be found that Sisk is a tie contractor and that we were justified in giving him a contract. He probably has been supplying ties for years, and gives the Railway traffic from the side cut.

Hon. Mr. VENIOT: Well now, right in Tracadie there were at least three big contracts given in that parish; whereas in other parishes where unemployment was rife, and people were starving, contracts could not be had by parties who had portable saw mills and owned lands.

Mr. VAUGHAN: We should like to know who they were.

Hon. Mr. VENIOT: In my letter to you I told you who they were.

Mr. VAUGHAN: I see the information we have in connection with that particular party is that he has never been in the tie business, and never took out ties.

Hon. Mr. VENIOT: That does not make any difference. He has crown lands, and you were told about it.

Mr. VAUGHAN: Are the railways going to give tie contracts to everybody who applies?

Hon. Mr. VENIOT: It is better to give a contract to men who have crown lands than to individuals who are exploiting settlers.

Mr. VAUGHAN: Any number of people have crown lands and do not take out ties. A lot of people have not crown lands, and are large tie operators.

Hon. Mr. VENIOT: I do not know whether your authority is at Moncton or not, but the information given to me showed that the result was the mill was closed down because this man could not get the contract. He had a contract for hardwood slabs and he could not take it, because the contract for the ties was given to some other man. He had a contract for hardwood slabs, and had he got the contract for the sleepers he could have used the slabs to fill his other contract. But the result was that he had to close down the mill and 35 or 40 people were left on relief.

Mr. VAUGHAN: They get work some place else. We have these representations made to us by thousands across the country.

Hon. Mr. VENIOT: There was no work. Understand me, I am not talking from a political standpoint, and never asked for a tie contract in my life on the ground of politics or patronage.

Mr. VAUGHAN: I will read you the letter we received from Moncton. I presume you are referring to Mr. Pineau.

Hon. Mr. VENIOT: Yes.

Mr. VAUGHAN: Here is the report we had from our officials at Moncton:—

I have had our inspector go to this point and from what information he could gather Mr. Pineau was formerly a barber and is now occupied as a contractor in building and painting houses, etc. He has no timber limits, and as far as can be ascertained, no mill.

Hon. Mr. VENIOT: That is a lie.

Mr. VAUGHAN: "Under the circumstances I do not think that any large contracts should be awarded this party."
Now, that is the result.

Hon. Mr. VENIOT: That statement that he has no timber limits is a lie.

Mr. VIEN: Who made that statement?

Mr. VAUGHAN: Our fuel and tie agent in Moncton.

Mr. VIEN: What is his name?

Mr. VAUGHAN: Wilmot.

Hon. Mr. VENIOT: You had better get in touch with Mr. Wilmot and tell him I said his statement was a lie. I am the one that handled the timber limits for Pineau.

Mr. WALSH: When were the timber limits acquired?

Hon. Mr. VENIOT: 1932.

Mr. VIEN: This is the first time he ever applied for a tie contract?

Hon. Mr. VENIOT: Yes, because he was lumbering for somebody else, soft wood. He got this other contract for hard wood slabs, and then he wanted to get a contract for ties.

Mr. VAUGHAN: We have a file that high from members of parliament and others, mostly members of parliament, this year, who ask that tie contracts be given on account of unemployment, and I submit we are going to make mistakes once in a while. We cannot always pick the right people.

Hon. Mr. VENIOT: When that statement contained in your letter to me that Mr. Pineau was a barber was received by me, I wrote and explained the whole thing. That statement came from me to you, and I think you should have looked into it further.

Mr. VAUGHAN: Well, as a matter of fact, personally I did not see the correspondence until recently; having investigated the thing through our Moncton office I think our tie and timber agent was quite justified in refusing to give a contract to the party.

Hon. Mr. VENIOT: No, he was not justified.

Mr. VAUGHAN: We cannot give contracts to all applicants for them.

Hon. Mr. VENIOT: How many contracts have you had in the upper part of Gloucester county?

Mr. VAUGHAN: Well, I cannot give it to you by counties, Mr. Veniot. I did not separate them.

Hon. Mr. VENIOT: If I mistake not, you had only one.

Mr. VAUGHAN: We have 88 contracts in the province of New Brunswick, which, I submit, is just about 80 more than we should have in the interests of the railway.

Mr. KINLEY: Why?

Mr. VAUGHAN: Because every extra contract involves additional expense to the railway in the matter of accounting, inspection and in other ways. It is more economical to the railway to have a few contracts than a large number. But in order to help unemployment we spread those tie contracts around, yet we do not seem to be able to satisfy anybody.

Hon. Mr. VENIOT: Do you remember the contract of W. J. Scott in the county of Restigouche?

Mr. VAUGHAN: Yes.

Hon. Mr. VENIOT: Do you know how many ties he contracted for?

Mr. VAUGHAN: I can tell you how many ties Mr. Scott has under contract for us, 15,000 soft wood and 8,000 hardwood.

Hon. Mr. VENIOT: Do you know whether he has any crown lands or not?

MR. VAUGHAN: I know this: Mr. Scott has been in the tie business for a great many years. He is the sole contractor for the C.P.R. in the province of New Brunswick. He sells them several hundred thousand a year, therefore he must be a pretty good tie contractor.

Hon. Mr. VENIOT: He gets those contracts out the St. John river, and when he comes into Restigouche county to get one, you get their and oust the legitimate contractors from the Restigouche contract. He is in the position of getting contracts there for 75,000 from the C.P.R. I do not think it is fair, when Mr. Scott owns no crown lands in the northern part of New Brunswick.

MR. VAUGHAN: I think you will find that Mr. Scott advances a good deal of money to people to get out ties.

Hon. Mr. VENIOT: For the C.P.R., by using the St. John river.

MR. VAUGHAN: The same condition applies in our case. He is the only person in the province of New Brunswick with whom the C.P.R. makes contracts. We have 88 because of our desire to be fair and spread business around.

MR. KINLEY: When you give your contracts to one man, what about delivery? Does he deliver at the regional point, or where?

MR. VAUGHAN: Our contracts all provide for delivery on cars on the railway.

MR. KINLEY: When you give a contract to the local man, he delivers it?

MR. VAUGHAN: We take them from the local man at the nearest point of production on the railway.

MR. KINLEY: Do you think it is fair?

MR. VAUGHAN: We do. We take them from the local man where he produces them, at the closest point to the railways, the shortest haul to him.

MR. KINLEY: You say you would rather have one contractor as you think it would be more advisable?

MR. VAUGHAN: One contractor would save the railway money. He would deliver the ties at the same places as the settler. Probably, as happens in a great many cases the settler would prefer to sell his ties to the contractor, and we would get the ties just the same where the settler produces them.

MR. KINLEY: The contractor gets a regular fee?

MR. VAUGHAN: It is not a question of a regular fee, because I think you will find that a large number of the settlers prefer to sell through the contractor because he finances them.

MR. KINLEY: No; in that way he controls the business.

MR. VAUGHAN: The fact we have nearly 600 tie contracts shows nobody has a monopoly on our business.

MR. KINLEY: He runs the business.

MR. WALSH: They take it.

MR. KINLEY: If they want the business, they have to do it in that way.

MR. WALSH: No.

MR. KINLEY: Yes.

MR. WALSH: I know differently. I have lived in this district. I know the storekeepers keep these people from one year to another. They bring in these ties and they are credited as a counter account. That is how it is done. The storekeepers and others deliver ties to the railway which they have taken in counter account. I have lived on the Gaspé Coast, I know something about the tie business, and I know a lot of the statements that have been made here this morning are misleading. I quite agree with Mr. Vaughan in his suggestion that the railway has been put to a great deal of expense in their desire to spread this business around. I also agree with the suggestion that he is handing out con-

tracts after a proper investigation. His files prove rather conclusively that these things are properly investigated. If I were in the business and buying ties, I would naturally take the advice of my agent, rather than the advice of some outside party, who was probably interested in getting a contract.

Hon. Mr. VENIOT: I am not blaming Mr. Vaughan; I am blaming this system.

Mr. KINLEY: In my county I know that one store keeper has control of the tie business. I am speaking of one part of the county only. If a farmer deals with him, he may be able to sell some ties; if he deals with somebody else he cannot sell ties. The only point I wish to make is that it might be well for the railroad to deal as far as possible with the primary producer instead of dealing with the contractor who is going to take a percentage of the business.

Mr. HEAPS: How does the storekeeper have control?

Mr. KINLEY: He gets control.

Mr. VAUGHAN: In a great many places the small settler has not got the money to buy flour or sugar or hay or oats to go into the bush to take out the ties. He goes to the storekeepers and the storekeeper advances the supplies or money and the settler gives him the ties he produces. The storekeeper gets the ties, and we take the ties from the storekeeper. We cannot advance these men money.

Mr. HEAPS: Do you consider that to be the most efficient way for a railway to get the ties?

Mr. VAUGHAN: I consider the most efficient way for the railway to get these ties is to let large contracts for the ties to a few people. If we did that the railway would be money ahead, but we have not done that because we wanted to be as fair as we could to the settler, the small man, and that is how we drifted into this method of making so many tie contracts.

Mr. HEAPS: And you drift into all sorts of trouble.

Mr. VAUGHAN: Yes, we have drifted into all sorts of trouble. A great many tie contracts have to go to our legal department before the man is paid, to see that his crown dues and labour are paid. We have all kinds of trouble with these small contractors.

Mr. BOTHWELL: What are the smallest amounts of ties delivered under a contract?

Mr. VAUGHAN: Oh, I suppose, two or three, four or five hundred?

Mr. BOTHWELL: It seems to me we have come to a sorry pass if the railway company has to enter into contracts for two or three hundred ties scattered all over the country.

Mr. VAUGHAN: Yes.

Mr. HEAPS: That is explained by the effort to provide employment.

Mr. HANSON: I have a little experience in connection with the company which has been getting out ties, timber, posts and things of that kind for over 30 years. This year we got a contract for 75,000 ties for the Canadian National Railway. We understood that we were to spread these ties out, amongst all the settlers along the territory for which we had the contract. We put out 150 sub-contracts out of the 75,000 in amounts of 500 ties each. Out of the 150 sub-contractors 86 have been drawing relief in one form or another for the last two years. Since they got these sub-contracts every one of them have been taken off relief and they are quite happy. We make a charge to them for our cost of doing business and financing at a rate of 3 cents per tie. We find that that is not enough. You cannot do it for that cost. You see when a settler gets the ties out he gets them inspected and when they pass inspection he gets an advance of 80 per cent. Very often where it is not possible to get inspection

conveniently we take our chance and make the advance. When we place these sub-contracts we practically guarantee that the cost of labour will be paid, and that they will get sufficient to keep them, from the nearest storekeeper or somewhere, while they are taking these ties out. That is the way it is done in our district and I think it is very satisfactory. There have been some storekeepers who have taken ties contracts, and who have stipulated, that is to the settlers, that they had to buy all their stuff from them at their stores and at their prices, and they would not give them any cash. If they had anything coming when the contract was completed they had to take it out either in clothing or in supplies from the store.

Mr. VAUGHAN: That may sometimes happen, but where such cases are drawn to our attention and we find the cases proven a contractor does not get another contract from us.

Hon. Mr. VENIOT: I am quite aware of that point, but I do find fault with the representations made about a certain contractor, and I do not see why when you have representations by myself or other reliable people to the contrary—if I can be called a reliable person—I do not see why the matter is not looked into further. When I distinctly state that so and so is the possessor of crown lands to the extent of 10 square miles, notwithstanding that you claim you have a report saying that he has been a barber, a building contractor, and that he is not engaged in lumber. That statement is false, and I state that positively. I claim it should have been investigated further.

Mr. VAUGHAN: We will certainly investigate it further.

Hon. Mr. VENIOT: You say, we will investigate it further; that is what should have been done last fall.

Mr. VAUGHAN: But our agent at Moncton stated that this man had never been in the tie business before.

Hon. Mr. VENIOT: No, but he was in the lumbering business.

Mr. VAUGHAN: That may be, but he has never applied to us before.

Hon. Mr. VENIOT: I distinctly wrote that he was in the lumbering business, that he had two portable mills.

Mr. VAUGHAN: That is quite true, Mr. Veniot; but when I tell you that we have a file of letters that high (indicating) from members of parliament about men for whom they want tie contracts, you can appreciate what we are up against.

Hon. Mr. VENIOT: I did not want this man to get a contract simply for the sake of getting a contract. I wanted the contract given at that place in order to help employment. There is not within 20 miles of Nigado one bit of lumbering going on, except what that man Pineau would have carried on.

Mr. HEAPS: Do I understand Mr. Veniot to say that he wrote a letter to the Canadian National Railway asking that a contract be let to certain people in his district?

The CHAIRMAN: I think that is what is generally done.

Mr. HEAPS: I would like to know whether that is his statement. I could not quite hear.

The CHAIRMAN: That is what he said.

Mr. HEAPS: And his complaint is that they failed to get it.

The CHAIRMAN: Mr. Vaughan says that he is going to make further investigation, and he will see that such an error does not occur in future.

Mr. HEAPS: I do not think any member of parliament should start writing the Canadian National Railways asking them to give certain contracts to certain people in particular districts.

Mr. VIEN: Why not?

Mr. HEAPS: I do not think that sort of thing should be permitted. I do not think it is good policy. If it is going to be done in that way it ultimately becomes a question of patronage pure and simple. I do not mean to say by that that a member of parliament has not just as good a right to approach the management of the Canadian National Railways as anybody else; and quite possibly the management of the railways may find that after all the best way of getting their ties is direct from the settlers.

Mr. KINLEY: I think, as a matter of fact, that they get ties out cheaper in that way.

Mr. HEAPS: That may be so.

Mr. VIEN: I would like to know on what principle a member of parliament is deprived from recommending to the proper officials of the Canadian National Railways that a contract be given to a man living in his constituency, and who is able properly to deliver ties in proper condition to the Canadian National Railways. Why would a citizen of this country be deprived of this right that belongs to anyone else just because he is elected to sit in the Parliament of Canada? If there is anything I think it is that that it is his duty as a representative of the people; as construed for all time so far as history goes, back to the times of the Romans and Phoenicians, I would dare say, the same obtained. I do not see on what principle a man should be deprived of addressing himself to servants of the crown, be they trustees of the Canadian National Railways, or officers of the Canadian National Railways, or officers of the Canadian Pacific Railway, or officers of any other company. I am trying to find out on what principle I should be deprived of making such a recommendation. But the question I would like to ask, I did not want to butt in a little earlier, but the question I wanted to ask Mr. Vaughan was this: Here is a statement made by a member of parliament, by a Privy Councillor, by a member who has been a minister of the crown for a long number of years, who is a member of a particular constituency in Canada, and he states that such a man is the holder of crown timber limits and he requests that a contract be given to that man on compassionate grounds, to relieve the severe conditions and dire circumstances of people in his community. On your file you have a letter from a railway tie agent at Moncton to the effect that the man was a barber and is unable properly to carry out a contract for the delivery of ties to the Canadian National Railways, and that seems to be conclusive and final so far as the purchasing department of the Canadian National Railways is concerned. I am trying to ascertain how that could be, how you as vice-president in charge of this particular department would close your file on the report of the local tie agent, and neglect properly to consider the recommendation of the local member when he states that the report of your tie agent is a lie.

Mr. VAUGHAN: Well, I can tell you that one of the reasons was this: that we had so many applications for tie contracts that we did not know what to do with all of them. This one of Mr. Veniot's came along rather late.

Hon. Mr. VENIOT: One moment, don't use the word recommendation when referring to me. I made no recommendation. I pointed out the situation, that is all. I took very great care not to make a straight recommendation, because that would have been interpreted as political.

Mr. HEAPS: You are not worrying about that, are you?

Mr. WALSH: Probably the interpretation made by the people who had to deal with it was a recommendation.

Mr. VIEN: Be that as it may, I would not take offence at the use of the word recommendation. Any fair minded man would understand that in the circumstances that was only the human and commonsense action to take.

Mr. VAUGHAN: I was going to say that we are doing business with from 8,000 to 10,000 firms, and we have never yet asked a man what his politics are.

We are not interested in the politics of anyone. But we do realize that members of parliament have constituents who keep after them all the time. When we get a letter from a member we give it the same consideration that we would give to a representation from anybody else: We are not influenced by the fact that the man represents a constituency, but if we have the representation made to us that it is going to help employment, and if the application is from a legitimate producer or dealer it gets the consideration we think it deserves.

Mr. VIEN: But what I am trying to make is that in the case of a man of Mr. Veniot's standing I do not believe that I would feel justified in disregarding his recommendation in his letter just because a railway tie agent said that this gentleman was a barber when Mr. Veniot states that he is a timber limit holder.

Mr. VAUGHAN: Well, we are sorry that Mr. Veniot feels slighted. I am sure there was no intention to slight him at all. This is the reply that was given to him by our general lines timber agent. It is dated the 3rd of December, 1935, and he says:—

I have your letter of the twenty-eighth ultimo regarding application of Mr. Joseph Pineau, of Bathurst, to supply 7,000 or more hardwood ties to these railways in 1936.

You, no doubt, appreciate the fact that we are limited in the number of ties that we can purchase for next year's delivery and with the tremendous number of applications regret it is impossible for us to place orders with all who supply.

There are a large number of mills located on the Canadian National lines which produce for these railways big revenue freight and practically all of these mills are dissatisfied that we are unable to give them larger orders. We have tried to distribute our tie business fairly, in view of all the conditions that exist at the present time, and while we would like to do something for Mr. Pineau, I regret that it is impossible. The use of treated ties during the past 10 years has very materially decreased the number of ties required and the trend of our purchases for the next few years will be downward for that reason.

I think a very courteous reply was made to Mr. Veniot.

Hon. Mr. VENIOT: No, that is not the reply I am complaining about. It was the one in which you told me he was a barber.

Mr. VAUGHAN: That was a previous letter based on the report of our fuel and tie agent at Moncton.

Hon. Mr. VENIOT: That is the one you should have read.

Mr. VIEN: What is the date of that letter?

Mr. VAUGHAN: That letter was dated December 3, 1935. Here is the letter which we received from Mr. Veniot:—

I am in receipt of yours of the 27th instant with reference to a tie contract for Mr. Joseph Pineau. I note what you say about his having been a barber and a painter, and that owing to such you do not feel justified in giving him a contract. I do not know who wrote against Mr. Pineau, but I must say that whoever did so did not tell you the whole truth. Yes, years ago Mr. Pineau did some barbering but has long since been out of that business. He is not only a contracting painter and builder, but two years ago he went into the lumber business and has acquired the right to cut on an area of ten square miles, mostly all hardwood. He has his camp built on this area and is putting up a portable saw mill. This man is quite capable of filling any contract he may get and I would strongly recommend that he be given a contract of at least 7,000 or more ties. If he gets this contract he will be able to give considerable work

to the unemployed around here. If he does not get a contract he will have to considerably curtail the labour that he otherwise could give. Again, may I strongly urge that he be given a contract.

Mr. HEAPS: That is in the nature of a recommendation, isn't it?

Mr. VAUGHAN: After you wrote that letter the general tie and timber agent wrote you another letter. He does not dispute what you said at all, he simply gives the reasons why we could not give the contract.

Mr. VIEN: Apparently he preferred to take the statement of your tie agent at Moncton as against the statement made by Mr. Veniot.

Mr. VAUGHAN: I would not say that, Colonel Vien; because he outlines here the reasons. We probably could not have given the man a contract anyway at that particular time. We had probably decided not to let out any more contracts.

Hon. Mr. VENIOT: I would have been perfectly satisfied if you had said that no further contracts could be given; but when you came to give the reasons, one of the reasons was that this man had no timber limits, another that he was a barber, and so on. That is what I am concerned with.

Mr. VAUGHAN: That was the first reason, after we had that report. When you made your second report your statement was accepted.

Hon. Mr. VENIOT: No, it was not accepted.

Mr. VAUGHAN: Another reason given was because we had already let contracts for all the ties we needed.

Hon. Mr. VENIOT: It is all right. I am through with it.

Mr. HEAPS: When you are placing contracts for ties do the contracts go to the lowest tenderer, or how is it done?

Mr. VAUGHAN: We usually set the price.

Mr. HEAPS: Sometime ago we used to let contracts by tender.

Mr. VAUGHAN: That was up to a few years ago, Mr. Heaps. But when the unemployment situation became so acute in recent years we ceased advertising for tenders on ties. When we needed only three or four million ties, we were offered by tender between fifty and sixty million ties. The tenders included all kinds of prices, all the way from \$1.10 down to 50 cents or 60 cents. Now we set what we consider to be a reasonable price for ties in the different localities.

Mr. HEAPS: There is this difficulty, Mr. Chairman, there would be people there who had influence which they could bring to bear in obtaining contracts for particular localities for individuals. It might perhaps be advisable to let contracts by tender and let the lowest tenderer get it; yet, I realize that at times there might be some hardship involved. I thought that was the system followed clear across the country.

Mr. VAUGHAN: Our difficulty has been that some undesirable man would quote a low price so as to get the contract and then he would not be able to deliver. For that reason we have to be sure that the parties to whom we give the contracts are reliable. We have pretty reliable information as to the cost of making ties; haulage, what it costs to make roads which enables us to set a fair price to be paid for ties in each district.

Mr. HEAPS: It seems to me that whichever way you do it you are pretty nearly always bound to be between the devil and the deep sea.

Mr. VAUGHAN: I think the prices we pay are fair.

Mr. HEAPS: I am not speaking with regard to price. If you let by tender you are up against difficulties, and doing it the other way you have to try to satisfy some one, and there are always some people who are dissatisfied.

Mr. VAUGHAN: There are cases where it may happen that needed ties in a locality where the highest price had been quoted. The tender might be at 90 cents, and it might turn out that we would only pay him 50 cents.

Mr. VIEN: There is no doubt that the present system is far the best. Aside from the haulage question which you have just referred to, it is much easier and it affords greater facility in ensuring a proper distribution of these contracts among the local people. Particularly in times like these when you have to keep in mind the relief of unemployment I think the present system is much better. It is only a question of the proper exercise of good judgment in the distribution of these contracts among all the people, when the price has been fixed.

Mr. KINLEY: Are contracts for ties in the Maritimes signed at Montreal?

Mr. VAUGHAN: Maritime tie contracts are issued largely on the recommendation of our fuel and tie agent at Moncton.

Mr. KINLEY: Who is the agent?

Mr. VAUGHAN: Mr. Wilmot.

Mr. KINLEY: He has the final say so?

Mr. VAUGHAN: That is so, in so far as the recommendation to us is concerned. We may not always act on his recommendation.

Mr. KINLEY: So far as individuals are concerned you do not know all these contractors personally.

Mr. VAUGHAN: I think our timber agent in Montreal knows every contractor with whom we do business. I know all of the larger contractors myself. I know their ability to give us ties, and I know what they can give us in the way of traffic.

Mr. VIEN: Can you tell us who is the contractor at Roberval and in the Lake Saint John district?

Mr. VAUGHAN: I could not say that just off hand.

Mr. VIEN: Mr. Sylvestre was to be here this morning but was unable to get here. He has asked me to point out to you that in the Lake Saint John region and at Roberval—I am not personally cognizant of the fact but I am speaking for Mr. Sylvestre, the member for the locality—he said that contracts had been given to a Quebec company for ties to be delivered in the Lake Saint John district, and particularly at Roberval. He says that these people in Quebec are not lumbermen, are not particularly interested in that trade, except that they have been carrying on this particular business for the last three or four years; that they have given sub-contracts to settlers in the district; and that the settlers received 10 cents per tie as against 50 cents or 60 cents—that fixed price that you have referred to—and that notwithstanding the fact that he (Mr. Sylvestre) has made representations to officers of your department, not to yourself but to officers of your department, no redress has been given.

Mr. VAUGHAN: I will certainly look that up, but I know very well that if anything of that kind happened it would be immediately dealt with. We had difficulty for years getting the ties we required up around Roberval. My recollection is that the firm referred to made arrangements with settlers to develop and supply ties in that territory, that is probably what was done.

Mr. VIEN: They got them at 10 cents.

Mr. VAUGHAN: Ten cents lower than we pay?

Mr. VIEN: No. 10 cents a tie. Instead of 55 cents paid to the contractors the settlers were paid 10 cents.

Mr. VAUGHAN: That does not sound right on the face of it.

Mr. VIEN: I was told that there was a regulation to the effect that the contractor could not take more than 5 cents per tie.

Mr. VAUGHAN: It is right in our printed form.

Mr. VIEN: And notwithstanding that fact the contractor distributed contracts to the settlers at the rate of 10 cents a tie which was a spread of 45 cents between the price he received and the price he paid out, and that complaint was made to officers of your department at Montreal and that he got no redress.

Mr. VAUGHAN: Well, if any such complaint is ever made to us the matter is immediately taken up with the contractor, and we would hold money back from him unless we were satisfied that he was treating the settler fairly.

The CHAIRMAN: Will you investigate this case?

Mr. VAUGHAN: Yes, sir.

Hon. Mr. VENIOT: Do you instruct your contractors to look into the condition?

Mr. VAUGHAN: Absolutely. The minute we get complaints.

Hon. Mr. VENIOT: No, no; that is not what I mean: when they go there to inspect the ties do they find out what price is being paid to settlers?

Mr. VAUGHAN: Our tie inspectors are instructed to make full enquiries into these matters at every place where they inspect ties.

Hon. Mr. VENIOT: I wish you would refresh their memory.

Mr. VAUGHAN: And to report to our tie agent.

Hon. Mr. VENIOT: There seems to be some leeway in complying with the regulations.

Mr. VAUGHAN: If the contractor is not complying with them we will certainly get after him and issue instructions again, but we can only take complaints up when they are drawn to our attention. I think we have shown our good will by putting that in our contracts.

Hon. Mr. VENIOT: Understand me. I am not bringing this up as a criticism to you people; I am criticizing the system; the system is a bad one.

Mr. VAUGHAN: How would you change the system?

Hon. Mr. VENIOT: Don't ask me. I know it is a bad one and it should be improved.

Mr. HEAPS: Might I ask this question: I see the figures for ties for 1935 is approximately half a million dollars more when compared with 1934. I was under the impression that in previous years we had such a large stock of ties that we would not require any for some time to come?

Mr. VAUGHAN: There is a difference sometimes between the ties purchased and the ties put into the track. For several years we bought less ties than we used, or put into the track, so that long since we have worked off any surplus.

Mr. HEAPS: Is not that four and a half million approximately one year's supply?

Mr. VAUGHAN: What number is that?

Mr. HEAPS: Page 21, \$4,524,000.

Mr. VAUGHAN: It would probably be because there were more ties put in the track than in the previous year.

Mr. HEAPS: It is not an annual consumption of ties?

Mr. VIEN: Perhaps Mr. Fairweather could give us the figure for the last five years?

Mr. FAIRWEATHER: For ties?

Mr. VIEN: Yes, the amount of ties purchased in each year for the last five years.

Mr. FAIRWEATHER: Yes. I have what purports to be a statement showing the total number of ties—untreated ties purchased.

Mr. VIEN: We are not interested in the number of ties so much as in the amount of money.

Mr. HEAPS: Well, you might as well give both. There is a big difference in the price.

Mr. FAIRWEATHER: Perhaps I had better make up a statement. I will take note of the question and submit a report on the matter.

Mr. VIEN: Let us have the number of ties and the amount of money spent on ties for the last five years.

Mr. FAIRWEATHER: That is on purchase of ties?

Mr. VIEN: On purchase of ties. Why do you make a distinction?

Mr. FAIRWEATHER: There is a difference, you see. We purchase ties and carry them in store, and the price that we pay for the purchase is the purchase price, but after we get them we store them and distribute them and the price at which they go into the accounts is a charge against operation and includes the stores' charges.

Mr. McLARTY: It would be the equivalent figure as compared with \$4,524,000, as far as the value is concerned.

Mr. HEAPS: There is a difference between value and the number of ties supplied. To get a fair idea we must also have the number of ties purchased, because the price fluctuated during the past five years.

Mr. VIEN: Mr. Fairweather was not referring to that. If I understood his statement—and I want to be corrected if I am wrong—he stated that the ties are charged there as they come out and are used.

Mr. FAIRWEATHER: Yes, sir, in the account.

Mr. VIEN: Not as they are purchased.

Mr. FAIRWEATHER: Not as they are purchased.

Mr. VIEN: Now, the expenses shown on page 21 are the expenses for those two years as the ties went out of your stores?

Mr. FAIRWEATHER: Yes, sir.

Mr. VIEN: Now, where do you keep the figures when you buy the ties?

Mr. FAIRWEATHER: That is an internal account of the railway. I can give you those figures. They would not show in this published report.

Mr. VIEN: Where would you put the two accounts: the account for the ties as they come out of your stores to service, and the account as you buy them for the last five years?

Mr. FAIRWEATHER: Of course, if you want the complete statement we will also have to show the cost of treating, because a great many of our ties are creosoted after we buy the ties.

Mr. VIEN: Do you treat them yourselves?

Mr. FAIRWEATHER: No. We have contractors who treat them, but we buy the ties untreated and send them to treating plants, have them treated and distributed to stock.

The CHAIRMAN: Will you prepare that report?

Mr. FAIRWEATHER: Yes. Rails, other track material, ballast, track laying and surfacing, right-of-way fences, snow and sand fences and snow sheds, crossings and signs, station and office buildings—

Mr. BOTHWELL: With regard to that item, were any additional buildings constructed?

Mr. FAIRWEATHER: Just maintenance of the buildings and everything that goes into the maintenance of buildings; certainly no large construction. There might be a small station.

The CHAIRMAN: The heading of the item itself is "Maintenance of Way and Structures Expenses." We are dealing only with maintenance at present.

Mr. FAIRWEATHER: This is maintenance.

Mr. VIEN: As regards rails, may I ask how you proceed to buy your rails? By tender or otherwise?

Mr. FAIRWEATHER: Well, of course, I am not in the purchasing department; I know generally.

Mr. MORROW: Mr. Vaughan could answer that.

Mr. VAUGHAN: You gentlemen, of course, know what has happened in the last few years. Orders for rails have been placed by the government to take care of the unemployed and a price was fixed at the time which was considered reasonable. We do not pay for those rails or become involved or obligated regarding interest in any way until the rails are taken, delivery of which, in some cases, is a considerable time after the order was placed and the rails are rolled.

Mr. YOUNG: You said the price is fixed; by whom?

Mr. VAUGHAN: It has been fixed by the government in co-operation with us before the rails were ordered to take care of unemployment. There are only two steel mills in Canada rolling rails.

Mr. VIEN: Who are they?

Mr. VAUGHAN: Algoma Steel Corporation at South Ste. Marie and the Dominion Steel Corporation of Sydney.

Mr. McLARTY: How would these prices given here compare with the prices fixed when the railway was fixing the prices itself?

Mr. VAUGHAN: The prices are approximately the same. We did have some adjustment from the prices fixed in the order in council because in the meantime the price of rails had dropped in the States and we considered there should also be a reduction in the Canadian price. So between the time the order in council was issued and the rails were delivered a better price was arranged for the undelivered balance of the rails.

Mr. VIEN: Do you buy all your rails in Canada?

Mr. VAUGHAN: All the rails we use in Canada are purchased in Canada.

Mr. VIEN: You do not buy any rails outside of Canada?

Mr. VAUGHAN: No, sir, we do not import any rails into Canada at all.

Mr. VIEN: Are those figures on the same basis as those that Mr. Fairweather mentioned a few minutes ago with respect to ties; that is are those the rails as they come out of your stores?

Mr. VAUGHAN: Yes.

Mr. VIEN: Do you store a lot of them in advance?

Mr. VAUGHAN: We do not store much new rail, but there is always a considerable quantity of relay rail on hand.

Mr. HOWARD: When you lay new rails how do you handle the accounting end of it?

Mr. VAUGHAN: I think the accounting department must answer that question.

Mr. HOWARD: What do you charge up to the total cost?

Mr. FAIRWEATHER: In the year it takes place if the rail was the same weight as the rail that is taken up it is considered a renewal. Well, all the cost

of changing the rail would be charged to operating expenses, less the salvage of the rail that was taken out—that was scrapped and taken out. That would be credited, but the balance would be charged to expenses.

Mr. HOWARD: Entirely in the year it was laid?

Mr. FAIRWEATHER: Yes. It is not carried over from one year to another.

Mr. VIEN: How do you carry the amount that has been spent to buy rails which are stored for the time being?

Mr. FAIRWEATHER: If we actually spend the money that would be carried in our working capital.

Roadway buildings, water stations, fuel stations, shops and engine-houses, grain elevators, storage warehouses, wharves and docks.

Hon. Mr. VENIOT: Does the government own any wharves at Pointe du Chene, or is that upon transfer?

Mr. FAIRWEATHER: We will have to look that up.

Mr. KINLEY: There has been some conflict between the Departments of Public Works and Railways with regard to these wharves. Is it the policy for the railways to take them over or are they to revert to Public Works?

Hon. Mr. FULLERTON: Public Works have been taking over a number of them.

Mr. PARENT: Has the C.N.R. any wharves at the harbour in Quebec that they rent from the Harbour Commission?

Mr. HUNGERFORD: We own one.

Mr. PARENT: Have you been using it for a number of years on the frontage of the river?

Mr. FAIRWEATHER: We have not used it ourselves.

Mr. PARENT: Is it property owned by the C.N.R.?

Mr. FAIRWEATHER: No, it is government property; it belongs to the Canadian government railways.

Mr. PARENT: What is the frontage of that?

Mr. HUNGERFORD: I cannot tell you that offhand.

Mr. PARENT: Would you obtain the details, please, relating to the wharf?

Mr. HUNGERFORD: Yes.

Mr. PARENT: Because we are having a lot of trouble to find space with the Harbour Commission, and I think there is a vast area of land on the Transcontinental railway which was bought around 1910 and which is not actually used by the C.N.R. because the road was changed. The wharf belonged to the C.N.R., and the disposition of the road was changed, and they are coming in to the Palace Station now.

The CHAIRMAN: You want the size, the frontage, the number of feet and the use?

Mr. PARENT: They are not using it, and we are looking for wharves. We might get a chance—

Mr. VIEN: And the leases.

The CHAIRMAN: The officers will get all the information.

Mr. FAIRWEATHER: Telegraph and telephone lines, signals and interlockers, power plant buildings, power substation buildings, power transmission systems, power distribution systems, power line poles and fixtures, miscellaneous structures, paving, roadway machines, small tools and supplies, removing snow, ice and sand, assessment for public improvements, injuries to persons, stationery and printing, other expenses, maintaining joint tracks, yards and other facilities, Dr.

Mr. BOTHWELL: "Maintaining joint tracks, yards and other facilities, Dr." And a similar item follows for credit. I see this carried through in several pages of the report. Would you explain this item to us?

Mr. FAIRWEATHER: It is the result of the accounting classification which has been adopted. If we have a joint facility with some other railway company—for instance, it might be a railway yard in a certain city or town, and the agreement provides that each of the railways using that yard will pay a proportion of the maintenance—if we do not own the property but had to pay a part of the maintenance, it would be shown here as maintaining joint tracks, yards and other facilities, Dr. That indicates the amount of money which was spent by us on maintaining a property that we do not own but which we had operating rights on. The other item "maintaining joint tracks, yards and other facilities, Cr." is the amount of money which we collected from people on corresponding facilities.

Mr. BOTHWELL: Why does that come under maintenance of way and structures—the credit item?

Mr. FAIRWEATHER: Because instead of taking it into revenue, the accounting classification takes it in here as an offsetting expense.

Mr. BOTHWELL: Is that included in the total of \$34,000,000?

Mr. FAIRWEATHER: Oh, yes. It is a credit. If you will look you will see that it is in italics, and it is subtracted.

Mr. BOTHWELL: The whole column of figures is totalled and that figure in italics is deducted so that the final figure is \$34,000,000?

Hon. Mr. VENIOT: "Injuries to persons" Is that net expenses? Does that represent persons in the employ or outside?

Mr. FAIRWEATHER: That refers to injuries to persons employed almost entirely in the maintenance of way department.

Hon. Mr. VENIOT: Would they come under the Workmen's Compensation Department?

Mr. FAIRWEATHER: Yes.

Hon. Mr. VENIOT: Have you an arrangement with the Workmen's Compensation Act in the different provinces by which you pay in a lump sum?

Mr. FAIRWEATHER: We follow the law in every province.

Mr. VIEN: Do you come under the Workmen's Compensation Acts of the various provinces?

Mr. FAIRWEATHER: Oh, yes.

Mr. VIEN: But that should certainly include damages paid to outsiders.

Mr. FAIRWEATHER: That is in another account, sir. You will find it under "transportation" later on. This is maintenance account, and the amount for personal damage is split up into maintenance of way, maintenance of equipment and transportation.

Hon. Mr. VENIOT: The Workmen's Compensation Act in the different provinces indicates under what classification an injured person shall come?

Mr. FAIRWEATHER: According to the law. We are bound by their findings.

Mr. KINLEY: You do not pay any fixed amount to the compensation board; they decide what it is worth and you pay the charge?

Mr. FAIRWEATHER: It differs in different provinces.

Hon. Mr. VENIOT: You pay your proportion of administration based on the amount of money you pay per year per injury in the province of New Brunswick.

Mr. KINLEY: You are not assessed by the board.

Hon. Mr. VENIOT: Not a general assessment.

Mr. FAIRWEATHER: The next item is depreciation, U.S. lines only.

Mr. VIEN: What is the ratio of the depreciation on U.S. lines?

Mr. FAIRWEATHER: Oh, well, I imagine there will be, perhaps, several rates involved there.

Mr. VIEN: That is only in respect of maintenance.

Mr. FAIRWEATHER: These are items of fixed property that we have charged depreciation on.

Mr. VIEN: They would vary with different categories of structures.

Mr. FAIRWEATHER: We have accrued depreciation on lining of tunnels 1 per cent; then, on bridges—certain bridges—we accrue from 1 to 5 per cent, depending on the type of bridge; then there is another item here for office equipment 4 per cent.

Mr. VIEN: They would be on various classes. What is the range of these percentages?

Mr. FAIRWEATHER: They seem to run from 1 to 5 per cent.

Mr. WALSH: There is an item here "Depreciation—U.S. lines only." Is that included in the item of about \$6,000,000, retirement of equipment? Has that anything to do with that at all?

Mr. FAIRWEATHER: No; that is depreciation of certain structures; as I say, some tunnel lining.

The CHAIRMAN: You will find a summary of operating expenses and then you will see there are sub headings. We have taken the details one after another. On page 22 you will find maintenance of equipment expenses. That is what we are taking now.

Mr. FAIRWEATHER: Maintenance of equipment expenses: Superintendence; shop machinery; power plant machinery; power sub-station apparatus; steam locomotives—repairs; other locomotives—repairs; freight train cars—repairs; passenger train cars—repairs; floating equipment—repairs; work equipment—repairs; miscellaneous equipment—repairs; express equipment—repairs; express equipment—retirements.

Mr. BOTHWELL: May I ask a question before you finish with these repairs? The items show increase in 1935 over 1934. Is there any particular explanation for that?

Mr. HUNGERFORD: Well of course there was more business in 1935 than in 1934. That naturally means an increase in the work to be done; also there was a restoration of part of the wage reduction which increased the wage bill.

Mr. HEAPS: May I ask Mr. Hungerford if he is in a position to answer my question? I am referring to the amount of extra help put on last year in regard to repair work on the railways. I understand the Canadian National put on quite a large number of extra workmen. Mr. Hungerford, can you give to the committee the number of extra men hired as a result of the extra appropriation of parliament, and can you tell me whether or not these men are still in the employ of the company, or if they have been laid off?

Mr. HUNGERFORD: I think we promised to get the information for you. We are getting it but we have not received it fully yet.

Mr. HEAPS: Has there been quite a lay-off in the Canadian National in recent weeks?

Mr. HUNGERFORD: There has been a lay-off in certain shops where the cars that were being built were completed. As the cars have been completed the extra help was laid off.

Mr. HEAPS: Has it not been because the appropriation parliament voted last year has been used up by the Canadian National?

The CHAIRMAN: If you look at page 9 of the report of the board of trustees, I think you will find that information.

Mr. HEAPS: That does not give the information I am asking for.

Mr. HUNGERFORD: The extra was employed to build new cars. When the cars were completed, the extra help was laid off.

Mr. HEAPS: I shall wait until the information comes.

Mr. VIEN: Were all these repairs carried out in your shops?

Mr. FAIRWEATHER: Yes. Equipment retirements (demolition costs); equipment retirements, Canadian lines; equipment retirement, U. S. lines; depreciation, U.S. lines only; injuries to persons; insurance; stationery and printing; other expenses; maintaining joint equipment, debit; maintaining joint equipment credit.

Mr. KINLEY: Where is the stationery and printing done?

Mr. FAIRWEATHER: We buy that. The stationery and printing is done by outsiders.

Mr. KINLEY: I know we buy it from the printers, but have you an organization of your own for printing?

Mr. FAIRWEATHER: No, we buy from printers. We do not attempt to run any printing shops.

Mr. KINLEY: How do you distribute that ?

Mr. VAUGHAN: It is all bought on a competitive basis?

Mr. HEAPS: Do you get letters from members of parliament?

Mr. VAUGHAN: We get letters from members of parliament and everybody.

Mr. HOWARD: Not from everybody.

Mr. VAUGHAN: Personally I have not much quarrel with members of parliament. I am not as much afraid of political influence as public influence. We can resist political influence.

Mr. VIEN: Hear, hear.

Mr. VAUGHAN: The public go to their member and then they write to us, but I must say this, and I do not say it flatteringly; all the years I have been handling the purchases for these railways only two members of parliament, one on each side of the house, I found unreasonable.

Mr. BOTHWELL: What do you mean by joint equipment, Mr. Fairweather? Do the Canadian National and some other railway own equipment jointly?

Mr. FAIRWEATHER: Yes, that would be an accurate construction of it.

Mr. BOTHWELL: I should like to know what equipment you own jointly.

Mr. FAIRWEATHER: For instance, you might have a yard which was jointly used, and the cost of maintaining the switch engine would be divided between the people who used it. I do not know that I can give you any clearer example than that.

Mr. BOTHWELL: It does not really mean you jointly own it. One railroad owns it, and you both use it? It is jointly used?

Mr. FAIRWEATHER: Used by the two and this is a division of the maintenance.

Mr. VIEN: There is a question I should like to ask in regard to equipment retirements, and it is in connection with road and equipment retirement in the profit and loss account on page 18. I should like to know how to divide the retired road equipment from this item. Is there any connection between equipment retired here and the road and equipment retirement carried on page 18, profit and loss account?

Mr. FAIRWEATHER: The item carried on page 18 is in no sense related to the retirement carried on page 20.

Mr. VIEN: Outside of the fact that this is charged to operating expenses and

the other to profit and loss account, is there any other relation between the two?

Mr. FAIRWEATHER: Only as explained in the pamphlet that was distributed which showed that the amount charged in the expenses in the year 1935 to the year 1935 represents what the management deemed to be the normal retirements. The amount charged to profit and loss represents the abnormal retirements that were brought about by conditions outlined by Mr. Hungerford, and which have been more fully detailed in the pamphlet.

Mr. VIEN: Yes; but to give a proper picture of what the operating expenses are, and what is the real result of your operations those abnormal retirements which become necessary from time to time and which have been charged to profit and loss should have been charged from year to year to operating expenses.

Mr. FAIRWEATHER: Well of course it all appears in profit and loss finally.

Mr. VIEN: Yes; but I am not addressing myself to that point. I do not claim it is not shown somewhere in your account, but I say when you come to give parliament a proper picture of what your operating expenses are, leading to the operating ratio, this a bit distorts the picture, inasmuch as it is abnormal retirements that you speak of; and for proper bookkeeping should be carried from year to year in your annual retirement. In your retirements for 1934 you show an item of \$4,391,000 and in 1935 an item of \$4,786,000. If you did not carry in your profit and loss account for a certain period of years, the abnormal retirement item, you would have to increase these annual retirement items?

Mr. FAIRWEATHER: May I say, Mr. Vien, that the situation that arose during the depression is something unique. It is a condition that arose not only in Canada and on the Canadian National, but also in the United States.

Mr. VIEN: Is it not a fact that in the United States it arose only because of the decision of Congress and of the Interstate Commerce Commission to unify certain railroads, and in that unification of course, retirement was in order?

Mr. FAIRWEATHER: No, sir, that was not the thing. Any prospective unification had no bearing on it. It simply meant this: United States railroads after practising depreciation accounting for equipment for many years were overwhelmed by such a revolutionary change in traffic conditions that their equipment depreciation reserves were inadequate, and they were faced with a condition of having to write off to profit and loss in a period of depression, very large amounts. As a matter of fact we followed them. We got the idea from the procedure in the United States, because we might have carried this item in suspense and charged it out over a series of years, which would have met your idea; but it seemed better to do what the United States railroads had done.

Mr. VIEN: Why did it seem better?

Mr. FAIRWEATHER: Well, in my opinion it presents the accounts clearer.

Mr. VIEN: Well more or less.

Mr. HUNGERFORD: May I make this distinction. We recognize that, and I think everybody does. But there are many units of equipment that are worn out and are retired. If the book value, less salvage, is properly chargeable to operating expenses, it works out all right, but if there is a broad change in conditions which leaves units of equipment obsolete, no longer usable although not worn out, then the Interstate Commerce Commission authorizes charging the latter to profit and loss, and that is exactly what we did. We followed the practice of the Interstate Commerce Commission in connection with the same subject in exactly the same way.

Mr. VIEN: Would you make the statement that nothing in this item of \$29,000,000 charged to profit and loss was due to inadequate yearly retirements?

Mr. HUNGERFORD: Let me tell you what happened: For a number of years following amalgamation we made a survey and determined the number of units that in the opinion of the mechanical officers were worn out and should be

retired. We determined our book value from the records and put an item in the budget to offset that amount. That equipment was retired and year after year we arrived at the end of the year with a clean bill of health; that is to say we had retired all of the units that in the opinion of the company were obsolete.

Mr. VIEN: To cover what period?

Mr. HUNGERFORD: That extended from about 1923 to 1930. So that we found at the end of the year, by following that process, we had no accumulation of units that should be destroyed. Judged by these results we think the procedure we followed was correct.

Mr. VIEN: You feel that the annual retirement item is adequate?

Mr. HUNGERFORD: Yes.

Mr. HOWARD: Up to 1930.

Mr. VIEN: And since 1930 abnormal conditions alone brought about the necessity of retiring equipment to the tune of \$29,000,000?

Mr. HUNGERFORD: \$26,000,000.

Mr. FAIRWEATHER: That is not all equipment. Road is in there as well.

Mr. VIEN: What is the amount of equipment?

Mr. WALSH: \$23,000,000.

Mr. HUNGERFORD: \$23,000,000 net.

Mr. VIEN: As well as salvage.

Mr. HUNGERFORD: As well as salvage.

Mr. VIEN: What is the total number of pieces?

Mr. FAIRWEATHER: About 16,000.

Mr. WALSH: 16,912. Do you think that the item carried in the profit and loss account will recur?

Mr. HUNGERFORD: I do not think so. I cannot see a condition that will bring it about. We do not expect that it will ever happen again. So far as wooden freight cars are concerned, we were prohibited by a new regulation from offering them in interchange, and so far as locomotives and passenger cars are concerned, a shrinkage in traffic on branch lines and in local services rendered them unnecessary. We had no further use for them.

Mr. WALSH: When did that new regulation come into effect in connection with wooden rolling stock?

Mr. HUNGERFORD: These regulations are of an international character.

Mr. WALSH: When did they come into effect?

Mr. HUNGERFORD: The regulation was put into effect the first of last January.

Mr. WALSH: The value of the Canadian National rolling stock equipment is presumed to be in the neighbourhood of \$400,000,000; is that correct?

Mr. HUNGERFORD: About \$375,000,000.

Mr. WALSH: What percent of that should be retired annually? Have you figured on any per cent, two per cent?

Mr. HUNGERFORD: We ask for a certain amount each year; it is shown in the budget.

Mr. WALSH: You do not anticipate a certain definite retirement each year?

Mr. HUNGERFORD: Yes we do, and we specify that amount in the budget.

Mr. WALSH: You do not presume each year you are going to retire three per cent of the rolling stock?

Mr. HUNGERFORD: No, not necessarily on a percentage basis.

Mr. VIEN: But if the depreciation account in the United States is estimated at 3 per cent, don't you think you are bound to come to a time when you will have to carry in the profit and loss account an item of this kind, if your annual retirement is only $1\frac{1}{2}$ to 2 per cent?

Mr. HUNGERFORD: Well, the whole situation is complicated by the question of retirements.

Mr. VIEN: Maintenance and repairs?

Mr. HUNGERFORD: Yes. If these units of equipment are heavily repaired they may continue to be used for a great length of time.

Mr. VIEN: In the United States they have repairs and they have retirements and depreciation.

Mr. HUNGERFORD: Yes, but there are repairs and repairs. Some roads repair perhaps more heavily than others do.

Mr. VIEN: Do you believe that you offset by additional repairs the difference between your retirement ratio and the depreciation ratio provided for by the United States railway?

Mr. HUNGERFORD: We are quite sure we did for the period between 1923 and 1930, as has been proved by the result.

Mr. VIEN: Would you have the same assurance as regards the present condition?

Mr. HUNGERFORD: No; the situation is complicated by the uncertainty as to the trend of traffic.

Mr. VIEN: Therefore to-day you would not be ready to state that your present ratio of retirement is equivalent to the depreciation ratio as provided for in the United States railroads?

Mr. HUNGERFORD: I do not think anyone can be absolutely certain in regard to it; but my belief is that we are charging out this year a sufficient amount.

Mr. VIEN: Even now?

Mr. HUNGERFORD: Even now.

Mr. WALSH: You consider what you are charging annually at the present time is quite adequate?

Mr. HUNGERFORD: Yes, I think so, and the test of it, Mr. Walsh, is that at the end of the year we have cleared up all equipment and destroyed it, that in the opinion of the mechanical officers should be destroyed.

Mr. WALSH: Do you require any particular authority for making this retirement of 16,912 units, or is that done in the ordinary course of administration?

Mr. HUNGERFORD: Administration.

Mr. WALSH: There is no authority required to retire equipment of that nature.

Hon. Mr. FULLERTON: It was done by resolution of the trustees on the recommendation of the president, and the matter was discussed at the last meeting of the committee here. It is set up on page 11.

The CHAIRMAN: Is that all, Mr. Vien?

Mr. WALSH: You would not consider that the provision made for retirement from 1923 to 1930, annually, sufficient during those years?

Mr. HUNGERFORD: Yes, I do.

Mr. WALSH: But they were so much lower than the amounts in the years following, from 1930 to 1936.

Mr. HUNGERFORD: That is including the profit and loss?

Mr. WALSH: In 1923 you show for retirement of equipment \$1,000,000; in 1924, \$2,000,000; and then we get down to \$3,564,000.

Mr. HUNGERFORD: There were smaller charges in earlier years because we were retiring equipment which stood on the books at a comparatively low figure. As that was cleared up we gradually got into an area in which higher prices obtained. We stepped that amount up by half a million dollars to offset this increase in value.

Mr. VIEN: Is this equipment represented by the item of \$29,000,000?

Mr. FAIRWEATHER: No. Of course, Mr. Vien, you realize that that \$29,000,000 is not all equipment.

Mr. VIEN: No. \$26,000,000.

Mr. FAIRWEATHER: The actual physical scrapping of these cars is not completed. There are still a number of them to be scrapped.

Mr. VIEN: They are on your siding now for that purpose?

Mr. FAIRWEATHER: They are in the demolition yards ready to be destroyed. Item agreed to.

The CHAIRMAN: Operating expenses—traffic expenses.

Mr. FAIRWEATHER: Superintendence, Outside Agencies, Advertising, Traffic Associations, Stationery and Printing, Other expenses, Industrial Bureau, Colonization, Agriculture and natural resources.

Hon. Mr. VENIOT: Is your colonization system working out well? Is it working? What is your system?

Mr. FAIRWEATHER: We have a department especially charged with that function. The title of the department is self-descriptive. They look after colonization, agriculture and natural resources.

Hon. Mr. VENIOT: I take it from that that you still place people on the land.

Mr. FAIRWEATHER: Oh, yes.

Mr. VIEN: I would like to have some further information as to what are your natural resources, I would imagine that would include land and I do not know what else, which would require you to have a colonization and agriculture department.

Mr. FAIRWEATHER: Of course, we have a large amount of land grants which we inherited from the Canadian Northern; also timber limits, and we have all kind of mining concessions and rights.

Mr. VIEN: And the colonization scheme that you carry out in that department is for the purpose of finding settlers for the farm lands which you own?

Mr. FAIRWEATHER: Or anywhere adjacent to our line. Anywhere we can place a settler adjacent to our line we think it is to our advantage.

Mr. VIEN: Don't you think it would be just as well to merge that in the colonization department of the State?

Mr. FAIRWEATHER: Of course, that would be a question of policy.

Mr. VIEN: What is your opinion as to that?

Mr. FAIRWEATHER: Well, I do not know that my personal opinion would be worth very much; but I feel that there should be, as there is, the very closest cooperation. There are aspects of colonization work which in my opinion can be most efficiently carried on by an officer of the railway department.

Mr. VIEN: I do not know—I may be wrong, and I would like to be corrected if I am—but these being crown lands, because they are crown lands, if they are Canadian National Railway lands they are crown lands, and it seems to me that a department of colonization with officers particularly charged to look after it from the point of view of the railways might possibly develop these lands; and it would save the item of some \$150,000 a year for this particular department.

Mr. McLARTY: Would you save that?

The CHAIRMAN: I would point out that they are the property of the railway.

Mr. VIEN: They are crown lands. Everything that belongs to the Canadian National Railways belongs to the crown.

Mr. HANSON: I might say that the colonization and natural resources department is doing a wonderful work in that portion of Canada from which I have come. It is the kind of work, I know, that is very much appreciated by chambers of commerce and boards of trade; because quite often we get letters from eastern Canada, the States or other places, asking for information as to resources and possibilities, and one thing and another; and I know that in all instances we refer them to the Canadian National colonization agent for that district whom we find has a full knowledge of everything, and they can get the information better from him than they would get it from our own district agriculturists. It seems to me that this department is functioning very very effectively in our portion of the country.

Mr. WALSH: Is there one person in charge of these three departments?

Mr. FAIRWEATHER: Yes.

Mr. HUNGERFORD: His name is Dr. Black.

Mr. WALSH: Is he known as commissioner; and is there a distinction with respect to each branch of the work?

Mr. FAIRWEATHER: No. This department is in charge of Dr. Black.

Mr. WALSH: And natural resources is under the same person?

Mr. FAIRWEATHER: Yes.

Mr. WALSH: There is no difference between the Canadian National having a department of this nature, and the Canadian Pacific or any other private company.

Mr. FAIRWEATHER: No. It is pretty much the same. Ours is in no way nearly as extensive as theirs is.

Mr. WALSH: It serves a useful purpose in connection with the railways. These corporations which own vast tracts of land must be able to provide proper management for that property, that is what I was trying to emphasize. The Canadian National is no different in this respect than the Canadian Pacific, and this department is a distinct asset to the Canadian National Railways.

Mr. VIEN: Oh, yes; and necessary I should think.

Mr. WALSH: Quite necessary I should think.

Mr. VIEN: Where you have these vast tracts of land there must be someone able to sell them, and to look after development generally.

Mr. WALSH: Mr. Fairweather mentioned mining areas and so on. The Canadian National Railways makes no effort to develop mines?

Mr. FAIRWEATHER: No.

Mr. WALSH: But where you have an opportunity to dispose of a mining area to advantage I presume that is done.

Mr. FAIRWEATHER: Quite. If we have a property that has good mining prospects that would no doubt be done.

Mr. WALSH: In other words, you conduct this department exactly as any other privately owned railway would conduct a similar department?

Mr. FAIRWEATHER: Yes, sir.

Hon. Mr. VENIOT: When you place a settler on your land what are the conditions?

Mr. FAIRWEATHER: I do not know all the details.

Mr. VIEN: Outside agencies, what do they comprise? There is an item of \$2,175,000.

Mr. FAIRWEATHER: This represents the traffic expenses of all the agencies that we have in foreign countries and in the United States. They are what we call "off line" agencies.

Mr. VIEN: Have you a list of these agencies?

Mr. FAIRWEATHER: Yes, sir.

Mr. VIEN: Could you file that with the committee?

Mr. FAIRWEATHER: Yes, sir.

Mr. VIEN: And are they concerned exclusively with the Canadian National National Railways from the railway point of view, or do they have also to look after colonization and the development of natural resources?

Mr. FAIRWEATHER: Well, there used to be a fairly extensive independent colonization department with their own solicitors, but that has been almost completely done away with now and the agencies of the Canadian National in these foreign countries attend to freight, passenger, and any other features of the Canadian National Railways that might be referred to them.

Hon. Mr. VENIOT: Have you any colonization agents who make an endeavour to get Canadians living in the United States to return and take up land in Canada?

Mr. LABELLE: That is one of the activities of the department, but it is limited compared to what it was before.

Mr. VIEN: Have you a more detailed statement of that item of \$2,175,000 for outside agencies?

Mr. FAIRWEATHER: I think that we could give you that. We could give you a list of all our outside agencies.

Mr. VIEN: What I am asking you now is, you might split up this item for each particular outside agency. Could you do that?

Mr. FAIRWEATHER: Yes, sir, I think so.

Mr. VIEN: What I would like to understand is how it is necessary to spend as much as \$2,175,000 for outside agencies?

Mr. FAIRWEATHER: It is money well spent, sir.

Mr. VIEN: I don't know about that.

Mr. FAIRWEATHER: I had occasion some years ago to go into that matter to see if these outside agencies were earning their keep, and to see whether the amount of traffic—for instance, we would have an agent down in Kansas City (that would be a good illustration) and I made a study to see whether the agent at Kansas City was earning his keep in the amount of traffic he was diverting to the Canadian National Railways, and I reached the conclusion that he most decidedly was.

Mr. HUNGERFORD: Their principal function is that of soliciting freight and passenger traffic, and they solicit not only for the railways but for the steamships as well.

Mr. VIEN: Yes.

Mr. FAIRWEATHER: We have them in Singapore for instance. We have an agent in Hong Kong. We have an agent in Japan. If our agent in Japan were able to influence the shipment of one train load of silk, which is highly competitive, from Vancouver to New York as against the United States route he would pay for the agency for ten years.

Mr. WALSH: You don't happen to have an agent in Abyssinia?

Mr. FAIRWEATHER: I do not think we have one there.

Mr. VIEN: Does all this come under Dr. Black, or what department do these outside agencies come under?

Mr. FAIRWEATHER: That is under the traffic department, sir.

Mr. WALSH: And the industrial bureau, Mr. Fairweather; they try to secure people who are interested in industrial sites, their duty involves the promotion of business enterprises.

Mr. FAIRWEATHER: Yes, sir. That is a very very important branch of the traffic department.

Mr. WALSH: Could you suggest that they were quite successful last year?

Mr. FAIRWEATHER: I know they were quite successful.

Mr. WALSH: They secured quite a number of industrial plants along your right of way?

Mr. FAIRWEATHER: Yes, sir. As a result of their efforts in 1935 there were 266 new industries placed along the lines of the Canadian National Railways, with a capital investment of \$4,500,000, and the number of employees concerned amounted to 4,000, and the increased traffic earnings were estimated at \$1,300,000.

The CHAIRMAN: Item agreed to. Transportation expenses, page 23.

Mr. HOWARD: Just a minute please. I would like to ask two or three questions. You may not be able to answer them to-day but you may be good enough to get the answers for me. This is in connection with transportation expenses as related to the operations of the Canadian National Railways. You have several branch lines that are running apparently at a deficit. In your accounting do you give any special consideration to traffic originating on the branch line?

Mr. FAIRWEATHER: How do you mean, sir?

Mr. HOWARD: For instance, you charge up expenses on a certain branch, separately from your main line; do you credit that branch with revenues pro rata to the point of take-over, or how do you do it?

Mr. FAIRWEATHER: We keep part of our expenses of subdivisions.

Mr. HOWARD: Right on the subdivision we will suppose that you have an industry, or a certain creator of a large amount of traffic; you charge up your deficit as to operating to your subdivision. We will suppose that on your subdivision you have got only 30 miles; and the traffic goes over your main line system for 1,200 miles. Take a case in fact, take Sorel, and take for instance Palm Oil; in figuring your receipts would you credit that subdivision with 30/1,200 of the revenue if it is a 1,200 mile haul to destination?

Mr. FAIRWEATHER: It all depends, sir. Ordinarily we do not keep revenue and expense accounts for little bits of the system. We do not attempt to keep that, because it would be a very, very expensive thing to do, and it would be of very little value when we did it. But, when it comes to making an economic study of a particular branch line to see whether that branch line was justified, or whether the service on that branch line was justified, then we take the expenses of the subdivision and we take all the revenues that accrue from all traffic moving on and off or over the subdivision. We look at the total revenue in relation to the expenses of the subdivision, and then estimate the additional expenses that would apply to the other portions of the system from the movement of that traffic. For instance, say a car load of oil; we would take the whole revenue of the car load into account and we would charge against that an estimate of the expense of hauling that car on the rest of the system, which of course would be something. For instance, in the applications that we make to the Board of Railway Commissioners for permission to abandon the operation of certain branch lines we credited all the revenue to the branch lines and we debited an estimate of the expenses of the balance of the system; which

for that purpose we placed at 50 per cent. I do not know whether I have made it plain or not. I will attempt to go through it with an illustration which perhaps might make it clear.

Mr. HOWARD: Just stick right to the point. We will suppose that you are hauling that train load, or car load, or unit a distance of 1,000 miles. We will also take it that the line from which you take over, or the branch, is 30 miles. Now, would you credit up to the subdivision $3/100$ of the total freight?

Mr. FAIRWEATHER: For that purpose we would credit the entire revenue to the branch line. Suppose the revenue would be \$200 a car, we would credit the branch line account with \$200 revenue on that car. Now, we would say that in order to do that we had expenses on the branch line, which of course is there; we would say that we had to haul that car a thousand miles or so. If the haul on the branch line was 30 miles and the total haul 1,000 miles we would have to haul that car 970 miles on the balance of the system. Now let us say the cost of hauling was \$85; and we have this revenue of \$200; we would have expenses on our branch line which we might say would be \$70; and we would have \$85 on the balance of the system. That would make total expenses of \$155, leaving out of the total of \$200, a credit to the branch line of \$45 in revenue. That is the way we do. We credit the branch line with everything that it earns, not on a mileage basis but its total earning power.

Hon. Mr. VENIOT: In its development of traffic.

Mr. FAIRWEATHER: In its development of traffic we credit to it every ounce of traffic that moves on it, or off it, or over it.

Mr. HOWARD: After deducting the expenses arising on the balance of the line?

Mr. FAIRWEATHER: Yes, sir.

Mr. HOWARD: In other words, you do in practice exactly what you do on a through rate. Take a through rate that is going over five miles which originated on a certain branch line. The proportion for the branch line would be a good deal higher than for the rest of the route, because the branch line was the originator of the freight.

Mr. FAIRWEATHER: We take that into account; but not only do we do that but we also take in the terminating traffic too.

Mr. HOWARD: Is that the way it is shown in respect to the Quebec, Montreal and Southern, in the 1935 report, appendix A, at page 220? There you show a deficit of so much per year.

Mr. FAIRWEATHER: But, wait a minute. I was talking about an economic study, do you see. What you have in front of you there is the bookkeeping allocation of revenues and expenses; and that is done on a quite different basis.

Mr. HOWARD: That is what I am getting at. That is not a true picture?

Mr. FAIRWEATHER: It is not a true picture. That is quite correct. It is not a true picture of the value of these lines to the Canadian National System, by any manner of means.

Mr. HOWARD: That is the point I was getting at.

Mr. FAIRWEATHER: To make that statement correct you would have to go to work and calculate the value of the interchange traffic and credit it to the operation of each of these lines.

Mr. HOWARD: You don't do that now, but you do do it when you want to establish the paying power of the line.

Mr. FAIRWEATHER: When we have any doubt as to whether a service is paying or not, or whether a branch line should be continued or not we make a thorough study of it.

Mr. HOWARD: It all comes down to this, then; you show to the public that a certain branch line is running so much per year at a deficit to the C.N.R., although it happens to be an originator of traffic that is worth thousands of dollars. You show that, to the public, as operating at a deficit when as a matter of fact it is an asset to the railways.

Mr. FAIRWEATHER: Yes, sir, but I think you will see on the footnote on that table—there should be a footnote on it, because I remember I put it on myself.

Mr. VIEN: Where are you reading from?

Mr. HOWARD: Appendix A, page 220 of last year.

Mr. MORROW: I think, Mr. Howard, the branch line received \$130 of the \$200 freight on that car.

Mr. HOWARD: If you do that, Mr. Morrow, you would not show these figures; you would show a real profit instead of a loss.

Mr. MORROW: I know you are trying to get at what percentage the branch lines get.

Mr. FAIRWEATHER: \$115 would be credited to branch lines.

Mr. MORROW: And \$85 to the main line, the other 970 miles.

Mr. HOWARD: In actual operation.

Mr. MORROW: Yes.

Mr. HOWARD: But in your figures of last year's report that does not show.

Mr. FAIRWEATHER: We tried to bring that into the statement by putting a footnote showing there was that qualification.

Mr. HOWARD: The footnote says: "No figures are available to show the amount of earnings accruing to the system at large arising from traffic originating at or destined to points on the lines in question."

Mr. FAIRWEATHER: That covers the point, sir.

Mr. HOWARD: "The figures shown as relating to the line are approximations based on pro rata figures." You see, pro rata. That is what I am trying to get at. It should be more than pro rata.

Mr. FAIRWEATHER: The statement was asked for and we furnished it with that qualification. It does not show the correct picture.

Mr. HOWARD: That is what I was getting at. In other words, in plain English here is the situation: if you had a piece of line between two points on a small branch line that was carrying practically all passenger traffic and the passenger traffic diminished it would be a non-paying line, but if on that line you had an industry which was giving you 1,000 carloads of freight per year you do not show a true picture; it is an asset to the main line, but it does not show in the tabulated statement on the branch line as a profitable operation.

The committee adjourned to meet at 8 o'clock p.m.

EVENING SITTING

The committee resumed at 8 p.m.

The CHAIRMAN: Mr. Fairweather, will you proceed with dispatching trains.

Mr. FAIRWEATHER: Dispatching trains, station employees, weighing, inspection and demurrage bureaus, coal and ore wharves, station supplies and expenses, yardmasters and yard clerks, yard conductors and brakemen, yard switch and signal tenders, yard enginemen, yard motormen, fuel for yard locomotives, yard switching power produced, yard switching power purchased, water for locomotives, lubricants for yard locomotives, other supplies for yard locomotives,

enginehouse expenses—yard, yard supplies and expenses, operating joint yards and terminals Dr., operating joint yards and terminals, Cr., train enginemmen, train motormen, fuel for train locomotives, train power produced . . .

Hon. Mr. STEWART: Fuel for train locomotives. How much Canadian coal and how much other coal was used?

Mr. VAUGHAN: We purchased for lines in Canada Canadian coal in 1935 to the extent of 2,513,930 tons and coal from the United States 988,346 tons.

Hon. Mr. STEWART: In what areas do you use American coal?

Mr. VAUGHAN: Canadian coal is used as far west as Toronto, and we use United States coal from Toronto as far west as Winnipeg. We use Alberta coal at Winnipeg and points west, and British Columbia coal in British Columbia.

Hon. Mr. STEWART: Has the railway any interest in American mines?

Mr. VAUGHAN: Yes, we own the Rail and River Mines.

Hon. Mr. STEWART: Is it from that mine that you get your coal?

Mr. VAUGHAN: Yes, all the American coal that we use in Canada comes from those mines except a small tonnage of coal which comes in via our Cobourg car ferry. It is used on the fast passenger trains between Toronto and Montreal.

Hon. Mr. STEWART: What is the cost of the American coal compared with the Canadian coal?

Mr. VAUGHAN: The cost of American coal, of course, is cheaper in the territory where it is used.

Mr. YOUNG: Is it cheaper per ton or cheaper to use?

Mr. VAUGHAN: It is cheaper per ton.

Hon. Mr. STEWART: With regard to fuel value, how does it compare?

Mr. VAUGHAN: The fuel value of the American coal is greater than that of Canadian coal.

Mr. HANSON: The American coal is anthracite is it not?

Mr. VAUGHAN: No, bituminous coal.

Mr. ELLIOTT: With regard to superintendence, does that include travelling expenses and so on?

Mr. FAIRWEATHER: Superintendence would include travelling expenses where they were appropriate to the item.

Mr. HANSON: And would it include expenses of the cars too—expenses of the superintendents' cars too, and supplies for the cars; does it include everything?

Mr. FAIRWEATHER: Yes.

Mr. HANSON: It includes everything in connection with the expenses of the superintendent.

Mr. HOWARD: Does the management also come into that item?

Mr. FAIRWEATHER: Into superintendence?

Mr. HOWARD: Yes.

Mr. FAIRWEATHER: Oh, yes. What do you mean by the management?

Mr. HOWARD: I mean your management.

Mr. FAIRWEATHER: Oh, yes, certainly, to the extent it applies to transportation.

Mr. HOWARD: To the extent it applies to transportation.

Mr. FAIRWEATHER: Yes.

The CHAIRMAN: You will have another item to discuss that on—on general expenses on the next page.

Mr. HOWARD: Fine. That is O.K.

Mr. FAIRWEATHER: Train power produced, train power purchased, water for train locomotives, lubricants for train locomotives, other supplies for train locomotives, enginehouse expenses—train, trainmen, train supplies and expenses, operating sleeping cars, signal and interlocker operation, crossing protection, drawbridge operation, telegraph and telephone operation, operating floating equipment, express service, stationery and printing.

Hon. Mr. STEWART: Now, with regard to telegraph and telephone operation, have the board under consideration any consolidation of the telegraph services of the two roads?

Hon. Mr. FULLERTON: At the present time we have come to a standstill; we cannot get any further. There is difficulty about the title of our telegraph facilities. The idea was to establish a new company, to transfer the interests of the two, the C.P.R. and ourselves, to this new company. Our title is subject to certain leases, and under those leases the property is to be handed back to the Montreal Telegraph Company in 1978. Our title is completely defective, and we have not been able to devise any way by which we could bring about amalgamation and so forth. The matter has been submitted to the lawyers both of the C.P.R. and the C.N.R., and they have not been able to work out a theory up to the present time. So we are locked right there.

Mr. FAIRWEATHER: Other expenses, operating joint tracks and facilities Dr, operating joint tracks and facilities, Cr., clearing wrecks, damage to property, damage to live stock on right of way, loss and damage—freight, loss and damage—baggage, injuries to persons.

Mr. HANSON: Express service. Is that paying for itself?

Mr. FAIRWEATHER: The express, sir?

Mr. HANSON: The express service.

Mr. FAIRWEATHER: Oh, yes. That is a paying branch of the railway.

Hon. Mr. STEWART: How about the express services? Is there any consideration of amalgamation of those services or is there any measure of co-operation between the two roads in the handling of the express?

Hon. Mr. FULLERTON: Mr. Hungerford can explain that to you a little better than I can, because it is an operating matter.

Mr. HUNGERFORD: The matter was referred to by the royal commission. The express traffic is very similar to package freight, and with the change in conditions with respect to trucking and highway competition it is felt in some quarters that there might possibly be an amalgamation between the express facilities and the organization that handles the package freight on each railway. The matter is under very careful study now.

Mr. YOUNG: An amalgamation?

Mr. HUNGERFORD: No; but as to whether it would be better to put the package freight activities together with the express service on each road, instead of giving consideration to the amalgamation of the express companies.

The CHAIRMAN: Is the item carried? (Carried.)

The CHAIRMAN: Page 24, miscellaneous operating expenses.

Mr. FAIRWEATHER: Dining and buffet service; restaurants, grain elevators and other miscellaneous operations. Total.

Mr. YOUNG: Is the dining and buffet service one of the losing items on the road?

Mr. FAIRWEATHER: It is certainly not very remunerative.

Hon. Mr. STEWART: There is a difference between "very remunerative" and losing money.

Hon. Mr. FULLERTON: Every railway loses money heavily on dining car services.

Mr. HANSON: What is the expense in connection with the grain elevators? Can you give us that?

Mr. FAIRWEATHER: Those are expenses in connection with the grain elevators that the system owns.

Mr. HANSON: Does the system own some elevators?

Mr. FAIRWEATHER: Oh, yes.

The CHAIRMAN: Is the item carried? (Carried.)

The CHAIRMAN: Page 24, general expenses.

Mr. FAIRWEATHER: Salaries and expenses of general officers; salaries and expenses of clerks and attendants; general office supplies and expenses. . . .

Mr. HOWARD: Under the first item "Salaries and expenses of general officers," is that where the new trustee board comes in?

Mr. FAIRWEATHER: Yes; they would be included in that as an item.

Mr. HOWARD: With your permission, Mr. Chairman I would like to ask Mr. Fullerton two or three questions.

The CHAIRMAN: Very well.

Mr. HOWARD: What do you consider is the legitimate deficit this last year on the C.N.R.?

Hon. Mr. FULLERTON: \$47,000,000.

Mr. HOWARD: In your mind is that a fair way of treating the question?

Hon. Mr. FULLERTON: I think so.

Mr. HOWARD: Just before the close of the House this afternoon the leader of the opposition was very persistent in stating that the deficit on the Canadian National Railways last year was \$115,281,689.79. I was shocked.

Hon. Mr. FULLERTON: He included the \$26,000,000 for special equipment retirements and included the interest on Government money loaned for years back.

Hon. Mr. VENIOT: No. He was asked that question and said No.

Mr. ELLIOTT: Page 18.

Mr. YOUNG: He referred to page 18, the profit and loss statement.

Hon. Mr. VENIOT: Yes, that is the one.

Hon. Mr. FULLERTON: You can reach the \$115,000,000 if you include everything on earth.

Interest on accrued government loans.	\$35,949,676
Amortization of discount.	986,998
Depreciation accruals.	636,449
Obsolete equipment written off.	24,588,920
Property retired and not replaced.	4,030,095
Adjustment of land values.	958,878
Adjustment of depreciation (I.C.C. order No. 5100)	522,827
Miscellaneous.	186,377

\$67,860,224

That is the difference between \$115,281,000 and \$47,421,000.

Mr. HOWARD: We could increase that if we included the salaries of members of parliament.

Hon. Mr. FULLERTON: Yes.

Mr. HOWARD: But you are convinced that \$47,000,000 is the real deficit for the past twelve months on the C.N.R.?

Hon. Mr. FULLERTON: That is the cash deficit.

Mr. HOWARD: And included in that is this extraordinary retirement put through this year, which was a great deal higher than in any other year.

Hon. Mr. FULLERTON: That is not included.

Mr. HOWARD: The \$29,000,000.

Hon. Mr. FULLERTON: No; that is not in the \$47,000,000. If you look at page 4:—

The amount of cash required on deficit account by the Railway for the calendar year 1935 is \$47,421,464 against \$48,407,900 in the previous year. It should be noted that in the detailed accounts of the Railway submitted herewith, there are included various charges, such as: interest accruals on Government loans, depreciation accruals on lines in the United States, amortization of discount on funded debt, capital losses on physical property retired from service and not replaced, and the book loss resulting from the exceptional program of obsolete equipment retirements. Such charges have been excluded in compiling the cash requirements for the year in accordance with Chapter 17, 1935.

Hon. Mr. HOWE: The leader of the opposition stated very definitely that this is the loss for this year, not an accumulation of losses but the loss for 1935.

Hon. Mr. FULLERTON: If he wants to make it up in that way he can reach the \$115,000,000.

Hon. Mr. HOWE: You do not agree with him?

Hon. Mr. FULLERTON: No.

Hon. Mr. HOWE: You agree that the \$26,000,000 retirement is an accumulation?

Hon. Mr. FULLERTON: In a sense; it should have been spread over a number of years.

Mr. HOWARD: If you take that item from the retirement last year and the few years before and total it all together and divide it by the number of years you would get a lesser figure than that?

Hon. Mr. FULLERTON: Yes. Last year when we first went in there, 1934, we found this obsolete equipment, and my proposal was that we should wipe it out, that it should not exist. However, the matter was delayed and this year we did wipe it out. We thought it was our duty to wipe it out because it had no business being there. The average income loss for thirteen years including Eastern lines is \$28,767,000.

Mr. HOWARD: What page is that?

The CHAIRMAN: Page 26, under receipts and expenditures.

Hon. Mr. FULLERTON: The average for thirteen years including Eastern lines was \$28,767,693.44.

Mr. HOWARD: The total money we voted this year out of the public treasury in cash to the Canadian National Railways was how much?

Hon. Mr. FULLERTON: \$47,000,000 odd.

Mr. HOWARD: Then there is no justification for the figure of \$115,000,000 going out to the public as a deficit.

Hon. Mr. FULLERTON: One is a cash item and the other a book item.

Mr. HOWARD: Of course you could not have a deficit of more than the amount we voted.

Hon. Mr. FULLERTON: A cash deficit.

Hon. Mr. STEWART: Let us assume that you were dealing not with the Dominion government but with a private company with shareholders. You would show the \$115,000,000?

Mr. HOWARD: No.

Hon. Mr. FULLERTON: We would not be in existence. We would be out of existence, I afraid.

Hon. Mr. STEWART: That does not make any difference. You would be making a statement which you would submit to your shareholders before you went out of existence, and you would show \$115,000,000 if you gave them the true picture.

Hon. Mr. FULLERTON: Yes, if you charged the interest on all past indebtedness, past advances, interest and everything that has been accruing for years and years, you would get this large amount.

Hon. Mr. STEWART: Is that not an obligation?

Hon. Mr. FULLERTON: That, presumably, would be good bookkeeping, I suppose.

Mr. HOWARD: Take Mr. Stewart's exact question: At the end of your year, if you did not have the government to back you, you would have to go into the market with a bond issue to supply the necessary cash to continue?

Hon. Mr. FULLERTON: Quite so.

Mr. HOWARD: To what extent would you have to issue bonds for last year?

Hon. Mr. FULLERTON: \$47,000,000.

Hon. Mr. STEWART: How would you pay the interest you owed the other creditors?

Mr. HANSON: The interest is included in this.

Hon. Mr. VENIOT: Is not all interest included in that except the interest due the government?

The CHAIRMAN: The interest owing to the public.

Hon. Mr. STEWART: But not the interest to the Dominion.

Mr. HOWARD: Mr. Fullerton, the tax-payers of Canada have been making up deficits and advancing money for capital expenditure and this, that and the other thing for building up our country; do you think it would be a legitimate charge to charge up the interest on that any more than it would be to charge interest on a grant to agriculture.

Hon. Mr. FULLERTON: I certainly do not. That is one of our main objects in trying to get re-capitalization, trying to get some of this old dead wood out.

Hon. Mr. VENIOT: What is the interest due the public?

Hon. Mr. FULLERTON: This year it was \$53,468,000.

Hon. Mr. VENIOT: Is that not a surplus of about \$7,000,000?

Hon. Mr. FULLERTON: Yes, we have a surplus available of about \$5,000,000.

Hon. Mr. HOWE: Would you tell us about this item called "Interest on Dominion Government Loan"? What rate of interest is charged?

Hon. Mr. FULLERTON: If you look at page 29, Mr. Howe, that will give you the different bond issues and the interest paid. It is mostly 6 per cent. You will see 6 per cent, 6 per cent, and 5 per cent. It certainly does not cost the government 6 per cent for money.

Mr. HOWARD: Not now.

Mr. YOUNG: In any event, it would not be correct to say that this amount of \$115,000,000 under any circumstances would be the deficit for this one year? Some of these items represent a sort of heaped up deficit?

Hon. Mr. FULLERTON: Some people like to pile them up and make them as bad as possible.

Hon. Mr. VENIOT: 90 per cent of the loan pays 6 per cent, or about that, to the government.

Hon. Mr. STEWART: Speaking about obsolete equipment and the heavy charge this year in respect to it, it follows that if it had been charged up in other years the deficit would have been greater in years gone by?

Hon. Mr. FULLERTON: That is perfectly true.

Hon. Mr. STEWART: It would have been greater in other years?

Hon. Mr. FULLERTON: That is perfectly true.

Hon. Mr. HOWE: In other words, it is a cumulative deficit.

Hon. Mr. STEWART: Why was it not written off in other years, just to make things look better than they really were?

Mr. MAYBANK: In what years was that, for a number of years?

Hon. Mr. FULLERTON: A number of years. Mr. Hungerford explained that this morning as to why this large amount was not written off before.

Hon. Mr. HOWE: Inasmuch as the subject has been raised in parliament, it would be just as well if Mr. Hungerford would go through this profit and loss statement and give us a clear picture of the position.

Hon. Mr. FULLERTON: I think Mr. Cooper could give you that.

The CHAIRMAN: Is it on page 26, the receipts and expenditures?

Hon. Mr. HOWE: I was interested in page 18, in view of the fact that the question has been raised.

The CHAIRMAN: All right, we will go back to page 18 and deal with the profit and loss statements. Will you deal with that, Mr. Cooper?

Mr. COOPER: What is the question?

Hon. Mr. HOWE: I was interested in an explanation of this profit and loss statement. It has been raised in parliament, and we might as well understand it in committee so that if it is raised again we can discuss it.

Mr. COOPER: On the opposite page, 19, is what is called the "Income Statement." The Income Statement sets out the normal transactions of the company for the year 1935. Anything of an abnormal nature is taken up through the profit and loss statement. The purpose of the two statements is to try to get into the income statement what would be the normal income result of the various transactions that are applicable to the year itself. For instance, this item of equipment retirement is considered an abnormal item. It is not normal in any way, and if it were included in the income statement or in the operating expenses it would distort those figures. The accounting plan which we follow is designed to take up abnormal items through the profit and loss statement. That is what we have done.

Hon. Mr. FULLERTON: Do you want an explanation of the different items in this profit and loss statement?

Hon. Mr. HOWE: Yes.

Mr. COOPER: The first item is "Credits from retired Road and Equipment." These are profits on small pieces of property that have been sold. The amount represents the sale price in excess of cost.

Hon. Mr. STEWART: There is a greater amount than last year?

Hon. Mr. FULLERTON: Yes, it is nearly double.

Hon. Mr. STEWART: How does it come to be more this year?

Mr. COOPER: It would depend particularly on what land sales we might have. The land sales do not balance one year with another.

Hon. Mr. STEWART: Would you consider that figure abnormal with the knowledge of the history of the previous year, \$24,000 against \$13,000?

Mr. COOPER: Perhaps the word "abnormal" is not applicable there. It is not an operating transaction. It is more of a capital transaction. We have sold some capital assets in excess of their costs, and the proper accounting for the excess is to deal with it in this account.

Mr. MAYBANK: About how many items are represented in that figure of \$24,000?

Mr. COOPER: Well, I do not know, sir. We have them grouped here as items under \$500. There are three items in excess of \$500.

Mr. MAYBANK: There are three items in excess of \$500?

Mr. COOPER: Yes.

Mr. MAYBANK: There is a large number of small items making up this figure?

Mr. COOPER: Yes.

Mr. MAYBANK: What is the nature of those items? Mention a few of them.

Mr. COOPER: The first item here is the sale of property to the Department of Public Works for the site of the new postal terminal. We sold the property to the Department for a small amount in excess of what it cost us.

Mr. HOWARD: You would call that practically swopping dollars?

Hon. Mr. STEWART: No, I do not think you would call it swopping dollars, it is getting dollars.

Mr. MAYBANK: You are referring to a piece of land that was sold to the government for a post office site. How much was the sale price?

Mr. COOPER: I do not know, sir. I know the difference in the sale price against the cost was \$13,000.

Mr. MAYBANK: The difference between the cost and the sale price was \$13,000?

Mr. COOPER: Yes, and the \$13,000 is part of the \$24,000.

Mr. MAYBANK: Then everyone of the items that go to make up the amount of \$24,000 recorded here is an increased increment, or whatever it might be?

Mr. COOPER: Excess of the sale price over cost.

Mr. HOWARD: If you take that one item out of the twenty-four, thirteen from twenty-four would leave you eleven.

Mr. COOPER: Yes.

Mr. HOWARD: That makes it really less than last year.

Mr. MAYBANK: Aside from that particular windfall this would appear to be equal to the situation last year.

Mr. COOPER: Yes. The next item, unrefundable overcharges, represents amounts due to shippers where the billing has been in excess of the tariff rate. We make it a practice to go over all our billing when the bills come into the revenue office and if we find that an agent has made an error, that he has overcharged the shipper, we make a refund; but in some cases where the shipper cannot be located we have to write the credit off. That is what this item is.

Donations, \$30,328.73: This represents property which is paid for by others, principally for traders, sidings where the property is on the railway right of way and the title to the property is considered as resting in the railway company. We set the value up on the one hand as a charge to investment account, and necessarily the contra item as it is not related to operations is considered a profit on capital account. It is taken care of through this account here.

The CHAIRMAN: Is the rental of these sidings included in that, or is that just capital account?

Mr. COOPER: That is just the value of the property which comes to the railway company and which is paid for by others.

Mr. MAYBANK: Why did you hit on the word donations for that?

Mr. COOPER: We did not hit on it, sir. We followed the I.C.C. and the Dominion classification and that is how they describe it.

Mr. HOWARD: I don't just get it yet. Supposing you put in the proper siding, such as ones I pay for on the C.N.R.; I pay for the ties, for the grading of the property and all that, and when I pay you \$250 a year for the use of the siding. Where do you get a donation out of that?

Mr. COOPER: In some cases we might ask you to pay for the switch on the railway right of way. If you did we would consider that we owned that switch because it was part of our main line.

Mr. HOWARD: And you charged that up against it. It would be a donation because you would not get any revenue for it.

Mr. COOPER: The item is an addition to the property account, and is offset by credit to profit and loss on the other hand.

The CHAIRMAN: It is compound accounting.

Mr. HOWARD: This is a new one. Don't you think it would be a much better way if you were to show it in your revenue account and leave out the donation stuff.

Mr. COOPER: You would, as far as rental is concerned, but you must distinguish between items of a capital nature and items of income nature.

Hon. Mr. STEWART: I suppose you have some warehouses and buildings of that type on your property which would be in that?

Mr. COOPER: In Port Huron, when we proposed to build a car shed, a car repair shop, the citizens of Port Huron donated the land for the purpose to the railway company. Now, the Interstate Commerce Commission would require that the value of the land be set up in the property account; and, of course, there must be an off-setting item, that is treated as a donation. It is a donation. It is something given to the company.

Mr. HOWARD: That is a clear donation. There is no question about that.

Mr. HANSON: Yes, that is clear enough.

Mr. COOPER: Miscellaneous credits, as the name indicates, are items of a miscellaneous nature. I could give you the character of them: Profit on the redemption of 2 per cent guaranteed stock; profit on the Saint John and Quebec 4 per cent debenture stock redeemed through sinking fund; dividends received from liquidation proceedings after investment had been written off; recovery from disposal of salvage of Toronto Suburban railway in excess of amount of estimated salvage that was written off; and items of that nature.

Debits: Surplus appropriated for investment in physical property: That in turn relates to the item of donations, the amount of \$2,064.34 is for the United States lines. Again, the I.C.C. classification requires with respect to donations in property that we should make an appropriation of such items in order to keep them out of the free surplus account.

Debt discount extinguished through surplus: In some cases for our sinking fund purposes we buy in our own securities. If the securities were issued at a discount, when they are re-acquired any of the unextinguished discount must be written off.

Debits for retired road and equipment: This includes the item of obsolete equipment amounting to \$24,000,000; and the other principal items represent branch lines which have been abandoned and dismantled.

Mr. WALSH: In that amount of \$29,000,000; will you go back to the report of the board on page 11, retirement of equipment \$23,000,000. That \$23,000,000 is not shown later, further down on that same page. Is the item retirement 1935 \$5,500,000? Going back to page 19 again, railway operating expenses \$158,000,000; that \$5,500,000 appears in there I presume?

Mr. COOPER: Yes.

Mr. WALSH: But that \$23,000,000 has never appeared in the income statement.

Mr. COOPER: That is correct.

Mr. WALSH: Does not that give a tendency to show the net loss lower than it would be if that equipment had been retired from year to year; or, if you are retiring that equipment amounting to \$23,000,000 in 1935 why should it not appear on page 19 of the income statement? Why should it go direct to the profit and loss account without going through the income statement?

Mr. COOPER: Well, if this retirement of equipment had been on all fours with the equipment which is retired from year to year, yes; then the income statement has been understated from year to year. If you like you could spread that over 20 years because, undoubtedly, the equipment must have been in service for more than that time. You might say that roughly a million dollars could have been included in the income statement. But, our position on that, as has been explained, is that this equipment was retired under abnormal conditions, and it is not in the same category as yearly retirements which take place because equipment is worn out. This equipment was retired because of special conditions pertaining to the depression, interchange arrangements—discontinuance of service on light traffic lines and the incidence of obsolescence as distinguished from depreciation. Also, the principle involved was threshed out before the accounting officials of the Interstate Commerce Commission, as the use of the profit and loss account in these cases must receive their approval in so far as our U.S. lines are concerned. It seems reasonable to carry the same principle into effect on the Canadian lines.

Mr. WALSH: None of this \$23,000,000 was charged to the American lines at all?

Mr. COOPER: No. But in the previous year we had a similar equipment retirement program on the Grand Trunk Western. We submitted the facts to the Interstate Commerce Commission, and they authorized the use of the profit and loss account. In 1935 we extended the same principle into our Canadian line accounting.

Mr. WALSH: My feeling is, and in fact my contention is, that the net income deficit as shown on page 19 for the year 1935—48 million odd, close to 49 million—should be increased by this \$23,238,000, showing actually over \$70,000,000.

Mr. COOPER: Then you do not accept my line of reasoning?

Mr. WALSH: I accept your suggestion, but I feel that ever since the year 1921 or 1923 there has not been charged against this account a sufficient amount; that there has not been a sufficient amount charged against the retirements; that there have not been the debits for the retirement of lines, equipment and so on that there should have been. For instance, away back in 1923 I think it was only the amount of \$1,000,000. Then it gradually increased right down to 1930, though it did not need too more than, I presume, one and a half per cent at the outside. I think your feeling is, and I think the feeling of the railway officials would be, that it should measure up to about 3 per cent of the \$4,000,000. I feel that this \$23,000,000, close to \$24,000,000, which is being wished on us this year, 1935, is not being shown; and this is due principally to the fact that for years gone by a sufficient amount has not been charged against retirements. Is that a correct statement, or would you say that my line of argument was quite incorrect?

Mr. COOPER: You are correct in part, Mr. Walsh. But Mr. Hungerford this morning explained that in the years from 1923 to 1930 at any rate, the railway did absorb a very considerable expenditure for the rebuilding of equipment which we treated through the operating expense account.

Mr. HUNGERFORD: We retired all the equipment that was worn out each year.

Mr. HOWARD: Suppose you had treated this 1935 the same as 1934. In 1934 that item is \$1,290,194. Suppose that item this year had been \$2,000,000. Following the same rules that you have followed for years, then your total debits down there would have been \$27,000,000 less, or it would have left \$3,000,000?

Mr. COOPER: Yes. That is correct.

Mr. HOWARD: That, added to your income deficit, would be your actual, real, genuine deficit. Is not that so?

Mr. COOPER: No. I think you would, in that case, deduct the \$27,000,000 from the \$115,000,000.

Mr. HOWARD: Oh, no.

Mr. COOPER: That is, assuming you are going to accept all the other charges such as interest on government loans and items of that nature.

The CHAIRMAN: You must accept the evidence.

Mr. HOWARD: Surely you are not going to accept interest on government advances?

Mr. COOPER: No. But you were saying if the 29 had been 2.

Mr. HOWARD: Yes.

Mr. COOPER: How would 1935 have compared with 1934?

Mr. HOWARD: That is so.

Mr. COOPER: In 1934 the system loss, as shown in the profit and loss statement, is \$89,000,000. Then if the 29 had been 2, 1935 would have been \$88,000,000.

Mr. HOWARD: Yes; if you leave out all the interest on Dominion loans in both cases, you will have 53 in the one case and 51 in the other.

Mr. COOPER: That is so. And then you must, I feel, also deduct items such as the permanent retirement of branch lines.

Mr. HOWARD: Sure.

Mr. COOPER: You take up a line that costs a million dollars because it is of no further use. You scrap it. That is not an operating expense; the loss is not.

Mr. HOWARD: No.

Mr. COOPER: It is a retirement of your capital assets. And this is the only place through which such items can properly be accounted for.

Mr. HOWARD: Right.

Mr. WALSH: Why not put the \$5,500,000 in the same way, and then it would have shown the net income deficit less than \$48,000,000?

Mr. COOPER: Because the equipment which is retired in the normal process is renewed; and property which is renewed is taken care of through the operating account.

Mr. HOWARD: Sure.

Mr. COOPER: Renewals and retirements are operating expenses.

Mr. WALSH: These 16,000 odd units are not going to be replaced. Is that the idea?

Mr. COOPER: No.

Mr. WALSH: They are special retirements not to be replaced.

Mr. COOPER: Mr. Walsh, in the 1934 report, on page 10, the facts regarding that program were set out. There was also a special pamphlet prepared. A copy of the report which the President submitted to the Trustees was distributed to the members of the committee. I do not know whether you have copies of that or not.

Hon. Mr. FULLERTON: I have copies.

Mr. COOPER: All the facts are set out there.

Mr. BOTHWELL: The items should really have been written off in 1934 instead of last year?

Mr. COOPER: I beg your pardon?

Mr. BOTHWELL: The items should have been written off possibly in 1934, or might just as well have been?

Mr. COOPER: Well, it was recommended by the President in 1934, but the authority to dismantle the equipment was not given by the Trustees until this year; and the actual dismantlement did not take place until this year. That is why it comes in the 1935 statement.

Mr. HOWARD: What is the total taxes the C.N.R. paid during the last year?

Mr. BOTHWELL: Why not complete this statement?

Mr. HOWARD: O.K.

Mr. BOTHWELL: Would it not be better to complete this profit and loss statement, Mr. Chairman?

The CHAIRMAN: Well, I am just waiting. If we are through with this, we can go on.

Mr. COOPER: The total of all taxes paid in the year 1935—that does not include sales tax because sales tax is considered a part of the cost of material—was \$6,044,175.

Mr. HOWARD: That is some contribution.

The CHAIRMAN: Go on with the profit and loss statement.

Mr. HOWARD: That is a lot of money.

Mr. WALSH: Coming back to the \$23,000,000 again, that would not be considered irregular by any business man or business corporation? That is the way it would be done in ordinary business?

Mr. COOPER: You mean—?

Mr. WALSH: I am looking for information. I quite frankly acknowledge I am quit dumb on these things. I want to be enlightened.

Mr. COOPER: Do you mean is the way we treat it the way it would be done in ordinary business?

Mr. WALSH: Yes. Would an ordinary business man, getting this statement and noticing these two items going through in that way, try to suggest or characterize that as an effort to camouflage the actual loss on the operation of the railway?

Mr. COOPER: Not if they knew the facts and if they understood the railway accounting.

Mr. WALSH: The officials of any other railway would not make the suggestion that you were trying to show a smaller net income deficit by charging through a special item of this nature on profit and loss?

Mr. COOPER: I think that is answered by my reference to the Interstate Commerce Commission. We were not alone. A lot of railways were faced with this abnormal situation.

Mr. WALSH: And they handled it in the same way?

Mr. COOPER: And they go to the Commission, because the Commission is the body appointed to consider and give rulings on this kind of subject.

Mr. WALSH: Yes. In railway practice it is not considered abnormal at all?

Mr. COOPER: No, it is not. Miscellaneous debits, \$1,938,000. They are of a miscellaneous nature. I can give you some of the items if you want them.

Hon. Mr. STEWART: I thought you were going right through them.

Hon. Mr. HOWE: I should like some explanation of the debt to the government.

Mr. COOPER: Yes, sir.

Hon. Mr. STEWART: On page 18 we find a statement of the system's net loss which is \$115,281,689.79.

Mr. COOPER: Yes.

The CHAIRMAN: Which includes interest.

Mr. COOPER: That is the bookkeeping loss, taking into account these non cash items, capital write-offs, government interest and other abnormal items.

Mr. WALSH: To all intents and purposes it was almost what it was in 1934 except for the extraordinary item under retirement.

Mr. COOPER: Yes, Mr. Walsh.

Mr. WALSH: Practically the same.

Mr. COOPER: Now, the net of the profit and loss items is \$30,453,831; to that is added deficit on income account shown on page 19, \$48,878,181. Then, we have interest on government loans \$35,949,676, making up a total of \$115,000,000. The detail of interest on government loans is set out on page 29. These are the loans which the Dominion has made to the companies now comprising the Canadian National Railways. They go back to the beginning. As was pointed out, the interest rate is very high. It is 6 per cent on practically the greater part of the total; and in part it is interest on loans for deficits against which we have no assets, therefore we have no earning power against this charge.

Hon. Mr. VENIOT: Where do you get your authority for charging up to this account 6 per cent?

Mr. COOPER: All contained in the statutes as fixed by order in council.

Hon. Mr. STEWART: Away back in 1923 or 1924?

Hon. Mr. VENIOT: I am pretty sure that the government borrowed this money and loaned it to the railway at a time when they were not paying 6 per cent.

Hon. Mr. STEWART: I notice, Mr. Veniot in the year 1934 a 6 per cent loan vote, 139. Probably they were paying that rate at that time.

Mr. COOPER: The practice of paying 6 per cent in my opinion commenced when these roads were owned by other than the government. The government was stepping in here before the shareholders or the minority interests, and there was no reason why the government should be generous. But since ownership passed to the government, the situation is changed, and apart from whether interest should or should not be charged, certainly the rate is excessive.

Hon. Mr. STEWART: You have it in here but you are not paying on it?

Mr. COOPER: No, sir, but when it is claimed that the deficit is properly chargeable with that item, I think the position is stated unfairly as far as the railway is concerned.

Mr. HANSON: It should be written off and forgotten.

Mr. HOWARD: Has not there been an attempt during the last two years to try to make some arrangement to place this debt on a lower interest rate?

Mr. COOPER: It has been called to the attention of the government, yes.

Hon. Mr. VENIOT: In the conversion loan of two or three years ago, there was nothing for the C.N.R. included?

Mr. COOPER: I do not know anything about that.

Hon. Mr. VENIOT: Have you had that information?

The CHAIRMAN: Are there any further questions on the loans from the Dominion of Canada?

Hon. Mr. HOWE: In regard to these loan votes, are they chiefly for the deficit for the current year? I notice one in every year starting with 1911. Does that mean the deficits in each year have been capitalized?

Mr. COOPER: When the loans were made to the old companies they would probably include whatever deficit there might be; but it would also include capital expenditures.

Hon. Mr. STEWART: It is to be noted there is a progressive reduction in the rate of interest from 1932 on. In 1933 it was $4\frac{3}{4}$ per cent; in 1934, $4\frac{1}{2}$ per cent; 1935, 4 per cent—1934 it shows it was $3\frac{1}{2}$ per cent loan chapter 28; 1934 nearly $3\frac{1}{2}$.

Mr. BOTHWELL: There has been a reduction since 1933 as well?

Hon. Mr. STEWART: Yes.

Mr. YOUNG: Money is cheaper, that is all.

Hon. Mr. STEWART: That was the current going rate, I suppose, at the time the loan was made; that is all.

Hon. Mr. HOWE: I have a break-down here which is very interesting. It shows capital expenditure loans \$249,000,000; debt redemption \$119,000,000; for deficits \$282,000,000; deficits capitalized and working capital loaned to the road, \$282,000,000.

Mr. MAYBANK: What was the figure of the total of the deficits you gave from the break-down?

Hon. Mr. HOWE: \$282,000,000 loans for deficits.

Hon. Mr. STEWART: Since when, Mr. Howe?

Hon. Mr. HOWE: Since 1911.

Mr. VIEN: Where can that be found?

Hon. Mr. HOWE: It is a break-down I have here in a book made up in the department, and I presume it is correct.

Hon. Mr. STEWART: That includes the Canadian Northern, the Grand Trunk, and the Grand Trunk Pacific.

Mr. MAYBANK: How many separate items are in that deficit?

Hon. Mr. STEWART: One every year.

Mr. MAYBANK: The minister has been referring to the fact that there has been one every year.

Hon. Mr. STEWART: Since we took it over.

Mr. COOPER: Loans were made to the Separate corporations Canadian Northern and the Grand Trunk Pacific. There will probably be one to each of them; but since the Canadian National was consolidated there would be only the one.

Mr. MAYBANK: Have you worked out at any time the total amount of interest that has been paid on those deficits?

Hon. Mr. STEWART: None has been paid at all.

Mr. MAYBANK: It is of some importance.

Mr. COOPER: The amount that is charged up but unpaid is \$495,030,137.29.

Mr. VIEN: That is found on what page?

Mr. COOPER: Page 17.

Mr. YOUNG: What is the amount?

Mr. COOPER: \$495,000,000.

Mr. MAYBANK: So the railway on paper is worse off by the figure you have mentioned by reason of interest charged on deficits?

Mr. COOPER: How do you mean "worse off"?

Mr. MAYBANK: It is shown that the railway owes the sum of money for interest which you have mentioned.

Mr. COOPER: But it is all charged in in our financial statement; the full liability is set out.

Mr. MAYBANK: Yes, I know. My point is this: I am merely endeavouring to recapitulate what you say. We appear as a railway to be worse off by the amount you mentioned, which is some \$400,000,000 odd.

Mr. COOPER: \$495,000,000.

Mr. MAYBANK: By reason of the fact that interest has been charged year by year against those deficits.

Mr. COOPER: Yes.

Mr. HOWARD: Certainly.

Mr. MAYBANK: I am trying to see if the idea I had was right.

Mr. COOPER: Yes.

Mr. HOWARD: Certainly.

Mr. COOPER: I did not understand your question.

Mr. VIEN: Look at that item on page 27 on the funded debt, "Principle and interest guaranteed by the Dominion government." Are there included the obligations to the public and the obligations held by the government, or are there loans from the Dominion government excluded from that statement?

Mr. COOPER: Yes. The loans from the Dominion are excluded from the items appearing on pages 27 and 28.

Mr. VIEN: And they are shown where?

Mr. COOPER: On page 29.

Mr. VIEN: Is there anywhere shown the total funded debt both to the public and to the government?

Mr. COOPER: Yes. It is set up on the balance sheet, page 17.

Mr. VIEN: I see on page 14 a tabulation there, "income deficit after payment of interest on funded debt"—a comparison on five year averages during the period of 1927 to 1930 and then 1931 to 1935. Of course, that would be exclusive of the interest due to the government would it not?

Mr. COOPER: Yes.

Mr. VIEN: Have you figures for what it would be, inclusive of the interest due to the government?

Mr. COOPER: It would be about \$35,000,000 more than—

Mr. VIEN: Have you the exact figures tabulated somewhere?

Mr. MORROW: I can give you it for thirteen years—1923 to 1935 inclusive—\$435,514,375.

Mr. VIEN: It would have been interesting to have these five-year periods with the income deficit after paying of interest on funded debt to the public and on funded debt to the government.

Mr. COOPER: I can give you that to-morrow.

Mr. VIEN: I shall be pleased to have it.

Mr. MORROW: May I refer to the question of retirements and depreciation?

Mr. YOUNG: Before you do that, I would like to ask one question here. About how much do you estimate there is charged against the Canadian National Railways which is more or less fictitious—or put it the other way, against which there are really no assets?

Mr. COOPER: In the balance sheet?

Mr. YOUNG: Against the railways.

Mr. COOPER: Are you talking of the amounts included on the liability side of the sheet?

Mr. YOUNG: About how much with all those accumulations which have gone?

Mr. COOPER: About one billion dollars.

Mr. VIEN: You understand what I want?

Mr. COOPER: Yes.

Hon. Mr. STEWART: Just to finish that. It is not correct, is it, to describe that as fictitious; it represents actual cash?

Mr. COOPER: No, sir. The question was what amount is included which is not represented by assets.

Hon. Mr. STEWART: Mr. Young mentioned the word "fictitious."

Mr. YOUNG: Perhaps I should put it the other way.

Mr. VIEN: Now, with regard to interest due to the government, I would like to know where in this annual report the interest due to the government is shown. Is it shown anywhere?

Mr. COOPER: The interest for the year?

Mr. VIEN: Yes, for the year.

Mr. COOPER: It is shown on page 29—the interest for the year.

The CHAIRMAN: Accrued interest for 1935, \$35,949,676. That is shown on page 29.

Mr. MORROW: As was said the other day, there is the difference between depreciation and capital retirement. Now, the figures from 1923 to 1935 inclusive show that the total capital expenditure amounted to \$647,000,000, and the capital retirement for thirteen years amounted to \$186,000,000, leaving a net of \$461,000,000. There capital expenditure was in excess of our capital retirement, and on that basis I think you will find that the retirement is not sufficient to retire your road and your equipment over a given number of years. Now, that is the total of both the road and the equipment. If you go back to the amount of the road you will find the road retirement for last year was \$5,770,000 and the equipment retirement \$6,456,000, making a total of about \$12,000,000; so that here are thirteen years that you have set up of capital expenditure and capital retirement, and it is about over three times as much for expenditure as it was for retirement.

Mr. BOTHWELL: Do you agree with the statement made by Mr. Hungerford this morning that between 1923 and 1930 the equipment retired was all taken care of?

Mr. MORROW: The figures taken over the thirteen-year annual statement—

Mr. BOTHWELL: I think that was the statement made by Mr. Hungerford this morning.

Mr. MORROW: I do not think that was quite the statement Mr. Hungerford made.

Hon. Mr. STEWART: Let us get an answer to that question.

Mr. HUNGERFORD: When we were speaking this morning we were talking entirely of the equipment retired, but this is a much broader question. Mr. Morrow has replied about the increase in capital expenditure on the investment account.

Mr. MORROW: I will give you the equipment retired and equipment purchased. Additions and betterments for thirteen years amounted to \$177,000,000, and the retirement for the same thirteen years amounted to \$61,000,000, which is about one-third.

Mr. YOUNG: I understand that in addition to that year by year you improve some. Is that charged up to operating account?

Mr. HUNGERFORD: To a certain extent; but, of course, there was a large increase in capital. These properties at the beginning of the period under discussion were incomplete in many particulars and very badly run down properties, and a great deal of money had to be spent to co-ordinate these roads and we have had to take time to complete them in some instances and altogether rehabilitate them and re-equip them. That could not possibly have been taken care of out of operating expenses during that period because it was a situation that existed at the beginning of the period. We did not have a complete machine at that time; it was not properly equipped; it was not in proper operating condition: and it took a lot of money and a lot of work to make it so.

Mr. YOUNG: My point was that in addition to that retirement there you also, year by year, had spent an amount of money on operating account to keep the equipment up, so it is not entirely taken care of by that retirement account because constantly it is being repaired and kept up to date.

Mr. MORROW: It says "equipment purchased and additions and betterments."

Mr. BOTHWELL: As I understood the situation this morning the equipment retirements between 1923 and 1930 were all taken care of, but owing to abnormal conditions and so on since that time you had an accumulation of \$23,000,000 which the board of trustees recommended should have been written off in 1934. Is that a correct statement?

Mr. HUNGERFORD: Yes.

Mr. VIEN: But there remains the factor that the retirement as presently carried would not give a true picture of the net surplus in operating expenses inasmuch as this retirement is not equivalent or sufficient to take care of a proper depreciation ratio, and if a proper depreciation ratio was shown as part of the operating expenses the net results would be different.

Mr. HUNGERFORD: I do not know, Colonel Vien, what a proper depreciation charge is. It is a guess on anybody's part.

Mr. HOWARD: Would it not depend a great deal on your capital structure?

Mr. MORROW: The government sets out the figures each year that you are allowed to depreciate plant and equipment, in an ordinary business.

Mr. HOWARD: And if your capital is what it should be your depreciation will be less and your rates higher.

Mr. MORROW: Yes. There is no doubt that the Canadian National Railway is on the books at an excessive figure, and if you would write it down at \$700,000,000 or \$800,000,000 the proper amount of depreciation would be 3 per cent or 4 per cent on your equipment and 1½ per cent to 2 per cent on your road, which over a period of years would put you into a position to take out of your depreciation account the amount required for renewals, etc., rather than out of profit and loss account.

Mr. VIEN: Is the operating ratio given somewhere in the annual report?

Mr. COOPER: It is shown in the last figures on page 37.

Mr. VIEN: I would like to have the operating ratio for the last five years as compared with the same period from 1926 to 1930. If you take, for instance, from 1926 to 1935, both years inclusive, and give the operating ratios.

Mr. COOPER: The figures are:—

Year	Operating Ratio Per cent
1926.....	82·47
1927.....	85·10
1928.....	82·05
1929.....	85·38
1930.....	91·17
1931.....	99·41
1932.....	96·34
1933.....	96·16
1934.....	91·14
1935.....	91·77

Mr. HUNGERFORD: I think you will observe, Colonel Vien, that as the business and revenues of the company went up the operating ratio went down, and inversely as the revenues went down the operating ratio went up.

Mr. VIEN: I would like to know why it would not be possible to bring down that operating ratio.

Mr. YOUNG: Get more business and you can do so.

Hon. Mr. FULLERTON: If we can get revenue enough we can do it.

Mr. VIEN: But even during the best years it would seem that the operating ratio of the C.N.R. was above the operating ratio of the C.P.R. Is that the fact?

Mr. FAIRWEATHER: There is a very good explanation for that, sir. The operating ratio of a railway property is, of course, the ratio of its expenses to its revenue. And when you start to compare the operating ratios of two systems you have to be sure that you are comparing similar things, otherwise the comparison of ratios does not mean very much. Now, when you compare the operating ratio of the Canadian Pacific Railway with that of the Canadian National Railway you find that there are several points of major difference between the two systems that have a profound effect on the operating ratio and which has, let us say, no relation to the comparability of those operating ratios. In the first place, the Canadian Pacific Railway and the Canadian National Railway do not keep their accounts in the same manner. The Canadian National Railway includes its gross express and telegraph revenues in its gross revenues and it includes its express and telegraph expenses in its operating expenses. The Canadian Pacific Railway does not handle those amounts in that way. The Canadian Pacific Railway treats commercial express revenues and commercial telegraph revenues as an item of special income and excludes it from their operating statement. Then there are very considerable differences between the properties. Those differences that have a distinct effect upon the operating ratio are matters that are well known to people who are analysts of railway accounts. For instance, the Canadian Pacific Railway has a greater density of traffic. Mr. Hungerford has already referred to the fact that when the operating revenues go up the operating ratio goes down automatically, if your property is well managed. The Canadian Pacific Railway has more revenue per mile of line than the Canadian National Railway, and that has an effect upon the operating ratios. Then the Canadian Pacific Railway by reason of the fact that it is more an agrarian road than the Canadian National Railway has a longer haul on the traffic that it originates, and that means that it has less terminal expense, and of course, as everybody knows, once you get the traffic rolling on a railway the cost of keeping it moving is a great deal less than the cost of initiating it and terminating it. In addition to that the Canadian National Railway has managerial problems that the Canadian Pacific

Railway has not. The Canadian National Railway was an assemblage of lines built to compete with each other and to a considerable extent were redundant. The Canadian Pacific Railway was built and developed as a unit. That means, as far as the Canadian National Railway is concerned, that you have to maintain and operate those redundant facilities. Then you have more shops—which have already been referred to, than you need, more round-houses than you really need, more terminals than you need, and you have to keep on operating these because they are part and parcel of the property, but they add to the managerial problems.

Mr. VIEN: Why should you keep them then on if they are not necessary?

Mr. FAIRWEATHER: They are part of the service. You cannot operate without them. For instance, in Winnipeg you have two shops. You have one at Fort Rouge and one at Transcona, the one belonging to the Canadian Northern and the other belonging to the Grand Trunk Pacific. In that particular case you are tied up with agreements that you have to operate the shop, unless you break your agreement. The Canadian Northern had an agreement with the city of Winnipeg which required the operation of its shop at Fort Rouge.

Mr. VIEN: These agreements are not binding?

Mr. FAIRWEATHER: I do not know as to that.

Mr. VIEN: I have seen a number of occasions when agreements were set aside without any difficulty whatever.

Hon. Mr. FULLERTON: I wonder what would happen if we proposed closing up the Fort Rouge shops.

Mr. VIEN: What happened at Nicolet when they dropped the branch line? The railway company was under contract with the city of Nicolet and the Board of Railway Commissioners, under the very distinguished leadership of the present chairman of the Board of Trustees, closed the branch line without any reference or without any difficulty whatever. In that case there was this particular feature; that the city of Nicolet had invested \$10,000 to ensure that this branch would be operated, and notwithstanding that the branch line was closed and the Board of Railway Commissioners directed that the agreement should be set aside, and I wonder if it would be more difficult to do that elsewhere.

Mr. FERLAND: I think my friend refers to Joliette.

Mr. VIEN: No, Nicolet.

Mr. FERLAND: We were in the same position in Joliette.

Mr. VIEN: I appeared before the board on that occasion.

Mr. FERLAND: In connection with Joliette, the company received a bonus of \$10,000, and now you do not follow that contract.

Hon. Mr. FULLERTON: That is perfectly true.

Mr. FERLAND: What we want is to have repairs made at Joliette on cars that are passing through Joliette.

Mr. HUNGERFORD: We have succeeded in getting rid of a good many of those redundant facilities.

Mr. VIEN: Under Section 35 the Board of Railway Commissioners has the power to consider an agreement and to set it aside with respect to anything concerning the operation of a railway. It was under that section that the distinguished chairman of the Board of Trustees acted.

Hon. Mr. FULLERTON: I was not thinking of the legal difficulty at all, I was thinking of something else. Mr. Maybank will tell you how well pleased he would be to have those shops closed.

Mr. MAYBANK: I was going to ask a few questions along that line, but I was wondering if you had finished your recitation of the difference between the two railroads comparing the operating ratio.

Mr. FAIRWEATHER: I have compared the operating ratios of the Canadian National and Canadian Pacific system for the lines in Canada, and I will give you some typical instances to show you how it worked. In 1923 the operating ratio of the C.N.R. was 97·6. The operating ratio of the C.P.R. was 80·7. The adjustments to which I have referred, required in order to make a really comparable comparison, would reduce the Canadian National operating ratio to 82·0. In other words, had we the traffic density of the Canadian Pacific, had we the average haul of the Canadian Pacific, had we our accounts on the same basis as the Canadian Pacific, and had we been free of these managerial matters, which incidentally only accounts for one point in the operating ratio—it is not a very large item—our operating ratio in that year would have been 82·0 as against the Canadian Pacific operating ratio of 80·7.

Mr. MAYBANK: You used the expression one per cent in connection with these managerial difficulties.

Mr. FAIRWEATHER: One point in the operating ratio.

Mr. MAYBANK: Did you intend us to understand by that that you included such difficulties as arise from the duplication to which you referred?

Mr. FAIRWEATHER: Yes. The fact is that here you had the Canadian National with four properties that were built to compete with each other, and this thing runs into every phase of our operations. For instance, each one of these properties had a different standard for their equipment. One property fancied one type of equipment. We have the problem of maintaining, instead of one type of equipment, types that each one of these properties developed. Thus we lose the benefit of standardization to that extent. We also do have these redundant and duplicate facilities which we have to maintain and operate to some extent. The duplication of lines also enters into it. You have duplicate main lines. We can to some extent use a better line as the principal main line, but we have to maintain two main lines because there they are.

Mr. MAYBANK: And all of those carry the weight of one point?

Mr. FAIRWEATHER: I would say in a normal year they would carry a weight of about one point. Of course, when you get into a depressed year like you had in the depression—

Mr. MAYBANK: They are more important then?

Mr. FAIRWEATHER: Yes. And in that year it gets up to as high as 1·6, but, generally speaking, it runs from 1 to 1·6. If you come down to another year, let us take 1928 for instance, which was a very good year, our operating ratio was 83·6. The Canadian Pacific operating ratio in that same year was 75·8. They, apparently, were 8 points better than we were. But after you make these adjustments our operating ratio in that year is 70·1. In other words, had we had the traffic density that the Canadian Pacific had in 1928 our operating ratio would have been below theirs.

Mr. MAYBANK: Of all the various things you have mentioned, I presume density of traffic is the one that is weighted most heavily?

Mr. FAIRWEATHER: That amounts to a very considerable figure. I can give you the weights. In 1923 it amounted to 11·0 points. In 1924 it amounted to 9·8. In 1928 it amounted to 6·6. Density of traffic is far and away the most important of those items. The others are spread around the other items. But density of traffic is the real key to railway economics. If you get density of traffic your operating ratio will go down if you have efficient operation. For instance, every dollar of additional revenue would result in an increase in net of fifty cents right at the present time, and that would go on perhaps for the next ten or twelve million dollars of increased gross, and then it would diminish somewhat after that. The next step is that we would probably turn forty cents into net. Of course, the reason for that is that the law of diminishing returns comes in. Take a road with very heavy traffic density, it does not

get the benefit from it to the same extent as a road with thin traffic density, such as the Canadian National. Traffic density is the very life-blood of the property. If you get that, you can show a result, and that is the case with the Canadian National. Every time we get an increase in traffic density we show that. I will give you an illustration of it. The Canadian National Railways in 1928, although they had a traffic density at that time only half of that of the average class 1 road in the United States,—it was still a low traffic density road judged by any ordinary operating standard—stood fifth among all the railway systems on the North American continent in net revenue from railway operations. In other words, the Canadian National Railways ranked with the Big Four in the United States. It stood along with the Pennsylvania, the New York Central, the Southern Pacific and roads of that character. And it came about through efficient operation, reasonably efficient operation and traffic density. When the depression came along we lost that traffic density and our operating ratio went right up to practically over the 90.

Mr. VIEN: As compared to the C.P.R. during these years, what would the traffic density be?

Mr. FAIRWEATHER: As compared to the C.P.R.?

Mr. VIEN: Yes, during the same period.

Mr. FAIRWEATHER: On freight traffic, the C.P.R. ran about 18 per cent higher than the C.N.R. in traffic density; and on passenger traffic it was about 25 per cent higher.

Mr. VIEN: For what period?

Mr. FAIRWEATHER: That would be nearly uniform.

Mr. VIEN: That is not borne out by the Duff report. I read from page 33 of the Duff report. You know the Duff report?

Mr. FAIRWEATHER: I know the Duff report, yes.

Mr. VIEN: If you examine the schedules, or the graphs, that have been shown in the Duff report for the period, that is to say, the figures which were laid before the commission, they made an analysis of this and on page 33 is a comparison which gives the traffic density between the Canadian National and the Canadian Pacific. You will find from the graph that in miles of road, not percentages per mile of road—the heavy dark line—they divide the traffic as between your heavy traffic line, your medium traffic line and your light traffic line. The heavy traffic lines were 9·11 on the Canadian National as compared with 9·66 for the Canadian Pacific; which is not 18 per cent, nor 35 per cent different, it is hardly decimal one per cent. Medium traffic lines 47·97 Canadian National—

Mr. MAYBANK: May there not be a difference within what they class as heavy and what they class as medium?

Mr. VIEN: Would you kindly allow me to continue with this, and I will be very pleased to discuss it with you. I would like more especially to address myself to the point that I am trying to make; if I am all wrong I want to be shown, and I will be glad to be shown.

Medium traffic lines 47·97 C.N., 53·53 C.P.; light traffic lines 42·92 C.N. and 36·82 C.P. Then, if you take now the percentages per ton mile: On heavy traffic lines you get 46·91 C.N. as against 50·52 C.P.; medium traffic lines 48·10 C.N. as against 45·26 C.P.; and light traffic lines 42·92 as against 40·22. Wherein it is indicated from the Duff report that the density of traffic was not so violently different on either railway.

Mr. FAIRWEATHER: Well, sir, the explanation of that is that the Duff commission divided the lines between brackets. Now, these brackets have an end, do you see, on each side of them; and in bracketing the lines you might have quite a considerable variation in the traffic density and they would still fall within

the light, heavy or medium classification. You might have as much as 5 or 10 per cent of a difference and they would still fall within the same bracket.

Mr. VIEN: I think that on the point they have followed the statements that have been filed. This is largely an analysis by Mr. Loree, who is a great expert.

Mr. FAIRWEATHER: I am quite aware of that, sir; and I know the basis upon which it was done. As a matter of fact I assisted Mr. Loree in doing it. And I can say to you that the traffic density of the Canadian National Railway lines as compared with Canadian Pacific traffic density on freight measured by net ton miles per mile of line, which is an engineering classification, the C.P.R. is about 18 per cent higher than the Canadian National. Also, I can show you that on passenger traffic—

Mr. VIEN: For what period?

Mr. FAIRWEATHER: That is uniform, throughout the period. It varies by one or two per cent, but that is the average. Also, I can say that on passenger traffic density—

Mr. VIEN: Have you got the tabulation to show?

Mr. FAIRWEATHER: I can supply the tabulations. Yes.

Mr. VIEN: Would you file them?

Mr. FAIRWEATHER: I will. On passenger traffic the Canadian Pacific traffic density exceeds the Canadian National by from 20 to 25 per cent.

The CHAIRMAN: May I ask, Mr. Vien, if you have a particular point in mind about which you want to ask Mr. Fairweather?

Mr. VIEN: No. My point is this: I am trying to find out for the information of the committee whether the annual financial report of the Canadian National Railways is a true picture of the situation. My impression, and I want to be corrected if I am wrong, is that there is no accurate conclusion to be derived from the annual report as it is. I am not suggesting that there has been any juggling with the figures. I am not suggesting that it is not a proper picture of the books of the company as they are kept. But, my impression is that it does not give to the public of Canada a true picture of the situation as it is, in that particular of the traffic density for instance, I am trying to find out, as my question was pointed to, what is the operating ratio, how much does it cost the Canadian National Railways to earn a dollar during a certain period. And then, how does that compare with the Canadian Pacific operating ratio. And if the Canadian Pacific operating ratio is much below that of the Canadian National, what are the reasons for that. One of the reasons given by Mr. Fairweather was that the traffic density is much greater on the Canadian Pacific than on the Canadian National. I had already read that in reports of previous years' investigations by this very committee, the operating statements made in previous years by Mr. Fairweather himself, and the report of the Royal Commission and the tabulation to which I had referred. It did not appear to agree and I invited Mr. Fairweather to throw some light on this, because it did not agree with the statement that the traffic density varied very much. Therefore, I am trying to find out to what extent the annual report must be corrected to give to the public a true picture of the situation. And on that very point I had another question to put to Mr. Fairweather, and this is the question—I hope I am not delaying the committee unduly. May I proceed?

The CHAIRMAN: Certainly. Go head.

Mr. VIEN: The question that I was desirous of asking Mr. Fairweather is: Is it not a fact that traffic density does not affect very greatly operating expenses; it has a greater bearing on the incidence of fixed charges than on operating expenses?

Mr. FAIRWEATHER: For a given property; that is, within the capacity of the property to handle traffic do you see; and dealing with a property that has

the facilities, the road, the equipment and the machinery to handle traffic; there is a close relationship between operating density and the operating ratio. It is possible to reduce that connection on a somewhat scientific basis. It is a technical subject. I happen to be chairman of a committee of the American Railway Engineering Association dealing with that particular thing. I can say this, that within those limits there is no more important factor having a bearing upon operating ratio of the road than its traffic density, especially if the road is a road of low traffic density. As I said before, your operating expenses do not go up proportionately to your traffic. The consequence is this: Let us take a theoretical road with an operating ratio of, let us say, 90. Let us say that it is a low density road. Let us say now that its traffic density is increased 20 per cent. With that increase in traffic density of 20 per cent, the revenues would be increased 20 per cent, naturally; so that the divisor becomes 1.2. But the expenses, instead of being increased 20 per cent, would only be increased by approximately half that amount. Consequently in this case here what we call the fixed expenses, let us say, would be 50 per cent and the variable would be 40. Now, with the 20 per cent increase in traffic density, the expenses of that road would be 98 where they were 90, and the revenues would be \$1.20 where they were \$1, and the operating ratio would drop from 90 to 82. That is, an increase in traffic density of 20 per cent would drop the operating ratio 8 points on that theoretical road. That is just exactly the situation with the Canadian National Railways, or very similar to that. You see, I said that there was a difference in traffic density between the C.N.R. and the C.P.R. of approximately 18 per cent in freight and 25 per cent in passenger; and I said that the effect of that on the operating ratio was somewhere around 7 and 8 points, which is just exactly what I got from my calculation.

Mr. VIEN: Then if you prepared this statement for the Royal Commission, how is it that the picture given at page 33 of the Duff report is so different from the statement that you are just making.

Mr. FAIRWEATHER: Well, Mr. Loree in this case he was attempting not to make comparisons so much between the C.N.R. and the C.P.R. as he was to develop a theory that he had that roads with a traffic density of less than, I think he said, 250,000 ton-miles per mile should not be in existence. That is why he was classifying the roads between light, medium and heavy traffic. In making that classification, as I have explained, sir, you necessarily have to have a bracket. For instance, what do you call heavy? You call it heavy between certain limits. You see, you could have a 10 per cent variation on inside the heavy limit and still put it in the same classification. But you would still have a 10 per cent difference.

Mr. VIEN: Therefore the comparison that he makes between the C.N.R. and the C.P.R. is not accurate and is misleading.

Mr. FAIRWEATHER: I would not say that. Which?

Mr. VIEN: On page 33.

Mr. FAIRWEATHER: I would not say it was misleading, taken in connection with the context, no. No, I would not say it was misleading.

Mr. VIEN: Well, he divides the line as between heavy, medium, and light.

The CHAIRMAN: Where is the bracket?

Mr. VIEN: I take as the kind of bracket, the bracket that would be operating as regards the C.P.R. as well as the C.N.R.

Mr. FAIRWEATHER: May I make my point clear by pointing out one thing, and I think this will bring the thing to a head. The first category, he says—and this is on page 41—includes lines carrying annually in excess of 2,750,000 net ton-miles.

Mr. VIEN: Yes.

Mr. FAIRWEATHER: Suppose you had two lines, one carrying 2,750,000. You would call that heavy, would you not?

Mr. VIEN: Yes.

Mr. FAIRWEATHER: Now, you have got another line that is carrying 5,000,000. It is still heavy, is it not?

Mr. VIEN: Yes.

Mr. FAIRWEATHER: But in that same bracket you have got a difference in traffic density between the two lines of 100 per cent. Do you see my point?

Mr. VIEN: I see your point now.

The CHAIRMAN: Mr. Vien, could we postpone further this technical discussion until we come to that page? I would like to make some progress to-night. We can come back to that later on.

Mr. MAYBANK: There are a couple of questions that I want to ask on this point.

The CHAIRMAN: All right.

Mr. MAYBANK: You were saying that you had recast one statement in the same terms as the other one is made out, and you have done that for a number of years. You have been giving us some examples.

Mr. FAIRWEATHER: Oh, yes.

Mr. MAYBANK: Could you file a table that would show that for several years, similar to what you have just been giving?

Mr. FAIRWEATHER: I have a table I could file, yes.

Mr. MAYBANK: I would like to have such table filed, for my information. I suppose you could go back a number of years?

Mr. FAIRWEATHER: Yes. We do it every year. We try to compare our operating efficiency with any standard that we can get. We compare it with class one roads in the United States. We compare it with the C.P.R. I must say we find it quite difficult to compare with the C.P.R. because, although the figures are supposed to be comparable, let us say, there is not the same comparability between the statistics of Canadian roads as there is between the statistics of United States roads.

Mr. MAYBANK: I see.

Mr. FAIRWEATHER: Therefore we find it much harder to compare with the C.P.R. than with class one roads in the United States; but I have a statement comparing with the C.P.R.

Mr. MAYBANK: Perhaps at the same time you might put in a comparison similarly arrived at as between other class one or class two American roads, if you have it.

Mr. FAIRWEATHER: Well, we could put it in for the average of class one roads.

Mr. MAYBANK: All right. That would do. Now I would like to refer back to something that was said about the question of an agreement at Winnipeg. I would like to obtain the nature of that agreement with reference to the Fort Rouge shops, to which reference was made.

The CHAIRMAN: Do you want the agreement filed?

Mr. MAYBANK: It would be sufficient if you could give me an outline of that, the nature of it, and so forth.

The CHAIRMAN: A precis. Then, Mr. Fairweather, you will have four statements to prepare, one for Mr. Vien and three for my honourable friend. Have you taken a note of those?

Mr. FAIRWEATHER: Yes. I have a note of what is required.

The CHAIRMAN: Shall we postpone the discussion—

Mr. MAYBANK: That is satisfactory.

The CHAIRMAN: —of that same point until we reach the page? In the meantime we have been going rather far afield. I would like, in order to make some progress to-night, to ask if there are any further questions to be asked on loans from Dominion Government on page 29. If not, we have settled that; and I think we will get past that page anyway.

Mr. VIEN: On that question I wanted to know why the interest on Government loans is not carried in the annual returns, outside of the special tabulation. Should it not be shown as an indebtedness of the railway?

Mr. HOWARD: No.

Mr. FAIRWEATHER: It is shown.

Mr. YOUNG: It is shown on page 18.

Mr. VIEN: It is not shown on the balance sheet.

The CHAIRMAN: Yes, it is.

Hon. Mr. FULLERTON: It is shown.

Mr. COOPER: Page 17.

Mr. HUNGERFORD: Interest on Dominion Government Loans, page 18.

Mr. FAIRWEATHER: Page 17 and page 18 also.

The CHAIRMAN: It is the last item but one.

Mr. FAIRWEATHER: The item for the year appears on page 18 in the profit and loss account, and it is transferred over to the balance sheet and appears in the summation.

Mr. VIEN: On what page?

Mr. FAIRWEATHER: It is on page 18.

Mr. VIEN: In the profit and loss statement?

Mr. FAIRWEATHER: Yes; and then you will find it in the balance sheet on page 17, included in the item Other Loans from Dominion of Canada, interest on above, accrued but unpaid.

Mr. HANSON: The whole thing is \$174,000,000.

Mr. FAIRWEATHER: It appears on page 17, about half way down the page.

The CHAIRMAN: Shall the item carry?

Carried.

The CHAIRMAN: Then we have funded debt—principal and interest. I think that should carry.

Mr. VIEN: On what page is that found?

The CHAIRMAN: Page 28; we have been rambling backwards and forwards.

Mr. HOWARD: We like it that way.

The CHAIRMAN: These are only the details of the loans.

Carried.

The CHAIRMAN: Then on page 28 we have funded debt—principal and interest.

Hon. Mr. STEWART: How much of this has been refunded, called in prior to 1935? What does that refer to?

Mr. MAYBANK: I do not see any asterisks.

Mr. COOPER: I think it is all shown on page 27.

Mr. HOWARD: You have four there, one following the other.

Hon. Mr. STEWART: Yes. There is a 7 per cent sinking fund maturing in 1940, \$1,246,350, and another 7 per cent sinking fund debenture stock of \$1,525,819.17 maturing in 1940.

Mr. HOWARD: That is just accrued interest. The item has disappeared.

Mr. COOPER: The principal for these items is all set out on page 6, the items that were called?

Hon. Mr. STEWART: How much has been saved in interest charges on account of the refunding?

Mr. COOPER: On the items called in 1935, we figure a saving of \$2,800,000 after providing for the premium in terms of call.

The CHAIRMAN: Shall the item carry?

Carried.

The CHAIRMAN: Then we have receipts and expenditures for thirteen years. We have discussed that. Shall the item carry?

Carried.

The CHAIRMAN: We now come to additions and betterments, less retirements, on page 25. You have considered all these details in the operating expenses. That item could carry.

Mr. VIEN: With regard to that, is there anything proposed for Montreal this year under that heading? I am now speaking of the whole district of Montreal, terminals and otherwise.

Mr. HUNGERFORD: There is a special item for Montreal of \$100,000 in connection with terminal work, and that is practically all in settlement of land claims.

Mr. VIEN: So no improvements and betterments are contemplated this year in Montreal?

Mr. HUNGERFORD: As far as the management is concerned.

Mr. VIEN: Nor in the district?

Mr. HUNGERFORD: Oh, there may be some small items applicable to the district of Montreal; they would all have to be picked out.

Mr. FAIRWEATHER: There are some small ones. There is one here in connection with the Victoria bridge, \$600. Then there is another item in connection with the roadway on Victoria bridge, \$29,000; items like that.

Mr. VIEN: Is that in respect to the highway on Victoria bridge, or the bridge itself? I am speaking of the railway bridge or the main pillar.

Mr. FAIRWEATHER: That happens to be the highway portion of the bridge. It is to replace the wooden vehicular highway with a more substantial roadway.

Mr. VIEN: How much has that bridge cost?

Mr. FAIRWEATHER: I have the figures.

Mr. VIEN: Never mind. The question I wanted to ask you was whether the bridge has been paid for from the tolls that have been collected.

Mr. FAIRWEATHER: Far from it.

Mr. VIEN: I am not speaking of the railway bridge, but the vehicular bridge.

Mr. FAIRWEATHER: Far from it.

Mr. VIEN: Will you give us to-morrow or the next sitting of the committee the cost of the vehicular bridge; that is the vehicular extension, and how much has been collected? The people of Montreal are very anxious that the vehicular space on the Victoria bridge should be free.

Mr. FAIRWEATHER: That information can be supplied.

The CHAIRMAN: Would it be satisfactory if it was sent to you confidentially?

Mr. VIEN: Yes, I should be quite satisfied.

The CHAIRMAN: Then it will be given to you confidentially.

Mr. VIEN: Is it intended that this should be the last sitting of the committee at which the officers of the railway will be present?

The CHAIRMAN: No.

Mr. VIEN: I did not understand that.

The CHAIRMAN: The only reason we have been going all over the report without specifically dealing with one item at a time, was to make some progress and stop at page 30.

Mr. VIEN: To-morrow there is a caucus.

The CHAIRMAN: Would you not sacrifice the caucus?

Mr. VIEN: I am willing to sacrifice the caucus, but I do not know whether the caucus will sacrifice me.

The CHAIRMAN: It will be delighted, and I will take the risk with great pleasure.

Mr. VIEN: I doubt it very much.

The CHAIRMAN: We have been keeping the officers here for a long time, and if we sit to-morrow morning and afternoon, I think we could get through the report quite easily. Why not?

Mr. YOUNG: There is a fairly good reason. Can we not sit to-morrow at four and again at eight?

The CHAIRMAN: If you do not want to sit to-morrow morning we will sit to-morrow night.

Hon. Mr. HOWE: I think we should sit to-morrow morning.

The CHAIRMAN: The minister is showing an example.

Mr. YOUNG: We should not sit to-morrow morning. I think it is a pretty good rule that when caucuses are on, we should not sit. Other committees have been called off.

Mr. VIEN: Why not adjourn until next week?

The CHAIRMAN: I will tell you why, Mr. Vien. I am speaking personally now. I am a member of the pensions committee, and it so happens I preside now and then replacing the minister who is the chairman of the committee.

Mr. VIEN: They are not sitting this week.

The CHAIRMAN: They sit all week.

Mr. VIEN: How much longer will the committee last?

The CHAIRMAN: I think we shall finish the report in a couple of days. I think in fairness to the officers we should finish just as soon as possible.

Mr. HOWARD: Don't they like to be here?

The CHAIRMAN: There are only two pages left in the report and if we could get through the report to-morrow we might adjourn sine die, or at the call of the chair. Then, if we need the officers any more, we will call them back. So if we adjourn until to-morrow afternoon and sit to-morrow night, I think we could finish up.

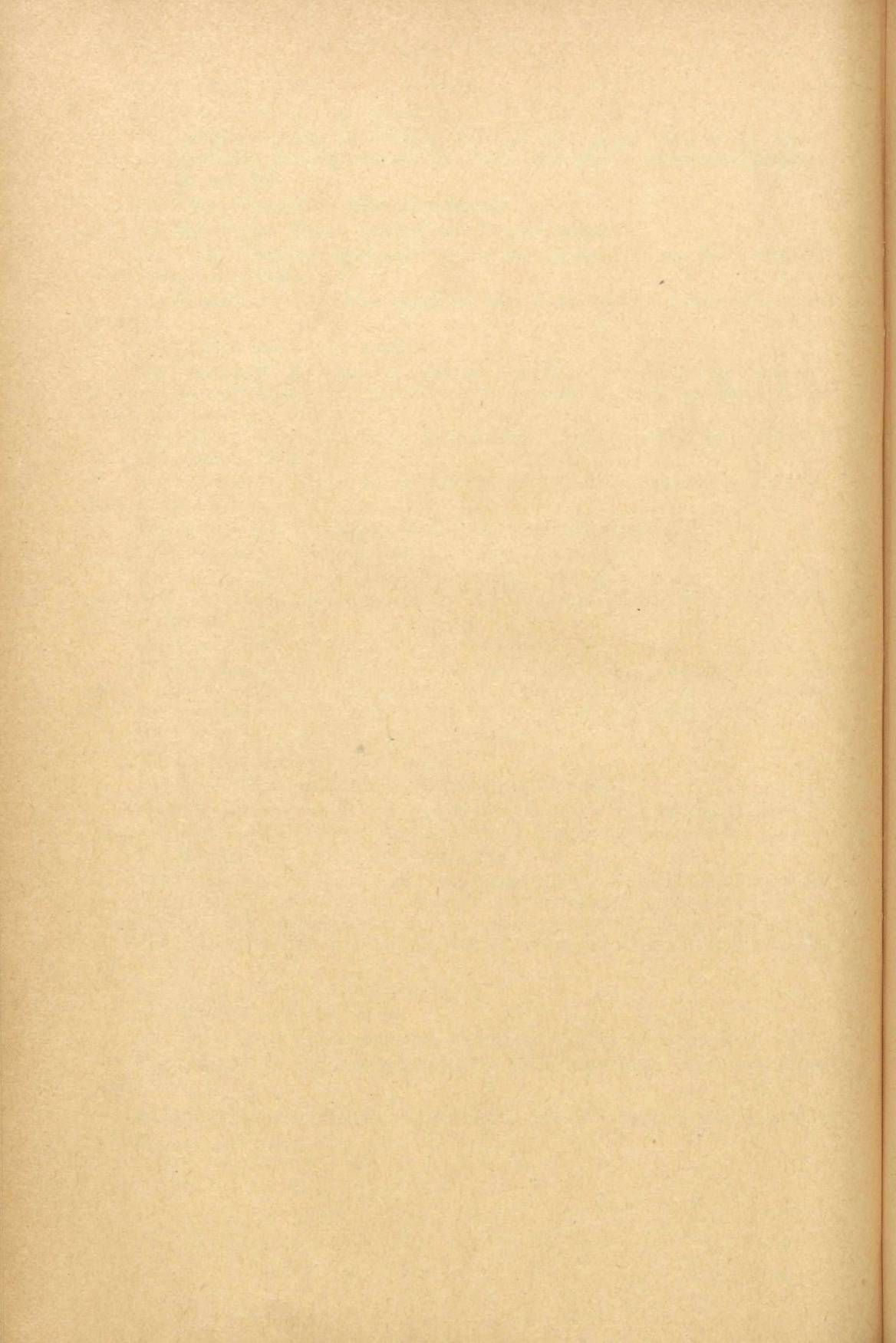
Mr. VIEN: To-morrow is Wednesday.

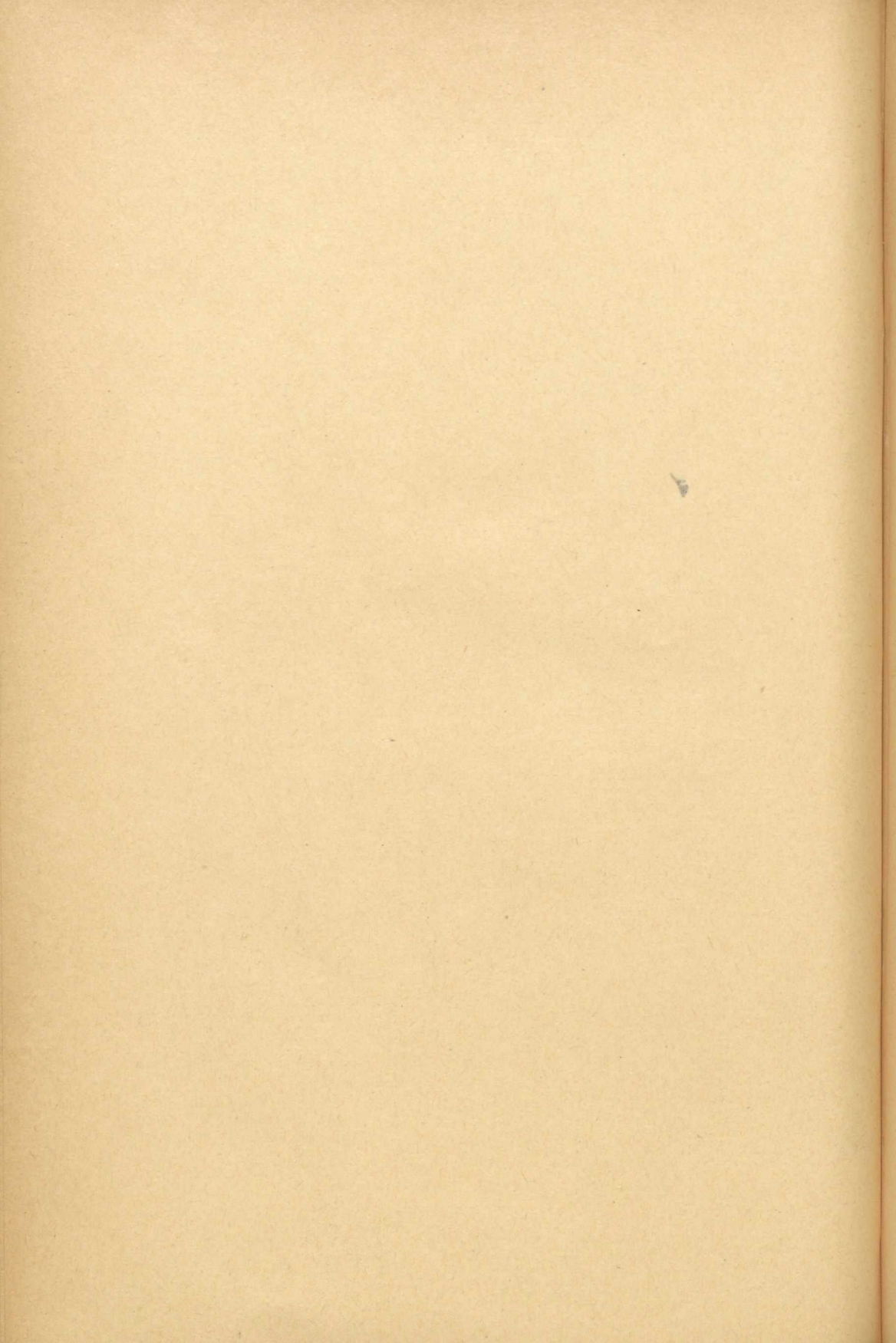
Mr. HOWARD: All the better.

Mr. VIEN: Most of the members have commitments for Wednesday night.

The CHAIRMAN: We shall adjourn now until four o'clock to-morrow afternoon.

At 10 o'clock, the committee adjourned to meet Wednesday, May 6, at four o'clock.





SESSION 1936

HOUSE OF COMMONS

STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

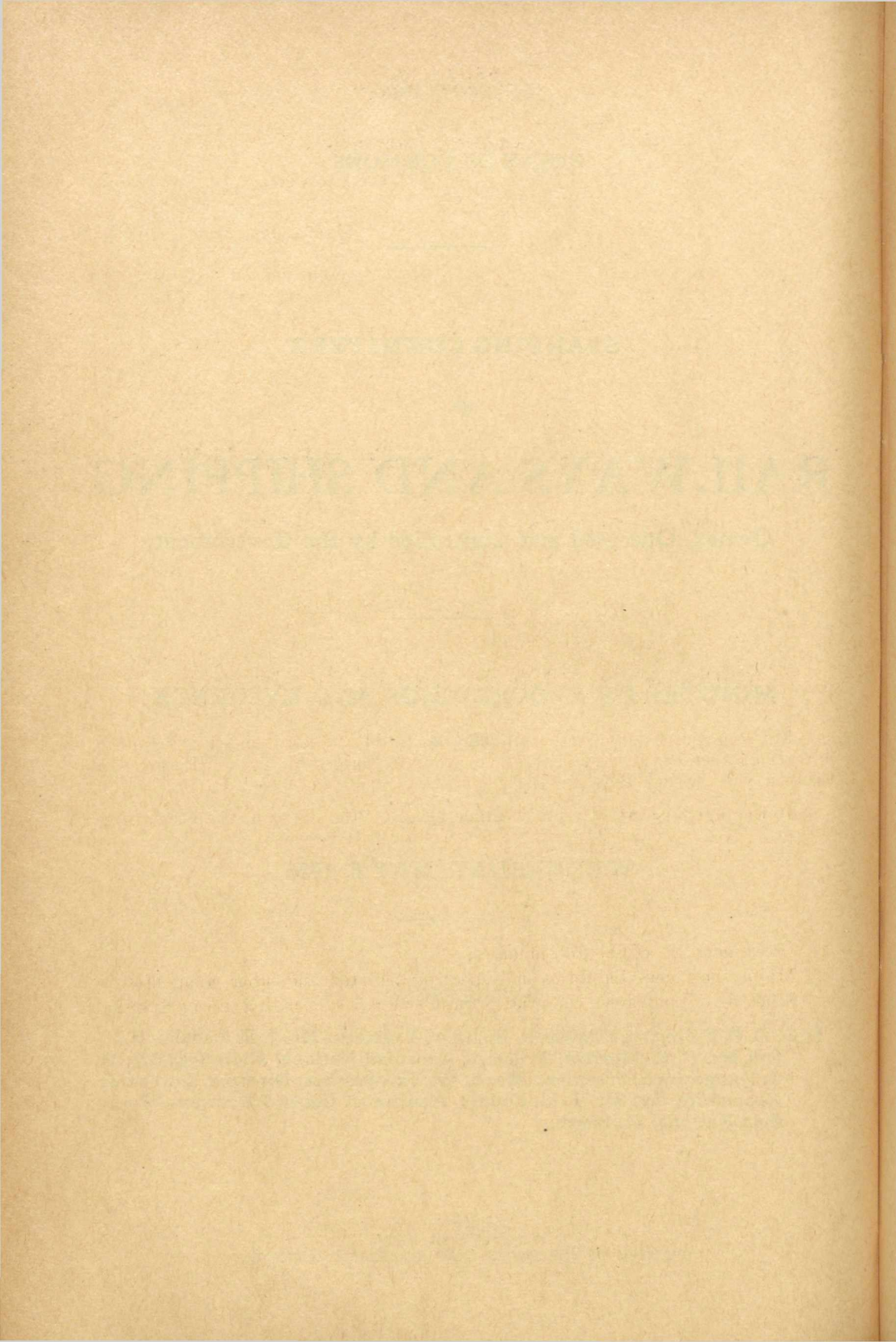
MINUTES OF PROCEEDINGS AND EVIDENCE

No. 4

WEDNESDAY, MAY 6, 1936

WITNESSES:

Hon. C. P. Fullerton, Chairman, Board of Trustees; Mr. J. E. Labelle, K.C., and Mr. F. K. Morrow, Trustees, Canadian National Railways; Mr. S. J. Hungerford, President, Mr. S. W. Fairweather, Director, Bureau of Economics, and Mr. T. H. Cooper, Auditor of General Accounts, Canadian National Railways.



MINUTES OF PROCEEDINGS

WEDNESDAY, May 6, 1936.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government, met at 4 p.m., the Chairman, Sir Eugène Fiset, presiding.

Members present: Messrs. Bothwell, Elliott (*Kindersley*), Ferland, Hanson, Howe, Kinley, Maybank, Moore, Parent (*Quebec West and South*), Stewart, Veniot, Vien, Walsh and Young.

In attendance: Hon. C. P. Fullerton, Chairman, Board of Trustees, Canadian National Railways; Mr. F. K. Morrow and Mr. J. E. Labelle, K.C., Trustees, Canadian National Railways; Mr. S. J. Hungerford, President, Mr. R. C. Vaughan, Vice-President, Purchasing and Stores Department, Mr. S. W. Fairweather, Director, Bureau of Economics, Mr. T. H. Cooper, Auditor of General Accounts, Canadian National Railways, and Mr. V. I. Smart, Deputy Minister of Railways and Canals.

Mr. Fairweather filed with the Clerk several statements in answer to questions by members of the Committee.

Ordered,—That these statements be printed as an Appendix to this day's proceedings.

Mr. Vien submitted a statement compiled by Mr. Morrow, showing revenues, operating expenses, interest charges and capital charges of the C.N.R., for the thirteen year period 1923 to 1935 inclusive.

It was agreed that Mr. Fairweather be given the opportunity of perusing this statement in order to report to the Committee thereon.

The Committee having resumed consideration of the Annual Report of the Canadian National Railway System, the following items were approved, viz:—

- Investment in affiliated companies,
- Major contingent liabilities in respect of affiliated and other companies,
- Schedule of companies comprising the Canadian National Railway System,
- Statement of revenue tonnage by commodities for years 1935-1934,
- Details of railway equipment,
- Statistics of rail-line operation—Train and locomotive mileage,
- Employees and their compensation,
- Distribution of the dollar,
- Operated mileage, December 31, 1935.

On motion of Mr. Bothwell,—

Resolved,—That the Annual Report of the Canadian National Railway System be approved and reported.

Hon. Mr. Stewart referred to press reports dealing with the 1935 deficit of the Canadian National Railways and quoting statements made by the Right Honourable Mr. Bennett in the House on May 5, and by the Chairman of the Board of Trustees before this Committee at its previous sitting.

Whereupon, Hon. Mr. Fullerton explained that in his remarks before the Committee he was referring to the cash deficit whilst the figures quoted by the Right Hon. Mr. Bennett represented the net loss as shown in the Profit and Loss statement of the Annual Report.

At 6 o'clock the Committee adjourned until Thursday, May 7, at 11 a.m.

R. ARSENAULT,
Clerk of the Committee

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 268,

WEDNESDAY, May 6, 1936.

The select standing committee on railways and shipping met at 4 o'clock. Sir Eugène Fiset, the chairman, presided.

The CHAIRMAN: Order, gentlemen. Certain statements were asked for by Mr. Vien yesterday and also by Mr. Maybank. Will it be satisfactory if these statements are handed to the clerk to be recorded in the proceedings, and then handed to each member?

Some Hon. MEMBERS: Yes.

Mr. VIEN: Could they be shown to us?

The CHAIRMAN: You may have them now, if you like. Then will you give those to the Clerk of the Committee?

Mr. VIEN: Yes, I will be pleased to give them to the Clerk of the Committee. In that respect, I have a couple of questions that I would like to have answered by Mr. Fairweather, if I may.

The CHAIRMAN: Go ahead.

Mr. VIEN: Mr. Fairweather, I have a statement of the revenues, operating expenses, interest charges and capital expenditures of the railway, a compilation for the thirteen years from 1923 to 1935. Will you kindly examine them and tell me if those figures are in accordance with your books?

Mr. FAIRWEATHER: Mr. Vien, that would be a rather tall order right off the bat. I have no doubt, sir, that they are in accordance with our books.

Mr. VIEN: Would you say that it is a proper compilation of your figures?

Mr. FAIRWEATHER: Of my figures?

Mr. VIEN: Of the figures of the system.

Mr. FAIRWEATHER: I have no reason to doubt that these are taken from the published accounts of the Canadian National Railways.

Mr. VIEN: Do you give an exhibit number to a particular document?

The CHAIRMAN: Yes.

Mr. VIEN: Will you file this compilation as exhibit whatever it is?

Mr. BOTHWELL: I do not think that can be taken as a correct statement until we have had an opportunity of comparing it.

Mr. VIEN: I will not insist.

The CHAIRMAN: So that it may be in order, I want to ask Mr. Fairweather if he is perfectly satisfied that the figures contained in that statement are in accordance with their books?

Mr. FAIRWEATHER: I could not say that without having an opportunity of checking them. I have just seen the statement. I have said that I have no doubt it is correct.

Mr. YOUNG: I think the first thing we ought to find out is what statement this is that we have. Where did it come from?

Mr. MORROW: I will answer that. It is a statement that I compiled for myself.

Mr. VIEN: I shall give the title, which will give the honourable members the information as to what it is: Canadian National Railways, revenues, operating expenses, interest charges, capital expenditures of the railway for the thirteen years, 1923 to 1935 inclusive, year by year.

Mr. YOUNG: Prepared by whom?

Mr. VIEN: It has been prepared under the direction of Mr. Morrow, one of the trustees.

Mr. YOUNG: From the official report of the auditors?

Mr. MORROW: From the books and the statements of each year, from 1923 to 1935. There is nothing in there that is not in the books.

Hon. Mr. FULLERTON: You asked Mr. Fairweather if that is correct or not. He has had no opportunity of going over it.

Mr. YOUNG: It is not fair to ask Mr. Fairweather whether it complies with the books or not, when he has not had a chance to go over them.

The CHAIRMAN: Would it be satisfactory if the statement is placed in the hands of Mr. Fairweather for checking, and an opportunity be given him to report to the committee at the next meeting, if that is necessary?

Mr. YOUNG: That is reasonable.

Mr. VIEN: Yes. For the time being I will ask that an exhibit number be given to the document, so that we may refer to it.

The CHAIRMAN: But the consensus of opinion of the committee is that the document should not be marked as an exhibit before it has received the perusal of the officials of the Canadian National Railway, to see whether or not it is absolutely correct.

Mr. VIEN: All right. I will do otherwise.

The CHAIRMAN: Read it?

Mr. VIEN: No. I will ask Mr. Morrow to tell me if he is familiar with this document?

Mr. MORROW: Yes.

Mr. VIEN: Mr. Morrow is a trustee of the Canadian National Railways. I would also ask if he is in a position to tell the committee that these figures are a correct and accurate compilation of the official books of the Canadian National Railways?

Mr. MORROW: That is correct.

Mr. VIEN: That is correct. You have personal knowledge that these figures are accurate?

Mr. MORROW: They are accurate.

Mr. YOUNG: That should be satisfactory.

Mr. VIEN: Then, Mr. Morrow, will you file this document as an exhibit before the committee?

Mr. MORROW: Yes.

Mr. VIEN: All right.

The CHAIRMAN: Mr. Vien, there is the other phase of the situation. Usually the body appearing before this committee have a chairman; the trustees appear here as a body and they have a chairman. The chairman is Hon. Mr. Fullerton. It seems to me if a statement of that kind is to be placed before the committee for examination, perusal and study, it should be submitted through the chairman of the Board of Trustees. After all, it seems to me that is the regular and proper procedure to follow.

Mr. VIEN: On what basis, Mr. Chairman? I can call any of the officials. I can call Mr. Touche. I can call any auditor of the company. I can call Mr. Morrow. This is not said in any disparaging or discourteous manner to the

chairman of the committee. But I have studied the figures of the Canadian National Railways, and I have discussed them with the financial member of the Board of Trustees, who is Mr. Morrow. I am quite sure that the chairman of the trustees would be quite unable to speak with any degree of authority with respect to these figures unless they had been compiled under his immediate direction.

The CHAIRMAN: No. In fairness also to the Board of Trustees, these figures that have been compiled by one of the members should at least be submitted to the expert of the Canadian National Railways—and Mr. Fairweather is the expert—in order that he may put his veto or otherwise on them, as to their absolute correctness before you file the statement as an exhibit. After all, this is only a statement from Mr. Morrow himself. I think it is the consensus of opinion of the members of the committee that Mr. Fairweather should go over that statement to ascertain as to its correctness before it is filed before us officially as an exhibit.

Mr. VIEN: I have no objection, Mr. Chairman, except that I would like to point out to Mr. Fairweather that in this statement the total capital expenditures and interest charges in excess of revenue—and I am referring to the last two items in this statement—indicate that during the years 1923 to 1935 the total capital expenditures and interest charges in excess of revenue amount to \$847,016,620. This is exclusive of the interest on government loans unpaid. If you take now the interest on government loans unpaid for the same period, the figures being given in the statement year by year, you will find that the total for the thirteen years amounts to \$431,514,375. Adding those two figures together, namely, the total capital expenditures and interest charges in excess of revenue to interest on government loans unpaid, you arrive at a total capital expenditure of \$1,278,530,995. I want Mr. Fairweather to check the accuracy of those figures and to report to the committee. As summarily put, this would indicate that the actual deficit of the Canadian National Railways for the thirteen-year period, instead of being \$40,000,000 or \$50,000,000, would be very nearly on the average of \$100,000,000 a year.

Mr. SMART: Were there no assets?

Mr. YOUNG: I do not think that follows at all.

Mr. VIEN: What is that?

Mr. SMART: Were there no assets?

Mr. VIEN: I would not say that.

Mr. SMART: That is an important point.

Mr. VIEN: Col. Smart appears to smart under my remark.

Mr. YOUNG: I think he should.

Mr. VIEN: I do not know whether he should or not. But I am addressing myself to the committee. I am not stating that there would be no assets or that the amount of money would be spent to no proper account. But I am stating that this is what it has cost the country to carry the system during the last thirteen years.

Mr. YOUNG: Mr. Chairman, that opens up quite a question. We are having a statement come in here in what I think is an irregular manner; and there are no other members of the committee, apparently, who have been given this statement. I think the statement should be given to every member of the committee if it is given to any one member of the committee. The officers of the company apparently have not had an opportunity of checking it. I take it that the statement is quite accurate or Mr. Morrow would not give it. Nevertheless, one member of the committee who has had an opportunity of studying it now draws some deductions from it which may be right or may be wrong. When it comes before us like this, an elaborate statement of that kind, when the officials of the

road or of the company are not able to say whether or not it is in conformance with their records, I should like to ask how any member of this committee is able to follow this particular thing, in this particular fashion, at this particular time.

Mr. VIEN: All right. I will stay the matter there.

The CHAIRMAN: That is exactly what I meant. That is exactly the reason I asked Col. Vien to submit the report to Mr. Fairweather for study. You might perhaps, if necessary or if you think it is important enough, have copies made for each member of the committee, and we will consider it at the next meeting. Is that satisfactory?

Mr. VIEN: That is satisfactory.

Mr. LABELLE: Do we understand it is not filed in the meantime?

The CHAIRMAN: It is not to be filed until it has been perused and passed on. Would you refer to page 30, where we finished last night?

Mr. VIEN: Mr. Chairman, I would like, in respect of this as well as in respect of any questions I have put since the beginning of this inquiry, to make it well understood that, in putting these questions or in trying to get light on this particular annual statement of the company I have no idea of casting any reflection either on the ability or good faith of any of the employees of the railway. I do not believe that the trustees or the officers of the company could have done much better than they have done. I am quite satisfied as to that. I am simply trying to show, as I see it, that the annual statement of the company and the books as kept do not give a proper picture of the situation.

The CHAIRMAN: It is unfair to proceed until every member of the committee has before him the information you now possess. At the next meeting we will give you full opportunity to discuss the matter again.

Mr. VIEN: That is entirely satisfactory to me.

Mr. HANSON: It is the auditors' fault if there is something wrong with it.

The CHAIRMAN: It is an agglomeration of all that is contained in the report. I want to be fair to the other members of the committee and have them in full possession of all information you have yourself when we are discussing the matter, Mr. Vien.

Mr. VIEN: That is quite satisfactory to me.

The CHAIRMAN: Then page 30: Investments in affiliated companies. We very nearly went through that last night, rambling all over the shop as we did.

Hon. Mr. VENIOT: I move that it be adopted. (Carried.)

The CHAIRMAN: Again on page 30: Major contingent liabilities in respect of affiliated and other companies. Any question on that? We have already discussed the items contained therein. (Carried.)

The CHAIRMAN: Then page 31: Schedule of companies comprising the Canadian National Railway System. Some questions were asked last night on the subject matter, more especially by the minister. I think we have already approved of sheet number 31.

Mr. VIEN: On the question of recapitalization, which may be properly brought up. I would like to ask the chairman of the board of trustees or anyone he might direct to answer, if it would not be of great advantage to the system that there should be only one corporate entity, one set of books, and one system of accounting, and recapitalization on a more accurate basis of the real value of the system.

Hon. Mr. FULLERTON: I entirely agree with you.

Mr. LABELLE: But is it possible?

Hon. Mr. FULLERTON: I do not think it is possible in so far as a legal consolidation is concerned, but it is very possible to cut out a lot of the deadwood in our capital structure, I think.

Mr. VIEN: Could we understand a little further what are the obstacles in bringing that about?

Hon. Mr. FULLERTON: There are many legal obstacles in connection with it. There are so many different companies, so many bond issues criss-crossed, every way. The matter has been studied. An officer was employed to study it, and he studied it for two years.

Hon. Mr. VENIOT: The legal aspect?

Hon. Mr. FULLERTON: Yes, the legal aspect as well as the practical aspect of it; and it seemed to be almost impossible to bring about a legal consolidation to bring them into one entity, but I do not think it would prevent the reorganization of the capital structure. I think that is possible. However, it is a very complicated matter, there is no question about that.

Mr. VIEN: Is there any report on the recapitalization scheme?

Hon. Mr. FULLERTON: There have been a number of reports prepared and a number of recommendations made. For instance, take last year: the auditor made a recommendation for the reorganization of the capital structure.

Mr. VIEN: Mr. Touche?

Hon. Mr. FULLERTON: Yes, Touche & Company, the parliamentary auditors of the railway.

Mr. YOUNG: Is he the auditor this year?

Hon. Mr. FULLERTON: No appointment has been made this year so far, or at least I have not heard of any. Messrs. Clarkson & Company were the auditors last year, but this year no appointment has been made.

Mr. YOUNG: Last year meaning 1935?

Hon. Mr. FULLERTON: Yes.

Mr. YOUNG: When were Touche & Company auditors?

Hon. Mr. FULLERTON: 1934.

Mr. YOUNG: Which company was it who made this report of which you speak?

Hon. Mr. FULLERTON: Touche & Company, in 1934.

Mr. VIEN: Have you a copy of the report?

Hon. Mr. FULLERTON: Not with me.

The CHAIRMAN: A copy was submitted to every member last year.

Mr. VIEN: It would be interesting to have one copy filed.

The CHAIRMAN: There is one copy filed. We will find it in the record if you want to see it.

Mr. VIEN: Can you do so?

The CHAIRMAN: Yes.

Mr. VIEN: Will you make it available for me?

The CHAIRMAN: Yes.

Hon. Mr. STEWART: I would like to ask the chairman of the board of trustees to give the committee a short statement of the litigation now pending before the Privy Council.

Hon. Mr. FULLERTON: I know very little about the litigation because as a matter of fact we have had nothing to do with it. The government retained their own counsel to fight the matter. The papers have not been in our hands, as far as I know. We have had no official notice that there is any litigation, so far as that is concerned.

Hon. Mr. STEWART: But you do know that there is litigation?

Hon. Mr. FULLERTON: Yes, it was argued about three months ago.

Hon. Mr. STEWART: What is the character of the litigation?

Hon. Mr. FULLERTON: It is in connection with the capital stock. Certain holders of stock claim that they were wrongly deprived of their stock and asked to be replaced on the register; Grand Trunk shareholders, of course.

Hon. Mr. STEWART: Assuming that the decision would be favourable, what effect would that have on your capital structure if you readjusted your capital structure?

Hon. Mr. FULLERTON: If we readjusted the Grand Trunk part.

Hon. Mr. STEWART: Well.

Hon. Mr. FULLERTON: I have not given consideration to what effect that would have.

Hon. Mr. STEWART: Does it not throw the whole matter open? Is not that a reason why at the present time it would be unwise to have any rearrangement of the capital structure?

Hon. Mr. FULLERTON: I cannot say. That is a matter that would have to be given consideration, Mr. Stewart, and I have not given it any consideration.

Mr. VIEN: I have asked the same question, and yesterday I ascertained from the Department of Justice how the matter stood. I have a copy of the record of the Privy Council here. In 1931 a man named George Perdue Lovibond entered an action before the Supreme Court of Ontario in Toronto against the Grand Trunk Railway Company of Canada, the Canadian National Railway Company and the Attorney General of Canada. They had already made application to the Minister of Justice for a fiat to make a petition of right and a fiat had been refused by the Minister of Justice. Thereupon they instituted an action before the Supreme Court of Ontario asking that the legislation by the parliament of Canada enabling the Canadian government to take over the Grand Trunk, the Grand Trunk Pacific and the Canadian Northern railways should be set aside. Thereupon Messrs. Tilley, Johnson, Thompson & Parmenter of Toronto appeared for the Attorney General of Canada and filed proceedings to have this action set aside on the ground that no such action should be instituted except by petition of right and a fiat from the Attorney General of Canada. The matter was heard before Mr. Justice Rose in the Supreme Court of Ontario and the stand taken by the Grand Trunk Railway Company as defendant, and the Attorney General of Canada, was upheld. The action was dismissed on the ground that it could not be taken except upon a petition of right and a fiat was necessary. An appeal was taken to the Appeal Court of Ontario and the judgment of Mr. Justice Rose was upheld. The action is now pending before the Privy Council in England and was argued during the month of February, 1936, and is now under advisement before the Privy Council. The question put by Mr. Stewart is whether that would have a bearing on the question of recapitalization, whether the judgment now pending before the Privy Council has any bearing, inasmuch as it is only on a question of law incidental to the other action. Ultimately if the action succeeded in setting aside the act of parliament whereby the government of Canada was empowered to expropriate the Grand Trunk and Grand Trunk Pacific and Canadian Northern railways evidently it would have a great bearing on it because we would no longer be the owners of these railways.

The CHAIRMAN: I remember that in 1934 the argument advanced to the members of the committee was that the question was still sub judice.

Mr. YOUNG: Is it the ownership of the railway that is involved in that action?

Hon. Mr. FULLERTON: Ownership of certain stock.

Mr. YOUNG: He said it might affect the ownership of the railway.

Mr. VIEN: That is the same thing.

Hon. Mr. FULLERTON: It would affect the ownership of the stock.

Hon. Mr. STEWART: If you own the stock you own the railway.

Hon. Mr. VENIOT: You might be called upon to pay quite a bit more money.

Hon. Mr. FULLERTON: That is about what it amounts to.

Hon. Mr. VENIOT: In this schedule of companies comprising the Canadian National Railway System none of those branch lines taken over are included?

Mr. FAIRWEATHER: Their corporate existence was extinguished at the time they were taken over.

Mr. YOUNG: I wanted to be quite clear whether or not it really does affect the ownership of the railway or whether the stockholders have the right to claim compensation?

Hon. Mr. FULLERTON: What it must end in is compensation. Supposing an adverse judgment came out, I cannot see any alternative but compensation. If the judgment is upheld in the final courts it could not be solved in any other way that I can see.

Mr. YOUNG: If that is true, and that is what I had in mind about this matter, and the stock is generally recognized as being worthless, even if we had to pay for something that has no value would that affect in any way the recapitalization of the company?

Hon. Mr. VENIOT: This is all a question of law.

Mr. YOUNG: One thing that strikes me as important is the question of recapitalization of the Canadian National Railway, and I am glad to hear the statement made to-day expressing the unanimous opinion of the board—

Mr. LABELLE: Oh, no.

Mr. YOUNG: Not unanimous?

Mr. LABELLE: If it means that the parliament of Canada had no right to appropriate it would complicate the situation, and I would not like to express an opinion while the case is still sub judice.

Hon. Mr. VENIOT: It is a question of law.

The CHAIRMAN: The minister himself stated the day before last that the government had the question under study.

Mr. VIEN: He did.

The CHAIRMAN: In the absence of the minister I would not like to venture an opinion on the subject matter.

Mr. VIEN: I might say that I think that at the present stage or even if they succeed in court it would hardly be a question of compensation. They contend that there was no right vested in anybody to transfer these shares to anybody else; that they are still the owners of these shares, still the owners of the stock of the company, and therefore the company belongs to them as stockholders. Therefore it would more than involve a question of compensation. It would involve a question of ownership of the railway itself through the ownership of the stock.

Hon. Mr. VENIOT: Carried.

The CHAIRMAN: Any further questions?

Mr. YOUNG: No.

Mr. VIEN: Our friend Dr. Young said the committee appeared to be in favour of recapitalization. I expressed no opinion as to that.

Mr. YOUNG: I do not think I said that.

Mr. VIEN: I am glad to be corrected.

Mr. YOUNG: I used the word "board" and a member of the board spoke up and I said no more.

Mr. VIEN: I was trying to find out what the objections to recapitalization were without expressing an opinion as to the expediency of recapitalization.

The CHAIRMAN: We have been told by the minister that the question was under study and they are giving it very careful consideration, and I suppose they will deliver a report to us next year and ask our opinion then.

Hon. Mr. STEWART: Just as it has been for some years in statu quo.

The CHAIRMAN: Carried as to sheet 31. Sheet 32 is the same. Sheet 33: Statement of revenue tonnage by commodities for years 1935-1934. Is it advisable that we should go through every commodity?

Hon. Mr. STEWART: What can you do about it?

The CHAIRMAN: Nothing at all. Sheet 33 carried.

Sheet 34: Revenue tonnage by commodities. That is exactly the same thing.

Sheet No. 35: Details of railway equipment. Is it carried?

Hon. Mr. STEWART: Just a moment, please.

Mr. WALSH: As to these units that have been discontinued or retired, 15,620 for this year. I would like to ask the management if that extraordinary retirement would mean that we are now starting with more or less of a clean sheet and we cannot anticipate any further extraordinary retirement of that nature?

Mr. HUNGERFORD: I think I answered that question yesterday. As far as I can foresee it is not likely to recur.

Hon. Mr. VENIOT: Carried.

Hon. Mr. STEWART: Does the same apply, Mr. Chairman of the board, with regard to locomotives and passenger equipment and work equipment?

Hon. Mr. FULLERTON: You are covering the whole field?

Mr. HUNGERFORD: Yes.

Hon. Mr. VENIOT: Are all locomotives used by the Canadian National Railway owned by the Canadian National Railway or are there still some under rental?

Mr. HUNGERFORD: There are still some not fully paid for, and that is true of cars, too.

Hon. Mr. VENIOT: How does that work out?

Mr. HUNGERFORD: Very well. It is a customary thing.

The CHAIRMAN: Sheet 35 carried.

Sheet 36: Statistics of mail-line operation—train and locomotive mileage. That is the same thing that we considered last night.

Hon. Mr. VENIOT: We have already touched on that.

The CHAIRMAN: The information you have asked for, Mr. Veniot, will be filed with the clerk and will be available to you.

Mr. VIEN: I understood Mr. Fairweather to state that some of them had been filed to-day. I asked yesterday the average annual income debited after payment of interest on funded debt including interest on amounts from the Dominion government for the five-year period 1926 to 1930 and 1931 to 1935.

The CHAIRMAN: I would suggest, Mr. Vien, that this will either be read into the record or the clerk will embody it in the record so that it will be available for every member of the committee.

Mr. VIEN: Yes, Mr. Chairman. That is quite all right. I wanted simply to enquire what were the documents that had been filed to-day.

Mr. FAIRWEATHER: There have been none filed as yet, but I have a lot here that I can file at any time.

Mr. VIEN: If they are ready every member could have them in the report.

The CHAIRMAN: Do you want them to be read here or handed to the clerk to file in the report?

Mr. VIEN: I think it would be satisfactory to hand them to the clerk.

The CHAIRMAN: As an appendix to the report?

Mr. MAYBANK: Are they all there?

Mr. FAIRWEATHER: There is a little more to come. A few questions required some further compilation, but everything that could be answered to-day is answered.

Mr. MAYBANK: And that which is not answered, when it does come forward will likewise be inserted in the record, Mr. Chairman?

The CHAIRMAN: Certainly.

We are down to page 38: Employees and their compensation—distribution of the dollar. Does anybody desire to enquire into that?

Mr. KINLEY: How does the distribution of the dollar compare with the Canadian Pacific Railway? For instance, .6054 goes to labour, fuel so much and other expenses so much in 1934.

Mr. FAIRWEATHER: The distribution is very similar to that of other railways, between general accounts.

Mr. KINLEY: How does your labour work out?

Mr. FAIRWEATHER: In 1935 it is .5590 cents.

Mr. KINLEY: And in 1934?

Mr. FAIRWEATHER: .5578 cents.

The CHAIRMAN: I think the two items should be considered together. You have there the employees and their compensation and also the distribution of the dollar. I think both should go together. Do you not think so, Mr. Fairweather?

Mr. FAIRWEATHER: I beg your pardon, sir?

The CHAIRMAN: Do you not think the two items should be considered together, the employees and their compensation and also the distribution of the dollar?

Mr. FAIRWEATHER: Yes, sir; they interlock.

The CHAIRMAN: Any further questions?

Mr. KINLEY: Mr. Fairweather did not answer my question. I asked him how the labour cost of the Canadian National Railway compared with the labour cost of the Canadian Pacific Railway as to the distribution of the dollar. Mr. Fairweather must surely know that.

Mr. FAIRWEATHER: Well, generally speaking, when you put the figures on a comparable basis you find there is a close similarity between the two. I can say that.

Hon. Mr. VENIOT: But you have not sufficient information to say exactly?

Mr. FAIRWEATHER: No. Employees and their compensation as reported to the Dominion government is a classification of the total payroll, and it includes all sorts of operations in addition to the straight operation of the railway. For instance, everything that is of a capital nature is in the item of employees and their compensation, but you will not find it in the operating expenses because naturally it is excluded. Then again you find a classification such as outside operations, which represents compensation but which is not in the operating statement. For instance, you will notice an asterisk on the number of our

employees. We say it includes railways, express and telegraph employees and excludes hotels and subsidiary companies. And it is really a very difficult matter to make a comparison between the Canadian National and the Canadian Pacific employees and their compensation; but when you iron out the differences in the methods by which the two railways report their employees and their compensation and take account of some of the factors I was speaking about last night, you find that there is a close comparison between the Canadian National and Canadian Pacific and any other railway of a similar build-up.

Mr. YOUNG: Are the same basic rates paid?

Mr. FAIRWEATHER: Yes, the same basic rates are paid.

Mr. KINLEY: The point is raised in this country that there are two things to do: Amalgamate the railways because of the superior and better methods of a privately owned road is the first thing. Here are your operating expenses which contain your labour, and of every dollar earned you put 60·54 cents into labour.

Mr. FAIRWEATHER: That is of the expense dollar, yes.

Mr. KINLEY: The distribution of the dollar.

Mr. FAIRWEATHER: Of the expense dollar.

Mr. KINLEY: Operating revenue.

Mr. FAIRWEATHER: In operating revenue labour is 55·9 cents.

Mr. KINLEY: Well, 55·9. Now, the point is, if the privately owned railway is much more efficient than that, it would be a good thing for this country to amalgamate the Canadian National Railway under the private management of the C.P.R. or some other way. Do the figures which they publish show how much better or how much worse they do?

Mr. FAIRWEATHER: As I say sir, these figures cannot be compared in the raw; but I can say this, that it is my special job to compare the efficiency of the Canadian National Railway with the efficiency of any other road. And I am here to say that I have not yet found any other railway that exceeds the Canadian National Railway in efficiency.

Mr. KINLEY: That is a good statement.

Mr. MAYBANK: The C.P.R. doubtless publishes a report substantially like the one we are on.

Mr. FAIRWEATHER: The Canadian Pacific Railway make a report to the dominion government, and that is in accordance with—

Mr. MAYBANK: The one you are looking at now, which is the report of the C.P.R., is not nearly as comprehensive as yours.

Mr. FAIRWEATHER: The C.P.R. do not ordinarily publish as much details as we do.

Mr. MAYBANK: I know there is extant some place a book showing figures of the distribution of a dollar similar to yours.

Mr. FAIRWEATHER: Well I notice they have a statement on page 35 of their annual report that shows the per cent of their total payroll to operating revenue, and it is 49·95.

Mr. MAYBANK: Just stop there for a moment. In the first place do they include express and telegraph employees?

Mr. FAIRWEATHER: That is what I was saying last night; our expenses do; the Canadian Pacific do not.

Mr. MAYBANK: Exactly. Do they include hotel employees?

Mr. FAIRWEATHER: I do not think so.

Mr. MAYBANK: You do not think so?

Mr. FAIRWEATHER: I say they do not; neither do we.

Mr. MAYBANK: If they include hotel employees would it not go to show a reduction because they are low paid labour?

Mr. FAIRWEATHER: I am almost certain they do not; in fact, I can say they do not; neither do we.

Mr. MAYBANK: Do you know whether they include any section of labour which is relatively low paid?

Mr. FAIRWEATHER: No. In their report, sir, as near as I can make out, the difference in their labour payroll is made up of the fact that the express department employees are not shown in their expenses, neither are commercial telegraph employees shown in the expenses.

Mr. MAYBANK: They are a high paid class?

Mr. FAIRWEATHER: That amounts to, if I remember correctly, somewhere around \$6,000,000, a comparable figure of the Canadian National, \$6,000,000 of payroll shown in our operating expenses.

Mr. KINLEY: For telegraphs?

Mr. FAIRWEATHER: For telegraph and express. They are excluded from the Canadian Pacific.

Mr. KINLEY: That helps you out because telegraph labour is low paid?

Mr. FAIRWEATHER: No, by no means.

Hon. Mr. HOWE: No.

Mr. FAIRWEATHER: Then in addition to that there are some other differences. For instance, the Canadian Pacific organization for colonization which is a very extensive operation, is not shown in their operating statement. That comes under special operations. Unless you are in a position to take these things apart and put them on a comparable basis you really cannot draw any comparison from the raw figures. Now I say, so far as I have been able to do that, after it is done, the Canadian National compares very favourably with the Canadian Pacific.

Mr. MAYBANK: Or any other road.

Mr. FAIRWEATHER: Or any other road. As I say, I have not found any other road, when you get right down to brass tacks, that can show us very much. I do not say that in any boasting sense; but inherently the Canadian National Railways are as efficient as any other railway that has the same operating problem. That is the point I wish to make.

Mr. KINLEY: There is a difference between 49 and 55 from your own figures on labour operating revenue.

Mr. FAIRWEATHER: That is explained.

Mr. KINLEY: By telegraphs?

Mr. FAIRWEATHER: Partly.

Mr. KINLEY: I do not think that would disturb your ratio.

Mr. FAIRWEATHER: \$6,000,000 is a lot of money.

Mr. KINLEY: It would not disturb your ratio very much.

Mr. FAIRWEATHER: That is a lot of money sir, and it has a bearing. But in addition to that last night I explained that there were things about the Canadian National railways that make our operating ratio higher and that also carries into our labour account making it higher than the Canadian Pacific, and of necessity so.

Mr. KINLEY: You claim that in so far as labour costs are concerned your railroad is run as efficiently as any other?

Mr. FAIRWEATHER: I say in so far as the administration, the labour and application of material is concerned, the operations of trains and stations, all the operations of the railway, telegraph and express, the Canadian National is efficiently operated, yes sir.

Mr. KINLEY: Notwithstanding politics.

Mr. FAIRWEATHER: Yes, sir.

Mr. VIEN: There is no doubt that the fact that the Canadian Pacific has only two great divisions, the eastern and western lines, whereas you have more regions than that, has some bearing. I am not putting it at your door, but I am simply saying it is a fact, and it must necessarily involve a bigger staff and a heavier overhead than you would otherwise have if you had only the western and eastern lines.

Mr. FAIRWEATHER: Well the point about that is this: The Canadian Pacific has a problem somewhat similar to ours; that is in so far as United States lines are concerned. They have affiliations in the United States and they have separate organizations for those just as we have. We have to maintain a separate organization for the Grand Trunk Western and also a separate organization for the Central Vermont. In Canada the divisions between the property consists of the eastern or western division, the same as the Canadian Pacific, but we also have the eastern lines.

Hon. Mr. VENIOT: You are compelled under the British North America Act to have that.

Mr. VIEN: I am not discussing whether it lies within your power to do away with that; I am asking your opinion as to whether that is a fact. Does it not involve additional expenses that would be done away with if instead of an Atlantic and a central region—what are the other regions?

Hon. Mr. FULLERTON: The western region.

Mr. VIEN: You have three in Canada.

Mr. FAIRWEATHER: We have three regions in Canada.

Mr. VIEN: Instead of two. Does this, as a matter of fact, involve additional staff, or does it not? Does it involve additional expenses, or does it not?

Mr. FAIRWEATHER: It would involve some additional expense and staff undoubtedly, but I think that one of the reasons perhaps, for the high efficiency of the Canadian National Railways, is the fact that we have that degree of supervision.

Mr. HUNGERFORD: There is another factor. We have about 6,000 miles more of road in Canada to administer than the Canadian Pacific have.

Mr. VIEN: Is it therefore your considered opinion that from an operating point of view it is preferable to have three regions instead of two?

Mr. HUNGERFORD: Taken altogether, I think so, yes.

Mr. YOUNG: A few moments ago Mr. Kinley when discussing labour costs added the words "notwithstanding politics." I should like to ask the board if labour costs have been increased on account of politics.

Mr. WALSH: No, decreased.

Mr. YOUNG: Have politics been interfering to make labour costs greater?

Hon. Mr. FULLERTON: I do not see how they could. Labour costs are all fixed by agreements with the men, all scheduled prices, and it is done by conference with the men, agreements arrived at, wages fixed. There is no question about politics so far as that goes.

Mr. YOUNG: I want that statement to go in the record.

Mr. HANSON: The same wages are paid on the C.P.R. as on the C.N.R.?

Mr. KINLEY: As far as that goes, I got a letter from somebody the other day on members sending out propaganda, also speaking about the grave problem of the Canadian National, saying it was killing the country and the solution was to take it out of politics.

The CHAIRMAN: Because we do not dare to amalgamate.

Mr. KINLEY: If it is proper to amalgamate—

Hon. Mr. HOWE: There is a distinction in what we call politics. Partisan politics has no more effect on the Canadian National, as I see it, than on the Canadian Pacific. In other words, I do not think any attention is paid to pressure on the Canadian National Railways, and I do not think there is any pressure to promote people who do not deserve promotion; but there is political pressure that the C.P.R. feels as much as we do, and that is this: If we have a station that is not earning money and we want to close it, we are up against the greatest pressure in the world and it is a pressure that makes it almost impossible to close it. In fact we have tried to close—that is the Canadian National Railways—a number of unprofitable stations and unprofitable branch lines and a storm of protest comes upon us, as members of parliament know as well as I know, that puts enough pressure before the railway board to stop the closing. In other words, we are stopped from making the economies we might make.

The CHAIRMAN: From what part of the country does the pressure come?

Hon. Mr. HOWE: North, south, east and west.

The CHAIRMAN: If it is in the eastern division and a member of parliament tries to interfere, it is closed right off.

Hon. Mr. HOWE: That is the real difficulty so far as pressure goes on the railway in connection with making economies.

Mr. WALSH: That happens to the C.P.R. as well?

Hon. Mr. HOWE: I think so.

Mr. WALSH: It is a matter of public opinion.

Hon. Mr. HOWE: Exactly.

Mr. WALSH: There is a certain amount of public interference so far as the Canadian National is concerned. We had a glaring example of that. For example, I know where officials of the Canadian National wanted to move a man who was in a constituency quite close to Montreal, and the member there strenuously objected, suggesting even in his letter that this man was the key man in the political organization in his district; therefore he should not be moved, and he was not moved.

Mr. YOUNG: I take it then, he was an efficient man.

Mr. WALSH: He was a very efficient man, we can judge, by the majority of the member concerned.

Hon. Mr. VENIOT: Now, Mr. Chairman, would it be called politics if the member for a county where a station is to be closed or the railway authorities applied for the closing of it, should enter a protest before the Board of Railway Commissioners. Surely there is no politics there.

The CHAIRMAN: If the member of parliament were a clever man he would be supported by a resolution of the city council, and he would present that resolution and would not act on his own.

Hon. Mr. STEWART: Thank you; it is a good hint.

Mr. KINLEY: I was not here yesterday. May I ask this question now: With regard to the associations of the Canadian National outside Canada or their properties outside Canada, do they contribute to the revenue or increase the deficit. In other words, are the properties outside Canada a profitable part of the Canadian National?

Mr. HUNGERFORD: You are speaking of the American lines?

Mr. KINLEY: You are operating roads outside of Canada, and the deficit brings to mind something of serious concern.

Mr. HUNGERFORD: It is not a simple question to answer, because again the connection with the American lines contributes to the traffic of the Canadian lines.

Mr. KINLEY: They feed the Canadian lines?

Mr. HUNGERFORD: They are feeders to a very considerable extent, so the answer is not—

Mr. VIEN: Are you not obliged under the act and regulations of the Interstate Commerce Commission to keep the accounts of the American lines separate and distinct?

Mr. HUNGERFORD: Yes.

Mr. VIEN: And in these accounts do the American lines show a surplus or a deficit?

Mr. HUNGERFORD: Well, it all depends on the period of time, the particular date.

Mr. VIEN: Take 1935, for instance.

Mr. FAIRWEATHER: Take the Grand Trunk Western Railway Company, the income or loss to the C.N.R. through the ownership of the property; that is, in 1929 we had a surplus on the Grand Trunk Western of \$6,155,000; in 1932, which was the worst year of the depression, there was a loss of \$3,281,000; in 1935 there was a profit of \$1,601,000.

Mr. VIEN: Have you got the five years from 1931 to 1935?

Mr. FAIRWEATHER: I have them here, yes.

Mr. VIEN: Could you give the surpluses or deficits for each of those years?

Mr. FAIRWEATHER: In 1929 there was \$6,155,000 surplus; in 1930 a surplus of \$1,165,000; 1931, a deficit of \$2,390,000; 1932, a deficit of \$3,281,000.

Mr. KINLEY: What railway is that?

Mr. FAIRWEATHER: The Grand Trunk Western. In 1933, a deficit of \$1,785,000; in 1934, a surplus of \$64,000; in 1935, a surplus of \$1,601,000.

Mr. VIEN: Have you got a summary of the deficits or surpluses?

Mr. FAIRWEATHER: They could be added up. I have not that here, sir.

Mr. VIEN: Never mind.

Mr. FAIRWEATHER: That does not tell the whole story, not by a whole lot. Because you see, these lines act as feeders for the rest of the system.

Mr. KINLEY: Would they not feed if somebody else owned them?

Mr. FAIRWEATHER: No, indeed. That traffic field is the most highly competitive traffic field that you can imagine. I do not think this should go on the record, and I would ask that it be not taken down.

The CHAIRMAN: Do not take this, Mr. Reporter.

Explanation by Mr. Fairweather followed which on the instructions of the Chairman, was not reported.

The CHAIRMAN: Shall the item carry?

Mr. WALSH: Would you suggest that the Canadian Pacific Railway had similar feeders in a similar territory?

Mr. FAIRWEATHER: They never succeeded in getting a line into Chicago from the east, and they have not a direct connection to the Niagara frontier either. The most they have been able to do there is to get a connection through the T.H. & B., a half interest—they own not a half interest, but it will be a fractional interest in the T.H. & B. which gives them access to the Niagara frontier. But they have no line comparable to our Grand Trunk Western line. They have west of Chicago. They have a number of lines running up to the west from Chicago.

Mr. HUNGERFORD: There is the Soo line on the south shore.

Mr. FAIRWEATHER: Yes. And then there was the Wisconsin Central which they controlled; that particular line is in bankruptcy.

Mr. VIEN: Are these all of the lines controlled by the Canadian National in the United States?

Mr. FAIRWEATHER: Which?

Mr. VIEN: I mean, the Grand Trunk Central and the Central Vermont.

Mr. FAIRWEATHER: No. Our lines in United States are comprised of the Duluth, Winnipeg and Pacific which is a line out in—

Mr. HUNGERFORD: About 170 miles long, running down to Duluth.

Mr. FAIRWEATHER: And then there is the Grand Trunk Western, the Central Vermont, the New England line.

Mr. KINLEY: In New England you have a terminal at Portland, Maine?

Mr. FAIRWEATHER: Yes.

Mr. KINLEY: And so have the C.P.R.?

Mr. FAIRWEATHER: No.

Mr. KINLEY: Only the Canadian National Railway.

Mr. HUNGERFORD: They connect with the Maine Central at Saint John, Vermont.

Mr. KINLEY: Yes.

Mr. FAIRWEATHER: There are a few little odds and ends down in northern New York—I think there would probably be a couple of hundred miles of odds and ends that are really unimportant.

Mr. VIEN: What about from British Columbia on the ocean?

Mr. FAIRWEATHER: From British Columbia over until you hit the Duluth, Winnipeg and Pacific, we have no line in the United States.

Mr. BOTHWELL: I move the adoption of the report.

The CHAIRMAN: Pending the filing of the documents asked for and the deposit of those documents with the clerk, has anybody any objection to the thing carrying?

Mr. KINLEY: I asked the other day, and it was to be given to me, for the operating picture of the Halifax and South Western Railway.

Mr. FAIRWEATHER: That is included.

The CHAIRMAN: It is in the report already.

Mr. WALSH: I have a few questions to put, if I am in order, when you are through with the rest.

Hon. Mr. STEWART: There are one or two questions I want to put, to clear up something that occurred yesterday, and then Mr. Vien has something that he wants to ask.

Mr. WALSH: I wanted to ask one or two questions in connection with the report, generally speaking, to get certain information.

The CHAIRMAN: All right.

Mr. WALSH: On page 29 we have interest charges there on temporary loans, \$783,000, and further up we have other interest charges of close to \$36,000,000. I cannot find any trace of where that \$36,000,000 enters into the picture outside of that one spot.

Hon. Mr. FULLERTON: What page is that?

Mr. WALSH: Page 29, loans from Dominion of Canada, \$35,949,000.

Hon. Mr. HOWE: I think they are part of a refunding operation; I think they are temporary loans. We took up certain securities, seven per cent securities, or the Dominion Treasury did; and after they reached \$78,000,000

the railway itself brought out a bond issue of \$78,000,000 and took those securities off our hands. I think that is incidental to refunding operations. Am I right, Mr. Fairweather?

Mr. FAIRWEATHER: Yes.

Hon. Mr. HOWE: It is purely a temporary thing. I presume it is in the balance sheet.

Mr. WALSH: It has nothing to do with interest that is due to the government?

Hon. Mr. HOWE: No.

Mr. WALSH: For loans from the Dominion government?

Hon. Mr. HOWE: No. This was purely a very temporary thing. I know we bought those 7 per cents in December; and I think it was in February that we floated the loan for Canadian National Railways account and they took those bonds off our hands.

Mr. WALSH: Still in the statement on page 3 you have got interest on government loans for refunding, and the only amount mentioned there is \$783,000, and that is interest on temporary loans. There is no mention there of the other interest of \$35,949,000.

Hon. Mr. HOWE: Yes.

Mr. COOPER: That item is set out on page 18.

Hon. Mr. HOWE: Interest on Dominion government loans.

Mr. WALSH: Why is that not included in this statement? Why does it go through the net profit and loss like that?

Hon. Mr. HOWE: That is interest on old debts of the government since Confederation. That is what we call interest due the government.

Hon. Mr. STEWART: That is the total, is it not?

Hon. Mr. HOWE: Yes, the total. That includes interest and deficits, money advanced to make up deficits and so on.

Mr. VIEN: I understand there was a Canadian National Railway Financing Act from year to year until 1935 to provide any cash deficit that would be necessary for the operation of the railway. Is that correct?

Mr. FAIRWEATHER: That has been the practice for, I think, about four years.

The CHAIRMAN: Since 1932.

Mr. VIEN: Could you tell us what the provision in the Canadian National Railway Financing Act was in 1935?

Mr. FAIRWEATHER: Well, I have that here. The provision for deficits as budgeted was \$44,000,000.

Mr. VIEN: \$44,000,000.

The CHAIRMAN: I think what Mr. Vien wants to know is what was contained in it; there was an act introduced in the House last year by resolution.

Mr. VIEN: That is what Mr. Fairweather is referring to. The act provided for \$44,000,000.

Mr. FAIRWEATHER: For cash deficit.

Mr. VIEN: Cash deficit. I see on page 5 of your report that the cash deficit was \$47,421,000 in 1935.

Mr. FAIRWEATHER: Yes.

Mr. VIEN: Then there would be an excess of \$3,421,000 over your estimate and over the provision of the Financing Act?

Mr. FAIRWEATHER: There was an increase. The actual cash deficit exceeded the budgeted deficit by \$3,421,464.80.

Mr. VIEN: When you became involved to that extent over and above your estimates as provided in the financing act, how were these funds provided for?

Mr. FAIRWEATHER: Of course, until parliament came along undoubtedly we would have to carry that in working capital.

Mr. VIEN: But do you borrow from the banks or how do you provide for it?

Mr. FAIRWEATHER: Of course, we have a fairly substantial amount of working capital; I do not think we borrowed from the banks.

Mr. VIEN: Where do you get your working capital from?

Mr. FAIRWEATHER: Originally from the government.

Mr. VIEN: And it is carried on from year to year?

Mr. FAIRWEATHER: Yes. You see, that amount there was not sufficient to really handicap us very much.

Mr. VIEN: You took it from your working capital without any financing either from the government or from the banks?

Mr. FAIRWEATHER: Yes.

Mr. VIEN: Do you put in your annual estimates any indication of the possibility of your estimates being exceeded by your actual expenditures?

Mr. FAIRWEATHER: We make the best estimate we can in the circumstances.

The CHAIRMAN: The same applies to every department of the Crown.

Mr. VIEN: Surely. But I wanted to know how that was made up, either by special warrants or borrowings from the banks or otherwise.

Mr. FAIRWEATHER: I think Mr. Roberts explained that the other day.

Mr. VIEN: I am sorry. I was not here if he did. I am sorry if it is repetition. There is another aspect of the problem as to which I wanted to ask Mr. Fairweather a few questions. I did not understand why it would be found advisable for the Canadian National Railway to indicate with respect to their express and telegraph revenues only their gross revenues and gross expenditures as against the practice which Mr. Fairweather indicated last night was followed by the C.P.R. of showing only the net revenues for express and telegraphs.

Mr. FAIRWEATHER: I did not say they showed only the net, sir.

Mr. VIEN: Did you not?

Mr. FAIRWEATHER: No. We practise consolidated accounting and treat the express and telegraphs simply as departments of the railway. The Canadian Pacific Railway treat their commercial telegraph and commercial express as independent corporate operations. I do not know whether there is any particular merit in one system or the other except that we believe ours shows in a comprehensive and consolidated way the actual operations of our steam lines of railways and their ancillary services. The Canadian Pacific Railway follow a different practice. They probably find it is desirable. I have no criticism of what they are doing in any sense.

Mr. VIEN: I wanted to find out if there was any advantage or whether it gave any particular character to the picture? Does it change the picture in any way?

Mr. FAIRWEATHER: It does affect the comparison of the operating ratio.

Mr. VIEN: I cannot understand how it does if the Canadian Pacific Railway shows only the net revenues or deficits and you show the gross revenues and gross expenditures. How does it affect the operating ratio?

Mr. FAIRWEATHER: It arises out of the internal nature of those accounts, sir. I know it does. Of course, when you say they put in net revenue, that is not correct. So far as I understand it, on telegraph services they do not put anything, neither their commercial revenues nor commercial expenses.

Mr. VIEN: They do not indicate in their annual report the express or telegraph?

Mr. FAIRWEATHER: No. With regard to express they include an item called express privileges, and that is an arbitrary percentage of the express revenue which the express company pays to the Canadian Pacific Railway for permission to operate express cars over the Canadian Pacific Railway, but they do not put in expenditures against them.

Mr. VIEN: This is not critical, it is simply informative.

Hon. Mr. FULLERTON: Quite.

Mr. VIEN: Could the chairman of the board or any member of the board of trustees or Mr. Hungerford state what were the estimated savings accomplished in 1935 through the cooperation with the Canadian Pacific Railway by pooling of trains or other devices?

The CHAIRMAN: It is set out in the report.

Hon. Mr. FULLERTON: It is set out very fully in our report at page 6.

Mr. VIEN: Is there any indication of the actual saving?

Hon. Mr. FULLERTON: The estimated savings of the two companies is \$1,600,000.

Mr. VIEN: That is the aggregate amount?

Hon. Mr. FULLERTON: Yes.

Mr. HANSON: We went all through that the other day.

Mr. VIEN: I am sorry if I am tedious.

The CHAIRMAN: That is perfectly all right, Mr. Vien.

Mr. VIEN: Are there any further steps in contemplation to bring about closer co-operation between the two railways?

Hon. Mr. FULLERTON: We are working on it all the time, but it involves a great deal of work.

Mr. VIEN: Could you say what further curtailments in duplication of service there are in contemplation?

Hon. Mr. FULLERTON: For example, we have about 1,700 miles of duplicate functional lines which we are studying.

Mr. VIEN: Extending all over Canada?

Hon. Mr. FULLERTON: Yes.

The CHAIRMAN: They are enumerated on page 7.

Hon. Mr. FULLERTON: Yes, you have it all on page 7.

Hon. Mr. STEWART: Pages 6 and 7.

Mr. VIEN: Is there any indication of the estimated savings which would result from that further co-operation?

Hon. Mr. FULLERTON: No; it would be impossible to furnish those figures.

Mr. YOUNG: Before we get off this so-called co-operation, just what is done exactly? Take lines from Montreal to Toronto, what is done in actual practice?

Hon. Mr. FULLERTON: In the first place, there is the joint co-operative committee, that is a joint technical committee of the Canadian Pacific Railway and the Canadian National Railway who work together on this study. We also have a joint executive committee of C.P.R. directors and the Canadian National trustees who meet from time to time. Certain subjects are submitted by the joint executive to the technical committee and the technical committee study them and make a report and recommendation. When the proposal is recommended by the joint co-operative committee and approved by the joint executive committee an agreement is prepared. Let us say the proposal is the abandonment of functionally duplicate lines. After the agreement is prepared application is made to the railway board for permission to abandon one of the lines whether Canadian Pacific or Canadian National, and if you succeed in getting by the railway board you put it into effect.

Mr. HANSON: How do you divide revenues?

Hon. Mr. FULLERTON: That is a very very complicated problem, a very technical matter. Perhaps Mr. Fairweather could explain it better than I can.

Mr. FAIRWEATHER: In the pool service?

Hon. Mr. FULLERTON: Or in any joint coordination.

Mr. FAIRWEATHER: The revenue is pooled in what we call pooled channels. That is to say, we would take a channel between Montreal and Toronto, and all the passenger revenue that went through that pooled channel or any portion of that pooled channel is pooled revenue. The amount that each company puts into the pool is determined by an audit of their ticket sales, and then the pool is divided in the proportion of the ticket sales that each company had in a prior test period, a test period existing before the pool went into effect. We take this pooled channel and analyze from the past record how much traffic each company had going through that pooled channel, and if one company had 48 per cent of the total and the other company had 52 per cent then for the pooled revenue irrespective of who sold the tickets or irrespective of whether a passenger travelled on a pooled train or a non-pooled train, quite irrespective of that, the revenue would be divided in the proportion of 48 and 52.

Mr. HANSON: Supposing that all the passengers in the year 1936 in some sudden way decided to travel on the Canadian Pacific Railway. In the ordinary course of events I take it that the past experience would govern?

Mr. FAIRWEATHER: Quite.

Mr. HANSON: Or if all the people decided to travel on the Canadian National Railway the past experience would govern for that pooled travel.

Mr. MAYBANK: You know how you are going to share?

Mr. FAIRWEATHER: Yes, it is in the agreement.

Mr. KINLEY: And what about the expense of running the train?

Mr. FAIRWEATHER: The expense of running the train was solved in a very simple manner. We spent a great deal of thought over that problem because you can run into all sorts of difficulties when you start building up expense accounts between railways. I have had some experience in that, and I know something about it. We worked out a simple basis whereby each company had to provide the same amount of train service, that is each company in the pooled channel for the pooled train has to provide its quota of the train service and equipment, so that we balance. For every train mile the other company runs we have to run a train mile, and we escape all the accounting and billing between one company and the other.

Mr. KINLEY: How do you apportion the dead-heads on the pool train.

Mr. FAIRWEATHER: We do not attempt to do so.

Mr. YOUNG: Supposing that for some reason or other, let us say general efficient service over a whole system over a period of two or three or four years, people are attracted to the particular line giving that more efficient service, I take it that under this system the company giving that general efficient service would not be benefited on the channels which are now pooled?

Mr. FAIRWEATHER: That is quite true; but if they were operating those pooled trains they would have in them the equipment of both the Canadian National and the Canadian Pacific. Further than that, they have to make connections with the other fellow's line. For instance, a train going to Toronto connects with the Canadian National and Canadian Pacific lines, and trains coming into Montreal make connections with the Canadian National and Canadian Pacific lines, and believe me if you do not give efficient service you hear about it.

Mr. YOUNG: I did not mean that. I meant this: Let us assume that one railway from coast to coast has been coming up to a better standard of service, and from coast to coast experiencing a great volume of the total traffic on account of its efficient service, that would not be reflected in this pooled channel area.

Mr. FAIRWEATHER: I understand your question, sir. The revenues in the pooled channel are divided in accordance with past experience, but of course the agreement may be cancelled at any time on three months' notice, I believe.

Mr. KINLEY: A lot would depend on whose channel it was. If it was the other fellow's channel before, you had better stay out of it?

Mr. FAIRWEATHER: A channel is common to both.

Mr. KINLEY: But if one fellow has been getting the business he is adjusting with you a fifty-fifty operation on the former revenue, which is in your interest. If you are pooled in the C.P.R. field he is getting the benefit to-day and if he is pooled in your field you are getting the benefit.

Hon. Mr. STEWART: You are saving the losses.

The CHAIRMAN: You have certain questions, Mr. Stewart?

Hon. Mr. STEWART: Yes. I wanted to bring up for the consideration of the board of trustees a statement made last night in respect of the cash deficit.

Mr. MAYBANK: Since this is the introduction of a new subject would you permit me to ask a couple of questions on the subject we have been discussing?

Hon. Mr. STEWART: Certainly.

Mr. MAYBANK: I thought Mr. Stewart was going to ask a question on the same subject matter. With reference to all these schemes of co-operation, can they be effected without expense to labour? Is that where all the saving takes place?

Mr. FAIRWEATHER: Of course, speaking as an economist, sir, it is all labour eventually, whether it is material or labour in the first instance.

Mr. MAYBANK: Let us say railroad labour. To what extent has economy such as you have been describing resulted in displacing labour on the railroad?

Mr. FAIRWEATHER: Undoubtedly every economy is reflected in displaced labour.

Mr. MAYBANK: To what extent is it displaced labour on the road and to what extent is it something else?

Mr. FAIRWEATHER: Direct railway labour on the average between 50 per cent and 60 per cent, and the rest of it would be fuel, materials, and things of that kind.

Mr. YOUNG: The chairman said there was \$1,600,000 saving to both companies. Did he mean that much to each company or combined?

Hon. Mr. FULLERTON: Combined.

Mr. YOUNG: The sum total of estimated saving is \$1,600,000.

Hon. Mr. FULLERTON: Yes.

Mr. MAYBANK: So \$1,600,000 of saving. 60 per cent is displaced labour on the railway?

Hon. Mr. FULLERTON: When the co-ordination act was passed in the United States an amendment was made to it preventing the letting out of labour, and that put the quietus on the whole thing. They have not been able since to make any economies.

Mr. VIEN: Have we not brought about some remedy by reducing to sixty years the age of superannuation? Have they not brought it down from sixty-five to sixty years?

Mr. MAYBANK: In the United States or in Canada?

Mr. VIEN: In the United States.

Mr. FAIRWEATHER: In the United States they have a Federal pension law, but it is sub judice at the present time. The railways have protested against it. It did not state any stipulated age. As a matter of fact, any man could retire upon completion of thirty years' service and a man could retire at fifty under that act if he had thirty years' service, but the top limit was seventy years and the bottom limit was fifty years.

Mr. VIEN: But they got the same benefit or the same annuity upon being superannuated that they would otherwise have had in reaching the age limit.

Mr. FAIRWEATHER: No; you could not say that. A great many of the railways in the United States had their own pension plan. This Federal pension plan came in on top of them. The pension plan, in my opinion, had very little to do with this displaced labour. That question of displaced labour right at the present time is under active negotiation between the railways, the representatives of labour and the Federal Co-ordinates. I am not aware that they have reached a final conclusion.

Mr. WALSH: If you did consider a plan of unification, I presume you have never gone into it fully, what per cent of labour would be displaced, 20 per cent or 25 per cent?

Mr. FAIRWEATHER: I am somewhat embarrassed.

Mr. WALSH: Judging from your experience with pooled channels.

Mr. FAIRWEATHER: As an economist, it is all labour, every cent of it. If you are talking of direct railway labour I would say it is between 50 and 60 per cent.

Mr. WALSH: Do you think we could run our two railways in Canada with 50 per cent to 60 per cent—

Mr. FAIRWEATHER: No, Mr. Walsh. You asked me what percentage of any theoretical economy would be labour.

Mr. VIEN: Take the number of employees on both railway systems.

Mr. FAIRWEATHER: I did not answer that question at all.

Mr. WALSH: I do not think it would amount to more than 25 per cent. Would it?

Mr. FAIRWEATHER: That is a very big question indeed, and I have had enough experience in answering questions like that to be careful because I have answered such questions and have found people to whom I did not give the answer misinterpreting what I said.

Mr. MAYBANK: There was one such answer circulating around for three or four years.

Mr. FAIRWEATHER: Yes.

Mr. WALSH: If there was a labour displacement by unification or some process of that nature, the natural decrease per year in the railway employees, naturally there is a replacement of 5 per cent per annum? Over a period of five years the retirements on the railways come to about 5 per cent per annum?

Mr. MAYBANK: Of course, it might be the retirement of a stenographer through marriage, but a displacement of a switchman.

Mr. VIEN: Could you give us a yearly average of retirements through normal conditions such as death, old age and disability and so on?

Mr. FAIRWEATHER: If you are speaking of our labour turnover figure, it is a very complicated matter, because a man will appear on the payroll, disappear from the payroll, and come back to the payroll again. You cannot give any simple figure that will express the labour turnover of the railway. If you refer to people who go out on pension and those who go out by death, I would venture an opinion that it would not run over 1 per cent.

Mr. MAYBANK: Add marriage to that.

Mr. FAIRWEATHER: I would not want to get into that.

Mr. VIEN: Would you not say there is more than 1 per cent superannuated or dying year after year?

Mr. FAIRWEATHER: That is about what I would say.

The CHAIRMAN: That amounts to about seven thousand a year.

Mr. FAIRWEATHER: Yes. Our normal staff of employees is close to 100,000, and 1 per cent of that is 10,000 people.

Mr. VIEN: 100,000? 1 per cent would be 1,000.

Mr. FAIRWEATHER: I beg your pardon. I have made a statistical error. The pensioners would run about 1 per cent, I would suppose; and I would not venture a guess at the deaths.

Mr. VIEN: There are some who are discharged for cause and there are some who die out, and there are some who are superannuated because they are injured or because they have reached the age limit. All these taken together represent what in terms of percentage of the total number employed?

Mr. FAIRWEATHER: I could not answer that offhand.

Mr. VIEN: Would you say that 5 per cent would be an exaggeration?

Mr. FAIRWEATHER: I could not answer that question offhand, sir.

Mr. MAYBANK: Talking of \$1,000,000 of saving, is that the annual saving effected by these various schemes?

Mr. FAIRWEATHER: Yes.

Mr. MAYBANK: So about \$600,000 of that is railway labour?

Mr. FAIRWEATHER: I would say so.

Mr. VIEN: The figure given was \$1,600,000.

Mr. MAYBANK: Sixty per cent of that is railway labour, and of course, generally speaking or in fact always, it is the junior man in the service who is displaced?

Mr. FAIRWEATHER: Eventually, yes.

Mr. MAYBANK: So that any such saving as that in a time of depression such as the present time would be effected by discharging persons probably least able to bear it.

Mr. FAIRWEATHER: They have a system they call "bumping."

Mr. MAYBANK: I am familiar with the term.

Mr. WALSH: In the saving—

Mr. MAYBANK: May I get an answer to my question before you interrupt, please?

Mr. FAIRWEATHER: The men have an expression they call "bumping." It arises out of seniority. If a man loses his job the fellow below him bumps down and so on until finally the fellow at the bottom is bumped off.

Mr. MAYBANK: And consequently the saving is always at the expense of the junior men?

Mr. FAIRWEATHER: Not always.

Mr. MAYBANK: It does not take long to bump along the line.

Mr. FAIRWEATHER: As a generalization I think it is correct.

Mr. MAYBANK: In these times I suppose it is pretty well known that there would not be in the case of most of our railway employees any great deal of savings amassed prior to such bumping until the bumping off of the junior man comes? You are not displacing a class of men who are well situated from the point of view of living on their savings?

Mr. FAIRWEATHER: I think that might perhaps be inferred.

Mr. MAYBANK: So that all these savings effected will immediately or ought immediately to result in payment of relief money by the government?

Mr. FAIRWEATHER: It is possible.

Mr. MAYBANK: Your deficit may be a little less and the relief bill a little higher?

Mr. FAIRWEATHER: That is possible, sir.

Mr. YOUNG: Very probable.

Mr. MAYBANK: Indeed is it not almost certain in times such as the present?

Mr. FAIRWEATHER: Of course we do not attempt to trace the personal circumstances of these employees out, but by influence I would say that there is a much greater chance of the junior men being less well off than the senior men.

Mr. MAYBANK: As a railroader of considerable length of service would you not agree that any of the savings in times of depression such as these can only be effected by relief money being paid out shortly after.

Mr. FAIRWEATHER: Well, there is certainly a danger there.

Hon. Mr. HOWE: How does he know that, Mr. Maybank? You are mixing the problem of unemployment relief with the problem of operating a railway. I do not think they have any relation.

Mr. MAYBANK: I know quite well I am mixing them. The saving definitely does the mixing, I am not doing it.

Mr. WALSH: In regard to that statement that \$1,600,000 were saved as a result of co-operation, I think the wrong deductions are being made. The deductions from the conversations of the last five minutes are that the saving was made at the expense of displacements as far as labour is concerned.

Mr. MAYBANK: Sixty per cent only.

Mr. WALSH: I would not say 60 per cent were actually discharged or bumped off completely in this process of co-operation.

Mr. FAIRWEATHER: Oh, yes. For instance, we reduced our train mileage; the two properties reduced train mileage 900,000 train miles.

Mr. WALSH: What became of these men?

Mr. FAIRWEATHER: Well they just simply did not have the work.

Mr. WALSH: Are you certain that some men were actually let out of employment?

Mr. FAIRWEATHER: I am certain. We would not have the economy if that were not the case.

Mr. MAYBANK: So the wage bill is less as a result of that?

Mr. FAIRWEATHER: Certainly; no doubt about that. I do not want to have any exact percentage tied on me. I gave an estimate of between 50 and 60 per cent railway labour.

The CHAIRMAN: Mr. Stewart has been trying to get in a word or two for some time. I suggest he have the floor.

Mr. MAYBANK: That is all I wanted to ask.

Hon. Mr. STEWART: I do not think I shall be very long either, as it is near six o'clock. I want to call the attention of the chairman of the board to a statement that appears in the press this morning which would indicate that there is apparently a real conflict between the statement made by the Leader of the Opposition in the house yesterday, and the statement made by the chairman of the board last night. The paper I have in my hand is the Morning Journal, and it says:—

Fullerton gives an explanation of C.N.R. deficit. Says cash figure \$47,000,000 when asked about \$115,000,000 mentioned by Bennett.

That is the heading of the article. Now, I have before me Hansard of yesterday and I am reading from page 2735, the statement made by Mr. Bennett. This is what Mr. Bennett said:—

Profit and Loss statement, system net loss, \$115,281,689.79.

That is comparing, I think, that figure with the \$47,000,000.

Hon. Mr. HOWE: Would you read all Mr. Bennett's remarks on the subject?

Hon. Mr. STEWART: The hon. gentleman dealt with the position of the provinces, but I am not going to do more than refer to another statement he made. He said we had two problems before us, the problem of unemployment and the problem of our railways. He made that abundantly clear and I do not think there is a member who differs from him. He then pointed out that we loaned the provinces \$116,500,000 and that that created a situation which required action and immediate action, too. I think most of us agree to that. But when he dealt with the railway question, he left it merely at the substitution of five directors for three trustees and referred to the bill.

Mr. MACKENZIE (Vancouver): Seven.

Mr. BENNETT: Yes, seven directors for the three trustees. He left it at that, with a reference to the bill which is now before the house. Let me point out that at page 18 of the Canadian National report there appears this interesting statement:—

Profit and loss statement, system net loss, \$115,281,689.79.

That is substantially the same figure as the money loaned to the provinces, but that was the loss for one year. The net loss for one year is \$115,281,689.79. The Minister of the Interior (Mr. Crerar) looks very much alarmed. If he will take the report and look up the statement he will see that it is as I have said.

Hon. Mr. HOWE: What is next?

Mr. CRERAR: Does that include interest?

Mr. BENNETT: No, that is merely the profit and loss statement.

Hon. Mr. STEWART: . . . the largest item being debits for retired road and equipment, \$29,000,000.

Mr. DUNNING: The budget deals only with cash deficits.

Hon. Mr. VENIOT: He included in that the interest on the government loans.

Mr. HANSON: What do you want to infer?

The CHAIRMAN: Let Mr. Stewart complete his statement.

Hon. Mr. STEWART: Let me make my statement and then you can go on where you like. Mr. Fullerton, the chairman of the board, in referring to it at the evening session made a reply to a question of Mr. Howard who said that the figure was alarming or shocking, or something of that kind. As reported in the *Ottawa Journal*, this is what happens:—

C. B. Howard (Lib., Sherbrooke) said that statement had been a shock to him, and he asked railway officials to explain it. C. P. Fullerton, chairman of the Canadian National board of trustees, said \$47,000,000 was a fair estimate of the cash deficit. Mr. Bennett, he said, had included a lot of things that should not have been included.

* * * * *

Mr. Fullerton said \$47,000,000 was the cash deficit and the other sums mentioned were book-keeping items. Some people he said, liked to pile up deficit to make the picture as bad as possible. That is why he had sought to cut out all deadwood.

Now is it not perfectly correct that the statement appearing in Hansard is actually as stated on page 18?

Hon. Mr. FULLERTON: There is no question that the Profit and Loss statement on page 18 shows a loss of \$115,000,000. But we say that \$47,000,000 is the correct cash deficit for the year for this reason, that this obsolete equipment which was scrapped might have been scrapped last year, the year before, or the year before that. You cannot apply it to the one year by any manner of means. In the second place we say interest on deficits should not be charged, and we say that interest on government loans should not be charged because it is shareholders' capital, and it should receive interest or dividends only if earned. That is our contention, rightly or wrongly.

Hon. Mr. STEWART: It is a matter of contention.

Hon. Mr. FULLERTON: Yes, purely so.

Hon. Mr. STEWART: The figure as shown on page 18 and as stated by the Leader of the Opposition is correct.

Hon. Mr. FULLERTON: Nobody denied that in the profit and loss statement there is shown a loss of \$115,000,000; there is no question about that.

Hon. Mr. STEWART: Then we have the difference of—

Hon. Mr. FULLERTON: There could be no question about that. I thought I made that statement last night.

Hon. Mr. STEWART: I have not the record.

Hon. Mr. FULLERTON: I made that statement last night.

Hon. Mr. STEWART: I have not got the record as printed. It appears to indicate a contradiction between you and the Leader of the Opposition in your statement.

Hon. Mr. FULLERTON: I think I said I was referring to the cash deficit.

The CHAIRMAN: The total deficit mentioned by Mr. Fullerton is \$115,000,000 but if you eliminate the items that he specially mentioned, the real deficit is only \$47,000,000.

Hon. Mr. FULLERTON: When I said that some people liked to pile up the deficit I was referring to the fact that people who are always criticizing us love to ring in this extra charge, the interest owing to the government, in order to pile it up as much as possible. Every newspaper who is in favour of amalgamation uses these figures. Others not opposed to it use cash deficit figures. That is what I was referring to.

Hon. Mr. STEWART: That is what you had in mind.

Hon. Mr. FULLERTON: That is what I had in mind clearly.

Hon. Mr. STEWART: There is no inaccuracy in the statement?

Hon. Mr. FULLERTON: No.

Mr. YOUNG: Mr. Chairman, let us have that statement again. It says that was the loss in one year.

Hon. Mr. FULLERTON: It was not.

Mr. YOUNG: If I read the statement correctly it is not the loss in one year.

Hon. Mr. FULLERTON: It is shown on the books as a loss in one year, but it is really not a loss in one year.

Mr. KINLEY: It is a cost to the Canadian people in one year.

Hon. Mr. FULLERTON: No, I say it is not a cost to the Canadian people in one year.

Mr. KINLEY: Why not?

Hon. Mr. FULLERTON: Take the \$26,000,000. We might have done, as has been done in the past. We might have done differently. We knew the \$26,000,000 was there and might have done nothing. We might have said nothing about it, left it and carried it as it was; but do you think that would be a wise thing to do? We did not think so.

Mr. WALSH: That \$26,000,000 over a period of five or six years should have been annually charged up, and it was not; it was left to accumulate.

Hon. Mr. FULLERTON: Mr. Hungerford—

Mr. WALSH: Until this year when we wrote off \$26,000,000. Then you go one step further. You borrow money from the government to meet certain fixed charges or deficits. If another railway company wanted to meet that condition they would have to borrow money elsewhere. They would have to pay interest on the borrowed money, so why should not the Canadian National have to pay interest?

Hon. Mr. FULLERTON: Because the government is the shareholder or owner of the property.

Mr. WALSH: I know, but you borrow money from the government and the government in turn has to borrow that money and has to pay interest and the interest is charged in the Finance department to the people of Canada who are actually paying for it; and in my judgment the Canadian National railways should show that in their books because the people of Canada are paying for it. That is my contention and that is what I have been trying to make as the actual loss and cost to the Canadian people, and I am trying to show that it was \$115,000,000 last year and not the \$47,000,000 or \$48,000,000 that you say.

Hon. Mr. FULLERTON: I claim it was not.

Hon. Mr. HOWE: That is not so.

Mr. WALSH: I claim it was because you have got to add that interest that the finance department are paying for the use of the money.

Hon. Mr. FULLERTON: May I inform you there are many many arguments against the legitimacy of that. Our accountants tell us it is wrong and improper accounting.

Mr. VIEN: It may very well be. I do not believe in any annual financial statement made by a company, the fact that the investment in the company in the form of debentures and capital stock returns no yield, it is not carried in the annual financial statement as an additional operating loss. That is quite true. But what we had in mind to try to set up is, what is the actual cost to Canada of carrying on this railway system? I think Mr. Walsh is right in stating if the statement that has been indicated to Mr. Fairweather is correct, that for the last thirteen years we have been pouring \$100,000,000 of new public money into the system, whether as Col. Smart has indicated it is shown by assets or not, there is an annual cash investment of \$100,000,000 poured by the public exchequer into the undertaking of the Canadian National Railways. Now this \$100,000,000 that is poured out of the public exchequer every year is borrowed somewhere. It must be borrowed somewhere. It does not grow like mushrooms in the fields, and the country pays interest on that amount of money, and although for the purpose of a proper balance sheet or a proper annual financial statement it may be properly taken that the interest on the cash investment of the government should not be added to the annual deficit, the real picture for the people of the country is that the money that has been invested by the Canadian people into the undertaking is costing the Canadian people an interest rate every year; and if you want to have an actual picture you should have added to your annual operating deficit the amount of interest that has been accruing from year to year to the Canadian people as a result of its cash investment.

Hon. Mr. HOWE: May I have a word in explanation?

Hon. Mr. STEWART: I did not want to start an argument of this kind. I wanted to make it clear that we were not dealing with the same item.

Hon. Mr. FULLERTON: Absolutely so.

Hon. Mr. STEWART: There is no difference between the items.

Hon. Mr. HOWE: May I make an explanation of this position as I have seen it? We have been in the railroad business since we built the Intercolonial, and we have been operating at a loss. We put up the money for the deficits each year. Now, a man running a business and who had deficits would never put up money for those deficits in the form of bonds on which interest would be charged. What he would do would be put up money as common stock. We have been doing that every year we have been in the railway business. We have been making up the deficits. In the year 1933 we acknowledged our error and said we were not going to do this any more. We were not going to continue to capitalize money that we put in to keep the enterprise going, the enterprise we owned. We have been making up the deficits by a system of issuing bonds which is perfectly nonsensical, and we were thereby not accruing any assets, and there was no possibility of it producing any revenue. We stopped that in 1933. We said we were not going to fool the people of Canada or fool anybody else by borrowing money to meet that deficit, we are going to take it out of the consolidated revenue fund.

Hon. Mr. STEWART: The government had to borrow money to put into the consolidated revenue fund.

Hon. Mr. HOWE: At the moment we have got it in our budget. Now, that is the explanation.

Mr. WALSH: That is the point.

Hon. Mr. HOWE: In the meantime we piled it up about \$600,000,000 to date. Now, the C.N.R. cannot be expected to earn a profit on that.

Mr. VIEN: No. That is quite a question. The point is that if you, through taxation, take out of the public exchequer so many million dollars a year—

Hon. Mr. HOWE: We took out \$27,000,000 this year, the exact amount that it will really cost the country this year.

Mr. WALSH: Plus the interest on the money borrowed to put into the Canadian National, plus what the Canadian National had destroyed in this extra equipment.

Mr. VIEN: It is costing \$47,000,000.

Hon. Mr. HOWE: The extra equipment written off, yes; only when we wrote it off, we wrote it off in one year, where it should have been spread over a period.

Hon. Mr. STEWART: The public would understand by that heading that the two gentlemen were dealing with the same matter.

Hon. Mr. FULLERTON: The heading was quite wrong.

Hon. Mr. VENIOT: It is the newspaper's fault.

Mr. WALSH: Could I just confirm their figures that I have here? I understand from your computation that we inherited from the predecessor companies \$1,336,000,000 of debt. Is that figure correct? That is what we inherited when we took over this conglomeration?

Mr. FAIRWEATHER: Where do you get that figure?

Hon. Mr. HOWE: That is not correct.

Mr. WALSH: I got it from the Statistical department; from some book I have up in my office.

Mr. FAIRWEATHER: That purports to represent the total liabilities?

Mr. WALSH: The total liabilities when you took over the Canadian National Railways.

Mr. FAIRWEATHER: Including common stock?

Mr. WALSH: Including everything. That was your liability in taking over. That is correct?

Mr. FAIRWEATHER: I think, including common stocks, it is correct; yes.

The CHAIRMAN: There is a motion before the chair. Does it carry?

Some Hon. MEMBERS: Carried.

Mr. VIEN: In order not to cause the employees of the railway over-anxiety—

The CHAIRMAN: There is a motion before the chair that the report should carry. My suggestion is that we do carry the report and that we adjourn until four o'clock to-morrow afternoon. Then this statement that Mr. Fairweather is preparing upon the general statement which has been submitted by Mr. Vien may be taken up again to-morrow afternoon. In the meantime, we can carry this.

Mr. VIEN: What is the purpose of doing that?

The CHAIRMAN: To make progress; because we are travelling all over the shop at the preset time. But nothing will prevent you from doing it.

Mr. VIEN: Or any other question?

The CHAIRMAN: Anything you like.

Mr. VIEN: All right.

Hon. Mr. STEWART: Leave it wide open.

The CHAIRMAN: Certainly; because we have the Canadian Government Merchant Marine to deal with. You can ask anything you like.

Mr. VIEN: All right.

The CHAIRMAN: Shall we meet to-night?

Mr. VENIOT: No. It is Wednesday night.

The CHAIRMAN: I had forgotten that.

Mr. WALSH: It is better to meet as frequently as we can. These people are here away from their regular work.

The CHAIRMAN: Yes, I know. But to-morrow morning there is a caucus of the province of Quebec and Ontario. I do not mind if you gentlemen wish to sit to-morrow morning. I will be delighted.

Mr. WALSH: I think we should.

The CHAIRMAN: Eleven o'clock to-morrow morning, then.

Mr. VIEN: Is there much inconvenience in four o'clock in the afternoon?

The CHAIRMAN: There is a good deal, because there will be another committee. We will meet at eleven o'clock to-morrow morning.

The committee adjourned at 6.05 p.m. to meet again on Thursday, May 7, at 11 a.m.

APPENDIX

**Questions by members of the Committee and answers
thereto as filed by Mr. Fairweather**

QUESTIONS BY MR. VIEN

Question: Will you file a statement with the committee showing the relative importance of these shops from the point of view of the work done and the number of employees engaged? Perhaps you could also give the relative cost of the shops to the system?

Answer:

Location	Investment in land, bldgs. & equipment	Avg. No. of em- ployees year 1935
Moncton	\$3,000,000	1,087
Riviere du Loup	480,000	71
St. Malo	2,883,826	346
Pt. St. Charles M.P.	5,147,045	1,077
Pt. St. Charles Car.	2,239,368	820
Leaside	1,355,426	256
Stratford	2,292,352	797
London	1,073,963	493
Ft. Rouge	2,873,682	951
Transcona	3,942,601	1,327
Edmonton—South	1,727,721	92
Edmonton—Calder	820,007	47
St. Albans	912,873	223
Port Huron	982,000*	819

* Excludes land.

Question: Let us have the number of ties and the amount of money spent on ties for the last five years?

Answer: Statement No. 1 shows the number of cross ties purchased and the purchase price.

Statement No. 2 shows the number of cross ties treated under contract and the cost of treatment.

Statement No. 3 shows the number of cross ties used in replacement and the maintenance charge in connection therewith.

STATEMENT No. 1

CANADIAN NATIONAL RAILWAYS

ALL INCLUSIVE SYSTEM—INCLUDING SUBSIDIARIES

CROSS TIES PURCHASED

Year	Untreated		Treated		Total ties purchased	Purchase price
	Softwood	Hardwood	Softwood	Hardwood		
1931	3,369,128	783,184	—	171,190	4,323,502	\$2,907,290
1932	1,853,151	192,955	—	188,183	2,234,289	1,403,745
1933	1,743,527	691,458	—	165,084	2,600,069	1,377,344
1934	4,031,916	551,981	—	105,493	4,689,390	2,295,021
1935	7,319,684	977,870	118,528	369,546	8,785,628	5,070,764

NOTE:—Prices are f.o.b. C.N.R. tracks (except treated ties for Grand Trunk Western) but do not include inspection and sales tax.

STANDING COMMITTEE

STATEMENT No. 2

CANADIAN NATIONAL RAILWAYS

ALL INCLUSIVE SYSTEM—INCLUDING SUBSIDIARIES

NUMBER OF CROSS TIES TREATED AND COST OF TREATMENT

(Excludes ties purchased already treated)

Year	Number of Ties			*Cost of Treatment
	Softwood	Hardwood	Total	
1931..	750,105	1,176,690	1,926,795	\$1,300,972
1932..	605,477	900,285	1,505,762	997,542
1933..	708,078	652,713	1,360,791	884,859
1934..	757,813	438,777	1,196,590	832,542
1935..	862,658	926,336	1,788,994	1,111,180

* Cost includes preservative, processing, adzing, boring, incising, handling, inspection and sales tax.

STATEMENT No. 3

CANADIAN NATIONAL RAILWAYS

ALL INCLUSIVE SYSTEM—EXCLUDING SUBSIDIARIES

CROSS TIES USED IN REPLACEMENT

Year	No. of Untreated Ties	No. of Treated Ties	Total No. of Ties	Total Maintenance Charge
1931..	4,771,405	1,939,376	6,710,781	\$6,491,888
1932..	4,026,384	751,927	4,778,311	3,544,023
1933..	2,666,854	2,396,940	5,063,794	3,730,834
1934..	3,540,758	2,536,007	6,076,765	3,788,551
1935..	4,378,313	2,374,994	6,753,307	4,184,155

NOTE:—When treated tie is replaced with treated tie, total cost of treated tie is charged to maintenance.

MONTREAL TERMINALS

Question 1.—The estimated minimum cost of work on the Montreal Terminals Development required to make the facilities usable.

Answer: The minimum additional expenditure to make the Montreal Terminals Development largely usable for most passenger services other than those from Moreau Street is \$6,120,000. An additional expenditure of \$687,000 for coach yard facilities would be very desirable, although not absolutely essential. Including this item, the total expenditure to make this limited use of the facilities for passenger service would be \$6,807,000.

Question 2.—The estimated net savings in operating expenses to be derived from such completion and use.

Answer: Under present levels of traffic, the use of the new Terminals Development as limited above, and including coach yard facilities, the estimated net operating economy would be approximately \$50,000 per year.

Question 3.—How much of the above expenditure would be paid to labour?

Answer:

Wages paid to labour for construction ..	\$2,200,000	
Wages paid to labour as part of the cost of materials of construction..	1,400,000	
Total wages for construction and materials		\$3,600,000
Remote labour and services..		2,750,000
Interest and property (owned by Govt.)..		457,000
		\$6,807,000

Question 4.—Does the management recommend that the above work be proceeded with?

Answer: The above figures would indicate that at present levels of railway traffic resumption of work could only be considered on the basis of providing unemployment relief.

Question:—Have you got a tabulation showing the differences in freight traffic density and passenger traffic density for the two railways over a period of years?

Answer:

CANADIAN NATIONAL RAILWAYS AND CANADIAN PACIFIC
RAILWAY SYSTEM (CANADIAN LINES)
FREIGHT TRAFFIC DENSITY—(1,000 REVENUE TON MILES PER MILE OF LINE)

Year	C.N.R.	C.P.R.	Per Cent C.P.R. Greater than C.N.R.
1923..	791	997	26.0
1924..	719	857	19.2
1925..	757	881	16.3
1926..	800	923	15.4
1927..	808	953	18.0
1928..	947	1,165	23.0
1929..	782	929	18.9
1930..	659	754	14.4
1931..	576	645	12.0
1932..	513	591	15.1
1933..	455	550	20.9
1934..	510	590	15.8
1935..	523	612	17.1
Average 13 years..	680	803	18.2

PASSENGER TRAFFIC DENSITY—(1,000 REVENUE PASSENGER MILES PER MILE OF LINE)

Year	C.N.R.	C.P.R.	Per Cent C.P.R. Greater than C.N.R.
1923..	65	92	42.2
1924..	61	85	37.7
1925..	62	86	38.8
1926..	64	84	32.3
1927..	66	84	28.0
1928..	68	86	27.6
1929..	61	77	25.0
1930..	51	62	20.6
1931..	36	44	23.0
1932..	29	38	32.5
1933..	28	36	30.0
1934..	30	40	33.0
1935..	32	41	24.7
Average 13 years..	50	66	30.9

INFORMATION REQUESTED BY MR. VIEN, M.P., MAY 5, 1936

	Average of 5 years 1926-1930	Average of 5 years 1931-1935
Income deficit after payment of Interest on Funded Debt..	\$ 9,542,000	\$56,075,000
Interest accrued on Loans from the Dominion Government..	\$32,497,000	\$35,229,000
	<u>\$42,039,000</u>	<u>\$91,304,000</u>

Question: Will you file a list of the off-line agencies together with a detailed statement in connection with that item of \$2,175,000 split up for each particular outside agency?

Answer: The following is a list of the outside agencies of the Canadian National Railways. It is not in the interests of the property to give the detailed information:—

On Line Uptown Ticket Offices—

Portland, Me.
Halifax, N.S.
Saint John, N.B.
Moncton, N.B.
New Carlisle, Que.
Quebec, Que.
Sherbrooke, Que.
Montreal, Que.
Ottawa, Ont.
North Bay, Ont.
Sudbury, Ont.
Parry Sound, Ont.
Brockville, Ont.
Kingston, Ont.
Belleville, Ont.
Peterboro, Ont.
Oshawa, Ont.
Toronto, Ont.
Hamilton, Ont.
Brantford, Ont.
Stratford, Ont.
Port Arthur, Ont.
Duluth, Minn.
Winnipeg, Man.

Off-Line Agencies—United States—

Boston, Mass.
New Haven, Conn.
New York, N.Y.
Philadelphia, Pa.
Washington, D.C.
Pittsburg, Pa.
Cleveland, Ohio.
Cincinnati, Ohio.
Birmingham, Alab.
Toledo, Ohio.
St. Louis, Miss.
Memphis, Tenn.
Tulsa, Okla.
Kansas City, Mo.
Omaha, Neb.
Milwaukee, Wis.
Minneapolis, Minn.
St. Paul, Minn.
Seattle, Wash.
Portland, Ore.
San Francisco, Cal.
Los Angeles, Cal.

Brandon, Man.
Regina, Sask.
Moose Jaw, Sask.
Saskatoon, Sask.
Calgary, Alta.
Edmonton, Alta.
Jasper, Alta.
Vernon, B.C.
Vancouver, B.C.
New Westminster, B.C.
Victoria, B.C.
Prince Rupert, B.C.
London, Ont.
Woodstock, Ont.
Guelph, Ont.
St. Catharines, Ont.
Buffalo, N.Y.
Windsor, Ont.
Detroit, Mich.
Flint, Mich.
Grand Rapids, Mich.
Saginaw, Mich.
South Bend, Ind.
Chicago, Ill.

Off-Line Agencies—Europe—

London, England
Liverpool, England
Southampton, England
Cardiff, Wales
Glasgow, Scotland
Antwerp, Belgium
Genoa, Italy
Paris, France

Off-Line Agencies—Oriental—

Hong Kong, China
Singapore, S.S.
Yokohama, Japan
Shanghai, China

Off-Line Agencies—Australia—

Sydney, Australia

NOTE:—The above off-line agencies are those at which full time employees of the Traffic Department of the Canadian National Railways are located.

QUESTIONS BY HON. MR. VENIOT

Question: Up to 1933 or 1934, 90 per cent of the car loadings of flour coming to Gloucester County came in C.N.R. cars. It is the reverse to-day, they are in C.P.R. cars. Why?

Answer: Percentages of cars of flour going into Gloucester County which were in C.N.R. cars:—

	Per cent
1933..	42
1934..	45
First 4 months of 1936..	27

The detail of the shipments shows them as arriving at many points, some served exclusively by the C.N., some exclusively by the C.P. and other from points jointly served. Generally speaking, if a car originates at an exclusive point the railway company on whose line the exclusive point is located furnishes the car.

Question: Does the Government own any wharves at Pointe du Chene, or is that upon transfer?

Answer: The railway wharves at Pointe du Chene were transferred to the Department of Public Works in 1930.

Question: Under the heading of Operating, what was the revenue from the Caraque Branch of the Eastern Division for the year 1935?

Answer:

Gross earnings on branch line..	\$ 45,893
Gross earnings on rest of the System from traffic to and from Caraque & Gulf Shore Ry..	114,471
Total..	\$ 160,364

QUESTIONS BY MR. MAYBANK

Question: Could you file a table which would show the adjustments to the C.N.R. operating ratio in order to render it comparable to that of the C.P.R. for a period of years?

Answer:

	1923	1924	1925	1926	1927	1928	1929	1930
Operating Ratio of C.N.R.								
Lines in Canada..	97.6	94.2	88.5	84.3	89.1	83.6	87.5	92.1
Adjustments to make C.N.R. Ratio comparable with C.P.R. Ratio on a fair basis of Comparison.								
Express, Telegraphs, Pen- sions, Colonization, Na- tural Resources Ex- penses..	0.4	0.9	0.8	1.0	1.0	1.3	1.5	2.3
Average Haul..	1.7	1.4	1.0	1.1	1.7	1.9	1.6	1.4
Car Lading..	1.5	2.0	1.1	1.5	2.2	2.9	0.4	0.9
Freight Density..	6.8	5.5	4.3	3.7	4.5	4.4	4.7	4.5
Passenger Density..	4.2	4.3	3.7	2.9	2.8	2.2	2.5	2.6
Managerial Problems	1.0	1.0	1.0	0.9	0.9	0.8	0.8	0.9
C.N.R. Ratio as Adjusted..	82.0	79.1	76.6	73.2	76.0	70.1	76.0	79.5
C.P.R. Ratio..	80.7	79.6	77.3	76.0	78.9	75.8	77.7	77.4

	1931	1932	1933	1934	1935
Operating Ratio of C.N.R. Lines in Canada	100.0	96.0	96.7	92.5	93.4
Adjustments to make C.N.R. Ratio comparable with C.P.R. Ratio on a fair basis of Comparison.					
Express, Telegraphs, Pensions, Colonization, Natural Resources Expenses ..	1.4	2.5	0.1	0.1	0.1
Average Haul..	1.0	1.3	1.0	0.8	0.9
Car Lading..	1.1	1.6	1.7	1.3	1.9
Freight Density..	4.4	5.5	7.6	5.4	5.8
Passenger Density..	3.3	4.4	4.4	4.3	3.4
Managerial Problems..	1.2	1.4	1.6	1.4	1.4
C.N.R. Ratio as Adjusted..	87.6	79.3	80.5	79.2	79.9
C.P.R. Ratio..	80.0	80.7	78.3	77.3	80.0

Question: Could you give me the nature or the outline of the agreement at Winnipeg with reference to Fort Rouge shops?

Answer: Extract from memorandum of agreement dated October 20, 1906, between the city of Winnipeg and the Canadian Northern Railway Company:—

5. The Company further covenants and agrees with the city that it, the company, will build, establish and maintain forever upon the said lands shown on the said Exhibit "A" the principal buildings and work-shops of its system, between Lake Superior and the Rocky Mountains, namely: Thirty-nine stall roundhouse, foundry, stores and offices, tank, machine and erecting shops, coach and paint shops, blacksmith's shop, freight and repair shops, lumber mill, power house, dry lumber shed, dry kiln, and the railway yards and sidings necessary for the business of the railway, thus making the city of Winnipeg the principal terminal point on its system between Lake Superior and the Rocky Mountains, this being one of the conditions of the closing of said streets and lanes or parts of streets and lanes. The work on the said buildings shall be commenced forthwith, and shall be completed within two years from the date hereof.

QUESTION BY MR. HEAPS

Question: What is the amount of extra employment last year in the Canadian National shops as a result of the extra repair work and the construction of new equipment?

Answer: On construction of refrigerator cars in the Company's shops 367 additional employees:

Additional employment in connection with repair work took the form of increasing the number of days employment to staffs working on short time, the employment in the Company's shops being extended from 16 to 18 working days per month.

QUESTION BY MR. CHARLES PARENT, M.P.

Question: What is the frontage, the size, the use and the leases in connection with the C.N.R. wharf at Quebec?

Answers:

Frontage: Approximately 3,000 feet.

Size: 59,612 square feet.

Use: Coal handling.

Leases: To Messrs. Lane & Robitaille.

QUESTION BY MR. KINLEY

Question: What was the operating loss on the Halifax and South Western Railway for the year 1935?

Answer: \$478,752.

NOTE.—This is without consideration to the earnings on the balance of the System of traffic moving to and from the Halifax and South Western.

QUESTION BY MR. FINN

Question: May I ask if the officers of the C.N.R. would prepare a statement of the operating costs and operating revenue of the Atlantic Region for the past year?

Answer:

Operating Revenues..	\$ 16,280,000
Operating Expenses..	19,446,000

NOTE.—These figures are approximate and are obtained by adjusting the Eastern Lines revenues and expenses by deducting the estimated revenues and expenses for the lines from Monk to Diamond and from Rivière du Loup to Lévis.

SESSION 1936

HOUSE OF COMMONS

STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

With Appendices 1 and 2

No. 5

THURSDAY, MAY 7, 1936

WITNESSES:

Hon. C. P. Fullerton, Chairman, Board of Trustees; Mr. J. E. Labelle, K.C., and Mr. F. K. Morrow, Trustees, Canadian National Railways; Mr. S. J. Hungerford, President, Mr. R. C. Vaughan, Vice-President, Purchasing and Stores Department, Mr. S. W. Fairweather, Director, Bureau of Economics, and Mr. T. H. Cooper, Auditor of General Accounts, Canadian National Railways.

OTTAWA

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

PRINTER TO THE KING'S MOST EXCELLENT MAJESTY

1936

MINUTES OF PROCEEDINGS

THURSDAY, May 7, 1936.

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

Members present: Messrs. Barber, Bothwell, Ferland, Hanson, Howe, Kinley, Parent (*Quebec West and South*), Stewart, Veniot, Vien and Young.

In attendance: Hon. C. P. Fullerton, Chairman, Board of Trustees, Canadian National Railways; Mr. F. K. Morrow, and Mr. J. E. Labelle, K.C., Trustees, Canadian National Railways; Mr. V. I. Smart, Deputy Minister of Railways and Canals; Mr. S. J. Hungerford, President, Canadian National Railways; Mr. R. C. Vaughan, Vice-President, Purchasing and Stores Department, Mr. S. W. Fairweather, Director, Bureau of Economics, and Mr. T. H. Cooper, Auditor of General Accounts, Canadian National Railways.

Mr. Fairweather reported that the statement submitted at the previous meeting by Mr. Vien and referred to him for study and report, had been sent to Montreal to be checked with office records.

Ordered, That the Clerk have the statement printed in this day's proceedings with Mr. Fairweather's comments thereon.

Hon. Mr. Veniot read a telegram addressed to him by Mr. Charles C. Labrie, Vancouver with respect to tie contracts.

Mr. Vaughan and Mr. Labelle made statements dealing with the matter referred to by Mr. Labrie.

After further discussion on the capital structure of the Canadian National Railways, the committee proceeded with the consideration of the Annual Reports of the Canadian Government Merchant Marine, Ltd., and the Canadian National (West Indies) Steamships, Ltd.

On motion of Mr. Bothwell,

Resolved, That the said reports be approved.

Some further questions having been asked Mr. Fairweather by members of the committee.

Ordered, That these questions and answers thereto be printed as an appendix to this day's proceedings.

Erratum: On page 169 of the proceedings (Appendix to No. 4 of the printed record) Mr. Fairweather requests that the following correction be made in his answer to a question by Hon. Mr. Veniot, viz,—

In line 10 which reads,

The detail of the shipments shows them as arriving at many points . . .

delete the word "at" and substitute "from," the answer to read,—

The detail of the shipments shows them as arriving from many points . . .

The Committee adjourned to meet again at the call of the chair.

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

ROOM 268,

May 7, 1936.

The Select Standing Committee on Railways and Shipping met at 11 o'clock, Sir Eugene Fiset, the chairman, presided.

The CHAIRMAN: I think we shall proceed. Gentlemen, the statement that was tabled yesterday by Mr. Vien has been handed over to Mr. Fairweather, but he was compelled to send it to Montreal for verification, and therefore we are not in a position to deal with it this morning. We shall take it up at the next meeting. In the meantime we shall go on with the merchant marine.

Mr. YOUNG: I wonder if we might have a statement on another matter before we leave that. I want to inquire a little further into this capital structure. As I look into the matter it seems to me we have what the chairman of the board described as a tremendous amount of dead wood. We listened yesterday to something about litigation. That seems to be another excuse, or reason perhaps, for delaying dealing with this matter which I have in mind. I was about to ask yesterday if the board thought this matter should be dealt with by eliminating a lot of the dead wood, and one member of the board stopped me at that point. Now I want to go back to where he stopped me, and ask him whether or not it is his opinion that we should clear up a lot of the dead wood in this Canadian National structure.

Mr. LABELLE: That matter came up before the committee last year, and I differed with the opinion of the chairman of the board last year. The minister may have something to say on it.

The CHAIRMAN: Yesterday I dared speak for the minister to a certain extent, in his absence. I did not go far, I did not compromise you, sir. Perhaps you can tell us if the Government intends to take the matter up this year or not. That is what the committee wants to know.

Mr. YOUNG: I was not asking about governmental policy. I was asking those who have charge of this road how they find the financial structure and whether or not it is a structure that should properly be there, and if it should not properly be there, how in their judgment it might be separated, and how it should be chargeable to the road at the present time; because I notice from time to time those who are not much interested in the making of a very good picture by the Canadian National Railway constantly refer to certain items of this kind, when in fact, in my judgment, the present management of the road or any future management of the road cannot be expected to cope with the present financial structure and make a showing on any financial return that may be submitted here. It cannot be done, in my judgment, and I feel whether I am right or wrong, that there is so much in there accumulated from one source to another—I am not apportioning the blame to anyone, but still it is there—and I want to know whether in the interest of this road, in the opinion of those who have been managing it for the last few years, much of it should be eliminated.

HON. MR. STEWART: Are we not concerned with practical things? What effect would that have upon the finances, the operation and the revenue of the road? They are not paying any interest on the capital structure.

The CHAIRMAN: This question comes up before the committee yearly. There is no doubt about it that last year we had a report from the auditors, Touche and Company, on the subject matter. It was referred to and approved by the board of trustees, and it was submitted to the cabinet. That is what I understood.

Mr. LABELLE: No; the chairman of the board personally favoured that report last year, but I stated this, that the Duff report asked the trustees to set up a capitalization based on the earning power of the road, which is a different matter altogether. Now the trustees in the Duff report were asked to prepare recommendations. I would think it is a matter of government policy rather than the opinion of the board, unless we were asked to make a special report. The matter was studied last year, and has been studied this year. It is a very complicated affair.

Mr. YOUNG: I understand that.

Mr. LABELLE: I would not say I do not favour taking out the dead wood. That would be nonsense on my part, but I say it is rather a question of government policy, because anything we do must have government consent.

Hon. Mr. VENIOT: No doubt the government, before adopting a policy, would consult the board.

Mr. LABELLE: Yes.

Mr. YOUNG: I take it you are not prepared to give us a very definite opinion on a matter of this kind.

Mr. LABELLE: If it is a question of whether or not the dead wood should be taken out of the balance sheet, I would imagine it would be better out, but would it be sufficient to give you a real picture of the Canadian National

Mr. YOUNG: Would you care to express an opinion, Mr. Morrow?

Mr. MORROW: I expressed the opinion the other day that the capitalization is excessive, and should be very materially reduced.

Mr. VIEN: Have you been able to appreciate the value of the whole undertaking on the basis of earning capacity?

Mr. LABELLE: We have had no survey made to that effect, but I may say that the Duff report showed that the earning power of the railway in 1923, up to the time of the report or the year before, was about \$24,000,000 odd. That is in the Duff report.

Mr. VIEN: Yearly, net?

Mr. LABELLE: Average.

Mr. VIEN: Net average?

Mr. LABELLE: Yes.

Mr. VIEN: It would represent on the basis of four per cent some \$600,000,000. That would be the value of the road on that basis.

Mr. LABELLE: It is not said in the report that that is the value. The report states that was the average earning power of the Canadian National. It is a difficult matter to answer that question, Mr. Vien. You may have a potential value over the earning power.

Mr. VIEN: Yes. I am not suggesting that the earnings of the railway at the present time would be a good foot rule to estimate the exact value of the system; but you can take three or four methods of approaching the problem, and if you take the method of the earning capacity of the system, eliminating the abnormal years that have passed since 1932 you would find that the earning capacity of the system is \$24,000,000.

Mr. LABELLE: That is reported by the Duff Commission.

Mr. VIEN: Therefore on the basis of the earning capacity the value of the system would be something like \$600,000,000. But as you mentioned there are potential values which are not reflected in the earning capacity.

Mr. LABELLE: I contend there is a great potential value.

Mr. VIEN: Is there any possibility of coming to something like a fair approximation of what this potential value is?

Mr. LABELLE: That is what everybody in the Canadian National Railways is trying to find out. The Minister declared the other day that they were trying to arrive at some conclusion. I might say the Canadian National appointed a committee this year, which is working on this matter. We are not ready to make a recommendation just yet, and even if we did I think personally it is a matter of government policy.

Mr. VIEN: I appreciate that. I am not suggesting that any member of the staff or any member of the board of trustees should make a suggestion as to whether we should or should not, but we are a fact-finding body, and we shall make a recommendation. As a fact-finding body I should like to find out something, not as a matter of suggestion or policy, but as a matter of fact, what would be the fair estimation of this potential value.

Mr. MORROW: You can only arrive at that after you have had a very careful survey of the property by people in the Canadian National, by the Department of Railways and Canals, and perhaps by one or two outside men.

Mr. VIEN: Has this been done?

Mr. MORROW: Not to my knowledge.

Mr. YOUNG: Potential value depends on far more than physical assets, as I take it. I do not know how any man can answer that question just now. It might depend on the whole trend of the country.

Hon. Mr. STEWART: Unless he can see farther ahead than any of the rest of us.

Mr. YOUNG: While it may be clear to Mr. Vien, it is not clear to me, because if we had a great revival of trade in this country the potential value of the road would be very different from what it would be if there were a slump in business worse than we have ever had.

Mr. VIEN: It is not clear to me at all.

Hon. Mr. HOWE: Would you let me make a statement on what we discovered to date? There are certain items there that ought to be eliminated. I may point out that the study I have made so far is purely to change the picture; it is not going to make one dollar more for the Canadian National. We have studied the problem from that viewpoint, adjusting it in the Dominion government account. Looking at the balance sheet we find there is an item there for \$165,000,000 for Grand Trunk stock, which of course cost the government exactly zero, and which should not be in the balance sheet. On the other hand there is a case before the Privy Council which is not decided, and which is an application to place that stock back on the register of the company. If that case goes against us, it is going to change the situation as regards that stock. How shall we deal with it? We shall have to get expert legal advice on that matter. That is a complicated item. Then there is an item of \$100,000,000 for Canadian Northern railway stock that cost this government \$10,000,000 and \$10,000,000 is the item that should be there. There is no argument about that. Then you have advances for deficits and interest thereon. Now, obviously that is not money that should be bonded. It added nothing to the earning power of the railway; it simply kept the railway from closing down. It really should be changed from a bond position to a stock position. Obviously its proper status is common stock instead of bond. Now,

you can do these things and get a proper balance sheet, but the difficulty is that there are situations there that really affect the load of the railroad on the government, really affect the earning power of the road, and they are the junior securities, the status of which has never been determined. I may say to the committee we have had a meeting, and the position as we see it is this: The position of those junior securities must be attacked vigorously this year and definitely worked out, and a year from now we hope to be in a position really to adjust the balance sheet, but we cannot do it this year.

Mr. YOUNG: I recognize full well, by transferring this to another place may not relieve the country—

Hon. Mr. HOWE: There are items there that should be attacked that may relieve the country, because the position never has been determined. We hope to determine that.

Mr. YOUNG: The interest rate charged there is charged on a six per cent basis.

Hon. Mr. HOWE: It has not been paid, and therefore does not affect the position.

Mr. YOUNG: It affects the picture.

Hon. Mr. HOWE: It is shown as bonds, and it should not be bonds, in my opinion. We can change that but it still would not change the real position of the railroad. We can make other changes that will affect the earning power of the road.

Mr. BOTHWELL: The interest charge each year does affect the picture.

Hon. Mr. HOWE: On the debt to the public.

Mr. BOTHWELL: Yes, interest on the debt due to the government.

Hon. Mr. HOWE: It is charged on the books of the government, but it is charged as a government asset. The point I am making is this: We do not pay it; it does not cost the government anything in real cash; it is not a cash charge against the government and we did not pay it. There is no argument that it should not show as bond interest. It is not bond interest; it is common stock interest and payable when earned. That is all you can say for it, and it should be charged that way in the balance sheet. There is no argument against it.

Hon. Mr. VENIOT: The \$100,000,000 of the Canadian Northern, does that represent stock or bonds?

Hon. Mr. HOWE: It is stock, but it should not be there, because in any case it is only \$10,000,000. We should not show \$100,000,000 of assets where we only invested \$10,000,000.

Mr. YOUNG: As I take it the minister is looking into this matter very carefully, and next year we will have a report. That satisfies me, because I am satisfied this picture is all wrong and must be corrected.

Hon. Mr. HOWE: With the best of intentions I have gone into this thing from the first day I took office. I thought we could do something this year to straighten out this picture, but I find we cannot. That is about the position we are in.

Mr. VIEN: I do not think the committee should take the queries of the members of the committee as regards the expediency of recapitalization or the advisability of recapitalization, because a proper capitalization of the railway should involve everything that should be retained on the basis of normal earning capacity of the railway. Otherwise you will find that if you reduce your capitalization too much in prosperous years, there will be a tendency to ask unfair reduction of rates. If you strike out from the capitalization of the railway some of that money you do not cause it to disappear, you simply transfer it from the capitalization of the Canadian National to the national debt of Canada, and you shift the burden from the shoulders of the railway users to the shoulders of the ordinary taxpayer of the country.

Hon. Mr. HOWE: I may say any change we propose to make would not have that effect. For instance, moneys advanced and the interest thereon are not carried on the government accounts as active assets, in other words, written off government account.

Mr. VIEN: It may well be in times to come with the development of the country and an increase in the earning capacity of the railway that the system may be able to pay interest on much of the advances made by the Canadian government to the system, and that should be taken into account.

Hon. Mr. VENIOT: Mr. Howe, would it not be better whatever the earnings are over and above the sum necessary to pay the interest due the public, to reduce the debt by a sinking fund, and in that way you would have something to pay off these bonds on maturity.

Hon. Mr. HOWE: We have considered that question very seriously.

Hon. Mr. VENIOT: In 1928 there was some \$8,000,000 over the amount necessary to pay the interest due to the public, and instead of being put into an account to reduce the bond issue, it was put into capital account and expended as such and that much less was drawn from the government treasury.

Hon. Mr. STEWART: That is where it ought to go.

Mr. YOUNG: Mr. Vien suggested the minister should not take into consideration the suggestions of the members of the committee with regard to striking out these items.

Mr. VIEN: I did not say that. I said the queries on recapitalization should not be construed as a recommendation from the members—I am speaking particularly for myself—. I have put several questions in respect of recapitalization and the expediency of recapitalization. I do not want the committee to take this as a suggestion that recapitalization is in order, so far as I am concerned.

Mr. YOUNG: That is quite all right, if Mr. Vien puts it that way, that he is expressing his own opinion. I want to give my opinion, and in my humble judgment this should be attended to, and attended to forthwith. The minister has suggested to the committee that he is taking it into consideration this year, and that satisfies me.

The CHAIRMAN: As far as this committee is concerned I think it is the consensus of opinion that this committee should not make any recommendation this year, because we have neither the facts nor the data upon which to express such opinion. Therefore we shall accept the Minister's statement that he has the matter in hand, and I am quite sure that when the recapitalization takes place this committee will be consulted.

Hon. Mr. HOWE: Yes.

Hon. Mr. STEWART: The matter of recapitalization is one item and the consolidation of all these one hundred or more companies that are now embraced within the circle of the Canadian National Railways is another. It would be advisable, I think, if the whole thing could be considered at the same time. Instead of making two bites at the cherry we could bring them all together in one scheme and clean up the consolidation of these companies, and the recapitalization would be desirable.

Hon. Mr. HOWE: Yes. We shall see how far we can go with that.

The CHAIRMAN: Mr. Vien, the statement you handed over to Mr. Fairweather yesterday has to be sent to Montreal for verification, and when we have the next meeting, even if it is simply to consider the report, these papers will be before you and the members of the committee.

Mr. VIEN: Thank you.

Hon. Mr. STEWART: There are some questions I wish to ask the chairman of the board of trustees and the president Mr. Hungerford. I would

not require the officers here. If it is understood that I may ask those questions, if I decide to ask them, after all these matters of detail are cleared up, I shall not delay the committee now.

Hon. Mr. VENIOT: I am coming back to the ties, and the reason I am doing so is because since I brought the matter up here in the committee there has been circulated a rumour—I do not know whether there is any foundation for it or not—that I think should be cleared up. This rumour comes all the way from British Columbia. I see Mr. Vaughan and Mr. Labelle present, and their names are connected with the rumour, and in order to clear the matter up I am going to ask Mr. Vaughan this question first: Did you receive last year a protest from anyone in British Columbia as to the manner in which tie contracts were given out in that province?

Mr. VAUGHAN: I do not recall receiving any protest, Mr. Veniot, but we get so many hundreds of letters in the tie business that I could not recall them all.

Hon. Mr. VENIOT: Were you out to British Columbia last year, last fall?

Mr. VAUGHAN: I go to British Columbia every year.

Hon. Mr. VENIOT: While you were there did you get any complaints that you remember?

Mr. VAUGHAN: No.

Hon. Mr. VENIOT: You do not remember?

Mr. VAUGHAN: No.

Hon. Mr. VENIOT: Probably this will refresh your memory,—that contracts were being given to parties who under the Independence of Parliament act should not have received them.

Mr. VAUGHAN: It was never drawn to my attention.

Hon. Mr. VENIOT: Now, Mr. Labelle, I am asking these questions not as a matter of criticism but in order to clear it up.

Mr. LABELLE: Quite so.

Hon. Mr. VENIOT: I have here a telegram, the contents of which are very serious indeed. I am not going to give the details to the committee, but I will base my questions upon it, because I think the matter ought to be cleared up.

Mr. LABELLE: I am quite villing to answer any questions you may ask.

Hon. Mr. VENIOT: Did you receive any complaints such as I have referred to as to the manner in which tie contracts were awarded in British Columbia? Do you remember that some person or persons offered to put up a deposit of money towards the expense of an investigation and exposure of this matter?

Mr. LABELLE: I do, sir. Would you give to the committee the name of the party to whom you refer?

Hon. Mr. VENIOT: No, not just now.

Mr. LABELLE: I referred the matter to the purchasing department, who made inquiry, and I was satisfied with the letter that I received from the purchasing department.

Hon. Mr. VENIOT: That there was no foundation for the allegation?

Mr. LABELLE: I relied upon the information given to me by the purchasing department.

Hon. Mr. VENIOT: Of course, this is rife out in British Columbia still.

Mr. LABELLE: That was a party from Vancouver who was connected with the Canadian National Railways before he was dismissed.

Hon. Mr. VENIOT: I will give the name now since you have gone so far: Charles C. Labrie. I do not know the man at all nor his standing, but I received this telegram this morning:—

" VX VANCOUVER, B.C. May 6th

The Honourable P. J. VENIOT
Parliament Bldgs., Ottawa, Ont.

Have read press report on your complaint in committee regarding farming out tie contracts which I endorse stop contracts placed here given ministers of crown and politicians stop Vaughans handling this matter open strongest criticism stop last year I wrote Bennett and Labelle regard this deplorable situation and sent facts to them with offer I deposit ten thousand dollars towards expense investigation and exposure these matters stop suggest you ask for said correspondence...

I do not intend to do that.

Hon. Mr. HOWE: Who signed the telegram?

Hon. Mr. VENIOT: Charles C. Labrie.

Hon. Mr. HOWE: A dismissed employee.

Hon. Mr. VENIOT: That may be so. This telegram was sent to me by Mr. Labrie whom I do not know, and the rumour is rife in Vancouver and around there, so I thought it was proper that I should bring it up and give the board an opportunity of making a statement about it this morning.

Mr. VAUGHAN: I would like to say that Mr. Labrie has been making statements for seven or eight years, all of which have been investigated and not one of which has been found to be true. He was discharged for good cause by myself, and he is trying to bring up the usual things that a discharged employee does bring up. If the committee wants to learn about Mr. Labrie's reputation in Vancouver they will not have to go far to learn about it.

Hon. Mr. VENIOT: I do not think anything should be said here to injure the reputation of anyone who is absent from this committee.

Mr. YOUNG: Labrie is charging somebody.

Hon. Mr. VENIOT: He is charging the very men who are here and who are able to defend themselves, but he is not here.

Mr. LABELLE: I received a telegram in Montreal to meet Mr. Labrie, of whom I had never heard before. He told me a story about contracts in Vancouver. I referred the matter to Mr. Vaughan because I do not know any of the contractors for ties in British Columbia. I asked Mr. Vaughan to make a report on that protest. Mr. Vaughan sent me a report, and I was satisfied with the report of the vice-president of the purchasing department. Otherwise I would have made a complaint to the board.

Hon. Mr. VENIOT: I am glad to get that statement, because it will put an end to this sort of thing.

Mr. YOUNG: Since we have gone so far with it, what are the allegations? I think they may create a great deal of suspicion here.

Hon. Mr. HOWE: Labrie has also written to me. I have looked into the matter through friends of mine in Vancouver in whom I have confidence, and I have been told that Labrie is a thoroughly bad actor, and that nothing he might say in connection with the Canadian National Railways, from whose service he was dismissed for good cause, should be taken into consideration.

Mr. YOUNG: There are a lot of lawyers idle in Vancouver, and apparently Labrie wants to give away \$10,000!

Hon. Mr. FULLERTON: I do not think Labrie ever saw \$10,000.

The CHAIRMAN: Is that all, gentlemen?

Hon. Mr. VENIOT: I merely brought the matter up because I thought it was proper to do so.

Mr. LABELLE: As far as I am concerned you brought it up properly.

The CHAIRMAN: Shall we go on with the Canadian merchant marine?

Mr. VIEN: If the committee will tolerate a repetition, on page 27 there is a statement of the funded debt—principal and interest, and the due dates of the bonds are given there. I wanted to ascertain whether in any of these bond issues there was a clause whereby they might be redeemable before the due date on certain terms and conditions.

The CHAIRMAN: Can you answer that question, Mr. Fairweather?

Mr. FAIRWEATHER: Yes, there are some that are callable, and the subject of refunding of callable bonds has been one that has been carefully looked into. As a matter of fact, heavy refunding operations took place in 1935 as the result of that situation.

Mr. VIEN: I see large blocks of 6½ per cent and 7 per cent and 5 per cent. Should they not in those cases be converted into lower interest rate-bearing bonds?

Mr. COOPER: All those 7 per cent bonds were called last year and have been retired.

Mr. VIEN: They are still shown.

Mr. COOPER: No.

Mr. VIEN: On page 27 you show 6½ per cent sinking fund debenture bonds. \$24,238,000, due July 1, 1946.

Mr. COOPER: The 1946 bonds are not callable, but the 1940 bonds were retired and the statement shows that on December 31, 1935, there was not any of them outstanding.

Mr. VIEN: Attention is being given to that.

Hon. Mr. FULLERTON: Oh, yes. All those callable bonds are being attended to.

Hon. Mr. VENIOT: Are we still on the annual report?

The CHAIRMAN: Yes. We agreed yesterday that a general question could be put.

Mr. VIEN: I see there is no possibility of converting those first four categories, they are not callable?

Mr. COOPER: The fifth item, the 4 per cent perpetual guaranteed stock, is callable.

Hon. Mr. STEWART: In what funds are they payable?

Mr. COOPER: Sterling.

Hon. Mr. STEWART: That would involve a premium on the dollar?

Mr. COOPER: Yes.

Hon. Mr. STEWART: How much is the premium now?

Mr. MORROW: About 2 per cent.

Hon. Mr. STEWART: It fluctuates.

Mr. VIEN: Yes. It is said that the premium is paid once and for all and that the rate of interest is materially lower than the Canadian government could borrow at, at 3 per cent or say 2 per cent.

Mr. COOPER: That, of course, involves the consideration whether you could go on to the London market and borrow \$60,000,000.

Hon. Mr. VENIOT: I know that in the last annual report submitted here there is nothing to show the amount of money invested in what is known as the old Intercolonial railway, either on capital account or on deficits up to 1919 when it became a part of the railway system administered under an order passed in 1919 by the directors of the Canadian National Railway. I want to know where the charges are against the Intercolonial railway so-called.

Mr. COOPER: If you look at page 17 you will find an item which represents the investment of the Dominion of Canada in Canadian government railways at the time they were transferred to the Canadian National railways.

Mr. VIEN: Under what caption?

Mr. COOPER: "Dominion of Canada Expenditures for Canadian Government Railways."

Mr. HANSON: About half way down on page 17.

Hon. Mr. VENIOT: Does that include the original cost and the deficits in operation paid for by the Dominion government up to 1919?

Mr. COOPER: It includes the capital expenditures but not the deficits. The deficits, as I understand, are absorbed through the consolidated revenue fund.

Hon. Mr. VENIOT: You could not tell me what the capital expenditure was?

Mr. COOPER: It is shown there: \$388,290,294.40.

Hon. Mr. VENIOT: That is not for the Intercolonial railway.

Mr. COOPER: The Intercolonial separate from the Dominion government Railways?

Hon. Mr. VENIOT: Yes.

Mr. COOPER: You can find that information in the annual report of the Department of Railways and Canals, where this item is separated.

Hon. Mr. VENIOT: Thank you.

Mr. YOUNG: Is there a sinking fund account kept by the Canadian National Railways?

Mr. COOPER: In connection with our bonds?

Mr. YOUNG: Yes.

Mr. COOPER: Yes. Some of our bond issues have sinking fund provisions. You will find that on page 16. There is an item there of \$11,921,666.97 representing sinking funds created against the maturity of our system securities which are presently outstanding in the hands of the public.

Mr. YOUNG: \$11,000,000?

Mr. COOPER: Yes. There are very few of our issues that have sinking fund provisions; they all relate to the time prior to the time of government control.

Mr. VIEN: What form does that sinking fund take? How do you carry it?

Mr. COOPER: The funds are invested in securities. The statement shows that \$6,814,920.90 is invested in our own system securities, and they are carried in the books at par. The balance of the \$11,000,000 odd which is \$5,106,746.07 is invested in securities other than those of the Canadian National Railways. There may be some small cash balance awaiting re-investment.

The CHAIRMAN: Shall we go on to the Canadian Government Merchant Marine Limited?

Mr. VIEN: We shall not adopt the report now?

The CHAIRMAN: No. Page 4, consolidated balance sheet. Mr. Fairweather, will you take that up, or will Mr. Hungerford do so?

Mr. HUNGERFORD: Mr. Cooper will take it up.

Mr. COOPER: The consolidated balance sheet of the Canadian Government Merchant Marine Limited and subsidiary companies as at 31st December, 1935:—

ASSETS

Investments:—Vessels as at 31st December, 1935—\$18,168,022.92.

That represents the cost of ten vessels which remain in the merchant marine service, and the average cost is about \$205 per dead-weight ton.

Mr. BOTHWELL: That includes the Canadian Planter?

Mr. COOPER: Yes.

Mr. BOTHWELL: How much was it valued at?

Mr. COOPER: It was included in that item of \$18,168,022 at \$1,601,000. That is its cost, not its value.

Mr. VIEN: That is a cumulative investment? Is it the total investment for all time, including the original investment, by the Canadian Government Railways into shipping?

Mr. COOPER: No, it does not include any of the original ships which have been disposed of. It represents the original cost of the vessels that still remain in service.

Mr. HANSON: Would the Minister tell us what he got for selling them?

Hon. Mr. HOWE: For the Canadian Planter, \$40,061. We sold ten boats for a total of \$419,000, roughly \$40,000 each.

Mr. VIEN: Are those the ten boats shown on page 9 of the report?

Hon. Mr. HOWE: Yes.

Mr. VIEN: All of them?

Hon. Mr. HOWE: Yes.

Mr. VIEN: For a total sum of \$419,926?

Hon. Mr. HOWE: Yes. We shall not be able to deliver the Canadian Planter. I understand it is a total loss.

Mr. KINLEY: Are they going to salvage the Canadian Planter?

Hon. Mr. HOWE: I understand it is a total loss.

Hon. Mr. FULLERTON: We are holding an investigation now into the matter of the Canadian Planter.

Hon. Mr. VENIOT: Was the Canadian Planter insured?

Hon. Mr. FULLERTON: Yes.

Mr. KINLEY: Is there any question about the liability?

Hon. Mr. FULLERTON: Yes, a serious question. Our opinion is that the other ship was at fault.

Mr. VIEN: Is there a special fund set aside for insurance?

Hon. Mr. FULLERTON: Yes.

Mr. LABELLE: \$986,154.

Mr. VIEN: It is shown on page 5.

The CHAIRMAN: Proceed, Mr. Cooper.

Mr. COOPER:

Plant and equipment	\$13,308	01	
Office furniture and fixtures	46,573	34	
Current—			
Cash in banks	851,732	93	
Accounts Receivable	132,617	13	
Due by agents—net	320,446	11	
Advances to captains, crews and agents . .	44,539	35	
Inventories of stores and supplies	29,290	70	
Amounts due from Canadian National			
Railways Joint Insurance Fund	140,449	18	1,519,075 40
Deferred Assets			81,349 16
Canadian National (West Indies) Steamships, Limited,			
Advances for Capital Expenditures and Operating			
Losses			117,986 47

Equity in Canadian National Railways Joint Insurance Fund, represented by securities held	986,154 01
Discount on capital stock	100,000 00

LIABILITIES

Capital Stock—	
Authorized	
10,000 shares of \$100.00 each	1,000,000 00
Issued—	
6,609 shares of \$100.00 each	660,900 00
Less—	
Cancelled 5,606 shares of \$100 each	560,600 00
Dominion of Canada Account—	
Notes payable secured by mortgages on vessels	18,118,838 42
Advances—	
Capital	47,204 94
Working capital	765,762 27
Deficits	9,473,479 06
Interest Accrued unpaid	21,821,099 67
	50,226,384 36
Accounts Payable	339,074 34
Passage Money paid in advance	133,843 37
Balances of uncompleted voyages	279,511 37
Reserve for insurance claims	49,076 30
Deferred liabilities	80,000 00
Insurance reserve	986,154 01
Accrued depreciation—vessels	10,473,542 32
Profit and Loss—Deficit	41,635,416 76

The CHAIRMAN: Before leaving the balance sheet I think the chairman of the board has some interesting figures as to the operation of both services.

Hon. Mr. FULLERTON: I have the figures to the end of March for the merchant marine. We estimated an operating profit of \$15,388 and we had an operating profit of \$78,000 which is \$56,000 better than last year. I may as well give you the figures for the West Indies service. This year we estimated for the first three months a loss of \$15,000 and, as a matter of fact, we have a profit of \$98,000.

Mr. YOUNG: You are speaking, of course, of an operating profit?

Hon. Mr. FULLERTON: Operating profit entirely, at the end of March, \$98,000.

Hon. Mr. VENIOT: The end of March this year?

Hon. Mr. FULLERTON: Yes.

Mr. KINLEY: I suppose the western service pays much better than the eastern service?

Hon. Mr. FULLERTON: Yes, I should say so.

Mr. VIEN: Is your fiscal year the calendar year?

Hon. Mr. FULLERTON: Yes.

Mr. VIEN: Therefore \$98,000 is from the 1st January to the 31st March?

Hon. Mr. FULLERTON: Yes. Last year we had a deficit of \$34,000 up to the end of March and this year we have a profit of \$98,000, which is an improvement of \$133,000 at the end of March.

Mr. KINLEY: What is the real reason for the disposal of these boats? Are they old and obsolete, and is it that you did not want to put capital money into new ships?

Hon. Mr. FULLERTON: I think that is the situation. They are old and slow, and the time is coming next year when they would have to have repairs, which repairs will have to be added to every year, and we are in competition with much faster boats, some probably twice as fast.

Mr. KINLEY: Is the service to be supplemented by an equal number of boats?

Hon. Mr. FULLERTON: The minister can answer that question.

Hon. Mr. HOWE: Not an equal number of boats, but certainly an equal number of sailings.

Mr. KINLEY: By better ships?

Hon. Mr. HOWE: Yes, faster ships.

Mr. KINLEY: Is the service to be direct, or is it to come through London or some other English port?

Hon. Mr. HOWE: A direct service, direct from Halifax to Australia and New Zealand.

Mr. KINLEY: I would like to say to the committee, as a Maritime member, that this matter interests us considerably. We feel it is all wrong, not so far as the present act is concerned, as that for years we struggled in this country to get control of our coastal service. Under the statute of Westminster we secured our emancipation. Mr. Brodeur, a former Minister of Marine, went over to England for years and tried to get control of our coastal service. By the Merchant Shipping Act of 1931 we made an agreement whereby we went into a pool with all the British Commonwealth, which meant, of course, that the mother country will in effect control the merchant service of the other dominions because of their situation and the fact that they are older at the business and have the financial background, and have the ships. That agreement ends on the 31st December this year. I feel it is a factor in the trade agreement with Great Britain, and, as any marine man knows, there is as much money usually in the carrying of the goods as in the selling of them. It looks to me as though the rights of those who work upon the sea and who are interested in the sea have been sacrificed in the interests of the manufacturers of this country. I strongly feel that so far as our coastal trade in this country is concerned we have no right to share it with anybody. So far as our inter-ocean trade is concerned, we have the right to an equitable arrangement whereby every Canadian who desires to go to sea can do so. Since the centralizing of the marine trade of the world that has been the feeling on our coast. There was a time when Nova Scotia had more ships per capita than any other country in the world, and they sailed to all the countries in the world. Since the centralizing of trade by big business and big financial concerns we have lost that trade. We had hoped that our government could not be influenced by shipping rings and that we might see our way out. With the going out of the business by the government of this country we feel that our situation in so far as becoming a factor in the transportation trade and building up the national marine of Canada are concerned we are doomed for years to come unless that agreement is cancelled, and I hope it will be cancelled this year.

Mr. HANSON: I would like to ask Mr. Fullerton to give us the figures for the British Columbia-Alaska coastal steamship service.

Hon. Mr. FULLERTON: We have here simply the Canadian government merchant marine and the West Indies.

Mr. HANSON: Can we get the information I am asking for?

Hon. Mr. FULLERTON: Yes.

Mr. HANSON: I would like to have the profit and loss statement in connection with the British Columbia-Alaska coastal service.

Mr. LABELLE: That is the Canadian National Steamships. It goes with the railway report.

Hon. Mr. FULLERTON: I can get that for you.

Mr. VIEN: Are there any figures indicated in the annual report with regard to that service?

Mr. KINLEY: In so far as the West Indies trade is concerned is there an agreement with the West Indies to take one-half West Indian crews on these boats? On the eastern route I think there is but not on the western. On the eastern route between Trinidad, St. Vincent and Barbadoes I think there is an agreement.

Hon. Mr. FULLERTON: I am not sure about that.

The CHAIRMAN: Will you see that Mr. Hanson gets the statement he desires?

Hon. Mr. FULLERTON: Yes.

Mr. VIEN: I understand that the chairman of the board of trustees indicated that the Canadian National shipping between Vancouver and Yukon was carried as part of the railway system.

Hon. Mr. FULLERTON: That is correct.

Mr. VIEN: Is there any indication of the results of their operations in the Canadian National railway report?

Hon. Mr. FULLERTON: Not separately in the report.

Mr. FAIRWEATHER: It is carried under the income account.

Mr. VIEN: Not separately?

Mr. FAIRWEATHER: No.

The CHAIRMAN: Go on with the profit and loss account, Mr. Cooper.

Mr. COOPER:

Profit and Loss Account at 31st December, 1935—

Deficit as at 31st December, 1934	\$39,633,853 44
Loss as per Income Account, 1935	2,001,563 32
	\$41,635,416 76
Deficit as per Balance Sheet	\$41,635,416 76

Mr. VIEN: By deficit as at 31st December, 1934, do you mean a cumulative deficit to date?

Mr. COOPER: Yes.

Mr. VIEN: Thank you.

Mr. COOPER: Then:

INCOME ACCOUNT

Operating Revenue:	Year 1935	Year 1934
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Do you wish me to read all these figures out?

The CHAIRMAN: Just read the totals.

Mr. COOPER:

	Year 1935	Year 1934
Total Revenue	\$2,764,549 09	\$2,302,559 37
Operating Expenses	2,452,726 83	2,429,825 18
Operating Profit		311,822 26
Operating Deficit		127,265 81

Hon. Mr. VENIOT. Quite a betterment.

Mr. COOPER: A betterment of \$438,000.

Other Charges—

	1935	1934
Interest on Government Notes and Advances	\$1,586,664 67	\$1,609,020 94
Depreciation on Vessels	726,720 91	726,720 91
Net Income Deficit	\$2,001,563 32	\$2,463,007 66

Mr. HANSON: That is also an improvement.

The CHAIRMAN: Do you want to go into the other details with regard to the year 1935?

Mr. VIEN: I wanted to ask if the improvement in volume of traffic is the only factor which has changed the operating deficit into a profit and the operating ratio from 105 per cent to 88 per cent?

Hon. Mr. FULLERTON: If you look at the foot of page 2 you will see the following:—

Notwithstanding 24,701 tons of additional cargo to be handled with an increase of 20 per cent in operating revenue, the operating expenses show an increase of less than 1 per cent. This may be regarded as a very satisfactory performance, reflecting careful administration and strict economy on the part of all concerned...

I think besides the additional traffic there is the factor of efficiency and carefulness in management which has brought about that result.

Mr. VIEN: Do you suggest that carefulness was lacking to a certain degree in previous years?

Hon. Mr. FULLERTON: I would not like to say anything about the previous years. The fact remains that we had a deficit in previous years and this is the first time we have had an operating profit since 1920.

Mr. KINLEY: Nobody else had a profit.

Mr. VIEN: Have you the operating ratio for the last five years?

Mr. COOPER: I can get that for you.

Mr. VIEN: It is not available now?

Mr. COOPER: No.

Mr. VIEN: Would you kindly file it?

Mr. COOPER: Yes.

The CHAIRMAN: You have it here for this year.

Mr. VIEN: I am talking of prior years.

The CHAIRMAN: Yes. Any other questions, gentlemen?

Mr. BOTHWELL: I move the adoption of the report.

Mr. KINLEY: In the agreement for the sale of these boats have you defined the ports of call?

Hon. Mr. HOWE: Yes, the outgoing ships start from a Canadian port on the east coast and go direct to Australia and New Zealand; they are not to call at United States ports on the outward voyage. On the return voyage from Australia and New Zealand they are permitted to deliver cargoes to United States ports.

Mr. KINLEY: It does not say in the agreement that they must deliver the goods at a terminal of the Canadian National Railways?

Hon. Mr. HOWE: No.

Mr. KINLEY: They could have chosen any Canadian port. You may have lost some business.

Hon. Mr. HOWE: We do not think so.

The CHAIRMAN: Shall the motion carry? (Carried).

Mr. VIEN: How many ships have you in the fleet owned by the Railway sailing between Vancouver and the Yukon?

Mr. FAIRWEATHER: I think there are seven altogether.

Hon. Mr. FULLERTON: Seven altogether.

Mr. VIEN: All passengers or passengers and freight?

Mr. HANSON: Mixed.

Mr. VIEN: Will you file a list giving the tonnage?

Mr. FAIRWEATHER: Yes.

The CHAIRMAN: That might be included in the report you are preparing for Mr. Hanson.

Mr. VIEN: Are the ships that are indicated in the West Indies Steamships Limited and the ships of the Canadian government marine indicated on page 9 of the report and the seven ships you have just mentioned which are included in the Canadian National Railway System, the only ships owned by the System?

Mr. FAIRWEATHER: Oh, no.

Mr. VIEN: Will you file a complete list of all the ships owned and operated by the System, indicating the various categories?

Mr. FAIRWEATHER: Yes, sir.

Mr. VIEN: And giving the tonnage?

Mr. FAIRWEATHER: Yes.

Mr. VIEN: And would it be possible to give a summary of the results for each ship?

Mr. FAIRWEATHER: I do not think that could be done with any convenience at all.

Mr. KINLEY: It is generally known what they are doing.

The CHAIRMAN: Now gentlemen, we are through, shall we adjourn?

Mr. VIEN: We have the West Indies service yet.

Mr. KINLEY: I want to say just a word. Yesterday I brought up the question of operating railroads in a foreign country and very properly it was pointed out to me that these were feeders for our railroads and brought traffic to them. I want to say that the same aspect appears to me with regard to the ocean trade. We owned these ships and they were bringing trade to our railways; they were feeders. We are not putting them in the same category as operating in a foreign country.

Hon. Mr. HOWE: Mr. Kinley, may I ask you one question?

Mr. KINLEY: Yes.

Hon. Mr. HOWE: From the time we put that route in operation in 1918 until we sold it in 1936 it cost us \$81,000,000. Do you really believe that any benefit to Canada resulted that was worth \$81,000,000?

Mr. KINLEY: Mr. Minister, I may say to you they were not very good years. In the first place you were undertaking and doing missionary work, and the government of the day saw fit to carry it on from year to year. Now that we have arrived at a place where we see light, we have gone out of business.

Hon. Mr. HOWE: We did not see light, as a matter of fact. We were faced immediately in this year with the spending of another \$6,000,000 on that line, which is another \$6,000,000 tacked onto the \$81,000,000 we have lost. Now I doubt if any man here, faced with the problem, would have said, "We will shoot another \$6,000,000." I may say that we knew definitely that some of the traffic that we had in 1935 we could not hope to carry longer without new ships.

Mr. KINLEY: It is like the fellow who comes to me on the corner and says, "You have a nice business here, I tell you what I will do, 'I will give you a good price for your business, do you want to sell? If you don't I will put up a store across the way and drive you out of business.'"

Hon. Mr. HOWE: Yes.

Mr. VIEN: Do I understand, Mr. Minister, that the ships that have been sold will be replaced by other ships?

Hon. Mr. HOWE: No.

Mr. VIEN: They will not be replaced.

Hon. Mr. HOWE: We are out of business.

Mr. YOUNG: The minister made a statement which I think is rather significant, and I should like to ask one question about it. He said he doubted that the Canadian National Railways would suffer by reason of this change. He thought we would get just as much freight. Are they under obligation to deliver freight to the Canadian National? I should like you to elaborate that a little, please.

Hon. Mr. HOWE: I do not know that it is a question I want to elaborate because it might involve sectional difficulties and one thing and another. I think we had better let it go.

Mr. YOUNG: You feel quite satisfied the Canadian National will not suffer?

Hon. Mr. HOWE: I have expressed that opinion, yes.

Mr. COOPER: Balance Sheet, C.N. West Indies Steamships Co. December 31, 1935, investment in vessels, \$10,940,008.94; special deposits for interest matured unpaid, \$8,525; equity in Canadian National Railways joint insurance fund, represented by securities held, \$1,224,937.82; discount on funded debt, \$59,311.07; discount on capital stock, \$40,000. We now come to liabilities: capital stock, \$40,000; funded debt, \$9,400,000; due to the Dominion of Canada, \$7,756,069.98; due to the Canadian Government Merchant Marine, \$117,986.47; unmatured interest accrued, \$156,666.67; interest matured unpaid, \$8,525; insurance reserve, \$1,224,937.83; accrued depreciation—vessels, \$2,255,835.56; profit and loss—deficit, \$8,687,238.67.

Mr. VIEN: I should like to ask a question, but I suppose it is better for you to carry on and we can come back to it later, if necessary.

Mr. COOPER: Profit and loss account at December 31, 1935. Deficit as at 31st December, 1934, \$7,760,848.56; loss as per income account for the year 1935, \$917,390.11; deficit as per balance sheet, \$8,687,238.67. Income account: Operating revenue, \$3,816,245.75; operating expenses, \$3,616,214.92; operating profit, \$200,030.83 as against a deficit of \$96,678.61 in 1934; interest on bonds due to the public, \$470,000, leaving a cash deficit in 1935 of \$269,969.17 as against \$566,678.61 in 1934. We then come to other charges: Amortization of discount, \$3,094.44; interest due government, \$318,813.61; depreciation on vessels, \$325,512.89; net income deficit, \$917,390.11 as against \$1,178,679.61 in 1934.

Mr. VIEN: I note your consolidated balance sheet does not carry the same items as the consolidated balance sheet of the Merchant Marine. For instance, you have accounts receivable in one, but there is nothing in respect of accounts receivable in the other, nor "Due by agents." What explanation have you for the fact that your consolidated balance sheet does not carry those items?

Mr. COOPER: If you would be good enough to read the certificate of the auditors you would see that that feature is explained.

Mr. VIEN: Would you read it please?

Mr. COOPER: I am reading from the West Indies steamships report of the auditors. It says:—

The current assets and liabilities relating to the operation of this company's vessels are not included in this balance sheet, but are carried upon the books of Canadian Government Merchant Marine Limited, where, however, a separation is maintained of the revenues and expenditures of each company.

A similar notation is made on the balance sheet of the Canadian Government Merchant Marine. It is a matter of accounting and treasury convenience.

Mr. VIEN: What is the advantage of that system?

Mr. COOPER: We have just the one cash book, one set of accounts receivable, and all other accounting books.

Mr. VIEN: Now, I see an item here "Due by agents \$320,000." Is that a normal sum?

Mr. COOPER: I should say so, yes.

Mr. VIEN: Have you anything written off for bad debts?

Mr. COOPER: If any debts have been determined to be uncollectible, they have been written off.

Mr. VIEN: It is not included or it is not deducted from the amount of accounts receivable.

Mr. COOPER: It would be deducted from the receivables and charged up against operating expenses.

Mr. VIEN: Have you any information as to bad debts in the year?

Mr. COOPER: No, I have not. I do not know if there were any, but I do not say there were not some.

The CHAIRMAN: Shall the report carry?

Carried.

The CHAIRMAN: Gentlemen, we are now through our work and I think we should adjourn *sine die*, or at the call of the chair. At the next meeting we shall have all the documents that have been asked for, and I suppose at that sitting we shall consider the report.

Mr. VIEN: I suppose documents that are to be filed will be sent to you, Mr. Chairman, and included in the report?

The CHAIRMAN: They will be included.

Mr. VIEN: It will be printed?

The CHAIRMAN: Yes. Now gentlemen, we shall let the officials know if we shall require them, and they will be notified in good time. Is that satisfactory?

Mr. MORROW: Will it be next week?

The CHAIRMAN: I do not think so, but we shall try to let you know two or three days in advance.

Hon. Mr. STEWART: Then I shall reserve my questions until the next meeting.

The CHAIRMAN: Yes, thank you.

The Committee adjourned to meet again at the call of the Chair.

REVENUES, OPERATING EXPENSES, INTEREST CHARGES AND CAPITAL EXPENDITURES OF THE RAILWAY

Line number inserted by C.N.R.		1923	1924	1925	1926	1927	1928
		\$	\$	\$	\$	\$	\$
1	Revenues.....	265,589,570	247,977,422	257,875,523	280,071,946	283,138,689	312,286,031
2	Operating expenses (including taxes, etc.).....	252,642,722	233,502,478	227,656,247	238,173,669	247,641,576	267,154,337
3	Balance available for interest..	12,946,848	14,474,944	30,219,276	41,898,277	35,497,113	45,131,694
4	Interest on funded debt.....	35,539,667	38,900,626	40,966,558	39,701,896	41,013,511	41,946,008
5	Income deficit or Surplus (before interest on Government loans).....	22,592,819	24,425,682	10,747,282	2,196,381	5,516,398	3,185,686
6	Capital expenditures—						
7	Road—Expenditures.....	27,612,598	34,106,962	24,766,513	32,080,076	35,737,249	50,594,884
8	—Retirements.....	6,626,786	10,814,473	7,205,331	12,259,733	10,254,105	13,420,355
9	Equipment—Purchases and additions and betterments.....	33,024,412	21,295,672	5,580,535	5,704,889	24,310,634	7,308,684
10	Hotels—Expenditures.....	3,818,112	4,173,008	4,687,099	3,529,195	3,858,880	5,111,238
11	—Retirements.....	695,985	606,211	391,724	1,416,878	1,091,171	4,102,306
		250			152,854	265	231,067
12	Separately Operated Properties—Expenditures.....	5,275,896	1,110,529	968,022	1,557,353	1,001,444	2,285,511
13	—Retirements.....	1,199,071	317,426	864,839	353,877	1,930,313	1,494,572
14	Invested in Affiliated Companies (including Central Vermont Railway to January 31, 1930).....	1,815,640	2,473,154	6,271,577	1,658,228	4,128,619	13,026,571
15	Total—Capital Expenditures....	68,424,531	59,592,528	37,978,371	42,417,424	66,269,117	77,317,956
16	—Capital Retirements....	11,644,219	15,304,907	12,757,269	16,296,659	16,043,563	20,257,232
17	—Net.....	56,780,312	44,287,621	25,221,102	26,120,765	50,225,554	57,060,724
18	Total Capital spent and interest charges in excess of revenue..	79,373,131	68,713,303	35,968,384	23,924,384	55,741,952	53,875,088
19	Interest on Government loans unpaid.....	30,157,944	31,271,043	31,450,382	32,090,454	32,505,234	32,507,337

NOTE.—The above amounts of Revenues, Operating Expenses and Income Deficits are taken from page 3 of the Special Statement Book of the Railway for 1934; the data as to capital expenditures has been abstracted from the "Receipts and Expenditures book for the years 1923 to 1934" of the Railway.

RAILWAYS

FOR THE THIRTEEN YEARS 1923 TO 1935 INCLUSIVE

1929	1930	1931	1932	1933	1934	1935	Total 13 Years
\$	\$	\$	\$	\$	\$	\$	\$
299,232,382	250,968,101	200,505,162	161,103,594	148,519,742	164,902,502	173,184,502	
265,729,130	235,177,877	205,787,812	165,145,234	152,072,029	158,597,452	167,067,604	
33,503,252	15,790,224	5,282,650	4,041,640	3,552,287	6,305,050	6,116,898	
45,554,919	51,317,538	55,587,145	56,965,279	56,465,426	55,811,746	*54,995,080	
12,051,667	35,527,314	60,869,795	61,006,919	60,017,713	49,506,696	48,878,182	385,758,400
70,007,795	46,174,347	24,554,591	7,230,241	7,468,222	9,267,872	9,678,369	379,279,719
14,176,635	11,308,276	8,390,184	4,118,126	4,517,965	5,674,975	5,770,499	114,457,443
30,524,896	26,479,922	16,781,609	674,751	2,509,555	927,927	2,417,227	†177,571,502
5,085,811	4,187,716	4,471,270	5,121,488	5,134,626	5,683,488	6,466,614	61,318,545
4,060,397	4,979,071	5,496,731	2,194,468	621,199	268,571	550,309	26,475,021
227,570	50,369	23,275	10,231	9,730	14,630	721,241
4,321,300	5,528,136	1,080,199	330,576	277,675	246,077	327,475	24,310,193
924,464	1,054,760	741,335	391,264	260,831	458,144	75,340	10,066,236
6,135,117	12,066,022	1,371,140	950,736	2,833,998	326,107	30,789	40,165,250
102,779,271	95,227,498	49,284,270	11,380,772	13,710,649	10,384,340	13,004,169	647,501,685
20,414,480	16,601,121	13,626,064	9,630,878	9,923,653	11,726,357	12,317,083	186,543,465
82,364,791	78,626,377	35,658,206	1,749,894	3,786,996	1,341,997	687,086	461,258,22
94,416,458	114,153,691	96,528,001	62,756,813	63,804,709	48,164,699	49,565,268	847,016,620
32,690,545	32,693,876	32,643,624	35,525,540	36,034,141	35,994,578	35,949,677	431,514,375

*Includes amortization of bond discount but interest on Sinking Fund has been deducted and in former years these items are included above in operating expenses.

†Subject to adjustment of \$30,789.

COMMENTS ON STATEMENT SUBMITTED BY MR. VIEN, AS REQUESTED BY THE CHAIRMAN OF THE SELECT STANDING COMMITTEE ON RAILWAYS AND SHIPPING

The information on the statement has been assembled from various special sources as indicated in the footnotes to the statement.

In combining information taken from such special statements the variations produced have not been fully allowed for. It has been deemed advisable, therefore, to show the discrepancies between the figures as stated, in such a manner as to make allowance for these variations.

For convenient reference each line of the statement has been numbered starting from the top. The comments on each line are as follows:—

Line No. 1. The revenues from 1923 to 1930 inclusive should be corrected as follows:—

Year	Deduction necessary
1923	\$8,627,980
1924	8,380,752
1925	8,463,639
1926	9,089,723
1927	8,259,571
1928	7,694,762
1929	8,735,402
1930	599,103

Line No. 2. This item is a composite one and includes items of both expense and income. In other words in addition to operating expenses and taxes many other items of both income and expense are included under "etc."

The adjustments necessary in the composite figures from 1923 to 1930 are as follows:—

Year	Deduction necessary
1923	\$9,182,781
1924	8,678,136
1925	8,688,215
1926	8,777,688
1927	9,087,876
1928	7,012,848
1929	7,327,424
1930	539,106

The composite figure for the year 1935 cannot be checked, even in the light of the footnote regarding amortization of bond discount and interest on sinking fund. The discrepancy amounts to \$1,526,288, the figure in the statement being understated by that amount.

Line No. 3. This line is an arithmetical operation and subject to the comments on Nos. 1 and 2, requires no comment.

Line No. 4. The adjustments necessary from 1923 to 1930 are:—

Year	Addition necessary
1923	\$498,287
1924	538,922
1925	528,323
1926	504,663
1927	487,414
1928	135,128
1929	50,940
1930	1,417

The figure for the year 1935 cannot be checked notwithstanding the footnote. The discrepancy is \$1,526,288, the figure in the statement being overstated by that amount.

Line No. 5.—Line 5 after the above adjustments have been made, would produce the net income deficit as per the accounts. The expenses in the period were charged with the creation of an insurance reserve amounting to \$9,590,148, which reserve forms a quick asset of the Company and is therefore available in reduction of the income deficit. Further it might be pointed out that the net income deficit does not represent the cash deficit.

Line No. 6.—No comment.

Line No. 7.—The figure for 1935 is not in accordance with the accounts being overstated by \$415,367. The total for the 13 years is incorrect by the same amount.

Line No. 8.—The figure for the year 1935 is understated in the amount of \$30,789.

Line No. 9.—The figure for 1935 is understated in the amount of \$415,367 and the total for the 13 years is incorrect by a like amount.

Line No. 10.—No comment.

Line No. 11.—No comment.

Line No. 12.—No comment.

Line No. 13.—No comment.

Line No. 14.—No comment.

Line No. 15.—The figure for the year 1935 is understated in the amount of \$30,789.

Line No. 16.—No comment.

Line No. 17.—An arithmetical operation and requires no comment other than as contained in Item 15.

Line No. 18.—Item 18 is an arithmetical operation and is subject to the reservations made in Items 1, 2, 4, 7, 8, 9 and 15.

As indicated previously, most of these corrections have arisen from the fact that the information has not been compiled upon the same uniform basis throughout. Attention is also directed to the remarks on Line 5, namely that income deficits include the cash insurance reserve in the amount of \$9,590,148. It might be pointed out that the addition of capital and interest charges in excess of revenue, producing one grand total, gives an arithmetical total, the significance of which cannot be judged unless accompanied by a careful study of the manner in which the capital expenditures were made. The amount by which interest charges exceeded revenue, using the term "revenue" in the sense of resources, is related entirely to the past. The effect of capital expenditures on the other hand is related to present and future operations, because money expended prudently upon improvements to the property increases the resources of the property by a greater amount than the interest and depreciation charges upon the additional capital. A few of the more important improvements through capital expenditures during the period are as follows:—

	Net Capital Expenditure
Improvement in track structure and roadway.. . .	\$77,550,000
Freight terminals, yards and sidings..	20,836,000
Modern rolling stock purchased..	93,017,000
Modernizing existing rolling stock..	19,163,000
Modernizing shops, enginehouses and machinery.. . .	9,453,000
Modernizing telegraph facilities including installa- tion of carrier current system..	8,530,000

Line No. 19.—The figures covering interest on Government loans are as per the books of the Company. These loans either represent advances to meet deficits, in which case it may be urged that interest should not be accrued thereon, or they represent additional capital put into the enterprise to keep it going, and are therefore in the category of shareholders' capital which should not bear a fixed rate of interest. Nearly 90 per cent of the interest has been charged at the rate of 6 per cent.

General.—There are a number of minor errors ranging upward to \$10, to which it has not been deemed necessary to draw attention.

APPENDIX No. 2

QUESTIONS BY MEMBERS OF THE COMMITTEE AND ANSWERS THERE TO AS FILED BY MR. FAIRWEATHER

Question By Mr. Maybank:—You might put in a similar comparison (of operating ratios) between the C.N.R. and the average for Class I Roads in the United States.

Answer:—The comparison for typical years 1928 and 1934 is as follows:

	1928	1934
Operating Ratio of C.N.R. Lines in Canada	83.6	92.5
Adjustments to make C.N.R. Ratio comparable with Average Class I U.S. Roads Ratio on a fair basis of comparison		
Freight and Passenger Rates; Express, Telegraph, Colonization and Pension	6.6	0.8
Average Haul	3.2	2.7
Car Lading	1.0	0.5
Freight Density	8.3	14.6
Passenger Density	3.7	6.9
Retirements and Depreciation	2.5	2.6
Wages	—	4.2
Fuel	4.2	4.2
C.N.R. Ratio as Adjusted	65.5	76.6
Average Class I Roads Ratio	72.4	74.6

NOTE:—Black figures denote decrease in C.N.R. Operating Ratio; Italic figures denote increase.

By Mr. Hanson:

Q. I would like to have the Profit and Loss statement in connection with the British Columbia Alaska coastal service?

CANADIAN NATIONAL STEAMSHIPS (PACIFIC COAST)
CONDENSED INCOME STATEMENT INCLUDING PROFIT & LOSS—YEARS, 1928 TO 1935 INCLUSIVE

—	1928	1929	1930	1931	1932	1933	1934	1935	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Total Revenues.....	1,094,225	1,066,042	1,220,845	1,315,249	821,907	472,905	787,183	741,859	7,520,215
Total Expenses.....	1,011,892	973,436	1,606,599	2,007,312	1,319,259	642,540	889,154	944,697	9,394,889
Net Revenue.....	82,333	92,606	385,754	692,063	497,552	169,635	101,971	202,838	1,874,674
Taxes.....	28,632	43,418	31,207	36,005	45,444	57,645	57,298	31,780	331,429
Operating Income.....	53,701	49,188	416,961	728,068	542,796	227,280	159,269	234,618	2,206,103
Other Income <i>Dr.</i> or <i>Cr.</i>	17,257	17,443	705	52,810	21,193	25,133	24,073	25,174	182,368
Net Income or <i>Deficit</i>	36,444	31,745	416,256	780,878	563,989	252,403	183,342	259,792	2,388,471
Profit & Loss <i>Dr.</i> or <i>Cr.</i>			24,103					563	24,666
Net Surplus or <i>Loss</i>	36,444	31,745	440,359	780,878	563,989	252,403	183,342	260,355	2,413,137

NOTE: The above results do not include Depreciation and Interest on Investment.

Accounting Department—Montreal, Que., May 11, 1936.

Question by Mr. Vien: Have you the operating ratio for the C.G.M.M. for the last five years?

Answer: The C.G.M.M. operating ratio for the last five years was:—

1931—111·72
1932—114·43
1933—100·80
1934—105·52
1935— 88·72

The C.N. (West Indies) Steamships operating ratio for the last five years was:—

1931—112·24
1932—108·54
1933—116·84
1934—102·76
1935— 94·76

SHIPS OWNED AND/OR OPERATED BY THE CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS LIMITED—

CANADIAN GOVERNMENT MERCHANT MARINE LIMITED—CANADIAN NATIONAL RAILWAY COMPANY

Owner of Vessel	Name of Vessel	Gross Tons	Net Tons	Service in which operated	Operated by	Description of Vessel	Book Value at Dec. 31, 1935	Aggregate Book Value
Lady Drake Limited	Lady Drake	7,985	4,920	West Indies "Leeward and Westward Islands and British Honduras.	C.N. "W.I." SS.	Passenger and Freight	\$1,687,133 68	
Lady Hawkins Limited	Lady Hawkins	7,988	4,920	"	"	"	1,683,243 56	
Lady Nelson Limited	Lady Nelson	7,970	4,916	"	"	"	1,679,084 73	
Lady Rodney Limited	Lady Rodney	8,194	4,936	"	"	"	1,782,169 16	
Lady Somers Limited	Lady Somers	8,194	4,941	"	"	"	1,777,080 37	
Canadian Hunter Limited	Cathcart	3,708	2,217	"	"	Freight	442,960 33	
Canadian Aviator Limited	Cavalier	3,663	2,213	"	"	"	435,065 21	
Canadian Runner Limited	Colborne	6,230	3,886	"	"	Freight and Passenger	500,000 00	
Canadian Otter Limited	Chomedy	6,136	3,828	"	"	"	500,000 00	
Canadian Volunteer Limited	Cornwallis	5,458	3,352	"	"	Freight	167,120 00	
Canadian Sapper Limited	Connector	1,789	1,064	"	"	Freight and Passenger	286,151 90	10,940,008 94
Canadian Britisher Limited	Can. Britisher	5,370	3,244	Australia and New Zealand	C.G.M.M.	Freight	\$2,129,925 58	
Canadian Challenger Limited	Can. Challenger	5,439	3,331	"	"	"	1,476,134 15	
Canadian Conqueror Limited	Can. Conqueror	5,448	3,336	"	"	"	1,517,925 21	
Canadian Constructor Limited	Can. Constructor	7,178	4,413	"	"	"	2,349,592 18	
Canadian Cruiser Limited	Can. Cruiser	7,178	4,413	"	"	"	2,338,788 33	
Canadian Highlander Limited	Can. Highlander	5,370	3,264	"	"	"	1,572,935 10	
Canadian Leader Limited	Can. Leader	5,492	3,342	Laid up in Port of Halifax	"	"	1,519,867 84	
Canadian Planter Limited	Can. Planter	5,399	3,333	Australia and New Zealand	"	"	1,601,363 37	
Canadian Scottish Limited	Can. Scottish	5,334	3,242	"	"	"	2,140,148 14	
Canadian Victor Limited	Can. Victor	5,454	3,340	"	"	"	1,521,343 02	18,168,022 92
Can. Govt. Rlys	Charlottetown	5,889	3,385	Cap Tormentine, N.B., Borden, P.E.I. (Northumberland Straights).	C.N. Rly. Co.	Car Ferry	\$2,184,995 93	
"	Pr. Ed. Island	2,795	1,110	"	"	"	707,167 93	
"	Scotia No. 1	1,461	658	Mulgrave and Point Tupper, N.S. (Gulf of Canso).	"	"	351,705 97	
"	Scotia No. 2	1,859	740	"	"	"	353,926 10	
"	Northumberland	1,255	542	Toronto—Port Dalhousie, Ont.	N.S. & T. Rly. Co.	Passenger and Freight	104,767 22	
Dalhousie Navigation Co.	Dalhousie City	1,256	752	"	"	"	164,057 19	
International Bridge Co.	International	62	31	Niagara River—Lake Erie	C.N. Rly Co.	Tender	14,182 55	
Canadian National Rly. Co.	Huron	1,052	688	Detroit, Mich.—Windsor, Ont.	"	Car Ferry	166,000 00	
"	Lansdowne	1,571	908	"	"	"	313,144 66	
Can. Atlantic Transit of U.S.	Arthur Orr	2,745	2,117	Depot Harbour, Ont., Milwaukee, Wis. and Chicago, Ill.	C.A.T. Co. of U.S.	Freight Cargo	250,000 00	
"	Kearsarge	3,092	2,721	Laid up at Depot Harbour, Ont.	"	"	148,500 00	
Can. Atlantic Transit Co. (Canada)	Dalwarnic	2,394	1,428	Depot Harbour, Ont., Milwaukee, Wis. and Chicago, Ill.	"	"	124,851 76	
"	Canateo	2,415	1,455	Laid up at Depot Harbour, Ont.	"	"	114,954 40	
Grand Trunk Western R.R. Co.	Grand Haven	2,320	1,678	Laid up at Manitowoc	G.T.W. R.R. Co.	Car Ferry	337,746 52	
"	Madison	2,942	1,488	Milwaukee, Wis.—Muskegon, Mich. (Lake Michigan).	"	"	766,174 05	
"	Grand Rapids	2,942	1,488	"	"	"	761,576 66	
"	City of Milwaukee	2,942	1,488	"	"	"	721,823 60	

SHIPS OWNED AND/OR OPERATED BY THE CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS LIMITED—
CANADIAN GOVERNMENT MERCHANT MARINE LIMITED—CANADIAN NATIONAL RAILWAY COMPANY—*Concluded*

Owner of Vessel	Name of Vessel	Gross Tons	Net Tons	Service in which operated	Operated by	Description of Vessel	Book Value at Dec. 31, 1935	Aggregate Book Value
Canadian National Rly. Co.	Pentowna	145	61	Lake Okanagan, B.C.	C.N. Rly. Co.	Diesel T.S.	132,844 03	
"	Can. Nat'l No. 3	33		"	"	Tug	32,609 51	
"	Can. Nat'l No. 5	68		"	"	"	101,323 64	
"	Can. Nat'l No. 104	296	296	"	"	Barge	43,095 39	
"	Can. Nat'l No. 108	427	427	"	"	"	110,875 69	
Can. Northern SS. Limited.	Canora	2,383	940	Laid up at Port Mann, B.C.	"	Car Ferry	570,638 40	
"	Can. Nat'l No. 1	240	9	Port Mann, B.C. and Vancouver Island	"	Tug	90,034 65	
"	Can. Nat'l No. 2	444	8	"	"	"	84,915 15	
"	Can. Nat'l No. 4	106	41	"	"	"	32,591 50	
"	Can. Nat'l No. 103	744	744	"	"	Barge	63,449 01	
"	Can. Nat'l No. 107	10,57	1,037	"	"	"	148,132 70	
"	Can. Nat'l No. 109	1,149	1,131	"	"	"	152,725 66	
Grand Trunk Pacific Rly. Co.	Can. Nat'l No. 106	459	459	"	"	"	18,965 48	
"	Can. Nat'l No. 105	455	455	Prince Rupert, B.C. (Salmon Wharf)	"	"	28,325 73	
Canadian National Rly. Co.	Pr. Charles	1,105	611	Vancouver, Prince Rupert and Queen Charlotte Islands	C.N. SS. "Pacific"	Freight and Passenger	\$ 286,566 19	9,196,101 98
"	Pr. David	6,892	3,072	Laid up at Bermuda April, 1934	"	"	2,140,867 72	
"	Pr. George	3,372	1,625	Vancouver, northern B.C. and Alaska	"	"	549,453 00	
"	Pr. Henry	6,893	3,055	Laid up at Halifax October, 1932	"	"	2,154,611 87	
"	Pr. John	906	549	Vancouver, Prince Rupert and Queen Charlotte Islands	"	"	144,172 12	
"	Pr. Robert	6,892	3,072	Vancouver—Alaska, summer seasons only	"	"	2,177,480 08	
"	Pr. Rupert	3,379	1,626	Vancouver, northern B.C. and Alaska	"	"	531,755 21	
"	Pr. William	525	281	Laid up at Prince Rupert, B.C., Jan., 1931	"	"	169,414 72	8,154,120 91
Ontario Car Ferry Co. Ltd.	Ontario No. 1	5,146	3,229	Cobourg, Ont.—Rochester, N.Y.	Ont. Car Ferry Co. Ltd.	Freight and Passenger	368,307 23	
"	Ontario No. 2	5,568	3,376	"	"	"	465,024 26	833,331 49
(C.N. Rly. Co. and B. & O. R.R. Company each own 50 per cent of Capital Stock in this Company.)								
Central Vermont Trans. Co.	New York	2,818	1,893	New York—New London	C.V. Transportation Co.	Freight	199,619 84	
"	New London	2,818	1,893	"	"	"	199,632 20	399,252 04
(Central Vermont Rly., Inc. owns 25 per cent of Capital Stock in this Company and the New London & Northern R.R. Co. own the other 75 per cent.)								
							\$47,690,838 28	

SESSION 1936

HOUSE OF COMMONS

STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 6

TUESDAY, MAY 26, 1936

WITNESSES:

Hon. C. P. Fullerton, Chairman, Board of Trustees, Canadian National
Railways

Mr. J. E. Labelle, K.C., Trustees, Canadian National Railways

MINUTES OF PROCEEDINGS

TUESDAY, May 26, 1936.

The standing committee on Railways and Shipping owned, operated and controlled by the Government, met at 11 a.m. The Chairman, Sir Eugène Fiset, presided.

Members present: Messrs. Barber, Beaubien, Beaubier, Bothwell, Elliott (*Kindersley*), Hanson, Heaps, Howe, Kinley, McLarty, Maybank, Parent (*Quebec West and South*), Stewart, Vien and Walsh.

In attendance: Hon. C. P. Fullerton, Chairman, Board of Trustees, Canadian National Railways; Mr. J. E. Labelle, K.C. and Mr. F. K. Morrow, Trustees, Canadian National Railways; Mr. S. J. Hungerford, President, Canadian National Railways; Mr. S. W. Fairweather, Director, Bureau of Economics, Canadian National Railways; Mr. V. I. Smart, Deputy Minister of Railways and Canals.

The chairman read a communication from Sir E. W. Beatty, Chairman and President, Canadian Pacific Railway Company, submitting a memorandum in which exception is taken to certain statements filed by Mr. Fairweather and printed as an appendix to the committee's proceedings of May 6, page 169, in answer to the following question by Mr. Maybank:—

Could you file a table which would show the adjustments to the C.N.R. operating ratio in order to render it comparable to that of the C.P.R. for a period of years?

The committee having discussed Mr. Beatty's request that the memorandum be added to the printed record, it was agreed that said memorandum be laid on the table pending any future action to be decided by the committee.

Discussion followed with respect to examining the Board of Trustees on statements made in the House by the Minister of Railways and Canals while moving the second reading of Bill No. 21, an Act to amend the Canadian National-Canadian Pacific Act, 1933.

The chairman having ruled against this procedure, the Bill not being referred to the committee, it was finally agreed that the chairman and other members of the Board of Trustees be allowed, if they so desired, to present a statement at the next meeting on the management of the railway under their jurisdiction, a copy of such statement to be sent, in advance, to the Minister of Railways and Canals and to the chairman of the committee.

On motion of Mr. Vien,

Resolved,—That the committee do approve of the following items of the estimates for the fiscal year ending March 31, 1937, viz,—

Items Nos. 84 and 85, Maritime Freight Rates Act,

Item No. 85, deficit of the Canadian National (West Indies) Steamships Limited.

The committee adjourned until Tuesday, June 2, at 11 a.m.

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 268,

May 25, 1936.

The Standing Committee on Railways and Shipping met at 11 o'clock, Sir Eugène Fiset, the Chairman, presided.

The CHAIRMAN: Order please. Now, Mr. Stewart, what have you to bring before the committee?

Hon. Mr. STEWART: Mr. Chairman, I intimated that I wanted to ask the president certain questions arising out of statements made in the House by the minister in the introduction of his bill.

Hon. Mr. HOWE: May I say a word before you start. It is hardly fair to embarrass the president of the railway. The president is not a party to the statements; I never discussed my statements with him. He is an officer of the railway, and his senior officers are here to-day. His position is very uncertain at the moment—there is a change in legislation. I do not mind any question you ask the trustees and myself. We will be glad to answer them. But I ask you to consider the position of the president in connection with your questions.

Hon. Mr. STEWART: Yes. I propose to call his attention to statements made by yourself, Mr. Minister, in the house,—

The CHAIRMAN: Mr. Stewart, you are an old parliamentarian.

Hon. Mr. STEWART: —and ask the chairman of the board of trustees what he has to say about them.

Hon. Mr. HOWE: I think that is very proper, but I do not want to embarrass the president. After all, I never discussed my statements with the president.

Hon. Mr. STEWART: I think he is capable of taking care of himself.

The CHAIRMAN: Before you proceed, Mr. Stewart, may I say this: The members of the committee should be aware of the fact that the bill and the statement made in the house on the bill are not before this committee; it is not included in the order of reference that is before this committee. And before proceeding with any question of that kind, dealing with a matter that is before the house at the present time and which has not been heard by this committee, I should like to get the decision of the members of the committee in order to find out whether we intend to allow Mr. Stewart to proceed.

Hon. Mr. STEWART: Mr. Chairman, will you permit me a word on that? I do not propose to argue before this committee as to the merits of the bill at all, as to whether it is sound or unsound or whether it is a matter that is calculated to improve the condition of the Canadian National Railways or not. I am not going to argue that or bring it up at all. As the bill has not been referred to this committee I do not propose to discuss its merits. I want to make that perfectly clear; but in introducing the bill the minister made certain statements—

The CHAIRMAN: On the bill itself.

Hon. Mr. STEWART: —which he might have omitted. I do not contend that I have the right here to discuss a matter of policy of the government. If they think that the board of trustees should be abolished and a board of management appointed, that is all right. But the matter did not stop there. The minister made certain statements as to conditions that existed under the present management, and it is with reference to those statements that I desire to ask certain questions.

The CHAIRMAN: I am in the hands of the committee.

Hon. Mr. STEWART: I am a new member of this committee; this is my first session on the committee, but I want to say this: I am a friend of the Canadian National Railways, always have been, no matter what may have been represented to the contrary. But I do know in the past great latitude has been allowed, every sort of detail has been gone into. In my opinion, I think sometimes too much detail, in the interest of the Canadian National Railways, was brought out. I do not desire to do anything that is calculated to embarrass anybody in a position of authority or administration in the Canadian National Railways, or to embarrass the railway itself. I would do anything I could to help them. I think the questions that I shall ask I shall leave very largely to the chairman of the board and to Mr. Hungerford to make such statements as they like upon them; I am not going to press them.

The CHAIRMAN: With the intention of helping you I am asking the members of the committee if they have any objection to allowing you, Mr. Stewart, to proceed with your question.

Mr. BEAUBIEN: I think it is entirely out of order. The minister—

Hon. Mr. STEWART: You have not heard them yet. Why do you say the questions are out of order?

Hon. Mr. HOWE: I think it is quite proper for the committee to discuss matters respecting the C.N.R. I think it is quite proper for Mr. Stewart to go ahead.

The CHAIRMAN: Go ahead, Mr. Stewart.

Hon. Mr. STEWART: We shall now deal with Mr. Howe's statement. I hope I shall read all that is relevant, as I do not want to be accused of leaving out anything. At page 2365 of Hansard the minister in bringing down his bill said:—

Mr. Speaker, in bringing down this measure I feel I am sponsoring a most important and necessary piece of legislation. It is common knowledge that the three directors to whom the direction of the railways was entrusted as a result of the 1933 act have made no real progress toward the improvement of our railway situation.

He said, "It is common knowledge."

To date they have failed to achieve any substantial co-operative economies, to secure which was the principal object of their appointment and the outstanding feature of the 1933 legislation. Not only have they failed to secure any substantial results to date, but on their own published statements, the prospect of future results from co-operative measures, plans and arrangements, is not bright. Nor have they been able to reduce to any great extent Canadian National operating costs, due to the fact that that avenue had been so thoroughly explored by the previous boards of directors. I shall in a few moments support these statements by citations from the reports of the trustees themselves. That is the external situation. Internally, as most hon. members are probably aware, there is much unrest among Canadian National employees, who everywhere appear to regard the trustee method of control with distrust and suspicion. This is primarily due to the fact that in matters of actual management the chief operating officer with the titular rank of president is subordinated to a trustee board of three laymen, inexperienced in railway problems and who know nothing of actual railway practice, and, as a result, have shown a complete lack of understanding of the human element which, under prevailing conditions, enters so largely into successful railway operation. In talking over the situation with the trustees themselves I cannot find that any one of them believes that the present system of management is a good one. As things stand the trustee board is

responsible to no one, is apparently without a policy, and so far as public relations are concerned, is without even a voice. In addition, there is, to put it mildly, serious lack of agreement among the trustees themselves, and the fate of any measure with which they must deal depends upon whether one of the other trustees can be brought to agree with the views of the chairman, who is vested with over-riding in that the majority vote of the trustees is ineffective unless the chairman be included in that majority.

Now, then, I should like to ask what comment—

Mr. MAYBANK: I object to that question. Here we have had a long article read, and the president of the railway is being asked to comment on it. I think that is asking the president to join issue with the minister in regard to the railways, and that is asking a little too much.

Hon. Mr. STEWART: I am not going to ask—

Mr. MAYBANK: To ask him to join issue with the minister in that regard certainly puts him in a very difficult position, and one that is not necessary.

Mr. HEAPS: It is quite possible that Mr. Fullerton may have a statement to make to this committee in respect of a situation which has developed in the last few months, and if that is the case, I do not think we should do anything here to debar Mr. Fullerton from making a statement to the committee.

The CHAIRMAN: As the minister in charge of the department has no objection whatever to Mr. Fullerton making the statement—

Mr. BOTHWELL: I think there should be concrete questions put on the basis of that argument.

The CHAIRMAN: If you will allow me to continue, I shall ask Mr. Stewart if he is going to put blunt questions. Surely, you are not going simply to read the report of Mr. Howe's speech in the house and ask the chairman of the board of trustees to comment on it? You must put a specific question to him.

Mr. MAYBANK: I want to make my objection clear. I am not objecting to Mr. Stewart asking questions of Mr. Fullerton. As I understood it, the comments were directed to Mr. Hungerford. It was with reference to that I was objecting. Do I understand now the question was put to Mr. Fullerton?

Hon. Mr. STEWART: I am not addressing my questions to Mr. Fullerton. I endeavoured to anticipate your objection to my asking detailed and possibly embarrassing questions. I want to leave it to the gentlemen here to make such statements as they deem necessary to answer this statement.

The CHAIRMAN: Are you satisfied that Judge Fullerton should make the statement?

Mr. HEAPS: Do I understand that Mr. Stewart is asking Mr. Fullerton a question, and are we to expect individual replies to various questions asked, or should we ask Mr. Fullerton if he has any statement to make to this committee? Perhaps he could make a statement to this committee that might possibly cover some of the questions Mr. Stewart has in mind.

Hon. Mr. STEWART: I do not want to monopolize the committee. I want everybody to be free to ask questions.

Mr. BOTHWELL: We are more or less a fact-finding body here. There have been certain statements read from Hansard by Mr. Stewart. I think he can base concrete questions on the statement that he read. If there are any facts that can be elicited from Mr. Fullerton or any other member of the Canadian National Board, the committee are entitled to the information, and Mr. Stewart also.

The CHAIRMAN: Perhaps we might consult the chairman of the board of trustees. Do you prefer to make a general statement, sir, or do you prefer to answer specific questions?

Hon. Mr. FULLERTON: Gentlemen, when I came here to the first meeting of the committee it was intimated to me by the chairman that the bill proposing to change the organization of the C.N.R. was not before this committee, and that nothing in the nature of a discussion regarding the measure would be had; consequently I have prepared no formal statement. I have not, as a matter of fact, thought of the matter since Mr. Howe's speech was made. I am not prepared to make a formal statement, as this was entirely unexpected. I had not the least idea that these questions were coming up. If you want me to make a statement it will take me a very short time to prepare one. If you adjourn until to-morrow I shall be prepared to make a statement, but I am ready to answer any questions that may be put to me. You understand perfectly well that my position is an extremely delicate one. I do not want to get in conflict with the minister of railways with whom I am so closely associated in matters affecting the railway. My position is one in which I should prefer, if you ask me to make a statement, to give it some consideration. That is my position. But in so far as questions are concerned, I am perfectly willing to answer any question that may be put to me in connection with the management of the Canadian National Railways from the day I went there to the present day.

Mr. BEAUBIEN: In the face of what Mr. Fullerton has said I am still of the opinion that this discussion is entirely out of order. The bill of the minister of railways was presented to the house and has not been referred to this committee. This committee has not been asked to investigate the statement of the minister. This statement should be discussed in the house and comments made on it at that time. We are placing the chairman of the board of trustees in an embarrassing position, and I do not see that we are going to get anywhere.

Mr. BOTHWELL: There are statements made there that there have been no material economies effected since 1934, and there has been very little in the way of co-operation to cut down expenses between the two railway companies. It seems to me that leaves an opening to elicit certain facts.

The CHAIRMAN: Mr. Stewart, perhaps it would be better for you to proceed with questions instead of making a general statement.

Hon. Mr. STEWART: Mr. Chairman, I appreciate the position taken by the chairman of the board of trustees, and I think that he should be permitted to exercise his discretion in making such statements as he thinks proper to this committee. It seems to me that would be the better way than for me to press individual questions, as he has not prepared himself to answer them. With the permission of the committee I shall refer to two or three other extracts from Hansard to which I should like him to give consideration in the preparation of his statement, because after he has made his statement it may cover practically all of the ground and avoid the asking of the other questions.

The CHAIRMAN: Yes; but on the other hand that raises the general question. The order of reference under which we are acting at the present time does not cover the statement made by the minister in the House of Commons nor the bill that is before the house at the present time. I do not think this committee has the right to discuss the bill nor the statement of the minister. That is my profound conviction.

Hon. Mr. STEWART: I am not discussing the bill at all. I endeavoured to make it perfectly clear that I am not discussing the bill.

The CHAIRMAN: You are discussing the statement made by the minister when he introduced his bill.

Hon. Mr. STEWART: Because, Mr. Chairman, it relates to the operation of the railway. That is my only reason for discussing it. The minister might have said this, in the House of Commons: "The government believes that the appointment of a board of managers is preferable in the management of the railway to a board of trustees," and left it there, made no statement as to the results

attained by the trustees, or shall I say, anything in the nature of a possible reflection upon them in their conduct of the business. Had it stopped there it would have been perfectly all right. That would be a matter of policy. But he has made statements here as to certain conditions and results in connection with the operation of the railway which, I submit, under the contract of this committee we have a right to investigate, a right to ask the accuracy of. The next extract that I was going to read is more direct, possibly, and requires explanation possibly more than this one.

The CHAIRMAN: I know. If you have a series of questions dealing with the administration of the Canadian National that may be affected by the minister's speech in the House of Commons, surely you can ask the specific questions without referring to Hansard, without referring to the speech or without referring to the bill.

Hon. Mr. STEWART: No, his statements are the basis of my questions.

The CHAIRMAN: I know. It is exactly the basis. But as chairman of the committee, I am afraid I shall have to rule that we have not the right to discuss it. However, I am in the hands of the committee.

Mr. MAYBANK: With reference to the questions touching on, for example, savings and operating costs, it seems to me that such questions were appropriate when we were going over the report.

The CHAIRMAN: Certainly.

Mr. MAYBANK: But we have concluded that.

The CHAIRMAN: Yes.

Mr. MAYBANK: Therefore any questions of that sort, it seems to me, are belated.

The CHAIRMAN: Yes.

Mr. MAYBANK: Therefore they are no longer in order.

The CHAIRMAN: Except this, that when the committee adjourned we did give permission to Mr. Stewart, and told him we would give him a chance to ask certain questions in the committee. Of course, I was not aware of the character of the questions then.

Mr. MAYBANK: Precisely, certain questions. But I do not think we left it open to again go over the report with a fine-tooth comb. We had no intimation of the nature of the questions proposed at that time. Surely we did not intend to leave the door open for another complete rehashing of the report.

Hon. Mr. STEWART: That is just what I do not want to undertake. You will recall that at some of the meetings of the committee I said that any questions I might want to ask I would reserve, because it would not require the presence of the technical officers of the railway here to answer them; and the questions I wanted to ask are along the line I have indicated. I did ask some questions of the technical officers. But these, I intended, were questions I wanted to ask of the Board of Trustees and the Chairman.

The CHAIRMAN: Why not proceed with your questions at the present time?

Hon. Mr. STEWART: That is what I am trying to do.

The CHAIRMAN: I know. But you are not asking questions. You are simply reading from Hansard the minister's speech and asking the chairman of the board of trustees to make a statement.

Hon. Mr. STEWART: I thought that was the easiest way to do it. I shall ask him now if that is a correct statement of the situation.

Hon. Mr. FULLERTON: What statement?

Hon. Mr. STEWART: The one I read.

Hon. Mr. FULLERTON: Absolutely no.

Hon. Mr. STEWART: It is not a correct statement?

Hon. Mr. FULLERTON: It is not a correct statement.

Hon. Mr. STEWART: All right. Then I shall read another.

Mr. KINLEY: In what respect is it not correct?

The CHAIRMAN: You are referring to a general statement.

Mr. VIEN: I would like the statement to be read again.

The CHAIRMAN: Mr. Stewart, will you read it again?

Hon. Mr. FULLERTON: It seems to me we would get along better if you would ask individual questions; because you cannot deal with a whole conglomeration of questions.

Mr. VIEN: No. It may create confusion as to the exact part of the statement to which the witness is now referring. So I would like Mr. Stewart, if he will, to kindly read the statement and ask Mr. Fullerton whether it is correct or not.

Mr. HEAPS: On that very point, when Mr. Stewart originally suggested the asking of questions, it seemed all right on the face of it. But when you ask a question and get a yes or no answer, I am afraid that is not going to be satisfactory. It was for that reason I suggested that, if Mr. Fullerton desired to make a general statement to the committee, I think it would perhaps be preferable to having these yes or no answers. For instance, to the first question asked by Mr. Stewart—and I have no objection to going along with that method—he got the answer “no,” a direct contradiction to the statement made.

Mr. BOTHWELL: Maybe it is one phrase that is being answered.

Mr. HEAPS: We all know that it is impossible to leave the thing stay where it is on that answer.

Hon. Mr. STEWART: Exactly.

Mr. HEAPS: It is a general answer to a general question, and none of us are any better off, in a sense, for the asking of that question; except that it leaves the whole committee or the whole situation in a state of confusion.

Hon. Mr. STEWART: That is why I suggested, in the interest of the railway and in the interest of all concerned, that it would be preferable that the chairman of the board of trustees should make his statement rather than that we should get into this cross-fire of asking questions and cross-examining. That is the one thing I want to avoid.

The CHAIRMAN: I should like to know what the pleasure of the committee is.

Mr. McLARTY: A great deal of the statement that has been read by Mr. Stewart and which was made by the minister in the House is a matter of pure opinion. It is not a matter of fact.

Hon. Mr. STEWART: No.

Mr. McLARTY: The minister might have one opinion on a certain set of facts and the chairman of the board might have another opinion. Surely we are not going to get into a long argument here as to which opinion is correct. I think the only duty of this committee is to find facts as far as they can, and limit questions to questions of fact and not of opinion purely by the minister or by the chairman of the board. If we are going to do that, Mr. Stewart will have to segregate from that statement which he has read, the parts definitely relating to facts which the committee can weigh. I would suggest if we are going to go on and simply say, “Is that statement correct?” that means nothing, because it is correct as far as the minister is concerned, in that he himself is of that opinion. But there are questions of facts which the committee might properly deal with.

Mr. VIEN: I agree with what the preceding speaker has just said. Moreover, as you stated very properly, I think, the question is that we are bound by the terms of our reference.

The CHAIRMAN: Exactly.

Mr. VIEN: We cannot go outside the terms of our reference. Therefore that was the purpose of my question to Mr. Stewart. It was to determine what part of the statement he desires to put specific questions on. If such parts of the statement refer to the Bill which is not referred to this committee, but is being studied in the committee of the whole house, then we are without power and without jurisdiction to go into that. If it involves a question of the management of the Canadian National Railways, if it involves a statement by the minister as to the results of the operations of the Canadian National Railways and the ability or the efficiency of the board of trustees in managing the Canadian National Railways, that might be linked up with the study of the financial report of the Canadian National Railways which is before this committee under a reference from the house. But I believe that it would be improper and outside of our jurisdiction to enquire into any questions directly linked up, and exclusively linked up, with the Bill under study in the House of Commons. We must limit ourselves, in my humble opinion, to the reference made by the House of Commons to this committee. That is the reason why it seems to me that the proper procedure to follow would be for Mr. Stewart or any other member of this committee to put any direct and specific questions to any members of the board of trustees; and you, Mr. Chairman, will be in a position to determine whether they are within or without the reference to this committee. The chairman of the board of trustees said that he had no statement to make.

Hon. Mr. FULLERTON: I said this, that I had not any idea that this was coming up here, and naturally I have not prepared a statement. But I am perfectly willing to prepare a statement.

Mr. VIEN: I understand. But on his own admission, he did not intend to make a statement; and he does not desire to make a statement unless the committee desires that he do so.

Hon. Mr. FULLERTON: Let me make my position clear, if you will.

Mr. VIEN: Certainly.

Hon. Mr. FULLERTON: When I first came to this committee I was informed by the chairman of the committee quite plainly—at least I drew the inference—is that right?

The CHAIRMAN: Quite plainly.

Hon. Mr. FULLERTON: Yes, that the bill had not been referred to this committee; and that, consequently, any question with regard to the management of the Canadian National Railways would not be raised in this committee. Naturally, I am not here prepared with a statement. But all I ask you is to give me two or three days to prepare it and I am prepared to give you it, and am only too anxious to do so.

Mr. VIEN: I understand that attitude. I thought that I had correctly interpreted it. But if there is any difference between my statement and that of the chairman, I am quite satisfied to accept the correction. But my point is that so far as we are concerned to-day we are not confronted with the request of the chairman of the board to make a statement. We are not confronted with such a request. We are confronted with a request from Mr. Stewart that the chairman be called upon to make a statement. In my opinion, this would have to be limited to the matters under reference to this committee.

The CHAIRMAN: Quite right.

Mr. VIEN: That is, the financial statement of the Board of Trustees of the Canadian National Railways. Now Mr. Stewart has introduced into the question a statement made by the minister in the House of Commons. That statement was made not upon the reference to this committee or any matter covered by the reference, but upon a totally different matter, namely, whether it is expedient for the parliament of Canada to change the system of the management of our Canadian National Railways.

Hon. Mr. STEWART: Mr. Chairman, I have tried to make it clear that I do not desire to discuss that matter at all. That is a matter for the House of Commons. It is only the statement in connection with the administration and the operation of the railway that I wish to invite the chairman of the board of trustees to make a statement on.

Mr. VIEN: Therefore, I repeat my question. Will Mr. Stewart read that particular question?

Hon. Mr. STEWART: Certainly I will read it.

Mr. VIEN: Will he read the particular section of the statement, so that there will be no doubt about it?

Mr. BOTHWELL: Before that is read, I want to make my position clear so far as this whole matter is concerned. I hardly think it is fair to ask the Chairman of the Board of Trustees to make a statement in answer to a statement made by the minister on the floor of the house.

Mr. VIEN: I agree.

Mr. BOTHWELL: We are a fact finding committee and we have to make a report to the house in connection with the management of the Canadian National Railways, on the reference made to this committee. The statement that has been read from Hansard may be analyzed and certain questions asked on it. The argument then can take place in the house on the facts elicited from the answers to those questions. It is not a fair proceeding, as I see it, and it never was contemplated by the reference to this committee, that we should have a statement taken from Hansard, a statement filed in answer to that by the chairman of the board and then introduce those on the floor of the house. We are only supposed to find facts and argue what we see fit when we get on the floor of the house.

Mr. WALSH: If you will permit a new member of this committee to interpret himself, I would like to lend my support to the contention of Mr. Stewart. The minister did make certain statements which I consider rather damaging to the management of the Canadian National Railways; and this is the only opportunity that any member of the house has of getting the official point of view from the chairman of the board of trustees or from any member of the board of trustees. When we are debating this on the floor of the house, it is all very well for us to express our opinion as being contrary to the opinion expressed by the Minister of Railways. But here we have the other contending authority in contradiction to the statements made by the Minister of Railways, and it is our only opportunity of hearing the point of view of the trustees and particularly of the Chairman of the board of trustees. No one else is in a proper position to reply to the statements made by the Minister of Railways except the Chairman of the board of trustees. I think it is in the interests of the Canadian National Railways, that it is in the public interests, and that it is in the interest of the members of this committee, to have a statement from the Chairman of the board of trustees so that we will know and get his point of view. Then we will be in a position to judge as between the statement made on the floor of the house by the Minister of Railways and the statement that would be made here before this committee by the Chairman of the board of trustees. In that way we would be able to effectively and efficiently carry on a debate in the house. We cannot do so under present conditions. We cannot take the statement made

by the Minister of Railways in the house and just simply contradict this statement, or give our opinion in contradiction to it. It would merely be the opinion of one lay mind against another lay mind, and would get us nowhere. Here is the authority. I think we should be in a position in the house to quote not only the Minister of Railways but also the Chairman of the board of trustees in substantiation of any statement that we might make or would desire to make on the floor of the house when the bill is in committee. I would like to urge Mr. Stewart's point of view—and in that he was partially supported by the member from Winnipeg—that Mr. Fullerton be given an opportunity to make a statement before this committee. Then from that statement certain specific and definite questions can be asked that would elicit information that would be in the public interest and help us, materially help us, in preparing the report that we are to present, no doubt, to parliament in due course. We are not in a position to prepare that report adequately unless we hear from Mr. Fullerton. That is my position. I would like to emphasize that position. I would like to urge that some consideration be given to Mr. Stewart's request, and that possibly we might adjourn this feature of the committee meeting this morning and give Mr. Fullerton until tomorrow at eleven to prepare a statement to present to this committee.

The CHAIRMAN: I would like to remind you of one thing, I think the whole discussion is out of order. You must remember this, that we have had a special order of reference submitted to this committee and we cannot exceed that. This question is sub judice, it is before the house at the present time, and the speech made by the minister was the speech introducing the special bill. I told Mr. Fullerton that I did not expect that this committee would have the right to discuss either the minister's speech or the bill before the house at the present time, unless or until such time as the House of Commons would decide whether the Bill would be discussed in committee of the whole, or whether it would be referred to this Special Committee on Railways and Shipping for consideration. It is my plain duty to bring to your attention that at the present time you have nothing before you; you have neither the right to discuss the minister's statement nor the Bill which is now before the House of Commons until such time as the House of Commons decides to submit that Bill to us for discussion and comment. Until such time I must declare the whole of this discussion out of order.

Mr. BEAUBIEN: The Bill was introduced into the House of Commons changing the set up of the management of the C.N.R., but it has not been referred to this committee.

Mr. WALSH: I think that any statement made when the house sat as a whole, if it relates to the management of the railways, should be a subject for discussion in this committee.

Mr. BEAUBIEN: I do not see what right this committee has by its own action to discuss, or to ask the board of trustees to comment on, either the statement of the minister or the legislation which is before the house to change the set up of the management of the Canadian National Railways. I made the statement before we started this discussion that in my opinion it was out of order, and I am still of that opinion.

Hon. Mr. STEWART: Mr. Chairman, I want briefly to address the committee before you make any ruling on this matter. Now, I submit that at no time in the past when we have had investigations of the affairs of the Canadian National Railways has the committee ruled that it will not hear a statement from the head of that organization when he says he is prepared to make one.

The CHAIRMAN: Mr. Stewart, the question has never arisen before.

Hon. Mr. STEWART: Here is the situation: I propound certain questions and the trustee says: I am prepared to make a statement if I have time to prepare it. Now, I think that it is in the public interest and in the interest of the Canadian

National Railway, and it is our duty as a committee, when the head of a board of trustees says I am prepared to make a statement on matters that are more or less controversial, reflecting to some extent upon the administration of the railways and the results achieved by the board; I say for this committee to say that he shall not have the opportunity, and that we will not hear him—

The CHAIRMAN: Nobody has said that, Mr. Stewart.

Hon. Mr. STEWART: That is what I understand, we were just going to shut this all off.

The CHAIRMAN: Nothing doing.

Hon. Mr. STEWART: I say, that is contrary to all the practices and to the spirit of all investigations that have ever taken place into the Canadian National Railways, and that it is in the public interest, and that it is in the interest of the Canadian National Railways that no such course should be adopted.

The CHAIRMAN: May I ask you a question?

Hon. Mr. STEWART: Yes, Mr. Chairman. And I want to bring the matter to a conclusion by moving that the chairman be requested to prepare a statement of the position of the board of trustees with respect to these controversial matters, that statement to be submitted to this committee.

The CHAIRMAN: May I point out, Mr. Stewart, that you appear to have forgotten one principal point; that the Bill is still before the house.

Hon. Mr. STEWART: Exactly.

The CHAIRMAN: It has not been decided that the Bill shall not be referred to this committee. I submit that should the House of Commons decide instead of considering this Bill in committee of the whole to submit it to this committee then will come the time for us to discuss the points you are raising now.

Hon. Mr. STEWART: Now, Mr. Chairman, I am afraid you are overlooking the position I have taken all through. I do not propose to discuss that Bill, or the provisions of that Bill, at all. I want to make that perfectly clear. I am not asking that the Bill be referred to this committee that we may discuss its provisions, nor do I desire to make any discussion in connection with it at all. All I am asking is that we do discuss and examine the statement made by the minister in connection with the management of the railway.

Mr. BEAUBIEN: The minister is not under investigation here, Mr. Chairman.

Hon. Mr. STEWART: I am not investigating the minister at all. The minister has the right to make any statement he likes in the house, and I say that the board of trustees, through its chairman, and I make this statement with the greatest respect, ought to be called upon, ought to be authorized, ought to be directed, ought to be requested to make a statement with respect to their administration during their period of office, which to a considerable extent is criticized, and which criticism to a certain extent places them under a cloud; I say that they should have the opportunity, each and every one of them if they want it, to clear that up and to make their own statements. And I say that if this committee shuts that off and acts as suggested, that we will not be allowed to get this statement, that then we are stopping short of our duty, we are acting in a manner altogether different from what has been carried on in the past.

Hon. Mr. HOWE: I might say, Mr. Stewart, that the trustees have already made two annual statements. No one is preventing them from making any statement at any time or in any place they like. Why insist that they make a statement before this particular committee to which this bill has not been referred? They can make a statement in the newspapers if they want to.

Hon. Mr. STEWART: I say that this is the proper place in which to investigate matters relating to the Canadian National Railways. The press is not the place. This committee should be the place in which to get the facts.

The CHAIRMAN: The statement made by the Minister of Railways while introducing the bill was a statement which he read, and that statement related absolutely to the bill which he was introducing. I consider that his remarks in the House of Commons formed part and parcel of the same meeting of the house as that at which this bill was introduced and discussed. And I claim—I may be wrong, but I am in the hands of the committee—that the statement of the minister as well as the bill itself is not before this committee for discussion.

Some Hon. MEMBERS: Hear, hear.

Hon. Mr. STEWART: Might I try to make my position clear, I am not discussing the bill.

The CHAIRMAN: But you are discussing the introduction of the bill.

Hon. Mr. STEWART: No. I am discussing a statement made by the minister in the House of Commons in connection with the administration of the Canadian National Railways. I am not discussing the wisdom of the bill, the right of the government to change it—they have a perfect right if they think that a board of directors or managers or whatever it is you call them is better than a board of trustees, they have the perfect right to make the change; and the government do not have to refer that to this committee at all, it is a matter of policy. But I say that this is a statement in connection with the management of the railways, and the actions and views of these trustees; and I say that they should have the opportunity, and I think it is only fair—the suggestion is an excellent one—that the chairman should prepare a statement such as he wants to make. I do not want to press him into making any statement at all, but I think it is only fair that he should be given the opportunity to make such a statement as he may wish to on behalf of himself and his co-trustees. I think it is due to them, I think it is due to this committee, I think it is due to the Canadian National Railways, I think it is due to parliament, and I think it is due to the public that they should have the opportunity to make their position clear.

Mr. HEAPS: Mr. Chairman, I think when we read over the minister's statement at that time we will find it places the chairman of the board of trustees in a somewhat delicate position. I think in the earlier part of the meeting the minister stated that he had no objection to the board of trustees making a statement if they wished to make one. While I think such a statement desirable I do not think it should be secured by way of resolution of this committee. Personally, while I am in favour of giving the chairman of the board of trustees an opportunity to make a statement, I do not want it done by way of resolution of this committee. I think there should be an understanding that if the chairman of the board wishes to make a statement to this committee he should have the opportunity of so doing. At the same time, I do not want to see any of the board of trustees get into a personal wrangle with the minister over this matter. I do not want to see a statement prepared even that would answer some of the questions asked by Mr. Stewart. After all, some people may think that I am a pretty poor sort of member of parliament, and they may be right in that.

Some Hon. MEMBERS: No, no.

Mr. HEAPS: However, I make the suggestion that the opportunity should be given to Mr. Fullerton to make a statement if he so desires. He might make it to-morrow morning, and in the meantime Mr. Stewart might perhaps withdraw his motion.

Hon. Mr. STEWART: That is quite satisfactory to me. That is all I want.

Mr. BOTHWELL: I want to draw the attention of the committee to this fact, that in the annual report of the Canadian National Railway System there appears about twelve and a half pages comprising a report by the board of trustees, and we went through this report in committee. I might argue, having that report

in mind, that the minister's statement was wrong, and I might take certain statements in connection with the co-operative measures that have been taken, and other statements relating to the co-ordination of services between the C.P.R. and the C.N.R., and with them contradict the statements made by the minister in the house, arguing from that particular angle. It seems to me that the board of trustees have already made their report, just as fully as did the minister in making his statement in the house; and if there are any specific questions that might be asked on that report arising out of the statement made by the minister in the house, I think that is as far as this committee should go.

The CHAIRMAN: That is all, I think.

HON. MR. STEWART: In answer to that I want to say that that report was submitted to this committee before the minister made his speech in the house.

The CHAIRMAN: That is the reason why you are killing your own argument, Mr. Stewart. The order of reference to this committee was prepared a considerable time before the minister made his speech in the House of Commons, so that it could not possibly be referred to this committee for discussion then, and it cannot come before this committee until such time as the house may decide to refer the bill to us. If they do that we will then have full power to discuss it.

MR. HEAPS: Mr. Chairman, if the chairman of the board of trustees makes a statement to this committee, say to-morrow morning, we are not suggesting what he is going to put in it. I do not think we should do that. I think his good judgment will enable him to decide what statement he should make to this committee. No one is suggesting that he has got to answer the speech made by the minister on the floor of the house. As far as I can see it, the position in which Mr. Fullerton has been placed is such that it is to be inferred that he may not long continue to occupy that position. I think any person finding himself in such a position has a right to make a statement to this committee. Now, I want to ask a further question: Supposing this committee takes such a stand this morning as will not permit of his making a statement, what is going to be the inference?

The CHAIRMAN: I do not believe that we have the power to give him that chance.

MR. HEAPS: Have we the power to refuse him that opportunity?

The CHAIRMAN: No, no; that is not the point.

MR. HEAPS: I do not think any member of this committee would for a moment wish to refuse Mr. Fullerton the opportunity to make any statement to the committee he may desire.

MR. MAYBANK: As I see it, the proposition that is before this committee does not come from the chairman of the board of trustees but from Mr. Stewart. The Chairman of the board of trustees claims he did not come here prepared to make a statement, nor did he appear to have any desire to make one. It seems to me, from what has gone on in this committee hitherto, no person, and certainly not the chairman of the board of trustees, is debarred from making a statement. In so far as it should be his desire to file a statement in answer, shall we say to the charges—I presume it is based on that conclusion—which have been made are concerned, I should think that would require no further argument, and what Mr. Stewart has said along that line is hardly necessary.

In as far as Mr. Stewart takes the position of desiring to defend the chairman of the board of trustees, it is quite unnecessary. But in the method which he has adopted here this morning, what he is really leading us into, I think, is this: into making a large number of speeches, charges and countercharges back and forth. That is all we should get. If the chairman of the board wants to submit a statement, we might find ourselves in a different position—if he does so; but at the moment Mr. Stewart takes a speech that the minister made, which is

debatable in the house not merely in respect of its general terms but in detail in committee of the whole where, doubtless, it will be subjected to considerable argument, and he wants to go over all that here and again in the house. If Mr. Stewart goes ahead, what that amounts to is just introducing about fifteen days of high powered speech making in this committee, and in the end we will not be a bit farther ahead than we are now. As far as the chairman's position is concerned, it is open to him to make a statement any time he likes and submit it to the committee, and the committee can receive it and lay it on the table.

The CHAIRMAN: Suppose we ask the chairman of the board of trustees and each of the trustees to make a statement in writing to be submitted in advance to the chairman of this committee, and to be discussed here in this committee on Tuesday next.

Mr. McLARTY: If they desire to do so.

The CHAIRMAN: If they desire to do so. And I would like to remind you of the fact that in the minister's speech the chairman of the board of trustees was not mentioned—the trustees were mentioned; therefore, the three trustees should be heard.

Mr. HEAPS: Why have a week's delay.

The CHAIRMAN: To give them a chance to prepare their own statement; to give us a chance to see it in advance, and to give the minister a chance to answer it.

Mr. HEAPS: All right.

The CHAIRMAN: I think it is only proper.

Mr. VIEN: I would like to urge that no person can make a statement or be asked to make a statement except with reference to matters that are subjected to our investigation. Therefore, in any statement to be made by members of the board of trustees they should limit themselves not to discussion that is not being referred to the committee, but to the matters that are within our reference.

The CHAIRMAN: If we are limited by our reference we have no power to ask them to make a statement.

Mr. VIEN: And I submit respectfully, Mr. Chairman, that it would be absolutely without our jurisdiction to ask any member or to allow any member to speak on any subject which is not within our order of reference.

Mr. LABELLE: Are we going to make statements on the matters referred to the committee? If so, I do not see—unless my chairman disagrees with me—that we can make any other comments than those made in the reports we have submitted to parliament. I would like to be clear upon what kind of statement you expect from us.

Mr. VIEN: We cannot ask any witness to come here and talk on any subject which is not within the order of reference; and, Mr. Chairman, if anybody submitted a statement on any subject which is without our order of reference, any member should rise on a point of order and ask that it be declared irrelevant. Therefore, I would like to direct the attention of all concerned to the fact that any statement to be made must be within the order of references—that is exclusively—or, if necessary, reports that have been studied by the committee already.

Hon. Mr. FULLERTON: Let me say this to the committee: as far as my statement is concerned, I will make no reference in any way to Mr. Howe's speech. I want to avoid it. But if the opportunity is given me I propose to deal with the management of the Canadian National Railways since I became chairman—the financial management, co-operation and so on. That is what I propose to deal with. I do not want to get into any cat and dog fight with the minister. That would not be in the interest of the railway. All this thing is going to hurt the railway; cannot help it; it is impossible, and the less we have of that the

better. But I do court the opportunity of appearing before some committee—I do not care whether it is before this committee or any other committee—I think I am entitled to an opportunity to answer any charges that have been made against me in connection with my management of the Canadian National Railways. I think it is only fair and just to me.

HON. MR. STEWART: Mr. Chairman, again I want to make it perfectly clear that in making the statement I sought to avoid anything like a cat and dog fight between the minister and the chairman of the board of trustees. I said that was not in the interest of the Canadian National Railways; in the past there had been too much of that sort of thing; and for that reason I was sure that the chairman of the board of trustees should make his statement, and that is what he wishes to do.

MR. HEAPS: I think the statement of Mr. Fullerton should clear the whole air, and let it go out that way. Perhaps, Mr. Stewart might withdraw the motion he submitted to the committee.

THE CHAIRMAN: Then, gentlemen, you are proposing a new mode of procedure in this committee. I think you realize that.

HON. MR. STEWART: No, we are not.

THE CHAIRMAN: You are creating another order of procedure, that is all there is to it.

HON. MR. STEWART: No. Has there been no time when Sir Henry Thornton or any of the board of directors, managers or trustees have not been permitted to make statements on invitation?

THE CHAIRMAN: The first question I asked Mr. Fullerton when the committee met at first was if he had any further comment to make personally on the report itself, and he said: "No, my report is there." And the report was so full and complete that you could not ask for any better explanation. Now, you are creating a new order of reference. There is no doubt about it. It is a tremendous precedent.

MR. WALSH: Mr. Fullerton has changed his mind, apparently.

MR. BOTHWELL: I think that in the statement to be made by Mr. Fullerton he is going to elaborate on the statement made by the board of trustees as to the management of the railway under his jurisdiction.

HON. MR. FULLERTON: That is right.

MR. BOTHWELL: And I think the committee should receive a report of that kind.

THE CHAIRMAN: I have no objection. Is it understood that the three trustees, if they so desire, shall have the chance of making a report in writing for next Tuesday morning? They will be here to submit to the members of the committee a report. I want this report to be sent in advance direct to the minister. I think he is entitled to receive the report in writing, because when it is submitted to the committee it is only fair that the minister shall be in a position to answer those statements if he wants to do so.

MR. WALSH: Don't you think it should be submitted to the Minister of Railways and should also be submitted to Mr. Stewart who is anxious to see the nature of it?

THE CHAIRMAN: I see no objection whatever.

MR. WALSH: It is only fair.

THE CHAIRMAN: I think every member of the committee should have a copy.

MR. KINLEY: In so far as the further report of Mr. Fullerton and the other trustees is concerned, it will be simply an amplification of their annual report. With regard to this discussion and anything else, I think we are wasting time. The die is cast. The minister and the government have decided that in the present condition of the Canadian National Railways they want a new set-up—

Mr. WALSH: Our committee are not investigating that.

Mr. KINLEY: That is the point. They have asked for the resignations of the trustees.

Mr. WALSH: You are out of order.

The CHAIRMAN: We have been out of order for the last hour.

Mr. KINLEY: The situation is this, that the government desire a new set-up, and they want the retirement of the trustees which, evidently, has not been facilitated. Now, we are only wasting time trying to justify the trustees, because what the minister said was that in his opinion the condition exists. It is only an opinion after all, and it is an opinion that any business man will give on a condition that he wants remedied.

Mr. VIEN: But is it a question of policy which is not within our order of reference.

The CHAIRMAN: Is it the wish of the committee that the chairman of the board of trustees and that the trustees themselves shall prepare a report in writing?

Mr. HEAPS: If they wish.

The CHAIRMAN: If they wish, of course—to be submitted to the Minister of Railways in advance, to the chairman of the committee and to the members of the committee.

Hon. MEMBERS: No, no.

The CHAIRMAN: Yes. It is a new order or procedure; you had better make your own rules.

Mr. BEAUBIEN: Before the committee comes to a decision, I want to register my protest on this procedure, because I believe it is entirely out of order.

The CHAIRMAN: So do I. But still it appears to be the consensus of opinion, and the minister seems to be willing to take that procedure.

Mr. BOTHWELL: I think we should confine the report to the chairman of the committee, the Minister of Railways, and Mr. Stewart.

Mr. HANSON: Why Mr. Stewart more than anybody else?

Mr. BOTHWELL: I do not believe it should be scattered among the members of the committee until we meet in committee meeting where we can hear the comments of the minister or anybody else. If it is distributed to the whole committee it will be in the press before there is any answer.

The CHAIRMAN: Then I shall eliminate every member of the committee and Mr. Stewart.

Hon. Mr. STEWART: Quite so.

The CHAIRMAN: And the report will be submitted direct to the minister in writing, and then we will meet again on Tuesday next.

Mr. McLARTY: What is the objection to each member of the committee obtaining the report?

Mr. VIEN: I submit that the report be submitted to the chairman so as to determine whether it is within the order of reference and in order, because we will be up against the same point of order, whether from the chairman or any member of the committee, if there is anything in these reports which is not within our order of reference. Therefore, the chairman should be called upon to determine whether this statement is in order.

The CHAIRMAN: I have no objection whatever to the report being sent to the chairman, provided I have the permission of the committee to show it to the minister.

Hon. Mr. STEWART: Certainly.

Mr. VIEN: It should be sent to the minister, and then to the chairman of the committee.

The CHAIRMAN: That is what I suggested. Is that agreed to?

Carried.

Hon. Mr. STEWART: I withdraw my motion. As to whether the report would be in order, I suppose that would be for the committee to determine, and not for the chairman. The chairman would not determine that.

The CHAIRMAN: The chairman will take as little responsibility as he can.

Hon. Mr. STEWART: Without going into details, I would like to ask the chairman of the board of trustees to pay some attention to page 2368 of Hansard—Mr. Howe's speech.

Hon. MEMBERS: No, no.

The CHAIRMAN: That is not fair.

Mr. HEAPS: On a point of order, Mr. Chairman. I did support Mr. Stewart before, but I do not think it is fair now to suggest anything.

The CHAIRMAN: I agree with you, and I am sure Mr. Stewart will agree with me also.

Hon. Mr. STEWART: There are some very serious charges made.

The CHAIRMAN: The chairman of the board of trustees will read them in Hansard.

Hon. Mr. STEWART: That is what I wanted to say. I did not propose to read them. All I said was that the chairman of the board of trustees should pay some attention to them.

The CHAIRMAN: A decision has been given by the committee, and I think we had better abide by it. There is another point I would like to bring up before the committee—

Hon. Mr. STEWART: If there is any correspondence about the resignations of the board of trustees, I should like to have that produced.

The CHAIRMAN: That is another thing altogether. I do not think that has anything to do with it. I should like to bring up this point: While considering the estimates of the Canadian National Railways we forgot to mention specifically in committee the three items that are contained in the main vote—items 84, 85 and 86. I did mention them when we considered the estimates, but we have not recorded our decision.

Mr. VIEN: I move that they be adopted and reported.

(Carried.)

The committee adjourned to meet Tuesday, June 2, 1936, at 11 o'clock a.m.

SESSION 1936

HOUSE OF COMMONS

STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

(Including Third and Final Report)

No. 7

TUESDAY, JUNE 2, 1936

WITNESSES:

Hon. C. P. Fullerton, Chairman, Board of Trustees, Canadian National
Railways.

Mr. J. E. Labelle, K.C., Trustee, Canadian National Railways.

REPORTS TO THE HOUSE

(THIRD AND FINAL REPORT)

WEDNESDAY, June 3, 1936.

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

THIRD AND FINAL REPORT

Your committee, appointed under Order of Reference dated April 6, 1936, to consider the accounts and estimates of the Canadian National Railways and the Canadian Government Merchant Marine, held nine sittings in the course of which the following witnesses were examined:—

- Hon. C. P. Fullerton, Chairman, Board of Trustees, Canadian National Railways;
- Mr. J. E. Labelle, K.C., Trustee, Canadian National Railways;
- Mr. F. K. Morrow, Trustee, Canadian National Railways;
- Mr. S. J. Hungerford, President, Canadian National Railways;
- Mr. R. C. Vaughan, Vice-President, Purchasing and Stores Department, Canadian National Railways;
- Mr. S. W. Fairweather, Director, Bureau of Economics, Canadian National Railways;
- Mr. T. H. Cooper, Auditor of General Accounts, Canadian National Railways;
- Mr. B. J. Roberts, Assistant Deputy Minister of Finance.

Your committee had under consideration item No. 286 of the supplementary estimates for the fiscal year ending March 31, 1933, net income deficit of the Canadian National Railways, \$47,421,464.80; also the following items of the special supplementary estimates for the fiscal year ending March 31, 1937, viz: No. 426—\$39,900,000 to be applied by the Canadian National Railway Company in payment of net income deficits arising in the calendar year 1936; No. 427—\$1,109,400 to provide for loans and investments; No. 428—\$5,303,000 to provide for commitments incurred under authority of section 9, Supplementary Public Works Construction Act, 1935.

These different items were approved and reported on April 30, 1936. In addition, the committee reported two items of \$2,500,000 and \$7,459,000, respectively, from the Canadian National Railways budget for the calendar year 1936, representing capital expenditure and debt retirements to be provided by way of loan to the Canadian National Railway Company and covered by a resolution standing on the order paper of the house in the name of the Minister of Finance.

Your committee has also approved of the following estimates for the fiscal year ending March 31, 1937:—

Items Nos. 84 and 85: *Re* Maritime Freight Rates Act—\$800,000 and \$1,740,000, respectively;

Item No. 86: Deficit of Canadian National (West Indies) Steamships, Limited—\$370,000.

With respect to the anticipated deficit item of \$39,900,000 for the calendar year 1936, it will be noted that the policy of making provision for this amount in

the estimates is substituted for the practice of enacting legislation giving the Minister of Finance the authority to advance the moneys from time to time as required. Your committee favours this new departure, the effect of which is to place the item before parliament in specific estimates in the same manner as applies in other government projects.

Consideration by your committee of the financial status of the Canadian National Railway System was effected by examining the trustees and officials above mentioned, on the following detailed statements:—

1. Annual report of the Canadian National Railway System for 1935;
2. Annual reports of the Canadian Government Merchant Marine, Ltd., and the Canadian National (West Indies) Steamships, Ltd., for 1935;
3. Summary of 1935 estimated financial requirements compared with actual requirements;
4. Analysis of 1935 operations;
5. Budget for the year 1936;
6. Auditors' report on the accounts of the Canadian National Railway System for the year ended December 31, 1935;
7. Memorandum on depreciation accounting;
8. Special problem of equipment retirements resulting from the depression and highway competition.

Examination of the Canadian National Railways budget for the calendar year, 1936, reveals that the operating revenues are estimated at \$190,000,000 and the operating expenses at \$172,500,000. Sundry items charged against operating revenues including interest on long term debt due to the public, amount to \$61,300,000, showing an estimated deficit on the year's operations of \$43,800,000. In this amount, however, are incorporated the following items not required in cash, viz: depreciation reserve, \$450,000; amortization of discount on funded debt, \$1,027,000; loss on retirement of equipment, \$2,423,000; in all, \$3,900,000, reducing the anticipated net cash requirement on deficit account to \$39,900,000.

With respect to the Canadian Merchant Marine, your committee has been informed that the transfer of its fleet to other interests has practically been concluded. It is estimated that the continued operation of this service by the railways would have necessitated a further outlay of approximately \$6,000,000. Your committee has the assurance that with the new arrangement to be entered into for the operation of the Australian service, Canadian interests will be fully safeguarded.

In view of the disposal of this marine service, it has been found necessary in the consideration of the annual report and budget of the Canadian National Steamships, to amend an item of \$199,450, provided as total requirement, by substituting therefor, an amount of \$399,450, thus eliminating the operating income of the Canadian Government Merchant Marine which had been estimated at \$200,000.

In the course of its deliberations your committee has discussed the question of recapitalization and the advisability of writing down the capital structure of the Canadian National Railways.

Examination of the Board of Trustees elicited the fact that the matter had been the subject of further study during the year and also the opinion that the question involves a matter of Government policy rather than a direct responsibility of the Board of Trustees.

Your committee is satisfied that certain adjustments could be made which would be reflected in the balance sheet. In view, however, of the Minister of Railways' statement that the question was under advisement and that the committee could expect to have the question referred to them under concrete proposals at the next session of Parliament, your committee refrains, at this time, from making any recommendation.

A copy of the proceedings and evidence of the committee is annexed hereto.

All of which is respectfully submitted.

EUGÈNE FISET,
Chairman.

MINUTES OF PROCEEDINGS

TUESDAY, June 2, 1936.

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

Members present: Messrs. Beaubien, Beaubier, Bothwell, Elliott (*Kindersley*), Ferland, Gray, Hanson, Heaps, Howe, Kinley, McLarty, Maybank, Parent (*Quebec West and South*), Stewart, Walsh, Young.

In attendance: Hon. C. P. Fullerton, Chairman, Board of Trustees, Canadian National Railways; Mr. J. E. Labelle, K.C., Trustee, Canadian National Railways; Mr. V. I. Smart, Deputy Minister, and Mr. G. W. Yates, Assistant Deputy Minister and Secretary, Department of Railways and Canals.

Mr. Fullerton read a statement on the administration of the Canadian National Railways since the appointment of the Board of Trustees.

Mr. Labelle also made a brief statement.

The chairman stated that he had received word from Mr. Morrow to the effect that he had nothing to add to what was contained in the Trustees' Annual Report.

A statement by the Minister of Railways and Canals, Hon. Mr. Howe, followed.

Mr. Fullerton was again briefly examined on the annual report of the Canadian National Railways, after which the chairman thanked him for his attendance before the committee.

Witnesses retired.

At this stage the committee adjourned for a few minutes, to resume its sitting *in camera*.

Copies of a draft report having been submitted to the members of the committee, the said report was considered and amended.

On motion of Mr. Young,—

Resolved,—That the report, as amended, be approved, and that the chairman be authorized to submit same to the House.

The committee having taken into further consideration the communication from Sir E. W. Beatty presented to the committee at its previous sitting, it was agreed that this communication be printed as an appendix to this day's proceedings together with Mr. Fairweather's comments thereon.

The committee adjourned *sine die*.

R. ARSENAULT,

Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 268,

June 2, 1936.

The Standing Committee on Railways and Shipping met at 11 o'clock, Sir Eugène Fiset, the chairman, presided.

The CHAIRMAN: Order, gentlemen. In accordance with the wishes expressed by the committee last week, Judge Fullerton has prepared a report. He has sent a copy to the minister and also a copy to me. This report was to be, practically speaking, reviewed by us. I have no objection whatever to the report, and I am going to ask, with the unanimous consent of the committee, that Judge Fullerton be kind enough to read his report in toto.

(Carried).

Hon. Mr. FULLERTON: To the chairman and members of the select standing committee on railways and shipping: I wish to express to the committee my appreciation of the opportunity afforded me to make a statement regarding the work of the board of trustees and what we have been able to accomplish. The board is also sincerely appreciative of the fair treatment which in general it has received at the hands of the public and of the press.

Speaking in a purely personal sense, it will, I think, be realized that I am placed in a position of singular difficulty. I am not a free agent, but a trustee of a great national property. It is not, in my view, fitting or proper that I should, by any act or word beyond what is absolutely necessary, seek to justify myself at the expense of, or to asperse the motives and understanding of others, who, whether holding special relationship to the state or as private individuals, have undoubted rights to examine and discuss the conduct of the board of trustees and the affairs of the railway. Since my appointment as chairman of the trustees, however, there have been several occasions when the temptation was strong to refute what I considered unfair criticisms and unwarranted statements with the same degree of publicity as that with which these were made, but on reflection I felt that public controversy would only tend to embitter circumstances already difficult enough, and that, in so far as these criticisms and statements were based on personal opinions and personal interest, there was little likelihood of their being changed, while in so far as they were based on misapprehension or inaccuracy, a complete answer could be had from a reference to the actual facts themselves. Further, I cannot conceive of anything more likely to have an unsettling effect on those engaged in operating the railway than public argument centered on the system, and that, whatever satisfaction one might obtain from such controversies, they cannot in the end be of benefit to the railway over which I have been placed. I consider it to be my duty, therefore, as long as I hold my present position, to subordinate all matters of merely personal importance to the interests of the Canadian National Railways, and in the discussion of railway matters to avoid as far as I can anything which would intensify any presently existing differences of view.

The statement, therefore, which I now make must necessarily be confined within strict limits. I do not pretend that in the course of our work we have been infallible, or even that such success as has attended our efforts is the real goal of our hopes. There is still much to be done. Nor is it our desire to be free from criticism and investigation, but I think we are entitled to expect that such criticism as should be noticed should be based upon ascertained facts, and on those alone. The Canadian National Railways are to-day conducted openly. It may be that in Canada there are enterprises which carry on in as great a searchlight of publicity, but certainly there is none which is

attended with greater. It is, therefore, the case that no citizen of Canada need be under any misapprehension as to the facts of any particular matter. In a general sense, the facts pertaining to the trustees' management of the property committee to them are embodied in the annual reports submitted to parliament through the Minister of Railways, while in the committee set up to examine these reports explanations of any matter in doubt have been readily forthcoming. These reports for the last two years show in incontrovertible figures the actual position of the railway and its operations during that period, and I am only too ready to compare the efficiency of its administration during those two years of the railway's history with any two preceding years.

The Act of Parliament under which the trustees were appointed is based on what is known as the Duff report. The four vital findings of the Duff report were:—

1. That "The conduct of the affairs of the National Railway has been subjected in the past to political and public pressure." (See paragraph 142 of the report.)
2. That "The directors' functions have been in practice nothing more than advisory. It would seem that they generally gave formal approval to programs of expenditures which they appeared to regard as the main concern of the president and the government." (See paragraph 145 of the report.)
3. That "Running through its administrative practices, however, has been the red thread of extravagance. The disciplinary check upon undue expenditure, inherent in private corporations because of their limited financial resources, has not been in evidence." (See paragraph 33 of the report.)
4. That "Within the railway organization there has been freedom in expenditures and encouragement in plans for expansion and extension of services which were inconsistent with prudent administrative practice." (See paragraph 34 of the report.)

These were the fundamental defects which the Duff Commission believed could be remedied by a trustee system of direction. I wish to say most emphatically that we have exerted every effort to vindicate the hopes of the commission, and to add with some pride that, having regard to the brief time so far elapsed, we have achieved a substantial measure of success. So far as I have ever heard, there has not even been an allegation that the Board of Trustees has been influenced in the slightest degree by any political consideration at any time. The board has acted at all times, or endeavoured to act, as business men of broad and far-reaching responsibilities would act.

When we entered into office there had already been some years of the depression, and already great and needed economies had been put into effect, but under the management of the trustees these economies, in spite of obvious difficulties, were augmented, and to-day, when all the factors affecting the railway are taken into consideration, it is my confident claim that the railway is more economically operated, that its efficiency as a transportation system is greater, and that it is better equipped, from the viewpoint of prospective profit, to deal with business expansion than it ever was before. The proof of these claims will be found in the public records of the company.

In considering the results for the railway system during the regime of the trustees, it must be constantly kept in mind that for some years back the depression has borne down with particular severity on railway companies in general. They have suffered as well and particularly from the competition of new and recently developed methods of transportation. One has only to look at the position of railway companies in the United States and other lands to realize the significance of this fact. Having this truth ever in mind, and as well the history of the National Railways themselves, and the fact that a very

[Hon. C. P. Fullerton.]

great proportion of their mileage was not constructed with a view to profit but rather for great national purposes, it becomes clear that it is very easy to expect too much in the way of restoration of this great system to a favourable operating basis.

The trustees have had control of the railway since January 1, 1934. The financial results for 1934 and 1935 are contained in the reports of the trustees which have been submitted to parliament. Let us compare the results in 1934 and 1935 with the year 1933 to see what has been accomplished. The published statements show that during 1934 and 1935 the gross revenues averaged \$20,523,759 more than in 1933. The statements show further that the cash deficit in 1934 was \$10,547,488 less than in 1933, and that in 1935 it was \$11,533,924 less than in 1933, or an average reduction of \$11,040,706, which is equal to 54 per cent of the increase in gross revenue. We consider this to be a very satisfactory performance under the difficult conditions which have prevailed. For the two years combined the reduction in the amount of cash which the government had to find to meet the deficit of the railway was \$22,081,412.

There have appeared remarks very recently concerning the efficiency of the Canadian National Railways' organization, and I propose to make a comparison between the results achieved by National Railways on the one hand, and those of Canadian Pacific Railway, and what are known as class 1 railways of the United States. In making this comparison I wish it to be clearly understood that neither directly nor by inference am I casting any reflection on the management of the systems mentioned; it is only because of the necessity of adopting some well-known and accepted standard that I refer to them. In the first year of the trustees' administration of National Railways, 1934, as compared with the immediately preceding one, the operating revenues increased by 11 per cent, while operating expenses went up 6·39 per cent. In 1934, the Canadian Pacific Railways' operating revenues increased by 9·9 per cent over the previous year, while expenses increased by 6·7 per cent. On class 1 railways of the United States revenues in the same period increased 5·7 per cent and expenses 8·5 per cent. It will be noted that notwithstanding National Railways had the largest percentage of operating revenue increase, its percentage increase in expenses was less than that of the Canadian Pacific Railway and Class 1 United States railways.

In 1935 the operating revenues of the National Railways were 5·02 per cent greater than in 1934, while operating costs went up 4·6 per cent. In the same year Canadian Pacific Railway revenues increased 3·3 per cent and their expenses 6·1 per cent; while class 1 United States lines operating revenues increased by 5·5 per cent and expenses 6·3 per cent. Again it will be noted that the percentage increase of revenue was greater for the Canadian National Railways than for the Canadian Pacific Railway, and nearly equal with class 1 roads, while the percentage increase of expenses was least. In the accomplishment of those results the railway was maintained at the high standard which the traffic demanded.

A word should, perhaps, be said about the ratio of gross revenues which is absorbed by operating expenses. This is, to a large extent, dependent on traffic density and other traffic characteristics, as obviously there must be great difference of cost in operation in territories which are well populated, as compared with those which are not, and in the transportation of commodities which pay substantial freight rates as compared with those which, while occupying space and being heavy, pay low and, in some cases, uneconomic rates. No railway has, of course, a monopoly of either kind of territory or traffic, but it varies on all lines, and the ratio of cost of operation to the revenue derived varies also. Comparisons are, therefore, difficult to make, but it may be of interest to state that, whereas the Canadian Pacific Railway operating ratio increased from 79·38 in 1933 to 79·56 in 1935, the National Railways operating ratio decreased from 96·16 in 1933 to 91·77 in 1935. The operating ratio of class 1 roads increased from 72·67 in 1933 to 75·11 in 1935.

A word may be added as to capital expenditures. Members of the committee will recall that the Duff Commission reported the capital expenditures during the period 1923-1931 had been \$456,345,456, an average of \$50,705,000 per annum. During the two years 1934-1935 the retirements exceeded the additions and betterments, that is to say, not any additional funds were required in those two years on capital expenditure account.

I now turn to the departments which came under my direct management. Section 10 of the 1933 Act provides:—

The trustees shall appoint, on terms to be fixed by them, and with the titular rank of president, a person other than one of themselves to execute and perform, under and in consultation with them, the powers, authorities and duties of chief operating officer of National Railways, as such powers, authorities and duties shall be from time to time defined by bylaw or resolution of the trustees and committed for execution and performance. The president shall report and be responsible to the trustees and to them alone.

It is my view that the person who fills this position has a task requiring not only high technical skill, but demanding his full time and attention. On January 31, 1934, the trustees appointed Mr. S. J. Hungerford as chief operating officer. In arranging the division of departments between the president and myself I took over those departments which were not connected with the actual operation of the railway. Those connected with the operation of the railway proper were assigned to the president, and I have never at any time interfered in their operation, although I recognize that the ultimate responsibility for the efficiency of those operations rests with the board. The working out of this arrangement has been harmonious and I have never heard of any complaint from any railway officer.

Under my direct supervision came the following nine departments: Legal, treasury and accounting, publicity, medical, colonization and agriculture, secretary, land and property, hotels and steamships.

Turning first to the steamship services, we find the improvement is even more striking than in the case of the railways. It is well known that the Canadian Government Merchant Marine was a losing proposition practically from its inception, yet in 1935, after a long sequence of deficits, the line was able to report an operating profit. As was stated in the annual report, notwithstanding that in 1935 there was 24,701 tons of additional cargo to be handled, with an increase of 20 per cent in operating revenue, the operating expenses show an increase of less than 1 per cent over the previous year. This most certainly reflects careful administration and strict economy in the operation of the services to Australia and New Zealand. Comparing the year 1935 with 1933, there was an improvement of \$329,760. The figures are as under:—

1923..	\$1,873,695	operating deficit
1924..	1,450,887	" "
1925..	926,844	" "
1926..	90,159	" "
1927..	720,735	" "
1928..	1,209,083	" "
1929..	878,907	" "
1930..	834,210	" "
1931..	444,285	" "
1932..	326,613	" "
1933..	17,938	" "
1934..	127,265	" "
1935..	311,822	operating profit

In the other steamship service, that is the West Indies service, we find that the year 1935 is the first year in the history of the company it was possible to report an operating profit. Comparing the year 1935 with 1933, there was an improvement of \$698,027. The figures are as follows:—

1929..	\$ 447,841	operating deficit
1930..	523,136	" "
1931..	446,568	" "
1932..	283,715	" "
1933..	497,997	" "
1934..	96,678	" "
1935..	200,030	operating profit

Taking the combined Merchant Marine and West Indies services, there was an improvement of \$1,027,787 in 1935 compared with 1933. The committee will be especially pleased to know that in our steamship operations for the first five months of this year the operating income of the Merchant Marine is \$160,000 better than the corresponding five months of 1935, and the operating income of the West Indies service is \$198,000 better. In 1935 we had an operating income of \$41,136.74 in the Merchant Marine alone. In 1936 we had an operating profit of \$201,101.03. Taking the West Indies service, for the first five months last year we had an operating income of \$13,430.77. In the present year we have an operating income for the first five months of \$211,944.08.

Turning now to the hotels which were under my direct supervision and control:—

There has been a distinct improvement in the result of hotel operations during the trustees' administration. 1934 was the first year since consolidation that there was a profit from the operation of the company's hotels, the profit for that year being \$37,017. In 1935 the gains were extended, and a profit of \$101,771 reported. Comparing the year 1935 with 1933 there was an improvement of \$274,745. The figures are as under:—

1923..	\$ 162,720	operating deficit
1924..	297,938	" "
1925..	76,366	" "
1926..	38,769	" "
1927..	13,122	" "
1928..	135,056	" "
1929..	1,088,575	" "
1930..	125,068	" "
1931..	193,310	" "
1932..	59,482	" "
1933..	172,974	" "
1934..	37,017	operating profit
1935..	101,771	operating profit

So far as the other departments which were taken over by me are concerned, the results have been, I think, satisfactory. In all the revenue producing departments, as above, losses have been turned into operating profits, while in the other departments which are purely administrative and non-revenue departments, substantial economies have been effected, without any sacrifice of efficiency.

The following tabulation shows the expenditures of these in 1933 and in 1935, and the savings effected:—

Department	Expenditure, 1933	Expenditure, 1935	Saving
Secretarial..	\$ 144,190	\$ 134,583	\$ 9,607
Colonization and agriculture.. . . .	167,401	132,562	34,839
Publicity..	743,829	681,601	62,228
Medical..	196,598	144,627	51,971
Legal..	572,887	535,458	37,429
Treasury and accounting (including land and property)..	3,764,481	3,595,719	168,762
	\$5,589,386	\$5,224,550	\$364,836

These savings are not, of course, of a temporary nature. Increasing business will naturally affect them, but on the basis of present volume of business, they can be made permanent.

In 1934 I made a survey of all departments, except the operating department, a survey of which Mr. Hungerford undertook and made. In making this survey I had a twofold purpose in view: first, to familiarize myself with the working of these departments, and, second, to see if economies could properly be effected. As a result of the survey an annual saving of over \$700,000 was brought about.

Department	
Sleeping, dining and parlor car..	\$ 54,495 96
Hotel..	20,559 50
Canadian National Steamships (C.G.M.M. and West Indies)	35,250 84
Publicity..	37,813 52
Investigation..	55,802 40
Tie and timber..	
Medical..	40,954 25
Treasury..	19,157 00
Fuel..	11,403 00
European traffic organization..	48,047 78
Purchasing..	8,311 44
Pass bureau..	
Legal (including tax, claims and agreements)	12,167 70
Accounting..	109,980 36
Industrial and natural resources..	7,814 50
Insurance..	28,135 00
Pension and staff record..	
Office services..	
Traffic..	108,261 30
Bureau of statistics..	
Secretary's..	
Colonization and agriculture..	22,872 83
Telegraphs..	12,318 00
Stores..	84,565 45
Express..	
Miscellaneous..	63,560 67
Total..	\$781,471 50

Economies, of course, may sometimes be obtained at too great a price. There may be a deterioration in the morale of the employees, and there may be a deterioration in the physical properties of the system. In either case the result would be apparent in decreased efficiency in operation, and the facts all point in the opposite direction. In this connection it may be of interest to quote the opinion of Mr. S. W. Fairweather, Director of the Bureau of Economies, which will be found at page 146 of the 1936 Minutes and Proceedings of the Standing Committee on Railways and Shipping:—

I can say that it is my special job to compare the efficiency of Canadian National Railways with the efficiency of any other road. And I am here to say that I have not yet found any other railway that exceeds the Canadian National Railways in efficiency.

This statement was not questioned by any member of the committee.

[Hon. C. P. Fullerton.]

The subject of morale is one to which I have given a great deal of consideration, for I realize how important it is to develop and maintain the loyalty and pride of all these in the employ of this great national undertaking. When we took office admittedly the morale of the men was low. They had seen their numbers reduced from 111,383 to 70,625, and their total compensation reduced from \$176,000,000 to \$95,000,000. Those whose seniority had so far protected them were uncertain as to the future, their opportunities for promotion slight, and their chance of demotion real. They were fearful of proposals for amalgamation and unification, both of which in their view meant disturbance, less work and less pay. I considered it essential in the interests of the railway itself that the conditions of service should be such as to offer at least as much security of employment as do other professions and occupations, and I made my views on this subject known to the men.

The trustees have been performing their duties for well over two years, and it is only reasonable to assume that unrest of a special nature—for, after all, these are days of unrest everywhere and few workmen in any industry are so fortunately placed as to be exempt from anxiety and uncertainty regarding their employment—would have been observed by such trustees, or, that in their failure to observe a situation so obvious, it would have been brought to their attention by the company's officials whose duties bring them into more intimate contact with the rank and file. In the more than two years no such observation has been made, and no such representation has been received by the trustees. On the contrary, many evidences of sound morale and of satisfaction that at last the railway was settling down to the performance of its functions as an efficient transportation system have been observable, and inquiry of department heads has failed to elicit any opinion that a state of unrest exists of a nature different from that in other industries. Where it has been unfortunately necessary to reduce staffs this has been done strictly in accordance with established rules of seniority, and the same policy has been followed in giving re-employment. In the whole system, so far as the trustees know, no man has been deprived of his job through caprice or for his opinions, or for other than a demonstrable and valid reason, and every man knows that as long as the trustees remain he will only be removed in accordance with well-known rules operating because of age, because of actual misconduct, because of evident inability to perform duty, or because of economic conditions beyond the control of the trustees, in which latter case the principle of seniority applies.

Since the trustees took office we have taken on over 4,000 additional employees, and we have restored part of the wage cuts which were in effect, which action added \$5,000,000 to the payroll. Our payroll in 1935 was \$9,229,000 greater than it was in 1933. The men are more hopeful, they have less to fear, they know they will get a square deal from the trustees, and that is all they ask.

I desire now to make some comment on the matter of co-operation. It must be kept in mind that under the 1933 act, as well as because of the inherent nature of the subject itself, the obligation to agree upon such co-operative measures, plans and arrangements as are fair and reasonable, and best adapted (with due regard to an equitable distribution of burden and advantage as between them) to effect economies and provide for more remunerative operation, is cast equally upon the Canadian National Railways and the Canadian Pacific Railway, and not, as one might be led to suppose, upon the former only. I recognize from its publicly owned nature it is perhaps only natural that public attention should be directed more particularly to the part played by the National Railways than to that by the other party to co-operation, but no impartial and fair survey of the situation will, in this matter, confine criticism—if room for such exists—solely to one system, and I have heard of none applied to the Canadian Pacific Railway.

Only those intimately associated with the activities and negotiations involved in reaching co-operative agreement between the railway companies

can properly appreciate the difficulties which constantly arise. For the compilation of data and the development of necessary details and information, the trustees are entirely in the hands of their technical officers. These officers comprise not only those at the system head office, but also those at regional head offices and in the actual areas affected by proposed co-operative measures. Between those officers there must necessarily be discussion and intercommunication, and it must also be kept in mind that projects which, for one good reason or another are ultimately found unworthy of further prosecution, take just as much time, and in some cases more time, than others which reach a successful consummation. From the time the trustees entered upon office they have been persistent in directing their own attention and that of the officers under them to this very important subject. They have taken every step to avoid delays, and in so far as they could, have insisted upon constant application on the part of their technical officers and advisers to the study and development of co-operative plans. They have given full weight to the views of those professionally possessing technical knowledge and skill, and in no case—with the limited exception of the pace at which negotiations were being conducted—have they found themselves in conflict with the views of their experts from the president down.

While in view of the many technical difficulties which have to be overcome, and the many meetings which have to be held between the parties before projected plans of co-operation can be brought to completion, it is difficult to assign to any one of them an exact computation of the time which should be taken up in the process; and while, as I have said, there has been continued application on the part of everyone in Canadian National Railways to the prosecution of co-operative measures, it is my view that quicker progress could have been made had there been present in the officials of both railroads, a greater measure of the will to co-operate. There could, in my opinion, easily be a more enthusiastic disposition to overcome obstacles in the way of co-operative progress, and it may be useful to devote a little time to the consideration of some of the aspects of co-operation which influence the average railway official.

In the opinion of Mr. Eastman (Federal co-ordinator of transportation in the United States) the tendency of railroad management to cling to assumed individual advantages in preference to those which would be gained by co-ordination or correlation, is ingrained, and it may be impossible to overcome. Many railroad executives have an instinctive distrust of co-ordination projects, especially those which are large in scope. Such projects run counter to their training, and often to their self-interest. The executive officers have grown up in the business, and this idea of conflicting interests is ingrained and predominant. Their habit of mind is intensely individualistic and suspicious of collective action. When such action is proposed, notwithstanding that it may be for the good of the industry as a whole, the normal executive will at once seek to determine how it may affect his railway in comparison with others. It is easy for him to fear that it may have an adverse effect from that point of view, and if he does he is against the proposition. These are the views of Mr. Eastman as to the condition which he found on the railroads of the United States. My observation leads me to the belief that we have a similar situation in Canada.

Another factor to which attention must be given is that almost every scheme for effecting further economies has a direct bearing on some community, and the interests of each community has to be seriously considered. It is a remarkable feature of the public's attitude towards co-operative and other economy measures that, while there is universal approval of these in the abstract any concrete step which affects employment in, or the supposed importance of a community, is immediately faced with all the opposition which that community can command.

[Hon. C. P. Fullerton.]

There is still another and very real impediment in the way of further extensive economies, and of co-operation. Throughout the whole service there is a widespread conviction that the difficulties of the Canadian National Railways (and no doubt this also applies to other railroad systems) are of a purely temporary nature brought about by times of depression, which in due course will pass. Buoyed up in this belief, there is a reluctance to take steps permanently diminishing the assets and importance of the railway, and one can observe in the initiation and development of co-operative plans, a disposition to take steps which can later be retraced, rather than radical methods which would leave a permanent imprint on the system.

But perhaps the greatest difficulty in the way of expediting further extensive economies concerns labour. To reduce expenses on any large scale men must be displaced, and if serious hardship and unrest are to be avoided, some form of dismissal pay or compensation should be considered. It is my personal view that a great deal more progress might be made in co-operative measures for economy, as well as in other economy measures, if some plan for employee dismissal compensation were worked out, and adopted.

Mr. HEAPS: The same as in the States?

Hon. Mr. FULLERTON: Yes. I believe it to be a fact that the officials of the railroad, contemplating changes designed to secure economy but which involve putting men out of work with little hope of re-employment, are influenced by humanitarian feelings, and naturally the men resist all such measures to the limit. It does not seem unreasonable to urge that part of the advantage to the employers should be shared with labour, rather than that the whole burden should be borne by labour. The Canadian National-Canadian Pacific Act requires that both the burden and the advantage should be shared by the two companies. It seems to have been overlooked that the joint advantage can be secured only by transferring the burden to labour. A more equitable arrangement with labour appear to be required and should be provided. If this were done, one great preliminary step towards the accomplishment of any radical changes which might displace labour would be made. The natural reluctance of the officials to give up that to which they are accustomed, and perhaps that which they have helped to create or develop, is understandable, but it must take second place to the national economy. Ways and means must be found of obtaining a better co-operative atmosphere. The campaign for amalgamation did not help the situation in this respect. Uninformed comparisons of relative operating efficiency between the two organizations do not help. The disposition towards each other and towards co-operation itself, of the two organizations, does not help. Nevertheless, I am convinced that the greatest obstacle to co-operative measures is consideration for the men who would be displaced by their adoption. An agreement has been reached between the railway executives and organized labour in the United States providing for the payment of a measure of compensation to employees thrown out of work by consolidation of railway facilities, and I understand that the British railways also made some provision for employees displaced as a result of the amalgamation of British railways into four systems.

I have reached the conclusion that the government, the railways, and the representatives of railway labour should discuss this matter together with a view to the adoption of some arrangement for the two Canadian railroads as will afford reasonable protection against hardship on the part of these employees who, after long years of service, may be displaced by the adoption of co-operative measures.

The foregoing seems to me important in view of the necessity which may soon present itself—if indeed it has not already done so—of effecting economies and restrictions of railway services on a scale throughout Canada much greater than that contemplated by a plan of co-operation. I am aware that differences

of opinion exist as to what co-operative measures between the railways were intended to produce, some viewing it as, so to speak, a method of shortening sail during a storm, leaving the ship intact when the storm has passed, while others, to continue the metaphor, look upon it as a method of salvaging whatever can be saved from the wreck. Perhaps somewhere between these extremes is the proper outlook. There is now general agreement that Canada has too much railway mileage for its population, and that the problem in its simplest terms is whether it should be reduced to meet present requirements only, leaving future developments to be dealt with as and when the occasion arises, or whether having cut off all railway services of an obviously redundant nature, we should still keep in reserve trackage and services to meet a prospective and expected upturn in national prosperity. Personally I think that, having got rid of clearly unjustifiable expenses, the public view is that every effort should be made to keep intact, as far as possible, the important asset which Canadian National Railways represents, and that this sentiment applies to the other great Canadian system. I believe that there is a sincere desire to have the two systems proceed abreast in any step they may take, and a corresponding aversion to one realizing an advantage at the expense of the other. I think that constant effort should be directed to find new avenues for further economizing, and that, if provision for labour and the other matters referred to were made, a great impetus would be given to the accomplishment of such economies.

It must not be overlooked, however, that there are clear signs of general business betterment, and it may well be that in the operation of the dual factors of improved business conditions and the wise extension of economies by whatever means, lies the salvation of our Canadian railways. Substantial progress towards a better railway situation has most certainly been made in recent years, and on a volume of business which only very recently would have shown heavy operating losses, there are now important operating profits available towards payment of the interest burden which presses so hardly on the system, and which is largely a result of transactions for which Canadian National Railways, as presently constituted, has no equitable responsibility.

Before concluding this statement I desire to touch on a matter which, at first glance, may appear to be of a purely personal nature, but is of general importance.

Since it has been publicly stated that the trustees were asked for their resignations, it may be admitted that this was so, and that for myself I declined to acquiesce. At that time no complaint was made regarding my efficiency, but exception was taken to the fact that I was not a professional railway man and that this had allegedly undermined the morale of the men. The Act of 1933 provides that:—

No trustee shall be removed from office nor suffer any reduction in salary during the term for which he is appointed, unless for assigned cause and on address of the Senate and House of Commons of Canada.

It may be that this statutory provision is of a unique nature, but while it remains the law of Canada it should, in my view, be fully observed. It is not for me to express any view as to whether the legislation is, or is not, justifiable. It is sufficient to say that the reasons for it are well known and were openly discussed by the Duff Commission. One purpose was to enable those who were appointed as trustees to carry out their duties impartially and without subjection to the influence of fear or favour. Another purpose was to secure a measure of continuity of management by trustees in the method provided by the Act, which obviously would be destroyed if other methods were adopted. Further, it was the very definite nature of the wording of this Section of the Act which induced and justified me in the abandonment of the position I had in 1933 and accepting office as Chairman.

[Hon. C. P. Fullerton.]

In discharge of my duties I have consistently maintained an independent and unbiased attitude towards the political parties and their members, and as long as I am chairman of the trustees I purpose to continue to do so. That, I consider, is merely the observance of a fundamental condition of my appointment and of the spirit of the 1933 Act. When I was asked for my resignation in October last my first impulse was to give it, as, no more than any other man, do I have a desire for carrying on my work in other than an atmosphere of friendliness, appreciation and confidence. On reflection, however, it was borne in on me that to yield on a matter of this nature, no matter how great the temptation to do so might be, would be to betray a trust which, through a Statute of Canada, had been reposed in me, and that any such action on my part would simply be acquiescing in the creation of a situation which parliament itself had taken special steps to prevent arising.

I have, therefore, found myself in a most unpleasant situation, but a situation in which I think there was only one course which I could with honour and fidelity to duty pursue, and I trust that those whose duty it is to review my actions will appreciate the facts to which I have called attention.
May 30th, 1936.

The CHAIRMAN: Well, gentlemen, may I say that we are all obliged to Judge Fullerton for the statement he has presented to us. It was the concensus of opinion at our last meeting that the minister should have the right to make a reply to this statement should he desire so to do.

Mr. HEAPS: Mr. Chairman, how about the other trustees?

Hon. Mr. STEWART: I want to ask a question or two.

Hon. Mr. HOWE: Perhaps we had better both make our statements. That was the understanding.

Mr. HEAPS: Mr. Chairman, how about the other trustees? Before the minister proceeds I think you should find out whether they also wish to make statements. I do not know whether they have anything they desire to say or not.

Mr. LABELLE: Mr. Chairman, I must admit that I did not help the chairman in the preparation of the statement he has given to you. I was down here on Tuesday last, but on the suggestion of the Minister of Railways, of my chairman, and at the very personal request of Mr. Hungerford I changed trains immediately in Montreal on Tuesday night to spend the week in Quebec where the bill with respect to the construction of the Temiskaming-Abitibi branch was before a committee of the legislature. Following the conclusion of proceedings at Quebec I returned to Montreal arriving on Saturday morning, and I will admit that I had no time whatever in which to prepare a statement of my own. I have heard the statement presented by my chairman, and I will say that I agree with that statement, except perhaps the personal touch at the end expressing his views with respect to resignation. I do not think it is proper for me to add anything to what has been said.

The CHAIRMAN: As far as Mr. Morrow is concerned, before leaving at the end of the last meeting he informed me that he did not intend to make any statement, that his views were contained in the annual report of the Canadian National Railways.

Mr. GRAY: Is it not possible that the members of the committee should have copies of the statement, it would appear that everybody else has a copy of that statement.

The CHAIRMAN: There is a copy for distribution, now that it has been read.

Mr. GRAY: We should have had it while Mr. Fullerton was speaking.

The CHAIRMAN: The concensus of opinion at the last meeting of the committee was that only two copies were to be available while it was being presented to the committee.

Mr. GRAY: It certainly should have been available in so far as members of the committee are concerned. Personally I object to the whole proceedings.

The CHAIRMAN: So do I. I am fully convinced that the whole proceeding is out of order. I expressed my opinion thus at the last meeting, but I was overruled by the committee. I want to make that perfectly clear.

Hon. Mr. STEWART: I wish at once to differ with the position that you have taken to-day. It seems to me that the reading of this statement, this moderate, conciliatory statement, of the chairman of the board of trustees fully justifies the position taken and the decision which this committee made at its last meeting.

The CHAIRMAN: No doubt.

Hon. Mr. STEWART: That is all I have to say about that. Now, I would like to have had the chairman develop a little more—

Hon. Mr. HOWE: Just a moment, please.

Hon. Mr. STEWART: Just let me state my position, then I will sit down.

Hon. Mr. HOWE: Thank you.

Hon. Mr. STEWART: I would like to have had the chairman of the board of trustees develop a little more fully the division of duties that took place between himself and the president, and the matter of the failure to give to the affairs of the Canadian National Railways more publicity. These have been referred to by the minister and are in Hansard. That is the only point, that I think the statement might be amplified in some respects; because, it is said that the division of duties as between the chairman of the board of trustees and the president were made in such a way as to hamper and embarrass, and to militate against the successful operation of the road. I would like to know a little more about how this was done; whether it was done with the co-operation of the president; whether there was an understanding—

The CHAIRMAN: But, Mr. Stewart—

Hon. Mr. STEWART: —whether there was any real disturbance.

Mr. BEAUBIEN: I think this is out of order.

The CHAIRMAN: I want to call "order." But, Mr. Stewart, there was a clear statement made to this committee at the last meeting—

Mr. BEAUBIEN: I am speaking to a point of order, and I think I should be heard first.

Hon. Mr. STEWART: All I want to do is complete my statement.

Some hon. MEMBERS: Order. Order. Let us hear the point of order.

Mr. BEAUBIEN: Mr. Chairman, it was agreed at the last meeting, even with my objection, that Mr. Fullerton, chairman of the board of trustees would make a statement to the committee to-day.

The CHAIRMAN: Quite right.

Mr. BEAUBIEN: And that the Minister of Railways and Transportation would have the right to make a statement in reply. Now, the chairman of the board of trustees has made his statement and the minister is prepared to make his statement; and that is as far as this committee has instructed its chairman to permit proceedings to go.

The CHAIRMAN: That is right.

Mr. BEAUBIEN: I do not think he should go any further. The whole question is out of order, but the committee having decided to receive these two statements I think they should be heard, but I do not think we should go further than that.

The CHAIRMAN: I think the point of order is extremely well taken.

Mr. MAYBANK: Speaking to the point of order: I think it was distinctly stated a tour last meeting that when that much had been done we would consider whether there would be any questions or not. As I recall it, those in favour of the statements being made at the same time said that we were not going to permit members of the committee to go into any lengthy inquiry based on these two statements. I think the point of order is well taken. I recall that distinctly.

The CHAIRMAN: I rule that the minister has the floor.

Hon. Mr. HOWE: Mr. Chairman, I have very little to say. As Mr. Stewart has said, the chairman (Hon. Mr. Fullerton) has made a most moderate and I think reasonably fair statement of the situation. I would like to say at the outset that as far as I am concerned I have had, and have to-day, nothing but the highest respect for Judge Fullerton. There is something involved here that to me is more important than any person, it is the future management of Canadian National Railways. The government when it took office naturally considered this great problem first, and it decided in its judgment that the trustee system of management was not conducive to the best interests of the railway. They reviewed its weaknesses, and they formed the opinion that it had very decided weaknesses.

In fairness I thought that I should get off under no false colours with Mr. Fullerton and so the first time we had a talk, which I think was about a week or two after we took office, I told him the view of the government with respect to the railway. I told him, as fairly as I could set it out, of the decision which had been reached, and I told him then that I had the highest respect for him as a man, that I had known him in the west, I had known him as a judge and as chairman of the board of railway commissioners, and that I had formed a high opinion of his work in those fields; but I also pointed out that in my opinion the head of the Canadian National Railways must be a man who knows every phase of railway operation. We all have to rely upon our own experience, and my experience is that the successful head of a business has to know about as much of every department of the business as the man operating that department, and, in addition to that, he should have a little more general knowledge which qualifies him to take precedence over the other man.

I explained to Judge Fullerton that no matter how high his other qualifications were, he did not have that knowledge, through no fault of his own, because it just happened that he was trained in another field; that I saw no way in which he could acquire that knowledge and, therefore, command from the officers of the railway and from the employees of the railway—because the feeling goes from the top down to the switchman and the man at the farthest outpost—the confidence of the railwaymen to the degree necessary for successful leadership. I told him, rightly or wrongly, that in my opinion I thought it would be an exercise of good judgment on his part to resign at a time when there was a perfectly logical reason to resign. There had been a change of government, and the new government took the view that a different organization of management of the railway was required. Judge Fullerton told me at that time that this contingency had more or less been considered when his appointment was made, and that Mr. Bennett in appointing him had told him that if, for any reason, that government asked him to leave the railway, Mr. Bennett would put him back on the bench. I said then that I would expect to implement any promise Mr. Bennett had made so far as I might be able, and if he would give me a little time I would review the possibilities of doing that. I took the matter up and I found there were no vacancies on the bench at the time, and in any case, it would be impractical for me to make any commitment in that direction.

In the meantime some correspondence between us—three letters from Judge Fullerton, the last of which I replied to—had taken place. After I explored the position I arranged another appointment with Judge Fullerton, this time in

Montreal, and explained the position. I told him I was unable to promise a judgeship, but if there were something else which he would consider a reasonable equivalent, I thought that could be arranged. I said I could not promise the impossible, but if it was a matter within the possible I would try to arrange it. I quite appreciated the fact that when he took this position he had left other employment, and I had no desire to be unfair in any way in that regard. A retirement allowance for the balance of his term was discussed, and we even arrived at the amount, which I think was first suggested by Judge Fullerton and agreed to by myself.

However, Judge Fullerton, by later correspondence, advised that he did not care to go on with the proposal he had been discussing, and so the matter was dropped. I think, with that background, Judge Fullerton will not think I have been unfair in my treatment of him. I cannot think of anything he has asked me to do that I have not done, and I cannot think of anything I have asked him to do that he has not done.

An HONOURABLE MEMBER: Except to resign.

Hon. Mr. HOWE: I excepted that background. I might say that anything I have to say is no reflection whatever upon Judge Fullerton, for whom, as I said before, I have a high regard. However, the position is this, as I stated in the house when introducing the bill: that in 1934, the first year of the trusteeship, the cash requirements of the railway were \$56,000,000; in 1935, the second year of the trusteeship, the cash requirements were \$55,000,000; in 1936 the estimate when it first came to me, again, was \$55,000,000. I exerted a little pressure of my own, and asked the trustees to take a more optimistic view of the year; and in that conference, after discussing the matter thoroughly, both the operating deficit and the capital requirements were reduced, and we have asked parliament to provide for total cash requirements of slightly less than \$50,000,000.

Mr. HEAPS: Did that include the capital?

Hon. Mr. HOWE: It includes the capital as well.

I am willing to grant all that Judge Fullerton says about economies. I think the road has been carefully operated; but it comes down to this: are we willing to take the view that this railway must cost us in the vicinity of \$50,000,000 per annum? I think not; and I believe it is the duty of this government, and of the government in the first year of its office, to attempt to meet that situation and take that load off the back of the tax payers. We may fail as other governments have failed, but I have a great deal of confidence in being able to make material inroads into the deficit if we are allowed to set the railway up as we believe it should be set up.

The figures quoted by Judge Fullerton are a comparison with the year 1933. Well, the year 1933, as we know, was the all-time traffic low for railroads. Whether figures for 1934 and 1935 can be correctly compared with 1933, or whether they should be compared with years of equal prosperity, or at least of equal traffic levels, I do not know. However, I have no great criticism of the figures; they are entirely correct as they are stated in Judge Fullerton's report, as far as I know.

But there is something bigger than all this in my opinion—bigger than the matters touched in the report—and that is to get rid of that load of \$50,000,000 or \$55,000,000 which bears on the tax payers of Canada.

Now, we tried co-operation, and there again Judge Fullerton, I think, has quite correctly said that had some provision been made for the men displaced probably a good deal more progress would have been made. The obvious answer to that is, why did he not attend to that? After all, the trustees must be the mainspring of all this sort of thing, and any action of that kind had to be initiated by themselves. I think we can say generally that no complete

solution can be found in co-operation between the railways. There are certain savings to be made there. Probably further savings can be obtained by further studies. But that is not the complete solution. We must get the railways producing new traffic and getting their fair share of any traffic going. Times are getting better; we must drive ahead—driving to get back the traffic we lost to the trucks, driving to get back our fair share of traffic from water carriers, and watching the situation as regards aeroplanes. I believe we must have, as directors of our road men who are intimately connected with the industrial life of the country, men who are able to help the road in obtaining traffic, just as the directors of the Canadian Pacific Railway are traffic producers for that railway; and I believe we have got to have at the head of the railway a man who, as I say, knows every man's job as well as the man does, and in addition to that, has a little more knowledge of the whole situation than anyone else in the system. That is the view of the government. My own conduct of the affair up to now is, perhaps, under examination, but I really have no apologies for it. Had I been willing to put myself in the position of sailing under false colours, I could have carried on with Judge Fullerton up to the time this bill was brought down, worked close co-operation with him all that time; and then have had to say to him, "I am sorry, Judge, but we are going to drop you." I thought it was much fairer to tell him the position as soon as I knew it, which I did. Consistent with that, I have tried to work with him as well as two men in our respective positions can be expected to work together. This is one of the wretched things that a man has to do when he takes the responsibility that I have. The personal end of it has caused me a good deal of distress. I think that if that could have been removed, the matter could have been discussed now from a national viewpoint with less feeling than is likely to develop under the circumstances. I am sorry it did not work out that way; but we must carry on, and let the chips fall where they may.

The CHAIRMAN: Gentlemen, the next order of business is the consideration of the report.

Hon. Mr. STEWART: Mr. Chairman—

The CHAIRMAN: I beg your pardon—

Hon. Mr. STEWART: Mr. Chairman, I am going to ask one question. May I ask the chairman of the Board of Trustees any question in amplification of the statement he has made?

The CHAIRMAN: I do not think so.

Mr. HEAPS: If he asks one, he may ask a hundred.

The CHAIRMAN: I am in the hands of the committee. It is for the committee to decide. The whole of this discussion—the report of the chairman and the statement made by the minister—is absolutely out of order. There is no getting away from that. We have not the right, in accordance with our order of reference, to discuss a matter that is sub judice—is now before the house—and I think we have gone to an extreme in doing what we have done. However, I am in the hands of the committee, and if the committee desires that this report should be discussed, it is for them so to decide.

Mr. KINLEY: Are we going to try this case?

Mr. WALSH: In the earlier proceedings of this committee the chair and the committee promised that we would have an opportunity to ask further questions in connection with the statements and reports submitted to parliament through the minister by the trustees.

The CHAIRMAN: Mr. Walsh, I am sorry to have to interrupt you, but that is not what was decided. I asked Mr. Stewart—instead of asking the Board of Trustees to make a general statement—if he had any specific questions to ask, and he agreed that he would not ask any specific questions in the com-

mittee, but he would ask the chairman of the board to make a report to this committee, which has been done. I said in the beginning that we had no right to discuss this question in this committee.

Mr. WALSH: I do not want to discuss the question of the report that Mr. Fullerton has submitted this morning; I want to ask Mr. Fullerton while he is here in the presence of this committee one or two questions on this report—

Mr. HANSON: We are all entitled to ask questions.

Mr. WALSH: As long as we confine ourselves to the report that the committee has discussed—

Mr. MAYBANK: I rise to a point of order.

Mr. WALSH: There is no point of order about it.

Mr. MAYBANK: When I say there is a point of order I have a right to say it; and the point of order is this: I agree with what Mr. Walsh has said with reference to there being an open period for further questions upon the reports, and I agree that we adopted these reports tentatively on a certain day a week or two ago. We again took that matter up at our last meeting, as the records will show, and formally closed that opportunity, and the balance of the meeting referred to these two reports we have heard to-day. Our position in that respect was as has been stated by Mr. Beaubien this morning, and that opportunity which Mr. Walsh is now asking for was given at the last meeting, and that opportunity was then closed; and I submit that any further questions along that line in the way of re-opening these reports is out of order.

Mr. GRAY: Unless we definitely closed the matter—I was not here and did not have an opportunity to read the evidence—but surely unless we definitely closed the question, if the report is in order, members of this committee can ask questions of the minister or Mr. Fullerton on the report. I repeat that until one has had an opportunity to review the report, it is pretty hard to ask questions; but unless you have absolutely closed the door I cannot see how you can do so now without knowing what is going to be said. I would think the door is wide open now.

The CHAIRMAN: As far as the report of Mr. Fullerton and the statement by the minister are concerned they are closed; as far as the other report is concerned, we left the door open, and you have the right to ask any questions you like on that.

Mr. WALSH: I quite appreciate the fact that the statement which was made this morning was made on request, and the minister has had an opportunity to reply; but there is some additional information I would like to get while Judge Fullerton is before the committee so that I may have a better understanding of this annual report, and so that the other members of the committee may also have that opportunity. Now, there is one question I wanted to ask the judge: were you altogether responsible for the preparation of the reports of the Canadian National Railways that have been under consideration by this committee?

Hon. Mr. FULLERTON: Not altogether.

Mr. WALSH: Were those reports prepared in consultation with the other trustees?

Hon. Mr. FULLERTON: Absolutely, and the officials.

Mr. WALSH: Were the officials present, and did they have an opportunity to discuss these with the trustees?

Hon. Mr. FULLERTON: Every opportunity. The report was approved by the president and by the vice president before it finally went.

Mr. WALSH: The president, who is the operating official, had every opportunity to embody his opinions in these reports?

Hon. Mr. FULLERTON: He approved the report.

Hon. Mr. HOWE: Did he have every opportunity to embody his opinions?

Hon. Mr. FULLERTON: Yes, he has, and he has had from the beginning.

Hon. Mr. HOWE: He does not sign the report as president.

Hon. Mr. FULLERTON: Mr. Hungerford goes over the whole report and approves of it before it is signed and printed.

Mr. WALSH: You would say, then, that Mr. Hungerford did go over these reports, particularly this one, and approved of what is contained in this report?

Hon. Mr. FULLERTON: Absolutely so.

Mr. WALSH: And he had an opportunity to make suggestions if he disagreed with anything that you prepared to put in there?

Hon. Mr. FULLERTON: Every opportunity.

Mr. WALSH: And the other trustees had a similar opportunity?

Hon. Mr. FULLERTON: Absolutely.

Mr. WALSH: In other words, this does not embody your opinion and your opinion only?

Hon. Mr. FULLERTON: Not at all.

The CHAIRMAN: It is signed by the three trustees.

Hon. Mr. FULLERTON: It is signed by the three trustees. It is approved by Mr. Hungerford and gone over by Mr. Hungerford.

Mr. WALSH: Could you tell this committee if the president was in attendance at your regular meetings of the Board of Trustees held from time to time throughout the year?

Hon. Mr. FULLERTON: I do not remember a single occasion that he was absent.

Mr. WALSH: He was regularly present?

Hon. Mr. FULLERTON: I remember no occasion when he was absent from our meetings.

Mr. WALSH: In other words, he had a full opportunity to take part in all of the deliberations in connection with the management of the Canadian National Railways?

Hon. Mr. FULLERTON: Absolutely.

Mr. WALSH: Which led up to the final preparation of this report?

Hon. Mr. FULLERTON: Absolutely so.

Mr. HEAPS: Mr. Chairman, I should like to ask a question directed more particularly to the minister. The minister made reference, and there appears in the annual report some reference, in regard to the displacement of labour as a result of co-operative efforts. It was suggested, and I think there is some reference put in the 26th report to what has been called in the United States dismissal pay. The minister suggested that the trustees of the railway confer with all those interested, in an effort to see if something can be devised in order that the hardships involved upon those who have given long years of service to the railway might in some way be alleviated, if dismissal is decided upon. Is that an indication of the policy of the minister, that he desires something of that nature to be brought about, if co-operation is effected in the service of the two railways?

Hon. Mr. HOWE: I was not stating a policy. I was simply commenting on a reference in the chairman's report. There is no doubt, as my friend knows, that the arrangement in the United States was entirely between the management and the men themselves, in the same way as wage arrangements and every other arrangement of the kind is made. It is not a matter, as I see it, for government action.

Mr. HEAPS: I think the minister himself perhaps realizes that in the United States it was the fact that there was certain legislation pending in the Congress which brought about the arrangement between the railways and the employees; and it was in order to offset the legislation in Congress in the United States that the employees and employers in the railways in United States got together.

Hon. Mr. HOWE: I do not know that that is exactly a fair statement. The legislation was not pending. A committee had been appointed to examine the situation, and they were holding the hearings when this agreement was made direct between the railways and its employees. That is a correct statement, I think.

Mr. WALSH: Can we assume from this report that the operating cost of the Canadian National Railway was lower this year than it was for, say, the year 1933?

Hon. Mr. FULLERTON: Yes.

Mr. WALSH: We may draw that conclusion from this report, that the operating costs were actually lower?

Hon. Mr. FULLERTON: Yes.

Hon. Mr. HOWE: I do not think that is a fair statement.

Mr. WALSH: Is that a fair statement?

Mr. KINLEY: No. It cost six or seven million dollars more.

Hon. Mr. FULLERTON: The cost is greater on account of the increased traffic. The net is lower.

Mr. HEAPS: Could we say the operating ratio was lower?

Hon. Mr. FULLERTON: The operating ratio. I have given the operating ratio there as between 1935 and 1933. It was lower.

Mr. HEAPS: It is lower?

Hon. Mr. FULLERTON: Yes.

Mr. WALSH: I do not know whether this question would be in order or not. You can correct me if it is not.

The CHAIRMAN: Do not ask it, then.

Mr. WALSH: There is a suggestion in this report in connection with political interference. Did you experience any particular aggression along that line at any time, even during the past few months?

Mr. HEAPS: The past few years.

Mr. WALSH: The past few years, yes. I do not want to restrict it, as casting a reflection upon any particular party or government.

The CHAIRMAN: Do you think that is a fair question. Why embarrass the president? He gave a very fair statement of the whole situation, and he has referred to the political situation. I think you should stop there.

Mr. WALSH: All right. There is one other question. I do not know whether it could be construed as coming into the report or not. The report suggests, or I read into the report, that the possibilities of co-operation have been fully explored and exhausted. That is not a correct statement, is it?

Hon. Mr. FULLERTON: That is not so. What report is that?

Mr. WALSH: In this report I hold in my hand.

Hon. Mr. FULLERTON: They are not exhausted.

Mr. WALSH: The possibilities are not exhausted. There is still a further avenue for exploration?

Hon. Mr. FULLERTON: Absolutely. We are working on it all the time.

Mr. WALSH: You think something further can and will be accomplished by the trustees along that line?

Hon. Mr. FULLERTON: I do not think there is any doubt about that.

Mr. WALSH: This has nothing to do with the report; at least, I cannot see that it has. But I will ask the question and you can call it out of order if you wish.

Hon. Mr. STEWART: Do not invite him to do that.

Mr. WALSH: You have had certain correspondence with the Minister of Railways since October, 1935.

The CHAIRMAN: Order.

Hon. Mr. FULLERTON: Yes.

The CHAIRMAN: That is not for us. If the bill is referred to us, you will have an opportunity to discuss that.

Mr. WALSH: Could I ask Mr. Fullerton if he would release from the term "confidential and private" any correspondence that he has had with the Minister of Railways since October, 1935.

Mr. HEAPS: That is out of order.

The CHAIRMAN: Order. I do not think you should ask that question. If the letters were marked "personal," I do not think it is competent for Judge Fullerton to make them otherwise.

Mr. HEAPS: They are personal on two sides.

The CHAIRMAN: Yes, on both sides.

Mr. WALSH: I was just asking Judge Fullerton if he cared to release them.

Hon. Mr. FULLERTON: I may say that I have no objection.

Mr. WALSH: Thank you.

The CHAIRMAN: Gentlemen, shall we thank Judge Fullerton for his evidence, and then sit in camera?

Hon. Mr. STEWART: Mr. Chairman, I should like to ask the chairman of the board of trustees if he would be good enough to amplify his statement in connection with the division of duties as between himself and the president.

The CHAIRMAN: Is that fair, Mr. Stewart.

Hon. Mr. STEWART: I really think so. Otherwise I would not have asked the question.

The CHAIRMAN: That is all right. You may have a tremendously good object in asking the question. But Judge Fullerton has complied with the wishes of this committee. He has made a written statement to this committee. A copy of this statement was sent to me as chairman of this committee, and another to the minister. He has read his statement here in the committee. Perhaps I made a mistake in not distributing that statement right off at the opening of the meeting of the committee. But I do not think it is fair to ask Judge Fullerton to amplify in any way, shape or form the statement he has already made. The matter is not before the committee. You may ask that question in the house when the bill is being discussed, Mr. Stewart. The minister will give you the answer then, or obtain an answer from Judge Fullerton, if he desires to do so. But the matter is not before us at the present time.

Hon. Mr. STEWART: Mr. Chairman, the chairman of the board of trustees will not be in the house and therefore I cannot ask him. The minister has no knowledge of it, so I cannot get the answer from him.

The CHAIRMAN: You can ask the question of the minister. He can obtain the information from Mr. Fullerton.

Hon. Mr. STEWART: No. He cannot get it that way at all. That is the only point there was, I think, in having the statement made here.

The CHAIRMAN: I think the question is out of order.

Mr. HEAPS: Absolutely. Everything is out of order.

The CHAIRMAN: Judge Fullerton, we want to thank you for your kindness in coming to this committee this morning.

Mr. WALSH: Before Judge Fullerton goes, as a member of one of the parties here I want to express to him my personal appreciation of his effort in giving that very splendid report which he presented here this morning. I am sorry that I was instrumental, or partially instrumental, in inflicting such an amount of labour on him, both this morning and in the preparation of the report. But I think the labour is fully justified by the information we have received.

The CHAIRMAN: Carried.

Hon. Mr. FULLERTON: Are you through with us?

The CHAIRMAN: Yes, we are through.

Gentlemen, shall we sit in camera?

Some Hon. MEMBERS: Yes.

The committee adjourned at 12.25 p.m. to meet in camera immediately.

APPENDIX

LETTER FROM SIR E. W. BEATTY AND MEMORANDUM ATTACHED THERE TO, FOLLOWED BY LETTER FROM Mr. S. W. FAIRWEATHER

CANADIAN PACIFIC RAILWAY COMPANY

OFFICE OF THE CHAIRMAN AND PRESIDENT

MONTREAL, 16th May, 1936.

Sir EUGÈNE FISET,
Chairman,
Standing Committee on Railways and Shipping,
House of Commons,
Ottawa, Ont.

MY DEAR SIR,—On page 169 of the Minutes of Proceedings and Evidence before the Standing Committee on Railways and Shipping, in answer to a question put by Mr. Maybank, a statement was filed by Mr. Fairweather which purports to adjust the operating ratio of Canadian National Railway Lines in Canada to a basis comparable with the Canadian Pacific Railway.

Our statisticians consider Mr. Fairweather has made improper calculations and they have prepared a memorandum, copy of which is attached, outlining the errors he has made. I shall be glad, should it be consistent with the rules of the Committee, if you will arrange for this memorandum to be spread on the record of the Committee, so that damage to this Company will not result from use of the ex-parte statement filed on behalf of the Canadian National Railways.

I am sending a copy of this letter and the memorandum to Mr. Howe for his information.

Yours very truly,

E. W. BEATTY,
Chairman and President.

MEMORANDUM

Mr. Fairweather, Director of the Bureau of Economics of the Canadian National Railways, in a statement filed as an Appendix to Minutes of Proceedings and Evidence before the Standing Committee on Railways and Shipping of May 6th, 1936, makes six adjustments in the Canadian National operating ratio in order, as he claims, to make it comparable with that of the Canadian Pacific. These adjustments are with respect to the following items:—

- (1) Express, Telegraphs, Pensions, Colonization and Natural Resources Expenses.
- (2) Average Haul.
- (3) Car Loading.
- (4) Freight Density.
- (5) Passenger Density.
- (6) Managerial Problems.

Exception is taken to the adjustments made for the following reasons:—

Item (1) Mr. Fairweather has followed an incomplete and unusual method of dealing with the difference in accounting procedure followed by the two railways in respect to the accounts referred to. An authoritative basis of compar-

ison was set up by the Royal Commission to Inquire into Railways and Transportation in Canada in 1931-32. Both railways submitted to that body accounts compiled in a uniform manner. These were subsequently incorporated by the Commission in its Report. The operating ratios computed from these accounts were tabulated by the Commission. In explanation, it made the following comment:—

138. In comparing the performance of two railway systems on the basis of operating ratios, it is necessary, before drawing conclusions, to make allowance for factors that may adversely affect results in the case of one or the other, and to ascertain as far as possible that the figures that enter into the calculations are on a comparable basis. A detailed analysis and comparison of the operating accounts of the Canadian National and Canadian Pacific was made by an independent railway accountant employed by the commission to ensure a fair basis of comparison between the accounts.

The operating ratios of the two Companies on the comparable basis referred to, brought up to date from information furnished to the Dominion Bureau of Statistics and on the basis shown by Mr. Fairweather, are given in the table which follows:—

	Operating Ratios on Comparable Basis set up by Royal Commission		Operating Ratios as shown by Mr. Fairweather		
	Canadian System	National Lines in Canada	Canadian Pacific	Canadian National Lines in Canada (adjusted) x	Canadian Pacific
1923..	91.8	94.3	81.0	97.2	80.7
1924..	92.5	93.9	80.5	93.3	79.6
1925..	86.7	88.4	77.3	87.7	77.3
1926..	82.5	84.2	75.8	83.3	76.0
1927..	84.9	86.8	78.5	88.1	78.9
1928..	82.0	83.6	75.4	82.3	75.8
1929..	85.6	87.5	77.3	86.0	77.7
1930..	91.2	92.1	78.4	89.8	77.4
1931..	99.4	100.0	80.3	98.6	80.0
1932..	96.3	96.0	80.8	93.5	80.7
1933..	96.2	96.7	78.5	96.6	78.3
1934..	92.1	92.5	76.3	92.4	77.3
1935..	91.8	93.4	79.1	93.3	80.0

x After deduction of adjustment claimed by Mr. Fairweather for express, telegraphs, pensions, colonization and natural resources expenses.

The differences between the Canadian National operating ratios for lines in Canada and Canadian Pacific operating ratios on the two bases are as follows:—

	Royal Commission	Mr. Fairweather	Excess of Difference	
			Royal Commission	Mr. Fairweather
1923..	13.3	16.5		3.2
1924..	13.4	13.7		.3
1925..	11.1	10.4	.7	
1926..	8.4	7.3	1.1	
1927..	8.3	9.2		.9
1928..	8.2	6.5	1.7	
1929..	10.2	8.3	1.9	
1930..	13.7	12.4	1.3	
1931..	19.7	18.6	1.1	
1932..	15.2	12.8	2.4	
1933..	18.2	18.3		.1
1934..	16.2	15.1	1.1	
1935..	14.3	13.3	1.0	

This tabulation indicates the improper nature of the adjustment made by Mr. Fairweather to bring the figures to a comparable basis. In four years, the difference is more and in nine years less than the authoritative difference established on the basis set up by the Royal Commission.

Item (2).—The Canadian Pacific has a longer average freight haul owing to the grain movement in Western Canada forming a larger part of its total freight business. This longer haul is, however, inseparably linked with the low statutory freight rates applicable to such grain. These low rates are largely responsible for the fact that the Canadian National system average revenue per ton per mile for all commodities in 1935 was higher than that of the Canadian Pacific by more than 6 per cent and for its Canadian lines by 2 per cent. Had the Canadian Pacific received the same revenue per ton per mile, its operating ratio would have been less than it was. For purposes of fair comparison, it was improper, therefore, for Mr. Fairweather to reduce the Canadian National (lines in Canada) operating ratio by 0.9 points to adjust for the differences in average haul in Canada without increasing the ratio by 1.5 points to allow for higher average ton mile revenues in Canada.

Item (3).—Any calculation which assigns a difference of 1.9 points in the operating ratio for 1935, or an amount of \$2,747,000, for the factor of heavier car loading can have little or no supportable data for its foundation. To some extent car loading is a reflection of the nature of commodities handled. Bulk commodities which produce heavy car loads usually move at low rates. Car loading is also affected by operating practice—control of loading by shed staffs, etc. The average capacity of the freight cars in use by the two companies is approximately equal and neither company is loading its cars to maximum capacity. As a matter of fact, the Canadian National had a greater car loading ten or twelve years ago than it had in 1935, notwithstanding that in the interval many of its smaller units of equipment have been retired and replaced by the construction of larger capacity units. In view of what is stated, it will be realized how impossible it would be to compute an accurate adjustment for the difference in car loading or even to determine whether the Canadian National ratio would be increased or decreased.

Items (4 and 5).—Adjustments in the operating ratio have been made for difference in both freight and passenger densities. For the year 1935, the adjustment for freight density was 5.8 points and for passenger density 3.4 points, a total of 9.2 points. The excess of Canadian Pacific operating revenue per mile of line over that of Canadian National lines in Canada for the year was 19.8 per cent. Thus, in 1935, for each 2 per cent difference in traffic density an adjustment of approximately one point in the operating ratio has been made. Equal or greater adjustments have been made in other years. Such adjustments must have been computed on a very arbitrary basis and with loose assumptions. The author of the statement explained the method used on page 132 of the evidence. An appraisal of the extent of the adjustment which has been made can be had by making a similar adjustment for other railways. For example, the New York Central, in 1935, had 320 per cent more operating revenue per mile of line than the Canadian National. The ridiculous nature of the adjustment becomes apparent when one tries to deduct more than 100 per cent from the Canadian National operating ratio. It is obvious that the effect of traffic density has been grossly overstated.

The table below indicates the negligible effect of small differences in traffic density upon the comparisons:—

	Year	Operating Revenue per Mile of Road	Operating Ratio	Excess C.N. over C.P. (points)
<i>Example 1—</i>				
Canadian Pacific.. ..	1930	\$11,952	78.36%	13.70
Canadian National.. ..	1930	9,783	92.06%	
Canadian Pacific.. ..	1931	9,254	80.31%	11.75
<i>Example 2—</i>				
Canadian Pacific.. ..	1931	9,254	80.31%	19.69
Canadian National.. ..	1931	7,821	100.00%	
Canadian Pacific.. ..	1932	7,736	80.79%	19.21

Example 1 shows a difference in ratios of 13·70 points with a Canadian Pacific excess operating revenue per mile of \$2,169, but the spread is still 11·75 points with a Canadian National excess operating revenue per mile of \$529. Example 2 shows a difference in ratios of 19·69 points with a Canadian Pacific excess operating revenue per mile of \$1,433, but the spread is still 19·21 points with a Canadian National excess operating revenue per mile of \$85. The comparison between 1931 and 1932 is slightly distorted by reason of reduction in wage rates effective in the latter year, but it is apparent from the tabulation that the adjustments for traffic density Mr. Fairweather has made are not correct and that conditions other than difference in traffic density have much to do with the difference in operating results.

Item (6).—In evidence, the Canadian National has been stated to comprise 139 companies. The Canadian Pacific conducts its own and affiliated operations through approximately the same number of companies. The interests and activities of the Canadian Pacific, particularly on account of its ocean services, are far flung. In total, the managerial problems of the two properties should not be materially different. Such managerial problems include the circumvention and elimination of the effects of any adverse conditions. The Canadian Pacific, unfortunately, is not free from its share of handicaps.

It is claimed that the Canadian National has not been able to standardize its equipment; that it has redundant and duplicate facilities to maintain and operate, as well as duplicate lines. On the other hand, on its main line it enjoys lower grades than those of the Canadian Pacific, particularly through British Columbia. Many of its lines were constructed at great expense to a standard beyond the immediate needs of traffic for the express purpose of providing low operating costs. Its program for construction of new rolling stock has been more extensive than that of the Canadian Pacific. The Canadian National operating ratio should have been increased to allow for these and other conditions concurrently with the adjustments which Mr. Fairweather has made for the items he referred to. It was manifestly improper to only calculate items claimed to be unfavourable to the Canadian National and omit from the calculation similar items which are known to be unfavourable to the Canadian Pacific. It will be realized how difficult it would be for either railway to fairly make a unilateral appraisal of the relative burden of such advantages and disadvantages. In the absence of full investigation by an impartial authority, it is a matter of opinion only as to whether the correct adjustment would favour the Canadian Pacific or the Canadian National.

General Remarks.—A perusal of the arguments which have been advanced as to the underlying physical conditions contributory to the differences in results between the publicly and privately owned Canadian railways shows that in general they are inconclusive. This was the opinion expressed by the Royal Commission, which carefully investigated this matter a few years ago. The Commission stated its conclusions in no uncertain manner in the following terms:—

141. An analysis and comparison of accounts of both companies, with due regard to the considerations put forward by the Canadian National as adversely affecting their operations, do not, in our opinion, justify the very considerable differences in the operating ratios of the two systems.

The situation has not changed since the Royal Commission reached this conclusion and definite exception is taken to the unfairness of spreading on the record adjustments for factors which the Canadian National claim adversely affect their operations in comparison with the Canadian Pacific without correspondingly taking into account adjustments for factors which favourably affect its comparative results.

S. J. W. LIDDY,

Assistant to Comptroller Canadian Pacific Railway.

CANADIAN NATIONAL RAILWAYS

BUREAU OF ECONOMICS

At Ottawa, June 2, 1936

Major-General Sir EUGÈNE Fiset, K.C.M.G.,
Chairman Select Standing Committee on Railways and Shipping,
Ottawa, Ontario.

DEAR SIR EUGÈNE,—I have carefully read Mr. Beatty's letter and the attachment thereto, I can find no reason for changing the evidence I gave before the Select Standing Committee.

Yours faithfully,

S. W. FAIRWEATHER.

