

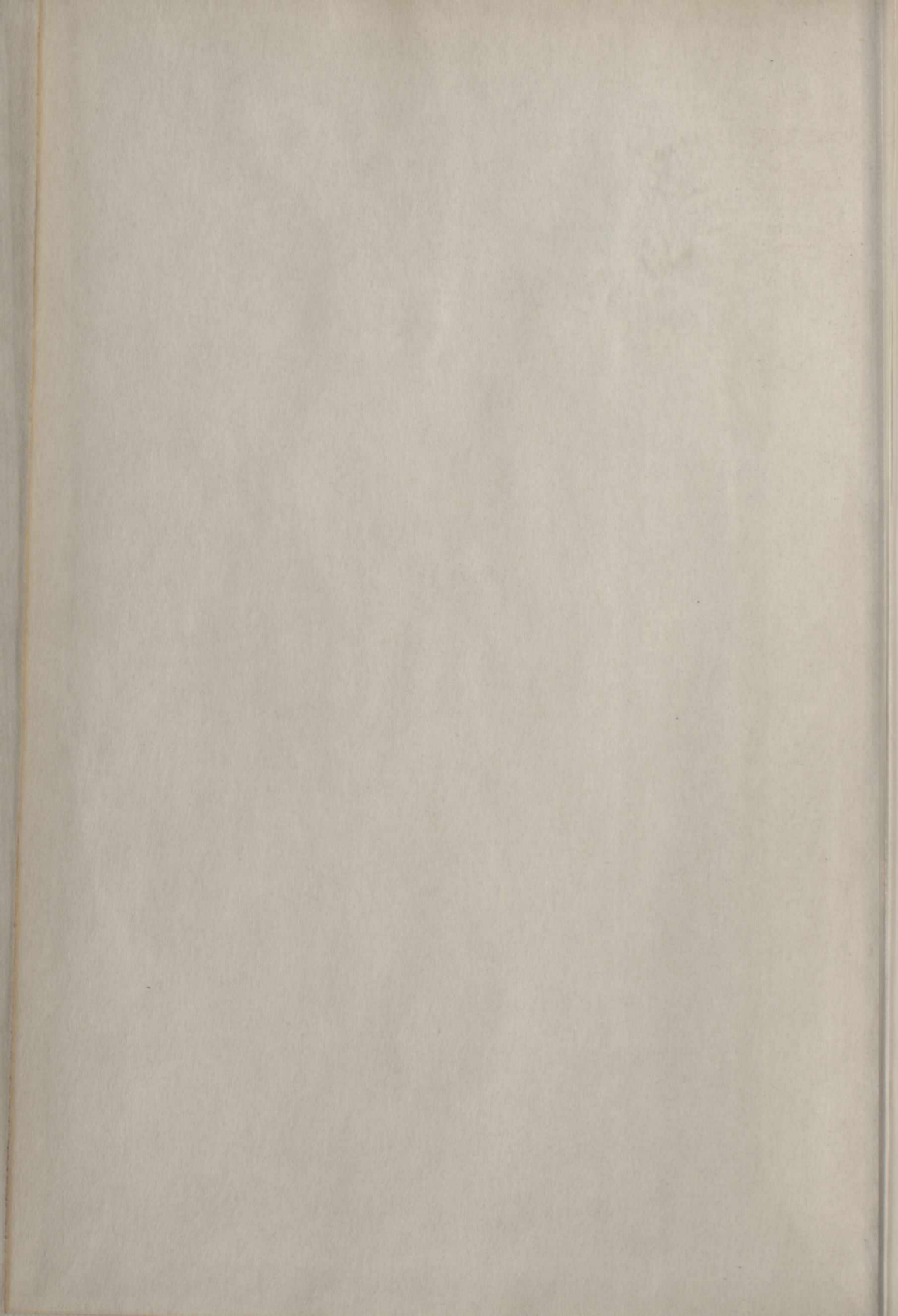
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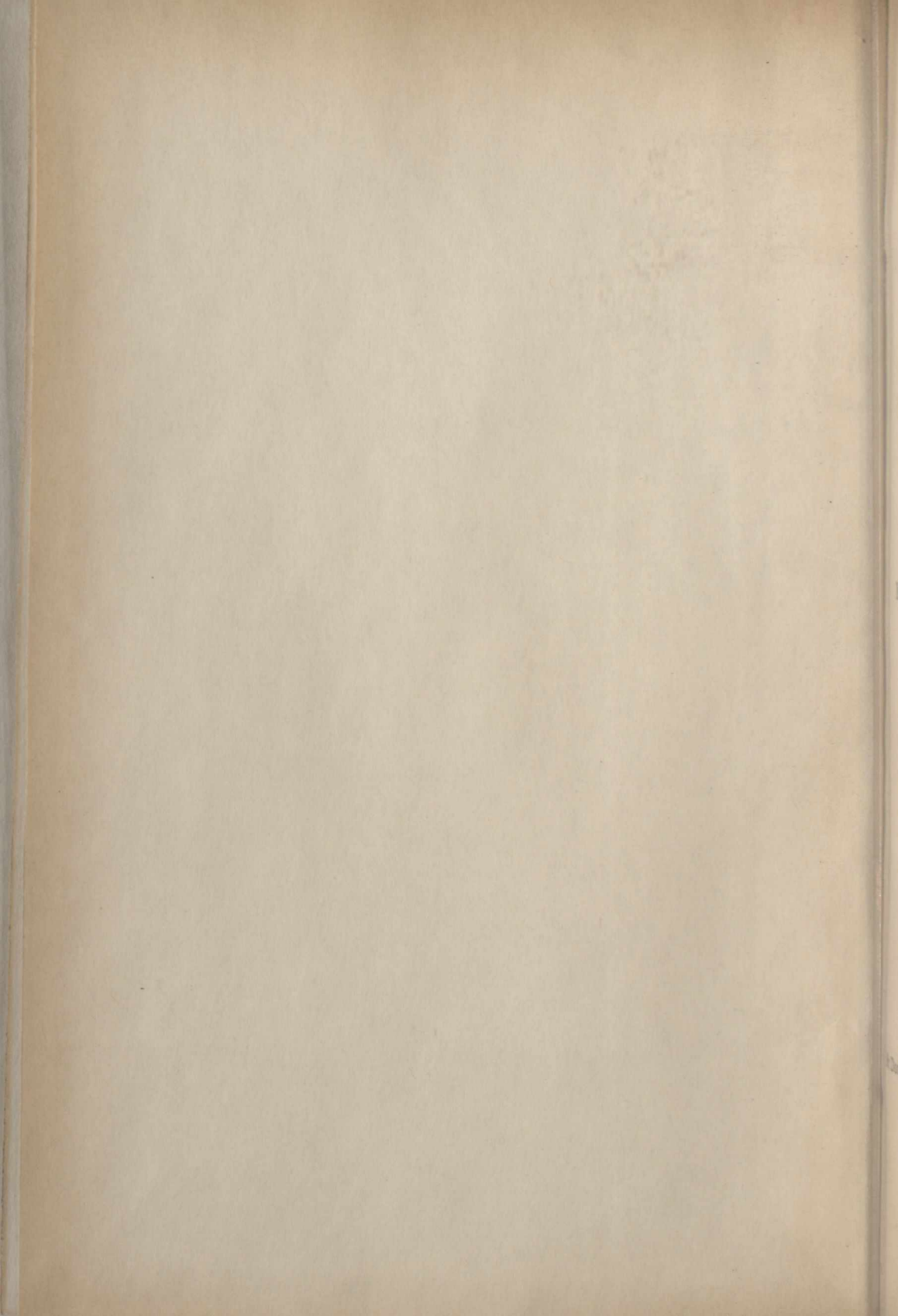
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Railways & Shipping, H7
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Canada. Parl. H. of C. Sessional
Comm. on Railways and Shipping
Owned, Operated and Controlled
by the Government, 1955.





HOUSE OF COMMONS

Second Session—Twenty-second Parliament
1955

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

Chairman: HARRY P. CAVERS, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

TUESDAY, MARCH 29, 1955

C.N.R. ANNUAL REPORT (1954)

WITNESSES:

Mr. Donald Gordon, C.M.G., LL.D.; Mr. S. F. Dingle; Mr. R. D. Armstrong.

INCLUDING FIRST REPORT TO THE HOUSE

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1955.

SESSIONAL COMMITTEE
ON
RAILWAYS AND SHIPPING
Owned, operated and controlled by the Government

Chairman: H. P. CAVERS, Esq.,

Vice-Chairman: A. DUMAS, Esq.,

and

Messrs.

Bell	Hamilton (<i>York West</i>)	Langlois (<i>Gaspé</i>)
Carrick	Hamilton (<i>Notre-Dame</i>	Lavigne
Carter	<i>de Grace</i>)	Legare
Churchill	Hanna	McCulloch (<i>Pictou</i>)
Fairey	Harrison	Murphy (<i>Westmorland</i>)
Follwell	Healy	Pouliot
Fulton	James	Weaver—26
Gillis	Johnston (<i>Bow River</i>)	
Hahn	Knight	

Antonio Plouffe,
Clerk of the Committee

ORDERS OF REFERENCE

MONDAY, March 28, 1955.

Resolved,—That a Sessional Committee on Railways and Shipping owned, operated and controlled by the Government, be appointed to consider the accounts and estimates and bills relating thereto of the Canadian National Railways, the Canadian National (West Indies) Steamships, and Trans-Canada Air Lines, saving always the powers of the Committee of Supply in relation to the voting of public moneys; and that the said Committee be empowered to send for persons, papers and records and to report from time to time and that, notwithstanding Standing Order 65 in relation to the limitation of the number of members, the said Committee consist of Messrs. Bell, Carrick, Carter, Cavers, Churchill, Dumas, Fairey, Follwell, Fulton, Gillis, Hahn, Hamilton (*Notre-Dame-de-Grace*), Hanna, Harrison, Healy, James, Johnston (*Bow River*) Knight, Langlois, (Gaspé), Lavigne, Légaré, Macdonnell (*Greenwood*), McCulloch (*Pictou*), Murphy (*Westmorland*), Pouliot, Weaver.

MONDAY, March 28, 1955.

Ordered,—That the annual reports for the year 1954 of the Canadian National Railways, the Canadian National (West Indies) Steamships Limited, the Auditor's Report to Parliament in respect of the Canadian National Railways and Canadian National (West Indies) Steamships Limited, tabled on March 21, and the report for the year 1954 of the Canadian Securities Trust and the Budget for the year 1954 of the Canadian National Railways and the Canadian National (West Indies) Steamships Limited, tabled this day, be referred to the Sessional Committee on Railways and Shipping owned, operated and controlled by the Government, together with the following items of estimates for 1955-56:

Vote No. 469 Prince Edward Island Car Ferry and Terminals deficit, 1955.

Vote No. 473 North Sydney-Port Aux Basques Ferry and Terminals deficit, 1955.

Vote No. 478 Maritime Freight Rates Act.

Vote No. 479 Canadian National (West Indies) Steamships Limited deficit, 1955.

And that the Resolution passed by the House on February 4, 1955, referring certain estimates to the Committee of Supply be rescinded so far as the said resolution relates to Votes 469, 473, 478 and 479.

TUESDAY, March 29, 1955.

Ordered,—That the said Committee be empowered to print from day to day 1,000 copies in English and 250 copies in French of its minutes of proceedings and evidence, and that Standing Order 64 be suspended in relation thereto.

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

Ordered,—That the quorum of the said Committee be reduced from fourteen to ten members.

Attest.

Leon J. Raymond,
Clerk of the House.

SESSIONAL COMMITTEE

REPORT TO HOUSE

TUESDAY, March 29, 1955.

The Sessional Committee on Railways and Shipping begs leave to present the following as its

FIRST REPORT

Your Committee recommends:

1. That it be empowered to print from day to day 1,000 copies in English and 250 copies in French of its minutes of proceedings and evidence, and that Standing Order 64 be suspended in relation thereto.
2. That it be given permission to sit while the House is sitting,
3. That its quorum be reduced from fourteen to ten members.

All of which is respectfully submitted.

HARRY P. CAVERS,
Chairman,

(Concurred in this day).

MINUTES OF PROCEEDINGS

TUESDAY, March 29, 1955.

(1)

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government met this day at 11.00 o'clock a.m. in Room 277.

Members present: Messrs. Bell, Carter, Cavers, Churchill, Dumas, Follwell, Fulton, Gillis, Hahn, Hamilton (*Notre Dame de Grâce*), Hanna, Harrison, James, Knight, Langlois (*Gaspé*), Lavigne, Légaré, Macdonnell (*Greenwood*), McCulloch (*Pictou*), Murphy (*Westmorland*), Pouliot and Weaver. (22).

In attendance: Honourable George C. Marler, Minister of Transport; Mr. F. T. Collins, Comptroller and Secretary, Department of Transport, Mr. Donald Gordon, President of the Canadian National Railways and Chairman of the Board; Mr. S. F. Dingle, Vice-President; Mr. R. D. Armstrong, Comptroller. Also Messrs. F. P. Turville, C.A., J. D. Morison, C.A., D.T.G. Padley, C.A., of George A. Touche and Company, Chartered Accountants.

There being a quorum, Mr. Langlois (*Gaspé*) addressing himself to the Clerk of the Committee, moved, seconded by Mr. Weaver, that Mr. Cavers do take the Chair as Chairman.

And Mr. Dumas having moved that nominations be closed, the question was put and was resolved in the affirmative.

The Clerk thereupon put the motion of Mr. Langlois (*Gaspé*) and it was resolved in the affirmative; the Clerk declared Mr. Cavers duly elected Chairman.

Mr. Cavers took the Chair and thanked the members for his election. He then invited nominations for the election of Vice-Chairman.

On motion of Mr. Weaver, seconded by Mr. Langlois (*Gaspé*),

Resolved,—That Mr. Dumas be Vice-Chairman.

On motion of Mr. Follwell,

Resolved,—That the Committee obtain permission to print from day to day 1,000 copies in English and 250 copies in French of its minutes of proceedings and evidence.

On motion of Mr. James, seconded by Mr. Légaré,

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

On motion of Mr. Macdonnell (*Greenwood*), seconded by Mr. Bell,

Resolved,—That the quorum of the Committee be reduced from fourteen to ten members.

The Chairman referred to an invitation sent to the members of the Committee by Mr. G. R. McGregor, President of Trans-Canada Air Lines, to a flight on the new Viscount 40-passenger aircraft on Wednesday at or about twelve noon.

On motion of Mr. Gillis, seconded by Mr. Hahn, the Chairman was authorized to complete arrangements therefor.

In consequence thereof, after discussion it was agreed, on motion of Mr. McCulloch (*Pictou*), seconded by Mr. Macdonnell (*Greenwood*), that the Committee meet at 10.00 o'clock on Wednesday, March 30, instead of 11 o'clock.

The Chairman read the Orders of Reference.

Mr. Donald Gordon was called and introduced Messrs. Dingle and Armstrong.

Mr. Gordon read the Annual Report of the Canadian National Railways, 1954, and the Committee commenced his examination.

At 1.10 o'clock p.m. the Committee adjourned until 3.30 o'clock p.m. this day.

AFTERNOON MEETING

(2)

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government resumed at 3.30 o'clock p.m. Mr. Harry P. Cavers, Chairman, presided.

Members present: Messrs. Bell, Carrick, Carter, Cavers, Churchill, Dumas, Fairey, Follwell, Fulton, Gillis, Hahn, Hamilton (*Notre Dame de Grâce*), Hanna, Harrison, James, Johnston (*Bow River*), Knight, Langlois (*Gaspé*), Lavigne, Légaré, Macdonnell (*Greenwood*), McCulloch (*Pictou*), Murphy (*Westmorland*) and Weaver. (24)

In attendance: Same as listed at the morning sitting.

The Committee commenced its examination heading by heading of the Canadian National Railways Annual Report.

Mr. Donald Gordon was called and further examined. He was again assisted by Messrs. Dingle and Armstrong.

Honourable Mr. Marler answered questions dealing with departmental or policy matters.

At 6.05 o'clock p.m., the Committee adjourned until 8.00 o'clock p.m. this day.

EVENING SITTING

(3)

The Committee met at 8.00 o'clock p.m. Mr. Harry P. Cavers, Chairman, presided.

Members present: Messrs. Bell, Carrick, Carter, Cavers, Churchill, Dumas, Fairey, Follwell, Fulton, Gillis, Hahn, Hamilton (*Notre Dame de Grâce*), Hanna, Harrison, James, Johnston (*Bow River*), Knight, Langlois (*Gaspé*), Lavigne, Légaré, Macdonnell (*Greenwood*), McCulloch (*Pictou*), Murphy (*Westmorland*), Pouliot and Weaver. (25)

In attendance: Same as shown at the morning sitting.

Mr. Gordon's examination was continued.

The witness was questioned on the sale in 1954 of four hotels by the Canadian National Railways, namely: Prince Arthur in Ontario, Prince Edward in Manitoba, Pictou Lodge in Nova Scotia and Minaki Lodge in Ontario.

At 9.40 o'clock p.m., the division bells having rung, the Committee suspended its deliberations.

At 10.30 o'clock p.m., the Committee resumed.

Mr. Gordon's examination still continuing, the Committee adjourned at 10.55 o'clock p.m. until Wednesday, March 30th at 10.00 o'clock a.m.

Antonio Plouffe.
Clerk of the Committee.

EVIDENCE

TUESDAY, March 29, 1955.

The CHAIRMAN: Gentlemen, we have with us today Mr. Donald Gordon, C.M.G., LL.D., President of the Canadian National Railways, and Chairman of the Board of Directors and his officials.

I think that before coming to the annual report we should deal with item 614 of the supplementary estimates, which requires the attention of this committee as the Minister of Finance is very anxious to pass the supplementary estimates as soon as possible and I would ask that item 614 of the supplementary estimates dealing with the Canadian National Railways' deficit for the year 1954 be called first. Mr. Gordon.

Mr. MURPHY (*Westmorland*): Mr. Chairman, are there any copies of the estimates?

The CHAIRMAN: Have you the supplementary estimates? I think all the members have been provided with copies of the supplementary estimates. Mr. Gordon will be the first witness.

Mr. DONALD GORDON, C.M.G., LL.D. (*President, Canadian National Railways*): Mr. Chairman and members of the committee, I am pleased to be here once again to discuss with you the operations of the Canadian National Railways. May I say first that a number of Canadian National Railways officials including Mr. S. F. Dingle, our vice-president of operation, and Mr. R. D. Armstrong, our comptroller, have accompanied me here today. With their assistance and the other officials who are with me I hope to be able to deal directly with most, if not all, of the questions which members of the committee may raise.

Now, Mr. Chairman, if you and the members of the committee are agreeable, I would like to follow the precedent of recent years and read the Canadian National Railways annual 1954 report in its entirety as a preliminary to the committee's examination in detail. I am, of course, in your hands in this matter, but I do feel that many of the questions which will occur to members of the committee might best be answered by an over-all examination of the company's operations for the year.

The CHAIRMAN: If I might interrupt for a moment, I think before we go to the reading of the report there may be some questions on item 614 of the supplementary estimates, and before reading the report if there are questions to be directed to the witness on a particular item that should be dealt with in order that we might carry that item as it should be reported to the Minister of Finance. That is the item in the supplementary estimates and I will read it in its entirety if you wish. It refers to the Canadian National Railways' deficit for 1954.

Amount required to provide for the payment during the fiscal year 1954-55, to the Canadian National Railway Company (herein-after called the National Company) upon applications approved by the Minister of Transport, made by the National Company to the Minister of Finance and to be applied by the National Company in payment of the system deficit (certified by the auditors of the National Company)

arising in the calendar year 1954, subject to recovery therefrom of accountable advances made to the National Company from the consolidated revenue fund.

Then the amount is \$28,758,098.

Mr. MACDONNELL (*Greenwood*): Mr. Chairman, might I just make this suggestion? Do I understand you are suggesting that we deal with this item before we have heard the report read? Is it important that it be dealt with at this point? It would seem to me more convenient if we had the general report read. I take it you want to read that without questions being asked?

The CHAIRMAN: That has been the practice.

Mr. MACDONNELL (*Greenwood*): Then it seems to me we would then have a prima facie case on which we might want to ask Mr. Gordon a few questions and besides I don't like the idea of that item being passed without any explanation at all, because we said in the House the other day that we wanted a very general explanation such as I am sure will result from a very few question after the reading of the report. I think it could all be done before 1.00 o'clock.

The CHAIRMAN: If it can be done that is all right. Then, we will, as in past years, proceed with the reading of the whole report.

Mr. MACDONNELL (*Greenwood*): Might I ask one more question? Do I take it the report will be read and then we can go through it item by item and ask questions?

The CHAIRMAN: Yes.

Mr. GORDON: Well, Mr. Chairman, I would ask the members to turn to page 4 of the report. I will cover the letter of submittal just as a matter of form. It is addressed to the Minister of Transport, and is as follows:

CANADIAN NATIONAL RAILWAYS

DONALD GORDON
Chairman and President

MONTREAL,
February 25, 1955.

The Honourable George C. Marler, M.P.,
Minister of Transport,
Ottawa.

Dear Sir:

On behalf of the Board of Directors. I submit herewith the Annual Report of the Canadian National Railways for the year 1954.

I would like to express, on behalf of the Board and the Management, appreciation to the entire personnel of the company for their loyal and efficient service during the year.

Yours truly,
D. GORDON.

Then, turning to the annual report I will commence on page 5:

ANNUAL REPORT 1954

1. The Canadian National, in common with other North American railroads, experienced a severe drop in traffic in 1954. Operating revenues fell by \$56 million from the preceding year, the largest decline in the history of the company.

2. Operating expenses were reduced \$32.6 million, the sharpest cut since 1932. The reduction in costs did not match the decline in revenues, mainly because there are important elements of expense which by their very nature are not responsive to changes in the volume of traffic, but also because of a managerial decision to avoid the risk of making short-term adjustments which would only have imposed a mortgage on the future.

3. As a result, after meeting all operating expenses, the net revenues for the year fell substantially short of the amount required to cover the fixed interest obligations of the company.

4. The following statement is a summary of the Consolidated Income Account in comparative form:

	1954	1953
Operating revenues	\$640,637,280	\$696,622,451
Operating expenses	626,465,374	659,049,086
Net operating revenue	\$ 14,171,906	\$ 37,573,365
Taxes, equipment rents and other income accounts Dr.	11,720,611	9,242,022
Available for interest	\$ 2,451,295	\$ 28,331,343
Interest charges	31,209,393	28,087,326
Deficiency or Surplus	\$ 28,758,098	\$ 244,017

TRAFFIC AND REVENUES

Freight

5. In 1954, Canadian National trains hauled 79.3 million tons of revenue freight an average distance of 414 miles. Compared with 1953, this represented an 8% reduction in tonnage and a 2% shorter average haul. As a result, revenue ton miles, the product of these two factors and the best measure of freight movement, declined 10% from the preceding year.

6. Freight revenues, which accounted for 78% of total operating revenue, amounted to \$502.8 million, a reduction of \$50.8 million or 9% from 1953. Revenue per ton mile averaged 1.529 cents; in 1953 it was 1.509 cents.

7. The decline in revenue tonnage was fairly general and is shown in detail on page 14 of the "Statistical Statements". The principal decrease occurred in grain as export shipments fell off sharply. Iron and steel traffic was down markedly as was the movement of automobiles and parts, machinery and agricultural implements. Lumber, miscellaneous manufactured products and less-carload tonnage were also down from the previous year. Coal and coke traffic continued to decline.

8. The most important of the scattered increases was in ores and concentrates. Moderate increases in tonnage also occurred in crude oil, other petroleum products, sand and crushed stone and other mine products, as well as wood-pulp and newsprint.

Freight Rates

9. No general change in freight rates was applied for or authorized in 1954.

10. A number of rate reductions and other tariff changes were initiated by the railways during the year to meet increased competition, particularly from long-distance highway carriers. The most significant of these were sharp reductions in a number of rates between Montreal and Toronto, where motor trucks

had cut deeply into high-rated rail traffic. Some of the reductions, which went into effect on September 21, 1954, applied to the "trailer-on-flat-car" service and these were extended to Hamilton on January 17, 1955.

11. In May, 1954, a Royal Commission was appointed to inquire into the application and effect of agreed charges published by the railways under the authority of Part IV of the Transport Act. In the course of the hearings, the Canadian National emphasized that the principle of the "agreed charge" is an integral part of ordinary commercial pricing policy and asked for modification of the present procedural requirements so as to obtain increased freedom to negotiate such contracts with shippers. Final hearings were held in December, and at year end the report of the Royal Commission was pending.

12. On March 1, 1954, the Board of Transport Commissioners for Canada issued an Order modifying its original judgment of December 12, 1952 on the equalization of freight rates and setting out a revised uniform class rate scale for application in Canadian territory—Levis, Quebec and west—not later than March 1, 1955. The revised Canadian Freight Classification, to be used in conjunction with the new rate scale, was completed during the year and filed with the Board in January, 1955.

Passenger

13. Fewer people travelled on Canadian National trains in 1954 than in 1953, and their average journey was shorter. The number of passengers carried decreased 1% to 17.9 million, and revenue passenger miles declined 4%. Passenger revenue, at \$43.8 million, was down \$2.2 million or 5% from the preceding year.

14. The lower volume of passenger travel was in part a reflection of business adjustments during the year, aggravated by the uncertain agricultural outlook in western Canada. It also mirrored a condition which has affected the entire railroad industry: growing competition from airlines and from buses and private automobiles taking advantage of the continuing extension of highways.

Passenger Fares

15. The mid-week excursion fares and the Family Fare Plan, introduced experimentally in 1953, were continued through 1954. These incentive fares, and the all-inclusive "package tours", are part of the programme to stimulate rail travel.

16. Because of mounting losses on commuter trains, an application was filed on May 13, 1954 with the Board of Transport Commissioners for Canada requesting permission to increase commutation fares by 100%. On August 4th, the Board authorized the increase in the Toronto area: 50% not earlier than September 30th, and two increases of 25% at intervals of not less than six months. On February 18, 1955, an interim increase of 50% was authorized for all other commutation areas in Canada, pending further study by the Board. Even a doubling of fares would not, however, materially improve the position of the suburban service west of Montreal, where operating losses are greatly inflated by duplication of facilities and the resulting division of traffic. This service is a heavy drain on the Canadian National's earnings, and since the area is well served by other agencies, the company applied to the Board on November 10th for permission to withdraw from the commuter service between Montreal and Vaudreuil, Quebec.

Express

17. The volume of express traffic declined in 1954, although less markedly than freight traffic. Express shipments were down about 3%. There was no

change in rates during the year and no significant change in the quality of the traffic. Total express revenues amounted to \$36.4 million, a reduction of \$1.9 million from the record level of 1953.

Communications

18. Revenues earned by the Communications Department rose again in 1954 to a record of \$17.1 million, an increase of \$1.1 million or 7% over 1953. The increase was chiefly the result of the continued growth of special services, notably private wire rentals. A slight decline in the number of messages handled was largely offset by an increase, effective August 15th, in international rates between Canada and the United States.

OPERATIONS

Operating Expenses

19. Railway operating expenses in 1954 were \$626.5 million, a decrease of \$32.6 million or 5% from the previous year. The decrease was due in part to lower traffic volume and in part was evidence of the accumulating benefits of recent modernization, particularly the wider use of diesel motive power.

20. Transportation expenses, which cover all station, yard and train costs connected with the handling and movement of traffic, totalled \$302.4 million. This represented a reduction of \$25.4 million or 8% from 1953.

21. Despite declining traffic, there was a further improvement in operating performance in 1954. Freight trains were heavier than in 1953 and moved faster. Gross ton miles per freight train hour reached 32,841, bettering by nearly 3% the record set in 1953. The increased use of diesel-electric locomotives was an important factor in this achievement. Since 1948, the first year in which diesels were used in road freight service, the efficiency of freight train operation, measured in terms of gross ton miles per freight train hour, has increased by 27%. It has increased 19% since the start of the five-year dieselization programme in 1952.

22. Maintenance of equipment expenses, the cost of repairing locomotives, cars, shop machinery and other equipment, were \$134.7 million, a reduction of \$13.4 million or 9% from 1953 notwithstanding a \$2.3 million increase in depreciation and a charge of \$2.0 million incurred in writing down obsolescent steam locomotive repair parts. The net reduction in maintenance of equipment expenses reflected lower maintenance costs on new rolling stock as well as the impact of lower traffic volume.

23. Expenditures for maintenance of way and structures totalled \$129.4 million, an increase of \$1.5 million or about 1% over 1953. The increase was indicative of the company's continued effort to reduce arrears of maintenance and make much needed improvements, particularly in rail. Previous Annual Reports have stressed the serious effect of the postwar shortage of new rail and the need to make up the deficiency as supplies became available.

24. With the improvement in deliveries in 1954, the company was able, for the first time since the Second World War, to complete the rail-laying program planned for the year. New rail was laid in 869 miles of track and part-worn rail laid in place of older rail in 268 miles. Over 3.5 million ties were installed, 92% of them treated, and 1.8 million cubic yards of ballast applied. The work accomplished in 1954 was a step forward, but much remains to be done, particularly in the Western Region, to provide a standard of track structure suitable to present and prospective requirements for heavier volumes of traffic and faster train operation.

25. Other operating expenses, including traffic, miscellaneous operations and general expenses, rose by \$4.7 million to \$60.0 million. The increase was attributable almost entirely to the impact of higher pension costs on general expenses.

26. An unexpected burden was placed on the railway by Hurricane "Hazel" which did extensive damage to tracks and facilities throughout central Ontario on the week-end of October 15, 1954. By the end of the year, \$538,603 in expense had been incurred and the total cost of the disaster is expected to reach nearly \$750,000. During the emergency, the Canadian National operated extra suburban trains until highways were reopened, and set up special communications facilities to assist in rescue and allied operations.

27. For the first time since 1939, the company did not have to buy materials and equipment in a rising market. Although there were a few fluctuations, material and supply prices on the whole remained relatively constant during 1954 at a level slightly below that of the preceding year.

28. While the level of employment and total payroll costs were lower in 1954 than in 1953, increased wage rates and changed working conditions added \$3.7 million to operating expenses.

Labour Negotiations

29. Proceedings before a Board of Conciliation and Investigation failed to settle the dispute between the railways and the non-operating employees' unions, and in August, 1954 the parties agreed to arbitration. The arbitrator, Chief Justice Gordon McGregor Sloan, made his award on November 19th granting certain of the requested fringe benefits in respect of payment for statutory holidays, and improved vacations, effective from January 1, 1955. The application on the Canadian National of the working conditions provided in this award will add about \$4.5 million a year to operating expenses. A master agreement implementing the award was signed on February 24, 1955.

30. Negotiations with the Order of Railroad Telegraphers were held in abeyance, following preliminary discussions, pending final settlement of the non-operating case.

31. A Board of Conciliation was established to deal with the demands of the Brotherhood of Locomotive Firemen and Enginemen. At the close of the year, the Board had not yet made its recommendations.

32. An agreement was concluded with the Brotherhood of Locomotive Engineers in respect of employees on the Western Region, and at year end an agreement was under negotiation for employees on the Central and Atlantic Regions (excluding Newfoundland District).

Taxes, Rents and Other Income Accounts

33. The net charge arising from this group of accounts, which can be identified on page 5 of the "Statistical Statements", increased by \$2.5 million in 1954 to a total of \$11.7 million. The increase was mainly a result of the sale of four hotel properties (discussed in paragraph 80 below) and the retirement of the Prince Rupert Drydock; decreased income from separately operated properties; and a reduction in the profits from repurchases of perpetual debenture stock as the transaction was wound up. These increases were partially offset by a substantial saving in equipment rentals resulting from lower traffic volume and increased car ownership.

Hotel Operations

34. Hotel operating revenue increased by 4% in 1954 to a new record of \$11.5 million as a slight decline in patronage was offset by increased room

rates and meal prices. The number of guests accommodated at the nine year-round hotels and three summer resorts declined about 3% to 724,598. Operating expenses increased 1% to \$9.9 million because of wage adjustments and reduced working hours. Net operating income, on an accounting basis comparable to 1953, increased from \$1.2 million to \$1.6 million.

35. The Canadian hotel properties were consolidated as Canadian National Hotels, Limited as of January 1, 1954 and depreciation accounting was applied from that date. After deduction of depreciation and addition of income from the Hotel Vancouver (operated jointly with the Canadian Pacific), the 1954 net income from hotels amounted to \$1,585,042 before any return on investment.

Service Changes

36. In 1954 the Canadian National made a number of changes in operations to improve service, reduce costs and strengthen the competitive position of the railway.

37. The "trailer-on-flat-car" service between Montreal, Toronto and Hamilton was expanded to meet increased demand by the addition of 20 new trailers, including 4 with open-tops. At the year end, a total of 44 trailers and 22 flat cars were in use.

38. To new Budd Rail Diesel Cars, operated as a unit, replaced a steam train between Levis and Riviere du Loup, Quebec, providing better service at lower cost to the railway. More of these "railiners" will be used where they will yield operating economies and improve service.

39. Inter-urban truck services were inaugurated on four new routes as a part of through rail services. Such co-ordination of truck and rail operations, although limited in scope, produces operating economies and also improves the quality of service.

40. Dinette cars and coffee shop service in grill-type cars were introduced on a number of trains. Budget-priced meals are offered in attractive, modern equipment. The initial response of the travelling public has been very favourable and it is hoped that this new standard will encourage volume patronage and so reduce losses on dining car service.

41. In January, 1955, the Canadian National received authority from the Board of Transport Commissioners for Canada to abandon a 40-mile line between Falding and Scotia in Ontario. Permission is being sought to abandon a number of other such unremunerative services. The Canadian National holds the view that it should not be expected to carry thin-traffic lines which fail to generate enough revenue to cover even out-of-pocket expenses and have no prospect of doing so, and where other transportation facilities are available to serve the public.

Employee Training

42. The training and development of employees was accelerated across the system in 1954. From the standpoint of effective operations, employee training is of prime importance, particularly in view of the new equipment and methods which have been introduced into railroading in recent years. The second annual Staff Training Course was successfully completed and a number of specialized courses were inaugurated for supervisors and other employees.

43. Training for the sales staff in the Freight and Passenger Departments was instituted. In the Accounting Department, training projects were installed for clerical and middle management groups in accounting techniques and personnel management. Plans were drawn up for foremen training in the Maintenance of Way Department. A pioneer programme for technical training in

signals was planned. By mid-1955, two novel instruction cars are expected to be on line for practical courses in signal installation and maintenance. Diesel instruction for both maintenance and operating employees was intensified.

44. In all projects involving scheduled employees, trade union officers co-operated with planning groups. This co-operation is one of the most encouraging features of the training programme.

Research

45. On the technical side of rail operation, research contributed to improved quality control in the purchase and use of railway materials. Further tests were conducted on experimental installations of mechanical refrigeration and air-conditioning equipment, and on a fine coal stoker for steam locomotives. Plans were drawn up for a new double-deck automobile transporter car. A study commenced in 1953 on the application of radio communication to yard operations was concluded and test installations made on fifteen yard engines in the Montreal Terminals in January, 1955.

46. A number of economic and development studies were made during the year, and the analysis of special traffic movement was continued as an aid in evaluating and setting rates. The company initiated several surveys to assist line officers in problems of departmental organization. Technical assistance in office management practices was continued and new programmes were installed.

47. Research was a key factor in the gains in operating efficiency achieved in 1954. This year's financial results should not be allowed to obscure these achievements which evidence continuing effort to make the best use of human and material resources.

CAPITOL ADDITIONS AND IMPROVEMENTS

48. The extensive modernization programme of recent years is helping the Canadian National hold down costs and provide the high standard of service necessary to strengthen its competitive position. Without these improvements, the 1954 financial results would have been substantially worse. During the year the company acquired a wide range of new motive power and freight and passenger equipment, and achieved a further modernization of road property.

49. The 1954 capital expenditure programme also covered construction work on three major branch lines and on a new hotel in Montreal. The net increase in the property investment account, shown on page 8 of the "Statistical Statements", amounted to \$147.5 million, of which \$113.2 million represented net expenditures on equipment.

Equipment *Motive Power*

50. Substantial additions were made in 1954 to the Canadian National's fleet of diesel-electric locomotives under the five-year programme begun in 1952. During the year 113 units, including 24 road passenger locomotives, were acquired, bringing to 615 the number of diesel units in service at the end of the year.

51. The acquisition of the passenger locomotives, specially equipped for train heating, marked the beginning of a new phase of the dieselization programme. Studies had shown that, for the Canadian National, the greatest economies could be derived from the initial stages of dieselization in freight and switching operations. In 1954, 46% of the Canadian National's freight service, measured in gross ton miles, was diesel powered, and diesel locomotives

account for 60% of total yard switching hours. Now that this part of the programme is more than half completed, the company has been able to embark on the passenger phase.

52. With the passenger units acquired during 1954, and those on order at year end, the company expects to be able to dieselize about 25% of total passenger train mileage by mid-1955, as compared with only about 4% in 1954. The transcontinental passenger service will be dieselized when the timetable changes on April 24th. Under diesel power, the new "Super Continental" will cut over half a day off the running time between Montreal, Toronto and the Pacific coast on a schedule designed for the convenience of communities along the three thousand mile route. Concurrently, new fast schedules will be introduced eastward between Montreal and the Atlantic coast for the "Scotian" and the "Ocean Limited", already equipped with diesel locomotives.

53. The conversion of steam locomotives in western Canada from coal to oil was continued. In 1954, 77 engines were converted.

Freight and Passenger Equipment

54. A total of 5,596 new freight cars were delivered during the year, including 3,050 box cars, 901 gondolas, 600 ore cars and a number of other types. This brought to over 23,000 the number acquired since the beginning of 1951 to replace worn-out cars and to provide the wide range of modern freight equipment necessary to meet the diversified demands of today's shippers.

55. One of the highlights of the year was the delivery of 359 new coaches, sleepers and other passenger-carrying cars ordered in 1952 and 1953. The new cars now in service on principal trains, provide the most efficient use of space consistent with modern standards of comfort and convenience.

56. A further contribution to improved standards of accommodation was made by the modernization of 33 older passenger cars in Canadian National shops.

Road Property

57. The modernization of yard and terminal facilities progressed in 1954. The rearrangement and extension of Turcot yard in Montreal was finished and further land transactions were completed for the proposed Cote de Liesse hump yard. At Atikokan, Ontario, work started on a two-year programme to extend and modernize yard facilities to handle anticipated increases in ore traffic. Construction was begun on new classification yards at Sarnia, Ontario and at Joffre and Garneau in Quebec.

58. The permanent marine slip for barge traffic at Prince Rupert was completed and placed in service early in the year. The extension of the iron ore dock at Port Arthur, Ontario, was brought close to completion by year end and will be ready for full operation when the 1955 navigation season opens.

59. Diesel repair and servicing facilities were expanded in line with the increased use of diesel locomotives and fuelling facilities were set up at numerous points on the system.

60. In the summer of 1954, 10 miles of continuous welded rail, the first of its kind in Canada, were laid in the westward main track near Belleville, Ontario. This was a test section to determine the costs and practical problems of installation, and will yield firsthand information on the savings in track maintenance which can be realized from the use of continuous rail.

61. The mechanization of roadway maintenance was further advanced during the year by the purchase of an additional 307 roadway machines and power tools. These machines help stretch maintenance dollars.

62. The year 1954 saw the completion of the signalling projects begun in 1952 to expedite heavy freight movements between Atikokan and Port Arthur, Ontario. By year end, 299 miles of the 512-mile main track between Jasper and Vancouver had been equipped with automatic block signals. In 1954, signals were placed in service on 66 miles of this mountain route and the project is scheduled for completion by 1957.

Communications

63. In keeping with steadily rising demand, communications facilities were expanded and improved in 1954. Substantial additions were made to wire plant and to carrier channel mileage for telegraph and telephone. Telegraph and longline telephone facilities along the railway right-of-way between Prince George and Prince Rupert in British Columbia were purchased from the Government Telephone and Telegraph Service. The reversionary interests of the Montreal Telegraph Company in its properties, formerly operated under a lease agreement, were purchased by the system in May, 1954. Facsimile handling of commercial messages was introduced in Montreal. A despatching telephone circuit from Toronto to Vancouver was set up for Trans-Canada Air Lines, and mechanization of their coast to coast private wire teletype system was under way at year end. Extensive contributions were made to defence communications.

64. Canadian National Telegraphs, jointly with the Canadian Pacific, provided microwave facilities linking Hamilton, Kitchener and Windsor with the Toronto-London portion of the CBC's television network completed in 1953. Montreal and Quebec will be similarly linked early in 1955.

Line Extensions

65. The company's construction activity in 1954 is tangible evidence of continuing Canadian development and is a reminder of the vital contribution of rail transportation to economic growth.

66. Work progressed rapidly on the new branch line from Terrace to Kitimat in British Columbia. The new line, serving the aluminum smelter, was placed in limited revenue service in January, 1955. Contracts were awarded during the year for the clearing and grading of two new lines: a 158-mile branch from Beattyville to Chibougamau in Quebec and one of 27 miles from Hillsport to Lake Manitouwadge in northern Ontario. Both will facilitate the development of rich mining areas.

67. In 1954, 266 industrial sidings, spurs and track extensions, amounting to 47 miles in all, were built to serve shippers on Canadian National lines.

The New Hotel

68. During the year, Parliament authorized construction of the new hotel in Montreal and at year end work was under way on this portion of the terminal development programme.

69. With the gracious permission of Her Majesty Queen Elizabeth, the new hotel will bear her name.

70. The hotel will represent a unique kind of operation, one dedicated primarily to the accommodation of large conventions which now turns away from Canada for lack of suitable facilities. The full realization of the potential of the new hotel will make Montreal a leading convention centre with attendant benefits to the entire tourist industry.

71. This specialized form of patronage can be secured only through a vigorous sales organization extending into all of the principal cities of the United States where the great majority of conventions originate. The Canadian National has been able to retain the services of such an organization on very favourable

terms through an agreement with Hilton of Canada, Ltd., the Canadian subsidiary of Hilton Hotels Corporation. Through this management contract, there will be brought to the new hotel and to the Canadian National system generally the extensive solicitation facilities of the world's largest hotel operators, and the special skills of an organization already pre-eminent in the American convention business.

Financing

72. During 1954, the following Canadian National Railways bond issues were sold to the public:

\$200,000,000 bearing $3\frac{3}{4}\%$ interest coupon maturing February 1, 1974

\$250,000,000 bearing $2\frac{3}{4}\%$ interest coupon maturing February 1, 1963

Proceeds of these issues were used to retire advances from the Government of Canada obtained to finance capital expenditures, and to redeem an issue maturing on February 1, 1954 in the amount of \$50,000,000.

GENERAL

Other Transportation Developments

73. Delivery of the Motor Vessel *William Carson*, being constructed on federal government account for service between Port aux Basques and North Sydney, was delayed. Present indications are that this modern ice-breaking ferry will be turned over to the Canadian National for operation in mid-1955.

74. Work continued during 1954 on the ferry to be operated for the federal government between Yarmouth, Nova Scotia, and Bar Harbor, Maine. Delivery of the new ferry is expected in the summer of 1955. Terminal facilities being built at both ports for the new service are expected to be completed before the vessel is ready for operation.

75. The company's work in connection with the Canso Causeway was well advanced at year end. The rail facilities will be ready for traffic when a bridge has been constructed over the lock in the causeway.

St. Lawrence Seaway

76. The advance of the seaway project from the planning to the construction stage in 1954 heralded a new phase of Canadian economic development which will have a special significance for Canadian National Railways. Of immediate concern are the problems of adapting the company's facilities to the proposed power developments and navigation works, particularly the modification of Victoria Bridge in Montreal and the relocation of 40 miles of double main track between Cornwall and Cardinal, Ontario.

77. In January, 1955, Canadian National Railways and the St. Lawrence Seaway Authority announced that, subject to approval by appropriate regulatory authorities, a plan had been agreed upon for modification of Victoria Bridge, which carries the company's main lines across the St. Lawrence River. The plan calls for a moveable span over the projected channel at the St. Lambert end of the bridge. An alternative span and access road will permit uninterrupted motor traffic. A two-lane highway, which will permit the operation of busses, will be added to the bridge where the electric train tracks of the Montreal and Southern Counties Railway Company are now located.

The plan envisages discontinuance of the electric train service on construction of this second highway, which will more than double the vehicle-carrying capacity of the bridge.

78. Detailed plans have been drawn up for relocating the main line between Cornwall and Cardinal. The company is collaborating with the various authorities to obtain final agreement so that work can begin as soon as possible.

Corporate Reorganization

79. The plans for simplifying the system's corporate structure were advanced in 1954. A notable feature, already mentioned, was the incorporation of Canadian National Hotels, Limited, to own and operate system hotels formerly held in the names of five different corporations. In addition, 20 system companies—18 railway and 2 telecommunication companies—were eliminated through amalgamation. Further progress will be made through the discharge of mortgages and redemption of securities of various other constituent companies.

Sale of Four Hotels

80. In 1954, the Canadian National received an unsolicited offer for four of its hotels—the Prince Arthur Hotel in Port Arthur, Ontario; the Prince Edward Hotel in Brandon, Manitoba; Pictou Lodge in Nova Scotia and Minaki Lodge in Ontario—and following a careful analysis of all pertinent factors a sale of the properties was deemed desirable. Notices were published in newspapers throughout Canada to afford interested parties an opportunity to submit bids. The hotels were eventually sold to the group who had originated the proposal and who made the most advantageous offer.

Co-operation under the Canadian National-Canadian Pacific Act, 1933

81. Various joint studies aimed at the achievement of co-operative economies were continued in 1954, but no new projects were added during the year.

82. In addition to co-operation under this Act, there are a number of arrangements for mutual economy, such as joint use of terminals and joint running rights. The two companies are also collaborating on the standardization of rolling stock design, and on the provision of microwave facilities and the study of communications problems. As another example, co-ordinated operation of the British Columbia coastal steamship services will commence on March 29, 1955. One vessel will operate on the coastal route, in regular freight and passenger service, jointly for the Canadian National and Canadian Pacific. Each line will continue independent operation of its summer cruise service to Alaska.

AT YEAR END

83. In retrospect, the year 1954 was in many ways a year of progress for the Canadian National. The financial results in respect of any particular year may, under the influence of relatively sudden and substantial changes in the volume of business or in the level of prices and wages, show a wide variation from the long-term trend. Nevertheless, the management remains confident that, given a regulatory environment compatible with the exercise of sound business principles, the Canadian National can be made to pay its way on the average of good years and bad. To do so will require continuing and forthright endeavours to adapt the railway's traditional services and facilities to the

vast changes which have taken place in the Canadian transportation scene over the past thirty years—changes induced by the growth of industry, the progress of technology and the development of competing forms of transportation. In the course of time, these efforts to adjust to modern conditions will be increasingly reflected in the net income results of the system.

Now, Mr. Chairman, this completes the formal report. I would like now to call attention to the several statistical statements and the details of the income and expense accounts as well as the consolidated balance sheet of the Canadian National Railways system.

CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 1954

ASSETS	LIABILITIES
INVESTMENTS—	
Road and equipment property.....\$ 639,859,095	FUNDED DEBT—
Improvements on leased property.. 1,270,331	Owned by public.....\$ 959,892,859
Miscellaneous physical property.... 68,080,193	Held in special funds..... 13,076,737
\$2,709,209,169	\$ 972,969,596
GOVERNMENT OF CANADA LOANS AND DEBENTURES..... 126,771,981	
CURRENT LIABILITIES—	
Capital and other reserve funds:	Traffic and car-service balances.....\$ 7,859,691
System securities at par.....\$ 16,500	Audited accounts and wages payable..... 27,718,549
Other assets at cost..... 871,186	Miscellaneous accounts payable..... 8,084,473
887,686	Government of Canada..... 4,056,795
Investments in affiliated companies..... 69,283,238	Interest matured unpaid—Public..... 4,224,379
Other investments:	Unmatured interest accrued..... 6,924,698
System securities at par.....\$ 205,000	Accrued accounts payable..... 17,659,317
Other assets at cost..... 490,036	Taxes accrued..... 2,392,945
695,036	Other current liabilities..... 2,137,917
\$2,780,075,579	81,058,764
DEFERRED LIABILITIES—	
CURRENT ASSETS—	Pension liability.....\$ 102,500,000
Cash.....\$ 18,036,272	Other deferred liabilities..... 9,833,070
Temporary cash investments..... 27,972,250	112,333,070
Special deposits..... 14,599,180	RESERVES AND UNADJUSTED CREDITS—
Net balance receivable from agents and conductors..... 23,776,201	Insurance reserve.....\$ 15,000,000
Miscellaneous accounts receivable..... 20,661,771	Accrued depreciation..... 230,188,287
Government of Canada—Due on deficit account.. 3,758,098	Unadjusted credits..... 12,850,239
Material and supplies..... 86,325,914	258,038,526
Interest and dividends receivable..... 65,213	STOCKS—
Accrued accounts receivable..... 6,887,328	Capital stocks of subsidiary companies owned by public..... 4,514,490
Other current assets..... 260,712	GOVERNMENT OF CANADA—SHAREHOLDER'S ACCOUNT—
202,342,939	6,000,000 shares of no par value capital stock of
DEFERRED ASSETS—	Canadian National Railway Company.....\$ 396,518,135
Working fund advances.....\$ 688,929	795,100,531 shares of 4% preferred stock of Canadian National Railway Company..... 795,100,531
Insurance fund:	Capital investment of Government of Canada in the Canadian Government Railways..... 379,774,515
System securities at par.....\$ 2,616,237	1,571,393,181
Other assets at cost..... 12,383,763	
15,000,000	
Pension fund:	
System securities at par.....\$ 10,239,000	
Other assets at cost..... 92,261,000	
102,500,000	
Other deferred assets..... 8,848,931	
127,037,860	

UNADJUSTED DEBITS—	
Prepayments.....	\$ 3,423,343
Discount on funded debt.....	7,116,755
Other unadjusted debits.....	7,083,132
	17,623,230
	\$3,127,079,608

\$3,127,079,608

The notes appearing on page 4 are an integral part of this Balance Sheet.
R. D. ARMSTRONG,
Comptroller.

CERTIFICATE OF AUDITORS

We have examined the books and records of the companies comprising the Canadian National Railway System for the year ended 31st. December, 1954, and, in our opinion, proper books of account have been kept by the System.

In our opinion the above consolidated balance sheet, supplemented by the notes relating thereto appearing on page 4, and the relative consolidated income account are properly drawn up so as to give a true and fair view of the System's affairs at 31st. December, 1954, and of the consolidated income and expense for the year according to the best of our information and the

explanations given to us, and as shown by the books of the System. With the exception that provision has been made for depreciation of hotels, which we approve, they are prepared on a basis consistent with that of the previous year.

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

Dated at Montreal,
2nd. March, 1955.

GEORGE A. TOUCHE & CO.
Chartered Accountants.

NOTES TO CONSOLIDATED BALANCE SHEET
AT DECEMBER 31, 1954

The total investment in fixed properties and equipment brought into the System accounts at January 1, 1923, was as recorded in the books of the several corporations and the Canadian Government Railways. Subsequent additions have been at cost.

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

On Canadian Lines, replacement accounting for track and retirement accounting for other fixed properties were continued. Depreciation accounting for equipment has been applied from January 1, 1940, and for hotel properties from January 1, 1954.

On United States Lines replacement accounting for track and depreciation accounting for other fixed properties and equipment was continued.

MAJOR CONTINGENT LIABILITIES

Chicago & Western Indiana Railroad Company

Assumed by Grand Trunk Western Railroad pursuant to joint supplemental lease dated May 1, 1952, between Grand Trunk Western Railroad Company and four other proprietary companies. Obligation is to pay as rental sinking fund payments sufficient to retire bonds at maturity and interest as it falls due. The Grand Trunk Western's proportion is one-fifth in the absence of default of any of the other tenant companies. The bonds are First Collateral Trust Mortgage 4½% Sinking Fund Bonds Series "A" due May 1, 1982, and the amount outstanding at December 31, 1954, is \$61,699,000.

The Detroit & Toledo Shore Line Railroad Company

Assumed by Grand Trunk Western Railroad Company as joint and several guarantor of principal, interest and sinking fund payments of \$3,000,000 First Mortgage 3¼%—30 Year Series "A" Bonds due December 1, 1982.

The Toledo Terminal Railroad Company

Assumed by Grand Trunk Western Railroad Company in respect of \$6,000,000 First Mortgage 4½%—50 Year Gold Bonds due 1957. The guarantee is as to interest only and is several and not joint. Grand Trunk Western's proportion is 9.68%.

C.N.R. Pension Plans

Reserves have been set up for pensions in force under the 1935 plan, but not for pensions granted under the prior non-contributory plan or for increased benefits granted effective July 1, 1952, to employees who were contributors under the 1935 plan and retired on pension prior to January 1, 1952.

Reserves have not been set up for pensions conditionally accruing to employees now in service.

CONSOLIDATED INCOME ACCOUNT

	1954	1953
RAILWAY OPERATING REVENUES—		
Freight.....	\$502,830,806	\$553,618,614
Passenger.....	43,757,015	45,916,272
Mail.....	8,099,860	8,732,737
Express department.....	36,359,693	38,258,227
Communications department.....	17,084,985	15,952,985
All other.....	31,904,921	34,143,616
Total operating revenues.....	<u>\$604,637,280</u>	<u>\$696,622,451</u>
RAILWAY OPERATING EXPENSES—		
Maintenance of way and structures.....	\$129,414,444	\$127,919,422
Maintenance of equipment.....	134,664,281	148,100,818
Traffic.....	12,347,309	12,065,049
Transportation.....	302,373,764	327,757,447
Miscellaneous operations.....	6,420,154	6,635,991
General.....	41,245,422	36,570,359
Total operating expenses.....	<u>\$626,465,374</u>	<u>\$659,049,086</u>
NET OPERATING REVENUE.....	<u>\$ 14,171,906</u>	<u>\$ 37,573,365</u>
TAXES AND RENTS		
Railway tax accruals.....	\$ 13,716,269	\$ 13,549,079
Equipment rents—Net credit or debit.....	542,067	3,567,132
Joint facility rents—Net debit.....	358,217	300,169
Total taxes and rents.....	<u>\$ 13,532,419</u>	<u>\$ 17,416,380</u>
NET RAILWAY OPERATING INCOME.....	<u>\$ 639,487</u>	<u>\$ 20,156,985</u>
OTHER INCOME		
Income from lease of road.....	\$ 47,207	\$ 47,308
Miscellaneous rent income.....	1,416,481	1,296,386
Income from non-transportation property.....	320,216	1,065,742
Hotel income.....	1,585,042	1,245,132
Dividend income.....	353,217	466,694
Interest income.....	1,827,485	1,600,767
Miscellaneous income.....	2,325,461	3,780,916
Total other income.....	<u>\$ 7,875,109</u>	<u>\$ 9,502,945</u>
DEDUCTIONS FROM INCOME—		
Rent for leased roads.....	\$ 477,731	\$ 477,732
Miscellaneous rents.....	702,659	699,839
Results of separately operated properties.....	112,206	407,542
Interest on unfunded debt.....	280,577	332,935
Amortization of discount on funded debt.....	559,563	488,167
Miscellaneous income charges.....	124,910	129,010
Profit and loss—Net debit or credit.....	3,805,655	381,554
Total deductions from income.....	<u>\$ 6,063,301</u>	<u>\$ 1,328,587</u>
NET INCOME AVAILABLE FOR INTEREST.....	<u>\$ 2,451,295</u>	<u>\$ 28,331,343</u>
INTEREST CHARGES—		
Interest on funded debt—Public.....	25,833,306	21,575,180
Interest on government loans.....	5,376,087	6,512,146
Deficit or surplus.....	<u>\$ 28,758,098</u>	<u>\$ 244,017</u>

OPERATING REVENUES

	1954	1953		1954	1953
PRINCIPAL ACCOUNTS—			ALL OTHER (Continued)		
Freight.....	\$493,896,952	\$544,716,612	Switching.....	5,552,361	6,237,420
Payments under M.F.R.A.....	8,933,854	8,902,002	Water transfers.....	1,805,686	2,059,564
Total Freight.....	\$502,830,806	\$553,618,614	Dining and buffet.....	3,848,904	3,651,820
Passenger.....	43,757,015	45,916,272	Restaurants.....	351,901	360,036
Mail.....	8,699,860	8,732,737	Station, train and boat privileges.....	415,380	422,944
Express department.....	36,359,693	38,258,227	Parcel room.....	61,595	69,263
Communications department.....	17,084,985	15,952,985	Storage—Freight.....	332,347	432,636
ALL OTHER			Storage—Baggage.....	47,273	52,638
Baggage.....	137,952	146,710	Demurrage.....	1,755,705	2,331,195
Sleeping car.....	4,375,396	4,499,995	Telegraph commissions (U.S.).....	13,071	14,562
Parlor and chair car.....	397,642	407,602	Grain elevator.....	876,242	908,001
Railway Express Agency.....	648,884	895,165	Rents of buildings and other property.....	1,373,338	1,205,725
Other passenger-train.....	15,246	11,532	Miscellaneous.....	8,676,577	9,173,613
Milk.....	456,220	496,646	Joint facility—Cr.....	934,412	918,911
			Joint facility—Dr.....	171,811	159,362
			Total All Other.....	\$31,904,921	\$34,143,616

OPERATING EXPENSES

	1954	1953		1954	1953
MAINTENANCE OF WAY AND STRUCTURES—			MAINTENANCE AND EQUIPMENT—		
Superintendence.....	\$ 9,476,223	\$ 9,762,624	Superintendence.....	\$ 3,548,277	\$ 3,539,998
Roadway maintenance.....	12,100,353	12,679,179	Shop machinery—Repairs.....	3,986,253	4,471,098
Tunnels and subways.....	156,762	191,616	Power-plant machinery—Repairs.....	293,355	280,579
Bridges, trestles and culverts.....	5,027,638	5,255,078	Machinery—Retirements.....	423,403	335,960
Ties.....	11,617,197	13,173,003	Machinery—Depreciation—U.S.....	88,629	81,826
Rails.....	10,258,273	6,143,620	Dismantling retired machinery.....	5,404	14,268
Other track material.....	10,434,623	6,756,299	Steam locomotives—Repairs.....	27,866,536	35,951,908
Ballast.....	2,006,979	2,392,386	Other locomotives—Repairs.....	7,623,020	5,951,990
Track laying and surfacing.....	31,326,192	33,244,693	Freight-train cars—Repairs.....	37,510,939	43,964,227
Fences, snowsheds and signs.....	1,575,720	1,659,937	Passenger-train cars—Repairs.....	16,307,317	18,694,179
Station and office buildings.....	5,099,100	5,732,426	Floating equipment—Repairs.....	1,332,589	1,440,802
Roadway buildings.....	691,426	947,485	Work equipment—Repairs.....	4,169,211	4,200,083
Water stations.....	920,299	1,054,759	Express department equipment—Repairs.....	564,419	528,661
Fuel stations.....	413,520	476,087	Misc. equipment—Repairs.....	135,090	201,984
Shops and enginehouses.....	3,510,789	4,207,546	Misc. equipment—Retirements.....	44,680	14,255
Grain elevators.....	106,351	90,199	Dismantling retired equipment.....	458,443	402,534
Storage warehouses.....	1,576	6,466	Equipment—Depreciation.....	28,440,642	26,199,800
Wharves and docks.....	404,910	424,643	Express dept. equipment—Dep'n.....	282,661	234,973
Communication systems.....	7,037,666	7,261,664	Injuries to persons.....	814,002	812,671
Signals and interlockers.....	2,317,169	2,221,565	Insurance.....	484,870	489,271
Power plants.....	16,103	15,176	Stationery and printing.....	123,439	131,790
Power-transmission systems.....	366,174	399,965	Other expenses.....	331,510	192,893
Miscellaneous structures.....	15,921	19,609	Joint maintenance of equip.—Dr.....	206,899	350,154
Road property—Depreciation—U.S.....	1,047,803	1,022,650	Joint maintenance of equip.—Cr.....	377,307	385,086
Road property—Retirements.....	2,414,138	2,437,087		\$134,664,281	\$148,100,818
Roadway machines.....	2,190,829	2,174,870			
Dismantling retired road property.....	345,456	425,733	TRAFFIC—		
Small tools and supplies.....	1,922,594	1,937,854	Superintendence.....	\$ 4,324,493	\$ 4,263,317
Removing snow, ice and sand.....	4,360,169	3,563,631	Outside agencies.....	4,705,365	4,705,912
Public improvements.....	811,861	688,691	Advertising.....	1,608,785	1,426,754
Injuries to persons.....	816,398	957,362	Traffic associations.....	267,503	270,457
Insurance.....	556,162	631,091	Stationery and printing.....	729,956	679,878
Stationery and printing.....	152,409	165,156	Industrial and development.....	404,498	408,819
Other expenses.....	24,409	12,722	Colonization and agriculture.....	306,709	309,912
Right-of-way expenses.....	104,621	97,880		\$ 12,347,309	\$ 12,065,049
Maintaining joint facilities—Dr.....	2,118,639	1,892,795			
Maintaining joint facilities—Cr.....	2,332,008	2,204,125			
	\$129,414,444	\$127,919,422			

OPERATING EXPENSES

	1954	1953		1954	1953
TRANSPORTATION			TRANSPORTATION (Continued)		
Superintendence.....	\$ 7,432,873	\$ 7,619,489	Insurance.....	569,885	645,771
Dispatching trains.....	3,981,417	3,989,885	Clearing wrecks.....	893,343	934,264
Station employees.....	42,339,284	45,500,111	Damage to property.....	187,712	178,997
Weighing, inspection and demurrage.....	192,216	192,000	Damage to live stock on R./W.....	69,275	88,563
Coal and ore wharves.....	76,928	100,840	Loss and damage—Freight.....	3,307,647	3,483,564
Station supplies and expenses..	3,281,393	3,293,176	Loss and damage—Baggage....	6,560	8,457
Yardmasters and yard clerks..	10,053,875	10,291,719	Injuries to persons.....	2,227,724	2,253,024
Yard conductors and brakemen..	17,597,535	18,228,247	Oper. joint yards and terminals		
Yard switch and signal tenders..	1,867,474	1,811,517	—Dr.....	2,888,985	2,882,986
Yard engineers.....	11,605,375	12,148,341	—Cr.....	3,154,626	3,251,473
Yard switching fuel.....	5,341,054	7,169,639	Oper. joint tracks and facilities		
Yard switching power produced.....	40,117	39,211	—Dr.....	556,052	1,729,116
Yard switching power purchased.....	97,293	101,684	—Cr.....	819,061	797,730
Water for yard locomotives....	158,920	192,697			
Lubricants for yard locomotives.....	190,706	181,591		\$302,373,764	\$327,757,447
Other supplies for yard locomotives.....	107,892	122,701	MISCELLANEOUS OPERATIONS		
Enginehouse expenses—Yard..	3,408,272	3,867,223	Dining and buffet service....	\$ 5,023,884	\$ 5,009,171
Yard supplies and expenses....	382,285	396,707	Restaurants.....	346,370	352,654
Train engineers.....	25,145,083	28,215,866	Grain elevators.....	249,105	320,153
Train fuel.....	43,032,129	49,162,135	Other miscellaneous operations	393,043	555,428
Train power produced.....	52,351	64,764	Oper. joint misc. facilities—Dr..	407,752	398,585
Train power purchased.....	165,010	171,898		\$ 6,420,154	\$ 6,635,991
Water for train locomotives....	1,547,046	1,773,298	GENERAL		
Lubricants for train locomotives.....	1,119,434	1,137,367	Salaries and expenses of officers\$	833,119	\$ 831,163
Other supplies for train locomotives.....	538,917	669,510	Salaries and expenses of clerks..	11,961,809	11,877,760
Enginehouse expenses—Train..	11,905,065	12,736,445	General office supplies and expenses.....	746,334	785,998
Trainmen.....	29,646,678	33,629,898	Law expenses.....	711,374	701,471
Train supplies and expenses....	20,495,533	22,165,116	Relief department expenses... ..	42,500	42,500
Operating sleeping cars.....	4,427,595	3,932,474	Pensions.....	25,560,823	20,914,969
Signal and interlocker operation.....	1,005,382	1,119,410	Stationery and printing.....	563,029	528,383
Crossing protection.....	1,521,285	1,410,430	Valuation expenses.....	12,521	12,143
Drawbridge operation.....	328,866	334,834	Other expenses.....	712,730	749,890
Communication system operation.....	12,230,741	12,244,840	General joint facilities—Dr....	121,127	142,614
Operating floating equipment..	7,806,652	6,453,788	General joint facilities—Cr....	19,944	16,532
Express department operation..	24,759,534	25,856,665		\$ 41,245,422	\$ 36,570,359
Stationery and printing.....	1,331,886	1,433,016			
Other expenses.....	426,152	1,843,286			

OPERATING EXPENSE DISTRIBUTION

	1939	1953	1954
OPERATING EXPENSES—			
Total expenses—thousands.....	\$182,965	\$659,049	\$626,465
Percent of total revenue.....	89.77	94.61	97.79
Distribution of operating expense dollar:			
Labour.....	c.	c.	c.
Materials.....	61.48	61.06	59.83
Other expenses.....	29.58	27.78	27.36
	8.94	11.16	12.81
	100.00	100.00	100.00

PROPERTY INVESTMENT ACCOUNT

Net Expenditures Year 1954

ROAD	ROAD (Continued)
New branch lines.....\$ 4,878,852	General.....\$ 955,432
Rails and fastenings, tieplates and rail anchors.....7,493,809	\$ 37,594,038
Ballast.....319,449	EQUIPMENT—
Roadway betterments.....267,892	New.....\$126,121,302
Large terminals.....2,559,666	Retirements.....16,290,680
Yard tracks and sidings.....2,739,159	109,830,622
Roadway machines.....1,265,189	General betterments.....2,643,247
Bridges, trestles and culverts.....1,830,772	Conversions.....547,569
Tunnels.....77,827	Miscellaneous.....168,635
Highway crossing protection.....170,126	3,350,451
Stations.....180,155	113,190,073
Miscellaneous buildings.....3,974,632	HOTELS.....1,996,515
Water supplies.....175,813	SEPARATELY OPERATED PROPERTIES.....1,462,042
Fuel stations.....1,101,449	Net expenditures.....\$147,325,554
Shops, enginehouse and machinery.....1,384,198	Capital investment of Government of Canada in the Canadian Government Railways:
Docks and wharves.....1,668,874	Transfer of property—Credit.....14,410
Grain elevators.....39,037	Construction of 2 new ships for Newfoundland coastal service.....151,210
Signals and interlockers.....1,146,152	136,800
Communications—Commercial.....4,898,435	Net increase in property investment account.....\$147,462,354
Communications—Railway.....467,120	

Total property investment account at December 31, 1954, \$2,709,209,619.

INVESTMENTS IN AFFILIATED COMPANIES

Company	Par value outstanding		Book value
	Total	Can. Nat. System percentage	Can. Nat. System holdings
STOCKS—			
The Belt Railway Company of Chicago.....\$ 3,120,000	7.69	\$ 240,000	
Chicago & Western Indiana Railroad Company....5,000,000	20	1,000,000	
The Detroit & Toledo Shore Line Railroad Company.....3,000,000	50	1,500,000	
Detroit Terminal Railroad Company.....2,000,000	50	1,000,000	
Northern Alberta Railways Company.....12,750,000	50	6,375,000	
The Public Markets, Limited.....1,150,000	50	575,000	
Railway Express Agency, Incorporated (no par value).....1,000 shares	0.6	600	
Shawinigan Falls Terminal Railway Company....300,000	50	62,500	
The Toledo Terminal Railroad Company.....4,000,000	9.68	387,200	
The Toronto Terminals Railway Company.....500,000	50	250,000	
Trans-Canada Air Lines.....5,000,000	100	5,000,000	
Vancouver Hotel Company Limited.....150,000	50	75,000	
		\$16,465,300	
BONDS—			
Northern Alberta Railways Co. 1st Mortgage Bonds \$25,135,000	50	\$12,567,500	
The Toronto Terminals Railway Co. 1st Mortgage Bonds.....25,310,000	50	12,655,000	
Trans-Canada Air Lines Debenture.....20,000,000	100	20,000,000	
		45,222,500	
ADVANCES—			
The Belt Railway Company of Chicago.....\$ 33,458			
Chicago & Western Indiana Railroad Company....4,288,487			
Railway Express Agency, Incorporated.....173,493			
Trans-Canada Air Lines.....10,000,000			
		14,495,438	
DEPOSIT—			
Trans-Canada Air Lines—Credit.....6,900,000			
Total at December 31, 1954.....\$69,283,238			

FUNDED DEBT

Rate %	Maturity (See note)		Currency in which payable	Principal outstanding at Dec. 31, 1954
5	Perpetual	Debenture Stocks—Various.....	Sterling	\$ 102,112
4	Perpetual	Debenture Stocks—Various.....	Sterling	158,133
4	Jan. 1, 1955	Canada Atlantic Bonds.....	Can-US-Stlg.	9,947,934
4	Apr. 1, 1955	Grand Trunk Pacific Bonds.....	Can-US-Stlg.	8,871,444
4½	June 15, 1955	Canadian National 25 Year Bonds.....	Can-US-Stlg.	48,496,000
4½	Feb. 1, 1956	Canadian National 25 Year Bonds.....	Can-US-Stlg.	67,368,000
4	Sept. 1, 1956	Pembroke Southern Bonds.....	Canadian	150,000
2½	Mar. 1, 1957 (a)	Newfoundland Ry. Notes.....	U.S.	355,995
4½	July 1, 1957	Canadian National 30 Year Bonds.....	Can-US	64,136,000
3½	July 20, 1958	Canadian Northern Debenture Stock.....	{Canadian Sterling	5,246,268 390,238
5	Nov. 15, 1958	Indebtedness to Province of New Brun- swick.....	Canadian	380,023
3	Jan. 15, 1959 (b)	Canadian National 20 Year Bonds.....	Canadian	35,000,000
3½	May 4, 1960	Canadian Northern Alberta Debenture Stock.....	Sterling	550,727
3½	May 19, 1961	Canadian Northern Ontario Debenture stock.....	Sterling	3,597,518
3	Jan. 1, 1962	Grand Trunk Pacific Bonds.....	Can-US-Stlg.	26,465,130
4	Jan. 1, 1962	Grand Trunk Pacific Bonds.....	Can-US-Stlg.	7,999,074
2½	Feb. 1, 1963 (c)	Canadian National 8 Year 1½ Month Bonds.....	Canadian	250,000,000
3	Jan. 3, 1966 (d)	Canadian National 17 Year Bonds.....	Canadian	35,000,000
2½	Jan. 2, 1967 (e)	Canadian National 20 Year Bonds.....	Canadian	50,000,000
2½	Sept. 15, 1969 (f)	Canadian National 20 Year Bonds.....	Canadian	70,000,000
2½	Jan. 16, 1971 (g)	Canadian National 21 Year Bonds.....	Canadian	40,000,000
3½	Feb. 1, 1974 (h)	Canadian National 20 Year Bonds.....	Canadian	200,000,000
2½	June 15, 1975 (i)	Canadian National 25 Year Bonds.....	U.S.	6,000,000
4½	Jan. 1, 1980	Grand Trunk Western Bonds.....	Can-US-Stlg.	400,000

SERIAL EQUIPMENT OBLIGATION:—

2	Dec. 1, 1957	Trust Series "R".....	Canadian	1,680,000
2½	Mar. 15, 1958	Trust Series "S".....	Canadian	11,200,000
2½	Nov. 1, 1958	Trust Series "T".....	Canadian	8,600,000
2½	Mar. 15, 1960	Trust Series "U".....	Canadian	12,100,000
2½	Jan. 15, 1961	Trust Series "V".....	Canadian	8,775,000
Total.....				\$ 972,969,596

Note:—(a) Callable at par any time.

(b) Callable at par on or after Jan. 15, 1954.

(c) Callable at par on or after Feb. 1, 1961.

(d) Callable at par on or after Jan. 3, 1961.

(e) Callable at par on or after Jan. 2, 1964.

(f) Callable at par on or after Sept. 15, 1946.

(g) Callable at par on or after Jan. 16, 1966.

(h) Callable at par on or after Feb. 1, 1972.

(i) Callable on or before June 14, 1954, at 102½; thereafter at varying redemption premiums.

GOVERNMENT OF CANADA LOANS AND DEBENTURES

CAPITAL REVISION ACT, 1952—

Jan. 1, 1972 Debenture.....\$ 100,000,000

CANADIAN GOVERNMENT RAILWAYS—

Advances for Working Capital..... 16,771,981

FINANCING AND GUARANTEE ACT, 1954—

Loans for Capital Expenditures, T.C.A..... 10,000,000

Total.....\$ 126,771,981

COMPANIES COMPRISING THE CANADIAN NATIONAL
RAILWAY SYSTEM

CAPITAL STOCKS OWNED BY GOVERNMENT OF CANADA

Company number			
1	{	Canadian National Railway Company (Common).....	\$ 396,518,135
		Canadian National Railway Company (Preferred).....	795,100,531
			\$1,191,618,666

CAPITAL STOCKS OWNED BY SYSTEM OR PUBLIC

Name of issuing company	Owned by company number	Capital stock issued	Owned by public
1 CANADIAN NATIONAL RAILWAY COMPANY.....	see above		
2 Atlantic and St. Lawrence Railroad Company....	1	\$ 6,302,340\$	5,840
3 Canadian National Hotels, Limited.....	1	28,190,950	
4 *Canadian National Railways (France) francs 30,000,000.....	1	1,886,114	
5 Canadian National Railways Securities Trust....	1	5 million shares	
6 Canadian National Rolling Stock Limited.....	1	50,000	
7 *Canadian National Transportation, Limited....	1	500	
8 Central Counties Railway.....	1	500,000	12,000
9 The Champlain and St. Lawrence Railroad Company.....	1	50,000	
10 International Bridge Company.....	1	1,500,000	
11 Manitoba Northern Railway Company.....	1	500,000	
12 *Montreal and Southern Counties Railway Com- pany.....	1	500,000	140,600
13 *Montreal Fruit & Produce Terminal Company, Limited.....	1	500	
14 *The Montreal Stock Yards Company.....	1	350,000	
15 *The Montreal Warehousing Company.....	1	236,000	10,440
16 *National Terminals of Canada, Limited.....	1	2,500	
17 *The Oshawa Railway Company.....	1	40,000	
18 The Pembroke Southern Railway Company.....	1	107,800	
19 Prince George, Limited.....	1	10,000	
20 Prince Rupert, Limited.....	1	10,000	
21 St. Clair Tunnel Company.....	1	700,000	
22 *The Thousand Islands Railway Company.....	1	60,000	
23 The United States and Canada Rail Road Com- pany.....	1	219,400	425
24 Vermont and Province Line Railroad Company..	1	200,000	
25 CANADIAN NORTHERN RAILWAY COMPANY.....	1	18,000,000	
26 Canadian National Express Company.....	25	1,000,000	
27 *Canadian National Realities, Limited.....	25	40,000	
28 Canadian National Telegraph Company.....	25	525,900	
29 The Canadian Northern Alberta Railway Com- pany.....	25	3,000,000	
30 Canadian Northern Consolidated Railways....	25	35,306,600	
31 The Canadian Northern Ontario Railway Com- pany.....	25	10,000,000	
32 The Canadian Northern Quebec Railway Com- pany.....	25	9,550,000	3,849,200
33 The Canadian Northern Railway Express Com- pany, Limited.....	25	1,000,000	
34 Canadian Northern Steamships, Limited.....	25	2,000,000	
35 Canadian Northern System Terminals (Limited)	25	2,000,000	
36 The Great North Western Telegraph Company of Canada (Including \$331,500 held in escrow)..	25	373,625	6,825
37 The Lake Superior Terminals Company Limited	25	500,000	
38 The Minnesota and Manitoba Railroad Company	25	400,000	
39 The Minnesota and Ontario Bridge Company....	25	100,000	
40 Mount Royal Tunnel and Terminal Company, Limited.....	25	5,000,000	
41 *The Niagara, St. Catharines and Toronto Rail- way Company.....	25	925,000	
42 The Niagara, St. Catharines and Toronto Navi- gation Company (Limited).....	25	100,000	
43 The Quebec and Lake St. John Railway Company	25	4,508,300	489,160
44 St. Boniface Western Land Company.....	25	250,000	
45 The Winnipeg Land Company Limited.....	25	100,000	

Carried forward..... \$ 4,514,490

COMPANIES COMPRISING THE CANADIAN NATIONAL
RAILWAY SYSTEM (Continued)

CAPITAL STOCKS OWNED BY SYSTEM OR PUBLIC—(Continued)

Company number	Name of issuing company	Owned by company number	Capital stock issued	Owned by public
	Brought forward			\$ 4,514,490
46	GRAND TRUNK PACIFIC RAILWAY COMPANY.....	1	24,940,200	
47	*Canadian National Steamship Company, Limited.....	46	15,000	
48	The Grand Trunk Pacific Branch Lines Company	46	200,000	
49	The Grand Trunk Pacific Development Company, Limited.....	46	3,000,000	
50	The Grand Trunk Pacific Saskatchewan Railway Company.....	46	20,000	
51	*Grand Trunk Pacific Terminal Elevator Company, (Limited).....	46	501,000	
52	CENTRAL VERMONT RAILWAY, INC.....	1	10,000,000	
53	*The Centmont Corporation.....	52	176,400	
54	*Central Vermont Transit Corporation.....	52	5,000	
55	Central Vermont Transportation Company.....	52-53	200,000	
56	The Montreal and Vermont Junction Railway Company.....	52	197,300	
57	DULUTH, WINNIPEG AND PACIFIC RAILWAY COMPANY	25	3,100,000	
58	Duluth, Rainy Lake & Winnipeg Railway Company.....	57	2,000,000	
59	Duluth, Winnipeg and Pacific Railroad Company	57	100,000	
60	GRAND TRUNK RAILROAD WESTERN COMPANY (COMMON).....	1	20,000,000	
60	GRAND TRUNK WESTERN RAILROAD COMPANY (PREFERRED).....	1	25,000,000	
61	*Consolidated Land Corporation.....	60	64,000	
62	Grand Trunk-Milwaukee Car Ferry Company...	60	200,000	
63	*Industrial Land Company.....	60	1,000	
64	Muskegon Railway and Navigation Company...	60	161,293	
				<u>\$ 4,514,490</u>

The income accounts of companies indicated (*) are included in the System income account as "Separately operated properties."

CHANGES IN EQUITY AND BORROWED CAPITAL

	Balance at Dec. 31, 1953	Transactions Year 1954	Balance at Dec. 31, 1954
EQUITY CAPITAL—			
Capital stocks of subsidiary companies owned by public.....	\$ 4,514,490	—	\$ 4,514,490
Government of Canada—Shareholder's Account:—			
Capital stock of Canadian National Railway Company.....	\$ 396,518,135	—	\$ 396,518,135
Preferred stock of Canadian National Railway Company.....	775,894,217	\$ 19,206,314	795,100,531
Capital investment in Canadian Government Railways.....	379,637,715	136,800	379,774,515
Total Government of Canada.....	\$1,552,050,067	\$ 19,343,114	\$1,571,393,181
Total Equity Capital.....	\$1,556,564,557	\$ 19,343,114	\$1,575,907,671
BORROWED CAPITAL—			
Funded Debt.....	\$ 589,811,690		\$ 972,969,596
New Issues:—			
New Issues:—			
3½% Canadian National Bonds due Feb. 1, 1974..		\$ 200,000,000	
2½% Canadian National Bonds due Feb. 1, 1963..		250,000,000	
Redemptions:—			
5% Canadian National Bonds matured Feb. 1, 1954.....		50,000,000	
5% Perpetual Debenture Stocks—Various.....		817,712	
4% Perpetual Debenture Stocks—Various.....		6,822,176	
2½% Newfoundland Railway Notes.....		142,206	
Equipment Trusts—Serial payments.....		9,060,000	
Government of Canada Loans and Debentures.....	342,140,048		126,771,981
New Loans:—			
Financing and Guarantee Acts:—			
Temporary Loans—Act, 1942.....		6,889,200	
Temporary Loans—Act, 1953.....		19,053,018	
Temporary Loans—Act, 1954.....		94,500,000	
Temporary Loans—Act, 1954 (T.C.A.).....		10,000,000	
Refunding Acts:—			
Debenture—Act, 1951.....		6,581,103	
Temporary Loans—Act, 1951.....		14,696,103	
Repayment of Loans:—			
Various Acts.....		367,087,491	
Total Borrowed Capital.....	\$ 931,951,738	\$ 167,789,839	\$1,099,741,577
Total Capitalization.....	\$2,488,516,295	\$ 187,132,953	\$2,675,649,248

EQUIPMENT PLACED IN SERVICE DURING 1954

DIESEL-ELECTRIC LOCOMOTIVES—

20	1750 HP road locomotives
4	1600 HP road locomotives
17	1750 HP road switching locomotives
27	1600 HP road switching locomotives
5	875 HP road switching locomotives
6	1000 HP switching locomotives
19	900 HP switching locomotives
15	660 HP switching locomotives

FREIGHT EQUIPMENT—

2950	50-ton box cars
100	30-ton box cars
100	70-ton flat cars
100	30-ton flat cars
15	30-ton stock cars
300	70-ton triple hopper cars
200	70-ton covered hopper cars
600	75-ton ore cars
901	70-ton gondola cars
120	50-ton ballast cars
210	70-ton ballast cars

PASSENGER EQUIPMENT

2	Budd diesel rail cars
218	coaches
30	baggage cars
104	sleeping cars
11	buffet parlor cars
6	parlor cars
14	dining cars
6	dinette cars

WORK EQUIPMENT—

21	30 cu. yd. 50-ton air dump cars
4	diesel locomotive cranes—30-ton
2	diesel locomotive cranes—40-ton
1	diesel locomotive crane—50-ton
1	wrecking crane—250-ton steam—self propelled
1	Burro crane—12-ton
3	Jordan spreaders
6	snow plows
1	flat car
10	miscellaneous units built from salvage in railway shops
2	boarding cars—second hand

INVENTORY OF RAILWAY EQUIPMENT

LOCOMOTIVES—	On hand	Placed in	Retired	Converted		On hand	Orders
	Jan. 1, 1954	service		Added	Retired	Dec. 31, 1954	outstanding Dec. 31, 1954
Steam—Road	1,804		106			1,698	
Steam—Switching	498		63			435	
Electric	33					33	
Diesel—Electric—							
Road—Freight	176		1			175	
Road—Passenger		24				24	14
Road—Switching	98	45				143	49
Road—Switching passenger ..	3	4				7	
Switching	226	40				266	5
Total	2,838	113	170			2,781	68
FREIGHT EQUIPMENT—							
Box cars	79,190	3,650	2,439		352	79,449	
Flat cars	6,285	200	148	6	43	6,300	110
Stock cars	3,010	15	95			2,930	
Hopper cars	6,149	500	381			6,268	
Gondola cars	11,027	901	90			11,838	
Ore cars	758	600				1,358	400
Ballast cars	1,920	330	33			2,217	
Tank cars	33		2		6	25	
Refrigerator cars	4,619		26		4	4,589	100
Caboose cars	1,871		44			1,827	
Other cars in freight service	3				2	1	
Total	114,865	5,596	3,258	6	407	116,802	610
PASSENGER EQUIPMENT—							
Coach cars	1,049	218	129	16	1	1,153	5
Combination cars	253		16		1	236	
Dining cars	88	20	2		1	105	
Colonist cars	144		6		20	118	
Parlor cars	60	17				77	
Cafe cars	19					19	
Sleeping cars	374	104	3		2	473	1
Tourist cars	40					40	
Baggage and express cars	1,361	30	47	3	2	1,345	
Postal cars	57		1			56	
Unit cars	43	2	1			44	3
Other cars in passenger service	89		6			83	
Total	3,577	391	211	19	27	3,749	9
WORK EQUIPMENT—							
Units in work service	9,080	52	373	420	11	9,168	1
FLOATING EQUIPMENT—							
Car ferries	8					8	
Barges	6					6	
Steamers	14					14	
Tugs	5					5	
Work	3					3	

STATISTICS OF RAIL-LINE OPERATIONS

	1954	1953
TRAIN-MILES—		
Freight service.....	41,691,390	46,883,109
Passenger service.....	24,315,627	24,949,141
Work service.....	2,013,601	1,959,407
Total train-miles.....	68,020,618	73,791,657
LOCOMOTIVE-MILES—		
Freight service.....	43,623,338	49,201,735
Passenger service.....	24,338,373	25,032,931
Train switching—Freight.....	3,536,589	3,829,035
—Passenger.....	138,841	146,268
Yard switching—Freight.....	16,208,330	17,669,537
—Passenger.....	1,809,561	1,842,346
Work service.....	2,064,215	2,029,848
Total locomotive-miles.....	91,719,247	99,751,700
CAR-MILES—		
Freight Service:		
Loaded freight cars.....	1,183,332,445	1,307,912,853
Empty freight cars.....	585,879,454	632,298,695
Passenger coach and combination cars.....	5,549,200	6,282,582
Other cars.....	10,434,065	9,767,421
Caboose cars.....	41,398,352	46,399,773
	1,826,593,516	2,002,661,324
Passenger Service:		
Loaded freight cars.....	654,957	589,003
Empty freight cars.....	94,264	119,680
Passenger coach and combination cars.....	55,971,199	61,195,748
Sleeping, parlor and observation cars.....	54,891,732	55,575,899
Dining cars.....	8,715,465	8,764,185
Motor unit cars.....	1,047,101	1,021,566
Other cars (baggage and express cars, etc.).....	86,798,297	89,793,346
	208,173,015	217,059,427
Work service.....	4,295,991	3,531,351
Total car-miles.....	2,039,062,522	2,223,252,102
AVERAGE MILEAGE OF ROAD OPERATED.....	24,155-51	24,152-91
FREIGHT TRAFFIC—		
Tons carried—Revenue freight.....	79,338,230	86,523,327
Ton-miles—Revenue freight.....	32,881,706,496	36,677,980,252
Freight revenue.....	\$502,830,806	\$553,618,614
Revenue per ton.....	\$6-33781	\$6-39849
Revenue per ton-mile.....	\$0-01529	\$0-01509
Average haul.....	414-45	423-91
Ton-miles—Revenue freight per mile of road.....	1,356,505	1,513,672
Ton-miles—All freight per mile of road.....	1,443,839	1,626,843
Gross ton-miles of cars, contents and cabooses.....	77,789,741,728	85,911,012,262
Net ton-miles of freight (revenue and non-revenue).....	34,876,664,284	39,293,001,731
Train-hours in freight road service.....	2,345,495	2,660,428
Gross ton-miles per freight train hour.....	32,841	31,980
Average speed of freight trains.....	17-8	17-6
Average gross load—Freight trains (tons).....	1,848	1,815
Steam locomotive miles per serviceable day (excluding stored).....	114	122
Diesel unit miles per serviceable day (excluding stored).....	284	306
PASSENGER TRAFFIC—		
Passengers carried.....	17,858,916	18,080,958
Passenger-miles.....	1,471,708,931	1,538,832,219
Passenger revenue.....	\$43,757,015	\$45,916,272
Revenue per passenger.....	\$2-45015	\$2-53948
Average passenger journey.....	82-41	85-11
Revenue per passenger mile.....	\$0-02973	\$0-02984
Passenger-miles per mile of road.....	60,926	63,712
Percent on time arrival principal passenger trains.....	69-2	72-9
Steam locomotive miles per serviceable day (excluding stored).....	216	220
Diesel unit miles per serviceable day (excluding stored).....	236	160
NET RAILWAY OPERATING INCOME—		
Gross revenue per mile of road.....	\$26,521-37	\$28,842-17
Gross railway operating charges per mile of road.....	\$26,494-90	\$28,007-62
Net railway operating income per mile of road.....	\$ 26-47	\$ 834-55

REVENUE TONNAGE BY COMMODITIES

	Year	Increase		Year	Increase
	1954	Decrease		1954	Decrease
	Tons	%		Tons	%
AGRICULTURAL PRODUCTS—					
Wheat.....	5,472,322	39.2			
Corn.....	537,437	4.5			
Oats.....	1,359,260	21.7			
Bartley.....	1,724,677	20.0			
Rye.....	155,468	1.6			
Flaxseed.....	117,113	4.4			
Other grain.....	107,146	51.7			
Flour.....	999,623	3.9			
Other mill products.....	995,306	14.9			
Hay and straw.....	74,981	3.6			
Cotton.....	72,870	1.2			
Apples (fresh).....	58,696	2.8			
Other fruit (fresh).....	378,739	.7			
Potatoes.....	377,787	1.3			
Other fresh vegetables.....	293,433	2.0			
Other agricultural products.....	908,036	18.5			
Total.....	13,632,899	24.4			
MINE PRODUCTS (Continued)					
Salt.....			568,391	13.2	
Other mine products (not fully processed).....			3,528,421	39.0	
Total.....			28,828,050	.8	
FOREST PRODUCTS—					
Logs, posts, poles, piling.....			800,427	18.3	
Cordwood and other firewood.....			80,751	16.8	
Ties.....			55,645	17.7	
Pulpwood.....			4,478,580	3.2	
Lumber, timber, box crate and cooperage material.....			4,093,659	5.8	
Plywood.....			257,370	25.5	
Other forest products.....			211,028	16.3	
Total.....			9,977,460	3.0	
ANIMAL PRODUCTS—					
Horses.....	25,026	.8			
Cattle and calves.....	202,222	5.6			
Sheep.....	7,708	.6			
Hogs.....	110,902	1.5			
Poultry (live).....	66	17.9			
Dressed meats or dressed poultry.....	188,887	6.3			
Dressed meats (cured or salted).....	31,518	6.6			
Other packing house products (edible).....	61,531	4.3			
Eggs.....	5,785	3.5			
Butter.....	21,545	2.8			
Cheese.....	31,698	2.9			
Wool.....	16,344	31.5			
Hides and leather.....	68,055	16.2			
Other animal products (non-edible).....	103,862	8.1			
Total.....	875,149	2.2			
MINE PRODUCTS—					
Anthracite coal.....	1,666,421	7.3			
Bituminous coal.....	8,577,127	6.0			
Sub-bituminous coal.....	1,002,521	6.0			
Lignite coal.....	546,830	6.1			
Coke.....	708,705	8.9			
Iron ores and concentrates.....	1,342,464	17.9			
Copper ore and concentrates.....	264,986	47.9			
Other ores and concentrates.....	3,275,096	.7			
Base bullion, matte, pig and ingot (non-ferrous metals).....	738,456	15.0			
Sand and gravel.....	2,458,521	1122			
Stone (crushed, ground, broken).....	3,187,553	5.0			
Slate, dimension or block stone.....	79,585	11.4			
Crude petroleum.....	516,738	47.9			
Asphalt (natural, by-product petroleum).....	366,235	11.2			
MANUFACTURES AND MISCELLANEOUS—					
Gasoline.....			2,172,859	4.5	
Petroleum oils and petroleum products.....			2,425,091	12.6	
Sugar.....			255,484	4.4	
Iron, pig and bloom.....			344,449	5.0	
Rails and fastenings.....			44,012	18.3	
Iron and steel (bar, sheet, structural, pipe).....			1,102,085	46.2	
Castings, machinery and boilers.....			337,264	4.1	
Cement.....			1,250,229	3.5	
Brick and artificial stone.....			312,574	10.8	
Lime and plaster.....			452,052	5.2	
Sewer pipe and drain tile.....			57,336	1.9	
Agricultural implements and vehicles other than autos.....			171,508	41.1	
Automobiles, auto trucks and auto parts.....			1,813,394	22.0	
Household goods and settlers effects.....			7,163	24.4	
Furniture.....			65,390	13.9	
Beverages.....			386,208	10.5	
Fertilizers, all kinds.....			782,888	6.9	
Newsprint paper.....			2,187,106	3.5	
Other paper.....			507,771	31.4	
Paper board, pulpboard and wallboard (paper).....			802,361	8.9	
Woodpulp.....			1,344,654	10.8	
Fish (fresh, frozen, cured, etc.).....			71,215	8.8	
Canned goods (all canned food products).....			691,878	18.0	
Other manufactures and miscellaneous.....			7,155,994	9.6	
Merchandise (all L.C.L. freight).....			1,283,707	20.0	
Total.....			26,024,672	7.9	
Grand Total.....			79,338,230	8.3	

OPERATED MILEAGE AT DECEMBER 31, 1954

OPERATED ROAD MILEAGE—

	Owned	Leased	Trackage rights	Total
Atlantic Region.....	3,790.48	6.41	82.95	3,879.84
Central Region.....	7,157.12	327.22	14.82	7,499.16
Western Region.....	11,476.47	34.84	94.88	11,606.19
Grand Trunk Western Lines.....	883.10	9.50	59.75	952.35
Central Vermont Lines.....	363.10	—	58.73	421.83
Total first main track.....	<u>23,670.27</u>	<u>377.97</u>	<u>311.13</u>	<u>24,359.37</u>
Lines in Canada.....	22,208.64	196.10	188.26	22,593.00
Lines in United States.....	<u>1,461.63</u>	<u>181.87</u>	<u>122.87</u>	<u>1,766.37</u>

OPERATED MILEAGE ALL TRACKS—

First main track.....	23,670.27	377.97	311.13	24,359.37
Second main track.....	1,230.31	9.31	74.39	1,314.01
Third main track.....	26.76	—	3.49	30.25
Fourth and other main tracks.....	10.04	—	5.09	15.13
Spurs, sidings and yard tracks.....	6,401.22	126.54	1,421.94	7,949.70
Total all tracks.....	<u>31,338.60</u>	<u>513.82</u>	<u>1,816.04</u>	<u>33,668.46</u>

A 27-YEAR SYNOPTICAL HISTORY OF THE CANADIAN NATIONAL

Year	Operating Revenues	Operating Expenses	Net Operating Revenue	Taxes, Rents and Other Income Debit	Available for Interest and Dividends	Interest Charges	Surplus or Deficit	Freight Revenue Ton Miles	Freight Revenue per Ton Mile	Revenue Passenger Miles	Revenue per Passenger Mile	Average Hourly Earnings per Employee (*)
	(Thousands)	(Thousands)	(Thousands)	(Thousands)	(Thousands)	(Thousands)	(Thousands)	(Millions)	¢	(Millions)	¢	\$
1928	\$304,591	\$249,732	\$54,859	\$9,584	\$45,275	\$41,811	\$ 3,464	22,588	1.011	1,514	2.585	.608
1929	290,497	248,632	41,865	8,623	33,242	45,504	12,262	19,375	1.108	1,401	2.650	.619
1930	250,369	228,288	22,081	6,442	15,639	51,316	35,677	16,910	1.086	1,214	2.710	.640
1931	200,505	199,313	1,192	6,573	5,381	55,587	60,968	14,610	1.020	866	2.679	.649
1932	161,104	155,208	5,896	9,772	3,876	56,965	60,841	12,818	.942	686	2.515	.612
1933	148,520	142,813	5,707	8,197	2,490	56,465	58,955	11,550	.972	665	2.261	.582
1934	164,902	151,936	12,966	5,562	7,404	55,812	48,408	12,950	.974	723	2.259	.559
1935	173,184	158,926	14,258	8,211	6,047	53,469	47,422	13,509	.990	770	2.162	.583
1936	186,611	171,478	15,133	9,252	5,881	49,184	43,303	14,814	.982	831	2.048	.582
1937	198,397	180,789	17,608	9,321	8,287	50,633	42,346	15,165	1.014	953	1.987	.605
1938	182,242	176,175	6,067	9,616	3,549	50,765	54,314	14,505	.964	892	2.030	.647
1939	203,820	182,966	20,854	10,219	10,635	50,730	40,095	17,084	.938	875	2.035	.646
1940	247,527	202,520	45,007	11,533	33,474	50,439	16,965	21,532	.904	1,125	1.929	.643
1941	304,377	237,769	66,608	12,247	54,361	50,345	4,016	27,200	.881	1,762	1.810	.675
1942	375,655	288,999	86,656	12,611	74,045	48,982	25,063	31,729	.909	2,708	1.784	.721
1943	440,616	324,476	116,140	30,838	85,302	49,663	35,639	36,327	.894	3,619	1.848	.734
1944	441,147	362,547	78,600	7,603	71,097	48,070	23,027	36,016	.893	3,697	1.888	.846
1945	433,773	355,294	78,479	7,395	71,084	46,328	24,756	34,600	.915	3,338	1.953	.831
1946	400,586	357,237	43,349	7,630	35,719	44,681	8,962	30,812	.975	2,289	2.190	.877
1947	438,198	397,123	41,075	13,136	27,939	43,824	15,885	32,945	1.040	1,845	2.332	.905
1948	491,270	464,740	26,530	16,233	11,297	44,830	33,533	32,943	1.195	1,755	2.368	1.085
1949	500,723	478,501	22,222	18,164	4,058	46,101	42,043	30,922	1.276	1,621	2.671	1.119
1950	553,831	493,997	59,834	17,417	42,417	45,678	3,261	31,988	1.394	1,498	2.834	1.135
1951	624,834	580,150	44,684	12,901	31,783	46,815	15,032	36,435	1.369	1,611	2.947	1.320
1952	675,219	634,853	40,366	16,061	24,305	24,163	142	38,430	1.397	1,635	2.964	1.453
1953	696,622	659,049	37,573	9,242	28,331	28,087	244	36,678	1.509	1,539	2.984	1.568
1954	640,637	626,465	14,172	11,721	2,451	31,209	28,758	32,882	1.529	1,472	2.973	1.588

(*) Canadian lines only, excluding hotel and subsidiary company employees.

With your permission I shall run through the pages quickly, to give members of the committee an opportunity to understand and appreciate the arrangement of the figures and the stories they are intended to reveal.

You will observe we have arranged these so that the statistical statement section which is green or blue in colour, depending on your colour sense, can be removed from the Report. This is for the convenience of those who might be making a special study of the statistics and to whom we are prepared to furnish additional copies on application. Some of these items I will pass over and come to what I think are the highlights, so that you can find them readily if you wish to go into details. If you will turn the page over you will find the consolidated balance sheet as of December 31, 1954.

The point I would like to call to your attention here is that we are dealing with a \$3 billion industry. We have passed that mark for the first time. That is by far the largest industry in Canada in terms of property investment and in volume of business. It is Canada's biggest employer short of the government itself and certainly a much bigger employer than any other individual Canadian company. Comparison with any other firm will reveal there is an almost startling difference between the size of the Canadian National Railways and any other firm in Canada.

If you turn the next pages you will find the notes to the consolidated balance sheet. These notes and comments are technicalities in respect to the balance sheet and income account which the auditors have certified.

On page 5 you will find the consolidated income account. These are the main accounting groups into which the company's operating results are summarized for the year in comparison with 1953.

I would like to call your attention to pages 6 and 7 and other pages further on in this Report. Pages 6 and 7 set out the railway operating revenues and expenses in normal accounting classifications into which these figures are assembled during the year with the 1953 figures presented beside them for comparative purposes. These accounts, together with the performance statistics on rail line operations, to which I shall refer in a moment, are the means by which management establishes budget controls to ensure that operations are made to respond in the appropriate degree to changes in volumes of traffic and other economic conditions. We also provide a considerable amount of detailed information to the Dominion Bureau of Statistics and most of this is made available through the bureau to the general public. With the exception of a very few minor deviations appropriate to the Canadian National Railways' operations. The accounting system follows the standard basis which has been utilized by substantially all railroads in North America for many years.

The figures which are presented here in considerable detail are the end result of the summation of some millions of individual transactions. If requests for information could be held to the regular accounting, or statistical data as the case may be, the questions can be answered readily and on an up-to-date basis; but departure from this format will involve re-assembly of information which may take some months.

In calling your attention to the figures, I think I am justified in saying that no industry is more thoroughly analyzed than the railway business. Moreover, so far as I know no firm or organization makes more information available to the public both in the form of regularly published information and in reply to requests of one kind or another. I have in mind not only the requests of members of this committee and the questions which arise from time to time in the House of Commons, but I refer also to press inquiries which we are constantly getting; we also receive requests for information from every conceivable type of public body in the country. We reply directly to members of parlia-

ment, and to letters from clergymen, mayors, public officials and individuals from all parts of the country. I suggest to you that no form of management in this country is more willing to give information and more anxious to provide the general public of Canada with data pertaining to its operations than does the Canadian National system.

Turning on from here I will just leaf over the report to indicate the extent to which this information is set out in statements and tables. The property investment statement on page 8 gives details of additions during 1954 and the figure at the bottom agrees with the figures you will find on the balance sheet. The next statement on page 8 lists the investments in affiliated companies which are not part of the consolidated statement.

On page 9 you will find our funded debt held by the public, and at the bottom of that page you will see a recapitulation of our loans from the government.

On pages 10 and 11 you will find the details of the companies which comprise the Canadian National system. There are 64 companies in that list this year. Last year there were 78 companies. These companies are all consolidated into our general balance sheet to which I made reference earlier. The progress in reducing the number of companies from 78 to 64 does not really reflect the extent of the work that we have put into this problem.

We have a great many more consolidations that are pending and in our end result, after we have taken care of the legal requirements of the situation, we hope to be able to boil the system down into about seven or eight companies, one company being the railways, another one the hotels, another one covering our real estate transactions and communications would be another one. We hope to wind up with six or seven main companies. In the course of streamlining our corporate structure we will eliminate a great many unnecessary bookkeeping entries which are meaningless and which cost a good deal of money.

On page 11 you find the statement of changes in equity and borrowed capital, which is self-explanatory.

Turning to pages 12 and 13 you will find what I have called the operating statistics of the railway. On these pages we have also shown the physical inventory of rolling stock, and the changes that have taken place during the year. This gives you a complete picture of the type of motive power now in operation to service the requirements of our system.

On page 13 you will find the detailed type of statistics which are of interest to people who wish to compare our operations with those of other railways.

On page 14 you will find a very interesting breakdown of our revenue tonnage by commodities. These again are a standard type of statistics which we think are most useful as a means of enabling us to keep our finger on the pulse in respect of the effect of economic conditions on our revenue tonnage.

You will see, unfortunately, this year that most of the important figures show a marked decrease in terms of the previous year. At the bottom of that page is set out the operated mileage over which this tonnage was moved. We have also included this year, on page 15, a 27-year synoptical history of the Canadian National, which I hope will be of interest to the members.

Following that you will see a lot of pictures for which we have at times been criticized, as it tends to make this appear to be a rather expensive kind of report. Let me remind you that this report is not only for the benefit of members so that they can see the kind of operations which we are engaged in but this report is also used for advertising purposes and is sent to our shippers. We know from experience that this type of report is welcomed and is well worth the money we spend on it.

That is all, Mr. Chairman, except for whatever questions may arise.

The CHAIRMAN: Gentlemen, you have heard the annual report of the Canadian National Railways for the year 1954, and I think now if there are any questions relating particularly to item 614 of the supplementary estimates they might be asked now.

Mr. MACDONNELL (*Greenwood*): I think it would be of interest if Mr. Gordon would give us the comparable figures showing what has happened to other railroads on the continent in terms of shrinkage of gross revenue and the effect it has had on them so that we would have some comparative figures. When I saw a \$32 million reduction in expenses it seemed to me to be large, but I realize it has got to be compared with others before one can have a real understanding of it.

Mr. GORDON: I have here a table which shows the revenue figures for the Canadian National Railways for the year 1954. As I have stated, these were \$56 million less than 1953 which represents an 8 per cent decrease. I have a figure for the Canadian Pacific Railway Company and I should perhaps say this, that the annual report of the Canadian Pacific Railway Company has not been formally released, but I have checked with the President of that Company Mr. W. A. Mather and he has been kind enough to say to me that I might use the figures which I am quoting although they have not been officially released.

The revenue decrease in the Canadian Pacific Railway was \$47.9 million or 10.2 per cent as compared with 8 per cent in the Canadian National Railways. The class 1 railways of the United States had a revenue decrease of 12 per cent as compared with the figure I have given you. Thus, although we show a very startling revenue decline our percentage decline was less than that of our main competitor or the class 1 railways in the United States.

In regard to expenses, however, the picture is different. We cut out expenses in the Canadian National by 4.9 per cent or a total of \$32.6 million. The Canadian Pacific was successful in cutting its expenses by \$44.5 million or 10.6 per cent while the class 1 railways in the United States cut expenses by \$751.1 million or 9.2 per cent. You will observe, therefore, that we did not on the Canadian National Railways cut our over-all expenses nearly as much as either the Canadian Pacific Railway or the class 1 railways in the United States. Would you like me to tell you why?

Mr. HANNA: Yes.

Mr. GORDON: There are three main reasons. In the first place we had planned a rail program for the year 1954 which plan involved laying 869 miles of new rail and 268 miles of partly worn rail. When the decline in traffic became apparent in November of 1953 we gave very earnest consideration to the advisability of reducing the program but having in mind that our new rail laid program over the past ten years or more had been substantially less than that of our competitor in relation to mileage maintained, we were not in a position where we felt it would be prudent management to cut our program. So we took, in fact, a calculated risk. We decided that notwithstanding the decline in traffic we would hope that we would get an upturn in 1954 traffic and that of subsequent years which would justify in the long term the program which we had planned. Although we did not get an increase in traffic in 1954 nevertheless it was prudent management to go ahead with the heavy 1954 rail-laying program. We had not, as I said, laid anything like the proportionate amount of rail of our chief competitor or of the class 1 railroads in premium years. Moreover, apart from our inferior position in respect of mileage laid, we had a situation during the war years we pursued a deliberate policy of laying lighter weight rail than was justified

by engineering judgment. This was done in cooperation with the government to conserve steel and the result is we are paying for it today in that the light weight rail was very badly punished by head war traffic. So our judgment was that we had to take advantage of the fact that for the first time in many years we were able to get new rails and that we should go ahead with that rail-laying program.

The fact therefore is that we laid on the Canadian National Railways a total of 869 miles of new rail last year, 268 miles partly worn. The Canadian Pacific Railway, on the other hand, cut their program by 58 per cent over the previous year. Had we cut our program as much as they did cut, in other words if we had followed the same managerial policy, we might have reduced our operating expense by not less than \$15 million,—perhaps more, but I am giving a conservative estimate.

The second factor is that we did not—and I want to emphasize this very, very carefully—we did not embark upon lay-offs in our shops until quite late in the season. Again we took a calculated risk in that rather than reduce our equipment maintenance costs which would involve reducing the number of people in our shops, we hoped and expected that our traffic figures would improve.

You might criticize that as poor judgment. I am open to that criticism. The fact remains, though, that from a long-term point of view it was still good business because we have not lost that money; we have invested it in improving our equipment; in other words, the equipment would have accumulated deferred maintenance which we would have had to make up in other years and we decided as a matter of judgment it was better business for us to continue with the work.

It may be of interest to you to know that our average employment level in the Canadian National Railways last year was reduced by 7871. The Canadian Pacific which, I remind you, is only 60 per cent our size, had an average reduction of 8139. That is to say, on the Canadian National Railways our average reduction was 6 per cent of the employees while the average reduction for our chief competitor was 8·5 per cent. We could have reduced employment more sharply by accumulating the deferred maintenance that I have mentioned, and in fact if we had reduced employment in the same degree as the Canadian Pacific Railway we would have cut our staff by a total of 12,000 to 13,000. If we had reduced our shops, say, in March instead of in September we could have reduced our expenses by between \$5 million and \$10 million. Incidentally I have explained this to our labour unions and needless to say they agree with our policy because they see that we bent over backwards to cushion the shock of unemployment which arose by reason of traffic considerations, and they know that we held on as long as we felt it was prudent to do so.

There is a third factor and that is that if the Canadian National had employed "user" depreciation, which the Canadian Pacific uses,—and which means that as traffic declines depreciation declines, and as it goes up depreciation increases, our figures would have shown reduction in the depreciation charge for 1954 of between \$3 million and \$5 million. So if you summarize those figures you will find that \$20 million to \$25 million can be attributed to these three factors.

Mr. MACDONNELL: Isn't there one other factor, Mr. Gordon? What about the item for pensions?

Mr. GORDON: The item for pensions is a factor I might well have mentioned. We have quite a heavy pension expense. If you will turn to page 7, of the statistical statements you will see that our pension costs charged to operating

expenses under the heading of "General" were \$25,560,000, which shows an increase of \$4.6 million over the previous year. It is not necessarily a recurring item in that it is an adjustment that had to be made in respect of our part 2 plan fund and it applies in respect of employees retiring during the year. I would hope that figure would be improved next year.

Mr. HAHN: Do you call that user depreciation?

Mr. GORDON: Yes. It is a technical term and it is based generally—I am using layman's language which will not be technically correct and Mr. Armstrong will probably have blood pressure at my description—but as ordinary people understand it, it is based on this: you have the mileage run during the year the depreciation changes between years depending on the use as measured by miles run. If the use of the railway goes down there is a lower charge to expenses; if use increases the charge goes up.

Now, this charge averages out to the same charge as that produced by the method we use, but it produces a figure that responds to charges in traffic level and this figure is not directly comparable with the one shown in our accounts.

Mr. HAHN: Then why don't we get the user system?

Mr. GORDON: That is a very pertinent question. As a matter of fact, the whole question of uniformity of accounting methods between the railways has been under examination by the Board of Transport Commissioners for many years and we expect that this year they will bring in their findings and that generally speaking the accounts will be on a uniform basis from now on.

Mr. Armstrong reminds me that when last checking with the Board he learned that they expect to make the uniform system effective from January 1, 1956, and from that time, generally speaking, the accounts of the two major railways will be on the same basis. There is a long technical argument that could be made in regard to the advantages of both depreciation systems. Each one of them has, in my opinion, some factors that are favourable and some that are disadvantageous, and we have been trying to work out a basis which will not require a very severe adjustment in accounting. It is our hope that the Board will establish a system that will be fair to each company.

Mr. HAHN: Do the majority of lines now use the user depreciation method?

Mr. GORDON: No, I think most of the American railways use the straight line method, as we do, and that the Canadian Pacific Railway is more or less an exception to the general rule

Mr. HAHN: You have not the figures to indicate how the other rail lines would compare with this depreciation we use as compared to the American lines who use a similar form of depreciation?

Mr. GORDON: I have no figures. I can get them, although it would take a little examination, but generally speaking we use the same method in depreciating our equipment as the United States lines do but we use retirement accounting for roadway property. Retirement accounting means we do not charge to our operating expenses any current depreciation on the road property, but when we retire any assets we charge the whole book value of the assets to expense. It has the effect of sometimes producing anomalies in specific years, but on the average in a property the size of the Canadian National it comes out to about the same thing.

Mr. HAHN: I am quite satisfied as to the long-term average, but we have by your own remarks a comparison of what might have been shown as possibly a profit or towards a profit in depreciation of \$3 million to \$5 million had we done what the Canadian Pacific Railway did under the same circumstances.

Mr. GORDON: That is correct. I do not say that the Canadian Pacific Railway are necessarily correct. I am merely referring to their methods.

Mr. HAHN: I realize that, but I was wondering how would our depreciation compare then with, let us say, the Great Northern Railway or some line which is on a comparative basis on a percentage basis. Would it be similar or would it materially affect our profit or loss if we were to use the same system throughout?

Mr. GORDON: I think I am going to inflict Mr. Armstrong on you. He will tell you if you will permit him that the United States roads usually employ the same method we do in depreciating equipment so that these results would be exactly the same, but they do not employ the same method as the CNR on road property and I cannot tell you at the moment whether if we had used—I take it you are trying to get at the effect on our accounts last year if we had used the U.S. method in this case?

Mr. HAHN: If we used the same as the American railroads and therefore we could, for convenience purposes compare it with the United States roads. You are comparing it with the Canadian Pacific Railway and saying we could have shown \$3 million or \$5 million, but actually it is not something we can do because we are working under a different system.

Mr. R. D. ARMSTRONG (*Comptroller, Canadian National Railways*): I think that is the essence of it. We apply depreciation to equipment on the basis used by all the American railways which are under the jurisdiction of the Interstate Commerce Commission. The Canadian Pacific Railway, as you will understand, is not under the jurisdiction of the Interstate Commerce Commission. We apply the average equipment depreciation rates used by those railways and therefore I would say the depreciation charged computed on our basis and on the American basis would be identical, but as you have pointed out the application of user depreciation, which is the method followed by the Canadian Pacific Railway, would have produced a somewhat different result. Of course, Mr. Gordon was speaking in terms of a general comparison between the Canadian Pacific and the Canadian National, but in the case of the road account the results would be a little different. The American railways and the Canadian National Railways do not apply the same depreciation method to road property. We apply retirement accounting and over a long period the differences balance out but our method might produce anomalies within a given year.

Mr. HAHN: In other words, while this year we showed an additional loss in other years we might have shown an additional profit?

Mr. GORDON: You can assume then that in the period of declining traffic the Canadian Pacific will tend to charge less depreciation to expenses than we will. In a period of increasing traffic they will charge more than we will. That is the fact of it. So that when we are on an ascending scale our present methods will reduce our relative charge, but the differences will be resolved when the Board of Transport Commissioners bring in the uniform accounting method which, as Mr. Armstrong advises me, is to become effective on January 1, 1956.

Mr. HAHN: What I am getting at is that in the past we showed an increased profit because our user depreciation would have been greater because we would use more. Then, actually that profit should not have shown so large if we had used user depreciation?

Mr. GORDON: That is correct, but it would average out over the years.

Mr. HAHN: So some of the past years that have shown surplus profit were actually as compared with Canadian Pacific a long profit?

Mr. GORDON: Yes, it is just a matter of method and we would get the advantage of it when traffic is increasing and we get a disadvantage when traffic goes down.

Mr. MACDONNELL (*Greenwood*): As I understand the practical application is that in this year the Canadian National has punished itself somewhat between it and the Canadian Pacific by the method it uses, which has increased the disparity?

Mr. GORDON: That would be correct, yes, sir.

Mr. MURPHY (*Westmorland*): How does this straight line depreciation which the Canadian National uses compare with other companies using straight line depreciation?

Mr. ARMSTRONG: You are speaking of depreciation on the roadway apart from the effect of traffic charges?

Mr. MURPHY (*Westmorland*): No, I mean I take from what Mr. Gordon says there is the user system of depreciation and then there is the system used by the Canadian National Railways which I understood him to call the straight line depreciation method. How does the straight line depreciation method of the Canadian National Railways compare with the straight line depreciation on other railway systems?

Mr. ARMSTRONG: So far as equipment is concerned it is on an identical basis. In the case of roadway property the American railways apply straight line depreciation; we apply retirement accounting. That is the difference which Mr. Gordon has indicated we expect will be resolved when the Board of Transport Commissioners gives their accounting directive to be effective January 1, 1956. In fact, the draft we have examined so indicates.

Mr. MURPHY (*Westmorland*): Then actually there are no other railroads that we can compare exactly on the straight line depreciation with?

Mr. ARMSTRONG: That is correct.

Mr. MURPHY (*Westmorland*): We have no one to compare it with?

Mr. ARMSTRONG: No.

Mr. HAMILTON (*Notre Dame de Grace*): Mr. Chairman, regarding the first of the items which Mr. Gordon advances as being implicated in the status, that is, the rail-laying program, as I remember last year when he appeared before this committee he indicated that in 1953 it had not been possible to complete the rail-laying program the company would have liked to do because of the shortage of rails, and he has just indicated that this year they went ahead on full steam perhaps more so than would have been necessary had they done more in the past. I turned to page 6 of the statistics under operating expenses and I am curious about an item there. There are several items which might relate to this, but particularly track-laying and surfacing, which actually shows a decrease over 1953 of about \$2 million. I am wondering how with relation to the statement that we had substantial increases in our track-laying program this year. I know of course that we have apparently bought more rails and we have apparently bought more other track material.

Mr. GORDON: That account that you refer to does not cover the whole cost of the whole program. That merely covers the track-laying and surfacing excluding material. If you run your eye up the page you will see the item for rails itself has increased by more than \$4 million. You will have to extract a number of these accounts and put them together.

Mr. HAMILTON (*Notre Dame de Grace*): Let me ask you this, Mr. Chairman. Taking the item on rails, for example, is that actual purchases of rails?

Mr. GORDON: No, this account covers the material cost of the steel rails installed.

Mr. HAMILTON (*Notre Dame de Grace*): And the same thing would be, I presume, under other track materials.

Mr. GORDON: The cost of the actual physical material.

Mr. HAMILTON (*Notre Dame de Grace*): So that the actual labour cost involved in this material is reflected down below in track laying and surfacing, is that correct?

Mr. GORDON: That is right, yes.

Mr. HAMILTON (*Notre Dame de Grace*): Now, we come to what is bothering me. We have apparently bought more rails, we have apparently bought more other track materials and yet we have not spent as much on labour. We have not had as much labour in the business of using this material because we have got a \$2 million reduction in the labour cost of using this material and I ask how that is correlated with Mr. Gordon's remark that our track-laying program this year has been substantially greater?

Mr. GORDON: To get the answer to your question would need a study of the accounts which are broken down under quite a number of different headings and I will look at that over the luncheon period if you like and I will give you something better. But perhaps Mr. Armstrong could deal with it now?

Mr. ARMSTRONG: Mr. Hamilton, the account called track laying and surfacing is primarily associated with the application of these materials to the track structure but it also contains a considerable element which is not involved in applying new material. It has a strict maintenance element in itself—cleaning ballast, bank widening, welding rail ends and things of that sort, where there is no material used. The portion of track laying and surfacing which applies to the application of track materials has increased—but the part which is not associated with materials has decreased.

Mr. HAMILTON (*Notre Dame de Grace*): Well, I can understand that in principle. I think you would agree with me that it would be interesting to the committee to see a little further analysis of this track-laying and surfacing account because on the surface there does seem to be a discrepancy.

Mr. GORDON: You might have a point there and I would like to look at this more closely,—but we are also able to lay more rails with more machines and less labour than we have done in the past.

Mr. HAMILTON (*Notre Dame de Grace*): Well, if that is the case this statement that we might have made a possible saving of \$15 million by paralleling the Canadian Pacific Railway program in this respect might have perhaps been examined again at least in view of the possible saving.

Mr. GORDON: Yes. I am reminded here that the labour cost of rail laying is only about 6 to 8 per cent of the total cost of a rail program. I will take another look at your question.

Mr. HAMILTON (*Notre Dame de Grace*): The other question which is perhaps slightly more general, your estimated savings related, as I remember it, primarily to the Canadian Pacific Railway?

Mr. GORDON: Yes.

Mr. HAMILTON (*Notre Dame de Grace*): Is it possible to make any comparison between the class 1 railroads in the United States generally and our position here in Canada; in other words, we must remember that their expenses proportionately decreased almost as much as the Canadian Pacific Railway? Now, did class 1 railroads in the United States on the average cut their rail-laying program by 50 per cent?

Mr. GORDON: We do not know that. All we know is that they did cut their maintenance of equipment and maintenance of way expenses very much more than we did. I have not got the detailed figures. But I can give you this; the class 1 railroads reduced maintenance of way and structure expenses by 14.6 per cent and they reduced maintenance of equipment expenses by 12.7 per cent, or an over-all reduction of 13.6 per cent in maintenance costs

compared with only 4.3 per cent in the Canadian National. The inference is clear that they must have got that 14.6 per cent saving largely through a curtailment of their rail-laying program because that is the biggest part of all the maintenance of way program.

Mr. KNIGHT: Would it be proper to assume that their rails were in better shape?

Mr. GORDON: Oh, yes. At the end of 1953, I would say without hesitation that on the average the condition of the track structure on class 1 railways in the United States was a good deal better than ours. Now, I do not want too much to be taken out of that. I am not suggesting that the Canadian National Railways is a sub-standard railway—far from it—but I do say there are great stretches of our track which ought to be much better and one of the reasons I gave you was that we did take a penalty during the war by putting in light weight rail. Then the course of wisdom was that because the rail was in there, it should be allowed to run out its life, but this has meant that we have had to undertake a heavy replacement program.

Mr. KNIGHT: Would it be fair to say then that this service shows 1953 provided the rail program had gone along and which if it had there would not have been that service shown; in other words, if we are paying in part this year for the fact that we did not carry on with the rail program last year—I am not saying we should have because I realize that perhaps rail was not available, but would that be fair?

Mr. GORDON: I think so. As a generalization what we are paying for now is wartime and post-war requirements rather than the current requirements. This type of maintenance is sometimes deferred for some time. It is almost impossible to say at a given point whether maintenance is current or deferred maintenance. The point is that it has been the policy of the railway that we will not go into what is known as punitive maintenance. By punitive maintenance I mean a decision not to do certain things on the railway which imposes an additional cost when we get around to doing them. There are some kinds of maintenance we can defer and leave standing and can do later on and it won't cost us any more when we get around to doing it. We can leave a bad order car standing on the track and it won't get any worse before we get around to repairing it. But if you have a building that badly needs paint and you let it go for four years then you are getting into punitive maintenance and it will cost you more to paint it when you come to do it. My argument is that despite the serious impact on our costs we will not go into punitive deferred maintenance even though we may thereby run into the unhappy situation of incurring a deficit.

Mr. WEAVER: Mr. Gordon, were your last year's estimates of revenue fairly accurate with the exception of farm products?

Mr. GORDON: No, and I am open to criticism in that respect. You will recall from our last year's budget that our estimate of revenue was \$688 million. At the time I took great pains to point out that it was very much guess work and that I was taking very much an optimistic view. The revenue for 1954 turned out to be \$640 million by reason of a very disappointing fall in traffic which proved to be much worse than we had predicted at the end of 1953.

Mr. WEAVER: Mr. Gordon, I said with the exception of farm products.

Mr. GORDON: If you turn to page 14 of your statistical summary you will see where the decrease has taken place. Grain and grain products represented the big reduction. About 40 per cent of our freight revenue decline was traceable to grain and grain products.

Mr. WEAVER: That is what I was coming to. On page 14 it shows that one of the reasons for the decrease in tonnage was farm products.

Mr. GORDON: Well, I don't quite follow you there because there were other products on which there were substantial reductions.

Mr. WEAVER: In total tonnage.

Mr. GORDON: In total tonnage, yes. The most serious decline came in grain and grain products, but you have to keep in mind that there is not only the actual drop in the tonnage of the grain but what I call the fertilizing effect of that decrease in grain traffic in the west because when the farmer is not getting a good price for grain or sees a poor year ahead of him he tends to restrict his purchases of such products as radios, washing machines, and television. I have always been of the opinion that a poor year for the western farmers is a poor year for Canada.

Mr. WEAVER: What I was going to say was that there have been many public references made to the fact that the problem of the railways is the result of low freight rates on grain. If the western grain rates are unreasonably low would one not expect to see a better picture where you have at least a large drop in this poor paying traffic?

Mr. GORDON: That is quite right and that is one of the conclusions that a superficial examination always leads to. I know I am getting on delicate ground but let me talk frankly. It is perfectly true that a subnormal rate for grain, a rate which does not pay the cost of operation, is a bad thing for the railway. But on the other hand the railways are there already and they have a staff and equipment available to handle the western crop. Now, if the crop fails we do not get back our overhead. So that despite the fact that we have a low rate on grain, if we get volume it pays part of our overhead, but if we do not get volume we do not recover any part of our overhead. That is why the railways will show better figures when they have heavy volume. Yet that does not dispose of the question of whether the freight rate as such is adequate to take care of our cost of operations. It is the same situation as the case of a big manufacturing plant. You have it set and ready for business, you have the overhead cost in the matter of machines and fixed expenses, and if that manufacturing plant is working at 15 per cent of capacity it will show a very substantial loss and if it is working at 90 per cent of capacity it will show a very substantial profit.

Mr. HAHN: The fact that you say if you had a greater volume of grain you would bring your books nearer to balance would indicate to me then that your regular expenses are continuing high and you are not bringing them down to the point where they should take care of that?

Mr. GORDON: There are some expenses we cannot adjust to traffic. The railway is built and there is no sense in saying we should tear up the tracks.

Mr. HAHN: Then the labour costs and so on would be the essence, the very fact you have your movement up would be part of it?

Mr. GORDON: Yes, even though traffic falls in western Canada we still have to maintain our stations, our dispatchers, signal devices and signalling men, etc., whether we are running 20 trains or 120 trains. By and large we have to have the same forces to ensure safety of operation and to control the operation of trains. We can cut the actual cost of running the trains but we cannot reduce other expenses of a more or less fixed type.

Mr. HAHN: Yes, I can follow that.

Mr. GORDON: There are some expenses which we cannot reduce in response to traffic changes, and by the same token if the traffic goes up some of our costs do not increase until a certain point is reached. That is why high volume is the salvation of the railway business.

Mr. HAHN: Then what it amounts to is that labour is possibly a very minor part of those losses?

Mr. GORDON: Oh, no, because if you look at our over-all costs 59·63 per cent of our expense dollar is paid for labour. It was 61·06 per cent in 1953.

Mr. HAHN: Then through your employment policy what you are actually doing is subsidizing the employment picture in Canada through our rail lines. Is that what you would say?

Mr. GORDON: To the extent that we were carrying a surplus number of employees who are not earning their keep that would be true, but we try to avoid that and we do cut our employment in relation to traffic wherever that is practicable. It is also true that we are an operating, functioning railway and there are some expenses we cannot cut even when traffic does drop.

Mr. HANNA: Would you go so far as to say then that 58 per cent of the 39 per cent that you would have, let us say, in the cost of decline in wheat—you stated there was an over-all 40 per cent less in grain shipments and you have 38 per cent as the cost of all your labour to your line—would you say that it would be 58 per cent?

Mr. GORDON: The cost of labour I am talking about now is over-all cost of the system. It would take a nice calculation to try to identify all that specific traffic.

Mr. HAHN: The other question I had to put also was a labour question in respect to this track-laying and surfacing. Do you let contracts to lay track or do you do this type of thing yourself?

Mr. GORDON: Generally speaking our track-laying is by our own forces but we have had contracts and we are prepared to invite tenders in specific cases to reduce costs, but by and large over the years our own forces do the rail laying.

Mr. HAHN: Those contracts which you have let, are they usually at a cheaper rate than what you yourselves have been able to lay it at?

Mr. GORDON: That would be the only reason that we would let contracts.

Mr. HAHN: Would it be possible to get an example of one of those contracts and compare them?

Mr. GORDON: As a matter of fact the examination that we have made indicates that the cost of outside contracts would exceed what the work would cost with our own forces, so that apart from the specialized type of contract we have with R.F. Welch and Company we have no contracts outstanding for this type of work and the current R.F. Welch contract is in fact due for completion by the end of May this year.

The CHAIRMAN: I was going to say shall item 614 carry? I think we have had a full discussion about the matter and we would like to get it carried before the noon hour.

Mr. HANNA: Shall we carry on from this point later?

The CHAIRMAN: I thought if we carried 614 we could go on with the report.

Mr. HANNA: I have one more question that is very brief.

The CHAIRMAN: All right.

Mr. HANNA: How do the wages compare in the contract companies with what we ourselves pay?

The CHAIRMAN: Shall item 614 carry?

Mr. HAMILTON (*Notre Dame de Grace*): There is one brief question directed at that. Mr. Gordon indicated on item 2 on a comparison between the Canadian Pacific and Canadian National that it probably represented an

additional \$10 million that the Canadian National could have saved by following the Canadian Pacific principle. Are there any statistics? Surely the Interstate Commerce Commission in the states must publish comparable figures of class 1 railroad lay-offs down there. How do those compare on an equivalent basis to our practice in Canada in 1954?

Mr. GORDON: They are not generally available from the I.C.C. yet. It takes a lot more time to get things from the United States than we can get them in Canada.

Mr. HAMILTON (*Notre Dame de Grace*): That is what I am afraid of in connection with something else.

Mr. GORDON: In the United States they seem to have a very keen appreciation that it takes time to get statistics.

Mr. HAHN: Mr. Chairman, I didn't get an answer to my question but I might say in respect to it I had a purpose in mind.

Mr. GORDON: I thought that, yes.

Mr. HAHN: I don't think these contracting firms are paying labour a fair wage and I want to find out exactly what their wage is as compared to what we are paying.

The CHAIRMAN: You will have an opportunity to do that on labour relations. There is an item dealing with labour relations and you can do that then. I wanted to carry this item.

Mr. KNIGHT: Mr. Chairman, are you going to let me ask one very small question?

The CHAIRMAN: Yes.

Mr. KNIGHT: In regard to track laying how do you buy your ties? My interest is, I would like to see the purchase of ties distributed in such a way that it would benefit small people who were able to dig out a few thousand feet or whatever the term is. There has been, I think, some complaints from local small people that they are not getting any of this tie business and that this year they find themselves without work which they used to have.

Mr. GORDON: Yes. The matter of buying ties has been a matter of discussion for the last thirty-odd years, I found, in going back, but I can tell you what the present situation is. We have over many years called for tenders on the basis that any local supplier might tender. We find in practice that when things are good they don't tender because they can use the labour to better advantage or they can sell their product to better advantage. In poor times they come charging in and everybody wants to get a piece of the business. Generally speaking, however, we allow anybody to submit a tender to us. If he is able to satisfy us that he has a product that is satisfactory and if he can make the delivery on a basis that we can trust then he will get a share of the business, but naturally in the course of doing that we tend to favour those who have a record of performance. I mean by that those who will supply satisfactory ties to us in good years and bad. There is only so much business to divide up after all and they cannot all get it. The deciding factors would be price and delivery.

Mr. KNIGHT: Would one deciding factor be volume?

Mr. GORDON: In part, but not necessarily so. We don't want to deal with the very small operators who cannot handle the business in a satisfactory way but certainly we will do business with any local people who can demonstrate satisfactory performance.

This seems to be the U.S. employment figure although I do not want to be held to it because I am still suspicious that it may not be official. Mr. Armstrong informs me that the reduction in employment on class 1 railways in 1954 versus 1953 is 138,500 people, which is somewhat over 10 per cent. Does that answer your question?

Mr. HAMILTON (*Notre Dame de Grace*): And that is on a comparable basis with your reduction of 6 per cent and the Canadian Pacific's reduction of 8 per cent?

Mr. GORDON: That is on the same basis. We use the same formula and the same type of statistics go into the count.

Mr. FOLLWELL: Mr. Gordon, you indicated that some \$15 million, more than half of the total deficit, was accounted for by the track-laying program. I was wondering what track-laying program you have for 1955.

Mr. GORDON: I will be dealing with that in the budget, but as compared with 1954 our track mileage will be 437 miles as compared with 869, that is, on new rail.

The CHAIRMAN: Shall item 614 carry?

Carried.

Then, at 3.30 we will commence the headings of the report.

AFTERNOON SESSION

The CHAIRMAN: Gentlemen, we have a quorum. We agreed this morning that we would commence with the headings. So the first heading that I will call deals with "Freight" on page 5. Are there any questions on the heading "Freight" on page 5? Carried?

Carried.

And then the next heading deals with freight rates. Are there any questions on the heading "Freight rates"?

Mr. MURPHY (*Westmorland*): In these freight rates we have trailer-on-flat-car service. Is that effective right across Canada?

Mr. GORDON: It is not effective across Canada. It is still on a more or less experimental basis and as the report tells us, it was put in force between Toronto and Montreal first and it has now been extended to Hamilton. We have one or two other runs under examination, but at the moment we have not got anything as ambitious in mind as extending the service across Canada.

Mr. MURPHY (*Westmorland*): Is this what is generally referred to by the press repeatedly as the "piggy-back" service?

Mr. GORDON: Yes.

Mr. MURPHY (*Westmorland*): It is not being used at the present time in British Columbia, is it?

Mr. GORDON: No, it is not, and there is this difference too. The "piggy-back" service which is often so referred to in the United States is a service for truckers to carry their trucks on flat cars. We have not developed that service in Canada so far. We have not thought it advisable and our trailer-on-flat-car service refers to our own trailers in which we, for instance, gather up traffic in Montreal, put it on the trailer and haul it back and put it on the flat car.

Mr. MURPHY (*Westmorland*): Have you been approached by the truckers for that purpose?

Mr. GORDON: There have been some discussions but we have not been sold on their representations.

Mr. MACDONNELL (*Greenwood*): Mr. Chairman, I am not quite sure at which item we are.

The CHAIRMAN: Sorry, we are dealing with the item on page 6, Mr. Macdonnell, freight rates.

Mr. MACDONNELL (*Greenwood*): Would it be relevant to ask Mr. Gordon concerning the reduction in freight tonnage, to what extent that represents a general reduction in tonnage operation and to what extent it represents a lessened share of goods going by rail?

Mr. GORDON: That, Mr. Macdonnell, is the \$64 question. We wish we knew. It is almost impossible to analyse the transportation companies of the country on a basis to ascertain definitely whether or not the railways are continuing to get their share of what might be called the transportation pie. We believe we are losing somewhat but our analysis is not sufficiently accurate for us to be positive in the matter, but it is quite evident that the degree of competition we have experienced from truckers and others in cutting into our high-rated traffic so that on balance we would think we are losing some ground in regard to maintaining our share of the transportation pie.

Mr. MACDONNELL (*Greenwood*): For example, at the end of paragraph 10, speaking of the results on the trailer-on-flat-car service are you able to draw any conclusions from your results in that service?

Mr. GORDON: It is a little early to be positive about it but I can say the results so far have been quite encouraging. You will remember the reason for instituting the service was this, that we became aware by actual analytical examination that the amount of traffic originating between Montreal and Toronto and vice versa had left the rails and gone to the trucks to such a degree that the actual amount left for the railways was a very small percentage. Therefore, we felt that if we could use our inherent advantage which is the carrying of large volumes and reduce our rates to the point where they were definitely competitive with the trucking rates then we could attract back to the rails some of the traffic which had been lost.

Now, in doing so we took a calculated risk because we have reduced the rates affecting that traffic which stayed on the rails as well as trying to get traffic back on the rails so the nice calculation is to discover whether the result of the experiment will bring enough traffic back to the rails to justify the lower rate. As I say, the results do appear to have been encouraging. It is too early, however, to be positive about it because the first result has been that the truckers have also reduced their rates to approximately the point where we have put ourselves and it is going to be a question of how long they can stay in business at the rates which they are quoting and which we believe are either below their costs at a point where there is very little profit in it. The inherent advantage of the railway is that in large volume we can beat the truckers' costs.

Mr. MACDONNELL (*Greenwood*): Is this the proper place to ask about agreed charges or is that sub judice?

Mr. GORDON: It is just as well here as anywhere. It is mentioned in paragraph 11, you will observe.

Mr. MACDONNELL (*Greenwood*): Yes, I see that and I have here the royal commission report and the question I suppose is can we be given an idea of the effect and possible magnitude of that?

Mr. GORDON: Well, of course, that remains to be seen. The report as made by the royal commission at the moment is still a report and I am

hoping the government will see fit to implement the report with the assistance of yourself and others in the House. If they do that we will be able to go after business, but as to what the magnitude of that business will be I cannot say.

Mr. MACDONNELL (*Greenwood*): Have you not been, although with some limitations, putting in agreed charges?

Mr. GORDON: Yes, we have over the last two or three years been successful in getting quite an extensive volume of business under the agreed charge which has been supported by the Board of Transport Commissioners notwithstanding the fact that it has been challenged. Now with the report of the royal commission the practice of the agreed charge has been endorsed as being a sound rate-making practice and something which can be granted without anything like as much of the red tape that presently surrounds it.

Mr. FULTON: In this connection what do your own analyses show as to the cause of the decline in revenue, Mr. Gordon? Whether it is a general decline in the volume of business or due to a smaller percentage of the volume of business being handled by yourselves can you tell us approximately what the relationship is between the two?

Mr. GORDON: Mr. Macdonnell asked identically the same question a moment ago, but I would be glad to repeat the answer if you would like me to.

Mr. FULTON: No, never mind.

Mr. BELL: With respect to the maritimes, Mr. Gordon, and the agreed charge, would you care to assess the possible effects? I realize this is perhaps premature now, but there have been two conflicting statements I have seen in the papers. One gentleman who is an authority on the freight rate structure says there will be no changes and another gentleman says it will be quite harmful for imports into the maritimes of automobiles and canned goods. Can you make a general statement on the future?

Mr. GORDON: Well, an agreed charge, you may remember, is something that can be made to appear very complicated but it is really a very simple arrangement. It consists of this: we say to individual shippers who may be in the same kind of business that if they will agree to ship by rail a percentage of their output, which may vary depending on the type of commodity involved,—we will give them a lower rate than the rate stipulated in the tariff for individual shipments. That is the essence of the agreed charge. The application of it will, of course, vary depending on the type of goods that are carried.

We have a very interesting contract which we were negotiating recently in connection with carrying automobiles to western Canada. That was specifically designed among other things to meet the competition which we found had arisen through individuals driving cars to western Canada at a lower price than the freight rate. There were other things involved as well—transport by truck and so on. So we said to the automobile manufacturers: "If you agree to ship X per cent by rail we will make this freight rate." They did not all agree but it is significant that quite shortly after the impact of the arrangement had been observed on their competitors those automobile manufacturers who stayed away from the original contract have now come into the agreement.

Now, without specific application to the maritime provinces—my reply can only be a very general one—it depends on what kind of traffic would be susceptible to that kind of an arrangement. As soon as we get this agreed charge as legislation and we get away from the red tape that surrounds it now we will be in a far better competitive position to go after all kinds of traffic. As it is now it is surrounded with all sorts of restrictions which makes it very

difficult for us to work on a competitive basis and particularly difficult to arrive at an agreement quickly. Sometimes the essence of meeting competition is to act quickly and right now we cannot do this.

Mr. BELL: Are there many maritime firms now or in contemplation coming under the agreed charge?

Mr. GORDON: Well, the breakdown that I have here is that we have twenty-three agreements in effect in eastern Canada, fourteen in western Canada, twelve east to west, three west to east and two lakehead and points east and west thereof in the province of Ontario, a total of fifty-four agreed charges and 231 shippers covered under those agreed charges, but that is the situation as it is now. I would hope, as I said before, that we can go on from that.

Mr. BELL: Do I understand you then to say that as far as automobiles going into the maritimes are concerned there might be an increase in their cost? You further suggest that truck transport might offer competition and therefore there might be an inducement—

Mr. GORDON: Sorry to interrupt you, but did you say the agreed charge would have the effect of increasing transport to the maritimes?

Mr. BELL: No, excuse me, automobiles imported to the maritimes, there would be an increase in their cost.

Mr. GORDON: Not under the agreed charge.

Mr. BELL: Well, they have the general opinion down that way that the effect of it will mean \$26 up to \$76 on the price of automobiles. Now, whether it is a relative aspect or not I don't know, but that is the feeling that is around.

Mr. GORDON: Well, I think you must be confusing two things. You are talking about equalization, aren't you? That is a different story altogether, but the effect of the agreed charge in respect of any given standard of rates would be to reduce those rates. If we made an agreement with a manufacturer here in Ontario for the purpose of getting a given percentage of his product and shipping it to the maritimes the only reason that such an agreed charge would be worked out would be to reduce the cost of transportation.

Mr. BELL: If there was an agreed charge within central Canada on automobiles that would tend to reduce the cost of the automobile here, but as far as the transport of the automobile to the maritimes is concerned it would mean that we could possibly be paying \$25 or more per car over the price up here.

Mr. GORDON: But not because of transportation.

Mr. BELL: No, but because of the agreed charge in central Canada.

Mr. GORDON: Oh, no, I cannot follow that at all. The agreed charge, I say, has the effect of reducing the cost of transportation wherever it may be and since it is an element in the cost of the car—

Mr. BELL: Then we would be suffering under the agreed charge as such unless we took advantage of it ourselves. You have very few maritime firms in agreed charges now. There may be in the future.

Mr. GORDON: Remember it is not the maritime provinces' firms that the agreed charge was written with. The agreed charge was written with the automobile manufacturers and it covers an element in their cost in the form of transportation. If from, let us say, Windsor, Ontario, the freight rate is cheaper by reason of the agreed charge, then the laid down cost of the automobile in the maritime provinces must of necessity be less than it otherwise would be. I am talking of the transportation charges only. What the automobile manufacturer may decide to do as a matter of price policy is something I cannot answer.

Mr. BELL: Could I ask one further question? I am straightened out a little further on this but regarding the shipper in the maritimes, what is his competitive position into central Canada going to be under the agreed charges?

Mr. GORDON: Well, the same thing applies. If he is a shipper who is in a position to make an agreed charge with the railway then his cost of transportation under that agreed charge would be less than it otherwise would be. We cannot make agreed charges with every shipper. It is not every shipper that is in a position to do it, but the types of shippers where the agreed charge would be a suitable vehicle would get that kind of benefit.

Mr. BELL: I would think it would tend to increase truck transport in the maritimes offhand because the incentive to take advantage of the agreed charge evidently is not there.

Mr. GORDON: Well, all I can say on that is that if the effect is to increase truck competition and give the truckers a better market for their service than the railway then it is a strange thing that the truckers took such violent objection to the agreed charge during the course of the royal commission. The truckers do not seem to feel that way.

Mr. HANNA: I think Mr. Gordon is familiar with the viewpoint of the province of Alberta on agreed charges. Generally speaking they object to them because they claim they circumvent the 1½ rule. Is there any truth in the statement I have heard often that for certain commodities it is cheaper to ship them from Montreal to Vancouver and back to Edmonton than it is to ship them to Edmonton direct?

Mr. GORDON: Yes.

Mr. HANNA: That does not seem to be an economic proposition and I was wondering if Mr. Gordon would tell us whether there is any way of getting around it?

Mr. GORDON: You are getting into a dissertation on the long and short haul rule and you would need a book to explain all the ramifications of the freight rates, but on this agreed charge proposition I would say this matter has been exhaustively examined by the royal commission, the royal commission report is now before the government and will presumably come before the House and I am in a little state of uncertainty as to the propriety here of my commenting on the judgment while it is in the state it is in. What would you think, Mr. Minister?

Hon. Mr. MARLER: I think we would probably have an opportunity of considering it later.

Mr. HANNA: When considering that might I ask the question would the railway knowingly haul to Vancouver and back to Edmonton rather than to Edmonton direct?

Mr. GORDON: Yes, from the point of view of freight rates under certain circumstances that would be the sensible thing to do.

Mr. HANNA: It does not seem that it should be done.

Mr. CARTER: I have one or two questions.

Mr. MACDONNELL (*Greenwood*): Isn't that from the shippers' point of view?

Mr. GORDON: I might qualify that perhaps a little. Theoretically what I say is so in the sense that it would be the thing to do from a rate structure point of view. From a practical operating point of view we just don't do it.

Mr. HANNA: That is what I was trying to get at.

Mr. CARTER: In the agreed charges that you have worked out or to be worked out or to be put into effect do you have any minimum volume below which you will not bother about agreed charges?

Mr. GORDON: That depends upon the circumstances of each individual case. We ask for a volume which on examination of the particular type of shipment we think we need to make it economical for us to quote a rate. It will range all the way from 55 per cent to 70 per cent and perhaps higher, but we consider the problem in terms of volume. If we get a stated volume we can then justify the rate we are quoting; in other words, the percentage established has a direct bearing on the rate which we quote.

Mr. CARTER: And the commodity itself?

Mr. GORDON: And the commodity itself. If the industry were to argue that they would only be prepared to give us 55 per cent then our rate would not be as favourable as if they were prepared to give us 65 per cent or 70 per cent.

Mr. CARTER: Have you given any consideration to the agreed charges in the transportation of fish, frozen fish or iced fish?

Mr. GORDON: I don't recall one of that type coming up yet. It is the sort of thing which I would think would come up for examination once we know what we can do with the royal commission report but for an agreed charge it is necessary to deal with a bulk shipment. It is necessary for us to get shippers who can act in concert. It does not lend itself to the individual small type of operator.

Mr. CARTER: You cannot give a percentage level but I was thinking in terms of a bulk shipment.

Mr. HAHN: Mr. Gordon, the rate depends upon the volume of business that the company or companies are going to ship by rail?

Mr. GORDON: Yes.

Mr. HAHN: Then following up what Mr. Bell has been asking, the agreed rates are beneficial to shippers in central Canada, manufacturers who have a large volume of business and will have this agreed rate shipping goods into the maritimes, but the small maritimes manufacturer because he has not got the production that they have in central Canada would not be able to get the same type of rate; in other words, it is favourable to the people who ship into the maritimes but it would not be favourable to the people who ship out?

Mr. GORDON: Not necessarily so. When I talk volume I am talking in terms of carload lots. If we ship into the maritimes or if not we talk of carload lots in terms of agreed charges. It does not have to be a great big volume; it is the volume in relation to the shippers under contract. We can't do so in less than carload lots, but if a shipper has a business that runs into carload lots we can talk to him about an agreed charge.

Mr. HAHN: Does the distance have a bearing on the rate that is set?

Mr. GORDON: Oh, naturally, yes. Distance has a bearing on any freight rate.

Mr. HAHN: Then for the purpose of agreed charges in any purpose of using them in the maritime provinces which are small in area, they would not be as beneficial as they are to the rest of Canada. To ship from one point in the maritimes to another it would not be practical to look for an agreed charge?

Mr. GORDON: No, all these things are relative. Relatively I think the maritimes have as much opportunity to benefit from this as the rest of Canada.

Mr. HAHN: Well, they are excluded, are they not, by the Maritime Freight Rates Act? The points in the maritimes I think are included in the terms of the Maritime Freight Rates Act of 1923.

Mr. GORDON: All I can say is that that is a new one on me. I had not heard it. I do not think it is true. I am not aware, and I think I am right in stating this, I am not aware that the agreed charge is hampered in any way, by the sort of thing you mention.

Mr. HANNA: It is possible to have agreed charges between two maritime points as such?

Mr. GORDON: As far as I know it is. The agreed charge has nothing to do with the Maritime Freight Rates Act. It will, of course, depend on the type of legislation that you are going to be so good as to help us with.

Mr. MURPHY (*Westmorland*): Several times you used the expression "in a position to take advantage of the agreed charge." Do you mean by that that it is a carload lot or that it was required at regular intervals?

Mr. GORDON: I mean the size of the shippers' business and the kind of business. In some cases we can do better than others, but each rate has got to stand investigation to see whether or not we can justify the rate. I can't see why every type of shipment would not be open to get the agreed charge rate. It would have to be examined as to whether or not the railway could show an economy by reason of getting a fixed percentage of a particular shipper's business.

Mr. HAHN: It would have to be in percentage of the shipper's business on a carload lot basis?

Mr. GORDON: That is the general theory of the thing.

Mr. CARTER: Mr. Gordon, speaking in terms of carload lots, in Newfoundland we have a narrow gauge railway and we have small areas. Would you include a small carload lot in an agreed charge? I am thinking now of our industries like our plywood industry, our pressed wood, which has a market up in Montreal and central Canada and the United States. Would it be possible for them to take advantage of an agreed charge?

Mr. GORDON: Well, I have to think about that one because you are setting up a condition that needs some thinking about. In the first place you must remember that the agreed charge is in essence a competitive rate. Now, I don't know whether the particular industry that you mention has a competitive factor that would interest the railway in the matter of quoting a rate against some other form of transportation. The agreed charge, remember, by its very nature is a competitive rate.

Mr. CARTER: If we don't have any highway we don't have any competition.

Mr. CARRICK: Mr. Gordon, in order to keep shippers competitive one with another would your railway company give the same rates to two shippers shipping from the same shipping point to the same destination with an equal quantity of goods?

Mr. GORDON: Under the agreed charge?

Mr. CARRICK: Yes, would you say that the agreed charge would not work out so that that would fit into the same rate?

Mr. GORDON: Generally speaking that is the idea. If we make an agreed charge it is open to every shipper of the same type and under the same circumstances.

By the way, Mr. Carter, if the shipments you mentioned were coming into a Canadian market we might have a competitive factor there that might apply.

Mr. FOLLWELL: I want to inquire if an agreed charge by the Canadian National would be comparable with an agreed charge by the Canadian Pacific Railway?

Mr. GORDON: Oh, yes, the proposed legislation on agreed charges can only be made if both railways agree to it—all railways in fact.

Mr. FOLLWELL: You would not in any circumstances be undercutting the other railway?

Mr. GORDON: No, we could not do it of our own motion. Both railways have to join in it and you will find that is in the legislation now and it is included further in the royal commission's recommendations. Under same constitutions the water carriers can join in it too.

Mr. FULTON: I would like to ask Mr. Gordon in quoting the rates between shippers if a manufacturer says he will ship 75 per cent of his traffic by rail and gets an agreed charge would the same rate be available to other manufacturers of the same commodity? Let me put it this way: under what circumstances would the same rate be applicable to another manufacturer of the same commodity?

Mr. GORDON: If the other manufacturer had the same type of product and the same general circumstances that rate would be open to him too.

Mr. FULTON: He would have to agree to ship the same product?

Mr. GORDON: Generally speaking, yes.

Mr. FULTON: Supposing his volume was not as great, supposing his volume was appreciably less than the output of the other manufacturer; supposing 75 per cent of manufacturer A was 100,000 units whereas 75 per cent of manufacturer B was 50,000 units. Would you be able to give him the same rate?

Mr. GORDON: Yes. It is the percentage that governs, as I understand it, the percentage of the product being taken in under the agreed charge and as I said before if that percentage has been established for that particular industry then it is applicable for anyone who wants to take advantage of it.

Mr. FULTON: Then there is no advantage given to a man who happens to be in a bigger way of business?

Mr. GORDON: No. In some circumstances—and I speak subject to correction here—in some circumstances we would be prepared to vary the percentage if a different manufacturer had a different composition of cars. He might have a composition that would make it difficult for him to reach the 75 per cent, but we are prepared to examine those circumstances.

Mr. MACDONNELL (*Greenwood*): Are they secret and private arrangements or are these rates published?

Mr. GORDON: The rates will be published and authorized by the Board of Transport Commissioners, but each agreement is signed individually with the shippers and the railway.

Mr. GILLIS: Mr. Gordon, the shipper or group of shippers making an agreement with you under an agreed rate shipping from the maritimes would still receive the benefit of the Maritime Freight Rates Act?

Mr. GORDON: Yes, definitely yes.

The CHAIRMAN: Shall the item carry?

Carried.

Mr. FULTON: I would like to ask Mr. Gordon whether he has yet answered the question as to whether the passenger service in the over-all picture shows a profit. I know it is hard to break down between passenger and freight.

Mr. GORDON: Well, there are all sorts of elements in that question. I have one estimate here. Now, the business of trying to determine what might be called a passenger deficit is an almost impossible task because it is so difficult to define what portion of the railway expenses should be allocated to passenger and what to freight; in other words, the line is there, the stations are there and they would still be there if we had no passenger business at all. The I.C.C. which, of course as you know, is the Interstate Commerce Commission of the

United States has established a formula for distributing these expenses and on the basis of that formula they show some very extraordinary figures for the passenger deficit of the United States railways which last year was in the order of \$700 million. If we were to follow that formula—and I emphasize that I do not hold with the formula myself, because I think the loss is overstated, but nevertheless it is a formula they use in the United States—if we apply that formula to our business we have estimated that if we withdrew from the passenger service entirely there would be an annual saving of \$40 to \$50 million.

Now, having said that I know I should not have said it because it will get into headlines and it is quite wrong, but it is the best answer I can give you. On the understanding that I don't believe what I am saying I am telling you what the figures would be.

Mr. FULTON: Have you had this sort of formula within your knowledge long enough to know whether there is a trend in Canada towards increasing deficits or are you able to bring expenses and revenues closer into line?

Mr. GORDON: Our opinion is that the loss is coming down.

Mr. FULTON: As a result of the new equipment?

Mr. GORDON: In part, although we are very disappointed, as you see from the report, that the first year of our new equipment has not given us extra traffic, but nevertheless there are other economies through use of new equipment and from such things as diesel operations and the losses are being reduced in the United States. So we expect to follow this trend.

Mr. FULTON: You will have a section later on your new schedule but I guess it is better to wait until we get there.

The CHAIRMAN: Shall the heading carry?

Mr. CARTER: Mr. Chairman, I have one or two problems concerning passengers.

The CHAIRMAN: Passenger rates will be next. Does it concern rates?

Mr. CARTER: No, passengers. We have some complaints in our inland towns, particularly Gander and Grand Falls. At Gander perhaps half the planes are grounded there and the passengers have to finish the rest of their journey by rail into St. John's. That is usually in the night time and apparently the night agent has no facilities, he has no cash to cash tickets and is usually not too competent a person on night duty to handle that traffic. I wonder if Mr. Gordon would take note of that. The complaint is due to Gander and Great Falls and the inland towns. Really I might say instead of a hundred passengers grounded you might have a hundred loggers who came out of the woods, but there is no one to look after them to sell tickets or can only sell tickets one at a time. What happens then is that they all bundle onto the train and the conductor has to sell tickets and he can't do it either because he has not got the change, he has only come from one station to another. There is a little problem there to look after.

Mr. GORDON: I will be glad to look at it. I had not heard of that particular trouble, but I will make a note and look into it.

The CHAIRMAN: Is that heading carried?

Carried.

Mr. CHURCHILL: In paragraph 14 I note that the volume of passenger travel was in part reflection of business adjustments during the year, aggravated by the uncertain agricultural outlook in western Canada and competition from airlines and busses, etc. Well, one of the greatest competitors of the Canadian National Railways is the Trans-Canada Air Lines. I notice whereas the Canadian National Railways has a decline in passenger traffic of one per cent the

Trans-Canada Air Lines reports an increase of 10 per cent and attributes that increase to the general prosperity and energetic sales program in which national advertising was the key factor and the fact that the company was able to avoid any increase in fares. I was just wondering whether the Canadian National Railways' decline in passenger traffic might be attributed to other factors than the ones disclosed in that paragraph.

Mr. GORDON: Well, I take it from your question you are asking me if a statement that I made in the report is true or not. To the best of my knowledge and belief it is. It is also true that the Trans-Canada Air Lines has had a very good year and I think for the first time in its history it has exceeded in passenger revenue the amount which the Canadian National Railways took in from this type of business. It is also to be noted that the C.N.R. in order to earn that revenue, carried a total of 17,858,916 passengers while the T.C.A. carried 1,438,349 people for a gross revenue which exceeds that accruing to the C.N.R. The explanation is obvious, that the T.C.A. gathers a great deal more money than we do by reason of the average length of the journey.

Mr. CHURCHILL: They have a sales program, in which they advertise no increase in fares.

Mr. GORDON: We certainly have an energetic sales program. I think that is demonstrated in various things we mentioned in the report. You will see in paragraph 15 of the report some of the things we have been doing, plus the fact that we have put on much better equipment. This business of transportation, you know, begins to get something of a fashion at times, and under certain conditions people prefer to travel by air rather than by railway.

Mr. FULTON: Your numbers of passengers decreased four per cent last year from 1953, as against only a further one per cent this year. I do not want to imply that this report for this year is incorrect, but I am wondering whether it is not perhaps too easy a conclusion that it is simply because of adverse conditions. That was not the case in 1953.

Mr. GORDON: You could be right. I do not claim perfection in our analyses. All I can say is that we have made the best effort we could to get business, and we have not been able to get the passenger business up. I do not believe it is due to any lack of services. I do not believe it is due to a lack of effort on our part in providing the kind of things that the public wants, but the fact of the matter is that the business did not turn up. You begin to ask yourself why, and there may be half a dozen different reasons.

Mr. FULTON: Can you give us a comparison with American railways?

Mr. GORDON: They fell off at least to a similar degree. We have to remember, too, that this country is developing, and that every year more and more highways are coming into being, more and more automobiles, as will be seen from the automobile registrations and more and more buses. All these things are competition to the railways as our country becomes better developed and as more highways are built. That kind of competition is going to become more and more severe. This is by no means a reflection of only airline competition. It is a reflection of all types of competition, including the private automobile which, after all, is our main competitor.

Mr. FULTON: But let me ask you this. Your emphasis, particularly in connection with the new equipment you are putting on this year, is on the transcontinental run, and I am not suggesting that that should not be regarded and emphasized, but it appears to me that on transcontinental runs the time advantage of air against rail is at its maximum in favour of air. I wonder, therefore, whether it is not possible to put more emphasis on intercity runs.

Mr. GORDON: I think you have a very valid point in that, and it is a point on which we have had many discussions. As a matter of fact, the new super

continental runs we are going to have, starting on April 24 this year, will be very closely surveyed by us to establish just where the thickness of traffic, the saturation of traffic, applies. I do not rule out the possibility that we may some day decide to specialize on the intercity runs at the expense of the trans-continental. I say that this is something we have actually under examination. You may have a very valid point there.

Mr. CARTER: You have the same degree of variation in passenger miles as you do between passengers from one year to another?

Mr. GORDON: No, I would not say so. In this particular year you will notice that our passenger miles declined four per cent, and our number of passengers declined only one per cent. You will notice that in paragraph 13. That means that the average trip was shorter this year than it was last year. But that is the sort of thing for which I doubt you could get any proper analytical reason.

Mr. CARTER: You would not think that for longer distances the passengers would prefer air travel over rail travel?

Mr. GORDON: I think that our rich relation, the T.C.A., is in a better position to answer that. The airline travel still has a glamour appeal and it still has a time saving appeal, and the only thing we can do in the railway business is to stress such things as comfort and in some cases point out—

Mr. FULTON: I think that you still have plenty of glamour in the railways.

Mr. GORDON: I think so too, but I do not criticise the airlines at all for featuring their particular characteristics, which encourage people to travel by airline. I have no objection to that.

Mr. MACDONNELL (*Greenwood*): I wonder if, as a tiny shareholder in this \$3 billion enterprise, I could find some cheer. Is it a fact that your passengers are only down one per cent this year, as against four per cent in the previous year?

Mr. GORDON: No, we are saying that the passengers that we carried moved down one per cent.

Mr. MACDONNELL (*Greenwood*): Passengers carried decreased one per cent?

Mr. GORDON: The revenue passenger miles decreased four per cent.

The CHAIRMAN: That was last year.

Mr. MACDONNELL (*Greenwood*): Can I not take some little encouragement from the fact that in 1953 there was a decrease of four per cent in the number of passengers from the previous year, and in 1954 that it was only one per cent?

Mr. GORDON: The rate of decrease is less, yes, and I would like to take some comfort out of that too. I think myself that if we had had delivery of our new equipment earlier, we might have done better. The new equipment did not begin coming along until about the middle of the year, and therefore its effect was not seen throughout the year.

Mr. MACDONNELL (*Greenwood*): I suggest that in some of the new cars there are so many gadgets that a simple person like myself needs an engineer to come and demonstrate them. I sometimes sign for the old cars with windows that let in all the cinders.

Mr. GORDON: I should think that Mr. Macdonnell is one of those who would like to travel by train to see how the gadgets work.

Mr. FOLLWELL: Under paragraph 15 you indicated that you put those incentive fares into effect. I wondered how it has worked out? Has it increased business?

Mr. GORDON: It has. We have had some encouraging results. The effects have been quite interesting and of course are being developed. They are still a new idea.

Mr. FOLLWELL: I notice that the bus companies have them.

Mr. GORDON: In 1954, under our Department of Tours, we took in gross revenues of \$78,565, which is to all intents and purposes new revenue. As a new approach, we think that is encouraging enough to carry on. We see enough response to it that we think it is well worthwhile; our expenses are not too great on it, and our net is coming up. These are things which it will take years to develop, to see whether or not they are worth while. You do not get results in the railway business very quickly.

The CHAIRMAN: Shall the item "Passenger" carry?

Carried.

"Passenger fares".

Mr. HAMILTON (*Notre Dame de Grace*): With regard to the question of "rail liners", has any consideration been given to the use of some of that equipment on a much more extensive basis in intercity runs? Suppose there are two departures from the city. There might be four or five units spread throughout the day, to run perhaps eight or ten departures. For example, from Montreal to Quebec. Perhaps you have ten or twelve airline departures a day.

Mr. GORDON: We have extensive studies under way with the idea of using the rail liner where it can be economically used and we have put in some services last year. There are some seventeen rail cars in revenue service now on various runs in Canada. It is not as easy as you might imagine. We have checked the rail liner between here and Montreal to see what could be done there. The plain fact is that in order to make the time between Montreal and Ottawa by the rail liner it would have to be more or less a non-stop run. That means a completely extra service. We are under obligation to serve many communities between Montreal and Ottawa and when we have the rail liner on a non-stop run we would still have to run another train service for those communities for mail, express and so forth. It becomes a nice question as to whether we could get enough traffic. If we could get enough traffic to justify it the answer would be "yes" but there is not enough traffic to justify what would be to all intents and purposes a special train.

Mr. KNIGHT: Excuse my ignorance, but is a rail liner a type of lighter equipment?

Mr. GORDON: It is often referred to as a Budd car. Look at page 22 in the report and you will see a picture of it. It is really a self-propelled passenger car.

Mr. KNIGHT: My thought was that, according to paragraph 16, you have really abandoned the commutation idea. Did the railroad actually give a trial to the commuter type of train such as you will find on the Delaware, Lackwanna and Western, or you used to find, outside of New York, with a lighter type of engine.

Mr. GORDON: We have a service of that very type through the Mount Royal tunnel in Montreal called the multiple unit car run by electricity. We put it in service about three or four years ago and it is a specialized car for that commuter service. But remember this: when you talk railway economics in regard to these special cars, you must remember that every time you put a special type of car on, you are dedicating it to that particular service, and if you do not have cars that are interchangeable you cannot use them in other services. If your dedicated service does not give you enough business you are in a bad way, particularly in periods of low traffic such as week-ends. We like to have our cars so that we can take care of holidays or special occasions, when we can put them on a holiday train, and that sort of thing. Every time we have a specialized car, we are stuck with it, and we can use it for no other purpose.

Mr. KNIGHT: I suppose that you would need a concentrated population.

Mr. GORDON: That is a consideration in the tunnel service. We run the trains as fast as we can. We get the peak load only in the morning and evening, and between the peak periods the cars are used very little.

Mr. KNIGHT: They have a regular method of getting people to New York from districts twenty or thirty miles outside the city. They run every fifteen minutes.

Mr. GORDON: The poor operators will tell you that they are losing their shirts on that service, too.

Mr. KNIGHT: I did not know that.

Mr. CHURCHILL: These figures are for the entire system?

Mr. GORDON: Yes.

Mr. CHURCHILL: Have you any information with regard to an increase in passenger traffic in some areas of the country? Is it a general state of affairs?

Mr. GORDON: I have not a break-down of the figures by regions, but my impression is that it is fairly general.

The CHAIRMAN: Shall the heading carry?

"Passenger Fares".

Mr. CHURCHILL: What is the situation with regard to passenger fares over the last five years. What has been the increase, if any?

Mr. GORDON: There has been no general adjustment in passenger fares. There have been one or two minor adjustments affecting minimum fares, but there have been no general adjustments upward of passenger fares.

The CHAIRMAN: Shall that carry?

Carried.

"Express".

Mr. HAMILTON (*Notre Dame de Grace*): Before we go on to "Express" I should like to say this. I was well trained by Mr. Gordon in the Wartime Prices and Trade Board for a few years, and I learned always to check the financial statements or the president's report against the financial statements. We are going over one item, "Mail" in the financial statement which comes between passenger revenue and express department revenue. As a matter of fact, there are a few places in the financial statement which are not covered in the report. There is a slight drop in the mail revenue. I cannot find any correspondence for the mail volume.

The CHAIRMAN: On what page is that?

Mr. HAMILTON (*Notre Dame de Grace*): On page 5.

Mr. GORDON: You are talking about the decline in the mail revenue?

Mr. HAMILTON (*Notre Dame de Grace*): You show a slight decline in income. Have you a corresponding figure in volume in any way?

Mr. GORDON: No, I am afraid that I have not that here. I could get it for you, if you are interested.

Mr. HAMILTON (*Notre Drame de Grace*): I should like to have it primarily because of the change in postal arrangements, to see whether it is actually reflected in mail volume carried by the railroads.

Mr. GORDON: The volume figure is dependent on the diversion which the Post Office Department will make to or from the railway in regard to other forms of transport.

The CHAIRMAN: Are there questions under the heading "Express"?

Carried.

"Communications"?

Mr. CARTER: May I ask Mr. Gordon if the communications service is a profitable service?

The CHAIRMAN: There is an increase this year.

Mr. CARTER: Do you have a surplus over expenditures?

Mr. GORDON: Yes, the Communications Department is conducted as a department and we do not analyze it year by year, but we take off an analysis at periods. The last analysis, as I recall, showed that it is a profitable service. The point here is that our revenues were \$17,084,000, and our operation expenses showed about \$19,000,000, which gives an excess cost over revenue of about \$2,000,000 against which has to be credited the services performed for the railway. When we credit the estimated value of the services provided to the railway, then we come out with a surplus from commercial operations of about \$1,300,000 a year.

Mr. HAMILTON (*Notre Dame de Grace*): While on the section of communications, has the railroad or the Communications Department had any difficulty whatsoever about leased wire services being used for transmission of racing news into Canada? A situation arose in the United States about three years ago where that became quite a problem. Has there been any comparable situation in Canada?

Mr. GORDON: Are you referring to what is called the private wire leased service?

Mr. HAMILTON (*Notre Dame de Grace*): Right.

Mr. GORDON: I have no knowledge of that. No difficulty at all has come to my attention. The leased wire, of course, is at the use of the person who buys it, and if there are any irregular transactions it would be a matter for the proper authorities.

Mr. HAMILTON (*Notre Dame de Grace*): That is what I was getting at.

Mr. GORDON: No representations have been made to us affecting anything that was improper.

The CHAIRMAN: Shall the item "Communications" carry?
Carried.

"Operating Expenses".

Mr. HAMILTON (*Notre Dame de Grace*): I am sorry to be so persistent, but there is one other item under operating revenues. Under "All other revenues", there is a subheading for dining and buffet revenue. You will find that there is a nice little increase from \$3.6 million to \$3.8 million. Since we find that there has been an indication that meal prices have gone down, does that indicate that the new kind of equipment has prompted a sizeable increase in revenues?

Mr. GORDON: My answer to that would be "yes". We have had a very encouraging volume increase in regard to our dinettes, and I have mentioned that in the report somewhere.

Mr. HAMILTON (*Notre Dame de Grace*): It is mentioned indirectly in respect to the equipment on page 11.

The CHAIRMAN: It is under "Service changes". Maybe we could deal with that when we come to that matter.

Mr. GORDON: I can tell you that the meals served in 1954 showed an increase of roughly 30,000 over the previous year. I can also tell you that the average loss per meal declined from 59 cents in 1953 to 52 cents in 1954. Actually we decreased our loss an average by 7½ cents per meal, while at the same time we had increased volume. That is a trend which is very much in the right direction and which I hope will be accelerated this year as the dinettes, in

particular, become more popular. The dinettes are not the whole answer. We have done a great deal of streamlining in respect of dining car operations. We hope to continue that effort, because the loss in our dining car service is one that has given us considerable concern. But we must remember, in connection with the dining car service, it is not fair to look at it only in terms of the loss figure. It is in part a service cost figure, because we have to provide dining car services if we are going to get long-haul traffic at all. It is part of the overhead cost of running a train, and while we do our utmost to reduce that loss, it is a sort of loss leader item in the passenger business. In fact that is one thing from which perhaps I get more comparisons or contrasts—if you want to use that word—than anything else, in connection with the dining car services in the United States. People are constantly contrasting their trains with Canadian trains, sometimes to our disadvantage and sometimes to our advantage, but it is something which the travelling public is very serious about.

Mr. KNIGHT: Are we discussing this section?

The CHAIRMAN: We are on "Operating Expenses", and I would suggest that we might deal with the dining cars later on, when we come to "Service Changes".

Mr. HAMILTON (*Notre Dame de Grace*): For my own information, could I ask this? I understand that the president's report is presented here to illuminate the financial statement which is attached. The president's report follows approximately the same order as the financial statement, but in that financial statement there are numerous items which are not covered in the president's report. It seems to me that, when we get into this business of following the president's report without its being reflected in the financial statement, we can get into quite a few discussions which will be badly out of place. My question referred specifically to the revenue of the dining and buffet cars department. That is a revenue, I hope.

The CHAIRMAN: It was agreed this morning that we would follow the headings in the president's report. If there are any matters which should be discussed, they should relate to the headings in the report.

Mr. HAMILTON (*Notre Dame de Grace*): Are you suggesting that a question regarding mail would be out of order?

Hon. Mr. MARLER: I think it might come at an appropriate time after we have gone through the report.

The CHAIRMAN: I think that was a proper matter to raise at the time it was raised. It seemed to follow along that order.

Mr. HAMILTON (*Notre Dame de Grace*): Is that revenue from the dining and buffet cars not included under "revenue"? Is it not proper to raise it at this stage?

The CHAIRMAN: It is referred to later in the report, and if we follow the headings in the report we will come to it.

Mr. HAMILTON (*Notre Dame de Grace*): It referred only to the new equipment.

The CHAIRMAN: On page 11.

Mr. HAMILTON (*Notre Dame de Grace*): There is no reference whatever to the operating revenues from the use of these. It could be discussed at that time.

Mr. CARTER: On item 1 questions can be asked when the estimates come up. Anything not covered in the report can be covered then.

The CHAIRMAN: When the estimates come before the house, yes.

Mr. GILLIS: Mr. Gordon has remarked on the importance of the diesel engines in this section on operating expenses. I should like to ask you this, Mr. Gordon. What is the total of coal you used on the railways in 1954?

Mr. GORDON: There are several ways of giving these figures, as we have done in previous years. You can have orders, purchases, shipments or consumption. I am giving the consumption figures. The total consumption of coal in 1954 was 4,110,560 tons. Of that, 1,016,175 tons was Canadian coal, and 3,093,585 was United States coal.

Mr. GILLIS: Imported by the railways?

Mr. GORDON: That is right.

Mr. GILLIS: Could you tell me what markets still exist from Montreal, say, to Sydney, Nova Scotia, for coal on the C.N.R.?

Mr. GORDON: From Montreal to Sydney?

Hon. Mr. MARLER: You mean, between Montreal and Sydney?

Mr. GILLIS: Yes.

Mr. GORDON: If I interpreted your question rightly, and I am remembering previous discussions, what you are looking for is the economic area. The break-off point, generally speaking, is Quebec city, in the matter of the sale of Maritime provinces coal. At that point the maximum subsidy available to the railways by the government allows United States coal to come in.

Mr. GILLIS: There still is a fair amount of the maritime coal in that area?

Mr. GORDON: Yes.

Mr. GILLIS: Have you any idea of the tonnage which you are using there or did use in 1954? The reason I am asking that is that the impression was created, particularly in the maritimes, that the market for maritime coal has completely disappeared from the C.N.R. in what was considered their economic area.

Mr. GORDON: I can give you this total by districts, if it will help you. In the Atlantic region we used 538,530 tons of Canadian coal. In the Central region we used 38,049 tons of coal. That 38,000 is the amount that crept up into the Central region, but by and large the total you are looking for is the 538,000 ton figure in the Atlantic region. In the Atlantic region, we used only 17,000 tons of United States coal. The western region figure is 440,396 tons of Canadian coal, and 487,518 tons of United States coal. As I have told you before, that is entirely dictated by price. We are quite willing and indeed anxious to take varieties of maritime province coal if we can lay it down on a proper basis in the central Ontario market. We have still quite a large market in the central Ontario district for coal.

Mr. HAHN: With regard to that coal supplied to the western regions from the United States, where would you get most of it from in the United States?

Mr. GORDON: You mean, what actual producers?

Mr. HAHN: From what areas in the United States would you get this coal which you used in the western regions?

Mr. GORDON: I could not answer that. We buy it through dealers. It is a question of which dealers can deliver at a price in Canada. It would be quite an analysis to make.

Mr. GILLIS: While we are on this—

Mr. GORDON: Mr. Dingle tells me that it comes mostly across the lakes.

Mr. GILLIS: Is your organization still studying the possibility of a coal-burning turbine engine in Montreal?

Mr. GORDON: Not directly. We are in touch with the experiment being conducted by the McGill University. We know what is going on.

Mr. GILLIS: Do you think that that holds a possibility for the railways in the foreseeable future?

Mr. GORDON: I got into trouble last year because I gave some personal views on what is a technical experiment. The experiment is a research job in the hands of McGill University. It is a very interesting experiment, but I am not a technical expert and would not like to voice a technical opinion. Professor Mordell, who is in charge of the experiment, is highly enthusiastic.

Mr. GILLIS: It has been held up in the press, particularly by people like ourselves who do not know very much about it, as a solution to the whole future of the coal industry, but while they are talking about it the coal industry is disappearing, and when it is ready for blueprints there will be no coal to burn. That is my judgment.

Mr. GORDON: I can say in a general way that the problem of the coal-burning gas turbine locomotives is far from solved. It is hoped that there will certainly be a market for coal but it is too much to ask me to give a judgment as to the possibility of complete success.

Mr. GILLIS: As long as you are doubtful about it, I am quite satisfied.

Mr. GORDON: I am not doubtful; I am still hopeful too. At the risk of getting into trouble again, I may add this; if the coal-burning gas turbine locomotive can be proven, it will "beat the pants off" the diesel. Let my diesel manufacturing friends take me to task for that.

Mr. GILLIS: Are you not in this position, that you have made a huge investment in diesels and you are continuing that?

Mr. GORDON: That is right.

Mr. GILLIS: You still have about two and a half years of your program. It is not reasonable to suppose that within the next fifteen or twenty years the Canadian National Railways is going to write that investment off?

Mr. GORDON: I will tell you what our policy is, and I think I can justify it from a business point of view. Our diesel policy is to dieselize services when it can be demonstrated a saving over the present type of locomotives will be produced which will write off the capital investment in ten years. We have in mind, therefore, that any improvement that may take place in motive power, whether it be gas burning, oil burning, turbine or even atomic power, will not come to a point of becoming competitive with the diesel within that period, so that we keep ourselves flexible. We are not wedded to any type of motive power, but when we go into a type of motive power such as diesels, we do it on the basis that we will get ten years of life out of them. We will write off our capital investment from the savings that accrue and we will then be ready to turn to the new type of motive power.

Mr. MACDONNELL (*Greenwood*): Is that ten years arrived at by reason of the durability of the diesel or by reason of the threat of a new type, or both?

Mr. GORDON: It is arrived at by an estimate of the savings which we get from the utilization of the diesel for that purpose—in other words, the saving you get out of the diesel by utilization.

Mr. MACDONNELL (*Greenwood*): Why ten years, rather than twelve?

Mr. GORDON: The ten years is based on the economics over a period in relation to the particular services which we are dieselizing. The savings that we have estimated we will get from the specific type of services we are dieselizing will equal the capital cost over a ten year period.

Mr. MACDONNELL (*Greenwood*): But I still cannot understand why ten years is the magic figure. Why ten, rather than eleven?

Mr. GORDON: Because it came out at ten. We get an annual saving on the dieselized services and we find that in ten years that will write off the capital cost. It varies year by year. The average is ten years. When you put in

dieselization in the first place you will get a large figure saving on the service you start with, and then the law of diminishing returns will set in, but on the average we figure that after ten years we will write off the capital investment.

Mr. MACDONNELL (*Greenwood*): It does not necessarily mean that you will stop using them at the end of that time?

Mr. GORDON: No, far from it, but, if at the end of the ten years there is no alternative form of motive power, we will have the benefit of having those paid for, because the capital expenses have been written off.

Mr. KNIGHT: I think that you have characterized as a myth many times the assertion that in transcontinental travel the government or the C.N.R. or somebody has been putting brakes on the wheels of the C.N.R.

Mr. GORDON: Yes.

Mr. KNIGHT: They assert that the C.N.R. actually could have made that trip twelve hours faster than the C.P.R. You have to convince me that that is not true. I am merely basing my question upon it. Perhaps this is a nasty way to put it, but it has never been proved in fact that as soon as the C.P.R. began its program to cut this travel rate across the continent by eight or ten hours, you suddenly found yourself able to do it. I presume there is an explanation for that? Is the main explanation in the dieselization of the road, or what is the explanation?

Mr. GORDON: Most certainly. That is simply the accident of competition. It is perfectly obvious that, when we start to run fast diesels across the country to see what we can do about the passenger service, the fact becomes known or if the C.P.R. do it; we know what they are doing. We started our experiments on running diesel locomotives across Canada to see how far we could cut the times. Concurrently the C.P.R., who are also interested in dieselization, did the same. It is a fact that we do confer with each other about the changing of the timetable, which is April 24th this year. We arrive at an agreement as to when we put in our spring timetable. That is the only thing we do. We agree that that is the time when we cut our running times. You will find in the announcement that the C.P.R. has cut more than we have. The reason for that is that we run faster to Winnipeg than they do. Our line is longer to the coast and we will be slower to Vancouver. But we have intermediate cities and towns to service and our main aim in respect of a reduction of time was to arrive at a reasonable hour at the main cities and towns which we are servicing on this train. That is the guiding factor of our schedules, and the rest is simply a by-product.

Mr. KNIGHT: That leads me to the question which I wanted to get at. After the change of schedule takes place on April 24th, is it true that the C.N.R. going west will only arrive at Vancouver two hours later than the C.P.R.? I want to say that in this idea of competition I am tremendously sympathetic with the C.N.R. I do not want anyone to have any reasons for insinuations that somehow or other the C.N.R. is a second class road. Is it true, first of all, that under the new schedule your transcontinental will get in later than the C.P.R. and, if so, why? I understand that the grade is actually easier on the C.N.R.

Mr. GORDON: Yes, but the mileage is longer. The mileage on the C.N.R. from Montreal to Vancouver is 2,930 miles. On the C.P.R. it is 2,881 miles. The C.P.R. route is 49 miles shorter.

Our new transcontinental services will be as follows:

No 1	No. 3				No. 4	No. 2
3.25 pm	8.00 pm	Lv	Montreal	Ar.	9.15 am	5.20 pm
5.35 pm	10.20 pm	Ar	Ottawa	Lv	6.50 am	3.05 pm
5.45 pm	10.35 pm	Lv	Ottawa	Ar	6.35 am	2.50 pm
No. 51	No. 53	Lv	Toronto	Ar	No. 54	No. 52
6.00 pm	11.00 pm				7.00 am	2.15 pm
No 1	No. 3				No. 4	No. 2
10.30 pm	9.00 am	Ar	Winnipeg	Lv	8.00 pm	8.05 am
10.55 pm	10.00 am	Lv	Winnipeg	Ar	7.00 pm	7.40 am
8.05 am	9.05 pm	Ar	Saskatoon	Lv	6.25 am	8.35 pm
8.15 am	9.35 pm	Lv	Saskatoon	Ar	6.00 am	8.25 pm
3.25 pm	5.40 am	Ar	Edmonton	Lv	10.15 pm	1.30 pm
3.40 pm	6.20 am	Lv	Edmonton	Ar	9.25 pm	1.15 pm
9.25 pm	12.20 pm MT	Ar	Jasper	Lv	MT 3.45 pm	7.55 am
8.35 pm	11.50 am PT	Lv	Jasper	Ar	PT 2.15 pm	6.45 am
1.45 pm	7.00 am	Ar	Vancouver	Lv	8.00 pm	2.15 pm

The Canadian Pacific Railway enjoys a shorter route between Toronto, Montreal and Vancouver. We beat their time to Winnipeg, but we are somewhat longer in going through to Vancouver.

Mr. KNIGHT: Is it so, that your C.N.R. train will arrive later?

Mr. GORDON: In Vancouver that is so. We will arrive in Vancouver at—

Mr. DINGLE: We arrive at 1.45 p.m., the Canadian Pacific Railway arrives at 9.10 in the morning.

Mr. KNIGHT: Is it not possible to make up that time?

Mr. GORDON: We leave later.

Mr. KNIGHT: I am not interested in the actual time of getting there. I am interested in the travelling time of the two roads from Montreal to Vancouver. Can this not be equalized?

Mr. GORDON: You see you have to think of the various services. We are, on the new schedule Montreal westward, one hour and twenty minutes faster between Montreal and Winnipeg.

Mr. KNIGHT: Well, I am glad of that.

Mr. GORDON: We figure that is a good place to serve and there is where we have the shortest route. Now, we leave at a different time than the Canadian Pacific. But in regard to the service to Vancouver actual elapsed time we arrive in Vancouver—

Mr. DINGLE: The difference is 9.10 a.m. to 1.45 p.m.

Mr. GORDON: They arrive at 9.10 in the morning and we arrive at 1.45 in the afternoon. That does not represent a difference in actual running time but in leaving time. But over-all the Canadian Pacific will beat our time to Vancouver by one hour and fifty-five minutes running time actually.

Mr. KNIGHT: That is what I wanted to get at. I am not interested in what time the train gets to Vancouver; I am interested that the Canadian National should make as good time from Montreal to Vancouver as does the Canadian Pacific.

Mr. GORDON: Well, we are scheduling our time. As I say, we are not indulging in a speed war. We don't think it makes sense. Our primary objective is the service to communities that our train runs through at a reasonable time and having in mind that we have the longer route over-all to Vancouver and having in mind our task of service to the communities we think our times are convenient at each place.

Mr. KNIGHT: It annoys me in connection with the Canadian National to hear remarks of that kind and in view of the existence of this myth which I understand in the first place I would like to see once and for all that inequality be wiped out so that this road could make as good time to Vancouver as the Canadian Pacific Railway.

Mr. FULTON: Perhaps Mr. Knight would probably lay you a new track.

Mr. KNIGHT: I do not want the Canadian National to be considered as a second class road.

Mr. GORDON: I certainly would not admit any such thing and what we are discussing does not make the Canadian National a second class road by any stretch of the imagination.

Mr. KNIGHT: I am going to ask you one more question. I am anxious about this from the point of view of the effect on the morale of the Canadian National employees.

Mr. GORDON: I think that our time schedule now will not have any effect on the morale of the Canadian National employees.

The CHAIRMAN: I am sure it is a better line than from Mombasa to Nairobi.

Mr. GORDON: We are not engaging in a speed war; we are running our trains as best we know how and servicing the communities at a particular time. For instance, express service is an integral part of our service and we are giving service into Winnipeg which I think is better than the other line, but on the over-all our times of arrival are reasonable and convenient times at each one of those points.

Mr. KNIGHT: With all due respect, Mr. Gordon, I don't think you can base a speed war on an hour and a half.

Mr. GORDON: I think we could because I am perfectly certain that if we abandoned our main principle here which is arriving at a reasonable time and disregard that factor for the pure purpose of beating the Canadian Pacific Railway then they will beat our time and away we are at a speed war.

Mr. KNIGHT: I am not asking you to do it I am asking you if you could in fact do it.

Hon. Mr. MARLER: Isn't it more important to serve the people that use the trains than it is to establish records for speedy travel across the continent?

Mr. KNIGHT: Mr. Minister, I still maintain that an hour and a half spread across this continent is not going to inconvenience anyone, is it?

Hon. Mr. MARLER: An hour and a half at 11 o'clock at night would either be 10 o'clock or 1 o'clock.

Mr. KNIGHT: Well, my old point is much more simple than the new one.

Mr. GORDON: An hour and a half does not seem very much on that run but if you could see what we have to do to produce the schedule and how everything has to synchronize along with ten-minute stops at various stations and the work we have got to do to accomplish that you would appreciate what we are doing.

Mr. KNIGHT: In view of the fact that this previous myth has existed do you not think it a good way to wipe it out?

Mr. GORDON: How can we wipe it out?

Mr. KNIGHT: Just by the elimination of that one and a half hour difference.

Mr. GORDON: Then you would establish the myth because we could only do that by arrangement with the Canadian Pacific that they would not beat our time.

Mr. KNIGHT: Do you mean, Mr. Gordon, that you are afraid of the Canadian Pacific Railway?

Mr. GORDON: No.

Mr. KNIGHT: That you fear what they would do to you if you would come out on an equalized basis?

Mr. GORDON: No, I am saying that the principle which we have established in setting up this new schedule is service to the communities at a reasonable time and the rest of it is a by-product of that principle, but you were talking about the myth that there was an agreement with the Canadian Pacific Railway and my reply to you is that if we embark on the idea that we were going to beat their time no matter what happened we could only do that by agreement with them.

Mr. KNIGHT: Why should the Canadian Pacific be the dog that wags the tail?

Mr. GORDON: I think our service on the super continental is much better than the Canadian Pacific.

Mr. KNIGHT: I hope it is and I hope it remains that way.

Mr. GORDON: I suggest when you get the chance to look at it that way you will find there is more myth in regard to the time-table than the train. We do get trains in on time at the proper places.

I intended to mention this point because I think it is important. We could make that time to Vancouver if we had no regard to cost whatever. If we had no regard to costs we could make it, but we are producing a schedule which is reasonable in regard to the service provided and having in mind the efficient operation of the railway. Yet get to a point where speed costs money and a lot of money. After you pass a given point the price which you pay for speed is much too high and for an hour and a half we do not think it is worth it.

Mr. KNIGHT: I am well aware that you have no responsibility for the Canadian Pacific Railway, but do you maintain by getting there that hour and a half sooner they are sacrificing efficiency?

Mr. GORDON: No, they have different operating conditions. We get there ahead of them in Winnipeg. That does not seem to worry them. It is the running time I am talking about. We run between here and Winnipeg faster than they do.

Mr. HAHN: I want to follow up some of the discussion I had this morning with Mr. Gordon in respect to the replacement of these rails, track laying and surfacing, which is outlined in section 24. This morning he referred to R. F. Welch—

The CHAIRMAN: I think that comes up on a later matter. I am aware of that and it probably does not come under the matter of the laying of rails at all, but probably under labour relations and the matter should probably come there. Mr. Weaver brought the matter to my attention and asked if I thought it was the proper heading under labour relations rather than under track laying.

Mr. HAHN: I will leave it until then.

Mr. FULTON: There are several of us interested in the matter and I think we should all leave it until labour negotiations.

Mr. CHURCHILL: In paragraph 19 there is a substantial reduction shown there and it is stated that the decrease was due in part to lower traffic volume and in part was evidence of the accumulating benefits of recent modernization, particularly the wider use of diesel motor power. What is the essential difference between those two?

Mr. GORDON: Our estimate of the gross savings from dieselization as compared with steam operation amounted during 1954 to approximately \$31,167,000. The total cumulative gross savings up to the end of 1954 are

estimated to be of the order of \$85 million. I should perhaps make that a little clearer. That figure I gave of \$31 million was the cumulative figure representing a five-year program, but the additional savings added during the year by reason of dieselization were \$3,131,900. Of course, we have savings that keep on accumulating.

Mr. CHURCHILL: I was wondering to what extent was the decrease due to dieselization and what extent due to lower traffic volume and then I notice looking forward to 1955 you are forecasting something somewhat similar.

Mr. GORDON: If you will turn to page 5 of the statistical record there you will find that our operating expenses declined all told about \$32.6 million. Now, if you will look at the figures under the various headings you will find that the big part of that saving came in transportation account, which is \$25 million down from the previous year.

Now, transportation account is the account to which we charge the actual cost of moving traffic and that is the best kind of saving to make. If you save money on maintenance of way and structures and maintenance of equipment it could be that you are doing it at the expense of having to pay for your savings in the future, but if you make a reduction in your transportation account you are really saving a dollar.

Mr. CHURCHILL: That is the way that reduction of \$24 million is arrived at?

Mr. GORDON: Yes.

Mr. CHURCHILL: I was wondering is your estimate for 1955 on the same basis? Do you think that on those transportation expenses you are going to make your great saving?

Mr. GORDON: That brings me into my capital budget really and that is a separate matter.

Mr. CHURCHILL: I notice you make some forecasts in sections 29, 30, 31 and 32.

Mr. GORDON: I have that prepared to discuss in detail on capital budget, Mr. Chairman, and perhaps if we could deal with it there it would be more convenient because we are moving backwards and forwards. Would that satisfy you, Mr. Churchill?

Mr. CHURCHILL: Paragraph 20, then, where you speak of transportation expenses, that does not actually involve the dieselization program, does it?

Mr. GORDON: In part it does. You see you get into this situation that transportation expenses is in part a product of your traffic. If you have less traffic to handle obviously it costs you less to handle it. The point is, however, whether you cut your expense relatively more or less than the actual drop in traffic and we have been more successful in cutting our transportation costs in 1954 than either our competitor or the United States class 1 railways.

Now included in that cost of moving the traffic you will get the benefits of dieselization because motive power moves the traffic. This account includes the crews' wages and all the other expenses of moving the trains from one point to another.

Mr. HAMILTON (*Notre Dame de Grace*): Mr. Chairman, could Mr. Gordon give us any idea of the breakdown? Let us see, the road spent about \$1,600,000 in advertising. Could we be given any idea of the breakdown as to the expenditure made in the United States and in Canada? The purpose behind my question is—we were discussing earlier a dropping off in passenger train traffic in Canada and I was interested because if we are making a large portion of our advertising in the United States it might indicate we are not doing enough in Canada to really build up train traffic.

Mr. GORDON: I have here, Mr. Hamilton, the actual breakdown of our newspaper advertising, radio advertising and things of that sort. I have not got the complete figure because under that heading of advertising, \$1,600,000, we include such things as time-tables and that sort of thing, but from the standpoint of our newspaper advertising which is the point I think you are interested in we spent \$402,320 on Canadian newspapers and magazines, we spent \$560,024 on United States newspapers and magazines, and we spent \$20,603 on radio advertising, a total of \$982,947. The balance of the \$1.6 million is made up of these sundry items in the form of time-tables and items of that kind.

Mr. HAMILTON (*Notre Dame de Grace*): I think that information, Mr. Chairman, is quite sufficient to develop the point I was trying to make and I might point out also that Trans-Canada Air Lines who had quite an appreciable increase in passenger traffic last year as we have learned have an advertising expenditure as my colleague Mr. Churchill points out of \$1,800,000. We find here a railroad which has passenger traffic dropping off in Canada. I would assume that it looks to the Canadian people for its major number of passengers on these trains and yet less than half of their advertising expenditure is being made in Canadian media.

Mr. GORDON: Yes, that is correct.

Mr. HAMILTON (*Notre Dame de Grace*): It would seem to me without elaborating the matter that they might first compare their experience with that of the T.C.A. and, secondly, they might consider whether an increased sale effort right here in Canada might not result in a substantial increase in passenger traffic. It has certainly worked in a great many other industries.

Mr. GORDON: Now, you must remember that the Trans-Canada Air Lines is advertising for domestic business in Canada. They do not go into the United States to advertise in the same way as we do because we are after the tourist traffic coming up through our hotels and various places of that kind so we give our advertising to the United States on such things as Jasper Park Lodge to encourage traffic to come by train. I do not think the two programs are really comparable.

If your criticism is—if I may take it to be a criticism—that we do not spend enough money on advertising I am prepared to take that under advisement, as a matter of judgment at any time that could be disputed. It may be that you are right, but it is very, very difficult to absolutely check the benefits of advertising.

Mr. HAMILTON (*Notre Dame de Grace*): Now, Mr. Chairman, it is not necessarily that the road is not spending enough on advertising. That is such a debatable problem that I do not think this is the place to discuss it. The point is that for that per passenger carriage of United States origin versus Canadian origin we are spending a disproportionate amount of our advertising budget in the United States. We are up against a situation where passenger traffic is continuing to decline. It is interesting to note there was an increase in the advertising objectives of \$175,000 from 1953 to 1954 and proportionately the decline in passenger traffic which was 4 per cent in previous years was this year only 1 per cent. Another suggestion which I wish to make is that the road should investigate the possibility of reversing this decline in passenger traffic with an increased emphasis right here in Canada on selling railway transportation to the general public instead of going down with over \$500,000 to the United States in order to bring people up here. So for every advertising dollar that we spend we are not getting nearly the return that we get for our advertising dollar in Canada.

Mr. GORDON: I think you have quite a valid point. That is a point that bears examination. It would depend, of course, on what a particular year brings forth. For example, we are putting on this super continental which is a new fast train across Canada. We will, of course, concentrate our advertising in that respect in Canada. It depends on what we are trying to sell. There is an incidental factor, of course, and that is that by and large the cost of the media in the United States tends to be higher than Canada and therefore the dollar picture would show some disparity. In any case, in looking at our advertising budget we will have the point you made very much in mind.

Mr. HAMILTON (*Notre Dame de Grace*): There are a couple of other points under advertising expenses. I cannot find a reference to restaurants and I bring it up here because that is where I think it comes because that is where financial statistics are covered. My question is this: it is possible to explain why road sales is an expensive and losing proposition but why should the profits in our restaurant operations be so small they are practically infinitesimal? We are competing apparently with other restaurants which I think operate quite successfully. If you are looking for the information for the benefit of the committee it is on pages 6 and 7. You will find your revenue on page 6, the fifth line from the top of the second column, and on page 7, second column, miscellaneous operations, second line.

Mr. GORDON: Well, in regard to the restaurants themselves I think the only general comment I can make is that they are just not a satisfactory operation. We have worked upon them to make them profitable and it is one of those things that with the best will in the world we do not seem to be able to devise the kind of methods that will make them profitable.

The CHAIRMAN: Does the road operate the restaurants or do they farm them out to concessionaires?

Mr. GORDON: The ones we are referring to here are our own. We have, of course, contracts with the Canada Railway News, who have concessions at various of our stations but the ones we mention here are our own restaurants. We are just not proud of our restaurant operation. This is one of those difficulties we are struggling with, but the business of serving food is a very specialized business. We hope to see some better results but it is one of those things that from a management point of view we just keep pegging away at.

Mr. HAMILTON (*Notre Dame de Grace*): Has any consideration been given to perhaps turning over the restaurant operations to a Canadian restaurant firm such as Murray's?

Mr. GORDON: We have examined that and have even called for tenders. We have not been successful in getting any outside operator to make a tender that would be of interest to us at all.

Mr. HAMILTON (*Notre Dame de Grace*): I would imagine from the volume down here it must refer to only one or two of the major restaurants, probably Montreal primarily. Is that a necessary service that must be carried on by the road?

Mr. GORDON: We have tried to keep it on the basis of necessary service. The dinette car will have a bearing on it. We find now that there is not so much demand for restaurants in stations because of the dinettes, but it is in a state of flux right now. It is not something that I am prepared to promise will improve. If we were able to do it we would be glad to get out of it altogether. It is more or less part of the service to the public.

Mr. HAMILTON (*Notre Dame de Grace*): Could Mr. Gordon tell us what the average on-time record of principal passenger trains was in 1954 versus 1953? I think he would be disappointed if we didn't ask him that because I am sure he has it.

Mr. GORDON: I think it is in the report, but I will look for it.

Mr. HAMILTON (*Notre Dame de Grace*): It was in there last year and I couldn't find it this year.

Mr. GORDON: On page 13 you will find a per cent on-time arrival of principal passenger trains which was 69·2 per cent in 1954.

Mr. HAMILTON (*Notre Dame de Grace*): Page 13?

Mr. GORDON: Yes, in the statistical statements. It is about sixth from the bottom of that page—69·2 per cent.

Mr. HAMILTON (*Notre Dame de Grace*): I was trying to get the basis of comparison. Last year you said the average on-time record of principal passenger trains was improved by nearly 7 per cent compared with the previous year and was better than any year since 1940. I was wondering if you were keeping up that record.

Mr. GORDON: What paragraph are you quoting from?

Mr. HAMILTON (*Notre Dame de Grace*): I am quoting from last year's report under the heading of "Revenue on operations," and it would be the second paragraph.

Mr. GORDON: Well, last year we showed an improvement over the 1952 year of about 7 per cent. If you have the 1953 report you will find that the 1952 figure was 66 per cent and the 1953 figure 72·9 per cent and this 1954 figure that I have just mentioned is 69·2 per cent.

Mr. HAMILTON (*Notre Dame de Grace*): So we are within a reasonable basis. Now, one more question in connection with the communication system, their maintenance expense. I am interested there in comparing three figures, Mr. Chairman. We find there is a sizeable increase in the communications department revenue. We find there is a small reduction in the operating expenses in what I would assume to be the same department. I wonder if that is caused from more efficient operation. I take my figure from operating revenue communications department. I take my expense figure from page 7, the first column and seven lines from the bottom, where it says: "Communications system operation \$12,230,741." That is a slight reduction from the previous year. Our revenue was up almost \$1 million. I was interested in that as to whether it reflected more efficient operation.

Mr. GORDON: My recollection is that there was an increase in rates that would affect the revenue. There were two factors which affected it. There was an increase in rates which improves the revenue and we have increased our leased wire service which we can operate more economically than the general communication lines.

The CHAIRMAN: Are there any further questions on operating expenses?

Mr. HAMILTON (*Notre Dame de Grace*): There is one which Mr. Gordon promised this morning that when he came back this afternoon there would be some additional information in respect of paragraph 24, operation of the rail-laying program. That finishes me under this heading, Mr. Chairman, which I think will be a source of joy to you.

Mr. GORDON: You are talking about the comparison between 1954 and 1953. Now, you cannot compare those figures for the purpose that you have in mind, because although the new rail program is included in those figures. The figures also include reductions in what could be called ordinary maintenance of the railway—such things as bank widening, tie tamping and surfacing, which we have reduced during the year. Although we did increase our rail-laying program we did reduce those figures so that the other figures are not a fair comparison.

Mr. HAMILTON (*Notre Dame de Grace*): There is no basis of comparison of your rail-laying program between one year and another?

Mr. GORDON: Yes, we can find a basis for it, but it is not found in those figures. You are thinking in terms of cost?

Mr. HAMILTON (*Notre Dame de Grace*): I am thinking, Mr. Chairman, in terms of this figure of \$15 million that we were given this morning as a reduction that would have been saved this road if it had followed the practice of the Canadian Pacific Railway.

Mr. GORDON: Now, let me try to clear that up. What I said this morning was that the Canadian Pacific Railway figures showed a reduction of 58 per cent in their rail-laying program as between the years. I said that if we had followed a similar pattern and had reduced our program between 1953 and 1954 by 58 per cent then we would have had a reduced expenditure of roughly \$15 million in 1954.

Mr. HAMILTON (*Notre Dame de Grace*): Well, in order to arrive at that figure you would have to give the cost of your rail-laying program, wouldn't you?

Mr. GORDON: Roughly, yes. I can tell you the rail-laying program on how much it cost us for rail per mile of rail in Canada. I can tell you our comparative costs for laying one mile of rail as between 1953 and 1954 and on the basis of those costs we can work that out what our expense saving would have been if we had cut our rail-laying program.

Our cost of laying new rails runs at the rate of about \$25,000 per mile.

Mr. HAMILTON (*Notre Dame de Grace*): If you take the rate of \$15,000,000 at 58 per cent, your total rail-laying for the year would have been in the neighbourhood of \$27 million or something like that, is that correct?

Mr. GORDON: Our total rail-laying program for 1954 is stated in the report as 869 miles of new rail and 268 miles of partly worn rail, giving a total of 1,137 miles of rail.

Mr. HAMILTON (*Notre Dame de Grace*): At approximately \$25,000 a mile?

Mr. GORDON: Did you mention a figure of \$27 million?

Mr. HAMILTON (*Notre Dame de Grace*): Roughly twenty-seven to twenty-eight.

Mr. GORDON: Take your figure of \$27 million and reduce it by 58 per cent, and you get \$15 million. It is as simple as that.

The CHAIRMAN: Shall the item carry?

Carried.

"Labour Negotiations".

Mr. WEAVER: Mr. Chairman, according to reports some of the railway experts have been looking askance at labour contracts. It has been suggested that this is a method of avoiding wage increasing for regular maintenance. Can Mr. Gordon clear up the whole question for the committee?

Mr. GORDON: It is a very involved question. I shall try to give you a brief reply. If it is not sufficient, let me know and I shall give it in such detail as may be appropriate. For many years the R. F. Welch Company and the Canadian National Railways have had in existence a form of contract under which that company provided workers for special types of maintenance of way work, commonly known as extra gang labour. The contract has proved to be an exceedingly convenient method under which the railway was able to take care of intensive work programs which had to be squeezed into the short summer season. The Welch interests were able to employ their special facilities to secure quickly the casual labour required for extra gangs, which, as I said, was extremely fluid. In 1951, however, the Brotherhood of Maintenance of Way employees obtained certification under Canadian labour legislation authorizing them to represent all maintenance of way employees on the

C.N.R., including extra gang labourers, who then became subject to such representation. Because of this and consequential interpretations of the wage agreement, which is commonly known as wage agreement No. 13, all the existing contracts with the Welsh company will be terminated at the end of May this year. That is when the existing contract runs out. Meetings have been held between railway officials and the Brotherhood officers to clarify the positions in this respect. Now, in saying this, I would like to make it perfectly clear that the railway reserves its right to award contracts for specific projects in this or any other field, if such is found to be in the best interests of the railway. Perhaps I could enlarge on that statement a little to say this, that the R. F. Welch Company to which I have referred has for many years had special facilities whereby they were in touch with the recruitment of labour in the form of immigrants. They were able to do that on a basis that the railway could not tackle at all. We found they had arrangements with the Italian government, to take one example, whereby they advanced the fare of these immigrants, gave them contracts of work, which usually ran for a year, and generally looked after getting them established in Canada. That was one source of supply for labour that they brought to the railway in the form of these extra labour gangs.

In addition to the immigrant class of labour, the R. F. Welch people performed a very useful service to Canada, in my opinion, whereby they were able to get in touch with people whom you might call the unfortunates of the land who got into trouble in one form or another. The Welch organization took care of them, provided them with assistance and finally got them straightened out, and took them on their gangs. In some cases the Welch organization advanced them money, and so on, and generally had arrangements for looking after these people. It was a very useful arrangement, and I am sorry to see that it is coming to an end. However, because of the fact that the Brotherhood has now secured this certification, we are now making the arrangement on the basis that there will be only railway employees, insofar as railway workers are concerned, on the line. If, however, the R. F. Welch people are prepared to bid on a contract—and we do not know if they are yet—on a tender basis which would be open to anybody, then it may be that we will accept the contract basis of work whereby the R. F. Welch Company will undertake to do a specific piece of rail laying. Possibly they may take a certain mileage and say, "we will bid you a price to lay that rail". What their understanding with labour is in that situation is none of our concern. Confusion has arisen under past practice because the new interpretation of the wage agreement meant that the Welch labourers who were working under contract were mixed in with our own extra labour gangs despite the fact that there were different conditions in respect of hours of labour and, in some cases, arrangements for feeding and things of that kind. The confusion arose under the agreement which, as I say, is now being reconciled by our cancelling that type of agreement altogether. Some statements have been made, which I personally deplore, that this Welch contract represents a form of slave labour. Nothing could be more nonsensical. The rates of pay by the R. F. Welch people have been quite comparable with the railway rates, and the only special condition that apply arose out of the special services which the Welch people render to these individuals. I have a statement here which shows that the basic rate for labourers running through Ontario, Manitoba, Saskatchewan, Alberta and British Columbia, is the same rate as is payable by the railway, subject to this, that the rate is 90 cents an hour and while the C.N.R. pays the same rates after a six-months period we advance the rate to ninety-five cents. The increase has not applied, as far as I know, to the Welch gangs, because they have this special situation. I have heard comments to the effect that these are bound labourers under a year's contract. That is true in a sense, but as far as we

know the Welch people have never stood in the way of any labourer who wished to leave, and in point of fact the figures demonstrate that. The number of immigrants brought into Canada by the Welch people in 1953, for example, was 1,022 and the number of immigrants who left Welch's employ prior to the expiration of the twelve months guarantee period was 645. That does not indicate that there was any hardship imposed on these individuals if they wished to leave the employment after they became more familiar with Canadian conditions. That is the story, as well as I can tell it, but there may be points on which you would like to question me further. I think that I have enough material here to cover any question that may possibly arise.

Mr. WEAVER: I think that that is a very clear explanation which you have given.

Mr. FULTON: I take it that, while they may regret that they did not get a settlement of this during the concurrence of the contract, nevertheless the situation from their point of view will be cleared up by May this year.

Mr. GORDON: That is my understanding. The certification came into effect in 1951, but the wage agreements which came under that certification did not take place until April 1953. By that time we were in such need of getting our work gangs planned for that we entered into a further year with the Welch people, and that brought us through into this period. The expiry of the contract in May will take care of that additional situation. Having said this, I would like to add that we are very dubious that we are going to be able to recruit the labour of the type we need through the Brotherhood of Maintenance of Way organizations. For instance, we have asked them if they are prepared to guarantee labour to us, and they have said "No". The Welch people will undertake to provide so many men at a given place at a certain time for a particular work, and in the course of our discussion with the union representatives we have said to them, "Look here, if you want us to withdraw from this Welch contract, will you undertake to find us labourers?" If I am not mistaken, the answer was definitely "No".

Mr. FULTON: They have had recent meetings with you, on February 8th and March 11th?

Mr. GORDON: Yes.

Mr. FULTON: So this discussion was at those meetings?

Mr. GORDON: Yes, part of the discussion took place then. That is why I say that we shall have to wait to see how this works out. If we are able to recruit the labour for the vital needs of the railways, well and good. But if not, we will give Welch a chance to submit a tender to us and we will be able to see what it is.

Mr. FULTON: Have you informed the Brotherhood of the expiry of the contract in May?

Mr. GORDON: Mr. Dingle tells me that this will be the first intimation. We have not served formal notice on them yet. Mr. Dingle tells me that we have served notice on Welch, but this is the first definite statement that the maintenance of way unions will have.

Mr. FULTON: I was going to ask you whether they had indicated any satisfaction or dissatisfaction. They obviously would not have been in a position to do so as yet. I shall have to put it this way. In the course of your discussions with the Brotherhood arising out of this situation, and particularly the two meetings in February and March of this year, were there any discussions on the termination of this contract and, if so, did they express themselves as being satisfied or dissatisfied?

Mr. GORDON: I would like to tell you much more about our discussion, but I do not think it is advisable. I do not think it will help the relations between the union and the railway.

Mr. FULTON: I have a question, and will you let me know if this trespasses on grounds which it would not be advisable to cover? It is on the point of whether the termination of the contract in May was discussed, and if so whether the Brotherhood indicated that that would meet their point of view?

Mr. GORDON: I will have to say this, that in the last discussions we had with the two representatives of the unions we thought that we had reached an amicable understanding on all points. After they had left us and discussed it with their committee, they came back and we found that we did not have an agreement, and that is where the matter stands now.

Mr. FULTON: So they have not really expressed any point of view?

Mr. GORDON: They have not expressed any point of view about this statement. The statement is that we have notified Welch that we will discontinue the present form of contract. The question as to whether or not we will now discuss a contract tender with Welch or anybody else is still something that may cause difficulty, because there will be a feeling that they have a right to work on the part of the members of their union.

Mr. FULTON: I take it, though, that you would not be inclined to put it on a contract basis if you found that in fact the men now members of a union are sufficient for the purpose?

Mr. GORDON: That is quite right. We have no specific desire to go to the tender contract type of thing unless it is demonstrated that we can do the same thing more effectively, as well as at a lesser cost. The recruitment is what we are worried about, that is, getting the type of labour that we need at the right time and at the right place. That is very important to the railway. I read the newspapers, and I understand that there is some concern about unemployment here and there but, there are places where we cannot get workers at the right time and at the right place.

Mr. FULTON: Perhaps it would be better to leave it until you hear further from the Brotherhood.

Mr. GORDON: I think so. I do not want to leave the impression that this matter is a clash or a dogfight between the railway and the union, because it is not. We think it will work out in the usual way in which we do things, and I would not like you to get the impression that I am suggesting that there is any battle between us.

Mr. FULTON: I am not suggesting that, my own view is that where possible these things should be worked out with the unions, and only where it is impossible to work it out would we take an interest. How does the C.P.R. have this work done?

Mr. GORDON: They have not been a party to the Welch contract. They have had others of the same type, but not actually with Welch.

Mr. FULTON: In other words, they have a mixture of contract work for maintenance of way and direct employment?

Mr. GORDON: Yes, contracts of one form or another. Not necessarily the same, but there was a mixture. It was a great shock to the railways when the union succeeded in getting certification for these so-called extra gangs. We stated at the time that it was a great shock, and we have not yet adjusted ourselves to the implications of that position.

Mr. HAHN: I was just going to ask whether a formal agreement was arrived at, but apparently there was not, so I shall not need to ask the question.

Mr. JOHNSTON (*Bow River*): There is one matter which I think should be mentioned here. I am glad that Mr. Gordon has clarified the relations between the union and the railroad, because most of the members, I think, have had that submission from the union in regard to this agreement, and I think that Mr. Gordon has fairly cleared that up. When he was speaking on Monday he said that the Welch company found a good deal of their labour from immigrants coming into the country, and apparently there were some agreements between the Welch company and some foreign government—I forget which.

Mr. GORDON: The Italian government.

Mr. JOHNSTON (*Bow River*): Now, Mr. Chairman, that leads me to ask Mr. Gordon this question. In view of the fact that we have a growing unemployment problem in this country at the present time, does he not think that it would be in the interests of the railway and the country as a whole to make some further investigation as to the conditions under which these immigrants are employed by the Welch Company, to see to it that these people are not brought in here to supplement our own workers and that the Welch Company do not pay them wages which are not union wages and to see that their conditions are such that they compare favourably with the workers who are in Canada. Now, it does seem to me that unless the railway concerns themselves about this that there is going to be a great deal of criticism hurled at these railways because they are not properly taking care of their own people who are unemployed and who are capable of working at this type of work. I would hate to think that there has not been due consideration given in the past. We did notice Mr. Gordon's statement when he said the Welch Company make tenders for their contracts and that it was no concern of the railways what wages were paid. I think his words were to that effect. You will correct me if I interpreted it wrongly. I will trust that the railways will make it their concern to see that we do not get immigrants brought in here by the Welch Company and put in here in competition with our own labourers at a disadvantage as far as wages are concerned.

Mr. GORDON: I would say that you cannot have it both ways. Under the contracts as they have existed we have had a definite interest in seeing what wages were paid. The benefit of that is that the hourly wage paid to the worker of the Welch staff is approximately the same as the railways, but if I am being forced to get rid of that kind of contract the situation may be now that I will call for tenders for work which may be from the Welch Company or the Jones Company or different companies and I am certainly not going to take the responsibility of telling such companies how to run their business. That is up to them. As far as your plea in regard to the immigrants is concerned I express the opinion that they are adequately cared for. They have their government which stipulates the conditions under which they are brought to this country and furthermore they are brought in under the auspices of our own Department of Immigration and are quite adequately supervised. Their welfare and interest is properly taken care of. You cannot have it both ways. If I call for a tender from anybody, whether for building a building or laying a line of track and I get a price for that tender then it seems to me it is his business how he operates his particular piece of work. I cannot run everything in this country. Sometimes I think that I am not even doing a very good job in running the C.N.R., but even so it is a full time job.

Mr. JOHNSTON: When the railway is taking on such a contract as this, and they had it with the Welch Company and then they decided to terminate their contract with the Welch Company, was that because some of these employees were enlisted in the union ranks?

Mr. GORDON: No. The only reason was because of representations made to us by the brotherhood that the operation of the Welch Company as it then operated was a violation of the terms of wage agreement No. 13. That became a question of interpretation and I do not know that we were absolutely right. It was a new condition. When the wage agreement was worked out under the authority of the certification which I mentioned, in relation to the men on the line we recognized that there was some justice in the brotherhood's representations and we have talked and discussed it and arrived at something which we think is fair. It removes the complication which was basic in regard to the existing Welch contracts and they were difficult to explain to the union members.

Mr. JOHNSTON: If the workers of the Welch Company become unionized that would not have any bearing on your hiring them or giving them the tender under the new contract?

Mr. GORDON: I have nothing to do with the workers of the Welch Company whether they are unionized or not.

Mr. JOHNSTON: It would not have any effect on the decision?

Mr. GORDON: No. I call upon the Dominion Bridge Company for a tender to build a bridge. All right; they build a bridge at a price. That is it. I do not know what their arrangements are with respect to labour or purchases or anything else. That is a fact. Of course, mind you, there is this to be said, in all our contracts on which we call tenders there is what is called a fair labour clause in the contract. That is a matter of general policy. That I suppose would have a bearing on the point you had in mind.

The CHAIRMAN: Shall the heading carry?

Carried.

Mr. FULTON: In paragraph 31 it says: "A board of conciliation was established to deal with the demands of the brotherhood of locomotive firemen and engine men. At the close of the year the board had not yet made its recommendations." Have they been received since then?

Mr. GORDON: They have.

Mr. FULTON: Are you in a position to report anything to us on this?

Mr. GORDON: Yes. I am trying to get in my mind the sequence of events. There have been quite a number of demands made and we came to a general agreement in respect to the demands and what complicated and delayed it was that there was a jurisdictional disposition between the firemen and the engine men of which you probably heard. It is a long standing dispute dating back to 1946. The railway was in the middle of a jurisdictional dispute and we could not get anywhere. A Board of conciliation under the chairmanship of Mr. Justice Maybank took that problem in hand and after some discussion it was referred back. About a month ago, I think, our officers reached an agreement on all points without having to go back to the board of conciliation. In other words, they straightened out the jurisdictional dispute and we reached an agreement on all points except one. That was in regard to a wage increase included in it which they wanted to have made retroactive back to February 1954.

I took exception to it because I felt that the retroactive payment was unfair for the obvious reason that we have no place to recover such a payment, and it is a direct and new charge upon our 1955 expenditures. Because of that the whole matter was referred back to the conciliation board. Mr. Justice Maybank sat on the matter along with his two colleagues the other day. Just before I left I was advised that the board had brought in a unanimous decision supporting the men in their request for a retroactive payment. The effect of it will be to cost us \$1,730,000 additional expenses in our 1955 expenditures which

is not allowed for in the budget which I am presenting. Of the total, \$750,000 represents retroactive payments, and the balance will represent the full new rates for the year 1955. This gives an indication of the sort of unexpected expenditures that we have to face and why it is so difficult to present a budget which will stand up.

Mr. FULTON: I agree.

Mr. MACDONNELL (*Greenwood*): Have you anything to report under item number 32?

Mr. GORDON: This one is not settled yet. Under this heading it is difficult to be precise about these negotiations, because they are going on all the time. The last time I looked at it we had something like 47 agreements open, the demands of which if granted in full would cost us an additional \$16 million to \$17 million a year. These are for wage requests outstanding as of March 1st. There were 51 actually and the estimated annual cost was \$15,362,000. These are current all the time.

Mr. FULTON: Are all your agreements yearly?

The WITNESS: Yes, I think so. I cannot remember one that is not. They are all yearly.

The CHAIRMAN: Shall the heading carry?

Carried.

We are now on "Taxes, rents and other income accounts." Are there any questions on this item?

Seeing that is now 6.00 o'clock, I suggest that we adjourn until 8.00 o'clock, when we will continue with this heading.

EVENING SESSION

MARCH 29, 1955

The CHAIRMAN: Gentlemen, we now have a quorum, so we will be in a position to go on with the item on which we left off at 6.00 o'clock. We are now on the item "Taxes, rents and other income accounts." It is on page 9 of the report.

Are there any questions on that heading of taxes, rents and other income accounts? Does the item carry?

Carried.

"Hotel operations"?

Mr. HAMILTON (*Notre Dame de Grace*): I have a question on that. In the second paragraph of item 35 there is a reference to the introduction of depreciation accounting. Have we a figure showing the depreciation in 1954 in respect to the hotels?

Mr. GORDON: The depreciation for 1954 on the hotels is \$447,074.

Mr. HAMILTON (*Notre Dame de Grace*): What was the income from the hotel at Vancouver?

Mr. GORDON: The division that we made with the Canadian Pacific Railway rests on net operating income, and it was \$427,249. That was our share of the net operating income.

Mr. HAMILTON (*Notre Dame de Grace*): Do we make a split of that 50-50?

Mr. GORDON: There is a formula and it finally comes down to a 50-50 split, but it is a rather complicated system and it provides for a change of rental and one thing and another.

Mr. HAMILTON (*Notre Dame de Grace*): Is the division arrived at before or after charges for depreciation on the hotel Vancouver itself?

Mr. GORDON: Before. The figure I gave you is the net that we get; \$427,249; \$106,585 is the depreciation figure which is applicable to it.

Mr. HAMILTON (*Notre Dame de Grace*): You say that our share of the operating profits from the hotel Vancouver was \$427,000 odd?

Mr. GORDON: \$427,249 yes.

Mr. HAMILTON (*Notre Dame de Grace*): And depreciation was \$106,000 odd?

Mr. GORDON: Yes.

Mr. HAMILTON (*Notre Dame de Grace*): Do we have to pay that back to the corporation or how is it handled?

Mr. GORDON: The situation is this: The Canadian National Railway is the owner of the building and we are in effect the landlord. The hotel is rented out to the Vancouver Hotel Company as such, and the Vancouver Hotel Company is jointly owned between the Canadian National Railways and the Canadian Pacific Railway.

Mr. HAMILTON (*Notre Dame de Grace*): I see. So that in fact the rental which is received for the building is applied against depreciation?

Mr. GORDON: It accrues to us as the owner.

Mr. MACDONNELL (*Greenwood*): But depreciation is entirely the concern of the Canadian National Railways as the owner.

Mr. GORDON: That is correct.

Mr. HAMILTON (*Notre Dame de Grace*): Could Mr. Gordon tell us, while we are under the heading of operations, whether the hotel properties which were sold were profitable?

Mr. GORDON: They were covering their operating expenses, but they were not paying sufficient to cover depreciation and interest.

Mr. MACDONNELL (*Greenwood*): Could we have the total of operating?

Mr. GORDON: The total of what?

Mr. MACDONNELL (*Greenwood*): The total of the operating surplus before depreciation for the four hotels? I have not added them up.

Mr. GORDON: For the year 1954, I will give it to you in just a moment. I will add them up here, yes, the net operating income of the four hotels was \$82,907 in the year 1954.

Mr. MACDONNELL (*Greenwood*): I have one other question about depreciation. I think you said that was depreciation on the hotels. I imagine that was for the Vancouver hotel, and it was \$447,000?

Mr. GORDON: No the Vancouver hotel was included.

Mr. MACDONNELL (*Greenwood*): No, no.

Mr. GORDON: The total depreciation which I mentioned for all the hotels is \$447,000.

Mr. MACDONNELL (*Greenwood*): Would that include the hotel Vancouver?

Mr. GORDON: That included the Vancouver and the figure for the Vancouver hotel was \$106,585.

Mr. MACDONNELL (*Greenwood*): That \$447,000 is depreciation on the total value of what?

Mr. GORDON: Of the buildings only, the property investment in which was \$36,229,633. That was the valuation of all the hotels in the 1954 accounts.

Mr. MACDONNELL (*Greenwood*): Including the Vancouver.

Mr. GORDON: Yes, including the Vancouver.

Mr. MACDONNELL (*Greenwood*): I am not an expert on depreciation, but it does not seem very large.

Mr. GORDON: Well, the method we follow is more or less the standard method. It is based on a 40 year sinking fund basis. Incidentally I might comment in regard to the four hotels, that all of them were in need of very heavy capital expenditures and that was one reason we came to the conclusion that there was not enough income in the prospects for those hotels to proceed with heavy capital expenditure.

Mr. HAMILTON (*Notre Dame de Grace*): Now, Mr. Chairman, the book value of these hotels was approximately \$3,289,000.

The CHAIRMAN: Where do you get that figure?

Mr. HAMILTON (*Notre Dame de Grace*): From pages 246 to 248 of the committee report of last year, the shareholders' listing the C.N.R. hotels and giving the capital cost in 1953.

Mr. GORDON: Your figure was what?

Mr. HAMILTON (*Notre Dame de Grace*): Well, the figure I picked out from that particular report was \$3,289,000.

Mr. GORDON: Yes, that would be right.

Mr. HAMILTON (*Notre Dame de Grace*): Have we a figure for the appraised value as against the capital cost?

Mr. GORDON: No, we have no appraised value figure in the sense of independent appraisal, no.

Mr. HAMILTON (*Notre Dame de Grace*): There is no other comparable figure, in other words, to arrive at the value of the hotels?

Mr. GORDON: No, merely the book value that you have referred to.

Mr. HAMILTON (*Notre Dame de Grace*): What figure did you receive for them, Mr. Gordon?

Mr. GORDON: For all the hotels?

Mr. HAMILTON (*Notre Dame de Grace*): Yes.

Mr. GORDON: That is one of the things we have mentioned before as the type of information which is not available to the committee by reason of the fact that it affects the business of other people. However, I can tell you this, that based on the book value, less depreciation and with an adjustment for an inflated land account that applied to the Prince Arthur hotel, the sale of the hotels pretty well wiped out the book value.

Mr. HAMILTON (*Notre Dame de Grace*): Was the adjustment for land value a major factor in this transaction?

Mr. GORDON: The amount of the adjustment of the land value of the Prince Arthur stood in our books at \$592,000, which arose out of an unrealistic allocation made to the Prince Arthur hotel at the time of the acquisition of the Canadian Northern terminals by Mackenzie and Mann. It is an old, old transaction that was carried on our books without adjustment. Therefore, when we made our adjustment that adjustment was from \$592,986 down to a current value estimated at \$250,000, so that \$342,986 of the adjustment which I have referred to represented a write-down of that land value.

Mr. HAMILTON (*Notre Dame de Grace*): And about the time of the sale of the hotel?

Mr. GORDON: It was done as part of the bookkeeping adjustment when the hotels were sold, yes.

Mr. HAMILTON (*Notre Dame de Grace*): So that if I understand your statement rightly in this transaction we had the original capital cost of the

hotels less their depreciation and had there been no other consideration entering into it whatsoever the transaction would have shown a loss in the neighbourhood of \$340,000.

Mr. GORDON: You will have to say that again.

Mr. HAMILTON (*Notre Dame de Grace*): I said we had the original capital cost of the hotels less depreciation. Now, after making such adjustment in your actual transaction at that time the transaction would have shown an approximate loss of \$340,000, because you have already told us that taking the three factors into consideration, capital costs, depreciation and write-down of land value the price obtained for the hotels just about wiped them off your books and therefore we have accounted for every one of the factors and my reasoning in respect of write-down of the land value is \$340,000. So to equate the money you received for the hotels and your book value there was a basis of \$340,000 to take care of the land value write-down.

Mr. GORDON: There is something wrong in that figure, but I have not been able to spot it yet.

Hon. Mr. MARLER: What are we trying to get at, Mr. Hamilton?

Mr. MACDONNELL (*Greenwood*): Could I just make one remark there? It seems to me that this is quite different from anything else that we have been discussing. Naturally we do not attempt to try to carry on the business of the railway. Instead Mr. Gordon does it and we ask him what he is doing. Here, however, we have got something which I think is quite different. We are going out of part of our business and I think that we as shareholders or representing the shareholders therefore are in a quite different position. We ought to be put in the position where we can arrive at some conclusion as to the basis on which this transaction was made because it is not in the ordinary course of business. Now, I am disappointed that we cannot be given those sale figures. In the province of Ontario I believe it is a fact that the sales price must be indicated when the property is sold. I don't know if that is true in the province of Nova Scotia. I was hoping it was true everywhere so that there would be no difficulty whatever about our being given the sales price.

As a matter of government policy I venture to put that to the minister and to ask him to consider whether we, as I say, representing the shareholders when we are told that part of the business is being abandoned should be given every possible bit of information.

Mr. POULIOT: Mr. Chairman, the point raised by Mr. Hamilton was highly technical but inasmuch as a layman may understand it he wanted to establish the real value of the Vancouver hotel in order to know the proportion between the revenue and the real value of the hotel. Was that it Mr. Hamilton?

Mr. HAMILTON (*Notre Dame de Grace*): No, Mr. Chairman. Actually, having obtained the information from the Hotel Vancouver I then proceeded to the sale of the hotels and there was no relationship between the two. Perhaps I should revert. I think I can make it fairly understandable to all of us in this way. When we inquired about the sales price of these hotels Mr. Gordon said, "I can't tell you the sale price of the hotels."

Mr. GORDON: No, I beg your pardon, what I said was I don't think I should tell you.

Mr. HAMILTON (*Notre Dame de Grace*): I am sorry, I beg your pardon. Mr. Gordon said, "I don't think I should tell you the sale price of the hotels but I can tell you that after taking into account the depreciated value of the

hotels and an adjustment in respect of the land value for a given hotel the price we received just about wiped them off the books". I think that is a fair statement.

Mr. GORDON: That is right, and I was trying to be helpful but I realize I probably said too much.

Mr. HAMILTON (*Notre Dame de Grace*): So I then turned and I said that since in this particular transaction we had the depreciated value of the hotels and we had the sales price and we had a write-down of the land value—just those three factors to consider—had the land not been written down, had the transaction been carried through with the land at the same value that it had been on the books of the railway for many years there would have been a loss on the transaction of \$340,000, which was the amount that Mr. Gordon has told us the land was written down by.

Mr. GORDON: Well, there is not any doubt about it, Mr. Hamilton, that on the basis of the figures that I have given one by one you can without the exercise of too much ingenuity put them together and arrive at what the sale value of those assets must have been. I am in the hands of the committee. I say to you that as a general principle the management of the railway has always been supported in its stand that it should not reveal transactions taking place with third parties. I have nothing to conceal about this. There is nothing mysterious about it, but I think I am bound by that principle and I don't think I should answer questions which have the effect of revealing indirectly the answer to a question which has always been regarded by this committee as not properly answerable.

The CHAIRMAN: I think there is a distinction between what you are saying, Mr. Gordon, and what Mr. Macdonnell said, and that is this: I don't know about the law of any other part of the country but actually in Ontario the price may be given so that the public at large can make themselves aware of what a certain transaction was. That is a different principle than a vendor voluntarily giving away the price he received for his property. Do you not think there is a distinction?

Mr. MACDONNELL (*Greenwood*): I do, but to me the real question of principle which I raised and repeat is that while I quite recognize what Mr. Gordon says as to the principle which has heretofore been followed and which I want to follow, it seems to me when you come to a place where you are ceasing to carry on a part of your business an entirely different principle arises. I appreciate the fact that Mr. Howe jocularly said in the House that we could sell the undertaking and I am sure no one would consider that seriously. But here we are going out of the hotel business and I would urge very strongly that parliament in such an event should be informed because that would be a very substantial change of the whole of the enterprise.

Now, here it is not as clear-cut as that, but I do suggest that it is different from ordinary business transactions and unless there is some obligation in honour to somebody else that Mr. Gordon feels holds him back if this is merely a matter of following a principle which we have followed in this committee I venture to suggest, Mr. Chairman, and particularly to the minister, that this is a very different situation from the ordinary business transactions. This is the ceasing to carry on of a private business.

Mr. GORDON: Well, my difficulty, Mr. Macdonnell, is this. These hotels have been sold to Mr. Thorn and the syndicate. They were the result of tenders which were received from all interested parties to whom we advertised and from whom we invited tenders. I have no idea what Mr. Thorn is going to do with the hotels but it is a matter of his private business what he paid for them and if we divulge the selling price I think we are unfair to the seller who in the normal course of business transaction is entitled to have secrecy

preserved in regard to transactions of that kind. If I am in the position of having to do business across my desk with people who would be buying and selling something to the railway and I have to say to them, "Now, anything you quote me in regard to price I will have to disclose," I am going to be at a very decided disadvantage in marketing whatever I have to market.

Mr. MACDONNELL (*Greenwood*): I agree, but I am putting this forward as something that is very different from the ordinary business transaction. I suggest this is not in the ordinary course of business and I also suggest that a person dealing with the railway in this connection, the railway acting on the part of the government, I would find it a little hard to believe that it would expect that parliament would not wish to be informed as to this transaction—again let me stress—which is not in the ordinary course of business.

As the chairman has pointed out, as far as the province of Ontario is concerned I think the Ontario law would compel the price to be disclosed. I cannot speak for Nova Scotia.

Mr. GORDON: The difference is that these four hotels were sold en bloc and there is no breakdown in regard to any one hotel. The bid we got was one dealing with the four rather than individually. We had all sorts of bids, some of them wanting one, some of them on two, but we took the best price on the basis of selling en bloc. I have not any idea of how to apportion the amount the purchaser is prepared to allocate to any one hotel.

Mr. Thorn and his associates may in due course be selling one or two of the hotels, and I do not think it would be fair to him for us to start in to name the over-all purchasing price, which is subject to that division.

Mr. MACDONNELL (*Greenwood*): I wonder if, as a matter of fact, what you have just said has not strengthened my argument.

Mr. GORDON: It was not intended to, I can assure you.

Mr. MACDONNELL (*Greenwood*): But I am wondering if, in fact, you have one over-all price and it is disclosed in your transaction. I wonder if that does not really relieve the situation and set you free.

Hon. Mr. MARLER: It seems to me, Mr. Chairman, that to the extent that the information is available, because some fee has been registered, I take it that that is public information which can be procured at the Lands Titles Office or the Registry Office, to the extent that it is there. I am not a member of the committee, but I do not think myself that it is the function of the vendor to discuss the price paid by the purchaser of these particular properties. If the information is public because the deeds have been registered, then anybody who wishes to go to that source for that information should be at liberty to do so, but I would feel myself that the president of the railroad should not be put in a position where he should reveal information which, I think, more properly should be revealed by the purchaser himself. If I might add a further word, I cannot help thinking that the committee very easily could find itself engaged in the consideration of a large number of detailed transactions. The moment we start saying that, whether it is for a hotel property or whether it would be for some other property supplied to the railroad, we must say what was paid for this property, we must see what the appraisal was, so that in effect we may substitute our judgment for theirs in connection with the transaction, I think myself that is what we would be coming to, if we take one of these cases and say, "Let us examine the history". I am not saying that as anything to reflect on Mr. Hamilton, but if he goes through the process of obtaining the appraisal and then finding out what was paid for it and so on, I think we have come to the point where we are passing judgment on the board, and I doubt whether that would be the wish of the committee.

Mr. MACDONNELL (*Greenwood*): I agree with what you have said with regard to transactions in the ordinary course of business, but I think that this is not a transaction in the ordinary course of business. I suggest that it is this amount that shareholders would wish to be very fully informed about, even though they did undertake it in the ordinary course of business. That is my whole point. I appreciate that there may be a consideration vis-à-vis purchasing, but that seems to me to be partly answered by the fact that the information is going to be available. The minister's conclusion is that that information should be obtained separately, just because it happens to be available in that way, but I am raising this question of principle, and I am merely mentioning the other matter in order to help solve the difficulty. I am sure Mr. Gordon feels that he may be, perhaps, doing an injury to the purchaser, which is not what I or anyone else wants to do. Nevertheless I do not think that this entitles the people of Canada represented by us to get this information if in fact I am right in saying that this is quite different from an ordinary matter, because it is not, I suggest, in the ordinary course of business.

Hon. Mr. MARLER: I certainly do not want to prolong the discussion. I agree with a great deal of what you said, but I expressed an opinion on what seems to me a matter of law. We were considering the actions of a hotel company in disposing of one of a large number of hotels, and whether that would be regarded as the kind of transaction which would require the shareholders' approval in the normal course of events. If a company is selling its whole undertakings and assets, it is customary to ask the shareholders' approval there, but if you are selling one of the assets, I doubt very much if it is required.

Mr. MURPHY (*Westmorland*): The consolidated balance sheet gives the assets of the company, amounting to about \$3 billion. I imagine that we could ask for a breakdown of those assets, and in that way, if we have the assets set out here, is there anything to prohibit a member from asking what is the figure in regard to the hotels?

Mr. GORDON: We have given the book value. The book value appeared in last year's proceedings, and we are perfectly willing to repeat it. Mr. Hamilton has the figure and has repeated it. As I understand it, he is looking for the price paid by the purchaser for these four hotels. I suggest that that should be regarded as the purchaser's own business.

Mr. GILLIS: He has it already. What he wants is a breakdown on each hotel.

Mr. MURPHY (*Westmorland*): If he has given the book value and we know what the adjustments are—

Mr. BELL: Is there not a similarity between this sale and the sale of the "Lady" boats in 1953? The price was given for the two of those. It was a similar case. The C.N.S. sold two lady boats in 1953, and the amount was made known at the time. As Mr. Macdonnell said, it was the regular course of business.

Mr. GORDON: As I recall it, in that case, the purchaser was quite willing to have the figure disclosed. We have made sales where we have disclosed the figures when the purchaser was willing to have the facts disclosed. I can recall the sale of some property where the purchaser included the amount in his own annual report, and therefore there was no reason why it should not be disclosed. My point is that the disclosure should be made by the purchaser and, as Mr. Marler points out, not by the vendor. We deal with thousands of real estate transactions every year. We buy and sell property every day. No one suggests that we should disclose the price in sales of that kind.

Personally, I see very little difference except that this is a little more spectacular and it has come more to the public notice. The point is that I am telling you in all my experience as president of the railway that it will be damaging to the interest of the Canadian National Railway if we are put in a position where we have to discuss the private business of individuals doing business with the railway. I suggest that this kind of transaction falls fairly within that restriction.

Mr. POULIOT: Now, Mr. Gordon, if I may ask this, when the Canadian National Railway buys some property, it is for their use; it is not for speculation on real estate? Is it for the use of the railway or for real estate speculation?

Mr. GORDON: We have all kinds of property. We buy it for use, certainly, but we have property which we hold for years, and it is held in our possession in a variety of ways. We may find in due course that we do not need it and we may dispose of that property. We do that again and again in the case of property which we might need or make adjustments in one form or another. Take, for instance, one very outstanding example; in the city of Montreal we have literally hundreds, and I am sure I am not exaggerating, of property transactions which we have made with the city over for years for the purpose of arranging our terminal development. And we have property sold and bought with the city and we are in that sort of thing all the time. We do not buy it for speculation. We buy it for our own purposes.

Mr. POULIOT: That was my view. When you buy a tract of property it is not with a view of reselling it for a profit?

Mr. GORDON: That is right. But there are times when we find that the plan did not work out that way and we may have property for sale and believe it or not sometimes we do make a profit.

Mr. POULIOT: But your purpose is not to sell it at a profit. It may happen that way.

Mr. GORDON: It may happen that way, but we do not buy it for speculation.

Mr. POULIOT: It is not the purpose of the railway when you buy it?

Mr. GORDON: That is right.

Mr. POULIOT: Now, Mr. Gordon you know that there is this difficulty that on this question of fence post and charcoal you told me last year it was unethical. I say that to inform the members of the committee of the answer I had last year. That kind of business is different from real estate transactions, is it not?

Mr. GORDON: I do not think so.

Mr. POULIOT: I will explain to you how it is different. It is because the purchases of charcoal and fence posts do not appear at the registry of deeds office. You know that, Mr. Gordon?

Mr. GORDON: That is right.

Mr. POULIOT: And the price of real estate property appears in the registry of deeds office?

Mr. GORDON: Not always.

Hon. Mr. MARLER: You know, Mr. Pouliot, very often in Quebec you find the deeds registered and the price given as \$1 for valuable consideration.

Mr. POULIOT: I am coming to that. But, the deeds must be registered.

Hon. Mr. MARLER: Sooner or later.

Mr. POULIOT: In order that your ownership is recognized. Therefore you pass a deed with me for a sale of a tract of land which I might possess. This is just figuratively speaking. And I sell it to you for \$100,000.

Mr. GORDON: No sir, you certainly will not.

Mr. POULIOT: Is it because you only consider larger figures than that?

Mr. GORDON: No. I keep my own personal bank account.

Mr. POULIOT: Suppose we are in business together and I am not a member of parliament; I am a rich man and sell property to the railway.

Mr. GORDON: I can dream too, Mr. Pouliot.

Mr. POULIOT: Then I pass a deed and sell the tract of land to the railway at great sacrifice for \$100,000 and the price is an essential element of the contract, as you know. Without a set price there is no contract of sale. You know that, Mr. Gordon. It is not necessary to be a lawyer for that. A banker knows that. You know that a price is an essential element of any deed of sale. You know that.

Mr. GORDON: I am not a lawyer but I will take your word for it.

Mr. POULIOT: I do not speak as a lawyer.

Hon. Mr. MARLER: I think we will all agree on that, Mr. Pouliot.

Mr. POULIOT: I thank the minister for giving that answer. Well now, the price is set between the two parties, the vendor and the purchaser. It may not appear in the contract but also it may appear in the contract.

Hon. Mr. MARLER: That is right.

Mr. POULIOT: If those deeds mention a definite sale price it is public because it has to be at the registry office and there is no reason for Mr. Gordon not to tell us that. It is not like the sale of fence posts and charcoal in which case it is unethical to tell us about it. Is there a set price on those deeds?

Mr. GORDON: Not to my knowledge. It is a price which covered the sale of 4 hotels, which included not only the physical assets of the hotel itself, but also furnishing and things of that kind. I do not know if anything would appear in the registry office. But I hasten to assure you that if you ever sell me any property at a great price I will be very happy to tell this committee about it.

Mr. POULIOT: Now you are answering me cleverly and I appreciate a clever answer more than none. I will proceed with my questioning.

Mr. GORDON: Quite.

Mr. POULIOT: And there is a basis for the argument. For me there is an essential difference between a deed of sale of a tract of land whether with buildings thereon or not and the sale of movable property.

Hon. Mr. MARLER: Or a mixture of both.

Mr. POULIOT: It might be a mixture of both. But the main consideration is the value of the land and the value of the buildings thereon. Therefore, if Mr. Gordon does not want to tell us about the movable property inside the building we could know what the price is for the building. Well now, Mr. Gordon told us to his knowledge he did not know if there was a definite price for the building. He may have overlooked that information or he may have forgotten it, but I am sure as president and chairman of the railway he must have known about the value of the property and he must have established the price before agreeing to the sale.

Mr. GORDON: Quite, but if the purchaser, as in your example, is willing to expose the price I have nothing to say about it, but this sale was on the basis that we sold a going concern in each case; we sold land and buildings, certain parts of furnishings and equipment and the sale was made as an operating business. I just say that it is a matter of principle with me that I should not be expected to disclose the business of other people when they are doing business with the Canadian National Railway, and that principle has always been supported through the years in this committee.

Mr. POULIOT: Mr. Gordon I have been a practising lawyer for many years and this is the first time I have heard that doctrine expounded anywhere. That is the first thing; and the second thing is that the sale is public; it is not a secret done behind closed doors. It is public.

Mr. GORDON: That is right.

Mr. POULIOT: And it is recorded at the registry office.

Mr. GORDON: I beg your pardon. It is not recorded there, to the best of my knowledge.

Hon. Mr. MARLER: The deed does not appear to have been recorded so far.

Mr. POULIOT: He said to his knowledge, but it was not a definite answer. I want Mr. Gordon to say yes or no about it.

Mr. GORDON: So far as I know it is not recorded.

Mr. POULIOT: That is not an answer. I want yes or no.

Mr. GORDON: It is the best answer I can give you.

Mr. POULIOT: With all the staff at your disposal you can get that information.

Mr. GORDON: Yes.

Mr. POULIOT: Why not give it to us. It is not public. Anybody can go to Vancouver and pay 50 cents at the registry office and have the information. Why should we members of parliament not have it here?

Mr. MACDONNELL (*Greenwood*): I appreciate the difficulty of Mr. Gordon and I am going to suggest that this might be left over until tomorrow.

Mr. POULIOT: Excuse me, Mr. Macdonnell, Mr. Gordon is my witness and I do not stand for any interruption when I am questioning a witness.

Mr. MACDONNELL (*Greenwood*): I thought you were through.

Mr. POULIOT: I am not through. I am sorry if I offended you Mr. Macdonnell because I have a great respect for you. The C.N.R. officials come here and no one is able to give the answer and I find it is pretty tough when they give us the cold shoulder the way Mr. Gordon has done.

If he does not know he should know. It is for him to get the information. He has only to tell one of his clerks to phone the head office in Montreal to get the information. Last year I was laughed at. This year I am not to be laughed at by Mr. Gordon or anyone else. How is it we cannot have the price of real property which is in the hands of the railway? We are entitled to that because any man who lives in Vancouver is entitled to that information, and may have it by paying 50 cents. I would like to know what is the deed of sale of that—is it \$1 or some other consideration? If it is \$1 million or \$2 million, I want to know what it is, and I have the right to know. Otherwise this committee is a farce. I stood for it this year, but I am through with standing for it, and I think it is pretty tough to speak that way to members of parliament, Mr. Gordon. Will you give me the information or not?

Mr. GORDON: I will give you all the information that I know.

Mr. POULIOT: How is it that you do not know it?

Mr. GORDON: I am not expected to know this information. I have other things to do.

Mr. POULIOT: Answer us politely and to the point.

The CHAIRMAN: Mr. Pouliot, I do not want this to go too far. I do not know that the officials expected that they would have to produce a deed or registration instruments or anything of that kind. If this committee is intent on having the information I suppose it could be given, but I think the matter can stand over. If you want this information it can stand over until tomorrow.

Mr. POULIOT: Mr. Chairman, I thank you, and I do not want my words to be misconstrued. But when a witness tells me that to his knowledge he cannot answer and when it appears to me that he could have that knowledge and he refuses to have it, I find it tough. You suggest that we wait until tomorrow. Anything to agree with you Mr. Chairman. We shall wait until tomorrow. But we shall not be "high-handed" here by the witness.

The CHAIRMAN: Subject to that reservation the item hotel operations stands.

Mr. FULTON: What was the reservation?

The CHAIRMAN: It is with regard to certain information required as to the value of hotels. I think, probably, that this should not have come up under this heading at all. As a matter of fact it is with regard to the sale of four hotels, the property of the Canadian National Railways. That is the reservation—whether that information can be obtained. We shall come to that later, at page 55. I would ask that the item hotel operation should carry because this should not have come up under that heading at all.

Mr. FULTON: I was concerned to know what the reservation was.

The CHAIRMAN: It can come up at a later time. Are there any other questions with regard to hotel operation.

Mr. FULTON: Yes. With regard to the reservation and getting information as to the selling price, I wish to say no more. I am a little late now. I certainly hope we shall be given that information, but I will leave the discussion of that over until we reach paragraph 80, I think it is. I am impressed by the fact that according to the information given in paragraph 34 we are told in effect that hotel operations are showing a better picture this year than they did last year. My recollection is that they did not do too badly last year. I am wondering if Mr. Gordon can give us a statement as to why it has now been decided that the hotel should be sold.

The CHAIRMAN: I think that was answered before you came in, Mr. Fulton. Mr. Gordon gave it as his opinion that the hotels were not showing a profit considering the fact that interest and depreciation charges had to be calculated.

Hon. Mr. MARLER: And there were heavy capital expenses.

Mr. FULTON: On paragraph 35. I take it this is a separate corporation, to account entirely separately from the railway operation.

The CHAIRMAN: Is that with regard to the hotel at Vancouver? That was answered before.

Mr. FULTON: I seem to be somewhat out of date.

The CHAIRMAN: Shall the item headed "hotel operations" carry?

Mr. POULIOT: Just before it is carried, is there something in regard to the Queen Elizabeth hotel in Montreal?

The CHAIRMAN: It comes later under the heading "new hotel" in page 4. The heading is "Service changes" and I think Mr. Hamilton wanted to ask something before with regard to coffee shop service. If there are any questions on that they could be put now.

Mr. HAMILTON (*Notre Dame de Grace*): I think we have got the majority of the information, with one lacuna. What is the comparison between the average cost of meals sold in our dining buffet cars in 1953 as against 1954? Everything else was answered previously I think.

Mr. GORDON: The average expenditure per meal in 1953 was \$2.279; and in 1954 it was \$2.228. That is for the dining cars as a whole.

Mr. HAMILTON (*Notre Dame de Grace*): What is your revenue per meal?

Mr. GORDON: The revenue per meal was \$1.683 in 1953, and \$1.707 in 1954.

Mr. HAMILTON (*Notre Dame de Grace*): So that, in other words, despite the introduction of the new buffet cars and the introduction of the lower priced meals, and of the budget menu, there is, if anything, a very slight increase in the average return per meal sold?

Mr. GORDON: I gave you the figure earlier. We have reduced our average loss per meal from 59.6 cents in 1953 to 52.1 cents in 1954. In other words, our loss per meal has declined $7\frac{1}{2}$ cents.

Mr. HAMILTON (*Notre Dame de Grace*): I think that is very creditable; but I was interested.

Mr. KNIGHT: Is that in dollars?

Mr. GORDON: Yes; I should have said dollars ;it is 59 cents that I am talking about.

Mr. HAMILTON (*Notre Dame de Grace*): I was interested in what was happening with our dining cars and our buffet cars as a result of the introduction of this new budget menu and the emphasis on low priced meals and the introduction of this new service, because from our statement we see that the actual cost of the dining-buffet car service has gone up only by a slight amount, actually by some \$14,000 whereas our revenue from dining and buffet cars has gone up by almost \$200 thousand. You will find these figures on pages 6 and 7; the revenues are given for the dining and buffet cars, and on page 6 the operating revenues are shown in the third line in the second column.

Mr. GORDON: These figures reflect what I have just given you in regard to individual meals. Dining car-buffet services show as an expenditure, as against the figure shown under revenue, and they produced the figure I just mentioned.

Mr. HAMILTON (*Notre Dame de Grace*): That is obvious. They produce these results, but I was primarily interested in this merchandising business because we seem to have had trouble or difficulty in selling passenger traffic and other things in connection with the railway. We introduced better equipment and apparently lower prices for the meals, yet our revenue has substantially increased without any corresponding increase in our costs. Is that correct?

Mr. GORDON: Of course the question of volume is a factor which comes in there. We did increase the number of meals served roughly by about 29,500 meals in the course of the year.

Mr. HAMILTON (*Notre Dame de Grace*): You attribute most of that to the introduction of new equipment?

Mr. GORDON: I think there are a number of factors. We have streamlined the service in the dining cars for the purpose of reducing the cost of the meals; and with those budget meals you referred to, we are having more consumer appeal, that is, the dining cars have more consumer appeal so we think it will deliberately go up as the volume of traffic is beginning to show some results.

We discovered in our analysis of this problem some years ago that only about eight per cent of our passengers actually ate in the dining cars. It was a luxury service. It was a service largely for people with an expense account. And we felt that we at least should try to see if we could not encourage the head-end, that is to say the coach traffic, to patronize our dining car services. But we were up against two things. There was hesitation and timidity in some respects among the coach traffic to turn up in the dining car. The atmosphere was generally a little too rich for them, and in addition they could not afford the prices.

We started out to see if we could not do something about it. The dinette is one answer, and the budget menu is another. We have done some things that people do not like. For instance, we took away the table napkins and we use paper napkins for breakfast, but by and large we have demonstrated here that we can do something to help the problem and we hope that we will continue to meet with success along that line.

Mr. HAMILTON (*Notre Dame de Grace*): Actually the average passenger on the train is today paying the same price for his meal as he was a year ago.

Mr. GORDON: Paying the same price for his meal?

Mr. HAMILTON (*Notre Dame de Grace*): Your average in 1953 was \$1.68.

Mr. GORDON: Yes.

Mr. HAMILTON (*Notre Dame de Grace*): And in 1954 it was \$1.70.

Mr. GORDON: Yes.

Mr. HAMILTON (*Notre Dame de Grace*): So that despite the introduction—and that was another one of the things I was wondering about—despite the introduction of these new budget priced meals—I do think they are very good, and you can quote me in your publicity on that—the average sale price per meal has not declined at all.

Mr. GORDON: Yes, but of course the 1954 figure in some respects is a misleading one because the dinette where we made a major reduction in price, did not come into service until quite late in the year. We hope to see a better figure in 1955. In the dinette you can get a respectable meal for around \$1 to \$1.15. Before that it was very substantially higher; but we have not got the influence of that sharp reduction in the dinette for a very great part of the year. I think it was October or November before we got the dinette into service and that would have an influence on the figure which you have in mind.

Mr. HAMILTON (*Notre Dame de Grace*): I think you said that you served 29,000 odd more meals this year than last?

Mr. GORDON: That is right.

Mr. HAMILTON (*Notre Dame de Grace*): And that your average price per meal was \$1.70?

Mr. GORDON: Yes.

Mr. HAMILTON (*Notre Dame de Grace*): That would be approximately \$60,000. Actually I think it is closer to \$50,000.

Mr. GORDON: Yes.

Mr. HAMILTON (*Notre Dame de Grace*): We turn now to dining-buffet car service and we find it has increased from \$3,650,000 to \$3,848,000 which is an increase of \$200,000. I can account for \$50,000 of that by the explanation you have given us, but where would the rest of it be?

Mr. HARRISON: Who cares?

Mr. GORDON: I am afraid I cannot get down to details of that kind. I suppose I could do so with a little effort, but after all, this is a company with a \$640 million revenue and it does seem to me that we are getting down to details which will take us an awfully long time to get through this report. I am more than willing to give information, but upon my soul we are getting into decimal points on dining car services and it seems to me that we are going too far.

Mr. HAMILTON (*Notre Dame de Grace*): It is this \$650,000 that I cannot understand.

Mr. GORDON: At least it is an increase. I will find out for you although I cannot give it to you, right now.

The CHAIRMAN: Shall the heading "Service Charges" carry?

Mr. POULIOT: I would like to know from Mr. Gordon who prepared the menus of the dining cars in the last ten years?

Mr. GORDON: It would be the dining car department.

Mr. POULIOT: Yes, but who in the dining car department?

Mr. GORDON: We have a staff there for that purpose.

Mr. POULIOT: Too old dietitians?

Mr. GORDON: I do not think so. We have a very competent staff in the dining car department.

Mr. POULIOT: But the menus are always the same. I wonder why you have a big staff for that? It is always the same thing.

Mr. GORDON: I do not think the record will show that.

Mr. POULIOT: Oh yes.

Mr. GORDON: I have in my hand the menus from the dinette cars which will show quite a variety.

Mr. POULIOT: Yes, but when you travel, Mr. Gordon, you travel in a private car, whereas when we travel we do so on through trains.

Mr. GORDON: I have heard that one before and I can tell you that I know what is going on. I go through the trains myself, so I know what is going on.

Mr. POULIOT: I know, but I am giving you my experience as a passenger, and it is different from your experience as president of the railway. It is unfortunate, but I have found the meals unpalatable sometimes.

Mr. KNIGHT: I would like to say, Mr. Chairman, that I think the railroad is to be congratulated on the establishment of the dinette service. It was a recommendation of my own on previous occasions and I say that with great pleasure because I think the management has changed its mind on the situation. I remember asking Mr. Gordon some three years ago what he proposed to do about the deficit which amounted then to about 65 cents a meal, and if I remember correctly he said to me, "Well, Mr. Knight, every department has to stand on its own feet and the only suggestion I have is to put up the prices." And I disagreed very violently with him on that occasion.

My idea about the dining car service particularly of a nationally-owned railroad is that the service should not be selective but should be universal and I think the tests of this success is the percentage of people of all classes who use that train and I have found nothing but praise in my travels back and forth for this new service whereby young people can come in and get a doughnut and coke at any hour of the day. One does not need a heavy meal, is my experience on the train, and particularly in the case of a woman who is travelling with children. It used to sicken me to see a woman go in to the dining car and paw over the menu and buy something for the children and come out with nothing for herself. People carrying their lunches and that sort of thing.

I think the thing has not had a chance yet to work itself out, but I think it is a tremendously successful venture and I think will be found incalculably successful as time goes on.

Mr. POULIOT: I agree with you and Mr. Gordon, when the railway have followed our advice they made progress, because they followed the advice of the members of parliament. I give you credit for that, Mr. Gordon, even if you won't accept it.

Mr. GORDON: I accept it. I should give you some credit, Mr. Pouliot.

Mr. POULIOT: You may not realize it but we are your best friends and if you are above criticism you are doomed. We are helping you all the time.

Mr. JAMES: Mr. Chairman and gentlemen, Mr. Gordon has a copy of the dinette menu. Over the past few months I have been much impressed by the very reasonable and filling and tasteful meals that you have on those. For instance, I think there is a hot beef sandwich on there for 55 cents—a real buy.

Mr. GORDON: There is quite a range of prices here, all the way from 25 cents per portion up to 90 cents for such things as chicken salad or fried pork chops, mashed potatoes, corn and brown bread, for 90 cents, I think you will find it difficult to get those prices anywhere off wheels.

The CHAIRMAN: You can't even buy that in the parliamentary restaurant.

Mr. HARRISON: I would like to re-echo something of what Mr. James has said in regard to the very fine menus in the dining car and I think in regard to what Mr. Hamilton said a while ago it is a little too early to find what the dinette car is doing in the way of revenue for the railway at this time because if my memory serves me correctly I went west in November and they told me that train had the first dinette on it that had been on, and it only went as far as Winnipeg so that on the transcontinental run I presumed it was even later before they went right through to Vancouver and it won't reflect until this year.

Indeed I want to congratulate you on this service because you have some very fine menus at prices, as you say, that cannot be got off wheels, and the thing that I appreciate in travelling back and forth on the Canadian National is this very service and the fact that you can dine at any time. When we leave here we have often had some pretty busy times and you often sleep in in the morning and in the ordinary course of events with diners you missed your breakfast but with these dinette cars you can get a very reasonable meal or you can eat late in the evening if you desire and our habits here are such that we maybe get trained to these things. But it is certainly something that I think will bring business to the dailways when people know that it is available.

Also myself I would prefer to go west as I do from time to time on trains if I am not too rushed for time. With the type of dining car service and the type of sleeping car service you have, I would much prefer to go west on the train than go T.C.A. or any other de luxe air service for the simple reason that you arrive there fully rested and your meals are certainly wonderful in this service.

Mr. FULTON: I would like to ask Mr. Gordon a question or two on paragraph 41.

Mr. GILLIS: May I ask Mr. Gordon when he expects to have one of those dinette cars on as a demonstration from Montreal east? There is not anything in the area.

Mr. GORDON: We only have six in service now.

Mr. POULIOT: In the meantime, Mr. Chairman, all the battles in this committee end in battles of flowers.

Hon. Mr. MARLER: That is the menu here, isn't it, Mr. Pouliot?

Mr. POULIOT: Yes.

Mr. GORDON: Mr. Gillis, I should say this, that we only have in the service six dinette cars. They are still in the experimental stage. They are allocated now from Montreal west. There are none allocated to the east at the moment. It will depend on the results of our experiments and I am glad to have the favourable expression it has created before we embark on the very large cost. These cars I might say cost us \$255,000 each, so the six cars we have represent over \$1,500,000, and we want to get some more conclusive evidence both in regard to their popularity and also in regard to their

service. The service is still experimental. We find some troubles in it. We have had trouble in regard to training the crews and just now the service could not be regarded as complete yet but it is our intention when we understand the service to extend the use of dinettes where they will give us the kind of result we would like to see. We have to start somewhere and we have to place them in a regular service for test purposes the six cars are fully utilized in this way at the moment.

Mr. GILLIS: I would have thought the best way to experiment would have been to have placed one on each division. Of course, it does not surprise me that you start from Montreal west because that is the general trend of thinking. I have never seen anything done yet in the way of tests or surveys but what Canada ended at Montreal. I think that the Ocean Limited would have been a very good spot to try them out. If it is an experiment they should have been tried across the country. We hope we will get one down there.

Mr. KNIGHT: What has been the general effect of the existence of these dinettes on the little restaurant places in the stations like Hornpayne, etc.?

Mr. GORDON: It has not been at all good. They are complaining now and we will have to make some adjustment in that regard because most of these restaurants are under contract with Canada Railway News. That is one of the bugs we have got to work out.

Mr. KNIGHT: The railroad is interested in these little restaurants?

Mr. GORDON: Well, in many cases operators have a concession. We rent out the concession to the Canada Railway News and payment is usually based on some share of the take by the concessionaire and right now they are feeling the competition of the dinette cars.

Mr. KNIGHT: Well, it is a great convenience for these people who cannot afford an expensive meal not to have to go out of the train.

Mr. GORDON: That is right, but any new ideas always mean some upset to established practice or trend.

Mr. FULTON: I would like to ask Mr. Gordon a question or two under paragraph 41. At the moment I appear in the role of peace maker. Tomorrow the situation may be somewhat different. Mr. Gordon, when you come up here and your company unfortunately has to record a deficit then I think you must expect to be given the devil by parliament?

Mr. GORDON: Yes.

Mr. FULTON: I think it is a new experience for you.

Mr. POULIOT: Who gave hell to Mr. Gordon?

Mr. FULTON: Let me preface my question by this comment. I am quite certain that every member of parliament just as you yourself wants to see the railway operate at a profit and therefore appreciates your problems in trying to take care of those situations which result in a deficit on the local level even. Nevertheless, while we all want to see the railway operate at an over-all profit there is, it seems to me, to some extent a thought in the minds of the Canadian people and in parliament that a railway also exists to give us service. I realize that your competitor, the Canadian Pacific, is not under that difficulty. Therefore, I relate that to this question of abandoning unprofitable lines. We all appreciate your problem there but you will also appreciate the interest of all of us here in seeing if service to people even although it might not show a profit continued if that is at all possible. In paragraph 41 you have referred to the general situation. Would you tell us what size of a problem this presents to you? You may be able to show us an individual case where a particular line presents a hopeless picture. In the over-all picture how justified is this problem;

in other words, to what extent is it reasonable for us to say that you as the president of this great national railway must expect to give us service even though you do not show in a particular situation a profit. How sizable is the picture? How many unprofitable localities do you operate in?

Mr. GORDON: Well, you have covered a good deal of territory in the general question. I would like to remind you, however, that we are not free to abandon lines on our own motion. We have to appear before the Board of Transport Commissioners and the Board of Transport Commissioners holds a hearing at which anybody affected by the proposed abandonment may appear and notice is sent of the proposed case well in advance so that all interested parties have an opportunity to appear before the board and to give evidence as to how their interests would suffer in the case of abandonment of the line. Now, over the years it has been construed very strictly indeed by the Board of Transport Commissioners and the cards are stacked against the railway every time when we apply for abandonment. We have to demonstrate not only that our loss on the abandoned lines is of a character which does not justify operation; we also have to demonstrate that there are alternative forms of service available to the community. The Board will not be agreeable unless we are able to demonstrate to their satisfaction in one form or another that there are very good transportation facilities available to the particular communities affected by any abandonment. What really happens is this, looking back over the history of the railway. The railway builds in a line to a given community; that may have happened a hundred years ago or fifty years ago. In the course of time that railway has developed the community and it starts off in the first instance as being practically the only form of transportation, but, by reason of the fact that the railway has developed that community, industries and roads spring up and the whole territory becomes a developed area, and alternative forms of transportation come in. When the alternative form of transportation gets to the point where the traffic available to the railway is too low, then and then only do we feel justified in saying, in effect, that the railway has outlived its usefulness for that particular area. Now, the Board of Transport has enunciated this rule, and I quote from a note which I have in front of me. This, stated briefly, is the attitude they take: "The issue in each case resolves itself into a question of whether the loss and inconvenience to the public consequent on the abandonment outweigh the burden that continued operation of the railway line involved imposes on the railway company". In other words, they make a balanced judgment as to whether or not the degree of inconvenience to the public that might arise by reason of the railway being abandoned is so severe that it outweighs the losses which the railway may incur. We know from our experience that our only hope of convincing the board of the validity of giving an abandonment is proof that that degree of inconvenience is so slight that it does not stand up. Usually we do that by demonstrating that there is an alternative form of transportation that is readily available to the community. In passing I could give you this run down of the kind of facts of which the board takes account when applications for abandonment are placed before them. I mention these briefly to indicate that a thorough investigation is made.

The following factors are taken into consideration by the board when applications for abandonment are placed before them:

1. System revenues for at least three years.
2. System expenses for at least three years.
3. Present train service; volume and type of traffic.
4. Estimated annual savings to the railway.
5. Distance between various stations on the line and railway facilities and services in the area.

6. Alternative services for freight, passenger, mail, etc.—summer and winter.
7. Productivity of area.
8. Effect on freight rates.
9. Effect on employees.
10. Effect on property values and taxes.
11. Whether the population in the area is increasing or decreasing.

These are typical of the questions we have to answer. I have before me a table which shows that between the years 1927 and 1954 the lines abandoned in the system total 1,092 miles. I have also before me a table which shows the applications we now have before the board. We have been making a very special analysis of the thin traffic lines, having in mind the conditions that we are discussing today in terms of our deficit, and we have had a number of decisions from the Board dealing with old standing applications which over the years have been rolled over and over, and we find that the Board is prepared to take what we think is a more realistic view than has been taken in the past.

The "Scotia" to Faldives application was approved on January 21st and we estimated an economy to us of \$97,000 a year.

Now, remember that in placing our case before the Board in respect of these portions of lines, we credit them with every nickel we can possibly think of that can be attributed to that line. If traffic starts somewhere else and it can be attributed to the existence of that line, we give it all the breaks. We know from experience that we will only prejudice our case if we did otherwise. There is an annual net economy of \$97,000 by abandonment of that particular line. The Board has recently held hearings on a number of applications, including the following:

Trenton to Pictou Landing; Pedicodiac to Elgin, N.B., Hillsboro to Albert, N.B., Montreal and Southern Counties Railway, P.Q.; Alliston to Creemore. We have a half-dozen others of similar type which are being considered by the Board and we have probably another eight or ten cases which we are looking at ourselves, but on which we have not yet decided to apply for abandonment. But I assure you that, by the time we get an abandonment, it has gone through our own fine mesh screens, because we do not want to abandon lines which show any promise at all, and our own judgment is a very severe one, so that by the time it goes through all the analyses, I think I can say very definitely that the abandonment is justified by every conceivable test.

Mr. FULTON: What you said raises one or two other questions. You said that you are required to allocate to the particular proposal for abandonment what, I take it, have been system revenues and system expenditures. Do I take it that that means that you have to allocate to a particular line its portion of overhead and maintenance cost as well as its portion of revenue derived?

Mr. GORDON: May I read this? You asked for it.

Mr. FULTON: I am asking it because it was suggested that it was difficult to allocate to a particular line or service its share of overhead.

Mr. GORDON: The economics are difficult to follow, but I shall quote them to you from a memorandum prepared for me by my research department:

The net worth to the system of any branch line must of necessity take into consideration its feeder value to the system. This is done by crediting the branch with all revenues accruing to the system from traffic originating or terminating on the branch and debiting the branch, not only with the branch line expenses, but also with the expenses incurred in handling the branch line traffic on the remainder of the system. These "off-line" expenses are determined by taking one-half of the actual off-line earnings, i.e., using a

50% operating ratio. The off-line earnings are obtained by prorating the system revenue on the basis of the off-line haul to the total haul.

The 50% figure was established as a result of actual studies and has been used before, and accepted by, the Board of Transport commissioners as far back as 1938. It represents the average cost of the transportation function on an out-of-pocket basis.

Mr. FULTON: Did I gather from your earlier statement that most of these lines now proposed to be abandoned and before the Board are in the maritimes?

Mr. GORDON: No. The ones before the Board right now were hearings before the Board that happened to be in Nova Scotia and New Brunswick. There are two applications, one in Quebec and one in Ontario, now before the Board for hearing, but which have not yet been set down for a date. That is all that we have before the Board actually at the present time.

Mr. FULTON: Then I have two other questions. The first one is this. You described the amending process you go through before you decide to make an application, because of the tough attitude the Board takes. May I ask you this: to what extent do you keep in mind the question of service to the public?

Mr. GORDON: Very much. That question arises when we appraise the alternative form of transportation that exists. If a community is not serviced by an alternative form of transportation, we would recognize that continuation of rail transportation was a duty to the public. But if we can satisfy ourselves that the alternative form of transportation is adequate, we do not feel that we still have that degree of responsibility in regard to public service.

Mr. FULTON: The other thing is in connection with the statement you read about the formula which attributed to a branch line its share in overhead and maintenance and share in revenue. Would that formula be capable of general application to regions and services as between passenger and freight.

Mr. GORDON: No, I do not think it would.

Mr. FULTON: Why?

Mr. GORDON: Well, you are dealing here with an isolated service. Is your question whether or not we could apply the same kind of formula to the whole region?

Mr. FULTON: Yes.

Mr. GORDON: I know the answer is no, but if you press me to explain why I would be getting in pretty deep.

Mr. ARMSTRONG: In the branch line situation, as Mr. Gordon pointed out, it is an isolated case. We are dealing there with what is tantamount to incremental costs by reason of these particular movements which is vastly different to the allocation of the total costs.

Mr. FULTON: This is not applicable to the cost as between regions?

Mr. ARMSTRONG: No.

Mr. FULTON: Have you been able to figure out any method of breaking it down between divisions and regions?

Mr. ARMSTRONG: No.

Mr. HAHN: With respect to sections 37 and 38, you mentioned earlier to me, Mr. Gordon, that you were examining into the possibility of extending this trailer-on-flat-car service. I was wondering if—you have here a list of 20 new trailers—those trailers are similar to the auto trailers?

Mr. GORDON: 44 trailers and 22 flat cars?

Mr. HAHN: Yes.

Mr. GORDON: These are the trailers and flat cars in service for the Montreal-Toronto-Hamilton service.

Mr. HAHN: Are you contemplating one on an intercity basis or a Trans-Canada basis?

Mr. GORDON: Intercity is what we have been experimenting with so far. We have not extended the trailer on flat car service beyond this particular area at the moment.

Mr. HAHN: Are you examining into the possibility of making it Trans-Canada?

Mr. GORDON: We are examining a specific area. At the moment our view is that the only place that this kind of service will produce the sort of results we want is in an area of heavy traffic with very heavy trucking competition on an inter-city basis.

Mr. HAHN: Is the C.N.R. losing revenue on that basis today?

Mr. GORDON: Yes. And I comment on that for both railroads. We jointly examined the actual movement of goods of all kinds moving from Montreal to Toronto and Toronto to Montreal, and after estimating the amount of truck movement, which we did by an actual check over quite a long period—and it is not an easy thing to do—we came to the conclusion that the railways were getting a relatively small percentage of the total traffic moved. We therefore decided that we could, by quoting a rate on carload lots, give a service of the type we mentioned here and that we could reduce our freight rate to a point where it would be very difficult for the trucks to take the sort of traffic that ought to go on the rails. That does not mean that the trucks are out of business. There are some types of traffic where the trucking type of transportation will have a special appeal. When it comes to carload traffic of a particular type we believe we can afford to move it at a low price and if we get the traffic volume we will be all right. The rate we will quote is not a loss-leader rate by any means; it will show a profit.

Mr. HAHN: Is there an agreement between the C.P.R. and yourself to exchange these trailers on an inter-city unit basis at all?

Mr. GORDON: No. We handle our own equipment but the rates are a tariff and we are each bound by the same rate but we do not interchange equipment.

Mr. HAHN: I have one other question on this. How big a crew have you on these Buddcars?

Mr. GORDON: It is a crew of three, conductor, baggage man and engineer, which is a saving of two over what might be called a standard crew for a train.

Mr. POULIOT: Are there two trailers on each flat car?

Mr. GORDON: Yes, two.

Mr. POULIOT: How many automobiles can we put on those trailers?

Mr. GORDON: The trailers are not suitable for carrying automobiles. At least these flats are not. These are flatcars designed especially to take two trailers which are fastened on to the car, but they are not intended to carry private automobiles.

Mr. POULIOT: What do you carry on the trailers?

Mr. GORDON: Freight. You see what happens is, let us say in the city of Montreal, we send around a tractor attached to a trailer; it goes around to a shipper in Montreal and the trailer is filled up with goods to be moved to Toronto.

Mr. POULIOT: Just the same as a big van?

Mr. GORDON: Yes, and then we haul that down to the track, push the trailer on to the flat car and the tractor then disconnects and gets another

load. It is only the trailer itself which we move to Toronto. When it arrives at its destination another tractor comes along, pulls the trailer off and delivers the load complete.

Mr. POULIOT: The whole thing?

Mr. GORDON: Yes.

Mr. GILLIS: The Board of Transport Commissioners recently granted permission to abandon the line between New Glasgow and Pictou Landing. You said a moment ago that one of the questions they asked you was the availability of other transportation in the area. What other transportation is available in that area which you abandoned?

Mr. GORDON: There is a Board of Transport judgment on that. Unfortunately I do not have it here. The whole story is told in that judgment. The Board of Transport in all these abandonments reviews all the evidence and then arrives at a summary as to why they have found that abandonment is justified. I will be glad to get a copy of that judgment.

Mr. GILLIS: I have no doubt that it was justified, but I am thinking about the service it performed. I do not think there is any other service in the area.

Mr. GORDON: Are you thinking of passenger service?

Mr. GILLIS: Or freight. Both.

Mr. GORDON: Mr. Dingle tells me there is a bus service. I am quite sure it would be recorded in the judgment I have referred to and I can obtain a copy for you.

Mr. GILLIS: Thank you.

Mr. FOLLWELL: Mr. Chairman, to go back to Mr. Fulton's question, I may have missed the information which you may have given. I was wondering what branch line you were abandoning in Ontario. I do not know whether you gave it or not.

The CHAIRMAN: There is one near Collingwood.

Mr. GORDON: From Alliston to Creemore, Ontario. The hearing was scheduled to be heard at Collingwood on March 16. I have not had the judgment yet.

Mr. FOLLWELL: Again, on the trailer-on-flat-cars, do you haul any trailers other than the ones on the flat car?

Mr. GORDON: No.

Mr. FOLLWELL: You do not go after that type of business?

Mr. GORDON: No.

Mr. FOLLWELL: I was wondering if you could do business with the transport companies by hauling their trailers?

Mr. GORDON: We could, but we do not want to because we feel the situation is such that we are better off hauling our own trailers.

Mr. HAHN: What could we do to stop the carriers from putting their trailers on a flat car?

Mr. GORDON: There is no tariff for that particular movement.

Mr. HAHN: They cannot come in under the agreed charges?

Mr. GORDON: No.

The CHAIRMAN: Shall this item carry?

Mr. FOLLWELL: I have another question in regard to urban truck services which we are inaugurating. I notice we have put in four new services, and I wonder if you would mind saying a word about that and also tell the committee how many truck lines you have as subsidiaries and where they operate.

Mr. GORDON: Our general policy on highway trucking is that we do not enter into it on a wholesale scale in competition with truckers. Our competition is complementary and supplementary to the train services. We may extend a service or supplement a service, but generally speaking it is not our policy to go into trucking as such because we believe we do better in our own business, and that we can transport cheaper by rail, but there will be services where a bus service will fill in a gap in local rail services, and where it will be cheaper for us to provide a bus than to run a train. Or we might find that railway mileage is substantially greater between two given points than road mileage, in which case we would try to operate a highway service if we could do so. Then in very thin traffic areas where the revenue opportunities are very small, we might try to cut our losses by reducing the train services and providing a bus or truck service. All our services, whether by bus or by truck, form part of a pattern of coordinated rail service and highway service. It is not our intention to enter wholesale into the trucking business as such.

During the year we inaugurated local cartage services at St. Johns, Quebec, at Atikokan, Ont., at The Pas, Manitoba and in Saskatoon. That is for local cartage delivery. We have instituted bus services which operate between Sackville and Charlottetown of the kind you have in mind, and we have a bus service under contract between Bathurst and Tracadie and Coteau and Valleyfield, Quebec, and then we have a truck service between Norton and Saint John, New Brunswick; Montreal and Huntingdon; Valleyfield and Coteau; and Allandale and Penetang.

We have quite a list of other services here, but the ones I have given are the ones instituted for 1954. As I say we have a lengthy list.

Mr. FOLLWELL: There is one other question. When you substitute bus services for rail services, do you have to get permission from the Transport Board and a franchise?

Mr. GORDON: Usually that is the case.

(The committee suspended its proceedings for a division in the House).

Upon resuming.

The CHAIRMAN: We have a quorum and I believe Mr. Bell has a question he wishes to ask.

Mr. BELL: I just wanted to pursue this abandonment business a little further. You mentioned 1,092 miles in a certain period. I was wondering if you could tell me the number of subdivisions such as three years ago, two years ago, and this year.

Mr. GORDON: The figure I gave you, I think, was 1,092 miles.

Mr. BELL: Yes.

Mr. GORDON: I can give you that in five-year intervals. Would that suit your purpose?

Mr. BELL: I wanted to know the number of subdivisions or the number of applications. I am not interested in the mileage.

Mr. GORDON: I have two pages here. Would it suit your purpose if I should table them?

Mr. BELL: Is there any pattern being established in the way of applications, are they increasing in recent years? Do you admit that?

Mr. GORDON: No. I could not say that they are increasing in recent years. I would say that there have been a number which have been in for a long time and which we are now beginning to get consideration because we are pressing the matter before the Board of Transport Commissioners. This figure I gave you covered the period from 1927 to 1954, and there have been a lot of ups and downs in the economy during that period of time. I have

here a list of the individual lines which have been abandoned in the period that I mentioned. Perhaps it would suit your purpose best if I tabled it with the clerk.

The CHAIRMAN: I think that has been done before.

Mr. BELL: Yes.

(See Appendix A to minutes of proceedings and evidence No. 3).

Following that up, would you not say that there is a definite tie-in with a number of applications and the general position of the railway? In other words, when times are tough there is a tendency to step-up the applications?

Mr. GORDON: Well, that is one of those generalizations which I do not like to agree with too definitely. But I think it is fair to say that at times when the earning position is bad, naturally the officers are searching for every possible economy perhaps with a little more vigilance than they would when times are good. That is not the policy. The policy is that we should keep up a search all the time for those unprofitable lines when the conditions are such as I mentioned earlier, that economic justification for their continuation just does not exist.

Mr. BELL: I take the case of a line which was taken over by the Canadian National Railways, and which was owned by various communities in the province. It is an old line. They have carefully gone into the applications which might still exist, and the various people or communities. In other words, there were outstanding bonds, or bonds generally outstanding.

Mr. GORDON: That would not affect this at all because there are no bonds of any kind of the Canadian National Railway system which do not represent an obligation of the system with a guarantee of the Dominion of Canada.

Mr. BELL: That is actually gone into in each case?

Mr. GORDON: Yes. I should make it clear that this figure I gave you of 1,092 miles perhaps distorts the general situation. You may remember that in the period 1927 through to, let us say, 1934 and perhaps into 1935 the Canadian National system as such was taking form and we were amalgamating six competing lines which, as you know, had gone bankrupt; so that included in those abandonments were quite a mileage released by amalgamation if we investigate them and deal with them on a mileage basis and they are included in those abandonments. You would have to go into more research work than I have given you to form a view on that.

In the period 1935 to 1939 there were 330 miles of the 1,092 abandoned in that period alone and in the period from 1927 to 1934 there was a total of 335 miles, so in the whole part of the formation of the Canadian National system you will find a total there of between 600 to 700 of the 1,092 miles that I have referred to.

Mr. BELL: Do you have any other figures on lines in the states? I suppose the Canadian Pacific Railway is not a good example, but in the states have you any figures of lines being discontinued? I don't mean definite figures, but is there a policy or trend?

Mr. GORDON: There has been a very definite policy there. I don't have the figures with me but anyone who has even the barest acquaintance with American railways soon will know that there has been a trend in respect of unprofitable lines and there have been some very acrimonious debates take place in respect of them. But actually the same policy has taken place there to reduce the number of unprofitable branch lines.

Mr. BELL: Do you have any idea of the money that is saved if these abandonments are approved?

Mr. GORDON: Yes, I gave that a little earlier, I thought.

Mr. FULTON: I think it was only on the one line, Mr. Gordon, you gave us a figure of \$97,000.

Mr. GORDON: No, I gave you the figures on the three applications that were approved by the Board of Transport Commissioners. I have them here. I will give them to you. The three applications which have been recently approved by the Board of Transport Commissioners will show us a saving of \$80,000 plus de Scotia to Falding one which I have referred to in this report which was \$97,000, altogether about \$200,000 on applications now approved. There are two other cases where we would expect to find a saving of about \$370,000 per annum.

Mr. BELL: May I just ask one question? When do you think this policy will perhaps change? I mean if the position of the railway became better in a couple of years and even though these lines were still losing to the railway would there be some tendency to drop the applications?

Mr. GORDON: No, because those applications are made on their own merits regardless of the general prosperity of the railway. I think also that in periods of bad or really bad earnings there might be a disposition to search a little harder but apart from that the policy is that we maintain a careful scrutiny all the time to keep ourselves up to date on the abolishing of lines where the economic justification has ceased.

Mr. BELL: These lines, they do go into them very extensively and I believe there is the question of service in the whole business but I believe when examinations are made and the applications for discontinuance are going through whether the press might understand the judgment of the Board of Transport Commissioners or not, they seem to exaggerate them—\$500,000 to be saved here, or \$30,000 to be saved there, and it sort of creates a bad impression. I am just passing that along.

Mr. GORDON: Yes, it is traditional in these cases, of course, that people who insist that a passenger service is necessary will almost invariably drive in their own automobiles to the court house to so allege.

Mr. BELL: That is so, and there is one other thing I think consideration should be given to and that is the general position of the revenue of the region should be considered in each of these applications. It is hard to get separate figures but, for example, a line was discontinued in New Brunswick when it was unprofitable and yet no figures were made available for the entire region. Now, the region there might be a very profitable one—I don't imagine it is but it could be a very profitable one—and that has to be carried by the people of that area. Perhaps, I say, that should be given consideration in that respect.

Mr. GORDON: I would remind you that the cause of any particular loss is dealt with by the Board of Transport Commissioners and they have very much in mind the public interest and they do assert jurisdiction to inquire into anything at all which they think might be pertinent to the particular case. Each abandonment case is dealt with on its own merits, and I can assure you that the going over which the railway gets during a Board of Transport hearing would leave very little to be desired.

Mr. CHURCHILL: How many applications for abandonment of lines have been refused by the Board of Transport Commissioners during the last few years?

Mr. GORDON: I would say, quite a number, but I have no specific data on that. We keep records only of our successes in this field.

Mr. BELL: Can you tell me how these are refused? Is a formal announcement made?

Mr. GORDON: Yes, the Board of Transport Commissioners hands down a judgment in every case. It reviews the evidence and makes to all intents and purposes a judgment in the form of a court hearing, stating that it has come to the conclusion either for or against. It is a detailed document and is available to anybody who is interested in looking at any particular case.

Mr. BELL: How long do you have to wait before you can re-apply?

Mr. GORDON: So far as I know, there is no statutory requirement on that. It is only the requirement of common sense. If the line is still a bad line, we might return to the fray when we feel that the situation has cooled down a little.

Mr. FULTON: Or when there are new facts to present?

Mr. GORDON: Or when there are new facts to present.

Mr. BELL: Is it not a fact that you have these abandonment plans in your mind? In other words, a line becomes a bad one in perhaps twenty years, and you have let the line run down because it is not profitable and the capacity has decreased; all the time the company keeps it in mind?

Mr. GORDON: I must assure you that we do not approach the problem of abandonment with any glee. We do not like abandoning lines. It is a confession of failure, in a sense. We search out every possible way to rehabilitate the line or keep it going, which includes efforts to get new industries on the line and everything of that kind. We do not go at this with any idea that we are glad to see these lines abandoned; far from it.

Mr. BELL: The tracks are pulled right out in most cases?

Mr. GORDON: Yes. We get different types of abandonment. For instance, we might degrade the service, if I may use the word, and replace a passenger service with a mixed train, or run a service three times a week instead of every day. We do not go for full abandonment in every case. We consider the needs of the situation and adjust ourselves to them.

The CHAIRMAN: Shall the item carry?

Mr. JOHNSTON (*Bow River*): No, I have a question. I should like to have some information regarding this trailer on the flat car service. Could you tell us, Mr. Gordon, how these contracts are carried out where the trailers are carried on flat cars; is that by an agreed charge?

Mr. GORDON: No.

Mr. JOHNSTON (*Bow River*): Is the trailer system on a separate basis from the rolling stock of the railway?

Mr. GORDON: No, all that takes place is that we quote a price per carload or trailer lots, available to a shipper in the cities of Montreal, Toronto or Hamilton, as the case may be. If you were a shipper and wanted to take advantage of the service, you would simply call our freight department and say, "I have a trailer load of goods". Let us say that it is groceries. We would pick that up at your warehouse in Montreal or wherever the place may be. The goods will be loaded in the trailer and hauled down to the freight siding in Montreal. The trailer is then pushed up on to the flat car, fastened down and moved to Toronto by rail.

Mr. JOHNSTON (*Bow River*): Is that the same rate as the ordinary rate?

Mr. GORDON: No. It is a special rate for trailer-on-flats. It is quoted in the tariff.

Mr. JOHNSTON (*Bow River*): It is an agreed charge?

Mr. GORDON: No. It is simply a tariff in the same way we quote a rate for any dispatch of goods. We will move a trailer load of goods at a specific rate just the same as we will move any unit for any shipper.

Mr. JOHNSTON (*Bow River*): Would you give that same rate to any trucking concern?

Mr. GORDON: Not to any trucking concern. We will give that rate to people who wish to ship goods.

Mr. JOHNSTON (*Bow River*): Is it not a fact that if a trucking concern came to you and wanted to ship a trailer on one of those flat cars you would have to take that at the same rate as you do others?

Mr. GORDON: No. We are not obligated and have no tariff for that.

Mr. JOHNSTON (*Bow River*): Would that not constitute a rather unfair practice?

Mr. GORDON: I cannot see why. They are in competition with us. They are using their own trucks to move the goods from Montreal to Toronto and you suggest that we should take their trucks on our train.

Mr. JOHNSTON (*Bow River*): If they pay the regular rates.

Mr. GORDON: There are no rates for that. These are our own trailers. We perform a service by providing a trailer and allowing the shipper to ship in the trailer loads I have referred to.

Mr. JOHNSTON (*Bow River*): Could the trucking industry hire a flat car from you and put their own trailer on that flat car?

Mr. GORDON: We have not quoted a rate for that. We are only dealing with our own trailers.

Mr. JOHNSTON (*Bow River*): Is it possible for them to do that?

Mr. GORDON: No.

The CHAIRMAN: That has been answered before.

Mr. GORDON: All that we are selling is the use of our own equipment in our own service.

Mr. JOHNSTON (*Bow River*): In effect, I understand you to say that you have created this service in a hope of creating further competition with the trucking industry?

Mr. GORDON: That is right.

Mr. JOHNSTON (*Bow River*): And it is a service you do not intend to extend to any other similar organization other than the one that you have yourself?

Mr. GORDON: It is a railway service; it is our own service.

Mr. CARRICK: To make it parallel, if a trucker wanted to employ one of your trailers to pick up the goods and ship the goods you would do that for that trucker the same as for any other customer?

Mr. GORDON: No. We are offering our trailer service on the basis of going to a particular shipper at his warehouse and letting him load his goods on our trailer.

Mr. JOHNSTON (*Bow River*): Supposing I was a trucker and had a trailer load of food, or whatever it happened to be, and I wanted to ship it from Toronto to Montreal, and I am stationed in Toronto, and I go to you and ask you to send your trailer down to get this truck load and send it on your service to Montreal, would you do that at the same rate you haul your own?

Mr. GORDON: That is a hypothetical question of a category that will never arise. The person you are referring to would never unload out of his trailer into ours in order to transport over the railway.

Mr. JOHNSTON (*Bow River*): Say they have a building where they go to load up material. He could easily, if you extended the service to him and your rates were such that you entered into complete competition with him, ask you to come down with your trailer and take the goods to Montreal if your rates were lower than his.

Mr. GORDON: I think that there is a confusion between the shipper and the trucker. The shipper in business manufacturing or distributing goods can call us for our service and we will go with a trailer and load up his goods and transport them. The trucker is not a shipper. He is a person offering transportation to a shipper in competition with the railway and when he loads his trailer or truck it is up to the trucker to handle his own means of transport. You must not confuse the shipper with the trucker. The trucker is in competition with the railway, but the shipper is not.

Mr. JOHNSTON (*Bow River*): Would it make any difference with the railway who has the goods to ship as long as they are goods to ship, and as long as the railway gets paid for that service.

Mr. GORDON: We are selling a transportation service and we want to go to the shipper and say: if you will use our trailer service we will offer you that service at a rate which will bring business to the railway.

Mr. JOHNSTON (*Bow River*): That is an agreed charge.

Mr. GORDON: No.

Mr. JOHNSTON (*Bow River*): It is exactly the same principle.

Mr. GORDON: Absolutely not, there is no condition affecting the percentage of goods to be shipped by rail, as there is in the case of an agreed charge.

Mr. JOHNSTON (*Bow River*): Can you justify it between shippers? Has the railway got the right to say that I am not a shipper, as long as I have goods in my warehouse. Is it any business—I do not use that word to be rude at all—but is it any business of the railways who owns those goods as long as your trailer comes to my warehouse and you load up with the goods and I pay you for it? I pay you the same rate as you charge to other people for a similar service?

Mr. GORDON: We will carry anybody's goods in our trailers who want that service, but we will not carry our competitor's trailers or trucks.

Mr. JOHNSTON (*Bow River*): Now then, do I get this clearly: even if I am a trucker and I have a warehouse and I have goods to ship, you will not come and take my goods in your truck and ship them on your flat cars to Montreal and deliver them to the destinations which I give you at the same rate as you would for some other wholesaler who has goods to ship?

Mr. GORDON: I do not understand where the trucker gets the goods. Is he in business or what?

Mr. JOHNSTON (*Bow River*): That is none of the railway's business. I have got the goods.

Mr. GORDON: Oh yes it is. We are in competition and if the trucker that you refer to is a commercial trucker who is providing a transportation service, then we are not prepared to quote a rate to perform his transportation service with our facilities.

Mr. JOHNSTON (*Bow River*): But you would go to the other company and you would give them a special rate if they would accept your service?

Mr. GORDON: The rate is the rate quoted in the tariff for anybody who can qualify for the use of our trailer service.

Mr. JOHNSTON (*Bow River*): For that special service?

Mr. GORDON: Yes.

Mr. JOHNSTON (*Bow River*): So it is an agreed charge?

Hon. Mr. MARLER: No, it is not an agreed charge.

Mr. GORDON: There is not the slightest similarity between that and an agreed charge.

Mr. JOHNSTON (*Bow River*): Are you going to tell me that because I happen to have a warehouse and a truck of my own—are you going to say to me: we cannot carry your goods?

Mr. HARRISON: But they are not your goods, they are somebody else's goods.

Mr. JOHNSTON (*Bow River*): I am making the deal with the railway.

Mr. GORDON: There are all sorts and types of conditions. We have a service which is known today as the trailer service, but it is not a forwarding service. There are firms which collect less than car load lots of goods and take them to a central warehouse where they assembled them in carload quantities, and they get from the railway a car load rate. They make their money on the difference between the LCL and the car load rate, and they are providing a service. We will shunt cars into that warehouse on a siding and the forwarding agent will load the cars and perform his service.

Mr. JOHNSTON (*Bow River*): You won't do that for me if I had two or three, or three or four big trucks?

Mr. GORDON: We will not carry your trucks.

Mr. JOHNSTON (*Bow River*): I have a warehouse and several small trucks as well as large trailers, and I go around the city and say that I have a car load rate and I ask you for that service.

Mr. GORDON: Yes.

Mr. JOHNSTON (*Bow River*): Because I have trailer trucks of my own; and I will say that I have a trucking business.

Mr. GORDON: No.

Mr. JOHNSTON (*Bow River*): You say you will not haul my cars?

Mr. GORDON: We are talking about equipment loaded on our flat cars. Equipment which is loaded on our flat cars is specialized equipment which is built for our own purpose and designed to fit the flat cars. There is no person I know of who has a trailer which would meet the specifications which would make it suitable for loading on our flat cars. It is our own specialized equipment.

Mr. JOHNSTON (*Bow River*): I want you to use your specialized trailer. That is the trailer which is so fitted that it can go on to your specially equipped flat cars; and if I have a warehouse for my goods, no matter where they came from, and I ask you to take it in with your special trailers and carry those goods to Montreal with your specialized trailer flat cars, and deliver them at a destination there. Do I get that special rate?

Mr. GORDON: No.

Mr. JOHNSTON (*Bow River*): Then you are putting the railways in a position where they themselves say who is a private dealer in goods or not or whether I have a trucking business or not.

Mr. GORDON: The conditions under which we will provide trailer service are printed in the tariffs. That service is available to the public who qualify. The trailer service is not available to commercial carriers.

Mr. JOHNSTON (*Bow River*): Would not you say that was discrimination against the truckers?

Mr. GORDON: No. Would you reverse the situation and expect the railway to go to the trucker and expect the trucker to carry goods which are going on the railways?

Mr. JOHNSTON (*Bow River*): I didn't say I would but I have that right.

Mr. GORDON: Well, we can't insist on it. The trucker is running his own business. You are suggesting in the reverse that I should be in the position as a railroader with relation to some of the goods you have that I have to take them.

Mr. FULTON: The answer is anyway that trucker would not stay in business very long if you did consent because he has goods at his warehouses, he has charged for his services, people from whom he collects and to whom he delivers them in another city. Then he goes to you and says, "Will you carry these goods for me?" And you pick up the goods on your trailer, you load them on your flat car, you take them to the other city and you deliver them there at the address that he gives you and you charge him the charge that you would charge to any other customer asking you to provide that service. All right, the trucker then has to charge his customer a service charge, he has to pay you your charge. Therefore he has got to charge his customer more than you would charge the customer for rendering the same service so he would be out of business right away.

Mr. GORDON: Yes.

Mr. JOHNSTON (*Bow River*): It is his own business and it does not matter whether he makes money or not. All I am asking is, is the business available?

Mr. POULIOT: I would like to know if I have understood what has been said since we came back here.

The CHAIRMAN: Shall we carry the heading "Service changes"?

Mr. POULIOT: My understanding is that the service described by Mr. Gordon is similar to the express service, that it is different only that they handle the goods on trailers instead of trucks and that they use trailers instead of express cars and they get the goods from their shipper, they deliver them to the consignee and the only difference between the trailer service and the express service is that the rates are different and that the rates of the trailer service are freight rates. Is that right, Mr. Gordon?

Mr. GORDON: I think I can agree with that.

Mr. POULIOT: Therefore I have understood. I am very glad.

Mr. FULTON: Then to carry this one stage further, if that trucker that Mr. Johnston has referred to became in fact a shipper would you not agree to take his goods?

Mr. GORDON: Well, I can think of circumstances where we could. These hypothetical questions are very difficult to answer. Essentially the trailer service is a door to door service. We pick up at the point of shipment, we load on the flat car and deliver to the address in Toronto or Montreal, as the case may be. It is a door to door service. It is not intended to form part of the transportation service of a competitor.

Mr. FULTON: But the situation, Mr. Johnston has put to you is in fact that the hypothetical trucker becomes a shipper?

Hon. Mr. MARLER: That is hypothetical, isn't it?

Mr. GORDON: I can't imagine how it would arise, but if we did have a person who was both a trucker and a shipper I don't see why he would be operating as a trucker.

Mr. FULTON: Exactly, he would not be in business very long.

Mr. JOHNSTON (*Bow River*): I can see how it might happen very easily if you are considering a transcontinental trailer line by reason of the fact that in Alberta they wish to take goods from the Canadian Pacific to carry them to the Canadian National Railways line and have you transport them from, let us say, Edmonton through the mountains to Vancouver because we have not got a good road through the mountains to Vancouver. Even at that it would be cheaper than delivering it through the United States. I am wondering whether that would be possible.

Mr. GORDON: And you can also see where the railway should not do it because that allows our competitor to extend his advantage at the expense of the railway.

Mr. JOHNSTON (*Bow River*): I can also see where it is the railway's business to transport goods no matter where they get them from.

Mr. GORDON: At a profit.

Mr. JOHNSTON (*Bow River*): Well, you are getting your profit out of it because he is being charged the same charge you would get from anyone else, let us say, from a Calgary destination.

The CHAIRMAN: Shall service changes carry?

Mr. CHURCHILL: I have a service change to recommend. It will not take more than a minute. It is in connection with the Ottawa station. I do not know whether the intention is eventually to move that station, but before it is moved could you not improve, for the benefit of the travelling public, the baggage handling in the Ottawa station? I make no complaint against the employees there, but it seems to me that it is much different from baggage handling in other stations which I visit from time to time. In other stations there is a rack for the placing of baggage immediately behind the counter. You put your baggage on the counter, and the man puts it on the rack behind and hands you a ticket stub. In the Ottawa station he takes the baggage from you, puts it on the floor, walks away over to a desk, takes several minutes to write out the information on the ticket stub and brings it back to you. Then, when you go to receive your baggage, it is a very friendly place, and you can wander in the baggage room and select your own baggage and have it brought to the counter. That, I suggest, is not quite as modern a method as they have at other stations.

Mr. GORDON: I shall be glad to take notice of your criticism.

Mr. POULIOT: What is the percentage of over-charge over freight rates for picking up and delivering goods in that trailer service?

Mr. GORDON: I have not a copy of the tariff, but there is a tariff which specifically refers to the point you have in mind.

Mr. POULIOT: You do not do that gratis?

Hon. Mr. MARLER: There is a higher rate.

Mr. GORDON: The trailer service is an all-in rate because we quote picking up the goods at the point desired and delivering them to the ultimate address.

Mr. POULIOT: It is a little more than the freight rate, to cover picking up and delivering?

Mr. GORDON: That is included in the rates. Of course, we are quoting here minimum rates, which will ensure a large volume, so that I cannot say in a general way that it is necessarily higher than other rates. In some cases it may be lower, but we are after a high volume.

Mr. POULIOT: I have one last question. Do you pick up goods from several shippers to several consignees, or is the trailer rented by one shipper for goods to be conveyed to one consignee?

Mr. GORDON: The intention is where possible to use the trailer service to deal with one shipper or one consignee. We get a full load, in other words. We prefer not to use the trailer in the same way as a forwarding service. In other words, we do not try to pick up a series of deliveries and put them together, because we would lose the advantage of the big load and the single delivery, which gives us our economy.

Mr. POULIOT: That is the only difference from the express service?

Mr. GORDON: It is. The express service, of course, depends on smaller amounts, generally, although we can quote on express service on full loads. We usually take smaller amounts.

Mr. JOHNSTON (*Bow River*): Does that trailer service show a profit?

Mr. GORDON: Yes.

Mr. POULIOT: Does that trailer service show a profit?

Mr. GORDON: It is a compensatory rate.

The CHAIRMAN: Shall the item carry?

Carried.

I might remind members that we will meet tomorrow morning at 10.00 o'clock until 11.45, and at 11.45 we will assemble at the main entrance where a bus will be available for those who have accepted Mr. McGregor's invitation.

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Dr. David G.

HOUSE OF COMMONS

Second Session—Twenty-Second Parliament

1955

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

Chairman: HARRY P. CAVERS, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

WEDNESDAY, MARCH 30, 1955

C.N.R. ANNUAL REPORT (1954)

WITNESSES:

Mr. Donald Gordon, C.M.G., LL.D.; Mr. S. F. Dingle; Mr. R. D. Armstrong.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1955.

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, operated and controlled by the Government

Chairman: H. P. CAVERS, Esq.,

Vice-Chairman: A. DUMAS, Esq.

and

Messrs.

Bell	Hamilton (York West)	Knight
Carrick	Hamilton (Notre-Dame de Grace)	Langlois (Gaspé)
Carter	Hanna	Lavigne
Churchill	Harrison	Légaré
Fairey	Healy	McCulloch (Pictou)
Follwell	James	Murphy (Westmorland)
Fulton	Johnston (Bow River)	Pouliot
Gillis		Weaver—26
Hahn		

Antonio Plouffe
Clerk of the Committee

MINUTES OF THE PROCEEDINGS

WEDNESDAY, March 30, 1955.

(4)

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government met at 10.00 o'clock a.m. this day. Mr. Harry P. Cavers, Chairman, presided.

Members present: Messrs. Bell, Carrick, Carter, Cavers, Churchill, Dumas, Fairey, Follwell, Fulton, Gillis, Hahn, Hamilton (*Notre-Dame de Grâce*), Hanna, Harrison, Healy, James, Johnston (*Bow River*), Knight, Langlois (*Gaspé*), Lavigne, Légaré, Macdonnell (*Greenwood*), McCulloch (*Pictou*), Murphy (*Westmorland*), Pouliot and Weaver. (26)

In attendance: Honourable George C. Marler, Minister of Transport; Mr. F. T. Collins, Comptroller and Secretary, Department of Transport; Mr. Donald Gordon, President of the Canadian National Railways and Chairman of the Board; Mr. S. F. Dingle, Vice-President; Mr. R. D. Armstrong, Comptroller. Also Messrs. F. P. Turville, C. A., J. D. Morison, C.A., D. T. G. Padley, C.A., of George A. Touche and Company, Chartered Accountants.

Mr. Gordon's examination was continued:

At 1.05 o'clock p.m., the Committee adjourned until 3.30 o'clock p.m. this day.

AFTERNOON SITTING

(5)

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government met at 3.30 o'clock p.m. this day. Mr. Harry P. Cavers, Chairman, presided.

Members present: Messrs. Bell, Carrick, Carter, Cavers, Churchill, Dumas, Fairey, Follwell, Fulton, Gillis, Hahn, Hamilton (*Notre-Dame de Grâce*), Hanna, Healy, James, Johnston (*Bow River*), Knight, Langlois (*Gaspé*), Lavigne, Légaré, Macdonnell (*Greenwood*), McCulloch (*Pictou*), Murphy (*Westmorland*), Weaver. (24)

In attendance: Same as listed at the morning sitting.

On a question of privilege, Mr. Macdonnell (*Greenwood*) referred to commutation fares on the Oakville service.

Honourable Mr. Marler made a statement thereon as did Mr. Gordon.

Reverting to the sale of four hotels, Mr. Gordon stated that after reviewing the matter and after communicating with the purchaser and the Syndicate he represented, he was free to disclose the sale price which was \$915,000. He outlined the details of this sale.

Mr. Marler also made a statement.

Mr. Gordon then read a statement on the new Queen Elizabeth Hotel and was questioned at some considerable length thereon.

Before adjournment, Mr. Fulton reserved his right to present a motion dealing with the percentage basis under which the Hilton Corporation is operating.

Mr. Gordon's examination still continuing, the Committee adjourned at 6 o'clock p.m., until Thursday, March 31st, at 10.30 o'clock a.m.

Antonio Plouffe,
Clerk of the Committee.

EVIDENCE

Wednesday, March 30, 1955.

The CHAIRMAN: Gentlemen, I think we have a quorum, so we will start right away on the item on page 11, "Employee training." Are there any questions on that item or shall that item carry?

Mr. MURPHY (*Westmorland*): Just a moment, you are going too fast for us today. You are going faster than the train went last week.

The CHAIRMAN: Page 11, "Employee training," carried?
Carried.

The item "Research" on page 11, carried?
Carried.

"Capital additions and improvements."

Mr. FULTON: We have had most of the discussion under another item.

The CHAIRMAN: I think we have had a large part of this under other items.

Mr. FULTON: Yes, but I wanted to ask Mr. Gordon whether in view of his statement that the schedule of the new Super Continental is designed to give the maximum service to communities why is it not found possible to serve the communities in central British Columbia at a more reasonable hour than will be the case with that schedule?

Mr. GORDON: Sorry, I didn't hear you.

Mr. FULTON: You said yesterday in your schedules in working out the time-tables for the new trains you were not so concerned with over-all speed but in servicing the communities where at all possible?

Mr. GORDON: That is right.

Mr. FULTON: It seems that the new schedule will involve very inconvenient service to the people of British Columbia. I am thinking of my own community particularly. We have always had to get up in the middle of the night to catch a train.

Mr. GORDON: Well, I said we aimed where possible towards giving the best service possible to the main communities traversed by the transcontinental and if you will look at the schedule you will see that we have accomplished this within practical possibilities.

Mr. FULTON: What time are we going to get your trains on the eastbound?

Mr. GORDON: What particular place did you have in mind?

Mr. FULTON: Kamloops.

Mr. GORDON: We would leave Kamloops Junction at 10.50 p.m.

Mr. FULTON: Eastbound?

Mr. GORDON: Eastbound.

Mr. FULTON: Well, that is better.

Mr. GORDON: It should help a lot.

Mr. FULTON: Yes, it is better eastbound. I suppose we can't expect it both ways, Mr. Gordon. I wish we could get it.

The CHAIRMAN: You are usually eastbound anyway.

Mr. FULTON: Is this Super Continental to be an additional train or a stepped-up version of the Continental Limited?

Mr. GORDON: It is a new train in the sense that it is streamlined for the purpose of speed and will be followed up by what we could call a work train, No. 3. No. 1 would be the Super Continental for the purpose of making this fast trip and that will leave Montreal at 3.25 p.m. and the evening train will leave at 8.00 p.m. on the same day and will maintain by and large the same schedule as the present and will carry the bulk of the coach traffic and most of the head-end equipment.

Mr. FULTON: This is an additional train as well as a new train then, is it not?

Mr. GORDON: No, because we always had two trains.

Mr. FULTON: One was from Montreal and the other from Toronto. We didn't surely have two transcontinental from Montreal?

Mr. GORDON: Well, we always had two trains and what we have done here is schedule the Super Continental so that to keep this speed, one section will start from Montreal and one section will start from Toronto; the sections will meet at Capreol, amalgamate there and proceed west as one train. A similar condition applies with the train that leaves in the evening. Sections will leave Montreal and Toronto and meet at Capreol and go on as one train.

Mr. FULTON: So the effect is you will still have two trains?

Mr. GORDON: Yes.

Mr. FULTON: That is what you used to have?

Mr. GORDON: That is right.

Mr. BELL: A statement was made, Mr. Gordon, at the time of the announcement of the Super Continental that more diesel locomotives would be required even though we were stepping up the service. How do you figure that out without going into all the details?

Mr. GORDON: More diesel locomotives would be required?

Mr. BELL: Yes, I think so. Would you say it would be less then; In other words will the stepped-up service mean more or less diesels?

Mr. GORDON: You understand, of course, that in putting this passenger service on we have had to buy new passenger diesels; in other words, the ordinary diesel locomotive that we buy is not equipped with heating facilities that would be appropriate for a passenger train, so in putting this service on it is all new diesel passenger locomotives.

Mr. BELL: Theoretically the same number of locomotives will be required then, will it, in the new service?

Mr. GORDON: As in steam?

Mr. BELL: Yes.

Mr. GORDON: Oh, no, we can run a diesel locomotive right clear through from Montreal to Vancouver and back again, whereas a steam locomotive has to be put off at various points for servicing. All we have to do with diesel locomotives is the ordinary servicing in the matter of providing fuel oil and a very quick check over but we can run from Montreal to Vancouver clear through and back with a diesel locomotive. That is impossible with a steam locomotive.

Mr. BELL: Then eventually this will mean a much lesser number of locomotives?

Mr. GORDON: Yes. Actually in the chain for the transcontinental that would be true, yes.

Mr. MURPHY (*Westmorland*): Mr. Chairman, I wanted to inquire. There are two trains leave every night, are there not, the Ocean Limited and the Scotian Limited at 8.00 and 8.15?

Mr. GORDON: Yes.

Mr. MURPHY (*Westmorland*): Why do they leave so close together?

Mr. GORDON: Mr. Dingle will be in a position to answer that.

Mr. DINGLE: The Ocean Limited, which leaves at 8.00 o'clock at the present time, is a through train with limited stops; no coaches and limited head-end equipment, while the other train is more of a work train and leaves fifteen minutes later, and does more of the local work, including handling of head-end and coach traffic.

Mr. POULIOT: I suppose there are express cars on the Ocean Limited?

Mr. DINGLE: Yes, there are, Mr. Pouliot, through cars.

Mr. POULIOT: Sometimes there are three or four?

Mr. DINGLE: That is right.

Mr. POULIOT: That load makes no difference, that load of three or four cars?

M. DINGLE: No, sir.

Mr. FULTON: I wonder whether Mr. Gordon can say whether the reduction in time between Montreal and Vancouver is effected mainly by an increase in the physical speed or largely by cutting down the stops and the maintenance stops?

Mr. GORDON: It is a combination of a number of factors, but the main saving, as I understand it, is in the station time and in the fact that the diesel does not require as much servicing as a steam locomotive. We can get higher utilization of the diesel and thus cut down our station stops and our service stops.

Mr. FULTON: You said last year, Mr. Gordon—

Mr. GORDON: Mr. Dingle calls my attention to the fact that at the moment we have not increased our over-all speeds.

Mr. FULTON: You have not?

Mr. GORDON: We have not increased the over-all speed. It is that saving of time that we get in the handling of diesel locomotives that enables us to cut down the time. As our track improves and as we can gain experience with these passenger locomotives it might be that we can effect even further reductions, but at the moment we have done what we think is practical and wise.

Mr. MACDONNELL (*Greenwood*): You do not aim at 200 miles an hour as they do in France?

Mr. GORDON: We have not the roadbed to do that, Mr. Macdonnell.

Mr. FULTON: Last year, I am reading from page 103, when you were discussing reducing your running time from Montreal to Vancouver you said it would—

Almost require an additional train at a capital cost of \$2 million or more to improve that service. Therefore, all I can say to you at the moment is that we have to convince ourselves that this kind of reduction in time between Montreal and Vancouver would produce a type of traffic which would justify our committing that large amount of additional capital.

And then you went on to explain some other features.

Mr. GORDON: Well, we have changed our minds a good deal since then. This has been under very active study for some time and the first schedule

we looked at indicated that to effect a speed reduction, of the character we have now been able to effect, it would have taken us another train set, but after practical tests on diesel performance we were able to come up with an entirely new approach, and so we were able to amalgamate those two trains, and avoid putting on another train set.

Mr. FULTON: You have had to buy a lot of new equipment. You have bought a lot of new equipment. Would that approach the \$2 million figure that you mentioned last year?

Mr. GORDON: The \$2 million or more I referred to is the estimated cost for a locomotive plus the average number of coaches, sleepers and so on. That is the laid-down cost of what we call a train set. Now, when I was speaking to you last year, we were at a stage of examination when operating officers had not had the experience of actual testing, but were just doing it on paper. They felt that if we were going to make a through train as speedy as we are now doing, we would have to put on a new train set and eliminate quite a number of intermediate stops. But after getting tests with diesels, they were able, by means of a good deal of contrivance, to amalgamate the services. So we have put on those fast trains to get through as speedily as possible, and to leave the intermediate work for the work train which goes along later at night.

Mr. FULTON: \$2 million was put in last year in this context, and it would have been expended over and above the actual capital cost of the equipment?

Mr. GORDON: That is correct, but it does not apply to the new service now. We have cut down our feared estimate, if I may call it that. The additional cost will be \$285,000 to put on this fast service.

Mr. FULTON: What has been the experience in the United States with their speedier trains? Have they been operating at or near full capacity?

Mr. GORDON: It varies tremendously, depending on the line. There have been some lines where they have had good results. I think it is too early yet to get a pattern on it, because a lot of this new approach to the passenger service is in the nature of innovations over the last couple of years. The competition angle in passenger service has been intensive in that particular respect. In addition, airlines are in competition. I think it is too early for me to be definite on it. But in my reading of the material, it seems to me there has been quite spotty performance. It varies considerably with the line concerned.

Mr. FULTON: Some lines have a running time of 36 hours between the Pacific coast and Chicago. Do you think that the physical obstacles we have in Canada would ever be overcome in order to give us a comparable time between, let us say, Vancouver and Toronto?

Mr. GORDON: What do you think of that, Mr. Dingle? We could improve our speed so far as motive power is concerned, but our big handicap at the moment is our track structure. We have not got a track structure that we could feel safe with in operating at speeds beyond what we have scheduled for this new service.

The capital money which we have voted from time to time for track structure is a very important part of our capital budget. It is a matter of slow growth, I am afraid; and coupled with that, is the very expensive matter of adequate signalling installations. I do not think we would ever feel safe to improve our speed to the degree you are suggesting until we have substantially improved our road beds, and until we have installed power signalling on a larger portion of our line.

Mr. FULTON: What factors would be required to justify that sort of expenditure? Do your officials feel that with the present population of Canada—supposing you wished to provide it at the present time—would such an expenditure be justified?

Mr. GORDON: I think it will be justified in time, but it is a matter of timing. It seems to me that this country is entitled to expect a high standard of railway service. Now, as I mentioned earlier in discussing our results for the year, we have not been able, really, for quite a few years—since the war years in fact—to get the necessary labour or materials to put our road structure in anything like the condition we would want to see it. All during the war years steel was not available. Last year was the first year in which we have been able to carry out a planned track program.

We have come here year after year with a planned program for rehabilitation of our track, for new rails and so forth, and it has been aimed at the limit at which our officials feel they could handle it. But there is a maximum limit after all to what we can tackle in the matter of organization and getting work done.

Year after year you have been good enough to vote us the money, but year after year we have fallen short of our objective, largely due to the shortage of rail and the shortage of material of one kind or another. But the situation now is changing. Last year was the first year, in many years, that we actually carried out a planned program.

Mr. FULTON: So your whole program, as you envisage it, when completed, will bring about the circumstances under which you will be able to increase the speed?

Mr. GORDON: That is right. And in regard to the very expensive matter of power signalling, it becomes a matter of judgment as to how much we feel justified in spending on it, year after year. There is a tremendous job to be done there, and a very expensive one. Moreover, it is highly technical, and there are definite limits in regard to the number of technical staff which can be made available for it.

You have seen that particularly through the mountains where we have taken four or five years to put a program through there, and yet we still have another two years to go on it.

Mr. FULTON: Would it be fair to say that the program of improvements that you have now in mind will, when completed, result in increased speed for both passenger and freight? In other words, it would not be necessary for you to embark on a new program of improvements?

Mr. GORDON: No. The trend should be always towards improvement. And as we appear, year after year, before this committee, I would suggest that your concern is to make sure that we are going all out in getting that type of improvement. Again it has to be a matter of judgment as to how much money we feel we can spend, and if, under the circumstances, it is justified. Without any difficulty at all I can total up three or four hundred million dollars for you; but it becomes a matter of intelligent judgment as to just what we can do.

Mr. POULIOT: What will be the average speed of the Super Trans-Continental train?

Mr. DINGLE: Forty miles per hour over all, Montreal to Vancouver, including station times, servicing, etc.

Mr. GORDON: When we are talking of the average, that means that we would reach a top speed of eighty miles per hour in certain sections, and then run down to a speed below that in other sections, but averaging 40 miles per hour including station delays and everything else.

Mr. POULIOT: Now, I would like to have some information about the cost for the removal of snow this year. It must have been very much.

Mr. GORDON: I have not got the total for this year, but the total for last year is given, and it would be about the same.

Mr. POULIOT: This year I think it was worse.

Mr. GORDON: It was \$4,360,000 last year; and we have no reason to hope that it will be much less this year. We are still struggling with a very severe storm right now which will cost us anywhere from three to four hundred thousand dollars.

Mr. KNIGHT: Snow removal is heavier in the east than in the west, except in the Rockies.

Mr. GORDON: This year it has been, but it does not always follow that pattern.

The CHAIRMAN: Can we go to the next item? Motive power is carried—"Freight and Passenger Equipment"?

Mr. FOLLWELL: I was going to ask Mr. Gordon if the equipment on the super continental would be all new equipment, or would it be a similar type of equipment to the open dome advertised by the C.P.R.?

Mr. GORDON: We have no dome cars as provided by the C.P.R. We have decided not to go into that particular type on the super continental, but by and large the equipment will be new equipment. It will be either new—that is new in the sense that it has been just recently delivered—or modernized equipment that has been converted in our shops and is new to all intents and purposes.

Mr. FOLLWELL: Is it reasonable to ask why you have decided not to use open dome cars?

Mr. GORDON: That becomes a matter of judgment in regard to the appraisal of the situation. We felt, rightly or wrongly, that the additional money going into dome vistas was not justified in the light of passenger preference, that the number of occasions in this country when you could sit in comfort with dome vistas and see the surrounding countryside was relatively small, and that by and large we could spend money to better advantage in buying the equipment which we did. I know my C.P.R. friends will violently disagree with me, but it is a matter of judgment which the management had to decide upon, and we took the decision to spread our money as widely as possible in order to have modernized equipment in all our passenger services rather than concentrate it on a particular type of equipment dedicated to a particular service.

Mr. CARTER: In Newfoundland we still seem to be short of sufficient passenger equipment. Can you tell me something about your program this year to close the gap?

Mr. GORDON: In the matter of future purchases we would make better progress if that were dealt with under "Capital Budget". We will have the actual details at that time.

Mr. CARTER: There is another question which I should like to ask you. I probably should have asked it under "Research". Last year your research department put on an exhibition of a refrigerated box which was specially adapted for carrying unfrozen fish.

Mr. GORDON: Yes.

Mr. CARTER: Can you tell us what has happened since then?

Mr. GORDON: We have had quite a disappointing and quite an encouraging experience; it has been a mixture of both. The box which you refer to is known as the Canex box. It is a very ingenious proposition whereby, by use of a special type of refrigerant surrounding the box, we are able to keep

fresh fish at a temperature just below freezing point, namely, about 29 degrees. The temperature varies very little and the box will keep fish fresh, for about one hundred hours, even in very warm weather. The bacteriological condition in fish is such that the fish will warm up, even lying in ice, past the spoiling point, in a relatively short time. We think we have designed something here that is of real advantage. We have had a mixed reception, mostly, I should say, because it is a new idea to the trade and it is completely contrary to the manner in which fish has been marketed in the past. About a year ago I thought it was a failure. We had not been able to interest the trade in using the box or to pay any extra price, or even to give us extra business by reason of this specialized type of box. However, last week I was talking again with Mr. S. W. Fairweather, who is in charge of our research department, and he tells us that latterly there has been a demand from people who serve fish specialties, particularly in restaurants and so forth. There are a number of large users who are exhibiting an interest, and we are now hoping that we will get some of the distributors to increase their interest. I would rather not give the names of these people because they are in the process of considering it, and it would be unfair to make comparisons between them, but I have high hopes that in due course, when these people have themselves organized to serve Canex transported fish, it will have a consumer appeal in regard to flavour and otherwise, which will give us an interesting volume of business.

Mr. CARTER: Could you say whether some of these distributors, whom you do not wish to name, include distributors in Newfoundland who are interested in using this box?

Mr. GORDON: I cannot tell you that specifically, but my impression is that it applies to all of them. In distributing fish from the producer level right through to the retail trade there is an element in the trade covering the shrink, the spoiling. In our box there is no shrink, so that the distributor fails to get the advantage of the shrink in the matter of his price. That has been one of the factors militating against this. I am told that there have been tests from Newfoundland.

Mr. CARTER: I have a great interest in this box, because in Newfoundland processers are at a disadvantage as compared with the mainland processers in that the mainland people have a large market for unfrozen fish, which it costs them less to sell, and they get a better price for it on the market. I was hoping that this box would even up some of the disadvantages which Newfoundland processers have to suffer. I have one further question, Mr. Gordon. You have been thinking so far only about fish. In Newfoundland we have a good deal of trouble in getting in fresh fruit.

Mr. GORDON: Those boxes would be quite suitable for that purpose, too, but, of course, it is one thing for us to provide a transportation vehicle of which we are proud and which will do the job and move the perishable goods I have mentioned, whether it be fish or fruit or any other kind of perishable goods. But it is another story to get the trade to use it, and so far we have had disappointments for the reason that we have met with wholesaler resistance to using the Canex box in the distribution of fish. We have been doing quite a selling job in one way or another and we still have hopes that we will be able to put this patented device over, but it will depend on getting some response from the market itself.

Mr. CARTER: I was hoping to make a deal with the chairman, so that he would buy some of our fish and we would buy some of his fruit.

The CHAIRMAN: A good idea.

Mr. GORDON: One of the best things you can do is to get the consumers in Newfoundland to use Canex for fruit.

Mr. POULIOT: Can you use for fruit a box which has been used before for fish?

Mr. GORDON: Yes, properly cleaned. There is no trouble in the cleaning.

Mr. MACDONNELL (*Greenwood*): If this question has not already been asked, I should like to ask how much scientific research—as distinguished from economic research, which I presume you have to do yourself—you aim to do yourself, and how much you farm out. What is the policy? If that has been covered, I shall admit to being too late.

The CHAIRMAN: It has not been covered.

Mr. GORDON: I do not have conveniently a breakdown of what you have in mind with regard to scientific research. We have a laboratory in Montreal quite well equipped for the purpose of testing all sorts of materials and for the purpose of carrying out experiments. That would cover all sorts of equipment. If you would look at page 26 of the annual report, you will see a very interesting picture of the sort of thing we do. We carry on all sorts of quality control testing and we spend a fair amount of money on it. But I do not have a breakdown as to what actually goes into this particular phase of it.

Mr. CHURCHILL: Two or three years ago, I asked a question in regard to the retirement of the colonist cars. I note that there were 144 two years ago and a number were retired in 1953. 26 have been retired now apparently. If my recollection serves me correctly I think you said when I raised the question at that time that it was the intention of the railway to retire the colonist cars and replace them with other types.

The reason I raised the question at that time was that it was not long after a rather major disaster in the railway had occurred where colonist cars were involved and had telescoped and burned. My understanding was that they are the old largely frame construction car and are a dangerous type of car when accidents occur. My question at this moment is what is the policy with respect to replacing these colonist cars?

Mr. GORDON: The point is that colonist cars are only one of the types of cars we would like to get rid of. We have yet in service a great many wooden coaches which we are forced to use because we can only replace them gradually. Of the 118 colonist cars which you see in our inventory in service now, only 36 of those are wooden cars, the others are steel underframe.

Mr. CHURCHILL: My question then should refer to wooden cars.

Mr. GORDON: We have in the Canadian National a total of 490 wooden cars still in service. These are all wood cars. And these we are trying to replace on a program basis each year to the extent that I think our capital budget can stand it.

Mr. CHURCHILL: How long do you think it will take to replace them?

Mr. GORDON: Well, I would not like to give a firm estimate on it. It will take quite a few years. 490 cars are a lot of cars and when you figure the average cost of a coach now which is running to about \$135,000 for a day coach alone, and then when you multiply that by 500 you have quite an item.

Mr. CHURCHILL: But at the same time, you do recognize the danger?

Mr. GORDON: Yes, and we do keep them out of mainline high speed service. We use them almost entirely in branch line service where the speed hazard is not as great as on the high speed main line service. There are none of these wooden colonist cars on the main line.

Mr. CHURCHILL: I was on one not long ago coming to Ottawa.

Mr. GORDON: You may have thought it was a wooden car. Was it a dead-head heading back?

Mr. CHURCHILL: It may have been a deadhead heading back.

Mr. KNIGHT: When you speak of getting rid of those cars is there any cash value?

Mr. GORDON: Yes. We grade them down into work units or things of that kind.

Mr. KNIGHT: They are not a total loss?

Mr. GORDON: No. The life cycle in a car is a steady process of being graded down to working equipment on retirement.

Mr. CHURCHILL: You mentioned the fact that they are not used on the main line service but you still use them on these specials and so on?

Mr. GORDON: Yes some. That is again the problem of meeting the peak load when we have to press into service anything we have. There may be cases where in an emergency we will have to use wooden coaches. Take for instance hurricane Hazel which was an emergency and we threw in everything we had.

Mr. CARTER: I would like to ask Mr. Gordon if the management is giving any thought to finding an alternate base to Argentia. It is a military base and because of that it is not very suitable for a passenger terminal. It is a military area and it is a restricted area. It is a restricted area from the minute you land there until the minute you get out.

Mr. GORDON: I remember Argentia and I was checking with Mr. Dingle. Our passenger facilities there are to service the area and that includes the military area.

Mr. CARTER: Yes, but it is also a terminal for your passenger boat services and you cannot own any property there. Even the Canadian National Railways officials have to get permission to move about in the area, passengers are restricted and there is no place for them to stay, no hotel, no place for them to get anything to eat and they just have to stay there until a train comes by and picks them up if they do not happen to make a connection.

Mr. GORDON: We have no plans in mind in regard to those conditions. I am afraid the conditions you refer to are just one of the facts of life at that point and we think our facilities are adequate in relation to the traffic we are handling.

Mr. CARTER: I understand that the expansion of the military base will make it necessary for the Canadian National Railways to move.

Mr. GORDON: We have no information on that. That has not come to our attention. Have you, Mr. Dingle?

Mr. DINGLE: No.

Mr. CARTER: I think an alternative site should be looked up before too long. There is another thought I should like to put before you. Have you given any thought to tapping your rail line in the middle instead of at both ends as you do now?

Mr. GORDON: Tapping it?

Mr. CARTER: Running a line across?

Mr. GORDON: No, there is no such project in view.

Mr. CARTER: You have not then given any thought to it?

Mr. GORDON: No, no such project in view at all. There is nothing from the point of view of traffic to encourage us to embark on a project of that kind.

Mr. CARTER: There would be quite a saving in your coastal services. You could double the frequency of your service at much less cost than you are doing

now on the south coast and northeast coast if instead of having one boat leaving Port aux Basques and another one leaving Argenticia and moving towards each other if you had them moving from Bay d'Espoir, one going east and one west, they could cover that in about half the time and give much better service at much less expense.

Mr. GORDON: Well, Mr. Carter, I have every sympathy for your views on it, but I am afraid it is the story again that everybody else knows how to run the railway but the railway. Everyone has his own pet ideas as to how this service and that should be handled, but when we examine these things in the hard facts of economic life they don't stand up.

Mr. CARTER: I was just going to say that I may not know much about railways but it does not seem sensible to haul goods into St. John's in Newfoundland and haul them all the way back again.

Mr. GORDON: Well, I would be perfectly happy if you would put your views before me in writing and tell me what you have in mind. I will have it checked up and we can have an interesting talk about it.

Mr. CARTER: I would be glad to.

Mr. JOHNSTON (*Bow River*): I would like to ask Mr. Gordon since he has been speaking about top loads what is the comparison as far as financial costs are concerned between the diesel engine hauling a load of freight and the steam engine hauling a load of freight—that is the financial difference?

The CHAIRMAN: I think, gentlemen, we are getting off the track here. We are dealing with road property now and that deals with terminals and matters of that kind. Dieselization came under motive power and we have already dealt with that. We had a long discussion on that question. While Mr. Gordon might be able to provide you with those figures at a later time I think we will have to stick fairly closely to the regular procedure.

Mr. JOHNSTON (*Bow River*): Mr. Gordon was referring to that fact at the moment and I thought this would be the occasion when it would be best for him to answer it.

The CHAIRMAN: I think we must stick to the subject under discussion, which is road property, and this has been fairly well discussed by Mr. Carter and so on, and if there is nothing else we can move on.

Mr. JOHNSTON (*Bow River*): Well, we are speaking of freight, are we not?

The CHAIRMAN: No, road property.

Mr. JOHNSTON (*Bow River*): You are one ahead. You had called the item before we were through.

The CHAIRMAN: We were at road property. We were talking about the yards at Argenticia and I think that comes under road property, but I do not think dieselization or diesel power has anything to do with road property at all.

Mr. JOHNSTON (*Bow River*): But it does have to do with freight and passenger traffic.

The CHAIRMAN: Am I right, Mr. Gordon?

Hon. Mr. MARLER: There is no doubt about that. The only thing is this item has already been adopted.

The CHAIRMAN: That question was asked and Mr. Gordon has answered it, about his diesel hauling.

Mr. GORDON: I can answer it again if we do not get back into a general discussion. You just want a comparison of the cost of using a diesel and steam?

Mr. JOHNSTON (*Bow River*): Yes.

Mr. GORDON: As a generalization the cost of diesel operation runs about 50 per cent to 60 per cent of steam. It will vary according to circumstances.

Mr. POULIOT: Mr. Chairman, just before this, referring to paragraph 50, what happened at Prince Rupert that brought a controversy in the press? There was something that was done by the railway at Prince Rupert.

Mr. LANGLOIS (*Gaspé*): Wasn't it the dry dock?

Mr. POULIOT: Yes.

Mr. GORDON: You are referring to the decision to close down the dry dock at Prince Rupert?

Mr. POULIOT: Yes.

Mr. GORDON: The dry dock itself has been sold and the facilities in Prince Rupert have been closed. We are now in discussion with local interests there to see whether or not it is possible to work out a deal to sell them the local machine shop which would be sufficient to provide servicing for small boats in that area. That is under discussion now with our officials there, but I have nothing definite before me to report.

Mr. POULIOT: I was surprised at that move on account of the Kitimat development that is in the vicinity of Prince Rupert.

Mr. GORDON: Well, there was no need for the services there, Mr. Pouliot. The only need at Prince Rupert today is for small repair facilities to take care of the coastal vessels there and that does not need the operation of a large volume dry dock. Incidentally, the dry dock was badly in need of repair and would have cost something in the order of \$2 million to rehabilitate it and there just was no justification in terms of present demands. So it has really been disposed of as a salvage operation and the rest of the facilities which the community is interested in, as I say, are under discussion now, and it may be we will be able to work out an arrangement to dispose of the machine shop to local interests who will operate it in the interests of providing the service they actually require.

Mr. POULIOT: The machine shop that was used for the dry dock?

Mr. GORDON: Yes.

Mr. FULTON: I would like to ask Mr. Gordon about paragraph 60. Have you had time yet to reach any conclusion about the savings on this continuous rail?

Mr. GORDON: We do not expect we will be able to get any worthwhile information for at least a period of continuous operation of three years.

Mr. FULTON: As to the maintenance savings, if any?

Mr. GORDON: That is right.

Mr. FULTON: What about laying costs?

Mr. GORDON: That is all included in it.

Mr. FULTON: Is it possible to say how much it costs more to lay it or less than the other type?

Mr. GORDON: We have a figure on that. The figure that we have at the moment—and this only refers to this very small part of ten miles which is not a fair test—we have established that it cost about \$1,390 per mile more to lay than what might be done under what is called the standard method. That, it is about 5 per cent more and, of course, we would have to be able to recover it in the actual saving of maintenance and justify its installation.

Mr. POULIOT: What was done to enlarge the railway yard at Rivière du Loup?

Mr. GORDON: Last year we did not actually extend or build any part of the new yard. The tracks in the existing yard were lengthened somewhat and team tracks were provided in 1954. But due to the excessive cost involved in that yard, we made no progress last year.

Mr. POULIOT: Does the railway still consider the establishment of a new yard east of the former shops of the railway?

Mr. GORDON: We have a project under examination having to do with a new yard in Rivière du Loup. We are not ready to announce it because we do not feel the need for it yet. But the project is under study and it may be started next year, depending on what the circumstances are in regard to our need; but we do have a project which contemplates a new yard at Rivière du Loup.

Mr. POULIOT: And this yard would be last of the former repair shops of the railway?

Mr. GORDON: That is correct.

Mr. POULIOT: Thank you:

Mr. MURPHY (*Westmorland*): With this new road property now, and with the new schedules coming out, and with the diesel travelling east from Montreal in that region, what is the speed?

Mr. DINGLE: The top speed is seventy-five m.p.h.

Mr. MURPHY (*Westmorland*): I think that the roadbed east of Montreal would appear to a passenger anyway, to be in very poor condition.

Mr. GORDON: The road bed where?

Mr. MURPHY (*Westmorland*): The roadbed east of Montreal in the province of Quebec, from Campbellton in New Brunswick north. New Brunswick province is good, but on the journey through the Matapedia valley north to Quebec City and up that way, the roadbed is terrible. I am wondering if anything is going to be done to improve this roadbed before they put on the new diesels, because if they do not, they will be taking to the woods; they are just hanging on to the track as it is.

Mr. GORDON: Of course, this is a perennial question with respect to opinions as to the state of our roadbed. We spend a great deal of money on that roadbed and we have it under a regular maintenance program year by year; and you will find in our capital budget that we will have another allocation and will be keeping on spending money on it.

Mr. MURPHY (*Westmorland*): I realize that, but you must know that it is very, very rough. You cannot move around in the trains in which you are travelling in this district that I speak of; beer glasses will fly off the tables.

Mr. GORDON: Mr. Dingle is our vice-president of operations, and he does not agree with you at all. So go to it.

Mr. POULIOT: I do not agree at all. I support Mr. Dingle.

The CHAIRMAN: Shall the item carry?

Mr. GILLIS: I would like to support Mr. Murphy. I ride that thing quite often too; and in the area he speaks of, if you are in the dining car, it is almost impossible for a waiter to walk through the dining car with a meal; and if your meal is on the table, you will be lucky if it is still on the table after you get through that area.

Mr. GORDON: I have the misfortune to which Mr. Pouliot has called my attention quite often, that when I travel I go in the business car. Now, the business car is always placed at the rear end of the train and it gets the worst ride of the whole train.

Any time I have travelled over that track I have not found that I spilled my soup, coffee, or anything else. I am able to eat, read, write, and work, and

I get on reasonably well. I do not say that there are not spots. There always will be spots where the tracks are rough, but that will vary throughout the year depending on seasonal and frost conditions. By and large I accept Mr. Dingle's assurance that the roadbed conditions are at least fair to good standard. I would not say they are top notch, but they are fair to good; and we are spending a considerable amount of money to keep them up to a reasonable standard.

Mr. POULIOT: The important difference is that I can read, eat, and drink like you, Mr. Gordon, but I cannot write.

The CHAIRMAN: Mr. Bell.

Mr. BELL: In connection with the terminal facilities which are planned in Moncton, New Brunswick, could you tell me if there are any plans to transfer staff, personnel or other facilities from any of the other areas in the Maritimes such as St. John, to Moncton? Will St. John lose part of their facilities in order to staff the Moncton terminal plant?

Mr. GORDON: I am not sure what you have in mind but, generally speaking, if we close down facilities anywhere, the employees affected by such closure have specified rights under the wage agreements referred to as seniority. These men start from the top, senior clerks and go out on jobs elsewhere on the system, depending upon where the seniority rights place them.

Mr. BELL: I am thinking that in Moncton there is a new addition going on to the terminal building or something there. I was wondering if that is the beginning of a plan to concentrate more facilities in Moncton?

Mr. GORDON: No. The building you refer to is the communication building which has been badly needed to centralize our telegraph and communications equipment in a modern building. It has been in quite an unsatisfactory shape, and we have finally decided to get it centralized in that building.

Mr. POULIOT: I rise to a point of order. Mr. Macdonnell, what about the Conservative caucus? It is at eleven o'clock.

Mr. MACDONNELL (*Greenwood*): May I say one thing? I want to agree with Mr. Pouliot as to the condition of the track. I have had exactly the same experience as he, last November. My only difficulty was in writing, but I am assured by my friends that this has nothing to do with the tracks.

The CHAIRMAN: Shall the item "Road Property" carry?

Mr. MURPHY (*Westmorland*): I should like to ask a question when we come back.

Mr. CHAIRMAN: Ask it now, Mr. Murphy.

Mr. MURPHY (*Westmorland*): It is on this matter of the roadbed. We had an accident at McGivney Junction, New Brunswick, about a month ago, and I think that it was reported in the newspapers that we had had several accidents on that line. Would it be because of the roadbed? What would be the cause of the accidents in New Brunswick?

Mr. GORDON: I would not want to make any generalization about the causes of accidents, because each accident is investigated very carefully, and there will be a variety of reasons. Mr. Dingle reminds me that we have had some difficulty with broken rail and journals, in the area you have mentioned, but one of our most serious accidents was a rear end collision at McGivney Jct. which took place entirely through man failure. It took place with over a mile of clear vision, and it was one of those breakdowns in human beings that will take place despite the utmost precautions. But I do not think you can generalize at all on causes of accidents, and I most certainly would not say that the condition of the roadbed was a special contributing force except to the extent of this broken rail situation, which again is something we cannot always foresee. It is a failure which will happen under given conditions

despite the best testing we may do on the rail. We can never be absolutely certain that our tests will give us warning, and under special conditions of climate or of traffic these things happen.

Mr. CARTER: Mr. Gordon, last year I understood that you had plans for the improvement of the station at Goobie's Siding. That is a junction of the railway line with the Burin Peninsula highway, and all the passengers from Burin Peninsula, the western side of Placentia Bay and the eastern side of Fortune Bay go to meet the train there. The station there is a tiny affair about fifty years old and certainly not adequate to meet the tremendous increase in traffic.

Mr. GORDON: This is an item, Mr. Chairman, which properly comes under the budget.

Mr. CARTER: I can leave it until then.

Mr. GORDON: But I will dispose of it now by telling you that there is an item for Goobie's Siding in the budget.

The CHAIRMAN: Shall "Road Property" carry?

Carried.

We will adjourn until this afternoon at 3.30 p.m.

AFTERNOON SESSION

The committee resumed at 3.30 p.m.

The CHAIRMAN: Gentlemen, I see a quorum. If the committee will come to order the first item for discussion will be the heading "Communications".

Mr. MACDONNELL (*Greenwood*): Mr. Chairman, could I raise a question of privilege? I have just been approached by some people representing Oakville with regard to the fares and I wonder if you would give me just a moment to make a statement. I think Mr. Gordon at any rate is likely to know the attitude which has been represented to me which is a request in the case of these people to alter the situation in some way. I will be very brief, Mr. Chairman.

The people at Oakville are troubled because, of course, on the face of it their increase has been larger than the one at Montreal—and I am not overlooking the fact that you are trying to have the Montreal service done away with—but from their point they think the 100 per cent is too high and, secondly—and this I thought Mr. Gordon would be interested in—they say they put out a questionnaire, that they had got an answer from 300 or 400 people in Oakville that if the service could be improved they would be glad to come in and use the service even though the equipment was not altered. In other words, their complaint, the complaint they put forward, is that they think they are being charged more. They gave me some figures to indicate that which I do not think it is necessary to put on the record because Mr. Gordon will be familiar with them and most of all they feel that the suburban service from Toronto west is nothing like as good as it is in Montreal. Certainly having lived in both cities myself I would have thought that that was true.

Now, Mr. Chairman, that is all I wanted to bring forward. I realize that it has been before the board and that it cannot be altered unless it goes before the board again, but I thought Mr. Gordon would not mind having those representations brought to his attention in case he is able to give any consideration to it.

The CHAIRMAN: I think the minister would like to say a word in connection with this matter at this point.

Hon. Mr. MARLER: Mr. Chairman, I would like to tell the committee that following the decision of the Board of Transport Commissioners at which the question of commutation rates on the Oakville service was considered that after the appeal of the Commuters' Association had been dismissed there was an appeal to the cabinet pursuant to the provisions of the Railway Act, a brief was filed by the association and when the matter was on the point of being decided a further brief was filed by the Commuters' Association. The two briefs were then fully considered by the cabinet and after having given careful consideration to the whole matter and particularly to the representations of the association, the cabinet came to the conclusion that the decision of the Board of Transport Commissioners ought to be maintained and it was maintained by the cabinet. I believe that the Commuters' Association has been advised not long after the matter was so disposed of.

I have no doubt that members of the committee would be interested if Mr. Gordon would merely say a few words on the subject of the difficulties of providing services in this particular area and also perhaps he might acquaint the committee with the railways' own observations with regard to the situation, particularly that which has developed since the appeal was first heard by the Board of Transport Commissioners.

Mr. MACDONNELL (*Greenwood*): There is just one point I omitted and that was that they had hoped that some of the through trains might have stopped. I think that was one of their points as to service.

Thank you, Mr. Chairman, for giving me this information.

The CHAIRMAN: The next item is as to communications. Shall the item as to communications carry?

Mr. CARTER: I would like to ask Mr. Gordon what their program is in Newfoundland for the coming year.

Mr. GORDON: That would be in the capital budget again.

Mr. CARTER: Can you tell me this: are you giving consideration to a line extension down the Burin peninsula?

Mr. GORDON: Ask those questions again on the capital budget and I can get them more conveniently there.

Mr. FAIREY: I notice the acquisition of the British Columbia telephone line from Prince George to Prince Rupert. There was a question asked about the old employees of the old telephone service. Were they absorbed into the new service?

Mr. GORDON: They were.

Mr. FAIREY: There were no difficulties whatever?

Mr. GORDON: There was some difficulty at the time of the actual transfer. It has escaped my mind just what, but it has been straightened out and as far as I know they are happy.

Mr. LEGARE: On the proposed line from Montmagny to Gaspé are the railway contemplating—

The CHAIRMAN: Mr. Legare, are you referring now to communications or extensions of lines?

Mr. LEGARE: Extensions of lines.

The CHAIRMAN: Can we carry the item "Communications"?
Carried.

Mr. LEGARE: When the railway company is contemplating the extension of the Gulf Terminal Railway Montmagny to Matane I do suppose they will consider extending it to Ste. Anne des Monts?

Mr. GORDON: We have nothing of that kind under immediate contemplation, no.

Mr. BELL: Mr. Chairman, on line extensions could you tell us if there are any extensions planned into the—

The CHAIRMAN: I think that would probably come under the capital budget, would it not, Mr. Bell? Carried?

Carried.

The new hotel.

Hon. Mr. MARLER: I wonder, Mr. Chairman, if before we come to this item perhaps Mr. Gordon might revert to the subject of the four hotels which we discussed last night because he would like to make some further comments on that subject.

The CHAIRMAN: Very well.

Mr. GORDON: Mr. Chairman, I gave some thought to the discussion which had taken place regarding the figures for the four hotels that went on at yesterday's committee and I came to the conclusion that the figures which had already been revealed and discussed along with the figures which appeared in last year's report representing book value could be put together in such a way that it would lead to a conclusion which might be misleading.

That being the case I felt it was only fair to examine the situation in terms of its meaning in relation to the purchaser. I therefore have had communication with the purchaser and the syndicate represented by him, pointing out what had happened and that in those circumstances there might be some feeling, perhaps some cloud arise in connection with the transaction itself. I asked him if he would take any objection to my revealing the figures and giving out information which I had regarded as private information on a business transaction. He said that he had no objection, if I felt it was necessary.

He did have objection in the general sense that it was a private matter and he felt he should not be expected to reveal his private business, but he also felt if it would be helpful and particularly if it would clear up any thought that there was something mysterious about the transaction, 'then all right', he said, 'disclose the figures'. I have given that background first because I want to make my own position clear that I still hold firmly to the principle that it is wrong for the Canadian National management to be put in the position of having to disclose transactions with third parties. If I may, therefore, subject to that general principle, deal with this particular matter without prejudice I would like to do so.

The CHAIRMAN: Mr. Gordon, I think that should be the position of the committee too on any subsequent matters that might arise.

Mr. GORDON: It has always been the position and I just reserve my position in that respect before I am willing to deal with this particular item in isolation.

Mr. MACDONNELL (*Greenwood*): I am very glad to hear what Mr. Gordon said, but I also want to reserve the position I took last night that the reason we thought these figures should be given is that we do not regard them as a transaction in the ordinary course of business. It is for that reason we thought the figures should be given because this is in fact the cessation of part of the railway's business.

Mr. FAIREY: Mr. Chairman, I think we might be creating a precedent here.

The CHAIRMAN: That is why I said what I did and I would say that on subsequent occasions this should not be quoted back as a precedent by someone saying, "You gave us the figures once."

Mr. FAIREY: I think if we give the figures it is bound to be quoted as a precedent because it is a precedent.

Hon. Mr. MARLER: I think perhaps I might say, going along with the view that Mr. Macdonnell expressed last night, that the sale of four hotels out of a series was perhaps something a little bit outside the usual course of business and I think perhaps if we were seeking justification we might make that a reasonable ground for departure from past practice.

Mr. GORDON: I also would like to add a point, that in this case the purchaser himself realized that the discussion that has already taken place may leave him in a position of some suspicion or some vulnerability in regard to public criticism. That being the position I do not think it hurts if we proceed in the manner I suggest.

Mr. FAIREY: The only thing is in the House and in this committee we have always taken the stand that there are certain privileged communications and I think it is dangerous to break it down. However, if Mr. Gordon is prepared with those reservations to take a chance I have nothing further to say.

Hon. Mr. MARLER: I think what is particularly significant in this case is that the disclosure has been made with the full consent of the person who would normally be entitled to object.

Mr. GORDON: In the interest therefore of covering the whole story may I revert to my reply to Mr. Hamilton? I think he asked me about an appraisal of this property. I replied that there was no appraisal. That is correct, but I should perhaps have made it clear that we did have a very careful examination and appreciation of these properties by our own senior officials in charge of these matters. This report, was prepared before we called for tenders on these properties in order that the board of directors of the railway might reach a judgment as to the wisdom or otherwise of disposing of them at all. On the basis of its survey that committee advised me that on a break-up basis, the best figure they could expect to realize for the properties would be around \$350,000, but they also pointed out that the value of these properties to a prospective purchaser might be considerably greater than the salvage value. Moreover they reached the conclusion that these hotels have no place in the Canadian National Railways because they had largely lost their basic purpose as a traffic getter and they do not now fit into our general style of hotel operations.

That being the case the committee came to the conclusion that the railway would be better off if we could find a purchaser for the four properties and that we should get a price between \$350,000 and \$1 million. With that in mind we advertised the properties, called for tenders or offers all across Canada in every place where we thought there might be any interest; we also were careful to write to any person who had exhibited an interest in any one or more of the hotels back over the years. The figures are therefore these, and I would like to repeat them and place them on the record in summary form so there will be no misunderstanding.

The book value of the assets sold, as I think I mentioned yesterday, was \$3,300,284.

Deducting from that book value the land adjustment to which I referred yesterday, namely, \$342,986 and also the depreciation of \$2,047,334 we arrived at a net figure of \$909,964.

The bid price which was successful tendered by the Thorn syndicate was \$915,000. So as I indicated yesterday we just about broke even on the depreciated book value.

Now, in regard to some other questions that were asked I want to inform the committee that the deed of sale has not yet been delivered. We are still in process on part of the negotiation, that is to say, the agreement of sale is

completed but the deed of sale has not been delivered and therefore there is nothing to register in the respective registry offices. There is also the fact that since they are four separate properties they would have in any event to be registered in three individual registry offices and that is for the purchaser to decide if and when it pleases his purpose to do so.

On the basis of the deal we received \$300,000 in cash and \$50,000 during the first year, so that on March 1, 1956, we will take back a mortgage of roundly \$500,000 to be amortized over a period of ten years but with the usual clause wherein the purchaser is entitled to pay off without notice or bonus.

I should have added that when Mr. Thorn and associates gave me permission to release this figure they asked me if I would mention that they are planning to spend \$500,000 in immediate capital improvements to these properties.

I think that tells the story as completely as I can give it, but I shall be happy, of course, to answer any further questions.

Mr. FULTON: When the sale was advertised and tenders were invited, Mr. Gordon, were they invited on the basis that the bids must include all four hotels?

Mr. GORDON: No, we stated that anybody who wanted to bid could bid for one or all. In point of fact what took place was that the successful bid was the best bid of any of the bids that we received.

Mr. FULTON: I was under the impression that there were no bids.

Mr. GORDON: I have a copy of the advertisement here which says in part:

"Anyone interested in purchasing these hotels either separately or collectively is invited to—"

Mr. MACDONNELL (*Greenwood*): Would Mr. Gordon now compare the results of the operation having regard to the income received before and the income which will be received from the purchase price? I have forgotten the figure you gave us yesterday as to the operating profit of these four hotels. My recollection is something like \$85,000.

Mr. GORDON: For the year 1954. And then, of course, having sold the properties we have no longer any income. I don't follow your question.

Mr. MACDONNELL (*Greenwood*): But you have sold them at \$915,000 from which you will derive an income, let us say, of what—3 per cent?

Mr. GORDON: I don't know. The \$915,000 will go into our cash account and become available for the general purposes of the company.

Mr. MACDONNELL (*Greenwood*): But what I mean is just looking at the income which you will get from that and the income which you got before.

Mr. GORDON: Well, isn't the point this, Mr. Macdonnell, that on the basis of our operations of these four hotels allowing for interest and depreciation we showed a net loss?

Mr. MACDONNELL (*Greenwood*): Well, that is what I want to get at. It seems to me you have improved your position a good deal and I want to know exactly what the improvement is.

Hon. Mr. MARLER: And you don't have to make any repairs to the \$915,000.

Mr. MACDONNELL (*Greenwood*): That is right.

Mr. GORDON: It depends, of course, on the interest factor and taking that quickly—and I imagine round figures is all you have in mind—after allowing for depreciation and interest at the round figure you get for last year a loss on these properties of \$72,000. Now, we will eliminate that loss and we will make earnings of \$915,000. If you still use the 4% interest factor, these earnings would be \$36,000—roughly \$108,000 in all.

Mr. FULTON: Mr. Gordon, you have just used the expression—did I understand you to say that this money would go into your cash account and be available for general railway purposes?

Mr. GORDON: Well, I cannot identify it. We get the cash in. The fact is that it will be used to finance the operations of the company.

Mr. FULTON: I was wondering if it would not be proper to suggest that it go into a capital account and be available for such purposes as your capital budget?

Mr. GORDON: It will. We have to have a certain amount of working capital to run our business. Now then, if we have this cash then we reduce the amount of borrowings we would otherwise require, so we save the interest on that borrowing. In other words, it automatically reduces our borrowings and it reduces the interest cost.

The CHAIRMAN: Next item "The new hotel."

Mr. BELL: Could you say, Mr. Gordon, if any consideration was given to leasing these for management?

Mr. GORDON: No, there was no consideration of a lease for management. We decided on an outright sale.

Mr. HAMILTON (*Notre Dame de Grace*): Mr. Chairman, I would just like to say that I am very grateful for those figures which I think are very interesting to us. In considering the sale price of these hotels was any consideration given to such things as good-will or the value of the name or the advertising which has been put behind the hotels in the previous years?

Mr. GORDON: That was part of the judgment brought to bear when we decided to sell them at the price tendered.

Mr. HAMILTON (*Notre Dame de Grace*): But when we look here at the book value which you quoted that does not include any of these factors whatsoever.

Mr. GORDON: The bare figures represent what has been charged to the account for the physical assets.

Mr. HAMILTON (*Notre Dame de Grace*): My next question would be regarding what I think you might most easily regard as the contents of the hotel. Now, we have the hotel building and then we have such things as beds, dishes, linens and things like that. I would presume—and this would be my first question—that those were expense as they were purchased and put into the hotel, is that correct?

Mr. GORDON: No, they are included in the 83.3 million figure.

Mr. HAMILTON (*Notre Dame de Grace*): So that actually your \$3,300,000 represents not only the value of the buildings but it represents their contents?

Mr. GORDON: It covers the total of the lands, building, contents and the golf course at Minaki.

Mr. HAMILTON (*Notre Dame de Grace*): Is it regarded as standard hotel practice where you are set up in operation to charge to expense a great many things which might otherwise be considered assets, such as dishes and things like that, which would in this case perhaps represent several hundred thousand dollars?

Hon. Mr. MARLER: Is that really material, though? Are you trying to arrive at a judgment as to whether the book value should be lower or higher in relation to the price or what really is the purpose in exploring that particular angle?

Mr. HAMILTON (*Notre Dame de Grace*): Well, I am interested in the value of these as a going concern as opposed to the sale price. I think it is a legitimate question in that respect.

The CHAIRMAN: They were sold as a going concern, as I understand it. They were advertised and sold as a going concern and that was the price received. Is that not correct, Mr. Gordon?

Mr. GORDON: Yes.

The CHAIRMAN: So I think that was the price that was received. It was sold as a going concern and was advertised as that.

Mr. HAMILTON (*Notre Dame de Grace*): But my point, Mr. Chairman, is this: Mr. Gordon comes here and quite probably we are going to agree with him in the final analysis—and says: "This was a good business transaction. I had property to the value of so much less depreciation less land write-down and it came out at so much and I got \$6,000 more than that in selling."

Mr. GORDON: That is purely coincidental. I would not consider the book value as having any bearing whatever as to whether it is a good deal. We examine what the situation is as it exists today in terms of today's market, in terms of the going concerns represented by these four hotels and in the considered opinion of management after examining each in reference to the company's interest in the property we decide to sell at the figure which I mentioned.

Now, it would not make any real difference to me if it showed a book profit of \$500,000 or a book loss of \$500,000—that has no real influence on the decision.

Mr. HAMILTON (*Notre Dame de Grace*): I was not really referring to the profit on the hotels. Mr. Gordon says it does not make any difference whether it shows a profit or loss.

Hon. Mr. MARLER: We are talking of a book value, not the operating profit.

Mr. HAMILTON (*Notre Dame de Grace*): I was talking of the capital value of the hotels.

Mr. MURPHY (*Westmorland*): Are we on item 68 or 80, Mr. Chairman?

The CHAIRMAN: This is all with relation to some questions that were asked last evening and Mr. Gordon wished to give a certain explanation of these which he gave at the opening of the meeting and the questions are with regard to the answers given by Mr. Gordon to the questions asked last evening.

Mr. FAIREY: I suggest it is not debatable, Mr. Chairman.

Mr. MURPHY (*Westmorland*): There is a section 80 dealing with the sale of hotels. Why couldn't we wait until we get to it?

The CHAIRMAN: Well, we can deal with it then if you wish or deal with it now and then we can pass on.

Mr. MURPHY (*Westmorland*): We never pass anything here; we just put it over. That is the trouble.

Mr. HAMILTON (*Notre Dame de Grace*): I will take it up again then, Mr. Chairman, under 80.

The CHAIRMAN: If it is the wish of the committee you could do so then. There is the sale of the four hotels in item 80. It could be part of that.

Mr. HAMILTON (*Notre Dame de Grace*): I will deal with it anywhere you say.

The CHAIRMAN: We might deal with item 80 now and we won't have to do it later. Shall we deal with it now, item 80, and then it will be carried?

Mr. JAMES: It is under item 34, isn't it, hotel operation?

The CHAIRMAN: Item 80 is the actual item.

Mr. HAMILTON (*Notre Dame de Grace*): Well now, Mr. Chairman, the question which I had asked Mr. Gordon before the interruption I think I can put this way—whether there was any additional value of these hotels and that is the only thing I want to know—this question of the capital value of these

hotels over and above the book values that pass to this purchaser. We know there was the intangible value of the good-will. I am wondering about the materials that might have been in the hotels.

Mr. GORDON: There was nothing else. We sold the hotels as going concerns and when we hand them over to the purchaser there are, naturally, a number of adjustments to be made, but generally speaking they take them over as a going concern, we take away cash, receivable and things of that kind, but they walk in and start to run it. That is what we sold them—nothing more, nothing less.

Mr. HAMILTON (*Notre Dame de Grâce*): Would Mr. Gordon prepare for us on a strictly comparative basis the operating results of those four hotels which were sold for, say, the last period he has available with the remainder of the hotels?

Mr. GORDON: Mr. Chairman, I think that is quite unreasonable.

The CHAIRMAN: I do not think that question need be answered.

Mr. FULTON: Mr. Chairman, this is a matter that has to be decided.

The CHAIRMAN: I am going to rule on it as something I don't think needs to be answered. I do not think it is possible for the information to be given.

Mr. FULTON: It has not been ascertained whether it is possible or not. If that is the basis of your ruling, I suggest that you ask the witness whether it is possible to give the information.

Mr. GORDON: If you want merely a statement of the results of each of the hotels, I am perfectly willing to table that, but when you are trying to get me to make an appraisal of the relative value of one hotel versus another, I think that you are asking too much.

Mr. HAMILTON (*Notre Dame de Grâce*): What I had in mind was that, from certain information Mr. Gordon gave us last night based on the figures for the 1953 operating results of these four hotels the net result was not substantially different from the remainder of the hotels in the chain.

Mr. GORDON: I am perfectly willing to give you all the help I can, if I know what you are driving at. If you are trying to establish that you are criticising the management of the C.N.R. for its judgment in selling these hotels at a certain price, why not say so, and I shall answer that? It will save the time of the committee and everybody else if you tell us what you want.

Mr. HAMILTON (*Notre Dame de Grâce*): I am not at this point criticising the management of these hotels.

Mr. LANGLOIS: (*Gaspe*): You are getting ready for the future.

Mr. HAMILTON: (*Notre Dame de Grâce*): We are called to this committee on behalf of parliament to enquire into the management of the Canadian National Railways.

The CHAIRMAN: You have not been denied any information yet, that I know of.

Mr. HAMILTON: (*Notre Dame de Grâce*): I think it is justifiable for us to ask for the information which we think is necessary in order to enable us to do the work of this committee and to arrive at conclusions. There has not been as yet, and probably will not be in the future, any criticism of this transaction implied in these remarks.

Mr. GORDON: If I may be permitted to make a personal observation, let me say this. It does seem to me that when this committee is dealing with the affairs of a corporation having assets of over \$3 billion and having an annual turnover in the matter of sales and service of some \$640 million, we should not

spend so much time on a matter of this size. Surely there should be enough confidence in the management to have it appreciated that good judgment would be shown in respect to an item of this kind.

Some Hon. MEMBERS: Hear, hear!

Mr. GORDON: I am only talking about the questions by Mr. Hamilton and the type of inquisition that is going on in this committee, which is perfectly new to me. Mr. Hamilton, you seem to have started a new regime in respect of how to treat the president of the C.N.R. in this regard. I am in the hands of the committee, but I do ask some mercy in the amount of detail you are striving to get in connection with the affairs of this hotel operation. No other executive officer that I know of in the country would stand for it or put up with it for a moment.

Mr. KNIGHT: I would like to throw some oil on troubled waters. Did I understand Mr. Gordon aright when he said that he offered to put on the record the file on the financial results about all the hotels in operation over the last few years?

The CHAIRMAN: Yes.

Mr. KNIGHT: Will that not cover the matter? The gentleman will then be able to have the figures and compare them.

Mr. FULTON: I for one would be happy to see it done. I agree that one has to exercise judgment as to the detail that is requested. After all, the sale of hotel property is not an every-day occurrence, and I suggest to Mr. Gordon that it is not unreasonable that he should be expected to be subjected to fairly close questioning on a matter of that kind. The time has arrived when we all need to exercise judgment as to whether the detail is worth the time involved, but until the question is ruled to be improper, I must say that I feel it is quite proper for Mr. Hamilton to press his enquiry.

The CHAIRMAN: Shall the item, "Sale of Four Hotels", carry?
Carried.

The next item is "The New Hotel".

Mr. CHURCHILL: I have a question to clear up some figures which Mr. Gordon gave earlier. I understood Mr. Gordon to say that the sale price is \$50,000. Then I am not clear as to the amount received in the agreement. I have \$500,000, but my total comes to \$850,000. Would you repeat the figures you gave earlier?

Mr. GORDON: That is what I mean by questions of detail and I can clear that up by giving you the details. The deal was for \$332,500 cash and \$82,500 in the first year by payments to begin as from the first of March. By the time we come to the first of March next year, when the deed of sale will be turned over, the amount owing will be roundly \$500,000, and that \$500,000 is payable over a period of ten years, subject to the usual acceleration clause. Does that make it clear?

Mr. CHURCHILL: Yes, it was the payments during the course of the year.

Mr. GORDON: The payments beginning now to take care of the deficiencies, you had in mind.

The CHAIRMAN: The next item is "The New Hotel".

Mr. HAMILTON (*Notre Dame de Grâce*): As a suggestion, would Mr. Gordon perhaps like to make a statement?

The CHAIRMAN: I think that probably that would be advisable.

Mr. GORDON: I rather expected that there might be some questions on this item, and I decided that I would not try to prepare a statement but that I would speak, perhaps, to the sequence of events and in the course of doing so give some reasons and answer some of the questions that have arisen

in connection with this transaction. My intention is to trace the course of events and explain them as I go along, Perhaps you could then at the end of my statement decide what other points require clarification. Now, I want to remind the committee—

Mr. MACDONNELL (*Greenwood*): Could I ask this question here? Does Mr. Gordon propose to let us see the contract? I do not want to interrupt the statement, but I wanted to have that information in hand, so to speak, as you are talking.

Mr. GORDON: No, I do not have in mind producing the contract. I am prepared to discuss various features of it with you. I will cover this, and when we get down to details, perhaps we could explore that a little further. I would like to remind the committee that we last discussed the question of the hotel at the meeting on March 30th, 1954. Now, at the time I discussed the building of the Montreal hotel with the committee I had not been approached by the Hilton representatives. I had no idea that there was any possibility of making any working arrangement with them, and had not been in contact with them. It was on the 5th of May that I was first approached by representatives of Hilton who came to see me because the fact had been established that we were going to build a hotel and we were in fact actually building a hotel. Members of the committee will remember that there had been many promises about a hotel; in fact, it had been referred to in news reports over quite a number of years, but for one reason or another it had not come to fruition. It was, therefore, the established fact that we were building a hotel which brought the Hilton interests in to see me. In their first meeting they informed me that they were very much interested in the Canadian hotel market and they had decided, in fact, before they learned of our intention, to come into the Canadian market and that Montreal in particular had a great attraction to them. Therefore they thought that they would come and talk to us to see whether there was something of mutual advantage to be gained in joining forces in respect of the hotel.

Mr. MACDONNELL (*Greenwood*): When you say "entering the Canadian market", do you mean by way of building the hotels themselves?

Mr. GORDON: In one form or another, either by building or leasing or whatever arrangements they thought they could get. They were good enough to say that they regarded the Canadian National Railway organization as having the most appeal to them and that this particular Montreal venture was most attractive. As I have said, they wanted to discover whether we could join forces to mutual advantage. I do not mind saying that my first reaction was one of skepticism, and I told them so. I particularly emphasized that we were not prepared, to interrupt the program of building the hotel. I made that particularly emphatic, because some years ago there had been an approach by another American chain and, after it was discussed over quite a considerable period of time, it broke down. The result was that the hotel was not built at that time, when it would have been, in my opinion, to our great advantage to do so.

Now, we went forward from one discussion to another, and I finally decided, after consultation with our Board of Directors, to entrust to a committee of senior officers of the railway the job of getting into more detailed discussions to see whether a practical contract or practical agreement could be worked out which would be of interest to us and which would demonstrate that it could be to our mutual advantage. I think it is appropriate for me to say at this point that up to that time the government knew nothing whatever about the discussions that we were having with the Hilton interests, and it was not until the middle of July that I asked the government for an expression of views on an arrangement of this kind. The reply, properly, was that the

government regarded it as a matter for the judgment of the management of the railway; the government would look to the railway to decide whether it was a good business contract and whether the remuneration would be fair and proper and, generally speaking, left it to the railway management to make up its own mind. The discussions with Hilton proceeded through the summer of last year, and we passed from one alternative to another, until we finally worked out a deal which answered all the questions which we had in mind and gave us an agreement which our Board of Directors finally approved as being a very valuable arrangement that would work to the advantage of the C.N.R. and, of course, which would be satisfactory to the Hilton interests as well. The basic consideration, I may say, at all times was this, that we put it up to the Hilton interests to demonstrate that by bringing them into the hotel transaction they would bring to the venture more than they would take out. We at all times challenged them to sell us on the idea that through an association with them and their world-wide organization, they could bring to this venture more than the share that would finally accrue to them under the arrangement. Now, about November we reached an agreement, and the agreement was actually signed on the 16th of November, at which time we issued a press release, which covered fairly fully the nature of the agreement. I do not want to inflict the whole press release upon you, but I would like to quote from it, because some of the statements which have been made about this agreement would not have been made, I feel, if the persons concerned had read the information which was released by the C.N.R. and the Hilton interests at the time this agreement was announced. This was stated by myself in the announcement:

In announcing the successful termination of negotiations which have extended over several months, Donald Gordon, chairman and president of Canadian National Railways, said "From every point of view the agreement between the Canadian National and Hilton is advantageous to the railway and to the country at large. The hotel remains in the full ownership of the Canadian National Railways System. The agreement covers only its operation, based on a carefully developed formula covering a percentage division of profits after payment of all costs of operation. Not only is the working agreement likely to insure a stable and high occupancy of the hotel but it effects an operating association between the Canadian National and Hilton Hotels through which each hotel system will favour the other to the benefit of both. How much this can mean to the Canadian National is self-evident since the Hilton group, holding a pre-eminent place in the hotel industry the world over, is in a unique position to control and direct many kinds of business to Canadian National Hotels and the Canadian National Railways System generally, particularly convention traffic."

Then the announcement is followed by a statement from Mr. Hilton:

I should like to make it unmistakably clear, Mr. Hilton said, that the utmost care will be taken to insure that under Hilton management the character of service and other standards of operation and decor will be distinctive and representative of Montreal in particular and Canada in general. At least 95 per cent of the operating staff will be recruited in Canada and, to the extent possible, having regard to the needs of other Canadian National hotel properties, will be drawn from the Canadian National hotel organization. Personnel found elsewhere than in Canada will be selected for their special skills, knowledge and other

qualifications particularly important to the maintenance and operation of a hotel of the size and character of The Queen Elizabeth.

Finally I said this:

However, he observed, under the agreement the Canadian National is afforded the advice and guidance of the Hilton specialists in hotel design, furnishings and equipment to the extent we wish to utilize them. We feel that this will be of great value to the railway because the Hilton organization has a wide range of expert knowledge in these fields.

Mr. Gordon stressed as being of special significance to the Canadian National the fact that under the agreement Hilton hotels everywhere will become solicitors of business for Canadian National hotels across Canada. He felt this should prove to be particularly important to the Canadian routing of American conventions which because of the assurances of accommodation they can obtain prefer to give their patronage to the large U.S. hotel chains and move year by year from one hotel to another in the same chain. Mr. Gordon pointed out that for the acquisition and routing of this important type of hotel traffic Hilton maintains a large specialized convention bureau which will become available to the Canadian National and thus make it unnecessary for the railway to expand its own convention bureau to large and expensive proportions as might otherwise have been the case. He said also that there will be collateral advantages to the Canadian National from the association being established relating to the routing of various types of rail traffic.

I suggest that that is a fairly full statement which was made to the press, and I have only read the highlights of that particular statement. Now, before I leave that part, I would suggest that a good deal of the ensuing discussion which has taken place has been due to a failure on the part of the critics to familiarize themselves with statements which have already been made. If I may turn now to the main reasons for this agreement, the fact is that this Montreal hotel is a completely different kind of hotel from any that has ever been built before in Canada. It is a hotel that is dedicated primarily to the handling of large scale convention business. For that reason we expect to bring large business to the city of Montreal which will convey great collateral benefits to the city merchants and everybody else connected with the tourist industry. We believe that it will, indeed, fan out from Montreal through the province of Quebec and be of general benefit to the vacation tourist industry and convention industry of Canada, generally. But I do want to emphasize that it is a specialized type of hotel which will make its bread and butter out of the convention business in large-scale operations. The fact is that when we looked into the matter with the Hilton interests, we realized that they are one of the two large chains which have a very definite hold on this type of business. I do not suggest to you that we would not have made a success of that ourselves. I told the committee last year that I was quite confident, but there are such things as degrees of success and that is what I am talking about. As an independent unit, the Montreal hotel, I am satisfied, could have attracted conventions to Montreal, but the more I examined the Hilton interests the more I realized that through them we would not only be able to cut down substantially the expense which we would have to go to in soliciting business in the main cities of the United States where most of these conventions originate, but that we would be able to avoid considerable expenditure which we would have as an independent organization. Furthermore I was convinced that we would do better by making this association with the Hilton interests, who are already established in that business and who would cut us

into their chain, so to speak, in the sense that we would become their Canadian link. For one who wishes to study the matter, it is a fact that nine times out of ten these conventions will book again with the chain with which they have begun. It is a real struggle for the independent to break into that chain battle and get these conventions which I have mentioned. This is not a question of what may be called "happenstance" in connection with the Hilton organization. They have specialized in it, and they have the know-how. They have a strong and active sales force; they have personal contacts with hundreds or thousands of these people who run these conventions, and they have thousands of individual files. Their general approach to that kind of business is systematic and thorough on a basis that has to be seen to be believed. It was when we had the opportunity to explore that sort of technique and they had shown us the system they had, their connections with travel agencies, their world-wide connections which fed into this chain for conventions, that we realized we had a very special opportunity if we could work out a satisfactory working association with them. In the course of doing so, they offered to make available to us their inter-hotel reservation system, the special convention solicitation system, the credit card system, and the guest histories—which, incidentally, are a very valuable item in hotel work. Group advertising, business promotion, personnel training services and all sorts of things of that kind gave us a new look entirely at large-scale hotel operations. I need hardly say that we live in a changing world, and one of the main problems of management and the kind of thing we are struggling with is to adjust ourselves on an up-to-date basis to the changes in public taste and habit. I must say that the development of the convention business has been one of the main characteristics of the hotel industry. It is something that has become readily apparent only in comparatively recent years. It is now very big business, indeed. I have before me—or should have, if my secretary has not failed me on this one occasion when he should not—a clipping from the Wall Street Journal of January 12th, for instance, in which it is estimated that over 10 million Americans spent more than \$1 billion at forty-eight hundred major conventions last year. That is a large scale business, and we satisfied ourselves that the Hilton organization had a very specialized appeal and a very special incentive to make an arrangement with us.

So I say that it was with the conviction, that backed with the powerful connections which the Hilton chain had in the way of patronage, we were likely to show a substantially higher sustained average occupancy, and came to the conclusion that this would be to our benefit.

The 'bugaboo' in the hotel business is to eliminate as far as possible wide fluctuations which are almost inherent in the hotel business. That is nowhere more noticeable than at the Chateau Laurier hotel, where the exists over the week-end are something really to be observed. The occupancy rate therefore frequently fluctuates very widely.

But through the Hilton organization we were satisfied that we would get a sustained average occupancy which would add greatly to the profits, and that is the sort of thing which convinced us. And as I said, our first condition was being met that the Hilton interests would bring more to the hotel than they would take out. I might mention a figure here: If we increased our average occupancy from 80 to 85 per cent—we would increase our gross profit by about 8 per cent. And that runs into quite a substantial sum of money.

There are some other factors which I cannot be too precise about, but which I might mention. We had to keep in mind that we had in the city of Montreal one very strong United States hotel chain which was already in competition. I refer to the Sheraton chain which is represented by the Mount Royal hotel and the Laurentien hotel. That being the case, it became all the more evident that we would be well advised to see if we could fit in with one of the other chains in order that we might get our share of the convention

business that tended to be dominated by the chain appeal. The Montreal hotel would be the Canadian link in the Hilton chain in that respect.

One other factor that was of considerable interest to us was that the Hiltons were most ready to meet us in almost any point we raised which had to do with the maintenance of Canadian prestige and our Canadian pride in regard to this hotel. They met almost everything we suggested in that respect.

One significant thing which I am sure will be of interest to the committee is that by reason of this agreement Hiltons have agreed and have undertaken not to compete with the Canadian National Hotels either directly or indirectly wherever we are established in Canada. Having in mind their declaration of intention of entering the Canadian hotel field; they nevertheless agreed not to compete with the Canadian National Railways hotels wherever established in Canada.

I know there has been some reference made, and I do not want to get into too direct references because I want to keep this matter on a basis of being non-controversial as far as I can; but I do know that some excitement has been aroused by reason of some strongly-worded resolutions which have come into the hands of members of parliament, from the hotel association.

This hotel association is comprised of people who are in the hotel business. They are, in fact, our competitors in the hotel business. The objective of the association is to discuss matters of mutual interest, such things as legislation affecting the liquor laws, taxes, copyright fees, fire protection and things of that kind. Obviously they would be subjects of their concern. But they were never intended to sit in judgment upon each other's methods of business or style of management. I would imagine very serious objections would be expressed by the members generally if such an attempt were made—I mean from the members of this very organization, for it is not without amusement for me to observe that the United States chain, the Sheraton chain, is a member of that organization.

In this relationship we have formed with the Hilton interests we have opened the door to a world-wide association for our employees, for Canadian travellers, as well as bringing into Canada an interchange of interests from incoming travellers, conventions, and other international traffic.

I cannot imagine what better show place, or what better show window there could be, or what better opportunity for sales of our Canadian tourism than through direct association with one of the largest hotel operators in the world. And I would like to say that Canadian interests are international in the widest sense of the term from the point of view of trade and business, as well as in the field of practical world politics. In these circumstances I consider that we are performing a genuine service in the development of the two-way world-wide connections we have opened up through this Hilton Association. It would be short-sighted in my opinion, in the extreme if we neglected any opportunity to put our new and modern Montreal hotel into the big league of world famous hotels.

I have one or two final observations to make. There has been a suggestion that this is a reflection upon our Canadian hotel organization. That is complete nonsense. We are just as proud as any one can be of the organization existing in the present Canadian National hotels. We know that they give excellent service and that generally speaking the public is content with the service which we give. There is no reflection whatever on the existing organization. It is a fact that the Montreal hotel in any case would be a different kind of hotel business, and it would require a completely different kind of organization, whether or not we operated it ourselves. But to say that that constitutes a reflection on our Canadian organization just does not make sense.

As a matter of fact, we have no other hotel in our organization which begins to compare with this Montreal hotel from the point of view of size, and while we have a highly excellent organization, nevertheless it is very limited in that we do not have a large organization at all. We have only one hotel that exceeds five hundred rooms, namely, the Chateau Laurier. It is true that we operate the hotel Vancouver, but that is done in conjunction with the Canadian Pacific railway as a joint venture. It has 547 rooms. But the Chateau Laurier is the only hotel we operate which has over five hundred rooms, and it is a different kind of business altogether and not to be compared with the kind of venture we are talking about in Montreal.

We have only a very few senior men in the existing Canadian National hotel organization. As I have said, with respect to the recruitment of staff in the new hotel, the figure of 95 per cent came up for Canadian citizens. Exception has been taken to that, and some calculations have been made to try to indicate that that meant there will be quite a number of people coming from the United States. There is no such intention in the agreement.

This agreement does not attempt to spell out to the last comma everything affecting our relationship. This will be a mutual association in which confidence is expressed by both parties; and while we have taken care of the salient points we know perfectly well that as the association operates day to day, we will have to work out our problems as we go along.

I can say definitely to you that there is no intention of using five per cent in the way suggested. It is merely an arrangement so that we can be free, in conjunction with the Hilton people, to look around the world for individuals of special types and skills, to popularize this large convention hotel and to sell the kind of service which will be in demand by those big gatherings.

We might go to Paris to find some chef, who may be world-famous, and who would be brought over to Montreal to cater to the desires of the people who go there for the main purpose of spending their money. We intend to give them every opportunity to spend their money in our new hotel. It will be our greatest wish and desire to give them every opportunity to spend their money, and if we can find a specialist in that art any place in the world, then we will try to hire him.

This is not a reflection on the Canadian staff. All through this new association we have opened the door of opportunity to them, and they will now have opportunities for promotion through this gigantic Hilton organization, if they are prepared to volunteer for world wide service.

I have seen enough of the Hilton organization already to know that they will welcome any Canadian hotel personnel who have the qualifications to go into the larger field, and we have opened the door for them through this connection.

I cannot understand at all the suggestion along the same line that this has been an offence to Canadian pride. I think I am just as sensitive as anyone can be in regard to matters Canadian. I am just as proud of being a Canadian as I could possibly be. I cannot understand the suggestion that there has been any offence to Canadian pride. There are an endless variety of types of interchange of management and personalities between our two countries. We all are aware of examples of Americans providing management here in Canada, and vice versa Canadians who want to work in the United States.

We have employed a manager. We, the owners, have employed a United States organization to operate the hotel. We have hired them for that purpose, and why that should be an offence to Canadian pride is beyond my comprehension and I do not understand it.

The suggestion has been made that the Hiltons take no risk. That is not true. Anyone who knows the history of the Hilton organization knows that

the Hiltons are prepared to take a normal business risk. In case of an operating loss in any fiscal year, it is for their account and it is not to be recaptured out of subsequent years. If they do not get a reasonable profit in relation to their time and effort, they lose, just as anyone else would. Moreover the Hilton people provide the working capital for such things as food, beverages, and operating supplies of all kinds. They are for their account and on a cash basis, and they would run, I would think, in a venture of this magnitude, anywhere from \$1 million to \$1½ millions, which they would have in the form of working capital.

I desire to emphasize that the hotel remains in complete ownership of the Canadian National. The document is a contract for management. It is not a lease. I desire to emphasize that the Canadian National's identity is retained.

There was a suggestion in the newspapers this morning that the hotel would be named the Hilton Queen Elizabeth. That is absolutely wrong. There is no justification for that statement in any way, shape, or form. The only indication that the hotel is Hilton operated might be on such a thing as the letterhead; there might be something in small type on the left hand side of the letterhead for example indicating something of that kind, but we have not decided on the wording. I think we have decided on the principle. It would be something which would read like this: A Canadian National Hotel operated in association with the Hilton hotels. Something of that character; but the name Hilton would not appear in the name of the hotel or in the signs.

There is in the agreement, for example, provision that our present Canadian hotel staff will be given the preference in employment and we feel in that respect that we have safeguarded ourselves by stipulating that that is after our own requirements are met. That is how confident we are that they will be glad to get Canadian staff to service the hotel.

The hotel decor will be representative of Montreal, Quebec, and Canada, and if we fail in that objective it will be our fault. It will not be through lack of trying but this is a difficult thing to accomplish.

Let me finish what I am afraid is becoming a somewhat disjointed statement, because I am not speaking from notes. It is true that I have a record here in front of me with quite a few things bearing on this matter, but I am disregarding most of them because I feel that it might become too bitter. But I do want to leave this thought with you: that the group of senior officers who were appointed by myself to investigate this matter and to discuss the details with the Hilton interest are the senior officers of the company. They include the vice-president of research and development; the vice-president of traffic; the vice-president and general counsel; our comptroller, and the general manager of hotels. These officers made a thorough examination and recommended this transaction to the Board of Directors and to myself.

I suggest to you that in that group you will find as hard headed a group of businessmen as you can find anywhere in the world. And I suggest to you that they have had the experience and the knowledge to make a judgment of this kind. I suggest that you will not find any group in the world better qualified to bring managerial judgment to bear in a matter of this kind. I suggest to you that that group comes second to none in the country in terms of patriotism or a desire to serve Canada well.

I want to say one thing in regard to the agreement itself. I am prepared to give such details of the agreement as will enable a full appreciation of the nature of relationship.

The only reservation is in reference to particulars which would give information to our competitors which would give them an unfair advantage.

I want to explain that in this way: that the Hilton interests make contracts of management in many parts of the world and in conformity with their regular

practice the details are not revealed. If the details were to become available to Hilton competitors, or compared with other arrangements, it is quite obvious that the Hilton interests would be prejudiced. I want to say that it is perhaps ironical that I am obliged to emphasize that point, because the real reason for it is that our agreement with Hilton is not their general run of agreement. The reason is that Hilton was prepared to recognize throughout that the Canadian position and the Canadian status of our hotels entitled us to be treated on a basis of very special consideration. And we emphasized that throughout our initial negotiations, so that our agreement reflects fully the fact of our continuing ownership, that the project was fully financed, by us and that we accepted the full responsibility for building, equipping, furnishing and delivering the hotel ready for operation.

We have got a more favourable type of agreement, than is generally the case although you will read newspaper reports to the effect that it is the same sort of agreement that the Hiltons have in other countries.

Mr. MACDONNELL (*Greenwood*): My colleagues and I have some questions which we wish to ask, and I hope that the information which Mr. Gordon will feel free to give us will be adequate for our purpose. I wish first of all to make one or two general comments.

Notwithstanding Mr. Gordon's very emphatic statements, which I am sure were made sincerely, I think it is really far fetched, that anyone would have a feeling of shame from a national point of view, or be upset in any way about the making of this contract. Nevertheless it is a fact, in my opinion, that there has been very widespread feeling of that kind and I do not think it was unnatural.

We have pride in the Canadian National. As Mr. Gordon has indicated, we have pride in its hotel management and in the fact that other large hotels run by the Canadian Pacific and by the Canadian National jointly in Vancouver have held their own.

Indeed, I believe it is a fact that this is the first time there has been any substantial invasion of American talents at all, but my point is this, and I will be quite frank about it for the purpose of this discussion. It was a great disappointment to us that this had to happen, if it did have to happen. When the matter came up a year ago, as Mr. Gordon recalled, no suggestion of this kind was in the air. Indeed I think at that time Mr. Gordon very naturally assured us that it was within the competence of our own people to look after it, and he repeated that today. He said that he was quite confident that the Canadian National staff could have run the hotel. But for the reasons which he has given us it has been decided that such is not to be the case.

I wish to make clear that instead of that, we do approach this matter with a feeling of disappointment, and we feel that people are very much concerned. In particular we wish to know whether it was necessary to have this requirement. He speaks in one case of a greater hiring of management, but that did not seem to me to be the exact philosophy of this agreement. It seems to me that we have gone into a partnership, as far as management is concerned, in a junior capacity, and that is the thing which bothers me and gives me great concern.

Now, I shall just ask one or two questions and then my colleagues shall carry on—one or two questions on detail. The duration of the agreement we believe is fifteen years, is that correct?

Mr. GORDON: That is correct.

Mr. MACDONNELL (*Greenwood*): No option of termination within that period?

Mr. GORDON: Not unless an act of default takes place and the act of default can be a number of things having to do with the undertakings which Hilton

have given us. For example, we have a clause here which refers to the character of the service. If we were not satisfied that Hilton was giving the character of service contemplated by the agreement, that could be construed as an act of default.

Mr. MACDONNELL (*Greenwood*): I just want to ask one other question at the moment and then my colleagues will carry on. I want to ask this: would it not have been possible to have the assistance of the Hilton organization without the necessity of entering into this partnership? What I mean is, could we not have had the services which have been described and which I have no doubt are very effective which they can give in soliciting business throughout the United States?

Mr. GORDON: No, they were not prepared to discuss that kind of a contact for this reason, that they felt that the great thing they could bring to this hotel was their know-how and their connections with existing convention business. They wanted the Canadian hotel to be their Canadian link in respect of that convention business so that it would be rotated, with the Montreal hotel as one of their link operations.

In addition they made it clear to us that they felt that the reason for being able to retain this very valuable business was because they were experienced in knowing exactly what it is an individual convention wanted. They did not want to surrender that and therefore felt that they had to provide this service themselves.

Mr. MACDONNELL (*Greenwood*): But my question is could you not have had that service from them still retaining the management yourself?

Mr. GORDON: No, they were not prepared to talk that kind of a deal. They felt that they had to provide that service themselves to assure themselves that it would be in character and in keeping with what they were ready to offer to conventions.

Mr. MACDONNELL (*Greenwood*): But even though they were providing that service particularly in the United States was it necessary that in addition to that they should have the status which I now understand they have under this agreement and which is the cause of our chagrin and disturbance of mind?

Mr. GORDON: That is right, it provides for operation of the hotel mainly so that they would know the kind of service they could offer. I am glad you picked me up on using the words "hiring management" because there is a very narrow meaning in that and this agreement is much wider than that. It is not only a matter of hiring their management; it is the very wide association that we have obtained through the chain which is available to us.

Mr. FULTON: Hilton is getting advantages from this, are they not?

Mr. GORDON: I should not think they would dream of entering into an agreement unless they thought they would get some advantages out of it.

Mr. FULTON: Those advantages are over and above the cash they expect to get out of it?

Mr. GORDON: Well, I suppose they would have in mind that there is an advantage for them to have a Canadian hotel on their list. Yes, I would think so. They certainly have stressed to us that they regard their association with the Canadian National Railways as a prestige factor.

Mr. FULTON: That then is a factor over and above and quite separate from the cash remuneration?

Mr. GORDON: That is one of the reasons we were able to secure such a favourable agreement. They recognized that they too were making a good association.

Mr. FULTON: But the situation is that Hilton are getting paid and I fancy they would not make an agreement that did not in their opinion recompense them from a strictly financial point of view. They are getting paid all this money because they render this service and getting another advantage besides?

Mr. GORDON: They would expect to get a profit on their own service plus the intangible advantages that you are referring to, but remember the first criterion which we set was results under our own operation and the board of directors sat in judgment on in appraisal of our judgment, that they would bring to the hotel a benefit to the Canadian National which would exceed what we hoped to get ourselves even after they had their remuneration.

Mr. FULTON: That was your main reason for the agreement?

Mr. GORDON: Yes.

Mr. FULTON: What was your thought in the maintenance of pride in this hotel and Canadian prestige that they were not able to give to it?

Mr. GORDON: None at all.

Mr. FULTON: I took down your words. As I recall them, "They were able to meet almost every point we raised in this respect."

Mr. GORDON: That is my usual understatement. They are meeting every point I can recall that we raised and, of course, we were reasonable too. We didn't talk about anything that was too absurd, but on the points which we felt were a factor and needed consideration they met us readily on them.

Mr. CARRICK: I do not understand that Mr. Gordon's discussion about Hilton being willing to meet the Canadian National Railways being limited to meeting them on points involving Canadian prestige, as Mr. Fulton puts it.

Mr. FULTON: I was referring to that in that particular field.

Mr. CARRICK: I thought your question when you put it to Mr. Gordon just now—

Mr. FULTON: Related to that particular point, yes.

Mr. CARRICK: His statement was a general one.

Mr. FULTON: Now, to what extent, if any, do they have any say in the design and styling of the hotel?

Mr. GORDON: None.

Mr. FULTON: None at all?

Mr. GORDON: None at all except that we have the right to ask for their advice and assistance if we wish it and I may say in that respect that what has happened already is that in the course of their going over our plans and sitting down with us they have made a number of very, very helpful suggestions indeed—suggestions which will, we are sure, show us a profit factor of quite sizable sums. You see, if I may make that a little bit clearer, let me take one particular type of thing. We know a great deal about hotels. Our general manager of hotels is as well qualified as any man and he tries to keep in touch with what is going on in the hotel business, but he has not anything like the field of opportunity that Hilton has in this large area.

Take, for instance, designing a hotel kitchen. I think Mr. Sommerville, our hotel manager, would be the first to acknowledge that he has learned a great deal from the experience that Hiltons have in this work, in saving space, giving better service and designing more modern kitchens because Hilton can afford to put specialists on that one thing. Mr. Sommerville is dealing with bedrooms, kitchens and everything else, but Hilton is able to break it up and put specialists on kitchens and so forth.

Mr. FULTON: There are other organizations that render that service too?

Mr. GORDON: That is right.

Mr. FULTON: How is the money for the construction of the hotel being arranged, Mr. Gordon? Could we just have that background—not in detail, but just in general the background?

Mr. GORDON: Well, I had an item in here to refer to this reference to taxpayers' money but I thought I would not deal with it until you mentioned it. The fact is that this hotel is financed as part of our regular capital budget. What that means is that we have sold Canadian National Railways bonds to the public, the ordinary investors have bought Canadian National bonds. Now, so long as we are able to make this operation sufficiently profitable to pay the interest on those bonds and look after the depreciation then there is no strain on the taxpayers' pocketbooks at all. If we earn more than that we contribute to the taxpayers because the profit over and above the earnings necessary to pay interest goes into our general pool of earnings in the railway and will either, increase the surplus or reduce the deficit.

Mr. FULTON: To that extent, of course, anything which you pay Hilton in cash for their managerial services will reduce the amount available for that contribution to the general pool of railway earnings?

Hon. Mr. MARLER: Just the same as any other expense.

Mr. GORDON: It depends where you start from. If we compare this against operation by ourselves versus operation with Hilton then my judgment is that the returns that will be realized through Hilton operation would be greater than they would be through our own.

Mr. FULTON: That is what you say, you are getting back what you pay, but the important factor is that what you pay to Hilton in return for his managerial services will have to come from what would otherwise be available for the general pool of railway earnings?

The CHAIRMAN: You would have to pay for management anyway, would you not?

Mr. GORDON: Yes, it would depend on the net result if the Canadian National Railways as an independent unit were operating it as compared to the amount accruing from the Hilton unit.

Mr. FULTON: Those are all factors which depend on the size of your profit?

Mr. GORDON: That is true and I expect from Hilton a higher gross profit than we would get under Canadian National management.

Mr. FULTON: The point I think, is clear now that the payments must come out of that fund. Now, did you make any inquiry as to whether other persons or organizations in the position of bringing in similar advantages would be willing to enter into an arrangement to do so without necessarily taking over management?

Mr. GORDON: The only other organization that we could see that had the ability to offer us what we thought we were getting from Hilton would have been the Sheraton chain. The Sheraton chain is already a competitor in Montreal. We therefore thought that was impractical and we did not invite them to talk to us for that reason.

Mr. FULTON: Now, would you feel that you were free to indicate to the committee the percentage division—there is one question perhaps previous to that. I think you said—I took your words down, I want to be as accurate as possible—"The agreement covers only operations of the hotel and the remuneration is to be on the basis of a split of the percentage of the profit after all costs of operation." Now, what is contemplated there when you say "a percentage of the profit after costs of operation"? Here I am not asking for figures.

Mr. GORDON: The system that is followed is the system of uniform accounting for hotel operations as has been used by the Canadian National Railways itself for many, many years. It is a standardized style of hotel accounting and it is used by most hotels on the North American continent.

Mr. FULTON: To ourselves as laymen then the words "profit after cost of operation" as used there includes profit remaining after providing interest on bonds and providing for depreciation. That is operating profit, in other words?

Mr. GORDON: Let me put it this way: out of our share we pay interest and we pay the functional depreciation on the building itself. The charge for the maintenance of the furniture and equipment which is equivalent to depreciation is part of the operating expense, but the only thing we take out of our earnings or our share of the profits is the interest and the depreciation on the building which, of course, is not very high in a building of this kind.

Mr. FULTON: It is somewhere between operating profit and net profit, is it? The split would be somewhere between the actual operating profit and net profit?

Mr. GORDON: I am afraid I do not understand that question.

Mr. FULTON: What I had in mind was, operating profit, as I understand it, would be gross revenue less operating expenses?

Mr. GORDON: Yes.

Mr. FULTON: Net profit would be profit remaining after provision for depreciation, taxes and interest?

Mr. GORDON: I think that is substantially right, yes.

Mr. FULTON: Would you feel free to provide the committee with information—

Mr. FAIREY: May I interject there? Did Mr. Gordon not say that losses would be charged to the Hilton chain?

Mr. GORDON: In any year if there is a gross operating loss that is payable by Hilton.

Mr. KNIGHT: In other words, it is their responsibility to produce profit. If they don't it is their loss?

Mr. GORDON: If they do not, they take care of the gross operating loss. If there was a gross operating loss in this hotel I would be very disappointed indeed.

Mr. FULTON: Do you feel free to provide the committee—and I ask you to consider this carefully because there may be a diametrically opposite point of view—to provide the committee with these estimates and as far as I am concerned it would be the only one I would ask for—the percentage figure of the split?

The CHAIRMAN: I don't know what you think about it, Mr. Gordon, but I think that goes back to the same principle we were discussing before that probably it is not proper to have that information and that the Canadian National probably are not able to divulge it.

Mr. GORDON: I would like, on that point, Mr. Chairman, to try—although I know it does not look to be very hopeful—to convince the members of the committee on the reasonableness of that position. As I said in my earlier statement the Hilton people are making management deals of this kind all around the world. They have hotels under management operations in some seven countries—Cuba, Turkey, Spain—; they have twenty-seven hotels and nine under construction in one form or another.

Now in each one of these cases they are making bargains and it would be embarrassing for them and unfair if the exact state of the deal that they made with us became a matter of public knowledge because obviously that deal that

they made with us would be used as a lever by other negotiators to try and secure as favourable a position. Therefore, I think it is reasonable that we should preserve the business-like attitude that in a transaction of this kind they are entitled to the ordinary secrecy of business transactions.

I am not arguing for that because I have anything to hide or anything to fear from divulging the information, but it is, I think, a question of a very serious principle that the Canadian National Railways should be in a position to make transactions of that kind where the other party can depend upon it that his business is not going to be told to all and sundry. It is a very essential requirement for the successful functioning of Canadian National Railways management and therefore I do earnestly urge upon you to think very seriously upon that fact. I state that as a matter of very considered opinion.

Mr. CARRICK: Would you go so far as to say that if the other party knew before an agreement was entered into that facts of this kind were going to be disclosed that it would probably make it impossible for you to enter into such an agreement?

Mr. GORDON: I would presume that to be the case. I was depending on that precedent in connection with these matters. It was understood in our discussions with the Hilton interests that there would not be public disclosures of this kind and I would only point out as a matter, I am sure, within the knowledge of every member of the committee that if this deal had been made with the Canadian Pacific Railway there would not have been the slightest suggestion that an item of that kind would have been a matter of public disclosure.

What I am urging upon you is—reflect, I do implore you, upon the damage you are insisting upon doing to the Canadian National management and the successful functioning of the Canadian National Railways as a business organization. This is a matter which has been debated through the years. In every debate that I have read right back to 1918—and you will find it in the words of people as eminent as Sir Robert Borden—that principle has been upheld in every case that has been challenged I do say to you with all the earnestness at my command and with the responsibility I have as president of the Canadian National Railways that an insistence on making such information public will be very damaging to the Canadian National Railways management.

Mr. FULTON: I am going to take this position, that I am not going to pursue this at the moment. I appreciate Mr. Gordon's point of view, I appreciate the way in which he stated his position although he has stated it quite firmly. It is a matter that we would obviously have to consider very carefully. I feel that there are grounds for saying that this contract does not fall within the general principle at all as enunciated for a number of reasons which I am not going to recite at the moment because if I decide to follow it up I will discuss it and deal with it there. But I think there are a number of reasons and particularly the fact that this is a new contract giving to an American concern the management of a Canadian publicly owned asset.

Mr. GORDON: We have not lost the ownership, remember.

Mr. FULTON: I have not said you have. I said giving to an American concern the management at a profit of a Canadian publicly owned hotel.

Hon. Mr. MARLER: I think it would be more fair to say of a Canadian subsidiary.

Mr. MACDONNELL (*Greenwood*): Organized for this purpose.

Hon. Mr. MARLER: Subject to taxation and Canadian law.

Mr. FULTON: A publicly owned concern. Therefore I feel that the principle enunciated by Mr. Gordon does not by any means cover this particular trans-

action but the point is a fundamental one and I will need to let somebody else take it out of my hands. I am going to reserve the right to make any motion in this regard until I have had a chance to think it over further and consult with my colleagues.

Mr. KNIGHT: My question—perhaps we have lost the drift of it now, but leaving out for the moment the advisability of a public statement in regard to a deal of this kind would Mr. Gordon assert that his interested competitors do not ultimately find these things out anyway with a fair degree of accuracy? I remember a few years ago Mr. Gordon's own salary was being—

Mr. GORDON: There is no secrecy about that. It is in an order in council.

Mr. KNIGHT: There was at the time.

Mr. GORDON: Any salary I have been honoured in receiving from the Canadian National Railways has always been in an order in council required by statute.

Mr. KNIGHT: I may not be correct, but it seems to me there was an issue here in this committee when someone among my hon. friends asked for a statement of your salary.

Mr. FULTON: Was it asked for here?

Mr. KNIGHT: Yes, it was.

Mr. GORDON: There has never been the slightest question, Mr. Chairman, about revealing the salary of the president of the Canadian National Railways. I challenge that statement.

The CHAIRMAN: I do not know that that has anything to do with it.

Mr. FULTON: It might not have been yourself, it might have been Mr. Vaughan.

The CHAIRMAN: I think we are discussing another matter entirely and there is no need to get off on a tangent.

Mr. KNIGHT: Mr. Chairman, I was merely using it as an example. I was going to say most of us discovered fairly closely what Mr. Gordon's salary was by some means or another, but I was wondering if Mr. Gordon would answer my question. Is it not likely that these interested competitors in most of these cases discover anyway the information that is to be denied this committee?

Mr. GORDON: Let me put it this way to you, Mr. Knight. This agreement has been in effect since November 8 of last year. I do not know of anything that has been the subject of more intensive curiosity during my term of office in Canada. Is there anyone in this room who knows it? You are asking if secrecy can be maintained. If secrecy can be maintained right in this country where there is more curiosity about it than elsewhere I think secrecy can be maintained anywhere.

Mr. KNIGHT: I asked if in your opinion secrecy could be maintained.

Mr. GORDON: That is right, and this is an example.

Mr. HAMILTON (*Notre Dame de Grâce*): Mr. Chairman, I have one or two questions on this. Before I put them, I should like to say that I certainly think that the railway hotels in Canada over the years have set a standard of operation which has been extremely high, and it has benefited the hotel business generally. I think that is one of the major reasons why we have such a high standard of hotel operation here in Canada. Any questions which I may ask are made with an inquiring mind, and there is no attempt to criticize the agreement at this point. If criticism on my part is evident, let it be said quite plainly. Regarding this division of profits as between Hilton and the C.N.R., and leaving aside the question of the proportionate disposition, I think it would be helpful if we could establish the point at which the division

is made, and I think we can find common ground immediately, because probably Mr. Gordon and Mr. Armstrong are familiar with the American Hotel Association's standard practice. Under those circumstances you first of all take your departmental revenues and departmental running expenses as a deduction and you arrive at a gross profit. You then deduct your fixed operating charges, such things as administration, repairs, advertising, and so on, to arrive at a house profit. You then deduct your capital expenses, which in general it could be said continue under the hotel, to arrive at the net profit. Having said that, I should like to ask Mr. Gordon to tell us the point, whether it is gross profit, house profit or net profit, which is being divided between Hilton and the C.N.R.?

Mr. GORDON: Have you before you, Mr. Hamilton, the table shown in the book of the uniform system of accounts for hotels?

Mr. HAMILTON (*Notre Dame de Grâce*): I am sorry, no.

Mr. GORDON: In the table there, at all events, following down the headings which you mentioned, there is this item commonly referred to as profit available for interest and depreciation. That is the point at which the split takes place.

Mr. HAMILTON (*Notre Dame de Grâce*): That would be after all expenses for maintenance, repairs, advertising, administration expenses and that sort of thing?

Mr. GORDON: That is correct.

Mr. HAMILTON (*Notre Dame de Grâce*): So that out of the sum available to the C.N.R. you will pay interest and depreciation on the bill?

Mr. GORDON: That is right.

Mr. HAMILTON (*Notre Dame de Grâce*): Is it fair to say that the Hilton corporation would have comparatively little to charge against their operation, since everything would have been charged in there before arriving at this figure?

The CHAIRMAN: I think that question was asked before.

Mr. CARRICK: Mr. Gordon has stated what they are entitled to do. Your question was, "Is it fair to say that Hilton will have to deduct comparatively little?" I think that what they have to deduct is a matter of record.

Mr. MACDONNELL (*Greenwood*): Do you not think that Mr. Gordon might have something to say on that?

Mr. CARRICK: May I put my position before the chairman? There is certainly an interest before this committee in obtaining the facts, but there is certainly an interest in preserving the competitive position of the Canadian National Railways vis-à-vis the other hotels.

Mr. MACDONNELL (*Greenwood*): Nothing has been said so far to disagree with that.

Mr. CARRICK: I am endeavouring to point out that Mr. Gordon is being subjected to a question which I do not think is fair, and I submit that it is my right to point that out to the chairman.

Mr. FULTON: Do you think it is out of order? It does not matter what you think about its fairness.

Mr. CARRICK: I do not think it is out of order for any member of the committee to bring to the attention of the chairman anything which he thinks is unfair.

Mr. FULTON: There is no grounds for objection if you do not think it is out of order.

Mr. CARRICK: I shall put it on that basis if you so desire, Mr. Fulton.

Mr. GORDON: Perhaps I could go this far. I am in the same trouble as in the other transaction, that if I keep on answering first one question and then another, I cannot keep track of them. Mr. Hamilton's questions are very clever. I am willing to answer any questions that are reasonable, and I do not mind making generalizations along the lines Mr. Hamilton is seeking, but please do not press me to the point, where, by adding one indiscretion to another you get me into the position of having revealed all. I am not that clever; I cannot keep track of all the questions, but I can say in a general way that the amounts chargeable to operating expenses by Hilton are direct charges only. There is no indirect charge to the operating expenses of this hotel for the Hilton general supervision or anything of that kind. Expenses must be properly identifiable in the accounts, and everything in the accounts, incidentally, is subject to careful check by our own officers, who are entitled under the agreement to call for any breakdown or analysis which they deem fit. The books are at all times available for our inspection.

Mr. HAMILTON (*Notre Dame de Grâce*): That is a very fair and satisfactory answer to me.

Mr. GORDON: Thank you.

Mr. HAMILTON (*Notre Dame de Grâce*): In referring to the fifteen year portion of the agreement and in answer to Mr. Macdonnell's question regarding the termination of operations clause, you said that there was no termination clause as such, but it could be terminated if Hilton was in default.

The CHAIRMAN: "An act of default" was the wording that was put in.

Mr. HAMILTON (*Notre Dame de Grâce*): I am not worrying too much about the actual wording at this point. What interests me is that, if Hiltons wanted to get out of this agreement, all they would have to do, as I understand it, would be to draw away their services or permit some act of default, which would more or less put the C.N.R. in the position—

Mr. GORDON: I would ask you to believe that in the C.N.R. we have officers who are capable of protecting our interests, and all these points have been provided for. Hilton of Canada is a subsidiary company organized for this purpose. It may, in fact, hold other Hilton hotels in due course. It does not necessarily mean that Hilton of Canada will be confined to this hotel. Moreover, the Hilton International is a guarantor of the agreement.

Mr. HAMILTON (*Notre Dame de Grâce*): I think that is satisfactory. Assuming that those parties to the agreement are in good faith, it is a fifteen year agreement which will remain for fifteen years?

Mr. GORDON: That is correct.

Mr. HAMILTON (*Notre Dame de Grâce*): Now, Mr. Gordon has told us in his statement that it restricts Hilton from competing with other C.N.R. hotels in Canada.

Mr. GORDON: Yes.

Mr. HAMILTON (*Notre Dame de Grâce*): Is there any restriction whatsoever on Hilton competition in other parts of Canada with other hotel units, for example, in Toronto?

The CHAIRMAN: He did not say that at all.

Mr. GORDON: There is one qualification which I should have made, and that is that at the time of the discussion of this agreement the Hilton interests had been in discussions about the possibility of opening a hotel in Vancouver. So we were not able to insist that that blanket agreement requiring no competition with C.N.R. hotels could be made applicable to Vancouver. But what we did get them to agree to was that if the Hilton interests decided to go ahead with a hotel operation in Vancouver, they would discuss the proposal with us

and give us an opportunity to see whether a joint operation would be feasible. In other words, we would have the first refusal if they decided to go into Vancouver. Apart from that, the undertaking is a blanket one. Nowhere, where there is a C.N.R. hotel in operation, will Hiltons enter into competition.

Mr. HAMILTON (*Notre Dame de Grâce*): Is there anything in the agreement that indicates that the C.N.R. would have the opportunity to build a hotel first, if, for example, Hiltons wanted to go into Toronto?

Mr. GORDON: Absolutely, no.

Mr. HAMILTON (*Notre Dame de Grâce*): My next question is this. Is there anything in the agreement by which the C.N.R. would have the control or a measure of influence over the way in which Hilton presents this hotel in its advertising, and things like that?

The CHAIRMAN: That question has already been answered. Mr. Fulton asked with regard to the styling of advertising or design, and it was stated that there was no restriction on that.

Mr. HAMILTON (*Notre Dame de Grâce*): I think that his reference was to the actual hotel itself and the styling and contents of the hotel.

Mr. GORDON: We have not a specific clause which restricts them in regard to the kind of advertising. We have a clause which refers to the rates and charges of the hotel being set so as to be acceptable and attractive to the community and that, in regard to the general question of public relations, due consideration will be given to any recommendations made by the C.N.R. having to do, for instance, with visiting officials or dignitaries or matters of that kind. As I said earlier, we do not think it is possible to dot every "i" and cross every "t" in this agreement, but we are satisfied that the character of the relationship will be such that if we have cause to take objection or discuss with the Hilton people anything which we thought was offensive or did not agree with our ideas of things, I am sure there would be no difficulty, because they are in the business to make a success of it and look to us as advisers.

Mr. HAMILTON (*Notre Dame de Grâce*): If they did wish to present in their advertising this hotel as a Hilton hotel, "The Queen Elizabeth Hilton", it would be a matter of negotiation and discussion between the C.N.R. and the Hilton organization to obtain a change in that? You have already indicated to us that you would be strongly opposed to it.

Hon. Mr. MARLER: Is it not almost self-evident that, if the advertising of the hotel was done under a name which did not appear in it, that would be a flagrant violation of the contract? It seems to me that that is obvious.

Mr. GORDON: Let me read the actual paragraph in this connection. "The hotel shall be identified publicly as a Canadian National hotel associated with Hilton hotels".

Mr. HAMILTON (*Notre Dame de Grâce*): I am exploring this point, because I think it is of wide public worry at this time. It would probably be advertised in a manner similar to the present Hilton advertising. I have a copy of a Hilton advertisement here, and it says, "Two great Hilton hotels in Washington". Under that it lists the Hilton hotels in various places, then it lists the Statler hotels, and then hotels under construction. There will probably be another heading for this hotel.

Mr. GORDON: I do not think that they will do that. In fact, I have seen a preview of the advertising which they are ready to run, and it does not follow that line. I have no doubt that they will discuss it with us and accept our views as to the appropriate character of the advertising.

Mr. HAMILTON (*Notre Dame de Grâce*): Turning for a moment to the ability of the Hilton organization to keep in the hotel a high degree of average

occupancy, I believe that it was stated in the proceedings of the committee last year: "Our committee which considered the suggestion for this hotel came to the conclusion that there would be a high degree of occupancy". I assume from your observations that there would be a higher degree of occupancy under Hilton's management than there would be under your own?

Mr. GORDON: I think that under Hilton's management there will be a sustained high degree of occupancy. That is the important factor. We thought, as I said to you, that there would be a high degree of occupancy, but the important thing is to try to avoid the peaks and the valleys. With the organization which Hiltons has, with their great back-log of business-getting ability and their associations available to us, we believe that we will sustain the occupancy at a higher rate than we would otherwise, and that will have a very important effect on gross revenue.

Mr. HAMILTON (*Notre Dame de Grâce*): Arising then from that question is another which relates to the distribution of the profit at the end of the year between the organizations. Mr. Gordon, I think, earlier told us that it was the opinion of his committee and himself that under this agreement there would be a larger gross profit coming to the Canadian National Railways than if the Canadian National Railways operated the hotel themselves. What would be your views, Mr. Gordon, on the net profit on the operation under this agreement as opposed to a straight Canadian National Railways operated hotel?

Mr. GORDON: The same thing applies. We believe that the actual money which we will get on any basis that you want to figure it—if you want to make it that general—will be better under Hilton operation than it would be under our independent operation for the reasons I mentioned. Moreover, I want to add this, that we also believe that in the period of bad years which may come that we will have a much better chance to avoid the lean years which do overtake the hotel industry from time to time and that is something that I personally feel very happy about because I have a deep personal interest in this hotel.

I want to remind you that this is a much larger issue that we are talking about than just a hotel. I can remember when very sneering references were made to the "hole in the ground" in Montreal. I would like to remind this committee when I took over the presidency of the Canadian National Railways that in large measure the "hole in the ground" was still there and I told this committee that as a matter of considered judgment we had decided that the hotel was one way to fertilize that very valuable piece of real estate. Although it was a "hole in the ground"—we felt it was one of the most valuable pieces of real estate in Canada if it was fully developed and we still do. We still show confidence in it. We were the first ones to show that confidence and I think when we did crystallize the fact that we were going to put our money into that area we said it would develop a centre which I hoped and expected would attract private enterprise. I am in a position to tell you that since we have proceeded with this hotel project and as soon as it could be shown that the Hilton interests were interested in the area we have had some very encouraging inquiries about development possibilities. I hope in the reasonably near future to say something about some very large plans in that connection, which I hope will be regarded as a feather in my cap and I won't be coming here for money—and that may be a new departure much to be desired. But I do say this, and I know what I am talking about, that there is a new interest in this area and that new interest will be evidenced in a development which will be one of the biggest real estate developments in this country.

Mr. JAMES: Isn't it also true, Mr. Gordon, that through this one development in Montreal you and many others in your organization have great hopes that this is going to be of considerable benefit to the whole Canadian National Railways system across Canada?

Mr. GORDON: I do not think there is any doubt about that. We are tapping here an association, as I say, that is world-wide and when a traveller in Spain makes inquiry about Canada through a Hilton hotel he is going to be referred to the Canadian National, whether he is going to Ottawa, Toronto or wherever it may be. The first choice will be a Canadian National hotel and, we hope, a Canadian National routing of passengers for traffic.

Mr. BELL: Was that discussed at the time of the taking over of the whole Canadian National Railways system?

Mr. GORDON: No, that has not been discussed but I do not rule out the possibility.

Mr. HAMILTON (*Notre Dame de Grâce*): Mr. Chairman, may I say that in this connection that is one thing which has given me some pause with the emphasis on the Hilton organization as a sales organization. Because of my slight knowledge and from certain statistical information I am impressed with the very fine statistical and sales organization that the Canadian National Railways has throughout the United States and in other parts of the world. If we turn to pages 30 and 31 we find a list of the principal sales and general offices of the Canadian National. They have approximately forty which cover not only the major Hilton cities but many besides. They have them in Europe to the number of seven or eight and they have three in Australia and New Zealand and it would seem to me—and I will ask the question—it would seem to me that these organizations might have been in a very good position to do for the Canadian National Railways what Hilton is doing.

Mr. GORDON: That organization has nothing to do with hotels at all. That organization has to do with the finding of freight connections and traffic connections and passenger connections, tourist travel, etc. They are not competent in the field of hotel convention business. They have never been used for that purpose and as far as I am aware apart from contacts with casual travellers they are not equipped to assume the problems that would be involved in hotel convention business.

Mr. HAMILTON (*Notre Dame de Grâce*): Perhaps I should state this as my opinion. Would you agree that a process of training and supplying information to these people might have enabled them to do this job in exactly the same way as if they were going into a sales organization?

Mr. GORDON: That means that they are doing nothing now. I can assure you that these men all feel they are working pretty hard now and moreover you cannot just suddenly decide you are going to train men in how to get hotel conventions. There is a lot more to management than that. These men are not suited for that type of work at all.

Mr. HAMILTON (*Notre Dame de Grâce*): Well, we will leave that because it is a matter of opinion purely.

Mr. GORDON: It is a matter of opinion which touches very deeply on the matter of my judgment in the management of this property and I tell you from a staff point of view the suggestion you make is impractical.

Mr. HAMILTON (*Notre Dame de Grâce*): Now, you in your explanation to the committee say that the new hotel is a completely different kind of hotel because it was dedicated to much greater dimensions and I think that is implicit throughout. I have made certain inquiries in Montreal and elsewhere and another thing that gives me some cause to hesitate about this is that there are only about forty to fifty really large-scale conventions which could be

accommodated in this hotel which could not be accommodated with the facilities which are now available in Montreal. I am wondering whether that is so.

Mr. GORDON: Does this information come from our competitors?

Mr. HAMILTON (*Notre Dame de Grâce*): No.

Mr. GORDON: I imagine they would say so; but let me give you a personal experience. When I attend the Railway Club, which is a large gathering in Montreal, I cannot find a hotel that can handle it short of going into three separate rooms. There is no hotel in Montreal right now that can handle a convention anything like the size planned for this new hotel. I doubt if any Montreal hotel presently can handle more than 500 people as comfortably as the basis on which we would do it. But more important still, I do not want you to think of this hotel as providing merely eating space and expensive rooms. A great feature of it will be rooms for displays. We will have large elevators which will take in a whole truck load of displays on the ground floor and take it up to the display rooms. We will have all sorts of facilities. There will be exhibition room and banquet rooms and private dining rooms and that sort of thing, which are all designed so that they can be thrown open together in a huge area when required. But one of the most important things is the available space for exhibitions and displays at those conventions, because, as you know, at the present time there is very little display space available in Montreal.

Mr. FOLLWELL: I was wondering: now that we know that the agreement is in capable hands of management, can we find out what progress is being made and when the hotel itself will be in operation?

Mr. GORDON: That is one of those questions which is always a worry to answer. I can say that satisfactory progress is being made, but we have had delays in different items. The business of trying to erect a huge building of this kind is full of headaches and any particular time, if you should talk to the architect, you will feel sure that it will never be built, everybody gets depressed. However, I think we would have to assume that we are about two or three months behind schedule. We hope to pick it up, and we might be able to do so. One of the factors which delayed us a bit in getting on with our planning was the rather delicate question of how to introduce into a large modern hotel the kind of decor and design which will give us "Canadianism" and a "city of Montreal atmosphere," and a "province of Quebec atmosphere" which we would like to have in this hotel.

I have been successful in persuading some well-qualified people to act. They are French-Canadians mostly and they have a background and knowledge of the arts and things of that kind. They will join me in an advisory committee to help in that respect, and I hope we will be able to step up progress in that connection.

Mr. CARRICK: I wonder if you could tell us a little more.

Mr. GORDON: 1957 is the expected date of completion.

Mr. CARRICK: Could you not tell us a little more about this point. I gathered the impression that there was a trend in the operation of a hotel like this, towards a large management contract. Am I right in thinking that? You have the Sheraton group just in recent years, and now you will have the Hilton group?

Mr. GORDON: There was a very interesting article in the January issue of Fortune magazine, which was headed "Chain Reaction in Hotels". It deals with the very point you mention, the tremendous turn-over of ownership and management of hotels which is taking place particularly in the United

States today. It says that there are a number of chains, but the best known and the largest is the Hilton chain which is recognized as the largest, and then the Sheraton chain which is in close competition. You may recall that recently the Hilton people absorbed the Statler chain of hotels, which was a big operation in itself.

Mr. CARRICK: In making this arrangement you would be fitting into that modern idea?

Mr. GORDON: That is right.

Mr. CARRICK: You did emphasize the intensive investigation which was made by your senior officers before going into this deal. I think everyone is impressed with the fact that it has been judged from the business standpoint. However, I did not hear you say very much about the directors going into it.

Mr. GORDON: Oh yes indeed. This was before the board of directors of the railway on numerous occasions. As a matter of fact the draft form of agreement passed through successive stages before we came to the actual terms, and I do not mind telling you that we were divided in our own counsel about it in the first instance. We did not by any means arrive at an agreement quickly. I understand this is even possible in the cabinet, and that it sometimes takes quite a little while to get complete unanimity.

Hon. Mr. MARLER: Yes, and even in the House of Commons.

Mr. GORDON: And it applies to us too. But as we went through successive examinations of the kind of arrangements that could be made, we made improvements in our negotiations and we finally arrived at the unanimous conclusion that it was a good deal and one that we should make.

The CHAIRMAN: Shall the item "The New Hotel" carry?

Mr. BELL: You said that you were careful to point out that when negotiations were going on there would not be any interruption in the construction of the hotel. What did you mean by that?

Mr. GORDON: I was talking about my very first interview with the Hilton people, and I warned them that if they had it in mind that they wanted to talk to me about taking over the hotel or building, or completing it from the point we were then at, that I was not interested, because I felt it would cause too much delay and difficulty; and that with the experience which we had had in former years we were not prepared to give up ownership of the hotel.

I was quite sure of this and our considered opinion was if we were to stop construction at that point and try to change the whole approach to the hotel it would be most unwise and we would be far better off to keep the hotel ourselves and consider a separate bargain with respect to the management when the hotel was completed.

Mr. BELL: These conventions which you mention are mainly American conventions?

Mr. GORDON: The great majority of the conventions will come from the United States. There are of course Canadian conventions and conventions from other countries, but the big bulk of them come from the United States.

Mr. BELL: I would hope that we would not need the Hilton chain to get us a railway convention from Montreal.

Mr. GORDON: No.

Mr. HAMILTON (*Notre Dame de Grâce*): I would like to bring one matter in this connection to the attention of Mr. Gordon because it is a question of some uncertainty in Montreal.

Mr. GORDON: What was that?

Mr. HAMILTON (*Notre Dame de Grâce*): I would like to bring to your attention one matter which is causing at the present time a certain amount

of uncertainty in Montreal. This is shared not only by the major competitors of the hotel but by other organizations in Montreal. Most of these big conventions are booked two or three or four years ahead and the organizations in Montreal which have approached me feel at the present time, one, that they are having difficulty getting information that would enable them to present these new motels as a possible place for these conventions, and secondly, that there has been a certain amount of uncertainty as to who they should turn to. I am thinking now specifically of one organization. This is a hotel in Montreal which first approached the C.N.R., and it was referred by them to the Hilton organization. They then wrote to Mr. Sims of the Hilton organization, and they were referred by him in turn to their international organization. Now they are waiting for, and in my judgment they need not have expected, a reply.

Mr. GORDON: I am sorry to hear that there should be any confusion in that respect. We thought the matter was quite clear. I would suggest that if there is any uncertainty you should ask them to get in touch with me personally, and I can set them straight.

Mr. HAMILTON (*Notre Dame de Grâce*): With full information as to what will be the position in 1957?

Mr. GORDON: To the extent to which we can give it. I do not think we would be able to give a firm date in 1957 of which we would be sure, at least the beginning of 1957.

Mr. HAMILTON (*Notre Dame de Grâce*): Would you be sure of it for the end of 1957?

Mr. GORDON: It is doubtful.

Mr. HAMILTON (*Notre Dame de Grâce*): Would you be prepared to discuss the matter with them?

Mr. GORDON: Yes, we shall tell them what the situation is and give them all the information we can.

Mr. HAMILTON (*Notre Dame de Grâce*): My last question on this hotel is this: at the time when the approach was made to request permission to use the name of the Queen on this hotel, (a) was the agreement with Hiltons under consideration, and (b) was any indication given in the request to the Queen that this Hilton agreement was concerned?

The CHAIRMAN: I do not think that that is a proper question for us. I think it is out of order entirely. You asked that question in connection with the management of the new hotel. It has nothing to do with the management at all.

Mr. GORDON: I do not think that we should bring Her Majesty's name into this discussion.

Mr. FULTON: We are bringing the Hilton corporation into the discussion with regard to the permission to use the name, "The Queen Elizabeth Hilton".

The CHAIRMAN: The name is "The Queen Elizabeth", as I understand it.

Mr. GORDON: That is right.

Mr. JAMES: Along that line, I have a question written out. It may be considered a little facetious, but I thought it might be of interest and I jotted it down, for the benefit of our friend here, with the nervous nails, who is still fighting the battle of 1812. Is it your considered opinion that the Hilton hotel deal in no way breaks down Canada's ties with the British Empire?

Mr. GORDON: To the best of my knowledge and belief, my answer would be "yes".

Mr. FULTON: With the present government in power, I do not think that that is even within Mr. Gordon's control.

Mr. MACDONNELL (*Greenwood*): I hope that Mr. Gordon will be able to answer this question within the limitations which he feels are necessary. If there is an actual operating loss, Hilton pays it?

Mr. GORDON: Yes, gross operating loss.

Mr. MACDONNELL (*Greenwood*): I understand what you mean is, if actually you do not get enough dollars coming in to pay for the actual expenses of the hotel?

Mr. GORDON: That is right, in a nutshell.

Mr. MACDONNELL (*Greenwood*): Would operating losses not be arrived at after payment of taxes?

Mr. GORDON: Are you referring to income taxes?

Mr. MACDONNELL (*Greenwood*): No, real estate taxes.

Mr. GORDON: Well, that raises the question as to what goes into the operating expenses.

Mr. MACDONNELL (*Greenwood*): Well, I just wanted to be sure I understood it.

Mr. GORDON: Generally speaking, the situation is that if the gross revenue is not sufficient to meet the amounts which are charged for expenses then it would produce a loss and Hilton would pay that.

Mr. MACDONNELL (*Greenwood*): Now, I come to our share. That loss, of course, is arrived at before any interest loss. Now, out of our share we pay the interest charges on borrowed money and we have, of course, to take care of any depreciation. We feel that that raises an important point. My question is this—and there is not intended to be any catch in this, Mr. Gordon—can you give us some indication of what that means in terms of the operation of the hotel? For example, could you tell us having regard to what has to come out of our money, that is to say, interest and depreciation—could you tell us roughly at what rate of occupancy of the hotel we would break even? I would feel that would give me some understanding. However, if there is some other way of meeting it that you think is just as illuminating I would be satisfied with that.

Mr. GORDON: Well, it has to be a rough guess, but we would figure if we had a sustained occupancy of somewhere around 70 per cent we should be all right.

Mr. MACDONNELL (*Greenwood*): That is out of our share we would pay our own special charges and find depreciation?

Mr. GORDON: I would say with 70 per cent occupancy there would be something to divide.

Mr. MACDONNELL (*Greenwood*): Something to divide?

Mr. GORDON: Yes.

Mr. MACDONNELL (*Greenwood*): I am not quite clear that I understand that. I have said that out of our share we have to pay interest and find depreciation?

Mr. GORDON: Yes. I see your point now. We had an estimate on this last year. That is what I am looking for.

Mr. MACDONNELL (*Greenwood*): Mr. Chairman, it is almost 6 o'clock.

The CHAIRMAN: I think the answer is available in just a moment.

Mr. GORDON: No, I am afraid I would have to guess. I have not got the figure here.

Mr. MACDONNELL (*Greenwood*): Can you give us something like that in the morning? It seems to me that would give us some way of assessing even without the figures.

Mr. GORDON: I think my files will reveal that. I can't put my finger on it at the moment, but I will get that for you.

The CHAIRMAN: Subject to the answer to Mr. Macdonnell's question shall the new hotel item carry?

Carried.

Mr. FULTON: And subject to my right to move a motion. If you wish I will do it now but I would prefer to do it tomorrow.

The CHAIRMAN: You might as well do that as a notice of motion.

Mr. FULTON: I would prefer to think it over overnight and reserve the right to move it.

The CHAIRMAN: The motion has to do with what?

Mr. FULTON: The motion would be that the committee be furnished with the percentage basis on which the Hilton Corporation is operating.

The CHAIRMAN: Then we will commence tomorrow morning at 10.30 o'clock on the item "Financing" on page 14.

HOUSE OF COMMONS
Second Session—Twenty-second Parliament
1955

SESSIONAL COMMITTEE
ON
RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

Chairman: HARRY P. CAVERS, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE
No. 3

THURSDAY, MARCH 31, 1955

C.N. Railways Annual Report (1954), Income Account and Capital
Budget (1955).

C.N. Steamships Limited (1954) and Budget (1955).

C.N.R. Securities Trust (1954).

Auditors' Reports to Parliament.

Estimates for fiscal year 1955-56—Items 469, 473, 478 and 479.

WITNESSES:

Mr. Donald Gordon, C.M.G., LL.D.; Mr. S. F. Dingle; Mr. R. D. Armstrong,

INCLUDING SECOND AND THIRD REPORTS TO THE HOUSE

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, operated and controlled by the Government

Chairman: H. P. CAVERS, Esq.

Vice-Chairman: A. DUMAS, Esq.

and

Messrs.

Bell	Hamilton (York West)	Langlois (Gaspe)
Carrick	Hamilton (Notre-Dame	Lavigne
Carter	de Grace)	Legare
Churchill	Hanna	McCulloch (Pictou)
Fairey	Harrison	Murphy (Westmorland)
Follwell	Healy	Pouliot
Fulton	James	Weaver—26
Gillis	Johnston (Bow River)	
Hahn	Knight	

Antonio Plouffe,
Clerk of the Committee

REPORTS TO HOUSE

FRIDAY, April 1st, 1955.

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

SECOND REPORT

Your Committee has considered the following items of the estimates for the fiscal year ending March 31, 1956, referred to it on March 28, 1955, and recommends their approval, namely:

Vote No. 469 Prince Edward Island Car Ferry and Terminals deficit, 1955.

Vote No. 473 North Sydney-Port Aux Basques Ferry and Terminals deficit, 1955.

Vote No. 478 Maritime Freight Rates Act.

Vote No. 479 Canadian National (West Indies) Steamships Limited deficit, 1955.

All of which is respectfully submitted.

HARRY P. CAVERS,
Chairman.

MONDAY, April 4, 1955.

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

THIRD AND FINAL REPORT

Pursuant to the Orders of Reference of the House of Commons of March 28th and 29th, 1955, this Committee had before it for consideration the following:—

1. The Annual Reports of the Canadian National Railways, the Canadian National (West Indies) Steamships Limited 1954 and the Auditors' Report to Parliament in respect thereto.

2. The Annual Report of the Trans-Canada Airlines for the calendar year 1954 and the auditors' report to Parliament in respect thereto.

3. The Annual Report of the Canadian National Railways Securities Trust for 1954.

4. The Capital Budgets of the Canadian National Railways the Canadian National (West Indies) Steamships Limited for the year ending 1955, and the operating budget and capital budget of the Trans-Canada Airlines for the calendar year 1955.

Your Committee held 11 meetings, during which the above-mentioned reports and budgets and certain matters related thereto were considered and evidence advanced thereon.

The Annual Report of the Canadian National Railways for 1954 discloses a net operating revenue of \$14,171,906 after deducting taxes, equipment, rents of \$11,720,611 and interest charges of \$31,209,393, bringing about a deficit of \$28,758,098 a part of which was due to the slow movement of grain. The deficit could have been substantially reduced by the deferment of the decision to proceed with the track-laying program; by accelerating the rate of lay-offs due to decrease in business as was done in the case of its competitors, but management felt it was in the best interests of the company to carry out their track-laying program as scheduled and to defer lay-offs until September, 1954, as well as to provide continued adequate service on all existing lines. The said Annual Report was adopted.

Your Committee showed interest in the progress on the erection of the new Queen Elizabeth Hotel. Plans for management of the hotel by Hilton of Canada Limited, the Canadian subsidiary of Hilton Hotels Corporation, were discussed. It was stated that this large hotel management organization could provide Canadian National Railways with unusual and special knowledge and a contact with large conventions which would prove valuable and encourage a continuous high degree of occupancy. It is hoped that the benefit of this type of association will make possible a greater margin of profit for the hotel than would be otherwise possible.

The modern ice-breaking ferry *William Carson* being constructed on federal government account for service between Port Aux Basques and North Sydney was delayed. It seems that this vessel will be turned over for operation to the Canadian National in mid-1955. The ferry to be operated for the federal government between Yarmouth, N.S. and Bar Harbour, Me. is expected to be ready in the summer of 1955. Terminals are being built at both ports and are expected to be completed before the vessel is in operation.

The Canso Causeway development is well advanced and rail facilities will be ready for traffic when vehicles can proceed over this causeway about May 15, 1955.

The Canadian National disposed of four of its hotels, namely the Prince Arthur in Port Arthur, Ontario; the Prince Edward in Brandon, Manitoba; Pic-tou Lodge in Nova Scotia, and Minaki Lodge in Ontario, because they had ceased to provide adequate revenues and were making little contribution to the traffic of the Railway. The hotels were sold to the purchaser who made the most advantageous offer.

The Annual Report of Canadian National (West Indies) Steamships Limited, for 1954, discloses a much improved picture over last year. The operating revenues showed an increase from \$4,509,342 in 1953 to \$5,105,082 in 1954 with an increase in operating expenses to \$5,424,983 but providing a decrease in the operating loss to \$319,901 as compared with \$822,446 in 1953.

The Committee was informed that the results of the company would be kept under review so as to arrive at a decision as to the advisability of continuing the operations. The said Annual Report was adopted.

The Annual Report of Trans-Canada Airlines for 1954 discloses a net operating revenue of \$1,289,982 and that after payment of interest expense amounting to \$793,836 there was a resulting surplus of \$496,146. The Committee viewed and were accorded a short air trip in the new "Vickers Viscount" which will be used on the inter-city service. It is interesting to note that while the Committee was still in session on Friday, April 1st the first regular flight set out from Montreal at 4.30 p.m. and landed at Malton, 1 hour and 35 minutes later en route to Winnipeg, thus inaugurating the first Turbine propeller powered passenger service in North America. The Report noted with regret two major aircraft accidents which occurred in 1954. One accident on April

8th when a TCA North Star in mid-air over Moose Jaw was struck by an RCAF training aircraft. Thirty-one passengers and a crew of four lost their lives. The second on December 17th occurred approximately 9 miles West of Malton Airport when a Super Constellation landed on farmland but without casualties, injuries were of a minor nature. Action has been taken to strengthen regulations governing flight on established civil airways by other than civilian aircraft. Prior to the regrettable occurrence at Moose Jaw, T.C.A. had in 7 years flown 3,541,000,000 passenger miles without a fatality. The said Annual Report was adopted.

The Auditors Report to Parliament with respect to the Canadian National Railways, the Canadian National (West Indies) Steamships Limited and the Trans-Canada Airlines as well as the Report of the Canadian National Securities Trust for the calendar year 1954 were severally considered and adopted.

The Financial Budgets of the Canadian Railways System, the Canadian National (West Indies) Steamships Limited and Trans-Canada Airlines Limited for the calendar year 1955 were examined carefully and adopted.

The items of the Estimates for the year ending March 31st, 1956 being votes 469, 473, 478 and 479 of the Department of Transport were considered and approved.

Your Committee is indebted to Mr. Donald Gordon, CMG., LL.D; Mr. S. F. Dingle, Mr. R. D. Armstrong, Mr. G. R. McGregor, Mr. W. S. Harvey, Mr. H. W. Seagrim, Mr. S. W. Sadler, Mr. D. E. McLeod, Mr. L. D. Palmer, and Mr. Turville, Mr. J. D. Morison and Mr. C. A. Padley for their valuable assistance during the meetings of this Committee.

A copy of the evidence adduced in respect of the matters referred is appended hereto.

All of which is respectfully submitted.

HARRY P. CAVERS,
Chairman.

MINUTES OF PROCEEDINGS

THURSDAY, March 31, 1955.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government met this day at 10.30 o'clock a.m. The Chairman, Mr. Harry P. Cavers, presided.

Members present: Messrs. Bell, Carrick, Carter, Cavers, Churchill, Dumas, Fairey, Follwell, Fulton, Gillis, Hahn, Hamilton (*Notre-Dame de Grâce*), Hanna, Healy, James, Johnston (*Bow River*), Langlois (*Gaspé*), Legaré, Macdonnell (*Greenwood*), McCulloch (*Pictou*), Murphy (*Westmorland*) and Weaver. (22)

In attendance: Honourable George C. Marler, Minister of Transport; Mr. John R. Baldwin, Deputy Minister; Mr. F. T. Collins, Comptroller and Secretary; Mr. Donald Gordon, President of the Canadian National Railways and Chairman of the Board; Mr. S. F. Dingle, Vice-President; Mr. R. D. Armstrong, Comptroller. Also Messrs. F. P. Turville, C.A., J. D. Morison, C.A., D. T. G. Padley, C.A., of George A. Touche and Company, Chartered Accountants.

Mr. Macdonnell (*Greenwood*) quoted from an article on the Hilton Hotels which appeared in the magazine "This Week".

Mr. Gordon was called. He gave replies to questions.

Mr. Gordon's examination was continued on the proposed construction of the new Queen Elizabeth Hotel.

A debate arising, Mr. Fulton moved, seconded by Mr. Macdonnell (*Greenwood*),

"That the Committee be furnished with a statement of the basis on which the Hilton Corporation of Canada will be paid for the managerial service it will supply at the proposed Queen Elizabeth Hotel."

And a debate continuing, the Chairman ruled that the motion was out of order on the grounds that the information sought had already been supplied by the witness.

The ruling being appealed, it was sustained on the following recorded division:

Yeas: Messrs. Carrick, Carter, Dumas, Fairey, Follwell, Gillis, Hahn, Hanna, Healy, James, Johnston (*Bow River*), Langlois (*Gaspé*), Legaré, McCulloch (*Pictou*), Murphy (*Westmorland*) and Weaver. (16)

Nays: Messrs. Bell, Churchill, Fulton, Hamilton (*Notre-Dame de Grâce*), Macdonnell (*Greenwood*). (5)

Mr. Follwell tabled for distribution copies of a memorandum relating to the Department of Transport transportation contracts and made a brief statement thereon.

The Minister of Transport commented on the subject of this memorandum and the Chairman stated that it was unfortunately outside the orders of reference.

Mr. Gordon's examination still continuing, the Committee adjourned at 1.00 o'clock p.m. until 3.30 o'clock p.m. this day.

AFTERNOON SITTING

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

Members present: Messrs. Bell, Carrick, Carter, Cavers, Churchill, Dumas, Fairey, Follwell, Fulton, Gillis, Hahn, Hamilton (*Notre-Dame de Grâce*), Hanna, Healy, James, Johnston (*Bow River*), Knight, Langlois (*Gaspé*), Legaré, Macdonnell (*Greenwood*), McCulloch (*Pictou*), Murphy (*Westmorland*), Pouliot and Weaver.

In attendance: Same as those listed at previous meeting.

The Committee concluded its study of the Annual Report of the Canadian National Railways (1954) which was adopted.

The Committee began and concluded its consideration of the Income Account and Capital Budget (1955) of the Canadian National Railways. Both were adopted.

At 6.00 o'clock p.m., the Committee adjourned until 8.00 o'clock p.m. this day.

EVENING SITTING

The Committee resumed at 8.00 o'clock p.m. Mr. Harry P. Cavers, Chairman, presided.

Members present: Messrs. Bell, Carrick, Carter, Cavers, Churchill, Dumas, Follwell, Gillis, Hahn, Hamilton (*Notre Dame de Grâce*), Healy, James, Knight, Langlois (*Gaspé*), Lavigne, Legaré, Macdonnell (*Greenwood*), McCulloch (*Pictou*), Murphy (*Westmorland*), Pouliot and Weaver. (21)

In attendance: Same as listed at the morning sitting, and Mr. G. R. McGregor, President of Trans-Canada Air Lines; Mr. W. S. Harvey, Comptroller; Mr. H. W. Seagram, General Manager, Operations; Mr. W. D. McLeod, Assistant Director, Public Relations; Mr. S. W. Sadler, Auditor, General Accounts, and Mr. L. D. Palmer, Special Ottawa Representative.

The Committee commenced and concluded its examination of the Annual Report of the Canadian National (West Indies) Steamships, Limited, and the Budget therefor. Both were adopted.

The Report on Canadian National Railways Securities Trust was taken as read. Mr. Gordon read a statement thereon and was examined. The report was adopted.

The Committee then examined the Auditor's Report of the Canadian National Railways and the Canadian National (West Indies) Steamships, Limited.

Mr. Turville was called. He was assisted by Messrs. Morison and Padley.

The Committee then considered items 469, 473, 478 and 479 of the Estimates.

Honourable Mr. Marler, assisted by Mr. Baldwin, replied to answers as did Mr. Donald Gordon.

The items were adopted and the Chairman authorized to report them to the House.

It was agreed to incorporate in the record, answers not readily available (*see Appendices to this day's evidence*).

Mr. Donald Gordon and his officials were retired.

The Chairman expressed the appreciation of the Committee to Mr. Gordon and his officials.

It being 9.30 o'clock p.m., the Committee proceeded to its study of the Annual Report of Trans-Canada Air Lines (1954). (*For T.C.A. Annual Report see minutes of proceedings and evidence No. 4, Friday, April 1st*).

Mr. G. R. McGregor was called. He introduced Messrs. Harvey, Seagram, Sadler, McLeod and Palmer.

Mr. McGregor read the Trans-Canada Air Lines Annual Report. It was decided to defer its detailed examination until Friday, April 1st. (*See No. 4*)

At 10.10 o'clock p.m., the Committee adjourned until Friday, April 1st at 10.30 o'clock a.m.

Antonio Plouffe,
Clerk of the Committee.

EVIDENCE

THURSDAY, March 31, 1955.

The CHAIRMAN: We have a quorum, gentlemen. First I am going to ask Mr. Gordon to give answers to some questions which were left with him by Mr. Macdonnell last evening.

Mr. MACDONNELL (*Greenwood*): May I on a matter of privilege bring something to the attention of Mr. Gordon which may make him feel he needs to discipline his partner a little. This is an article in *This Week Magazine* on Mr. Hilton and his hotels and it contains this—

The CHAIRMAN: What is the name of the magazine?

Mr. MACDONNELL (*Greenwood*): It is *This Week*. It says:

Abroad, Hilton Hotels flourish in Madrid and San Juan, with others a-building or blue-printed for Istanbul, Mexico City, Acapulco, Montreal, Cairo, Havana and Rome. There is also a mammoth Hilton nearing completion in Beverly Hills and another in Dallas, but those are not considered foreign locations unless you happen to live respectively, in San Francisco or Fort Worth.

Mr. DONALD GORDON, C.M.G., LL.D. (*President, Canadian National Railways*): Who wrote it, Mr. Macdonnell? It is not written by the Hilton people.

Mr. MACDONNELL (*Greenwood*): Oh, I have no knowledge of that.

Mr. GORDON: They would have no control over what the reporter is writing, of course. It is the reporter who is making these statements, isn't it?

Mr. MACDONNELL (*Greenwood*): Apparently it is signed by Bennett Cerf.

Hon. Mr. MARLER: Bennett Cerf is a well known publisher in the United States. I might also say that Bennett Cerf is also regarded as a humourist too.

Mr. GORDON: I have never been successful in controlling the press, Mr. Macdonnell or any writers in it. You may have a system for it. If you have I would like to know what it is.

Mr. MACDONNELL (*Greenwood*): I do not hold myself out as a special expert in that matter.

Mr. GORDON: I am glad to have it called to my attention.

Mr. MACDONNELL (*Greenwood*): I think Mr. Hilton, if he wanted to control it, could do something about it.

Mr. GORDON: I thought I could wrap two replies in one, dealing with Mr. Hamilton's request for net operating income of the hotels and it leads up to the same general question that Mr. Macdonnell, I thought, had in mind, so I would like to record the net operating income for the year 1954 for each of the hotels which is as follows:

Bessborough	\$ 61,543
Charlottetown	2,423 (deficit)
Chateau Laurier	510,918
Fort Garry	63,967
Jasper Park Lodge	168,100
Macdonald	490,656
Newfoundland	116,691

Nova Scotian	112,508
Minaki Lodge	36,245
Pictou Lodge	2,043
Prince Arthur	34,966
Prince Edward	9,653
Vancouver (rental income to the Canadian National)	427,249
This results in a grand total of	\$2,032,116

Now, Mr. Macdonnell, on the basis of the Canadian National's hotel operations in Canada we earned an average of 3.37 per cent after providing for all operating expenses including depreciation.

I have before me a chart of the operations of one hundred hotels selected in fifty cities produced by a specialist in hotel accounting for 1953, and based on the same general rate of occupancy which was roughly 75 per cent—I should have mentioned the Canadian National rate of occupancy was just about the same figure, 75 per cent—these one hundred hotels show a return of 4.58 per cent—that is the return on the value of the property on the same basis as the figure I have mentioned for the Canadian National. So that our Canadian return was 3.37 per cent as against the return of these one hundred hotels quoted at 4.58 per cent.

Mr. MACDONNELL (*Greenwood*): Is that a complete answer?

Mr. GORDON: That is the answer as I understood the question.

Mr. MACDONNELL (*Greenwood*): It seems to me that that does not carry us in this transaction much farther by reason of its special nature. I do wish to recall that a year ago when this was up I myself pointed out to you that it was a special situation. I said we wanted something in the nature of a prospectus and you at that time, as I recall, agreed and you did give us an estimate at that time.

Now, I think what you have given us at the moment needs to be supplemented because we know that this is a very unusual transaction. We know that if there is a straight operating loss Hilton bears it; on the other hand, we know that out of our share we have to pay something like \$1 million in bond interest or somewhere between \$750,000 and \$1 million. I am taking 3 per cent of \$25 million plus somewhere between \$750,000 and \$1 million and in addition to that we have to provide for depreciation on the buildings. Therefore, I am assuming that from our point of view there are what you might call fixed charges of something well up to \$1 million.

Now, it was my hope last night that you could tell us—let us see, you have given us figures here which would indicate, let us say, 75 per cent occupancy. You may want to raise that—that at such and such an occupancy such and such things would happen. Now, that seems to me very relevant from my point of view.

Mr. GORDON: I think I can follow what you mean. Last year I said generally speaking that on the basis of the computations we had made, taking a range of occupancy from low to high, that we thought we should be able to realize between 2 per cent to 6 per cent on our investment. That was taking what I would call an unrealistically low occupancy and an unrealistically high occupancy, and I therefore said that on the average we hoped we would be able to earn 3 per cent on our investment in the hotel and you will remember at that point you made the comment that you did not think any commercial enterprise would be interested in building the hotel and I agreed with you.

Now, what I am saying to you today is that if under Hilton operation we could do as well as these one hundred hotels on the average, the return would be 4.58 per cent, that is with 75 per cent occupancy.

Mr. MACDONNELL (*Greenwood*): Now, let me see if I have got this correct. Are you saying to us that having regard to the division of profits, in the Montreal hotel that if we have a level of occupancy corresponding to an average level of occupancy that our share will give us enough to pay bond interest, to provide for depreciation and to leave us 4.58 per cent?

Mr. GORDON: No, that was the average return—4.58 per cent. If we do as well as other hotels we will be able to pay our interest, depreciation—I am sorry, the 4.58 is after depreciation. We would be able to pay our interest and we would show a margin after that because our average interest does not cost us 4.58 per cent.

Mr. MACDONNELL (*Greenwood*): As I understand it now you are saying that you would have 4.58 out of which the interest would have to be paid?

Mr. GORDON: That is right.

Mr. MACDONNELL (*Greenwood*): But you cannot tell us what that 4.58 per cent would be so that we could deduct the interest from it and know what we would have left; in other words, be able to compare it with your figure a year ago?

Mr. GORDON: You mean put it on a dollar basis?

Mr. MACDONNELL (*Greenwood*): Yes.

Mr. GORDON: Well, what I am saying is that if the average rate of occupancy was 75 per cent, which is the average rate of these one hundred hotels that I am comparing with and if we were able under Hilton management to achieve the same average rate of return of 4.58 per cent then you want to know what that would be in dollars and how much our interest charges would be?

Mr. MACDONNELL (*Greenwood*): I think it is a little more than that, Mr. Gordon. I want to know whether, having regard to our contract with Hilton which, as you realize, we have not seen—whether on the actual arrangement which has been made, taking a full average if you like of occupancy, can you not figure out just what it would yield to us in the Hilton hotel and be able to tell us what percentage we would have under those conditions with the supposition of an average return?

Mr. GORDON: There are so many hypotheses I find it difficult to follow them.

Mr. MACDONNELL (*Greenwood*): Let me restate it. May I say, without being too tiresome, that we here regard ourselves as representatives of shareholders; in other words, directors, and while we say quite frankly that we do not want to pry into the details of ordinary management because we have confidence in the management, nevertheless when this came up a year ago I think you will recall that we agreed this was a special situation and when I suggested something in the nature of a prospectus you fully agreed with that and gave us in broad terms what this was. Now, here we have a contract which you do not wish to disclose to us, but I suggest that as quasi directors we must be able to tell our shareholders—in other words, the citizens of Canada—

Mr. GORDON: Would this meet your point? Last year I said we thought we would be able to get an average yield of 3 per cent. Now, if we take the capital value we are working on, let us say, \$25 million—that is as near as may be because I don't know all the adjustments—but let us say we are talking about \$25 million in this hotel. That would cover the hotel proper and the other incidentals I referred to last year in the matter of furnishings, equipment, etc. Let us start with \$25 million. If we had earned 3 per cent under our own management obviously that would have given us \$750,000.

Mr. MACDONNELL (*Greenwood*): That was after paying your bond interest?

Mr. GORDON: No, that was \$750,000 before interest because you made the point yourself that that would never sell bonds and I agreed that that was so.

Mr. MACDONNELL (*Greenwood*): Well, there was apparently a misunderstanding between us because when I said that that would never sell the bonds what I meant was that the bondholders would want an indication of earnings beyond bond interest. If that was not so all I can say is I was stupid last year.

Mr. GORDON: No, Mr. Macdonnell, your statements here are very clear. You may recall saying: "I would agree with you that this would not appeal to an investor in bonds as such."

Mr. MACDONNELL (*Greenwood*): That is true, but is it clear that when you said 3 per cent that out of that we were to pay our bond interest?

Mr. GORDON: Oh, yes, if you re-read—

Mr. MACDONNELL (*Greenwood*): Well, all I can say is I think I was wrong and I shan't bother reading it now but will take your word for it that I was wrong and I will try to do better now. Do you not agree when we are looking at this we have got to look at the return after the payment of bond interest?

Mr. GORDON: Now, the two things are relative because what I am saying is that if you start with \$25 million as your capital—and I said last year we thought we would at least earn an average of 3 per cent—that would have given us \$750,000. Now, if by reason of the Hilton management we do as well as the average of these hotels—and I am not saying we won't do better; I hope we will—but I am taking that as an example, if we do as well then that \$750,000 which would become available to pay interest after all charges including depreciation would grow to \$1,145,000.

Mr. MACDONNELL (*Greenwood*): Let me go back to these average figures you gave us with regard to your hotel earnings this morning. Were all those figures before payment of interest on capital?

Mr. GORDON: The percentage figures cover everything except the return on the value of the property; in other words—are you talking of the Canadian National or United States hotel figures?

Mr. MACDONNELL (*Greenwood*): I am talking of the figures you gave us for Canadian National Railways hotels.

Mr. GORDON: It is after depreciation, yes.

Mr. MACDONNELL (*Greenwood*): Well, I come back again to the fact that this is a special transaction on its own and again admitting that I may have been stupid last year I am trying to meet you and discuss this on its merits now. My feeling is that you would not go into this without some return on the capital invested and therefore I will hope that you will be able to give us a figure showing at a certain rate of occupancy enough to pay the bond interest and depreciation and leave us something. If that is not so then I must say that the transaction troubles me.

Mr. GORDON: Well, I am saying if we do as well as the average of these other hotels we will pay our depreciation and have 4.58 per cent return on the investment available to pay our bond interest and show us a small margin. If we do better than that we will have more of a margin. I am talking in terms of 75 per cent occupancy and if that occupancy rate goes up then our yield will be higher.

Hon. Mr. MARLER: Isn't it elementary that if we take the cost of money at 3 per cent and the expected return is 4.58 per cent that there is going to be in fact a profit of 1.5 per cent on whatever capital we are talking about?

Mr. MACDONNELL (*Greenwood*): I am not overlooking that, that is true.

Mr. GORDON: I am not suggesting that we are accepting this as a standard. I am saying I don't like crystal ball gazing. I would rather say that here are figures showing what others in the business have done and if we do as well as the average then this will be the results and I hope we do better—I don't mind saying that.

Mr. MACDONNELL (*Greenwood*): After all some of the hotels you quote here are not in large cities. Have you any figures showing the result in the larger cities like Montreal and Toronto?

Mr. GORDON: These are all based on large city hotels.

Mr. MACDONNELL (*Greenwood*): Not the figures you just gave us. The figures you just gave us were based on the average of Canadian National Hotels.

Mr. GORDON: I have given you two sets of figures. I have given you the Canadian National that I say show a yield of 3·37 per cent and I have given you these one hundred hotels located in fifty large cities in the United States which show 4·58 per cent.

Mr. MACDONNELL (*Greenwood*): My colleague, Mr. Hamilton, has a question he wishes to ask too.

Mr. HAMILTON (*Notre Dame de Grâce*): Mr. Chairman, I might preface this by saying that this request—I am trying to get at the division of these profits—the results of the division of profits between the two organizations in so far as the Hilton organization was concerned is not completely unique. For example, Business Week of April 11, 1953, referred to a similar agreement between Hilton and a labour union in Cuba and said this:

The retirement fund of the union (with a bank loan to help) will finance the hotel and get two-thirds of the gross when it's operating; Hilton will lease, manage, and supply working capital in return for one-third of the take.

Now, that has no bearing on this problem but I mention this to show that in other cases this information has been released.

Mr. GORDON: I have two comments to make on that. In the first place you are quoting from a journal or newspaper. I have no way of knowing whether that is factual or not. It may be accurate or it may not. Secondly, it is a generalized statement. It does not necessarily apply. It may indicate the general approach that the Hilton people made to this situation and indeed the same general approach was made to us. It is the departure from the general approach that is the significant factor and I have no doubt at all that if we had the information each one of the arrangements made by Hilton would have some variation from that, either plus or minus—I don't know.

Mr. HAMILTON (*Notre Dame de Grâce*): I realize that, but I just want to enter into the record the fact that that type of information has been made available.

Hon. Mr. MARLER: I wonder if it is correct to say that public information has become available. That is a newspaper article but it is not the same as public information.

Mr. GORDON: It has not been accredited to either of the parties mentioned in that article.

Mr. HAMILTON (*Notre Dame de Grâce*): No, I quite realize that.

The CHAIRMAN: Mr. Hamilton, when we adjourned last evening we adjourned on the understanding that Mr. Macdonnell had a question to which he desired an answer and Mr. Gordon agreed to provide information to that effect and then also Mr. Fulton had some doubt in his mind about that motion which he might make. Subject to those two things we carried the matter of the new hotel.

Now, I do not want to open up this whole subject again so that we are going to have a further general discussion among the whole committee. We are anxious to get all the information we can. Nobody wants to stifle any discussion here but we have got to have some order about this thing and I think that was the understanding we had last evening at the time the committee adjourned.

Mr. HAMILTON (*Notre Dame de Grâce*): Well, Mr. Chairman, my question arises specifically out of the information given to Mr. Macdonnell and in respect of the motion which Mr. Fulton proposes and the question, Mr. Gordon, is this—and I hope you are going to be able to satisfy us—we know that something in the order of \$1 million is payable out of the Canadian National Railways share of this hotel's profits for interest and depreciation purposes—

Mr. GORDON: Where does that information come from?

Mr. HAMILTON (*Notre Dame de Grâce*): It was my understanding that that is what you said.

Mr. GORDON: You are referring to the interest cost?

Mr. HAMILTON (*Notre Dame de Grâce*): Yes. We know that something of the order of \$1 million is to be paid by the Canadian National Railways out of their share of the division of profits out of this hotel. That covers depreciation and interest charges and that statement was made yesterday by Mr. Gordon.

Mr. FAIREY: Not depreciation.

Mr. HAMILTON (*Notre Dame de Grâce*): The Canadian National Railways pays depreciation on the building. Knowing that, I think some of us are given pause by this division of profits because here is a fixed charge against the Canadian National Railways portion of the profits of \$1 million or of that nature, certainly a fixed charge of some kind and it is difficult for us to evaluate the situation unless we know in some way what proportion of the profits are going to the Canadian National Railways or perhaps Mr. Gordon might satisfy us in some other way?

Mr. GORDON: I doubt if I can satisfy you. I can give you a definite statement that the fact that we would be paying the interest and depreciation was very definitely taken into account when we arrived at what was a fair division. We naturally were very well aware that that was for our account and when we had discussions with the Hilton interests as to what would be a reasonable division that factor was, of course, fairly prominent in our minds.

Mr. MACDONNELL (*Greenwood*): This is so important I wonder if there is not some way in which you might without damaging the situation—though I would point out to you, Mr. Gordon, that now you have told us that Hilton has a special deal I do not see there is any harm in telling us what it is—but leaving that aside let us just underline Mr. Hamilton's question. Supposing, to take a very extreme and almost fantastic case, that we and Hilton each had a share of \$100,000 out of which we had to pay \$1 million interest. I have pointed out my illustration is extravagant to begin with—

Mr. GORDON: Would you not rather start it out by putting it the other way?

Mr. MACDONNELL (*Greenwood*): Incidentally, a man always likes to justify himself. Might I read from the minutes of a year ago in which I said at page 151:

“Now I want to ask with respect to the 3 per cent return which is expected after meeting all charges...”

Now, that was my question and I do not see any disagreement with that. I do not want to make a point of this but I confess I felt stupid a while ago and I want to say that was my understanding:

Mr. GORDON: If you will look at page 150 you will find that I made reference there to an average return of not less than 3 per cent after meeting all charges for maintenance, taxation and depreciation. I thought naturally that was the "all charges" we were referring to and I did not have interest in mind. If it was a misunderstanding, that is it.

Mr. MACDONNELL (*Greenwood*): Going back to Mr. Hamilton's question I think that is something which we as quasi directors ought to be informed on as far as you can do it. We want to be reasonable but, on the other hand, we feel here we have a responsibility. It is not a question of not relying on the management but no board of directors would expect a general manager to come up and say, "I have made a good deal but I can't tell you what it is."

Mr. GORDON: I am sure you don't want to lead me into a position where I am divulging exactly what we decided not to do yesterday but taking that article that Mr. Hamilton read and the newspaper reporter on his own and taking that to be a general division in Cuba, supposing our position was made better than that. That is talking of two-thirds—one-third. Supposing we were dividing \$3 million. If it was a two-thirds—one-third basis we would be getting \$2 million and they would be getting \$1 million and out of our share we would pay interest and depreciation.

Mr. MACDONNELL (*Greenwood*): Let me take your illustration. Supposing you each got \$250,000 then they would have a substantial profit and you would have a large loss. I am sure that is not the deal, of course. What I am asking is whether Mr. Gordon might perhaps take time on this and give it to us later in the day. Can he not give us some figures which would answer that question and leave us with what I am sure we will accept?

Mr. GORDON: If you are trying to establish, Mr. Macdonnell, that there are conditions under which the division between ourselves and Hilton on this deal might result that we would not have enough to pay the interest charges my answer is yes, certainly that could happen.

Mr. MACDONNELL (*Greenwood*): I quite realize that.

Mr. GORDON: And it might happen under our own operation.

Mr. MACDONNELL (*Greenwood*): That is right, but what we are seeking is to find whether you cannot give us something more definite, some percentage, some method of calculation whereby we are not left in the position where we just have to say, "We have confidence in the management of the road, we are quite sure they have not left that situation open." I am quite sure you have not left it open. What I want is something which I think you can work out for us which will put us in a position of being able to answer any questions on the subject.

Mr. GORDON: Haven't I covered that when I told you that on the basis of experience it seems pretty evident that if we were able to average an occupancy of 75 per cent we would have more than enough to take care of our interest charges?

Mr. MACDONNELL (*Greenwood*): Mr. Gordon, that is a very reassuring statement indeed, but it still leaves that other possibility open.

Mr. GORDON: The possibility is quite definite that under a condition of low occupancy the actual amount of the earnings in this hotel might not cover interest charges.

Mr. MACDONNELL (*Greenwood*): Oh, quite.

Mr. GORDON: But what we have tried to do—of course the whole essence of this deal is to reduce the likelihood of that happening. When I presented this before the committee last year I never at any time indicated that there was an actual guarantee that under all operating conditions there would be no loss. It was a calculated risk and I made that clear.

Mr. FULTON: Mr. Gordon, I am sure you will appreciate that that is sort of disturbing to people in our position—and I know it would be disturbing to you too—that a situation might arise out of which Hilton will receive a net profit and the railway, the owner of the hotel, records a loss. If you had both taken a loss then one would regret the fact that the loss arose, but it would be very aggravating and disturbing to find a situation where the Canadian National Railways had to report a loss whereas Hilton was still making a profit through the deal.

Hon. Mr. MARLER: Surely that is a situation you get into where you buy management. You would have to pay a general manager of the hotel his salary even if it does not make a profit.

Mr. FULTON: Yes, but I understand Hilton are going to get all that back and a split of the operating income.

Mr. MACDONNELL (*Greenwood*): If you were able to say to us that the nature of the arrangement was a management fee based purely on services rendered and that that was all they would get unless there was a profit going both ways—

Mr. GORDON: I do not think that kind of arrangement would be as satisfactory as what we have. Remember what this deal says too, that the only thing chargeable to operating expenses of the hotel are the direct attributable costs of the hotel and what we are discussing here is that out of a division of the profits Hilton will have to pay all general overhead expenses which is not chargeable to this operation. That would include their own supervision through their own organization. It seems to me it is only a matter of degree, that if at any given point there is enough to divide then the result may be this, that assuming a bad year the portion which we get might not be enough to cover our interest charge. Let us take the worst case. That is all we risk at that point. It may not be enough to cover our interest and depreciation. Now, the amount the Hilton people get might not be enough to cover their general expenses for over-all supervision and interest on their money invested in this project in the form of working capital. It is just a matter of degree. All we have at risk in this hotel now is the cost of our interest charge and our depreciation. If we get enough in the split to more than cover that cost, then we will have a profit on the over-all transaction. In the case of Hilton, if their dollar amount is not sufficient in their analysis to pay for the effort which they have put into it, then they will not get their full return either; and also, Mr. Armstrong reminds me of a very important point. The amount which Hilton gets in this deal is earned by their Canadian subsidiary which is subject to Canadian income tax. By the time they deduct Canadian income tax it is a pretty lean proposition for them, I don't mind telling you.

Mr. HAMILTON (*Notre Dame de Grâce*): Perhaps Mr. Gordon could help satisfy us by using certain information which he has already given us so I think generally he might show us a division of the profits. We have a \$20 million hotel. Mr. Gordon has told us this morning that the average return on that investment in the United States under American management is 4.6 per cent after depreciation. That would mean that after depreciation on this particular hotel if that average return held in Canada we would have an income of \$920,000 on our investment.

Hon. Mr. MARLER: You are starting from the wrong basis. You said \$20 million whereas we are dealing with \$25 million, aren't we?

Mr. HAMILTON (*Notre Dame de Grâce*): Now, for purposes of this argument I would assume that Mr. Gordon was thinking of the building value. Would you prefer to start from the \$25 million figure?

Hon. Mr. MARLER: Let us start with something that has some relation here.

Mr. HAMILTON (*Notre Dame de Grâce*): Well, on the basis of \$25 million that estimate would be roughly \$1,125,000 at 4.5 per cent. Then, we were told by Mr. Gordon in earlier discussions that his depreciation charge is based on a 40-year sinking fund.

Mr. GORDON: Not on this hotel, no.

Mr. HAMILTON: Well, what would the depreciation charge be based on in this hotel?

Mr. GORDON: It would run about 50 years in this hotel.

Mr. HAMILTON: Therefore, the depreciation—unfortunately, not knowing there was a different basis for this hotel—on the 40-year basis at 4 per cent your annual depreciation would be \$280,000. Taking it as 50, let us say it would be \$200,000, just for purposes of this argument—we won't be too far out. We take our \$1,125,000 which would be the return after depreciation on the current basis and we add back in the depreciation charge and that would give us approximately on the American basis a gross return from this hotel on your capital on a comparable basis with this hotel from the American experience of \$1,325,000.

Now, we already know that the Canadian National Railways is committed to interest charges in respect of this hotel and depreciation of the nature of \$1 million and I think, therefore, unless there was some indication that this division of profits was tremendously heavier in favour of the Canadian National roughly to the tune of 85 per cent to 90 per cent, these figures indicate that on a 75 per cent room occupancy and American operation we might be very close to the break-even point from the very beginning.

Mr. GORDON: Well, all I can say, Mr. Hamilton, is that to my mind your figures are meaningless. You are starting off with a lot of hypothetical cases which may or may not apply. This hotel venture will have to be judged on its results. I have already told the committee again and again that I am satisfied that as a result of the Hilton deal we will be in a far better position in my opinion and in the opinion of the management of the Canadian National Railways to get a yield on our investment that will be better than what we would have got under our own management. I think we will have to leave it there and if I am here for the next six years and you are here we will have the opportunity of seeing whether our judgment turns out to be right. Those figures I cannot accept and to me they are quite meaningless.

Mr. CHURCHILL: Would not your figures also be hypothetical?

Mr. GORDON: I have been trying not to make them hypothetical. I have been trying to say to Mr. Macdonnell that if we do no better than the results which have been achieved in the hotel business the results would be thus and so. If you want me to be hypothetical then you drive me to say, "Are you going to do better or worse?" And I am not going into that kind of crystal ball gazing.

Mr. CHURCHILL: But Mr. Hamilton's questions are based on figures which you say are not hypothetical.

Mr. GORDON: If you take the Canadian National as such and the 3.37 per cent earning return which was achieved last year then Mr. Hamilton will produce with his pencil some fantastic figures which don't mean anything.

Mr. HAMILTON (*Notre Dame de Grâce*): I did not do that.

Mr. FULTON: Except a higher charge on the American experience.

Mr. GORDON: I am not prepared to allege that this yardstick is the right one. I just say it is a yardstick. The Canadian National result in Canada was a yardstick and an indication but you can work it in from 40 per cent occupancy to 90 per cent or 100 per cent occupancy and you will get all sorts

of theoretical returns too. My point is that I have assured you that within the best business judgment of the Canadian National Railways management the division of profits is on a basis where the end result will give us a better return on our investment than would otherwise have been the case.

Mr. GILLIS: Mr. Chairman, what I would like to find out is what this discussion is all about. Mr. Gordon has said that he did not want to go crystal gazing or answering hypothetical questions, but that is exactly what he has been doing all through this discussion. There is not anything there to discuss. There is not any hotel, there is no prospect of making money or not—it is a gamble. What I would like to find out first is is there a need for this hotel?

Very definitely there is a need for this hotel. I have been to conventions in Montreal within the last two years where the delegations were around 1,100, 600 at other times, and they had to split the conventions up in order to get accommodation. So there is a need. I think that justifies the Canadian National in going ahead and at least trying to get a hotel.

The second thing I would like to get clear in my mind is this: what section of Canada stands to benefit the greatest by the establishment of this project? Montreal and the province of Quebec. I cannot understand why a member from Montreal should be arguing on a lot of technicalities and hypothetical matters on a project that is going to bring a great deal of benefit to the city of Montreal and to the province of Quebec.

The next thing that I like about this is that this is a combination of public ownership and private enterprise. I wonder if my friends are arguing that this hotel should be built by the Hilton chain as a private enterprise project or if the hotel should not be built at all. I cannot understand that particular argument. I like this arrangement. I think the Canadian National Railways people have been smart enough to realize that it is new departure in the hotel business for them, that there are risks and instead of taking the risk 100 per cent themselves they are bringing in an organization which has been in the business and if there is going to be a loss, if it is a gamble, then at least they are dividing that on a fifty-fifty basis and not asking the Canadian people to take the shot all the way.

Now, I would suggest to Mr. Gordon that if Montreal don't want this hotel and that is indicated by the representation of one of the members of that city—I suggest—

Mr. FULTON: I didn't think even you were that stupid.

Mr. GILLIS: Brother, you should listen to yourself. I wish I had a record of the discussion in the last two days of this hotel business.

Mr. FULTON: You know very well no such argument was ever made.

Mr. GILLIS: I suggest, Mr. Gordon, that if the city of Montreal do not want that hotel that you get in touch with Edmundston, New Brunswick. It is on the Quebec border, it is on the American border, it is on the New Brunswick border and you will be benefiting a very much larger centre of the Dominion of Canada and I am sure you will get a lot of support from that section of the country if you were putting the project somewhere where it was going to benefit the area I have just mentioned.

I hope I have not been unfair to my friends—

Mr. FULTON: You have, and you know you intended to be.

Mr. GILLIS: I would suggest in future as one of this board of directors you and Mr. Gordon will have to come back here next year. I do not believe in getting down into details and crystal ball gazing and putting a lot of blocks in the way of a project of this kind because I think it is one of the best things the Canadian National Railways has done for a long time. They are meeting a need and I agree with them absolutely when they say that the

tourist trade in the province of Quebec is going to be stimulated 100 per cent and I agree with them again when an organization in the United States—it will be a great stimulation because they have large conventions, they are dealing with them all the time in the American hotels in their own country and they would gladly come over here—it would be a new departure, it would be a change. I wish this was being done in the maritimes to stimulate things in that part of the country and next year when Mr. Gordon comes back we will likely have something tangible to discuss and a start will have been made on it.

I suggest to the members of this committee that when people are trying to do the kind of thing the Canadian National Railways is doing now it is the duty of everybody in this committee regardless of party or otherwise to take a look at that proposition on its merits and from the standpoint of the benefit which it is going to bring to Canada. This country is opening up, we have got to get a lot of that kind of accommodation in different parts of the country and I am honoured to see the Canadian National Railways has got its hand in there and is tying it back to government so that you can meet in committees like this and see the progress from year to year and see the project from the start. I was with the project from the start and still am, and I am asking that everyone look at the project on its merits and be fair.

Mr. CARRICK: There are two questions I would like to ask. The first is: I am wondering Mr. Gordon, whether we are not now trying to retrace a decision that was made last year when this whole project came up. Questions have been asked about the difficulties of making a profit on this thing by Mr. Hamilton and others. Wasn't this whole project submitted to this committee last year except the management contract aspect of it and the construction of this hotel approved?

The CHAIRMAN: Certainly.

Mr. CARRICK: Then, the second thing is this: if that were so isn't the whole question properly before the committee in connection with this subject whether or not in the judgment of the board of directors they have made a better deal with a management contract than they would have made if they had operated it themselves? I would first like to ask Mr. Gordon would the higher officials of the company you have mentioned and the directors consider this type of matter that has been put before the meeting today in determining whether a deal with Hilton was better than operating the hotel by the Canadian National Railways?

Mr. GORDON: That was the essence and the whole purpose of the arrangement. We satisfied ourselves for many reasons which I listed yesterday that the net benefit to the Canadian National under the Hilton management would be greater than it would have been under our own management.

The CHAIRMAN: I think we have a satisfactory answer to Mr. Macdonnell's question and we will go on to the next item, finance.

Mr. CHURCHILL: There has been a general discussion here.

The CHAIRMAN: I said at the beginning I was not permitting a general discussion and there has been a general discussion going on. We passed those items last night and I am making that ruling now. If you want to object to the ruling of the chairman it is quite all right.

Mr. MACDONNELL (*Greenwood*): That is not a fair ruling after what has been going on this morning.

The CHAIRMAN: I don't know why, Mr. Macdonnell. Last night you were permitted to put the question and Mr. Gordon has given the answer.

Mr. MACDONNELL (*Greenwood*): You have permitted a discussion and surely it is desirable we should try to reach agreement on this if we can. Mr. Gillis, for one, was killing dead things.

Mr. GILLIS: I listened for two days. Surely you cannot deny me two minutes.

Mr. MACDONNELL (*Greenwood*): We were in favour of the hotel a year ago and nothing we have said has changed that attitude at all. The only thing is in this committee we have a different problem to what we should have. I am making this suggestion. This is, I submit, not in the ordinary course of business. That is a view I am taking that was taken by the committee in respect of the other four hotels. I just want to submit that in the other case we reached agreement because Mr. Gordon took time to think the matter over. I am suggesting again—Mr. Gordon knows our problem—I believe he could give us this afternoon a figure which we would be able to accept and I suggest it is worth while trying to do that. He knows the problem.

Mr. GORDON: I am sorry to interrupt. I do not know what your problem is. I have tried to answer your question and if you would be good enough to give me a stated question or to explain exactly what it is you are after I will do my utmost to answer. I assure you I don't know what it is you are trying to establish. I thought I had answered your question.

Mr. MACDONNELL (*Greenwood*): Taking myself I would still not be able to answer the man who said, "How do you know that under this agreement you cannot have a situation where the Canadian National and Hilton each get \$250,000 which in Hilton's case is really earnings and which in the case of the Canadian National leaves them with a deficit of something like \$750,000?"

Mr. GORDON: I will answer that question right now, if you will let me. We would never each get \$250,000 under any circumstances.

Mr. MACDONNELL (*Greenwood*): I am satisfied that the contract takes care of that. What I am asking Mr. Gordon is if he will give thought to see whether he can without divulging the figures that he feels he must not divulge—whether he cannot give us some statement which would answer that question perhaps on a percentage basis, or perhaps in some other way. I am suggesting before this matter is voted on that it might be left over until the afternoon and another look taken.

The CHAIRMAN: Now, gentlemen, are you prepared to vote on my ruling on this question or not?

Mr. BELL: I have a question here, Mr. Chairman, which I have been trying to get in since the beginning.

The CHAIRMAN: There is no debate on my ruling, I don't think.

Mr. BELL: This relates to Mr. Macdonnell's original question.

The CHAIRMAN: I don't think there is any debate on my ruling.

Mr. BELL: What is your ruling?

The CHAIRMAN: My ruling is that Mr. Macdonnell's question has been answered by Mr. Gordon to the fullest extent and that we should move on to the next question and that a general discussion is out of order unless Mr. Fulton wishes to suggest a motion. I agreed to that last evening but I didn't agree to a general discussion last evening when we carried this item.

Mr. BELL: Well, if we had an answer to Mr. Macdonnell's question surely it is not general discussion. I would like to put my question and then have you rule on whether it is relevant.

The CHAIRMAN: I think the only thing we agreed last night was to an answer to Mr. Macdonnell's question. Now, Mr. Gordon for the last hour—fifty minutes—has been endeavouring to give the answer to that question and

I think has very patiently submitted his position and I can see that no profit is being gained by pursuing the matter further and we are getting into a general discussion again about the hotel which was passed last evening.

Mr. FULTON: Mr. Macdonnell has made a request of Mr. Gordon that he think the matter over and bring us in any facts or figures which would meet the point we have in mind as to the basis of this division without revealing information which he feels at the momest would be improper for him to give.

If Mr. Gordon indicates that he does not see any point to giving that further information, that he has dealt with the matter as fully as it is possible to do I would be glad to deal with the situation on that basis. If he feels there could be some way in which he would be able to accommodate us by giving further consideration to it I would be prepared to let it rest, but if you were to rule on the basis of whatever answer Mr. Gordon gives now then I would move my motion.

The CHAIRMAN: Mr. Gordon has already stated to the committee that he has answered to the best of his ability the questions that have been put to him. This is what I want to make clear. A number of hypothetical questions have been put during the morning and we could go on doing that all day. Hypothetical questions could be put to him with no more result than we have had. But I already said he has given all the information he can and has endeavoured to do so during the morning. I cannot see the point in going on further with the matter. I think we are wasting time.

Mr. MACDONNELL (*Greenwood*): Could I say one thing? I think Mr. Gordon has answered my question but I don't think he has answered Mr. Hamilton's question.

Mr. MURPHY (*Westmorland*): Mr. Hamilton's question was out of order.

Mr. GORDON: Well, Mr. Hamilton's question does not make sense to me and I cannot answer a question I do not understand. The figures he employs, as I told you before, are meaningless because he is making a series of assumptions and I would like to take it on the simple basis that you and I understand, I think, Mr. Macdonnell, that if you want simply hypothetical figures I will give you hypothetical figures.

Let us say this hotel earns \$3 million. Now, let us say that we did do better than the division that Mr. Hamilton called attention to in his discussion. Let us say it is two-thirds—one-third. If that is the case and it is two-thirds—one-third, under that proposition we would get \$2 million and they would get \$1 million.

Mr. MACDONNELL (*Greenwood*): Yes, but that will leave us in trouble. If it should be much lower then we might be left with a whopping deficit for all we know and Hilton with a very substantial profit. I do not believe that is the effect of the agreement and it is because I am anxious to be informed on that in some way that I believe you and your accounting staff could work out something.

Mr. GORDON: I would say that from our share we pay our interest and depreciation. Out of his share Hilton pays those of his overall expenses which are not chargeable to the hotel. I cannot tell you any more than that because I do not know how it would be worked out. I do not know what his indirect expenses would be having to do with the management agreement, such as the cost of his capital invested. All I know is that I have got it to the point that out of our share we pay our interest and depreciation.

The CHAIRMAN: Are you now prepared to put your motion, Mr. Fulton?

Mr. FULTON: The point is whether we should get information which would enable us to establish the basis of the division of profit between the railway and the Hilton group. I would think on the basis of information furnished

so far that I, at any rate, could not arrive at any conclusion as to what it is. I am sorry that Mr. Gordon feels it is not a matter which is proper for him to give, and that it is not a matter which he should be asked to give. I regret to say that he and I take diametrically opposite views.

If we were inquiring into the price of a contract in the ordinary day to day management of the railway or the hotel, for example as a basis—he purchases coal at various points, or arrangements are made to purchase bed linen, towels, and things of that sort. But that is another question. Competitive advantage comes in there, and those are the sort of details which are not proper and have always been regarded as not fair to ask the railway to disclose.

When you are dealing with the cost of day-to-day management, as you are dealing with it here, then it is quite a different thing. That is the whole basis of the thing and it goes right to the root of the financial basis on which this is to be set up; and it very directly affects the financial return which the company is going to receive from the operation and to which the people of Canada will be directly or indirectly committed.

Therefore I see it on an entirely different basis. And I would make reference to this point, that in making the motion which I am going to make I do not think it is proper to suggest that it indicates a lack of confidence in the management of the railway. I put it on a very different basis. To my mind this is not a strict question of managerial ability. This does not bring into question whether or not the management is running an efficient railway, or will run an efficient hotel. This is a new departure. The departure is whether the question of policy must be considered and it seems to be that this parliament and this committee is entitled to consider this question of policy, which is quite different from the question of whether or not, once the thing is set up, the management could run it efficiently.

If we moved a motion like that, then Mr. Gordon would be entitled to say that we were not entitled to question the management of this thing, and we had better make it clear. But in this case that is not the suggestion.

I move:

That the committee be furnished with a statement of the basis on which the Hilton corporation of Canada will be paid for the managerial services it will supply at the proposed Queen Elizabeth Hotel.

The CHAIRMAN: I have a motion, gentlemen. It is moved by Mr. Fulton and seconded by Mr. Macdonnell. I shall read it again so that the members may get the full import of it.

It is moved by Mr. Fulton and seconded by Mr. Macdonnell:

That the committee be furnished with a statement of the basis on which the Hilton corporation of Canada will be paid for the managerial services it will supply at the proposed Queen Elizabeth Hotel.

Mr. CARRICK: May I be permitted to speak to the motion before it is put?

The CHAIRMAN: You may.

Mr. CARRICK: I think that the guiding principle we have to keep to is to reconcile the right of this committee to obtain—that this committee is entitled to the fullest consideration and information as to the operations of the Canadian National Railways, but that it is subject to a limitation of the disclosure of anything which would give an advantage to a competitor of the Canadian National Railways. By practice it has been established that the Canadian National Railways would not be obliged to furnish such information. The

motion was that we be provided with a statement of the basis on which the Hilton corporation will be paid. My submission is that we have already been furnished with a statement of the basis, and that is not what the motion is designed to obtain. They want to obtain more than a statement of basis. They want to obtain the precise details of the transaction which would give a competitive advantage to the Canadian Pacific Railway and to other competitors. My brief submission is that that class of information has already been furnished, and that this motion should not be carried.

The CHAIRMAN: Mr. Carrick, and gentlemen, to my mind I think I should make a ruling at this time, that the information asked for in the motion has been supplied by Mr. Gordon. Actually it goes further than the views that have been expressed by the members who have spoken today.

They are asking for a break-down as Mr. Carrick has said. They wish to go further than the basis on which the managerial services will be paid for. They want to go further than to ask for this basis.

The Canadian National Railway Company, the whole system, would be placed in a very difficult situation with regard to the negotiation of contracts if information is given with regard to a particular contract, if information is given with regard to a particular contract, and if information would have to be given as to contracts dealing with the Canadian National Railways, and in that respect they are being placed in a very bad position.

Mr. Macdonnell said during the course of the debate this morning that they have confidence in the management. We too have confidence in the management and we have to try to be fair to the management of the Canadian National Railways. That is what is being done in this situation.

Quotations have been made of other occasions. There was a quotation of Sir Robert Borden from the debates of the House of Commons in 1918 when the government took over the railways; and from Sir Thomas White in 1919, and further quotations dealing with the fact that the Board of Directors were being set up for the purpose of dealing with the internal management of the company and we were discussing the clauses of that Act. And then in 1921 there was a reference made to it by the Right Hon. Arthur Meighen at that time, and it has been the policy of this committee on several occasions. And then in 1941 regarding the International Aviation building, the committee was asked to give information with regard to the break-down of anticipated revenues from that building, and it was refused, because it was felt that it would place the Canadian National Railways in a very unsatisfactory position with regard to negotiations as to rentals and so on.

In 1944 the Moore-McCormack Lines Incorporated had to do with winter sailings from Canadian Maritime ports, and questions were asked with regard to the management of their line and it was felt then that the Canadian National Railways' position in the negotiations would be placed in a very difficult light and the minister refused to table the correspondence in the House, and the information asked for in this committee was withheld. In 1950 a question was asked with regard to the Imperial Oil's business, and requests were made for details of arrangements having to do with Canadian National Railways' mineral rights. This information was refused because it was deemed to be prejudicial to Canadian National's interest to disclose the Imperial Oil business.

A motion was put before this committee and it was defeated on a vote. In 1953 and in 1954 Mr. Pouliot, a member of this committee asked certain questions with regard to charcoal, fenceposts, and locomotives. Many members will recall that last year that information was refused because to give details of the transaction would reveal to suppliers the business affairs of that department of the Canadian National Railways which had to negotiate with them. So I think I must refuse this motion today. Therefore, it is my ruling that it is prejudicial.

Mr. FULTON: Will you permit me to argue the point before you rule?

The CHAIRMAN: I would be glad to.

Mr. FULTON: I too have looked up the debates. Judging from what you have said today, I would say: let us accept it for the purpose of argument—although I have reservations. I remember that the decisions refused details of the type of information to which you have referred, still those decisions were entirely different to the decisions involved here. In many cases they were asked for, as you have explained, while negotiations were still under way, in some cases, and in other cases the questions related to the continuing operations of the railway which arise in the ordinary course of railway business. In other words, the railway has to buy supplies such as fence posts and coal. To force it to give information as to the terms upon which it makes such contracts would certainly be placing its competitors in an advantageous position. But this question is in relation to the making of a managerial agreement with the Hilton corporation. The railway could perfectly well have operated and managed the hotel itself.

Mr. LANGLOIS (*Gaspé*): But it did not, in this case.

Mr. FULTON: I grant you, but you will remember that originally it intended to do so. Here you have not just a project involving the day to day operation of the railway; you have a project and the financing of it, and it is going to involve, through the issue of bonds and other pledges, the credit of the government—which of course is pledging the credit of the people of Canada—for a new departure, and that is the construction of a hotel in Montreal of which this committee has approved. But remember, this committee approved it on the basis and understanding at that time that it was to be the railway which was going to manage it. But now the whole approach has been changed and an agreement has been entered into.

My understanding of Mr. Gordon's evidence is that the Canadian National Railways have completed it. We are not asking for a revelation of any facts which would upset the negotiations, and there is no suggestion in regard to any competitor. And this managerial arrangement with the Hilton corporation—as I read the evidence—will very definitely affect the amount of money which will be available for meeting the obligations which the railway, and therefore the country, is going to have to underwrite for the financing of this whole proposition.

I was interested in the remarks made by Mr. Gillis a few moments ago.

The CHAIRMAN: I do not think that it would be relevant to a point of order to make reference to what Mr. Gillis may have said. I think it would have nothing to do with this point of order.

Mr. FULTON: Well, Mr. Chairman, I submit that it relates to the point I am making which is that there is a clear possibility of establishing by evidence that the government owned institution will show a loss, while the privately owned institution will show a profit. That is the argument which Mr. Gillis appears to make. We want to know what is the basis of the division of the profits between the Hilton corporation and the Canadian National Railways so that we can assess the situation and in accordance with our responsibilities decide whether we should approve of this new departure, the construction of a hotel; but the new departure you refer to was not the subject of my motion. However, I have here the *Hansards* for 1921 when the motion to set up this committee first came before the House of Commons.

That motion came before the House as a result of the inability of the members to get what they thought was proper information in the House itself. That information was refused, and the situation became so unsatisfactory that

the government decided to set up a committee to look into the whole thing, and to enable parliament to get information regarding the administration of the railway. Here are the terms of reference. I am reading from page 1755:

Right Hon. ARTHUR MEIGHEN (*Prime Minister*): Mr. Speaker, I beg to move the following resolution:

That a Select Standing Committee on National Railways and Shipping be appointed for the present session, and be instructed to inquire into the following questions:

(1) What information as to operation of Canadian National Railways and Shipping as conducted by the Board of Directors and Management should, in the public interest, be brought down in Parliament on Question, Motion for Production of Papers, or otherwise.

(2) When, by what method, and under what conditions, if any, should such information be given, regard being had for the necessity of securing to Parliament and the public all facts requisite for the determination of policy (including finance), . . .

Hon. Mr. MARLER: Surely it is the question of percentage which is the object of your motion. It is really a matter of policy. The policy is whether such an agreement should be made, not as to whether the details of the agreement should be made public.

Mr. FULTON: I am sorry but I do not agree with you at all.

Hon. Mr. MARLER: I did not expect you to.

Mr. FULTON:

. . . and to the Board of Directors the best possible conditions and efficiency of management.

I submit that we are not going to be put in a position to know whether or not to approve that financial policy until we have that information. And when we have it, we can then see what the results would be. Under heading number 4:

(4) Whether and for what purposes the said committee should be continued, and that for the above purposes and for such other purposes as the committee deem in the public interest there be referred to said Committee the Annual Report of the Board of Directors and that the said Committee have power to examine witnesses under oath, to send for papers, persons, and records, and to report from time to time.

Speaking in that debate Mr. Meighen made it perfectly clear that in his view Parliament could be given all the information it could possibly obtain relating to its acquiring facts concerning the things which had been referred to it.

Mr. Mackenzie King is referred to at page 1758. I think that his record and length of term in office as prime minister as well as other things which are in our minds entitle his views to the most serious consideration by this committee. He had this to say:

We, on this side of the House, have taken the broad position that, as regards expenditures on railways owned and controlled by the Government, the responsibility upon the Government is precisely the same as it is with respect to expenditures by any department of Government.

I submit that on the basis of the precedents which have been cited, it is still open to us to entertain this motion because the nature of this transaction is entirely different from the other transactions referred to upon occasions when the motions for information were refused, and I urge you therefore not to set a bad precedent by ruling this motion out of order.

The CHAIRMAN: Are you ready for the question?

Mr. MACDONNELL: I want to point out that our record in this committee shows that there is no desire to examine into the details of ordinary transactions. As has been said, we have confidence in Mr. Gordon, and it is only because this is a special case that we have asked for the basis. The word "basis" means different things to different people. I had hoped that Mr. Gordon might find it possible to look at the matter further and give us the basis. But we have not reached that point and I regret that this situation has arisen. For the reasons which Mr. Fulton has expressed we regard this as a special case. It is also true that the money which is being spent is the money of the people of Canada.

Mr. WEAVER: Mr. Chairman, I am a little bit worried about this motion. If it had asked for a direct split, I think your ruling it out of order would have been quite correct on the basis of the points made; but this motion is not asking for an exact split. This is a question of the management of the Canadian National Railways, and Mr. Gordon said that in his judgment the contract which has been made is a good contract. Then Mr. Fulton and his colleagues question that and say that we should examine it to decide whether or not it is a good contract. Therefore, I think the question is in order as a direct question on management. If it is not in order I would be very very happy to vote against it because—although I have only been a member of this committee for two years—each year I have felt more and more confidence in the management. My confidence in them has increased drastically, and I think that their handling of this Hilton contract only adds to the respect in which I hold the management of the Canadian National Railways.

Mr. JAMES: I support what Mr. Weaver has said and I wonder if by any stretch of the imagination, Mr. Fulton would consider withdrawing this particular motion? If he feels that another motion is required, I wonder if he might put another motion asking this committee to instruct Mr. Gordon to disclose the exact percentage of the proportion of split as between the Canadian National Railways and the Hilton corporation in this new hotel deal. That appears to me to be the only thing in question, because I think that the rest of the information has been provided already, and that is the only thing left.

The CHAIRMAN: Are you prepared to move an amendment?

Mr. JAMES: I am entirely prepared to agree with Mr. Gordon for the reasons he has given. I think Mr. Fulton has the right to make such a motion although I shall have to vote against it.

Mr. JOHNSTON (*Bow River*): I am not going to argue one way or the other on this motion presented by Mr. Fulton. I must say that from my position here I believe Mr. Gordon, on this occasion at least, has made the situation very clear. In my judgment I think he has gone as far as he could go without revealing further details in regard to the railway which would put him in an unfair position in regard to competitors. Therefore I shall have to vote against Mr. Fulton's motion.

Mr. FOLLWELL: May I have a clarification? Mr. Fulton's motion is only whether or not this committee should approve the action taken by the Canadian National Railways officials in making this agreement?

Mr. MACDONNELL: No, No.

Mr. FOLLWELL: That is exactly what he said, I mean, that is the meat of it.

Mr. FULTON: I think my motion was designed to get information on which we could pass our own judgment as to the merit of the agreement. It is quite possible that the information if given to us might lead us to the conclusion that it is a very fine agreement; but without that information we are left where we ourselves cannot make the judgment which in my view is the responsibility of parliament, that is to make a judgment on this matter.

Mr. FOLLWELL: I understand from Mr. Gordon's remarks that the agreement not only has been made, but has been made for several months. I do not know what position we would be, whether we approve or disapprove of it; I do not think it could affect the agreement in any way, shape, or form. Is that true?

Mr. GORDON: I would hope it would be true, because the position would then mean, on the basis of your remarks, that in some way the agreement would be abrogated.

Mr. MURPHY (*Westmorland*): Mr. Chairman, this motion asks for the basis. Now, Mr. Gordon yesterday told us that he would tell us the salient facts of the agreement between the Hilton company and the Canadian National Railways which he has done. When he did that he did not think he should produce the document itself. Now, apparently after listening this morning to Mr. Fulton and his colleagues they have attempted to reconstruct or construct the document by asking question after question on the different points of the detail on it.

If this motion which actually is looking for the percentage basis is passed, then Mr. Fulton or other members can continue along and ask questions on one clause after another on the agreement so that in fact it would produce the whole document or what the document says to the committee—just what Mr. Gordon says should not be done.

Mr. MACDONNELL (*Greenwood*): I disagree with that entirely.

Mr. MURPHY (*Westmorland*): You wait to disagree for just a moment, Mr. Macdonnell. As to the agreement itself, it sounds perfectly harmless. What I am concerned about is this motion asks for the basis of the agreement which we have already had given. So when this motion is turned down by the committee very shortly it will appear that we did not get a motion and it becomes a political thing that we were not even given the basis of the agreement between the Hilton Hotel Company and the Canadian National Railways which we were given. Well, I don't think that is a fair motion to put before this committee. I think it should be withdrawn. If it comes to a vote I shall vote against it and gladly. A motion should ask specifically for something and not ask for information which has already been given.

Mr. FULTON: The motion asked for the basis on which the Hilton Corporation will be paid. That seems to be fairly reasonably specific.

Mr. HAMILTON (*Notre Dame de Grâce*): Mr. Chairman, speaking on this question, as I understand it, our discussion here relates not to the question of the construction of this hotel which was discussed last year and on which we are, I think, all in agreement—certainly I am—but to something completely removed from the erection of this hotel—the question of the management of this hotel over the next fifteen years.

I think it would be my view of the function of a committee such as this that it represents the people of Canada in general and parliament in particular inquiring into the administration of certain governmental properties which are entrusted to an organization in order to ask, "What have you done with this trust and how well have you carried out the functions which have been allocated to you?"

Under those circumstances, Mr. Chairman, it would seem that unless the committee obtains the information which it feels is adequate in order to arrive at that decision the committee is being hampered and handicapped in its work and cannot arrive at a logical conclusion.

I suggest, Mr. Chairman, that the committee is the best judge of what information it requires to fulfil this trust which has been placed in it by parliament and that as such this information which Mr. Gordon's board of directors, for example, would certainly need—this information which the shareholders of a large corporation who are being committed to a fifteen-year contract—it is not a matter of normal operation on a day-in and day-out basis or year-in and year-out basis; it is a fifteen-year commitment and that, in my opinion, removes it entirely from the realm of ordinary operating practice and places it on a different plane and the information is quite a valid thing for this committee to see.

Having said that, I emphasize again that the question of the hotel as such was settled last year. It is a question with which we are in complete agreement but we have got cause to question in the light of the figures placed before us the wisdom of this agreement and we cannot arrive at a conclusion until such time as this information is made available to us.

Mr. BELL: Mr. Chairman, in speaking very briefly on this motion of Mr. Fulton's I would like to say that the statement made by Mr. Gordon yesterday about the possibility of the other hotels in the system coming under the same plan is very important and anything said here today about that may establish a condition which will completely limit any investigation of the other hotels. For example, the Chateau Laurier might at this moment be under consideration in the plan and I would think we should be completely told the entire situation in this case so that we can judge the whole merit of the system. Otherwise, during the intervening year negotiations may be completed for the management of our entire system and I feel really that the public is entitled to now the whole story.

On that basis I support Mr. Fulton's motion.

The CHAIRMAN: Question?

Mr. GILLIS: There is one thing I would like to call to Mr. Fulton's attention. I think Mr. Gordon has gone as far as he can. He did indicate the basis of the agreement when he said he could tell us it was better than a two-thirds split and that it was the best contract that Hilton had ever made.

Mr. HAMILTON (*Notre Dame de Grâce*): He said if it was better.

Mr. GILLIS: He said it was better than a two-thirds split. I think that is as far as he can go because, as I see it, he may have got a real good deal from Hilton in order for Hilton to get into Canada with his chain of hotels, but Hilton may not be prepared to give the same kind of contract to someone else. If we go into it any deeper it is unfair to Mr. Gordon and unfair to Mr. Hilton and the fact that he has said it is better than a two-thirds share, that is as far as he can go. He might whisper it to Mr. Hilton providing he keeps it to himself.

I will vote against Mr. Fulton's motion if he insists on it.

Mr. FULTON: I am glad to see Mr. Gillis' tenderness for private enterprise.

Mr. FAIREY: I was going to say that Mr. Murphy has raised a point which concerns me and I think it has been mentioned by one or two others. This motion, I think, is wrongly worded. If we were to vote against that, as I hope to do, it would mean that Mr. Gordon had not given the basis and it would go out to the public that Mr. Gordon had not given the basis and he has given the basis and I think it should be reworded so that we can vote clearly.

The CHAIRMAN: I am now going to say this, that I am making a ruling on the motion here. It is my opinion that the basis has been given by Mr. Gordon during the course of the discussions. The percentages or the breakdown of percentages between Hilton hotels and the Canadian National has not been given but that is not what is asked for in this motion. We are asked for the basis on which so and so happened. We have the basis and I am now ruling that in view of the fact that the information has been given that this motion is out of order and I will ask for the question on my ruling.

Mr. CHURCHILL: Mr. Chairman, on a point of order, you are now ruling that this motion is out of order. The committee proceedings are based on the rules of procedure in the House of Commons. Would you indicate on which rule of the House of Commons you are declaring this motion out of order? You are simply expressing your opinion as to whether information has been given in regard to this matter. I think it is not within the competence of the chairman—

Mr. LANGLOIS (*Gaspé*): On a point of order, Mr. Chairman, I don't think—

Mr. CHURCHILL: I am speaking on a point of order.

Mr. LANGLOIS (*Gaspé*): I am speaking on one too. I do not think this ruling of the chairman is debatable.

The CHAIRMAN: It is not debatable.

Mr. LANGLOIS (*Gaspé*): You have debated the chairman's ruling.

Mr. MURPHY (*Westmorland*): The chairman called for the question.

Mr. CHURCHILL: Let me repeat we operate in this committee under the rules of the House. Under the rules of the House when the Speaker declares a motion out of order he gives his reasons. I am asking on which rules of the House is he declaring this motion out of order?

The CHAIRMAN: The chairman's ruling is not debatable. Question?

Mr. FULTON: If you refuse to give us the reason on which you base your ruling—

Mr. CHURCHILL: I will refer your ruling to the Speaker, Mr. Chairman.

Mr. FAIREY: I think it would be very unfortunate if this matter should be settled on the chairman's ruling that a certain motion is out of order. I would wish rather for a clear-cut resolution and a vote on what is asked for and I would suggest that Mr. Fulton make that clear and amend his motion to ask for the details. Then we can vote on it. As it is, we cannot vote conscientiously on the motion as worded.

Mr. FULTON: I submit it is perfectly clear—the basis upon which the Hilton chain are operating.

Mr. CARRICK: I must confess I am not too familiar with these rules, but I would suggest an amendment to make the motion read:

That Mr. Gordon be commended for having furnished a statement of the basis.

Because in fact he has furnished a statement and that would reflect the true situation of what has happened.

Mr. Chairman, I would move an amendment if it is possible for me to do it so that the motion will read—

The CHAIRMAN: The amendment is out of order. The question is on my ruling. Those in favour?

Mr. FULTON: May I from the point of view of common sense ask if you will not give us an indication—

The CHAIRMAN: I have already given reasons earlier as to why I have given that ruling and I think that that is sufficient, Mr. Fulton.

Mr. FULTON: I want to avoid the necessity of appealing your ruling to the House.

The CHAIRMAN: Very well, if you wish to, I will be glad to have that done.

Mr. FULTON: If you will give us the rule upon which you base your ruling it might be possible to meet the point. If you cannot give us the reason and refer to some rule of the House then we will be in the dark and I submit with respect you have not yet related your ruling to any rule of the House with respect to regulating motions and amendments.

Mr. FOLLWELL: Mr. Chairman, I have heard in the House on several occasions that there was certain information that was so-called privileged information and it is quite possible that the exact basis of that might come under that particular term.

Mr. FULTON: If the chairman bases his ruling on that we have a clear-cut issue.

Mr. GILLIS: As I can see it you are asking for information which has already been furnished.

Mr. FULTON: But that is a question for opinion only and is not covered by the rules of the House.

Mr. MURPHY (*Westmorland*): There is an appeal from the ruling. We will vote on that. There is no satisfying some members of the committee. It is just a matter of voting. The dog barks and the caravan moves on. Let us vote.

The CHAIRMAN: Ready for the question? Those in favour of my ruling?

Mr. JAMES: What are we voting on?

The CHAIRMAN: The chairman's ruling.

Mr. JAMES: Has anybody appealed it?

The CHAIRMAN: I am asking for yeas and nays on the question. Those in favour yes or no?

Mr. FULTON: I take it you refuse to give the reasons for the ruling?

The CHAIRMAN: I have not said that at all.

Mr. FULTON: To save time will you poll the committee and I understand it is a vote on your ruling as to whether it should be sustained or not.

Mr. GILLIS: Well, your ruling is that he is asking for information that has already been given?

Mr. MURPHY (*Westmorland*): Let us start the caravan.

Mr. BELL: Might I just clear that up? I am voting now on that ruling. The reason for the ruling will be given after the vote is taken?

The CHAIRMAN: Well, I will give you the rule.

Mr. FULTON: Mr. Chairman, while that is being looked up may I make a suggestion?

The CHAIRMAN: Yes.

Mr. FULTON: As I understand your reason at the moment for proposing the motion out of order,—what would be the effect of the ruling is that that information has already been given?

The CHAIRMAN: That is right.

Mr. FULTON: We have objected to that ruling and asked you to reconsider it on the ground that there is no rule of the House which gives the chairman power to make a ruling on that basis. The question of whether or not the information has already been given is one for the committee to decide and if the committee decides there has been they do that by voting on the motion

itself. But there is no precedent under our rules for the chairman to impose his opinion as to the merits of the motion on the committee. That is a matter for the committee to decide and will be in the minds of the members who vote and will determine which way they cast their votes.

Mr. JOHNSTON (*Bow River*): Mr. Chairman, are we going to have another discussion in the middle of a vote? You have only called for one side of the vote. Let us finish up the vote.

The CHAIRMAN: Is it the wish of the committee that we call the yeas and nays?

Mr. JOHNSTON (*Bow River*): You have already started, Mr. Chairman.

The CHAIRMAN: Mr. Clerk, take the recorded vote.

The CLERK OF THE COMMITTEE: Yeas 16, nays 5.

The CHAIRMAN: I declare the motion carried. The item of the new hotel was carried last evening. The next item is "Financing", page 14.

Mr. MACDONNELL (*Greenwood*): Could I ask a question there? There is \$450 million of which \$50 million was used to retire advances. That is, I take it this \$450 million leaves the funded debt as it was?

Mr. GORDON: If I caught what you said, you said the \$50 million retired the advances. The \$50 million was used to retire bonds maturing on February 1, 1954. All of the proceeds of the balance was used to retire advances which had been obtained from the government or for capital purposes.

Page 11 gives the details as to the total borrowed capital and the difference between the two years—page 11 of the statistical statement. If you turn to page 11 you will find that the total borrowed capital as of December 31, 1953, was \$931,951,738 and that our net increase was \$167,789,839, giving a total as at the end of 1954 of \$1,099,741,577.

The CHAIRMAN: Are there further questions under the heading "Financing"? Carried?

Carried.

The next paragraph is "Other transportation development."

Mr. CARTER: Mr. Chairman, might I ask Mr. Gordon about the "William Carson"? I know she is due to go into operation in mid-1955. I presume that is around the end of June?

Mr. GORDON: Well, that is difficult to say. You may know that during the trial runs which took place in September 1954 trouble developed in the port propulsion motor so that delivery has been delayed. The latest report I have is that satisfactory progress is being made in remedying that trouble, but we still do not know what will happen with the new trial runs and I would not want to be too definite. It will depend when the ship delivered by the ship-builders will be in a condition to be put into actual service. But all indications are at the moment that it will be turned over sometime within the next three or four months.

Mr. CARTER: Assuming that the ship is ready for service, say, around mid-July in view of the facilities on the other side, is it proposed to put the ship fully into service or to use it as a sort of trial break-in service for the rest of the season? Would you use it to full capacity in the tourist season?

Mr. GORDON: I think we would have to await the results of the trial runs. This is an unusual ship, as you know. It has very special loading facilities and so forth and we know from experience that anything that is new usually has some, "bugs", the intention will be to put it in full service just as rapidly as it is possible from the standpoint of safety and from the standpoint of practical operation.

Mr. CARTER: This ship was built on the assumption that the Trans-Canada link would be completed at the same time, which is not now the case.

Mr. GORDON: That is right.

Mr. CARTER: And it would be a serious handicap to our tourist industry if we took over a lot of tourists in that ship and they got to Port aux Basques and had no place to go.

Mr. GORDON: That is one of the practical questions that will arise but, of course, from our point of view when the ship is turned over to us for service our job is to run it regardless of what happens in connection with the point you raise. I do not think the decision would rest with us to what would happen with regard to the ship going into full service.

Mr. CARTER: I can understand how there would be plenty of use for it in a limited way.

Mr. GORDON: We have to keep in mind that it is not only the question of the tourists. It is an important matter to us that we get the freight service operating on a more efficient basis as quickly as possible.

Mr. CARTER: That is what I was hoping you might be able to use it for—freight and passenger service without the transportation of motor cars.

Mr. GORDON: We will try to get the maximum practical utilization of the ship, having regard to the general problems that may arise when we put it into the service.

Mr. CARTER: But taking into consideration its possible effect on the tourist program?

Mr. GORDON: Yes.

Mr. BELL: I asked the other day about the problem in New Brunswick in the army camp. Would it be right to take that up here?

Hon. Mr. Marler: I think we had better bring that up on the capital budget. I think we should deal with anything new under the matters of capital budget. This obviously deals with things that have already been accomplished.

Mr. GILLIS: Mr. Gordon, I have noted that your first train will go over the Canso Causeway on May 1. They expect to have that swing bridge completed by April 2. Would you say that is anywhere near to when you may be getting your trains across?

Mr. GORDON: The earliest date we have is May 15, I understand, and while we are on that question I would like to make it clear that operation in the first phase should not be regarded as representative of what will happen. We have got to run trains under slow orders until the line stabilizes and we will have to form a judgment as time goes on when that stabilization is sufficiently far advanced to enable us to improve the operation. So I would like your friends down there to realize they should not take the initial operation as an indication of the permanent operation.

Mr. GILLIS: What is going to happen to the facilities you have at Hastings and Mulgrave now?

Mr. GORDON: You are referring to the ferry facilities, are you?

Mr. GILLIS: No, not necessarily—to your terminals there.

Mr. GORDON: They will stay put for the present anyway until we see what are the practical needs of the tariff operations. We have no immediate plans about that.

Mr. FOLLWELL: Mr. Chairman, the members of this committee who were here last year will probably recall that I had the opportunity of putting before this committee a proposed amendment and for that purpose prepared and distributed a memorandum to the members of the committee, and I have

filed with the clerk several copies of that memorandum this morning and if the clerk would be good enough to distribute the memorandum to the members of this committee at this time it is quite probable they would have a better opportunity of following what I propose to bring forward.

I am sure too that the members will recall it had to do with the action of the sessional railway committee in 1942, acting at that time under wartime stress and, I presume, as a wartime measure and if I could be permitted, Mr. Chairman, I would like to point out that this memorandum is presented because of the fact that the railways under federal control, and waterways too—the transport systems under rigid federal control by way of the federal Board of Transport Commissioners—

Mr. JOHNSTON (*Bow River*): Mr. Chairman, on a point of order, would this type of memorandum come under this item because if it does probably we can extend our discussions on matters of this kind. I am just wondering if you are going to permit a general discussion of this kind?

The CHAIRMAN: Mr. Johnston, I think you have something on that point. I have some doubt as to whether it comes within our terms of reference.

Mr. JOHNSTON (*Bow River*): I would suggest that it did not.

The CHAIRMAN: I have before me a copy of the terms of reference which are resolved:

That a sessional committee on railways and shipping owned, operated and controlled by the government be appointed to consider the accounts and estimates and bills relating thereto of the Canadian National Railways, the Canadian National (West Indies) Steamships, and Trans-Canada Air Lines, saving always the powers of the committee of supply in relation to the voting of public moneys; and that the said committee be empowered to send for persons, papers, and records and to report from time to time—

And so on. And then the committee is set up.

I have some doubts now as to whether under the terms of reference we have power to deal with this. Members will recall that last year this matter came before the committee and at that time the Minister of Transport at page 64 of the report of the sessional committee of 1954 said of the memorandum of the same sort as the memorandum today:

What I was going to say is this: that while I have a great deal of sympathy for what my friend has in mind, I do not think this is the place to do this. What you are asking this committee to do is to tell the Department of Transport to put in its clauses having to do with transportation of goods and certain things. I do not think this committee has the authority to do this.

Mr. MACDONNELL (*Greenwood*): Who was speaking?

The CHAIRMAN: This was the Hon. Lionel Chevrier, the then Minister of Transport. That was on the first point, that he doubted whether under the terms of reference—and I think the terms of reference in this instance are quite similar to those in the memorandum that I have read, I believe almost identical with the memorandum which was presented last year and—

This committee was established for the purpose of considering matters concerning shipping and the like, controlled and operated and so forth by the government, but certainly not to control the contracts which the Department of Transport would enter into with various groups. First of all, that is the technical and legal objection which I

have; but if I may be allowed for a second to go into the merits, I said at first that I have a great deal of sympathy for those who are anxious that we should move as much of the goods of this country by rail as possible.

And then the second point was this:

Mr. Gordon has given some indication of the difficulties in which the railways find themselves vis-à-vis motor transportation. But what you are doing here is this: You are discriminating against air transportation as well as motor transportation. You are doing that at the moment that the government has instructed the Minister of Transport to hold a conference.

And so on. It was held last year. So there were two points taken by the minister at that time.

Now, it seems to me that the matter would have to be stretched a very great deal to bring the matter within our terms of reference on this point.

We are asked to deal with accounts, estimates and bills which are presented to us for consideration. True, a report is made with regard to other transportation developments but does that not mean, however, new transportation developments that are being developed now by the railways themselves? Could this be considered an additional development?

On this point with regard to the terms of reference I have some doubts as to whether that should come within this reference. You will have some doubts with regard to the heading itself but I will be glad to hear any comments of the committee.

Mr. JOHNSTON (*Bow River*): The only comment I can make on that at this time is that I don't believe it comes within the terms of reference. If you as chairman should decide that it does come within the terms of reference then I think it opens the door wide for other forms of transportation and brings in trucking, air transportation and things of that nature.

I am quite sure, Mr. Chairman, you would not want to develop an argument that would extend a long time. I think we should have a ruling in regard to that before we go any farther. I agree with your opinion so far.

Mr. FOLLWELL: Mr. Chairman, my hon. friend Mr. Johnston has put forward the suggestion for a ruling and you have quoted the terms of reference. However, I would say this, that I think we will all agree that we have been somewhat patient in regard to listening to the remarks of probably all the members of the committee that went a little bit beyond the terms too.

I might be wrong, of course, but I was of the opinion that this committee was supposed to bring forward to the management of the railway some help, if possible, to enable them to secure the business and particularly in the hope that the government itself would patronize its own railway. I would like, Mr. Chairman, to just be permitted to take one minute and read—

Mr. JOHNSTON (*Bow River*): Mr. Chairman, on a point of order, if we are going to go ahead and discuss this thing it seems to me we are going to stretch the rules a little bit and the terms of reference, particularly in view of what you have just said.

Mr. FOLLWELL: Well, Mr. Chairman, might I add this: the members of the committee were kind enough last year when I brought forward this memorandum and proposed this motion to say that a subcommittee would consider it and I think after the railway officials have finished with the committee our own subcommittee did consider this and I would be very grateful to the members of this committee and to you, Mr. Chairman, if you could see fit to have a subcommittee again take a look at this memorandum. I am sure it has a great deal of merit and I think the Minister of Transport would like to give some thought to it.

The CHAIRMAN: Mr. Follwell, my difficulty is this: this is the difficulty that arises in my mind and that is if the committee are not empowered to deal with it, how can a subcommittee deal with it? If it is not within our terms of reference for the committee to deal with how am I in a position to refer it to a subcommittee?

Now, representations have been made and you have made them here today. You have been able to make these representations but I am afraid within the terms of this reference I am not going to be able to allow the matter to go before a subcommittee. If the matter cannot come before this committee how can I send it to the subcommittee?

Mr. MACDONNELL (*Greenwood*): This has nothing to do with the ruling, but as a matter of practical human relationship if you did what you did last year and if the appointment of a subcommittee were agreeable to the Minister of Transport is it not possible that he could get the terms of reference extended?

Hon. Mr. MARLER: I wonder if I might say a word on the subject itself. As the hon. members know there is a "ship by rail" association in Canada which recently made representations to me exactly along the lines of the statement Mr. Follwell is now putting forward to the committee. I promised to give their views consideration and did so, and I wrote to them afterwards telling them that it was impossible for us to accept the view that all material and supplies used in connection with contracts with my department must be transported over railways operating in Canada or Canadian waterways to the greatest possible extent.

We feel that we must have freedom to procure the building and execution of contracts to the best advantage of the Canadian taxpayer.

Mr. FOLLWELL: Might I just point out to the minister, as he will notice the words there "to the greatest possible extent" leave him that freedom to decide, but it does also indicate that if he could take a look at whether or not—

Mr. JOHNSTON (*Bow River*): Mr. Chairman, on a point of order, are we going to get into a discussion because I think you have been very, very lenient in allowing him to present this memorandum unless you are prepared to allow other organizations to make their submissions.

The CHAIRMAN: I think I have been very lenient, as you say, Mr. Johnston, but I don't think I can let it go any further and will have to rule unless the minister is prepared to have the terms of reference extended, as was suggested—

Mr. FULTON: Are you not in a little difficulty in view of what was done last year?

The CHAIRMAN: That is my difficulty. It was dealt with by a subcommittee last year and after consideration they refused—

Mr. FULTON: That was because there was a revision of some statute and we thought we should not do anything at the present time.

The CHAIRMAN: That was one reason. But there was another reason too, that we were not in a position to discriminate between air, rail and motor transportation and that if we said: "All transport supplies must go by rail," that there was a discrimination against the other two. Now, I recall that being discussed—

Mr. GILLIS: Mr. Chairman, are we not in this position: while I am sympathetic to Mr. Follwell's ideas in this subject, hasn't the Department of Transport already dealt with the matter and ruled against the subject-matter? There would not be much use of us making another representation to them.

The CHAIRMAN: Representations have been made to the minister in that regard.

Mr. FOLLWELL: I might just point out, as has been indicated, that this is not within the purview of this committee, but if we would go back and you

quoted today several rules in regard to a motion Mr. Fulton presented, apparently in 1942 there was a precedent set. I am going to leave it at that because I do, as you well know, abide by your rulings at all times. I would like to make that comment.

Mr. FULTON: I would hope a subcommittee could consider it again.

The CHAIRMAN: What is the wish of the committee?

Mr. JOHNSTON (*Bow River*): Just as you have expressed it, Mr. Chairman. If it is not within the reference of this committee, how could you possibly have a subcommittee of this committee deal with a problem which the committee itself cannot deal with? It seems so self-evident that I do not think the subject should be further debated and that your decision is quite proper.

The minister has given his view that outside of this committee he himself has dealt with it and has seen fit in his judgment to turn the request down. I think we should be very careful in accepting this without giving other organizations a similar opportunity.

Mr. MACDONNELL (*Greenwood*): On the other hand, shouldn't we be careful not to cast aside lightly a precedent which has been developed over the years?

The CHAIRMAN: I think last year it was decided that representations had been made to the minister and apparently the departments have not seen fit to implement the representations that were made. I do not know what more this committee could do. It has been brought to the attention of the minister of the department and probably will be again. I do not think any purpose would be served through further representations being made.

Mr. FULTON: Perhaps it is this way, that the committee is master of its own proceedings and if it wished could refer the matter to a subcommittee even although it was not in order, but I suppose that would require unanimous consent and perhaps therefore Mr. Johnston would consider it on that basis. If we could get unanimous consent I am sure the committee could do what it likes.

Mr. JOHNSTON (*Bow River*): Mr. Chairman, I do not think that is the point at all. I do not think even this committee with unanimous consent could rule on the subject at all. The committee itself is not a power of reference. At the moment even if that were true I am not prepared to give my consent.

The CHAIRMAN: I think that disposes of the matter. Any questions on other transportation developments?

Mr. HAMILTON (*Notre Dame de Grace*): Mr. Chairman, under the St. Lawrence seaway reference is made to the changes to the Victoria bridge—

The CHAIRMAN: Are we then going to the heading "St. Lawrence Seaway"?

Mr. HAHN: Pardon me, I am not sure I will have the opportunity to speak on this when the capital budget comes on because I am going back into the House, but I would have one or two questions that I was going to ask since it has to do with new business. Whether I could get the consent of the committee to allow the section on capital budget account—should it come up in my absence—to ask the minister one or two questions.

The CHAIRMAN: I don't hear you, Mr. Hahn.

Mr. HAHN: If the committee would permit me to dispose of capital budget except for a question or two which I have to put to the minister in respect of new projects and I don't expect to be in here when the capital budget comes before the committee later today.

The CHAIRMAN: I fear if we had to do that in your instance we might have to do it for many others. The capital budget will be on this afternoon and

I do not know how we can do that. There may be other members who might have to be in the House at that time. There are some who are absent now. I do not know that I am in a position to do that.

If you have a question and if you will put it now.

Mr. HAHN: Yes, it is very brief. In view of other transportation developments I was wondering if the minister had been approached in regard to a ferry line between White Rock and Sidney, British Columbia.

Hon. Mr. MARLER: I do not recall any approach. I would be glad to make inquiries and find out. When one gets forty or fifty letters a day it is hard to remember the contents of all of them.

Mr. HAHN: And I would want to know what steps were being taken to either implement or not implement it.

Hon. Mr. MARLER: If, Mr. Hahn, you would send me a note I would be very glad to make inquiries and let you have a reply.

Mr. HAHN: The other question was to Mr. Gordon in regard to the P.G.E. railway. Have you in view the purchasing of the whole or part of the P.G.E. railway?

Mr. GORDON: No.

The CHAIRMAN: Shall the item carry?

Carried.

We now come to the "St. Lawrence Seaway."

Mr. HAMILTON (*Notre Dame de Grâce*): Mr. Chairman, in connection with the St. Lawrence seaway, the railway is involved, of course, as far as the Victoria bridge is concerned and I must say I think they have given a very extensive and adequate explanation to the people of Montreal publicly as to what plans were proposed for this. That has given rise to some hesitation as to whether the treatment was right or wrong and that has been debated. My first question in that connection arises out of the paragraph:

"This bridge carries the main lines of the railway across the St. Lawrence river."

Provision has been made when traffic on the bridge is interrupted by a boat to detour automobiles around it. What happens to the trains under those circumstances?

Mr. GORDON: They stop when the bridge is up.

Mr. HAMILTON (*Notre Dame de Grâce*): Is that going to be a serious interference with public service?

Mr. GORDON: It will be an interference. We are working with the St. Lawrence seaway authorities to minimize that interference to the maximum, if that is the proper way to put it. It is not quite decided yet whether it will be a lift span or swing span, although present talks indicate that it likely will be a swing bridge but that is still under discussion between the technical officers of the St. Lawrence seaway authorities and ourselves.

It is really simple when you think of it that there has to be a period of time when the canal is in operation and during that time the railway has to stay put. From the point of view of the mechanical operation of the bridge and the movement of the ship traffic but everything will be done to speed that up. The St. Lawrence authority or the proper authority—I am not sure that they have jurisdiction—but that proper authority will ensure that the boats move through at the specified times which will not interfere with the peak periods on the railway. There is close cooperation with them in that respect.

Mr. HAMILTON (*Notre Dame de Grâce*): There may be some delay but the extent is unknown yet?

Mr. GORDON: There will be delay, there is no doubt about that, and that is under consideration.

Mr. HAMILTON (*Notre Dame de Grâce*): Has any consideration been given to some other plan which will eliminate this delay completely—perhaps the construction of a tunnel?

Mr. GORDON: We have only had discussion in respect of the Victoria bridge.

Hon. Mr. MARLER: I wonder if I might point out to Mr. Hamilton that there is the present Lachine canal which the railway must cross at the present time and its ordinary operations and the volume of traffic on the Lachine canal, that is to say, the number of ships that pass is probably greater than the number of ships which will pass on the seaway because ultimately I think we will see larger ships on the seaway than the 14-foot draft vessels that use the Lachine canal.

Mr. HAMILTON (*Notre Dame de Grâce*): Yes, I am aware of that. My other question in relation to the Victoria bridge, Mr. Chairman, is this bridge was built about when, Mr. Gordon?

Mr. GORDON: It was just at confederation. It was around 1867 to 1870.

Mr. HAMILTON (*Notre Dame de Grâce*): So it is about ninety years old.

Mr. GORDON: Mind you, that was the first bridge which was a tubular bridge. There has been quite a lot of history in regard to the bridge, but the first bridge was a tubular bridge. There have been several amendments to the form and style. As Mr. Dingle reminds me, it was practically rebuilt from its original construction.

Mr. HAMILTON (*Notre Dame de Grâce*): This, I think, winds me up on the question of this bridge. Then, Mr. Gordon, do you feel that this course of action to have a bridge originally built ninety years ago and subsequently reconstructed and revised again is a wise course of action? A great deal of engineering work is essential to give us transit across the river. Do you think that will be as satisfactory as if we approached the problem completely anew and replaced this bridge?

Mr. GORDON: We have never at any time expressed a view nor do we express a view as to whether this solution of the Victoria bridge will solve the traffic problem of Montreal or Montreal district. All we dealt with is the fact that the St. Lawrence seaway authority need to go through the bridge or under it. On those terms we have worked out what we think is the best solution for that particular problem. I won't be drawn into any expression of opinion as to whether or not that is the solution of the Montreal traffic problem, but it is the best solution we have been able to get in respect of this particular part of the problem. It is the best solution we have been able to see and it was only by reason of the excess motor vehicle traffic you have already mentioned that the railways and the seaway authority examined the utility of the bridge in respect of highway traffic.

Mr. HAMILTON (*Notre Dame de Grâce*): Thank you very much.

Mr. JOHNSTON (*Bow River*): I would like to ask one question about this seaway. When the seaway is completed, Mr. Gordon, how is it going to affect the size of the non-competitive area for the fixing of freight rates?

Mr. GORDON: How is it going to affect the size—

Mr. JOHNSTON (*Bow River*): Now, the non-competitive area is, generally speaking, Ontario and Quebec, is that right?

Mr. GORDON: Yes.

Mr. JOHNSTON (*Bow River*): When the seaway is completed will that non-competitive area be extended to the west or east and how far?

Mr. GORDON: Don't you really mean, is the competitive area versus water going to be increased?

Mr. JOHNSTON (*Bow River*): Yes.

Mr. GORDON: Well, I would say yes the competitive area as it affects the railways will be increased with the completion of this St. Lawrence seaway scheme.

Mr. JOHNSTON (*Bow River*): Well, the non-competitive area, when it comes to fixing freight rates, because as I understand it, I might be wrong—you can correct me on this if I am—when there is an increase in freight rates the increase is not subjected to the non-competitive area to the same extent as it is to the competitive area?

Mr. GORDON: Well, it works this way: a general freight rate increase is a permissive increase. It affects all forms of traffic and as far as the railways are concerned they are perfectly free to increase to the extent that the Board of Transport Commissioners has given its permission. The freight rate changes apply to all classes of traffic except those subject to statutory rates such as the Crow's Nest Pass rates, but as a practical matter we cannot increase the so-called competitive rates because if we did so we would lose the business; in other words, what the Board of Transport Commissioners does is to increase the ceiling in a general freight rate increase and then we have to make up our minds where we can take advantage of that permission because obviously there is no point at all in increasing the freight rates if we are going to lose the traffic.

Mr. JOHNSTON (*Bow River*): When this seaway is completed then the position of the Board of Transport Commissioners or the railways in deciding where they are going to take advantage of this and where they are going to increase the rates will be affected by this?

Mr. GORDON: It will, it will enlarge the competitive area by reason of water compelled rates, as we call them.

Mr. JOHNSTON (*Bow River*): So in fact what is going to happen—I hope I am not right—what is going to happen then is that when this seaway is completed and there is a general increase in rates those of us out in the west are going to get the advantage of the increased rates if there is an advantage in that way and this area here which is going to be included in this non-competitive area is going to be let off a little later?

Mr. GORDON: That is a good debating point, but you have to think about it in the practicalities of the situation. My view has been that the St. Lawrence seaway will have a bad effect on railway traffic in the first instance but as the project develops the fertilizing quality it is expected to produce will increase substantially the industrial centre of Canada by reason of cheaper power—and power is the most significant part of this plan incidentally—it is not in the matter of transportation; it is in the matter of power—with the development of that power we expect that the "heart land" of Canada as it is often called will be increased industrially and that the revenues of the railways in due course will be very much increased. If that happens and our over-all amount of traffic is sufficiently increased then we won't have to require the sort of increases you are referring to.

It is very difficult to say just how it will work out. If we get enough traffic and enough volume then there won't be the need for assuming the general increase in freight rates that you are assuming as your premise.

Mr. JOHNSTON (*Bow River*): Then unless the railways and the government all decide to assist the west and the maritimes to develop industry in those

areas the very fact, as you have indicated, that when this seaway is completed it is going to affect the power development particularly in Ontario and Quebec—if they are going to be supplied with an abundance of cheap electric power it will develop their industries and as a result of that Ontario and Quebec will be in the position again of supplying the railways with more business because of their increased productivity due to cheaper power. There again it seems to me that unless there is very great caution taken the outlying areas, such as the maritimes and western Canada are going to be at a disadvantage again.

Mr. GORDON: You have to think of it in terms of traffic. You should not assume that the traffic that will be developed by the St. Lawrence seaway is going to be all waterborne traffic. The manufactured products that will come out of this development if our hopes are realized—and I am not saying railway hopes, I am saying national hopes—those manufactured products will have an interest in getting to their markets quickly and the manufactured products, as you know, move more by rail than they do by the slower movement of water. Transportation by rail is faster than transportation by water so we do think we have a real competitive advantage in the matter of speed. These things we will have to work out, and I am not suggesting for a moment that in the first instance, perhaps for a number of years, the railway will not be seriously affected by the competition being developed through the seaway, but eventually, I think it will work out.

Mr. JOHNSTON (*Bow River*): I would like to draw to your attention, and I am sure you are aware of it, that the west and the maritimes may not be able to survive over these two years you indicate. A great deal of caution should be taken when the railways are studying their rates to see that Ontario and Quebec receive their fair share of these increases and that they are not piled on to prairie provinces or the maritime provinces.

Mr. GORDON: I think that the practical application of that has been evidenced in the Maritime Freight Rates Act and the Crow's Nest Rates Act.

Mr. GILLIS: That Maritime Freight Rates Act is of very little advantage to the maritimes today. It was satisfactory when it was first fixed, because the rates across the country were uniform. You yourself know that there have been a dozen increases in the maritime provinces and the west, while the rates in central Canada stood still, because of tough competition. If the advantages that were given to the maritimes under the Maritime Freight Rates Act were to be maintained, that rate should now be stepped up at least 50 per cent.

Mr. GORDON: I think you are forgetting this: we are getting into a matter that has been under great discussion, but I want to remind you of the equalization of freight rates on March 1st under the ruling of the Board of Transport Commissioners. They have at last endeavoured to take into account the kind of circumstances you have mentioned.

Mr. GILLIS: I do not think that equalization of freight rates is possible in this country. I think it is a myth.

Mr. GORDON: It is possible to the extent that it is going to reduce the railway revenue; I know that.

Mr. GILLIS: I do not want to argue the question.

Mr. HAHN: It is not my business to be too familiar with the Montreal area, and therefore I am not familiar with where this bridge runs.

Mr. GORDON: It goes across the St. Lawrence River.

Mr. HAHN: From one shore in Quebec to the United States?

Mr. GORDON: No, to Quebec. It is not an international bridge; it is an intraprovincial bridge.

Mr. HAHN: While I had assumed that that was probably true, at the same time my understanding has always been that we do not build bridges as a federal authority from one part of a province to another part of a province.

Hon. Mr. MARLER: Where do they run if they do not run between one part of a province and another?

Mr. HAHN: As a federal authority, though?

Mr. GORDON: Yes. Do you mean that we do not build railways from one place to another?

Mr. HAHN: Is the railway bridge being used as a roadbed as well?

Mr. GORDON: I see what you mean. This is a railway bridge with the railway tracks running in the middle of it. At the moment a roadway span provides for road travel. What Mr. Hamilton is referring to is that under this plan we are going to provide another span so that there will be two road spans with the railway in the centre of the bridge.

Mr. HAHN: Who is providing the road span?

Mr. GORDON: Under this arrangement we are going to build a road span because it is a toll bridge. We charge highway traffic for the privilege of crossing that bridge.

Mr. HAHN: Thank you.

Mr. HEALY: Is it the intention of the C.N.R. to remove the tracks of the Southern Counties on each side of the bridge?

Mr. GORDON: We have an application before the Board of Transport now asking for permission to abandon the Montreal and Southern Counties Railway completely, provided that we build this downstream bracket highway we referred to. I understand that by so doing we will make the bridge available to bus traffic, which is not permitted at the present time.

Mr. HEALY: Do you believe that when you have that changed it will enable the bus traffic to move more quickly?

Mr. GORDON: Our estimate is that by building the downstream bracket we will double the physical capacity and probably treble the actual movement of vehicles across the bridge.

The CHAIRMAN: Shall the item carry?

Mr. HEALY: I am very much interested to know whether we are going to have a swing bridge?

Mr. GORDON: The swing bridge will not interfere with the highway traffic. We have made arrangements for that.

The CHAIRMAN: Shall the item carry?

Carried.

“Corporate Reorganization”.

Mr. FULTON: We have had from Mr. Gordon in preceding committees a general statement showing what is intended and what the results will be, for instance, showing the number of corporations you have now.

Mr. GORDON: If you wish to turn to page 10 of the statistical statement, you will see there a full statement of the companies comprising the Canadian National Railways System as it now stands. You will observe that in heavy print we have listed the main companies, with the subsidiaries of those particular companies below them. Our ultimate object under the plan is to consolidate our subsidiary companies into six or seven major corporate entities. That is, we would have one railway company, one communications company,

one steamship company, one hotel company—we have accomplished that now—and we would have one realty company, and so on. It has been a slow, tedious process because it has required the clearing up of doubtful titles and all sorts of things. We expect that rapid progress will be made now that we have the major hurdle out of the way in regard to our perpetual stocks, which were taken into the system and which were outstanding in the hands of the public. There is no way for us to call them in, but we made a cash offer for those stocks over the last two years and we were able to buy them in. When we get all those stocks in we will be able to release the mortgage and discharge the charter and bring them into our main company. I was attempting to do that in Toronto the other day, where we were able to take the legal formality of surrendering the charter by reason of the voluntary surrender of about 99% of the stocks. Unfortunately, one holder who attended the meeting challenged our right to surrender the charter, and I do not know at the moment whether he will proceed to court.

Mr. MACDONNELL (*Greenwood*): How much did he hold?

Mr. GORDON: It is an insurance company. I think it is a matter of knowledge. I cannot remember whether it was £10,000 or \$10,000. It must be pounds because it is a pound issue.

Mr. FULTON: Have you reached a point in this matter where you could give us a statement, before the committee rises now, showing what the picture will be when your plans are completed, so that we can get an idea of what the corporate structure then will be?

Mr. GORDON: It will be about seven major companies. When we will be able to accomplish it, I do not know. The legal details are very tedious and involve a good deal of negotiation. It is very actively in hand, and the objective is as simple as I said, to reduce the total to about seven corporate entities. I do not think I can add much more. The companies have been lying there ever since the system was formed in 1923 and it was one of the jobs we did not get on with at that time. It is a housekeeping job.

The CHAIRMAN: Shall the item "Corporate Reorganization" carry.

Carried.

We carried the item "sale of Four Hotels", and "Cooperation under the Canadian National-Canadian Pacific Act, 1933".

Mr. FULTON: I have some questions on the British Columbia coast service, but it is now 1:00 o'clock.

The CHAIRMAN: Yes. Would they be lengthy? It is up to the committee if they wish to adjourn now. I think we might adjourn and go on with the two remaining items "Cooperation under the Canadian National-Canadian Pacific Act, 1933" and "At Year End", and then deal with the Income account and capital budget and the securities trust, I hope, this afternoon.

AFTERNOON SESSION

The committee resumed at 3.30 p.m.

The CHAIRMAN: When we adjourned at 1.00 o'clock I agreed with Mr. Fulton that I would allow him to ask some questions with regard to the British Columbia coastal shipping under the item cooperation under the Canadian National-Canadian Pacific Act, 1933, and seeing that he is not here at the present time we might allow that to stand so that when he does come that question can be asked. Here he is now. Mr. Fulton, you asked a question with regard to British Columbia coastal shipping under the item "Cooperation under the Canadian National-Canadian Pacific Act, 1933." So if you would like to put that question to Mr. Gordon I think he will endeavour to answer.

Mr. FULTON: I understand on the basis of newspaper reports and on the basis of what I assume from your own report and in a letter I have received that you are to all intents and purposes discontinuing your coastal steamship operations but will continue on a limited basis a joint operation with the Canadian Pacific. Is my understanding correct?

Mr. GORDON: Well, I don't know whether to say it is correct or not. We have entered into an agreement with the Canadian Pacific Railway whereby we will have a joint operation at the regular calling points which have heretofore been served partially by each line. We will now have one ship serving each one of those points but we will also continue to operate the steamship which we formerly operated, named the Prince George, which is a cruise ship. That will continue to operate on that service, but we are discontinuing our Prince Rupert, a ship which is ready to be retired in any event and we do not intend to replace her in service but will join with the Canadian Pacific Railway in joint service for that regular schedule.

Mr. FULTON: What is the occasion for this, Mr. Gordon? Have you been having bad returns?

Mr. GORDON: The economics of the situation—perhaps I might give you a little of the background. The Prince Rupert ship, which is well known to you, I am sure, has reached an age where her retirement from this kind of service at least is imperative. We were faced with a decision along three lines, whether to try to run a service with only one ship, namely, the Prince George, whether we should try to get a replacement ship for the Prince Rupert and thirdly whether we should build a new ship.

Some years ago I said we had the building of a new ship under consideration and indeed in the 1952 and 1953 budget we had an estimate for the building of a ship, which was approved.

On a closer perusal of the matter it was revealed that the deficit inherent in the operation of a new ship was such that we decided that we could not justify it. The new ship, incidentally, would have cost in 1953 about \$4,172,400.

Now, our actual operations in the British Columbia service show that last year we had a deficit before depreciation or interest of \$24,772. With depreciation and interest our deficit was of the order of \$348,000 annually. We are hopeful, therefore, that by going in with this pool operation with the Canadian Pacific—it is not proper to call it a pool operation but a joint operation with the Canadian Pacific Railway—we will effect substantial economies and will maintain service on the British Columbia coast which will be adequate in relation to the traffic offered.

Mr. FULTON: The situation now is that you will be discontinuing as your own runs a regular scheduled service to Prince Rupert and carrying this on in conjunction with the Canadian Pacific?

Mr. GORDON: That is right.

Mr. FULTON: You will, however, not be making any changes in the use you are making of the Prince George which I understand has been serving only as a cruise ship?

Mr. GORDON: No.

Mr. FULTON: And therefore only operates in the summer months?

Mr. GORDON: That is right, unless the Prince George would have been operating as a substitute when the other ship went into dry-dock.

Mr. FULTON: I have received a letter from a person who says that her husband has been serving on the Prince Rupert. That boat, I think you told us, is past service?

Mr. GORDON: It will be withdrawn from service completely and will be offered for sale in the near future.

Mr. FULTON: This letter states that the whole crew of the Prince Rupert had been laid off. This is one of those hard decisions that concern you from time to time and which I am sure you don't like to have to take. We were discussing it on the question of discontinuing rail lines. Is it your opinion that the crew of the Prince Rupert and Prince George will be able to find other alternative employment? What is the situation, for instance, in the pooled arrangement you are going to have with the Canadian Pacific?

Mr. GORDON: Under our agreement with the Canadian Pacific Railway the crew of the joint ship will be supplied by the Canadian Pacific. This is another agreement, I hasten to call your attention to. I must reserve my position on it.

Mr. FAIREY: What is the name of the ship?

Mr. FULTON: The Princess Norah.

Mr. GORDON: Although it wouldn't be known as the Princess Norah from now on. It will be re-named.

Mr. FULTON: What can you do, if anything, for the crew of the Prince Rupert or what hope can you offer?

Mr. GORDON: Well, all I can say is that there are competitive services there where they could find work, but it is a fact that it is a discontinuance of service and that does mean an end of employment. We have no other place for the crew of the Prince Rupert as such and they are being dealt with on reasonable notice and it is another indication that discontinuance of service does mean unemployment. I would remind you, however, that there are other steamship services on the B.C. coast.

Mr. FULTON: Have the office of your company been used in any way or have they been able to be of assistance in finding alternative employment?

Mr. GORDON: Not specifically, no.

Mr. FULTON: I am not going to press you about this agreement, but I think you might tell us what were the sort of factors which provided that the Canadian Pacific Railway would provide the equipment for continuing service rather than yourselves?

Mr. GORDON: Because of the simple fact that they had a ship that was suitable. Our ship, the Prince Rupert,—it is a good ship because I have to sell it, you see—but it is not a ship that could continue in this high-class passenger service.

Mr. FAIREY: Is the George good?

Mr. GORDON: Yes, it is an excellent ship. It is a luxury type cruise ship.

Mr. FAIREY: But the Norah is a much smaller ship than the Prince George.

Mr. GORDON: When you state much smaller, it is slightly smaller. It is not as ornately appointed, but on a tonnage basis it is not much smaller.

Mr. DINGLE: 3,379 tons to 2,731, I believe.

Mr. FAIREY: I know you have made an appraisal of the potential traffic on the coast but our people are quite concerned about the development of places like Kitimat and other places on the coast and yet the steamship service is being reduced.

Mr. GORDON: Well, you must remember that Kitimat now has the advantage of being served by rail.

Mr. FAIREY: Yes, which feeds the Canadian National at Terrace.

Mr. GORDON: Yes, it is our line. We built that one into Kitimat.

Mr. FAIREY: You don't encourage traffic into Prince Rupert and down to Kitimat by rail?

Mr. GORDON: We are hoping for all the traffic that we can get but remember the ship we are referring to will call at Ocean Falls, Kitimat, Prince Rupert and Ketchikan in a regular scheduled service and in addition to that there are other regularly scheduled steamship lines.

Mr. FAIREY: Have you any idea how often that ship will leave Vancouver for the north?

Mr. GORDON: It will leave Vancouver Tuesday night.

Mr. FULTON: Mr. Gordon, would it be at all possible to suggest that the crew of the Prince Rupert—I realize it would be perhaps small comfort to them because it would involve a movement from the Pacific to the Atlantic—would there be any comfort that could be extended to them along the lines of possible employment on your steamship service on the East coast?

Mr. GORDON: I would like to give a reassuring reply but I am afraid I can't. This is exactly the same sort of thing that happens when we close shops and other places that give employment. The effect of discontinuing any part of our service is to reduce employment so that I would not like to give an assurance which would raise false hopes. I would say our office on the West coast will explore individual cases and if there is reasonable employment that can be properly available to the type of experience involved here we will do our best in the matter of rehabilitation, but I would not like to say anything that could be regarded as a commitment or raise false hopes on it as I said before.

Mr. FULTON: I realize it might not be attractive to them anyway but I thought it was worth mentioning.

Mr. GORDON: I don't have very much hope of that. Moreover, Mr. Dingle reminds me of the really pertinent fact that the unions would not stand for it in any case.

Mr. MURPHY (*Westmorland*): Nor the maritimes either.

The CHAIRMAN: Shall the item carry?

Carried.

The last item is "At Year End". Any questions on this or shall the item carry?

Carried.

Might I have a motion approving of the report of the Canadian National Railways for the year 1954?

Moved by Mr. Carter, seconded by Mr. Fairey that the report carry.

I think the next item to which we should refer is the Capital Budget of the Canadian National Railways for the year 1955. We will take first page 1 of the Capital Budget. Mr. Gordon might, as in previous years, explain the form of the budget and give a little explanation of its set-up.

CANADIAN NATIONAL RAILWAYS

SUMMARY OF FINANCIAL AND COMMITMENT AUTHORIZATIONS REQUIRED—YEAR 1955

Capital Budget

Financial Authorizations	1955		Total	Page No.	1954		Commitment Authorizations
	Projects not heretofore authorized	Projects Previously authorized			Budget	Actual	
	\$	\$	\$		\$	\$	
ADDITIONS AND BETTERMENTS							
<i>General (Excl. Equipment—New and Retirements)</i>							
Obligations to be incurred and discharged in 1955.....	11,047,952		11,047,952	2	23,058,866		(1) Authority is requested to enter into obligations amounting to \$24,880,998 respecting general additions and betterments (excluding new equipment) which amount will not become due and payable in the current calendar year. The credit for equipment retirements appeared at this point in the 1954 Budget but for 1955 appears in the equipment tabulation.
Obligations authorized prior to 1955 and to be discharged in 1955.....		23,110,382	23,110,382	.....	22,515,870	32,616,080
Obligations authorized and incurred prior to 1955 and to be discharged prior to July 1st, 1955.....		10,600,000	10,600,000	.....	8,957,860	.....
					Cr. 9,832,596	Cr. 16,290,680	
Net Total—General.....	11,047,952	33,710,382	44,758,334		44,700,000	16,325,400	
<i>Branch Line Construction</i>							
Terrace-Kitimat (Authorized by Chapter 20, Statutes of Canada—1952).....		2,410,000	2,410,000	7	6,200,000	4,287,528	(2) Authority is requested to place orders for new equipment contained in the 1955 Budget Program in the amount
Hillsport-Manitouwadge (Authorized by Chapter 49, Statutes of Canada—1954).....		2,750,000	2,750,000	8	.....	302,460
Beattyville - Chibougamau (Authorized by Chapter 49, Statutes of Canada—1954).....		7,000,000	7,000,000	9	.....	288,864
Net Total—Branch Line Construction.....		12,160,000	12,160,000		6,200,000	4,878,852	
<i>Equipment—New and Retirements</i>							
Obligations to be incurred in 1955 \$59,207,000, and to be discharged in 1955 to the extent of \$38,406,500.....	38,406,500		38,406,500	3	39,332,195	24,870,907	
Obligations incurred prior to 1955 and to be discharged in 1955.....		12,690,500	12,690,500	4	44,054,000	38,642,050	

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Obligations authorized and incurred prior to 1955, and to be discharged prior to July 1st, 1955.....	Cr. 20,115,334	9,800,000	9,800,000	4	63,646,000	62,608,345
Equipment retirements.....			Cr. 20,115,334	5		
Net Total — Equipment — New and Retirements.....	18,291,166	22,490,500	40,781,666		147,032,195	126,121,302
NET ADDITIONS AND BETTERMENTS.....	29,339,118	68,360,882	97,700,000		197,932,195	147,325,554
Acquisition of Securities.....			5,693,000	6	11,236,500	10,400,300
NET TOTAL—CAPITAL BUDGET.....			103,393,000		209,168,695	157,725,854
Less: Available from Depreciation Reserves and Debt Discount Amortization.....			12,394,000		19,545,000	13,957,526
Available from Sale of Perferred Stock (3% of 635.0 millions)....			19,050,000		20,655,000	19,206,314
Available from Working Capital.....			15,000,000			
TOTAL CASH REQUIREMENT.....			56,949,000		168,968,695	124,562,014
Less: \$20,400,000, being \$10,600,000 for General Additions and Betterments and \$9,800,000 for New Equipment, for which financing authority exists under Canadian National Financing and Guarantee Act 1954 Section 3 (1) (b).....			20,400,000		72,603,860	62,608,345
Net Financial Authorizations Required.....			36,549,000		96,364,835	61,953,669

of \$20,800,500 (see page 3) none of which equipment will be delivered in 1955.

(3) Authority is also requested to the Minister of Finance to make advances in 1956, prior to the enactment of the Financing and Guarantee Act 1956, to the extent of \$40,000,000 against (a) obligations for general additions and betterments incurred pursuant to the authority requested in (1), or otherwise, (b) Capital expenditures made respecting new equipment ordered pursuant to the authority requested in (2) above or to similar authority contained in previous Financing and Guarantee Acts, and (c) acquisition of securities (Trans-Canada Air Lines)

FORECAST OF INCOME ACCOUNT

	1955		1954	
	Estimated		Budget	Actual
Operating Revenues.....	635,000,000		688,500,000	640,637,280
Operating Expenses.....	591,900,000		643,700,000	626,465,374
Net Operating Revenues.....	43,100,000		44,800,000	14,171,906
Net Income Charges.....	11,000,000		12,900,000	11,720,611
Available for payment of Interest.....	32,100,000		31,900,000	2,451,295
Interest on Funded Debt—Public.....	30,600,000		25,500,000	25,833,306
Interest on Government Loans.....	1,000,000		5,900,000	5,376,087
INCOME SURPLUS.....	500,000		500,000	
INCOME DEFICIT.....				28,758,098

CANADIAN NATIONAL RAILWAYS

FINANCIAL AUTHORIZATIONS—1955 REQUIREMENTS BY REGIONS, DEPARTMENTS, ETC.

	Atlantic Region:	Newfound- land District	Central Region:	Western Region:	Grand Trunk Western	Central Vermont Railway	Other	Total	Not Heretofore Authorized	Previously Authorized
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
ROAD										
New Lines.....				2,530				2,530	2,530	
Rails and fastenings, tieplates and rail anchors.....	519,956	126,110	2,716,374	2,786,883	181,300	110,813		6,441,436	6,441,436	
Ballast.....	162,042	13,650	28,772	94,820	47,500	8,789		355,573	355,573	
Roadway Betterments.....	61,040	25,732	9,000	89,590	16,150	4,288		205,800	191,168	14,632
Large Terminals.....	100,000	18,000	6,202,414	646,500	208,500			7,175,414	638,244	6,537,190
Yard tracks and sidings.....	297,104	72,371	546,228	1,360,721	31,200			2,307,624	824,955	1,482,669
Roadway Machines.....	29,030	50,088	738,025	232,200	94,400	5,593		1,149,341	1,041,841	107,500
Bridges, Trestles and Culverts.....	391,440	15,209	2,378,807	1,400,313	17,100	57,125		4,259,994	3,250,104	1,009,890
Tunnels.....				235,090				235,000	60,000	175,000
Highway Crossing Protection.....			360,758	2,320	4,000	21,223		388,301	234,773	153,528
Stations.....	7,830	25,000	328,910	436,450		12,314		810,504	89,740	720,764
Miscellaneous Buildings.....	362,266	22,166	3,187,297	307,334	44,300	145,804		4,069,167	595,580	3,473,587
Water Supplies.....	2,810		13,505	125,929	3,800			146,044	146,044	
Fuel Stations.....	41,360		401,194	283,300	56,100			781,954	563,316	218,638
Shops and Machinery.....	11,610	43,200	1,963,478	1,698,080	44,000	Cr. 399		3,859,969	1,435,166	2,424,803
Docks and Wharves.....		73,649		500,000				573,649	73,649	500,000
Grain Elevators.....			85,935	26,000				111,935	76,135	35,800
Signals and Interlockers.....	39,645		432,311	2,364,480	542,200			3,378,636	1,509,416	1,869,220
Communications—Commercial.....							14,629,099	14,629,099	9,172,836	5,456,263
Communications—Railway.....							191,374	191,374	97,832	93,542
General—Including Contingencies.....	829,626	712,256	4,762,687	3,436,179	1,304,100	95,000	1,980,005	13,119,853	7,613,261	5,506,592
EQUIPMENT										
General Betterments.....							1,908,143	1,908,143	1,276,651	631,492
Conversions.....							396,743	396,743	152,862	243,881
Miscellaneous.....	6,454	16,000	24,649	2,300	25,050	5,580	152,146	232,179	222,179	10,000
HOTELS							17,825,083	17,825,083	166,375	17,658,708
SEPARATELY OPERATED PROPERTIES							583,987	583,987	466,754	117,233
Commitments—Net payable in 1955.....	2,962,213	1,213,431	24,180,344	16,030,929	2,619,700	466,135	37,666,580	85,139,332	36,698,400	48,440,932
			Cr. 2,079,678	Cr. 803,370	Cr. 270,000		Cr. 17,727,950	Cr. 20,880,998	Cr. 6,150,448	Cr. 14,730,550
	2,962,213	1,213,431	22,100,666	15,227,559	2,349,700	466,135	19,938,630	64,258,334	30,547,952	33,710,382
Less: Portion of projects not completed during year.....								19,500,000	19,500,000	
								44,758,334	11,047,952	33,710,382
EQUIPMENT—NEW AND RETIREMENTS										
New.....								60,897,000	38,406,500	22,490,500
Retirements.....								Cr. 20,115,334	Cr. 20,115,334	
								40,781,666	18,291,166	22,490,500

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BRANCH LINES		
Terrace—Kitimat	2,410,000	2,410,000
Hillsport—Manitouwadge	2,750,000	2,750,000
Beattyville—Chibougamau	7,000,000	7,000,000
Net Additions and Betterments	97,700,000	29,339,118
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ACQUISITION OF SECURITIES	5,693,000	5,693,000
	103,393,000	35,032,118
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Less: Available from depreciation Reserves and Debt Discount Amortization	12,394,000	
Available from Sale of Preferred Stock	19,050,000	
Available from Working Capital	15,000,000	
	56,949,000	
<hr/>		
Less: \$20,400,000, being \$10,600,000 for General Additions and Betterments and \$9,800,000 for New Equipment, for which financing authority exists under Canadian National Financing and Guarantee Act 1954 Section 3 (1) (b).....	20,400,000	
NET FINANCIAL AUTHORIZATIONS REQUIRED.....	36,549,000	

CANADIAN NATIONAL RAILWAYS

Estimated Cost

*Equipment—New and Retirements**Canadian National Railways System—Equipment
New and Retirements**Equipment—New*

Authority is requested for the ordering and, to the extent indicated, for the financing in 1955 of the undernoted equipment:

Locomotives—Diesel Electric

14	1600-1750 HP Road Passenger
69	1600-1750 HP Road Switcher
48	1200 HP Road Switcher
14	1600-1750 HP Road Switcher (N.E. Lines)
54	900-1200 HP Switcher
9	900-1200 HP Switcher (G.T.W.)
2	900-1200 HP Switcher (C.V.R.)
3	380 HP Switcher—Light Road

Passenger Cars

5	Rail Diesel cars
30	Baggage
50	Express Refrigerator
4	Scenic Observation

Freight Cars

1750	Box cars
200	Gondolas cars

Work Equipment

1	Snow Plow (N.E. Lines)
1	Jordan Spreader
1	Crane—Diesel Electric—30 ton
1	Crane—Diesel Electric—30 ton
1	Crane—Diesel Electric—250 ton
1	Scale Test car
1	Flat car—Low Bed Type
1	Crane—Diesel Locomotive (Stores)
1	Crane—Diesel Locomotive (Stores)
34	Miscellaneous Units (from salvaged locomotive tenders)
4	Water Transports (G.T.W.)
2	Snow Plow (1) and Dump car (1) (C.V.R.)

Provision for special experimental equipment and for new types of equipment to be tested in operation.

Total estimated cost \$59,207,000, of which \$38,406,500 will be required to cover deliveries anticipated during 1955

Carried forward\$38,406,500

CANADIAN NATIONAL RAILWAYS

*Estimated Cost**Equipment—New and Retirements*

Equipment—New Brought Forward\$38,406,500

Equipment—New

Authority is requested for the financing of the undernoted equipment, the financing and/or ordering of which was authorized in Financing and Guarantee Acts in prior years:

Locomotives

- 6 1750 HP Road Passenger
- 8 1600 HP Road Passenger
- 27 1750 HP Road Switchers
- 18 1600 HP Road Switchers
- 38 1200 HP Road Switchers
- 4 1200 HP Road Switchers (G.T.W.)
- 3 1200 HP Switchers (G.T.W.)
- 2 1000 HP Switchers (G.T.W.)

Passenger Cars

- 3 Rail Diesel Cars
- x 20 Baggage Cars
- x30 Express Refrigerators
- 1 Sleeper (Newfoundland)
- 5 Coaches (Newfoundland)

Freight Cars

- x30 Gondolas—Ore Type
- y400 Hoppers—Ore Type
- 6 Hoppers—Airslide
- x200 Refrigerators
- 100 Refrigerators (G.T.W.)
- 110 Flat—70 ton—Heavy Duty

Work Equipment

- 1 Crane—Burro—Model 40
- 1 Crane—Steam operated
- x—Ordering authorized prior years
- y—Ordering authorized 1952 for 1955 delivery, but were in fact delivered in 1954

Estimated Cost\$22,490,500

Total Equipment—New (Carried forward)\$60,897,000

CANADIAN NATIONAL RAILWAYS

Estimated Cost

Equipment—New and Retirements

Total—Equipment—New (brought forward) 60,897,000

Equipment—Retirements

Equipment to be retired and not replaced, due to obsolescence, accidents, fires, and worn out condition:

Canadian Lines

220 Locomotives
 2400 Freight Cars
 100 Passenger Cars
 320 Work Equipment Units

Duluth, Winnipeg and Pacific Railway

15 Freight Cars
 5 Work Equipment Units

Grand Trunk Western Railroad Company

50 Freight Cars
 35 Work Equipment Units

Central Vermont Railway

4 Locomotives
 27 Freight Cars

Total—Equipment—Retirements Cr. 20,115,334

Net Total—Equipment—New and Retirements \$40,781,666

CANADIAN NATIONAL RAILWAYS

ACQUISITION OF SECURITIES

	1954 Budget	1954 Actual	1955 Budget
	\$	\$	\$
<i>Toronto Terminals Railway—</i> (Joint with Canadian Pacific Railway Co.) General Additions and Betterments— C.N.R. Proportion 50%.....	463,000	Cr. 150,000	200,000
<i>Northern Alberta Railways—</i> (Joint with Canadian Pacific Railway Co.) General Additions and Betterments— C.N.R. Proportion 50%.....	500,000	250,000	204,000
<i>Chicago and Western Indiana Railroad—</i> Advances under agreements of March 1/36 and May 1/52.	272,000	300,300	287,500
<i>Atlantic and St. Lawrence Railroad—</i> Purchase of Capital Stock.....	1,500		1,500
Sub Total.....	1,236,500	400,300	693,000
<i>Trans-Canada Air Lines—</i> Capital Expenditures.....	10,000,000	10,000,000	5,000,000
Total.....	11,236,500	10,400,300	5,693,000

CANADIAN NATIONAL RAILWAYS

Construction of New Branch Line from Terrace to Kitimat, Province of
British Columbia

Authorized by Chapter 20, Statutes of Canada 1952

Total Estimated Mileage:	46
Total Estimated Expenditures:	\$11,500,000

Progress of Work

Grading by Railway forces Mile 0, opposite Terrace Station, to Mile 0.9, the north approach to the Skeena River, and the bridge to cross this large and turbulent river (the substructure by Dawson & Hall Limited, Vancouver, and the superstructure by Dominion Bridge Company Limited), were completed May 26, 1954,—permitting track laying to be commenced from Terrace. Track was laid to Mile 14.5 by July 21, 1954.

It was then necessary to defer further track laying on account of difficulties experienced in completing grading and timber bridges, and by adverse weather conditions which slowed progress of the work. Rainfall for the month of November 1954 was 25/1 inches.

The Contractor for clearing, grading, installation of timber bridges and structures for steel bridges—Campbell-Bennett Limited, Vancouver, moved off the project December 6, 1954.

Permanent steel bridges have been constructed to cross the Skeena River, Mile 0.9; Lakesle River, Mile 11.5, and Coldwater River, Mile 12.6. The Wedeene River, Mile 30.5, and Little Wedeene River, Mile 33.3, are presently being crossed on temporary pile trestles, as it was impracticable to deliver steel members until track laid on the new line.

Skeleton track was laid by Railway forces to Kitimat "Service Centre", Mile 38.53—the location of the proposed Railway Station—by December 8, 1954, and by December 31, 1954, track had been laid to Mile 40.53, the end of the C.N.R. main track, and point of connection and transfer with the Terminal Railway of the Aluminum Company of Canada. By arrangement, Railway forces have also laid tracks for the Aluminum Company to their plant and wharf.

Track has been given first lift of ballast from Terrace through to Kitimat, and permanent telegraph line has been completed from Terrace to Mile 23.

Temporary station facilities have been set up at Kitimat.

Work to be carried out by Railway forces during 1955 is—further sloping, ditching and underdrainage of clay cuts; trainfilling four temporary bridges, and widening some embankments; track laying for freight shed, team tracks, and industrial sites at Kitimat; complete ballasting; placing rock rip-rap to protect embankments which are subject to erosion; erection of steel superstructure for permanent bridges to cross the Wedeene River and the Little Wedeene River; construction of buildings for section forces on line, and necessary Railway buildings at Kitimat; and completion of permanent telegraph line.

The line is to be inspected by the Board of Transport Commissioners' Engineer early in January 1955, when it is anticipated an Order will issue thereafter authorizing the operation of the line.

The estimated expenditure on the line, under authority of the Act, to December 31, 1954, was \$9,090,000.

The estimated requirement for the calendar year 1955 is \$2,410,000.

CANADIAN NATIONAL RAILWAYS

Construction of New Branch Line from Hillsport to Manitowadge,
Province of Ontario

Authorized by Chapter 49, Statutes of Canada 1954

Total Estimated Mileage:	27
Total Estimated Expenditure:	\$4,312,500

Progress of Work

The final location survey for the line between Hillsport and Manitowadge, Province of Ontario, a distance of 27 miles, was completed in July 1954.

Contract for the clearing, grading, culverts, trestles and other miscellaneous work was awarded to the lowest bidder, Rayner and Armstrong, Limited, North Bay, Ontario.

The Contractor commenced work late in the month of October 1954, and up to December 31, 1954, had completed 75% of the clearing, 25% of the grading and 30% of the culverts.

During 1954 Railway forces completed the necessary sidings at Hillsport, which will be required in the operation of the new line.

It is anticipated that the Contractor will complete his contract during 1955, permitting the completion, by Railway forces, of the track laying and ballasting for the main line and sidings up to the terminus of the line and connecting with the tracks of Geco Mines. It is anticipated the line will be ready for operation by December 1, 1955.

There has been expended, under authority of the Act, to December 31, 1954, \$302,460.08.

The estimated requirement for the calendar year 1955 is \$2,750,000.

CANADIAN NATIONAL RAILWAYS

Construction of New Branch Line from Beattyville to
Chibougamau, Province of Quebec

Authorized by Chapter 49, Statutes of Canada 1954

Total Estimated Mileage:	155
Total Estimated Expenditure:	\$20,700,000

Progress of Work

The final location survey for the line between Beattyville (end of existing Kiask Falls Subdivision) and Cache Lake, near Chibougamau, Province of Quebec, a distance of 158 miles, was completed in September 1954.

Contracts were awarded on November 8, 1954, for the clearing, grading culverts, trestles and all other work required for the completion of the line from Beattyville to Bachelor Lake, a distance of 70 miles, was awarded to the lowest bidder. La Societe d'Entreprises Generales Ltee., Amos, Quebec, and contract for the line from Bachelor Lake to Cache Lake, a distance of 88 miles, was awarded to the lowest bidder, Albert Lemieux Ltd., Montreal, Quebec.

As at December 31, 1954, approximately 30 miles of clearing had been completed by the Contractors and grading operations have been started at the Beattyville end of the line.

The Contractors are continuing to place their equipment on the work, all of which must be hauled in over Winter roads in order that grading can be progressed early in the Spring of 1955.

During 1955 it is anticipated that all of the clearing for the 158 miles will be completed and approximately 60 miles of grading between Beattyville and Bachelor Lake and approximately 40 miles of grading from Bachelor Lake easterly toward Chibougamau. The balance of the grading will be completed early in 1956.

It is anticipated that approximately 45 miles of track laying and ballasting for the main line and sidings, easterly from Beattyville, will be completed by Railway forces in 1955, with the remaining 113 miles to be completed, by Railway forces, by December 1956.

There has been expended, under authority of the Act, to December 31, 1954, \$288,863.84.

The estimated requirement for the calendar year 1955 is \$7,000,000.

Mr. GORDON: In accordance with past practice if the members of the committee would just allow me a few moments until I explain the general plan, as I might call it, of the budget and just how these figures tie in with the tables attached to the main summary of the budget I think we might make faster progress.

I think I will pass by the index which, of course, is just for convenience, but if you turn to the first sheet, the long sheet which is numbered 1 at the top on the right—it is a wide sheet, you should pull it out to see the whole story—you will find the figures respecting last year in a column headed "1954" which gives the actual expenditures in 1954 compared with the budget for that year.

Now, essentially this budget covers not only the commitments projected that we wish to undertake but also the financing which we require to discharge those commitments this year.

Now, in the left hand column you will see the heading there "Projects not heretofore authorized" and under the general heading of "Additions and Betterments" we put down the figure of \$11,047,952 which represents obligations to be incurred and discharged in the current year of 1955.

Those are the new projects under that general heading "Additions and Betterments" that we expect to complete this year. They do not represent necessarily the over-all costs of the projects and I will come to that a little later and try to pick up my explanation as I go along but if you will remember that that figure is the figure that applies to new projects this year.

Now then, in the next column, still staying under the main heading of "Additions and Betterments" you will see two figures there covering projects previously authorized by parliament and which members of the committee will be more familiar with as re-votes. We don't use that term but for all practical purposes these amounts are re-votes.

These are broken down for the purpose of the Finance Department into two headings of \$23,110,382, the figure for those obligations which were authorized prior to 1955 and will be discharged during 1955 and the \$10,600,000 figure covering obligations which were also authorized and incurred prior to 1955 but which will be discharged prior to July 1st, 1955. The total of that draws down to \$33,710,382 and the total of the three figures that I have mentioned comes up to \$44,758,334.

Mr. MACDONNELL (*Greenwood*): Would a question be in order here?

Mr. Gordon: Quite, I would prefer questions as I go along.

Mr. MACDONNELL (*Greenwood*): The two items authorized prior to 1955 and to be discharged in 1955, namely, the \$23 million and the \$10 million, does that indicate any change in the expected time of carrying them out? I mean that the fact that they have been authorized previously and are being carried out now?

Mr. GORDON: No, that is pretty much as we have expected. It just happened to come out that way.

Mr. FULTON: Is there any significance in the fact that you find them in two sections? Why aren't they in one item all to be discharged in 1955?

Mr. GORDON: You may or may not remember last year that we asked for blanket authority to the Minister of Finance to advance during the first six months of the following year and that would not be covered in the current year. That is, we have it up again and re-vote it. So that is why it is divided into two totals. It is purely a technical thing for the purpose of the authorization requirements accorded to the Minister of Finance.

That figure of \$44,758,334 compares with the actual expenditure we made for 1954 of \$32,616,080. We were obliged this year to make another technical adjustment which is mentioned in the notes there. We deducted \$16,290,680 from our actual expenditures last year representing the equipment retirement. That is retirement depreciation that we mentioned the other day and this year we show the equipment retirement down where we think it properly should belong under the heading "Equipment". We will come to that in a moment but that again is a technical adjustment.

The next main heading is "Branch Line Construction" and that is on the record here—\$12,160,000 has been specifically authorized under new statutes and we hope to look after the budget provision for that in this budget although the authority for the project itself is contained in a separate act of parliament and this merely represents the amount that we think we will spend this year.

Then, the next general heading is "Equipment—New and Retirements" and again the breakdown is similar. As I referred to under the other headings we have obligations to be incurred in 1955 to a total of \$59,207,000 but of that only \$38,406,500 will be discharged during this current year. So we are only putting that amount into this budget.

Then, we have the item "Obligations incurred prior to 1955" and to be discharged in 1955, which is as I call it, a re-vote of \$12,690,500 and the \$9,800,000 to be discharged in the first six months of 1955. These added to the credit item of \$20,115,334 which is financed from our own depreciation, comes out to net figure of \$40,781,666.

Now then, we add together the totals of the Additions and Betterments, the branch line construction and the equipment that I have referred to and that comes to a grand total under "Additions and Betterments" including equipment of \$97,700,000. Then, applying the \$5,693,000 shown there as acquisition of securities and which I will describe when we come to the detailed sheet gives us a total capital budget of \$103,393,000, and that is the amount of cash expenditure that we will make this year if we carry out everything that we have suggested in this budget.

That figure of \$103 million odd compared with last year's figure of money expended of \$157,725,854 shows that we have reduced our 1955 budget by about \$54 million from the actual figure that we had for 1954.

Mr. MACDONNELL (*Greenwood*): Are you going to mention those deductions from the \$103 million?

Mr. GORDON: Yes, I will mention those now. Now, I said that the \$103,393,000 figure is the amount of cash that we will spend if we do all that is planned in the course of the year. We finance part ourselves—out of our own resources we get \$12,394,000 which becomes available out of our depreciation reserve entries; in other words, we take the cash that we accumulate in our depreciation charges and use that to reinvest in railway along the lines that I have mentioned. Then we get \$19,050,000 from the sale of our preferred stock to the government under the special arrangement that we have discussed in

past years and which arises out of the Recapitulation Act and we will draw down out of our own working capital the sum of \$15 million because with declining traffic and for various other reasons we can draw our cash position lower.

Mr. MACDONNELL (*Greenwood*): That is \$15 million out of how much?

Mr. GORDON: We will reduce our working capital as at December 31, 1954 by roughly \$15 million in the course of this financing; in other words, what we are doing here is to reduce our actual cash requirement as far as possible and that brings our cash requirement to the figure the Minister of Finance has to consider as being \$56,949,000, which I am sure he will be glad to observe is a reduction from the actual of \$124,562,000 last year.

Mr. MACDONNELL (*Greenwood*): Would you say a word about those two items of depreciation? As I understand they are one of \$20 million credit against equipment retirement and the other of \$12,394,000.

Mr. GORDON: The \$20 million odd figure is arrived at when we retire from service equipment which is worn out and has been taken out of service altogether. It would be locomotives, for instance, or box cars or rolling stock of any kind which has reached the point where it is being retired from service.

When we retire equipment we charge the book value of that equipment to our depreciation reserve, and of course, the depreciation reserve itself is built up by regular accruals representing the charge that we make to our operating expenses for depreciation.

Mr. MACDONNELL (*Greenwood*): So that when you retire that equipment you have a surplus which you have built up over the years and it then comes in and is available as you say whereby you deduct \$20 million from your cash requirements?

Mr. GORDON: Yes, that would be the effect of it.

Mr. MACDONNELL (*Greenwood*): In other words, that is really money earned by the railways set aside and which is made available and is now deductible?

Mr. GORDON: Well, forgetting about the bookkeeping entries it has come out of our own earnings.

Mr. MACDONNELL (*Greenwood*): Exactly, like the figure of \$12,394,000.

Mr. GORDON: I think you are still right, Mr. Macdonnell. These accountants want to get very technical, but I think you are quite right. From the common sense point of view the \$12,394,000 is what we are providing currently, but it is still out of our earnings.

Mr. FULTON: It is cash.

Mr. GORDON: It is cash.

Mr. FULTON: Have you a comparable figure of what the Canadian Pacific Railway intends to spend on capital additions and betterments this year?

Mr. GORDON: These figures are not public yet, but Mr. Mather said I could quote them and I think I have it here. The information I have is that their 1955 appropriations for capital account will be \$45 million, but it does not give a breakdown in any detail as I have it here.

Mr. FULTON: You will be actually spending then although you don't need the cash to that extent from the government, you will be spending something over twice what it appears to be indicated they will be spending?

Mr. GORDON: It would seem to us here that the \$45 million figure is reasonably comparable to our \$103 million figure which I mentioned. I do not know how they are financing it. These figures we have been discussing on depreciation, reserves and so forth, affect the financing of it, and I do not know how they do that, but the \$45 million, so far as we can discover, is the same figure we are referring to as the \$103 million.

Mr. FULTON: In the actual expenditure, it looks as though they are spending that?

Mr. GORDON: Yes.

Mr. FULTON: Would that be a reflection of what you mentioned in your earlier evidence about the necessity on your part to catch up?

Mr. GORDON: In part, but it would also mean this. We have \$12 million for branch line construction, and I do not see anything in their figure here for that. It may be in some heading which I cannot identify, but there is \$12 million for special lines, which I am sure is much more than they are spending, because they have not a branch line program. I suspect, too, that we would be spending more on rail, track and so on, along the lines that you mentioned. May I proceed further? The total cash requirement of \$56,949,000 is further amended by the fact that \$20,400,000 has already been authorized in previous financing and guarantee acts, so that this committee in the report will be asked to approve the financial authorization only to the extent of \$36,549,000. Incidentally, perhaps I should have dealt with the forecast of our income account first, but perhaps I had better do it now and we can proceed to the collateral data with this. In the forecast for 1955 we are estimating revenues of \$635 million. Now that is a fairly ambitious forecast in the light of results as we see them so far, and it contemplates a little less revenue than the actual revenue in 1954, a reduction of some \$5 million, but it also means a severe cut in our expense account. If we are able to cut expenses to the extent I have suggested there, to nearly \$592 million, we should end the year with enough money to pay interest on public debts and government loans and show a small surplus. That is simply another way of saying that if we are right in our guess with regard to revenue we will have to reduce our operating expenses from the 1954 level by a further \$35 millions. That represents a reduction of about 5½ per cent from the 1954 level and is, of course, a continuation of the program of adjusting our operating expenses to revenues, which was so evident in our 1954 figures. The total decline from the high level of 1953 means that to achieve the plan I am referring to we will have to reduce our expense account from the 1953 level by \$67 million. That is not going to be easy to do and will mean further substantial cuts of various kinds.

Mr. MACDONNELL (*Greenwood*): Having regard to the picture you gave us yesterday as to the comparisons between reductions which you had made and the C.P.R., pointing out that you had had certain expenditures you felt it necessary to make, notwithstanding the situation, because it was, so to speak, in arrears of upkeep, now, when you contemplate \$35 million in addition to the savings you made last year, could you say what effect that will have on the upkeep?

Mr. GORDON: It will have this effect, that under our instructions, the operating officers will reduce expenses right to the point of not accumulating punitive deferred maintenance. It will mean we will go into an economy campaign of such strictness that it will eliminate anything more than just keeping the property level with the present standard. It will mean that we will make no gain, but it should also mean that it will not involve our getting into punitive deferred maintenance which will catch up with us in the next few years.

Mr. FULTON: For the first two months of this year are they keeping substantially close to your forecast?

Mr. GORDON: We had a fairly good January and a very bad February; but March is beginning to give us some hope. The effect as of now is that we are just about even with revenue as compared with last year but, of course, our net is much better because we are getting the effect of our reduced expense account.

Mr. FULTON: Are you just about even with your forecast for this year?

Mr. GORDON: Just about.

Mr. MACDONNELL (*Greenwood*): The early months of last year, as I recall, were considerably better than subsequent ones. It was not the first ones that bothered you.

Mr. GORDON: No. My recollection was that the actual decline in traffic began about October 1953 and continued on, we had hoped to see some recovery about March 1954, but in point of fact we were disappointed. I would like to say that last year you will notice that I estimated operating revenues of \$688 million. In the event we were very badly disappointed, but I did try to make it clear to the committee that that represented an optimistic revenue, because I did not want to start crying ruin or predicting a depression. However, that degree of optimism that I exercised last year is not present in this forecast to the best of my knowledge and belief. Of necessity, when we deal with figures of this magnitude and the economic forces involved, at the best it is an informed guess I am giving you. It is an informed guess which is based on careful analysis of the business factors, and I think it is a realistic guess in this case, certainly more realistic than last year.

Mr. MACDONNELL (*Greenwood*): Could we also say that you will not have your hand in a measure forced to carry out certain improvements in respect of extension to track, and so forth, as in the year 1954?

Mr. GORDON: That is right, because we were in part committed to a program in regard to our rail laying which I did not want to break off. For instance, you will notice in the annual report that in 1954 we laid 869 miles of new rails. In the budget this year we estimate about 560 miles, but as a factor of caution we are reducing that still further, conditionally at least, depending upon how the traffic goes, to about 437 miles. If our traffic figures are such that we are in the position that we can discharge the program, this budget indeed contemplates a program of 560 miles, we will, however, in the light of the figures now we have not put the program into force for more than 437 miles. If we feel a little better about the outlook, in the course of the next few months we can of course step up the program.

Mr. BELL: You said that February was very low. Is there any reason for that?

Mr. GORDON: Revenue was low in February. It is too short a space to try to attempt any general analysis of the figures yet. We are just dealing with the question of facts. The dollars did not come in. The forecast is merely a matter of opinion, it does not require approval, and it is not part of this budget, it is merely to show you what our objective is, and that has some relation to the other figures.

The CHAIRMAN: Shall page 1 carry?

Mr. GORDON: You will notice on page one a figure of \$44,758,000. If you turn to page 2 you will find how that is broken down. These are the main items in our Capital Budget as it affects the general additions and betterments excluding equipment. You will find to the left hand side of that budget a description of the kind of things we are talking about. Under the general heading of "Road" you will find rails and fastenings, tie plates and rail anchors. You will see how much money we are budgeted to spend on Capital

Account in each of the districts. To follow the example, there is \$519,956 in the Atlantic region, and shown for each one of the regions is the amount of money we are budgeted to spend. The headings there describe the main general accounts that we carry them in. These all add up, and you will see the totals in each region coming up to a grand total of \$85,139,332, under the heading of "Total". That is the amount of money that we are programming ourselves to spend. But we deduct from that a total of \$20,880,998, because we do not expect to pay for those commitments until 1956. So we do not need to get any more than the commitment authority on that. There is a further figure which you may find a little puzzling. We deduct a further \$19,500,000 so that we will not inflate the cash requirement when you go to the figure \$44 million odd which we are asking for as a cash basis on page 1. The reason is that we know as a matter of experience that we are never able to complete the mass of work we have in hand even with the best will in the world. Much has to do with seasonal factors and various other things, but we feel we should have the authority to go ahead with it and we put it in that bracket on that basis. But we take an amount we know from experience that is likely to be in suspension at the year end and therefore we are not asking the Minister of Finance to provide for cash for it, because we know we will not need it.

Mr. POULIOT: I thought that with the dieselization of the system you would never have deficits and that the railway would make both ends meet, and I am very much surprised because three years ago when you started to speak about it you told us that it was such a marvellous thing that it would help the railway to balance its budget. You must have been cruelly disappointed to see that in spite of the fact that you bought several diesel cars you are still facing a deficit. I regret it very much, and I cannot understand it.

Mr. GORDON: Perhaps Mr. Pouliot will permit me to say this. The statement I made, and which I still stick to, is that with the adjustment of the recapitalization account and with the economies we are achieving from dieselization, on the average the C.N.R. will be able to pay its own way. We have had a bad year in 1954; traffic fell off in a most unexpected way in all the railways in North America in the same general way as in the C.N.R. In fact most of them lost more in the form of revenue than we did. You may get a bad year, but the next year might be a good one, and I am saying that over the long term average I still have a belief that the C.N.R. will be able to make provision for its own requirements, and that deficits will be eliminated.

Mr. POULIOT: That is all right, but you told us that your estimation of the revenue last year was optimistic. I should like to know if your estimate this year is optimistic or realistic?

Mr. GORDON: I dealt with that a moment ago, and I said that this year I think the estimate is much more realistic than last year.

Mr. POULIOT: What is your basis for such an estimate?

Mr. GORDON: We make a very careful analysis of all the different economic factors which affect this economy. You must remember that the railway traffic reflects the trends and patterns of the nation's business activities generally. Now, looking at the general economic picture, it seems to us that reasonable optimism is demonstrated in both the Canadian and United States economies. There has been a steady improvement, for example, in overseas markets. There has been a pretty high continuing development of domestic resources. Our capital expenditure in this country is an outstanding feature, a dynamic feature in the 1955 picture, and estimates which have been made with regard to construction, which are released by authoritative bodies, indicate that we will probably this year have capital expenditures of at least 6 per cent above 1954. That kind of capital expansion will offset the decline we foresee in such things

as machinery, equipment—much of it being for the railway and much in the agricultural field—but the construction survey generally shows the highest on record. Our export trade looks to be reasonably favourable. It is anticipated that our wheat crop will move in a fairly good way. It is believed that around the world the quality of wheat is lower than that of Canada, and from foreign exchange points of view the exchange reserves of various countries are in better shape and will be better available to buy the things we have to sell. Generally speaking, looking at the domestic economy, our consumer spending is still buoyant and some industrial unemployment is being offset, we think, by higher average weekly earnings, by higher interest and dividend payments, rental and government transfer payments of one kind or another, we also have another factor, the population growth in Canada is the highest in the world. I do not say it is the highest in total number, but the highest rate in terms of our existing population. While that produces some problems in the way of absorbing increasing labour forces and so forth, it does mean an increasing demand for consumer goods. It means increased related activities in the form of housing, schools, hospitals and all the other factors which go with a rising population. So the aggregate demand, so far as we have been able to analyse, is probably as good as 1954, and while there may be some spotty situations and perhaps even sharp contrast in different areas, the overall picture, we believe, will produce a result not dissimilar to 1954. The thing we have to think about from the standpoint of the railway industry is that we are not governed necessarily by the aggregate economic activity, the total amount of economic activity. What we are interested in is the trend in those particular segments of the economy where transportation is an important component. A boom in construction, requires the carrying of materials for construction, such as sand, gravel and cement and those are the kinds of things we carry. Perhaps in the development of coal and coke it might be poorish, and it might be poor in regard to oil because we get only indirect benefits from that and we cannot compete with pipelines, but I believe that our forest products are going to be good from the analysis we get. We believe that ore will give us additional traffic. The iron and steel industry is reported to be good, and we handle a good deal of that. Against that we expect that agriculture implements may be poorish, but we sort out all these factors and take the ones affecting the railway. We reach conclusions to the best of our judgment, but it is merely a matter of an informed guess. We reached the conclusion that we should be able to get gross revenue of about the same proportions—perhaps a little less but about the same order—as last year, and to make the usual qualification that rules out any upheaval in the international situation or anything unexpected of that kind. I know of no way to make an accurate forecast. If I could do that, I would not have to work; I would be a gentleman of leisure.

Mr. POULIOT: What you mean is that your estimation is not purely a guess; it is a reasoned guess?

Mr. GORDON: That is right, an informed conclusion after a good deal of checking.

Mr. POULIOT: Naturally the transportation of agricultural products, especially grain, is an asset for the company, one of the large assets. It all depends on whether there is sunshine or rain. That cannot be forecast. It must be very difficult to make an estimate of the future, not on grain futures, but on the future transportation of grain and the actual coming harvest.

Mr. GORDON: That is true, but, after all, every business has to make a budget and from some managerial policy on certain estimations.

Mr. POULIOT: I prefer to find you optimistic rather than carrying depression in your forecast. Now, Mr. Gordon, I come to a point where I shall ask you a question in all sympathy. I have thought of asking that question for a very long time, and now is the time to ask it. You are the big boss of the railway, unquestionably. Do you not find it too heavy a burden?

Mr. GORDON: No.

Mr. POULIOT: Well, it all depends. Perhaps you are too optimistic there. It all depends on the division of responsibility?

Mr. GORDON: Yes. I would say, Mr. Pouliot, that no man works harder, no man has more frustration, and no man has more fun than I have.

Mr. POULIOT: I will tell you, Mr. Gordon, that I sympathize with you and it is on account of that sympathy that I asked you that question. I know that you may be abused. All members of parliament are, and the higher the position the more abuse. But if you come here it is in order to permit the members of parliament to help you, and we can help you only inasmuch as we know the facts.

Mr. GORDON: Quite so, yes.

Mr. POULIOT: If we know nothing, if you do not tell us much, then why do you come here? I thank you for the information which you gave me about the price of the hotels. It is the most important statement you have made since you were president and chairman of the railway.

It is nice you have recognized the authority of parliament, and I thank you for it. It is a very good thing. I would like to explain that position with regard to the information that you give to us, and keep from us, and for the information of the new Minister of Transport, I will remind him that on one occasion, in 1951, there was some argument about the salary paid to Mr. Gordon, and Mr. Chevrier, your predecessor, asked the committee if they wanted to have that information.

If the committee had said yes, that information would have been disclosed; but the committee said no. I cannot blame myself. I do not know what the feeling of the other members was with regard to their attitude on the matter. But now, when some members are asking for some information about the railway, they should at first in the committee vote, the majority shall vote that the information is given.

I think Mr. Gordon will be bound to give it to you; and I have one thing else to tell the committee, the whole story of the past.

For a time Mr. D. B. Hanna was manager of the Canadian government railways. And one day there was a change of government and he was appointed by the Conservatives; and there was a change of government and the Conservative members said that it was not the business of politicians to look into the management of the railway and they created an atmosphere, an atmosphere to protect Mr. Hanna and those who were under him.

And then Sir Henry Thornton came and was appointed chairman of the board and president of the company—not precisely president—.

Mr. GORDON: Chairman and president of the Canadian National Railways system.

Mr. POULIOT: No, it is two different businesses, it is not the same thing at all. There is a board of directors, and of the board of directors there are officers and you are president of the officers and chairman of the board; but the board is the body which is responsible, and the directors are appointed by the government.

Well, as chairman of the board you judge your actions as president of the company and I find it wrong. I find you may be sitting on the board but not as chairman, because it gives you too much authority; and it is necessary

to have some control of you; and inasmuch and as long as you are chairman of the board of directors, who are the body which is responsible to the people, and you are president of the company, there can be no control from anyone about it.

I give that as a matter for thought for next year and I will take it up next year at greater length and it will give ample time to Mr. Gordon to cogitate about it. In my view the downfall of Sir Henry Thornton was precisely because he was president of the Canadian National Railways and chairman of the board. That is all I want to say: to remember the past in order to have a brighter future.

The CHAIRMAN: Mr. Hanna.

Mr. HANNA: I would like to ask three questions. There has been a good deal of satisfaction in the Edmonton area in connection with the Canadian National Railways system which has been growing with the city of Edmonton and you can see that the city is growing with the system. There is a considerable amount of progress made there since the war. I notice on page 2 that we have a vote proposed for new lines in the western region. I do not know whether that is in the Edmonton area or not. But all Alberta is expanding and developing, and there is the Northwest Territories; and the people of Edmonton are looking towards a development which is taking place in the northland.

Mr. GORDON: The new item is probably misleading. The sort of work we plan to do around Edmonton would come under sidings, switchings, and grade developments; this is \$2,500, and it has to do with the Brule subdivision.

Mr. HANNA: I realize that there is a good deal of readjustment going on around Edmonton.

Mr. GORDON: Under large terminals there are two projects, and we have the odd siding amount in there. That is where the Edmonton adjustment will be cared for.

Mr. HANNA: Has any serious thought been given by the railway to expanding their line north from Athabaska in order to tap the mineral resources of the Northwest Territories? Referring to the map of the western region, it would make my question clearer.

Mr. GORDON: We have no specific program in mind in that connection. There is nothing new for that in this budget at all.

Mr. HANNA: No thought has been given to it?

Mr. GORDON: I would not go so far as to say that there has been no thought given to it. We have all this area under review, and when we come to the conclusion that the point has been reached where we feel there is economic justification we will advance the project. But we have had nothing specific in mind new in respect to that area to which you have referred.

Mr. HANNA: The reason I asked the question is that there has been considerable discussion about the extension of a rail line into the north at some future time. My next question is this: has any thought been given to giving the Peace River area an outlet to the Pacific coast by way of a connection between Grande Prairie and Obed which is near Edson?

Mr. GORDON: You are speaking of the Obed cut-off?

Mr. HANNA: Yes.

Mr. GORDON: That is not a current project. We have made quite an examination of the question, and if and when the traffic requirements of the Peace River area would justify a cut-off, which would shorten the distance to the railway we would be prepared to advance it; but there is a general misunderstanding about the Peace River area which might be of interest to you. It is not generally known that the shippers in the Peace River area, by and large, do not

suffer in respect to freight rates by reason of the present longer distance. In 1930 we made a constructive rate which took steps to assure that points on the Northern Alberta Railways, which is jointly operated, should be treated as if they were on the mainline. So the differential in that respect is non-existent, and while a little more operating expense is involved as well as time, it does not prejudice the shipper.

Mr. HANNA: The people who live in the Peace River area will be very happy at what I consider is very good news. It is news to me at any rate.

Mr. GORDON: When I was up in the Peace River myself, I met quite a number of delegations, and when I told them that news, each one of them reacted as you have. They were surprised. That shows how little credit the railway gets, and how easy it is to forget a generous action.

Mr. HANNA: I think they can bear with being reminded of their good fortune.

Mr. GORDON: I am glad you gave me an opportunity to do it.

Mr. HANNA: Now my third question is this: east of Edmonton we have a gap which is known as the Heinsburg Gap where, some twenty five years ago, construction was discontinued between Heinsburg in Alberta, and Frenchman's Butte in Saskatchewan. It is a 40 mile gap and there has been a considerable attempt to have it filled. Could Mr. Gordon state what his viewpoint is on closing that gap?

Mr. GORDON: The status is that I have met on a number of occasions a variety of interests who tried to persuade me that there would be economic justification for the completion of that gap. But my reaction has always been that when they can show me that their plans are sufficiently far advanced that there will be industrial development, then we will be prepared to consider financing a line; but on each occasion when we examined it, the tentative plans put forward by the various interests have never reached a starting point. They just failed to materialize.

Mr. HANNA: You are passing the ball back to the community?

Mr. GORDON: It is for the community or anybody interested in that community to demonstrate that there will be traffic for the railway if we close that gap, and they have not been able to do that yet.

Mr. KNIGHT: Is there not a very big agricultural production along that line?

Mr. GORDON: No. The reason the gap was not closed was at that particular point there is a sort of gap which does not lend itself to major agricultural development; and all the representations made to us have not been able to demonstrate that there will be much development along that line. There have been suggestions made with respect to caustic soda and some other collateral things which would flow from a chemical industrial development of that kind. I personally had talks with the interested parties and I told them that when they can show me that they are ready to proceed we will talk business.

Mr. McCULLOCH (*Pictou*): I would like to ask Mr. Gordon a question in regard to freight cars. We have down in Pictou county about three or four thousand people who depend on a car manufacturing plant. But all winter long they have had no work, and there has been unemployment. I would like to know what the future would have for them?

Mr. GORDON: Well, perhaps I might just as well deal with it now as it is part of the budget after all. Turning to pages 3 and 4 of the papers which you have before you, you will find particularly on page 4 of the budget details of what we are asking in respect to equipment. I am wrong. It is on page 3;

and you will find an example. There is provision for 1,750 box cars and 200 gondola cars. That is what we are asking authorization for in this budget, but it does not necessarily mean that we are ready to place orders. If we find that traffic justifies our doing so, that is the extent to which we would be authorized to place orders with the various equipment companies. So you can tell from that what the possible total is. We are not, under present traffic conditions, placing any orders.

Mr. McCULLOCH (*Pictou*): They do have a hope?

Mr. GORDON: They certainly have, and that is the measure of the hope.

Mr. CHAIRMAN: Are there any questions on equipment?

Mr. FULTON: On page 2 how do you differentiate between new lines and branch lines? The Terrace-Kitimat line is put down as a branch line, but I thought it was a new development.

Mr. GORDON: The Terrace-Kitimat line is a specific branch line covered by a separate Act; generally speaking, subject to correction about my law, any line over six miles requires to have statutory authority. When it is under six miles we can do it ourselves as a spur line or a siding. But beyond that mileage we have to go to parliament and get a special Act. The new lines we are talking about here cover our own line, where we are putting in repairs, or making a spur, or an extension having to do with existing lines.

Mr. FULTON: I see.

Mr. MACDONNELL (*Greenwood*): On page 2?

The CHAIRMAN: I think there are three or four ahead of you. Is that on page 2? Mr. Carter.

Mr. CARTER: Yes.

Mr. GORDON: I am afraid I have confused you by skipping over to page 3 in order to answer Mr. McCulloch. We should start on page 2.

The CHAIRMAN: Are there any questions on page 2?

Mr. CARTER: I presume this is the proper place to ask my question about the station at Goobies.

Mr. GORDON: Yes, this is the place for it. You will find under stations on page 2 that in the Newfoundland region there is a total for stations and included in that total we have—and it is the only one—a station at Goobies. We are constructing a station and an agent's dwelling there which is estimated to cost \$25,000.

Mr. CARTER: That is the one station?

Mr. GORDON: Yes.

Mr. CARTER: Wasn't that allocated last year?

Mr. GORDON: I believe it was, but we did not get on with it. This is a re-vote item.

Mr. CARTER: I have one or two other questions, but I am not sure whether or not they should come at this point. If it is not the proper place I will defer them. But I see no item here at all for steamships; and you are having two coastal boats built?

Mr. GORDON: That is not in our budget. They have been built by the government and they will be turned over to us for operation when they are completed. They will come under the Department of Transport estimates.

Hon. Mr. MARLER: I think so.

Mr. CARTER: Have you any information as to what progress there is?

Mr. GORDON: The two ships are now being built in Aberdeen and it looks as if one of them may be launched in the fall of this year and the other, early next year.

Mr. CARTER: Under the heading of communications you have communications covering the railway; and is that where telegraphs and telephones come in?

Mr. GORDON: Yes.

Mr. CARTER: You are not spending any money this year in Newfoundland on telephones and telegraphs?

Mr. GORDON: You will notice when you run your eye along that line, that with respect to communications we do not break them down by districts. There is a total of \$14,629,000 under that heading, and that is where we have the Newfoundland item. The total expenditure scheduled for the Newfoundland area or district is \$1,540,175.

Mr. CARTER: I have one other question which I have been asked to put on behalf of one of my colleagues from Prince Edward Island. It is a question about pensions. Could you tell me the proper place to ask it?

The CHAIRMAN: It should have been asked before.

Mr. CARTER: I did not see any item as I went through the report.

Mr. GORDON: I think we mentioned expenditures for pensions in the report.

Hon. Mr. MARLER: Perhaps we could deal with it later.

Mr. GORDON: We usually have a clean up session for that.

Mr. HAHN: On page 2 under "Bridges, Trestles and Culverts", I believe you have had three floods at Port Mann. I believe you have three flood gates there, and apparently some of those gates are in a state of disrepair. Can you tell me whether or not some of this \$1,400,000 is intended to be used on those gates?

Mr. GORDON: There is nothing in the budget covering those specific flood gates. We have over the years raised the level of the Port Mann yard, and that is aimed at controlling the flood difficulty in that area.

Mr. HAHN: The raising of the yard itself is possibly a good move so far as the shippers are concerned, but there are thousands of residents in behind the shippers who are suffering because the gates themselves will not permit the water to leave. There is a tapering in the drain to them.

Mr. GORDON: Is this a railway facility?

Mr. HAHN: It is along your rail line, and the gates were put in by the Canadian National Railway apparently.

Mr. GORDON: Are you sure it is not a community matter? I doubt very much if it is a railway responsibility. I will be glad to look into it, but neither Mr. Dingle nor I can recall that we have a responsibility for the flood gates. However, we will look into it and see what the situation is.

Mr. HAHN: Then there is the matter of the station. The city of New Westminster, I realize that we have not got a depot, so we use the depot of the Great Northern Railways under some contract.

Mr. GORDON: Yes.

Mr. HAHN: And of course it is a very unsatisfactory station as far as the residents of the area are concerned.

Mr. GORDON: Yes, we get into Vancouver over running rights on the Great Northern. It is not our line actually, but we have perpetual running rights over the Great Northern line, so that the station on that line is generally the responsibility of the Great Northern.

Mr. HAHN: Has there been any examination made into the question of building a new station in conjunction with the Great Northern, such as the Union depot?

Mr. GORDON: No, I do not think they would be interested.

Mr. HAHN: You would not be interested if the Great Northern was?

Mr. GORDON: In a hypothetical situation I am always interested, and I am willing to listen to anything.

Mr. HAHN: If I can persuade the Great Northern?

Mr. GORDON: All right.

Mr. HAHN: In connection with docks and wharves, you have an expenditure of \$½ million. Is any of that intended for a wharf at Port Mann?

Mr. GORDON: No, nothing at Port Mann.

Mr. HEALY: On page 2 under the item of "Tunnels", there is nothing voted for the central region. Is the railway giving any consideration to that tunnel of which you spoke last year, on Wellington and Richmond Streets?

Mr. GORDON: We have given a great deal of consideration to the point you have in mind, Mr. Healy. It is one of those very difficult questions, and I think I shall have to dispose of it by saying that it boils down to a question of how far the city of Montreal is prepared to go.

Mr. HEALY: You will recall last year that the city of Montreal had \$2 hundred thousand put aside for that type of work. I do not know whether you can get it with the new executive this year; but you did not do anything last year. Could any money be taken from the projects for the construction of culverts?

Mr. GORDON: The best estimate we have made in regard to the reconstruction which would be necessary to put the situation you have in mind into satisfactory shape would be about \$1½ million. Now, that is the magnitude of the problem. It would take about \$1½ million to put the place in shape.

Our general position has been that it is not basically, or in a major sense, the responsibility of the railway. We do recognize however that it is a difficult problem and we are willing to sit down with the city authorities and see if some reasonable arrangement can be made, but we are not willing to start off with any plan in which the railway would assume \$1½ million of cost while the others put in only \$200 thousand.

Mr. HEALY: You will remember that last year the city executive contacted your office and said that they were willing to put up the money?

Mr. GORDON: Yes.

Mr. HEALY: And you thought that perhaps the St. Lawrence waterway might create a difference in the level?

Mr. GORDON: That point has been disposed of. One of the difficulties in a much earlier discussion was that most people here charged with responsibility of reaching a decision on this matter were reluctant to reach any decision until they knew what would happen with the St. Lawrence seaway project pending, and how it would be affected. But that has been disposed of, and the St. Lawrence seaway will not affect this particular spot.

Mr. HEALY: But you know that situation just as well as I do. You go through that tunnel many times to go to the C.N.R. shops and it is in a terrible condition. Even now it is leaking all the way through. There is no way for pedestrians to go through. Couldn't some kind of road be made? There is lots of room there. You own the property on both sides.

Mr. GORDON: I think it would be something greatly to be desired if the railway and the city could make some agreement on a division of costs, but we find it is one thing to spend money and another thing to get it.

Mr. HEALY: It might be possible to do something with that road that is on the north side of it.

Mr. GORDON: Well, you see, the situation is so bad that we are reluctant to spend any money merely on the basis of a palliative. It will simply be throwing money away. Anything we could do on a temporary basis or an expedient basis will be no good; it will just be patching up and throwing money away. We would rather get on with the problem and solve the real problem and that can only be done if the city is prepared to initiate action to have the matter discussed. I do not think it is a case that the Board of Transport Commissioners is involved in.

Mr. HEALY: The city last year, you will recall, were prepared to spend \$200,000.

Mr. GORDON: Well, I think spending \$200,000 would be wasted.

Mr. HEALY: Well, with what you would put into it. They were willing to put \$200,000 into the pot for the expense of cleaning up that subway because it is terrible, and even your engines get in there and they let off steam and that all runs down on top of the cars and people crossing through it.

Mr. GORDON: There is a misunderstanding here now and I think it is advisable we clear it up. What the city of Montreal was prepared to do, to the best of our knowledge, was to put up \$200,000 towards the cost of a new structure which will cost a million and a quarter dollars.

Now, we are not willing to embark on a cost of a million and a quarter dollars merely because the city is willing to give us \$200,000. They will have to do better than that before we would be prepared to tackle this.

Mr. HEALY: Well, I wish you would do something to try and stop the water.

Mr. GORDON: So do I. I agree it is an eyesore and a very bad proposition, but my position on it is under two headings. First, I think it would be foolish to spend any money on a temporary measure because that will be just wasted. It won't be very long before something will have to be done and the proper thing to do is for you to use your well-known influence at the City Hall.

Mr. HEALY: I have used it but to no avail.

Mr. GORDON: Well, if you can't get somewhere, Mr. Healy, no one can.

Mr. HEALY: Then again if we had a big snow storm that snow may be all cleaned up in the last week or so, but we will be getting water coming down for many months because you throw your snow in a big pile.

Mr. GORDON: I think we are at fault there and I think we should have done something about it and it started yesterday morning.

Hon. Mr. MARLER: Where is the money to come from, Mr. Healy?

Mr. HEALY: That is going to be the main line to your new hotel. If there is anything left out of the hotel I wish you would put something on it.

Hon. Mr. MARLER: I think I can promise that.

Mr. MACDONNELL (*Greenwood*): There is an item of \$14,629,000 on page 2, which is apparently commercial communications. Have I got that right?

Mr. GORDON: Commercial communications as distinct from railway facilities.

Mr. MACDONNELL (*Greenwood*): Would you say a word about that large item?

Mr. GORDON: Well, typical of the sort of thing that goes into that very large item is the cost of installing microwave for the purpose of meeting the C.B.C. requirements for television. All of this are revenue-producing facilities. They are facilities we build for people who want to rent private wires or lease various services and the C.B.C. asked us to tender on the

requirements, for example, for television and we are in joint account with the Canadian Pacific Railway on that kind of operation. The large amount pretty well covers television requirements plus the facilities which we build here, there and everywhere from which we get revenue.

Mr. MACDONNELL (*Greenwood*): One could say the whole operation is profitable.

Mr. GORDON: Yes, they are revenue earning.

Mr. GILLIS: Mr. Gordon, I don't see anything—at least I can't find an item in the budget—where the amount of money is shown that is required for your organization to complete your job of work on that Canso Causeway. Where would I find that?

Mr. GORDON: It is all government account. The Canso development generally apart from some incidental things which would be largely unimportant is for government account.

Mr. GILLIS: Including the laying of the track and everything necessary?

Mr. GORDON: Yes, by agreement with government they have borne the cost of that crossing.

Mr. MURPHY (*Westmorland*): I have been looking over the headings here under communications. I see one under miscellaneous buildings. This concerns the Atlantic region. In this item of miscellaneous buildings does that include the communications building for which a contract has been let to be built in Moncton?

Mr. GORDON: You are looking at the wrong heading. Run up again and you will see miscellaneous buildings a total of \$362,266. Is that the one you have reference to?

Mr. MURPHY (*Westmorland*): Yes.

Mr. GORDON: That is where the Moncton building is included. It is a three storey extension of our CTC building and the total cost of it will be \$357,000. This year we expect to spend the capital portion of \$302,000.

Mr. MURPHY (*Westmorland*): Is this in addition to the contract which has already been let?

Mr. GORDON: No, this is part of the same contract.

Mr. MURPHY (*Westmorland*): Now, Mr. Gordon, rather than me trying to go through these items...

Mr. GORDON: Incidentally perhaps I should explain them in case the committee has the impression that we have let the contract without authority—I do not want you to think it is a rubber stamp authority—that is a revote. This was approved last year. That is why we were able to let the contract.

Mr. MURPHY (*Westmorland*): That is why I asked that question first. Now, rather than go through these different items and the amounts, could you tell me what these capital expenditures are in the province of New Brunswick. What is contemplated in Moncton, Newcastle, Edmunston and Campbellton?

Mr. GORDON: You mean the grand total for the province?

Mr. MURPHY (*Westmorland*): No, what is going to be built—what is to be done there?

Mr. GORDON: You are thinking of the larger items, are you?

Mr. MURPHY (*Westmorland*): Yes.

Mr. GORDON: In the form of buildings. We have a new freight shed, the installation of a public address system and freight shed in Moncton expected to cost \$5,500. There is some asphalt work to be done in Bathurst, New

Brunswick at \$3,400, replacement of a station platform at Rogersville \$4,700, at Petit Rocher there is \$1,000 going in there for a tool shed and then there is this major item of \$300,000 odd for the three storey extension building. That is all I see in buildings.

There is an alteration to station building and installation of toilet facilities at Juniper, New Brunswick \$4,500. There are additions and alterations to the yard at Edmunston which is part of a very large program totaling over \$1 million. The whole program totals \$1,023,000. Of that amount we will spend \$100,000 this year.

In Gloucester Junction there is \$3,300 covering some yard tracks, at McGivney there are some yard sidings there \$15,600. That is part of the dieselization program expense and there is an item "Rear range Track" in Moncton \$2,900, team track in Moncton \$2,400. I think that covers pretty well the specific items of some importance and there is some embankment protection at Nash Creek which is \$4,300, and a number of other items which are under the heading of "Divisions" and which I cannot allocate specifically to New Brunswick.

There are some shops and machinery in addition to those things which I have mentioned. There is a grand total in New Brunswick for shops and machinery of roundly about \$100,000.

Mr. FOLLWELL: Mr. Gordon, in the city of Belleville, at what is termed the South Station used by the Canadian Pacific Railway, I understand that you own the station and lease it or rent it to the Canadian Pacific Railway?

Mr. GORDON: At Belleville?

Mr. FOLLWELL: Yes. It is in what might be called very frowsy condition and I just wondered whether the terms of agreement between the two railways was such that Canadian National would be responsible for maintaining it or the Canadian Pacific.

Mr. GORDON: I don't recollect that. Mr. Dingle's recollection—and it is only recollection—is that this is an old Canadian Northern station rented to the Canadian Pacific and that they are under the obligation for maintenance but we would have to check it to be certain. We will let you know.

Mr. HAMILTON (*Notre Dame de Grâce*): Mr. Gordon, under the branch line construction program there is not a specific reference to the St. Felicien-Chibougamau road. I was wondering if you could say a few words in respect of that. I understand traffic guarantees have been given to the Canadian National Railways.

Hon. Mr. MARLER: I tried to clear up that assumption in the House the other day on the ground that the guarantees that have been promised had been found insufficient and Mr. Fairweather had told the people in Lake St. John that they were insufficient. I don't object to the question but I don't think we should assume they were sufficient.

Mr. HAMILTON (*Notre Dame de Grâce*): Can Mr. Gordon say anything about the proposed line at all?

Mr. GORDON: There is nothing in this budget for St. Felicien and through to Chibougamau. There is a technical question between the minister and myself. I am not sure which of us is right but in the interests of clarity I would point out that the line between Chibougamau, St. Felicien and Beattyville is authorized by statute. The minister is under the impression that the financing is authorized by the statute but I think it has to go through this budget. In any event provision is made only for Beattyville to Chibougamau here.

Mr. HAMILTON (*Notre Dame de Grâce*): In any case the Canadian National Railway does not see any hope for the construction of the rest of this line.

Hon. Mr. MARLER: I think you are putting an unjustified assumption on what Mr. Gordon has said.

Mr. HAMILTON (*Notre Dame de Grâce*): I am asking for information. Well, does the C.N.R. see any possibility of continuing the rest of this line from St. Felicien to Chibougamau.

Hon. Mr. MARLER: I think that is a matter not only for the Canadian National Railways but for the government to decide, and it was authorized by the statute last year, then, as I said in the House the other night, I do not think it can add at the moment anything further to what Mr. Chevrier said himself in the House during the debate last year.

Mr. HAMILTON (*Notre Dame de Grâce*): I was just hoping Mr. Gordon might be able to add something to what you said.

Hon. Mr. MARLER: Well, Mr. Gordon, on such matters usually thinks somewhat along the same lines as I do.

Mr. MACDONNELL (*Greenwood*): I was wondering if the minster might elaborate himself on what he said.

Mr. GORDON: I think I can say this. It has been stated in the House and by us that on the basis of the traffic, and the traffic guarantees offering, there is not sufficient economic justification for the Canadian National Railways to build a line on its own. Therefore it depends on what other arrangements may be made in that connection.

Mr. MACDONNELL (*Greenwood*): What do the words "traffic guarantee" mean?

Mr. GORDON: It is a formula which we have devised which may apply in different ways. For example, to give you one example take the building of our line from Terrace to Kitimat, B.C. There we are servicing one industry. At the time that industry was proposed we said to the Aluminum company: "We will build a line if you can satisfy us that traffic will be forthcoming" and they said: "Of course it will be forthcoming". We said: "Well, how do we know your plans are going to work out? We are not prepared to build the line and find nothing there. If you will undertake with us to provide a specified amount of traffic and undertake to reimburse us if you don't provide it, we will build the line."

Now, if the traffic materializes it costs them nothing. If the traffic does not materialize then they put us in the position as if the traffic had materialized. That is a simple form of a traffic guarantee, but when we get into a line of this kind it becomes more complicated. I am not too sure we can work it out, because a great number of shippers may be involved, but if we can get enough traffic guaranteed from individual shippers of a kind which we can depend on, assuring us of traffic, then we would be willing to build the line.

Now, that does apply to the Beattyville-Chibougamau branch that we are building now. We have received traffic guarantees from the interested shippers which will justify us in building the line. Incidentally of course, like all these things, there are many facets to the agreement, and we credit the line with the freight that may materialize whether it is from those shippers or not.

Mr. FAIREY: I was going to suggest that I do not think we should ask Mr. Gordon to produce the intimate details of all the various places on the railway or he will be here all day. I was going to suggest that perhaps these questions were not proper. That did not apply to the question that has just been asked.

Mr. HAMILTON (*Notre Dame de Grâce*): I think this will only be one question. Of the \$17,800,000 for hotels, is the major part of that to be spent in Montreal this year, Mr. Gordon?

Mr. GORDON: That includes the commitment we are entering into in addition to the actual cash. You will notice that it will be part of the item that is deducted further down. We expect to spent about \$5 million of that commitment this year.

Mr. HAMILTON (*Notre Dame de Grâce*): The third question relates to page 2, I would think, generally, Mr. Gordon, and it arises in this way. If you look at your revenue in 1953 against 1952 we find an increase of \$21 million roughly, that is operating revenue, and an increase in expenses of \$25 millions.

Mr. GORDON: In 1952?

Mr. HAMILTON (*Notre Dame de Grâce*): In 1953 against 1952, an increase of some \$21 millions and an increase in expenditures of \$25 millions.

Hon. Mr. MARLER: Is this on one of these pages?

Mr. HAMILTON (*Notre Dame de Grâce*): Page 1. I am attempting to give Mr. Gordon background in order to obtain an answer to a question relating specifically to page 1. I am speaking about his average operating revenue and his average operating expenses. I think perhaps the same information is given here.

Mr. GORDON: Our revenue has increased by \$21 millions between 1952 and 1953.

Mr. HAMILTON (*Notre Dame de Grâce*): And expenses went up by \$25 millions?

Mr. GORDON: \$24.2 million actually.

Mr. HAMILTON (*Notre Dame de Grâce*): Yes, and for 1953-54 there was a drop of \$55 millions roughly and a drop in operating expenses of \$33 millions. When we come to the forecast it shows a revenue drop of only some \$5 millions actually for 1954 to the estimate of 1955, and an expenses drop of \$34 millions. With that background, my question is this. Can you give us any enlightenment as to why you anticipate such a sizeable drop in your expenses in relation to a comparatively minor drop in your revenue? I am thinking now, for example, of the increase in utilization.

Mr. GORDON: A short answer is that we are trying to eliminate the deficit that we had in 1954. If we were merely to take the same revenue forecast, which is approximately the same as 1954, and we did not effect a sharp cut in our expenses, we would end with a deficit in 1955. Our managerial policy is aimed at eliminating that deficit.

Mr. HAMILTON (*Notre Dame de Grâce*): That is a pretty drastic cut in expenses.

Mr. GORDON: No doubt about that.

Mr. HAMILTON (*Notre Dame de Grâce*): Where are the major effects of that cut? Have you any outline you can give to the committee of where the major cuts would be made, say, in personnel, wages and salaries and things like that?

Mr. GORDON: The major cut is what I referred to earlier and which we have talked about in our report. That is in our rail laying program. You will recall that in 1954 we laid 869 miles of new rails. That is the sort of yardstick that affects a great deal of other work. In this budget we are budgeting for 560 miles of new rail authorized, but actually if our figures do not improve we have a second cut there with the idea that we will get the program started with 437 miles of new rails. That is the major place where we will achieve this cut, but it has a collateral influence in regard to seasonal work and things of that kind. I would say that it does not necessarily mean that we will have lay-offs in the accepted sense. It will mean that we will be taking on less seasonal employment and we will not create employment as we did in the earlier years, with

the result that our average employment over the year will probably be less in 1955 than in 1954. Mr. Armstrong reminds me of what I should have stated, that in addition to labour there is also a substantial material content. The cost of the materials that go into the rail laying program is quite substantial.

Mr. HAMILTON (*Notre Dame de Grâce*): I think we mentioned earlier in the discussions on the track laying program for 1954 that the average cost per mile of track laying is around \$25,000.

Mr. GORDON: No, not according to our figures. The average cost of new rail is about \$33,000. I stand corrected—Mr. Dingle assures me that the rail is about \$26,000 to \$27,000 a mile, but I am going to check him on that.

Mr. HAMILTON (*Notre Dame de Grâce*): If you will go a little step further, and still make it \$25,000, because it makes my calculation easier, there is a reduction approximately of 300 miles in your rail laying program this year, from 869 to 500 odd. Therefore, 300 miles at \$25,000 a mile, according to my quick calculation, would be a $7\frac{1}{2}$ million dollars reduction.

Hon. Mr. MARLER: For the rail.

Mr. GORDON: That is the difficulty. You are only talking about new rail. When we lay new rail we also have a collateral program of laying partly worn rail. We take the partly worn rail out of the main line, put new rail in there, and then the partly worn rail is put into some other place, and so it goes, so that there is a general effect of cutting the rail program much greater than that merely attributable to the new rail. Our appraisal of the effect of reducing the rail program as compared with 1954, including new rail and partly worn rail, would be of the order of a \$12 million reduction. In addition to that of course, we are having the cumulative effect of economies put into effect in the 1954 season. That would have to do with the whole maintenance program and transportation as a whole.

Mr. HAMILTON (*Notre Dame de Grâce*): So, of the \$34 million, \$12 million is represented by a reduction in the rail laying program plus its cumulative effects?

Hon. Mr. MARLER: Not plus cumulative effects.

Mr. GORDON: Solely.

Mr. HAMILTON (*Notre Dame de Grâce*): I meant, new rail laying program, plus those rails down the line; \$12 million due to the rail laying program. That leaves us with \$22 million. Could we have some explanation of where this cut is going to come from?

The CHAIRMAN: Mr. Hamilton, in this question do you want the detail of all the proposed saving?

Mr. HAMILTON (*Notre Dame de Grâce*): No, just major classifications. For example, my first impression from Mr. Gordon's remarks, when he took the item of \$34 million there was that for rail laying we would find it to be about a third.

Mr. GORDON: On our budget forecast we figured that we need a reduction of \$13 million in maintenance of way and structures program; \$14 million in our maintenance of equipment; about \$7 million in the general movement of traffic and various kinds of economies we have effected there; and that covers the \$34 millions. In the maintenance of way and structures it is mostly material that is not going in the line, as compared with what went into the line the previous year.

Mr. HAMILTON (*Notre Dame de Grâce*): Over a period of years, as you advance the dieselization program, it would become a little more difficult. Will it not become a little more difficult to make these cuts in expenditures with a

drop in traffic? For instance the upkeep cost and repair cost for locomotives is proportionately high, and therefore when you draw that locomotive out of service you have quite a saving. The repair and upkeep of a diesel locomotive is comparatively low, and therefore, as your traffic drops, when you draw it out of service, you do not have nearly as big a saving by drawing it out of service as you had by drawing out a steam locomotive?

Mr. GORDON: I could not let a generalized statement like that pass. That involves the whole concept of railroading, of course. You cannot make a general statement of that kind. The dieselization, for example, might have quite a different effect on track structure. The pounding that a track takes under steam locomotives is a different kind of pounding from that which it takes from a diesel. Moreover, the trick in regard to the diesel economy is to maintain the diesel at a high utilization, and in periods of declining traffic we would increase the use of diesel and reduce the use of steam locomotives. We would put the steam locomotive into mothballs and leave it there, and use our diesel equipment, whether it is road equipment or yard switching equipment, to the maximum extent possible. It is a matter of the day-to-day judgment of our operating people as to where is the best place to effect these economies. I would not admit for a moment that through dieselization we are reducing our ability to adjust our expenses to traffic.

Mr. HAMILTON (*Notre Dame de Grâce*): Have you immediately before you, Mr. Gordon, for the three items you have given us, \$13 million reduction on maintenance of way, \$14 million on maintenance of equipment and \$7 million on traffic, a breakdown of those three items, as regards the labour content and the material content?

Mr. GORDON: Only in a general way. We could not give that analysis in the detail you have mentioned, but you can find in the report that our labour costs run at 59 per cent of our expense dollar. That, of course, will vary considerably for different classes of work, but the over-all percentage is 59 per cent.

Mr. HAMILTON (*Notre Dame de Grâce*): If we apply that over-all figure to the \$34 million, we find, therefore, that there would be about \$18 million or something in that neighbourhood, which would be the labour content. Therefore, this might involve a reduction in C.N.R. payrolls of \$18 million.

Mr. GORDON: I am sorry to dispute your logic, but "it ain't necessarily so".

Mr. HAMILTON (*Notre Dame de Grâce*): I am sorry to have logic that requires disputation. In other words, you cannot give us any estimate of this \$34 million, what it represents in a decrease in C.N.R. payrolls over this year or over last?

Mr. GORDON: Well, you see, it is so difficult to answer a question of that kind because again it depends on what happens during this year. I am only making a forecast, and if our traffic composition changes, the composition of our operating expenses will change too. We adjust everything in the consist of expenses to the kind of traffic that turns up. Take a place like Steep Rock mines which comes to mind. They may substantially increase their shipments. These shipments of ore mean a different thing to us altogether than if it is shipments of wheat which increase; it is a different problem altogether. But if on the average we do reduce the expense to the extent that this budget indicates it is possible that there will be an average reduction in the employment level for the year of 6,000 to 7,000 people or more.

The CHAIRMAN: Shall the budget of the Canadian National Railways carry?

Mr. CARTER: May I just ask one question?

The CHAIRMAN: Just one, Mr. Carter.

Mr. CARTER: Mr. Gordon mentioned \$1½ million for telegraph lines which seems to be rather large. I wonder if he could tell us—are there any special projects included in that?

Mr. GORDON: \$1½ million where?

Mr. CARTER: On the telegraph lines.

Mr. GORDON: Well, Mr. Carter, there are a lot of small estimates here.

Mr. CARTER: I am only interested in any major ones.

Mr. GORDON: Well, included in that is \$731,000 for the new building in St. John's. There is a new building totalling \$908,000 and of that we are asking to spend \$731,000 this year. That is the major item.

Mr. CARTER: Is there anything else for that year of that order?

Mr. GORDON: No, nothing of that size. It runs through a whole list of items here.

Mr. CARTER: It does not include a line out to Grand Banks?

Mr. GORDON: There is, for instance, \$16,000 providing toll and long distance service in Bonavista, \$25,000 at Musgrave town.

Mr. WEAVER: I wonder, Mr. Gordon, if the Hudson's Bay railway would appear on this list?

Mr. GORDON: No, it is a separate vote. It is not covered in the railway budget. It is handled now by the Department of Transport.

Mr. WEAVER: Mr. Chairman, will that vote come up before the committee?

Hon. Mr. MARLER: I don't think there is reference to that item on the docket.

The CHAIRMAN: Shall the budget carry?

Carried.

Mr. CHURCHILL: Mr. Chairman, we are just at the conclusion now of the Canadian National Railways report and budget.

The CHAIRMAN: That is correct.

Mr. CHURCHILL: Could I take one minute to ask the opinion of Mr. Gordon on one thing about the report and ask if my suggestion is worthy of consideration.

The report which is annually produced by the Canadian National Railways is very creditable and provides us with a great deal of information but the railway being such a large corporation that presents a picture of the Canadian economy. I notice from the form of the questions and answers which we have had throughout the basis of the railways is really the carriage of freight. 78 per cent of the revenue comes from freight and then you show a table of revenue tonnage by commodity and divided into several sections—agricultural, animals, mines, forest and manufacturers and miscellaneous. I note by making a combination of those—that is agricultural and animals derived from the agricultural population or the sale about 18 per cent of the freight revenue is from that source.

Dividing mines and forest you get about 47 per cent and the manufactures and miscellaneous have got the balance of 35 per cent but the manufacturing and miscellaneous are usually delivered from our mines and forests.

Mr. GORDON: May I interrupt you. You are making an error there. The figures you are talking about are tonnage, not dollars.

Mr. CHURCHILL: I meant tonnage but by your tonnage you get your dollars. I am coming to my suggestion. Would you consider providing—and I am not suggesting a change in these tables or anything like that but maybe an additional table for another use showing the development of our railway system and the shift of emphasis in Canada. Where as the system which was originally

opening up agricultural lands and was devoted to freight haulage for that purpose now it is becoming more dependent on the products of mines and forests. The reason I suggest that is there is a change in Canadian economy and with the greater productiveness on some of your lines it might give us a better picture of Canada particularly at this stage where we are looking towards the northland for that development.

I just make that as a suggestion as something that might be incorporated by way of a diagram or table in another admirable report such as this.

Mr. GORDON: I will be glad to look at that, Mr. Churchill. I am just as interested as you could be in the very question you mention. I am not sure whether from a statistical point it is possible to produce a chart which will bring out the views you put forth because it would involve, of course, actual figures for the whole economy and then plotting our figures so there would be a contrast, but I will be very glad to examine your suggestion and if it is feasible we will be pleased to do it because our intention in this report is to make the best possible picture you can have of the Canadian National operation.

I will say this, that it would not really answer your purpose if that information was confined to the Canadian National Railways. We would have to do it for the railway economy but I am very interested in it and I think we would like to take a look at it.

Mr. MACDONNELL (*Greenwood*): Mr. Chairman, I had hoped that Mr. Gordon would say something about the changes in equity capital on page 11.

The CHAIRMAN: Before we come to that I think there is one other question.

Mr. FOLLWELL: I notice an item for fuel stations of \$401,000. I was wondering if there were stations set up for the purpose of taking care of the dieselization program and if so, where are they located?

Mr. GORDON: These fuel stations have to do more or less with the dieselization program. They are collateral to that. It is not a breakdown that I can give you individually because it covers a region.

Mr. FOLLWELL: I just wanted some comment on it. The point I wanted to make is are these fuel stations where a supply of fuel will be stored and where the diesels will refuel.

Mr. GORDON: Yes, service at that point.

Mr. FOLLWELL: Where would you get the fuel from, local supplies?

Mr. GORDON: Unfortunately we have to buy it from the oil companies.

Mr. FOLLWELL: From the oil companies?

Mr. GORDON: Yes.

Mr. FOLLWELL: I quite realize that but do you purchase your fuel in bulk purchases from some companies or do you split your purchases over different areas?

Mr. GORDON: We call for tenders for the supply and delivery of the fuel at the specified points.

Mr. FOLLWELL: Were tenders called for for the supply of the whole central region or were they broken down into areas so there would be an opportunity for a local division at distributing points to tender on them?

Mr. GORDON: My recollection is that our tenders are issued to all the major suppliers with a list of the points at which we want delivery and they will make varied suggestions to us. Some will include delivery over a certain series of points and others will suggest other points and we have to sort it out and take the best of the lot.

The CHAIRMAN: Mr. Macdonnell, you asked a question about changes in equity on borrowed capital.

Mr. MACDONNELL (*Greenwood*): Was that dealt with?

Hon. Mr. MARLER: It was dealt with this morning or last night by yourself.

Mr. MACDONNELL (*Greenwood*): Yes and no. I did ask a general question, but I thought here we have the outline and we might run it over for a moment or two.

Mr. GORDON: You are referring to the increase in equity?

Mr. MACDONNELL (*Greenwood*): Yes.

Mr. GORDON: The \$19,206,000 came from the 3 per cent preferred stock which is under the recapitalization plan. The \$136,800 you will find explained on page 8. It represents the construction of two ships on the Newfoundland coastal service and comes under the Canadian government railway.

Mr. MACDONNELL (*Greenwood*): The other thing is the item on page 11 under the heading "New Loans" and refers to temporary loans. What is the significance of those figures?

Mr. GORDON: The column under the heading "Transactions Year 1954"?

Mr. MACDONNELL (*Greenwood*): Yes.

Mr. GORDON: The figures which are in bold type are the new loans; the figures which are shown on slanted type indicate the loans paid off and the net comes to \$167,789,839 borrowed capital increase.

Mr. MACDONNELL (*Greenwood*): That is the net increase?

Mr. GORDON: Yes.

The CHAIRMAN: We will now deal with the annual report of the Canadian National (West Indies) Steamships, Limited.

Mr. FULTON: I have a question on the budget. Mr. Gordon, on page 2 you show \$17 million there for hotels.

Mr. GORDON: Yes.

Mr. FULTON: That must be for the big hotel in Montreal. Is that going to be financed by bonds issued by the company?

Mr. GORDON: It is part of our general financing. It would be in the total figure Mr. Macdonnell was talking about.

Mr. FULTON: As I understand the way you set it out here it is reflected somehow in your financial authorization required which is the figure you are going to ask the Minister of Finance for.

Mr. GORDON: We do not ask specifically for the hotel. This budget covers all the system's capital requirements. We raise money, either by borrowing from the government or by placing new bonds on the market and from that money we finance the total capital requirements of the system. We will find from that money the money to finance the hotel.

Mr. FULTON: This is just authority from the Minister of Finance to get that much?

Mr. GORDON: Yes. This is merely our authority and we decide how to use that authority.

Mr. MACDONNELL (*Greenwood*): The new hotels are to be included in one new company?

Mr. GORDON: Yes.

Mr. MACDONNELL (*Greenwood*): Do you still issue securities from the railway company?

Mr. GORDON: The system as a whole, yes.

The CHAIRMAN: Can we now go to the annual report of the Canadian National (West Indies) Steamships Limited.

Mr. GORDON: I will read the report which is before the members.

MONTREAL, February 25, 1955.

The Honourable George C. Marler, M.P.,
Minister of Transport,
Ottawa.

Sir:

On behalf of the Board of Directors, I submit herewith a report on the operations of Canadian National (West Indies) Steamships, Limited, for the year ended December 31, 1954.

The operating results for the year, compared with those for 1953, are as follows:

	1954	1953	Increase or Decrease	
Operating revenues	\$5,105,082	\$4,509,342	\$595,740	13.2%
Operating expenses	5,424,983	5,331,788	93,195	1.7%
Operating loss	<u>\$ 319,901</u>	<u>\$ 822,446</u>	<u>\$502,545</u>	

Freight revenue increased \$497,564 or 11 per cent to \$4,833,572 as a result of more voyages in 1954 than in the preceding year when service was interrupted by a strike. There were 56 voyages completed, six more than in 1953. Shipments from Canada increased by 29,028 tons or 27 per cent, and northbound tonnage by 18,729 tons or 12 per cent.

Passenger revenue totalled \$178,350, an increase of \$45,527 or 34 per cent over the previous year. The increase was derived from an improvement in patronage as well as from the completion of two more voyages by the motor vessels.

Charter revenue rose by \$47,551 to \$60,619. Miscellaneous revenue, at \$32,541, was up 14 per cent from 1953.

The increase in operating expenses reflected additional expense of \$223,316 arising chiefly out of the extra voyages, partially offset by the non-recurrence of a \$130,121 item of strike expense charged to 1953 operations.

After the inclusion of earnings from the Vessel Replacement Fund and the payment of interest charges, there was a net income deficit of \$628,410. The income deficit in 1953 was \$1,126,830.

Depreciation accruals of \$269,031 were added to the Vessel Replacement Fund during the year, bringing the Fund to \$5,777,383 at year end. The Insurance Fund balance was \$2,742,811 as compared with \$2,565,565 at December 31, 1953.

During the year, arrangements were made for the retirement of the Company's outstanding bond issue of \$9,400,000, which matures on March 1, 1955. Of the funds required, \$5,800,000 will be provided from the Vessel Replacement Fund and the balance by the federal government. The government portion of \$3,600,000 will be obtained through the issue of \$1,600,000 in capital stock and a \$2,000,000 interest-bearing loan.

There was no change during the year in the active fleet, which is listed on page 5 opposite.

The loyal service rendered the Company by its officers and employees is again recorded with appreciation.

FLEET AT DECEMBER 31, 1954

		Gross tonnage	Dead- weight tonnage
"Canadian Challenger"	Diesel-powered and refrigerated	6,745	7,460
"Canadian Constructor" . . .	Diesel-powered and refrigerated	6,745	7,460
"Canadian Cruiser"	Diesel-powered and refrigerated	6,745	7,460
"Canadian Conqueror"	Non-refrigerated	2,930	4,532
"Canadian Highlander"	Non-refrigerated	2,966	4,532
"Canadian Leader"	Non-refrigerated	2,930	4,532
"Canadian Observer"	Non-refrigerated	2,967	4,532
"Canadian Victor"	Non-refrigerated	2,963	4,532
		<hr/>	<hr/>
		34,991	45,040
		<hr/>	<hr/>

BALANCE SHEET
At December 31, 1954

ASSETS	LIABILITIES
INVESTMENTS—	
Vessels.....	\$ 6,435,081
Less accrued depreciation.....	3,247,406
	\$ 3,187,675
Vessel replacement fund.....	5,777,383
	\$ 8,965,058
CURRENT ASSETS—	
Cash in banks.....	\$540,368
Special deposits.....	4,500
	\$ 544,868
Accounts receivable.....	115,540
Freight, passenger and agency balances.....	105,978
Government of Canada—Due on deficit account.....	367,240
Inventories.....	22,393
Advances to captains, crews, etc.....	29,802
Due from insurance fund.....	18,853
	1,204,674
INSURANCE FUND—.....	2,742,811
DISCOUNT ON CAPITAL STOCK.....	40,000
	\$ 12,952,543
CAPITAL STOCK—	
Authorized—16,400 shares par value \$100 per share	
Issued — 400 shares.....	\$ 40,000
FUNDED DEBT—	
25 Year 5% Government of Canada Guaranteed Bonds, maturing March 1, 1955.....	9,400,000
GOVERNMENT OF CANADA ADVANCE—	
For working capital.....	150,000
CURRENT LIABILITIES—	
Accounts payable.....	\$ 383,497
Interest matured unpaid.....	4,500
Unmatured interest accrued.....	156,667
	544,664
UNADJUSTED CREDITS.....	75,068
INSURANCE RESERVE.....	2,742,811
	\$ 12,952,543

R. D. ARMSTRONG,
Comptroller.

CERTIFICATE OF AUDITORS

We have examined the books and records of the Canadian National (West Indies) Steamships, Limited, for the year ended the 31st. December, 1954, and, in our opinion, proper books of account have been kept by the Steamships.

The above balance sheet and the relative income and profit and loss accounts are prepared on a basis consistent with that of the preceding year and are, in our opinion, properly drawn up so as to give a true and fair view of the state of the Steamships' affairs at the 31st. December, 1954, and of the income and expense for the year according to the best of our information and the explanations given to us, and as shown by the books of the Steamships.

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

Dated at Montreal,
2nd. March, 1955.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

INCOME ACCOUNT

	1954	1953
Operating Revenues—		
Freight	\$ 4,833,572	\$ 4,336,008
Passenger	178,350	132,823
Miscellaneous	32,541	28,628
Subsidies .....	....	1,186
Charter	60,619	13,069
	<hr/>	<hr/>
Total	\$ 5,105,082	\$ 4,509,342
	<hr/>	<hr/>
Operating Expenses—		
Voyage accounts	\$ 4,825,866	\$ 4,671,879
Lay-up expenses	22,751	64,666
Depreciation on vessels	269,031	268,772
Management and office expenses.....	207,360	216,960
Pensions	78,283	91,832
Other expenses	21,692	17,679
	<hr/>	<hr/>
Total	\$ 5,424,983	\$ 5,331,788
	<hr/>	<hr/>
Operating loss	\$ 319,901	\$ 822,446
Vessel replacement fund earnings—Cr.	166,741	170,866
Interest on bonds held by public.....	470,000	470,000
Interest on government advances.....	5,250	5,250
	<hr/>	<hr/>
Income deficit	\$ 628,410	\$ 1,126,830
	<hr/>	<hr/>

Mr. BELL: I will come out now with what I have in mind as far as this report is concerned. I believe that last year certain statements were made in the committee and there may be some policy connected with what I want to know. I would like to make my point first. Last year in committee certain statements were made to the effect that the steamship lines were to be dropped off gradually, in other words discontinued. I believe that the former Minister of Transport stated in the House that they were to be put on a one year basis, and I would like to know if the railway is going to continue to operate these lines in an unbusiness-like manner on a year to year basis, or are we going definitely to make some plans for the future, in view of the fact that this year is shown as a fairly good year.

The CHAIRMAN: I do not know whether Mr. Gordon should answer that question. I think probably it is a matter of government policy and it is probably not within his province to answer it. However, if he wishes, he may do so.

Hon. Mr. MARLER: I would repeat what I attempted to say the other night in the House of Commons, namely, that it has been a continuing operation of the company for some years, and the question of its future operation is under consideration at the present time.

Mr. BELL: Does Mr. Gordon not feel that it is a hindrance to make plans for the future of this company in the same way that the plans for the future of the railway are concerned, where he has to work on a one year basis, and that he is not able to make plans for the new ships?

Mr. GORDON: I am afraid I cannot comment on government policy. We operate this company purely as an agent.

Hon. Mr. MARLER: I must admit that Mr. Bell has a very strong argument for a longer term than one year, and because there is a strong argument the matter is under consideration at this time.

Mr. BELL: I will leave that for now. I wonder if Mr. Gordon would comment on the results of this year on which we started out optimistically; that is, the past year, would he comment on it generally I do not mean for him to review the statement, but the new business?

Mr. GORDON: As a matter of fact, the results for the year came out in this case pretty much as I predicted. There was no optimism in that connection. It was realism.

Mr. BELL: No optimism from last year when you started out on a year to year basis?

Mr. GORDON: We had a very bad year by reason of the strike. The results are shown in the income account. The deficit was very substantial in 1953, as you will see on page 8 of the report. Part of it, as explained at that time, was due to the strike conditions.

Mr. BELL: Was there any increase due to new business, new passengers?

Mr. GORDON: Well, the passenger accommodation of these ships is very limited as you know. We have no difficulty in renting the passenger space because it is so limited, there is plenty of demand for it.

Mr. MACDONNELL (*Greenwood*): On this basis it looks as if the situation was greatly improved, with a difference between 628 and 1126.

Mr. GORDON: Yes, but to be fair we must look at the figures on the basis that we are comparing them against a most abnormal year, 1953. 1953 was not a normal year because of this large expenditure and loss in revenue by reason of the strike.

You will see on page 8 that the operating loss for 1953 was \$822,000. This year it was \$319,000. But I say this year's results should be viewed against what I have stated in the report. They should not be reviewed against 1953 as a normal year.

Mr. BELL: Are any plans being made in the coming year for an increase of that service in any way? Are the vessels going to be painted and looked after?

The CHAIRMAN: We will deal with the budget after the report.

Mr. GORDON: The general policy is to keep the vessels well maintained, but there is nothing special in this year which would cover anything new.

Mr. BELL: In the report I see where almost the entire amount has been taken out of the vessel replacement fund in refinancing. Is not this amount of money intended for new vessels?

Mr. GORDON: The replacement fund was used to pay off the bonds held by the public which matured and which were sold in the first place to buy the vessels. Therefore they have been properly used for that purpose. If there is a decision to add anything in the form of capital equipment to this fleet, it will come before this committee as a capital budget item, depending upon the circumstances at the time. The only capital request that we have for 1955, however, is referred to on page 10 of these reports and you will find that we are budgeting only for \$20 thousand, for general betterments, which will maintain the vessels in accordance with their customary standards.

Mr. BELL: What was the original purpose of this vessel replacement fund, to have money available for financing in this scheme or to have money to be earmarked for new vessels?

Mr. GORDON: The vessel replacement fund was simply a bookkeeping term for a place to put the money which we received as insurance for the vessels sunk during the war, plus the depreciation. Then, as I have said, as that money accumulated we had the alternative of using it if we had to buy new vessels, but since we were not buying new vessels the money was used to pay off the debt which fell due for the original purchase of the vessels. Those bonds were 5 per cent bonds, and they fell due on 1st March of this year. Those bonds were paid off, and, of course, the company now as such is relieved of the interest cost of those bonds. We now have to pay interest on the bonds which were placed in the hands of the government representing its advances and we do not of course pay any interest on the equity. The charge against the company will be very much reduced and it will be reflected in the income account of 1955 and the results will improve for that reason.

Mr. MACDONNELL (*Greenwood*): In that case, that money might have been earmarked for a special purpose, but now you say that you use it in any way that you see fit.

Mr. GORDON: Not as we saw fit, no.

Mr. JAMES: Well, I am asking the question.

Mr. GORDON: The outstanding bonds are in the hands of the public. We couldn't have called them in. There was no such provision.

Mr. MACDONNELL (*Greenwood*): You had this money?

Mr. GORDON: We got the money and held it there until the bonds fell due early in 1955.

Mr. MACDONNELL (*Greenwood*): How about the interest account?

Mr. GORDON: The cash was invested in bonds and added to the insurance and replacement fund.

Mr. MACDONNELL (*Greenwood*): Under what power did you apply it?

Mr. GORDON: From depreciation. That would be charged against expenses.

Mr. MACDONNELL (*Greenwood*): It would be held under your control?

Mr. GORDON: It was placed in the vessel replacement fund.

Mr. MACDONNELL (*Greenwood*): That was for vessel replacement?

Mr. GORDON: No, not necessarily, but knowing we had a liability due early in 1955 which would have to be met when it fell due. We accumulated the fund to discharge the liability.

Mr. MACDONNELL (*Greenwood*): Well, that is my question. I want to be sure that that money would in no way be tied and that you could use it for removing this liability when it fell due at your own discretion?

Mr. GORDON: Oh yes.

Mr. BELL: Mr. Gordon last year at the committee you suggested in March of this year when the bonds matured that that was a crucial stage in the company. You suggested that it might be necessary to sell the assets of the company. I am not going to hold you down to your words but the indication is given in this little speech last year that it might be necessary to liquidate the company and take the money out of the vessel replacement fund and pay off the bonded indebtedness.

Mr. GORDON: The bonds I had in mind were those against which we had accumulated a certain amount of money in the vessel replacement fund. As I said that was accumulated out of insurance and depreciation. We had a bond issue outstanding in the hands of the public which totalled \$9,400,000. We did not have enough in the vessel replacement fund to pay off that \$9,400,000 but we nevertheless had to meet the \$9,400,000 when the public presented the bonds for payment. So we used the full amount in the vessel replacement

fund plus an amount which we borrowed from the government. What I meant when I spoke that way was that there were not enough assets in the company to meet the maturing bonds. One way would be to sell the vessels and wind the company up. That did not take place because the government loaned us the money to pay off the bonds.

Mr. BELL: There was some thought of winding the company up?

Mr. GORDON: It was a question of which procedure would be followed. There was not enough money in the company to pay these debts which matured on March 1st, so we went to the government and said: "We have to find \$9,400,000 out of the assets of this company." The government could have said: "All right, sell the ships and close out the company." Instead of that they loaned us the money which is a liability to the government now, and will stay that way until a decision is made as to the future of the service.

Mr. BELL: Might I ask a couple of questions regarding the service itself, and why we have to be so dismal in consideration of it? The first question I would like to ask is why there was an increase in operating expenses? Was that due to old ships?

Mr. GORDON: Because there was an increase in traffic, as I recall it. That was just the cost of handling the traffic.

Mr. BELL: There was not anything out of order, then?

Mr. GORDON: No, we had more business and therefore we had more expenses.

Mr. BELL: The statement was made in the press at one time that the trade on the return trips from the West Indies was being lost to competition because they reduced their rates?

Mr. GORDON: That is right.

Mr. BELL: Has any effort been made to reduce our rates? Are we obligated to certain rates?

Mr. GORDON: Our rates, generally speaking, are quoted on the market and we try to make them on a basis where we make some profit out of it. But there is a competing service which offers strong competition in southbound traffic otherwise they would be going back empty. I might as well tell you it is the Saguenay terminals who handle bauxite for the Aluminum Company. They are loaded with bauxite coming north and they take cargo going south. That type of competition is hard to meet on a basis that yields us a profit.

Mr. HAHN: Did you say it was on the southbound trips that we had the trouble?

Mr. GORDON: It was the southbound trips where we had the main difficulty because their ships are organized so that they are bringing a full load north anyway.

Mr. HAHN: What percentage of freight are they carrying now, what capacity?

Mr. GORDON: The income account will show you that. The freight handled in 1954 was \$4,833,000 as against \$178,000 for passengers. This is no longer primarily a passenger service. We only have a few cabins in the diesel ships which are operating. The Lady ships were given up, you may recall, two years ago and they were predominantly passenger ships, but they are gone.

Mr. MACDONNELL (*Greenwood*): Mr. Chairman, I appreciate fully that the earnings in 1952 were much better than in 1953 and that therefore the comparison between 1954 and 1953 has to be modified in the light of that, but could we not ask Mr. Gordon to give us an appreciation in the military sense of the particular situation covering those three years and let us know whether there is a sign of improvement? Could Mr. Gordon give us his picture

of the situation. There might be elements in the situation which might be encouraging news to the committee. If Mr. Gordon could give us his estimate of the setup I think it would be enlightening to us all.

Mr. GORDON: I would say as a generalization that viewed as a commercial proposition I am not able to be optimistic about the ability of this service to earn its keep. I say, viewed as a commercial proposition, without any assistance from the government, if it were to stand on its own feet, I do not believe that the service can operate so as to produce enough revenue to cover its total cost.

Mr. MACDONNELL (*Greenwood*): And you see nothing in the future to warrant the hope that it could substantially improve?

Mr. GORDON: I cannot see it, no. The reasons which justify continuation of the service will have to be based upon considerations other than purely commercial considerations.

The CHAIRMAN: I notice that it is 6 o'clock. Can we carry the report now and go to the budget afterwards.

Mr. BELL: I have a few questions.

The CHAIRMAN: Then we will continue at 8 o'clock.

EVENING SESSION

The committee resumed at 8.00 p.m.

The CHAIRMAN: Gentlemen, I see a quorum. We will now commence on the report and continue questions on the annual report for 1954 of Canadian National (West Indies) Steamships Limited. Are there any further questions?

Mr. HAMILTON (*Notre Dame de Grâce*): Mr. Gordon, thinking back to your remarks last year and putting them in my own words, your position in the case of the steamship company can be summarized that you do all right coming north but you get your throat cut going south because of the effect of these other ships going back empty, which means that they can control almost any rate in competition with you. In that connection this year I notice that you had an increase of only 12 per cent in northbound traffic but 27 per cent in the tonnage of southbound traffic. Now, have you any indication as to increased revenue southbound?

Mr. GORDON: Before I answer the question I want to make it clear that I didn't say that we were necessarily doing all right coming north. What I meant to say was we had much more severe competition going south. It does not necessarily follow that that should be interpreted to mean that we are doing better going north.

Mr. BELL: No, actually your words were, "We don't do too badly with the northbound trips" and the southbound, it was entirely my own.

Mr. GORDON: The figures show that in terms of the tonnage—if you look at the annual report at page 3 you will see that I have stated that the shipments from Canada increased by 29,028 tons, that is, southbound, and the northbound tonnage increased by 18,729 tons. Now, that appears to contradict what I have said, but the explanation is that the increased tonnage we obtained going south it did not produce commensurate value because we have to compete with the Saguenay organization that was referred to earlier.

Mr. HAMILTON (*Notre Dame de Grâce*): Well, actually that was my question, Mr. Gordon. If you think there is any reason why you should not reveal it in this case I certainly am not going to press you. Your tonnage was up 27 per cent southbound. My question regarded your southbound revenue and the increase in your southbound revenue.

Mr. GORDON: You will observe our report shows our revenue increased 27 per cent too.

Mr. HAMILTON (*Notre Dame de Grâce*): I don't think it is in the figures before us, Mr. Gordon.

Mr. GORDON: I am sorry.

Mr. HAMILTON (*Notre Dame de Grâce*): I read it pretty carefully and I couldn't find it.

Mr. GORDON: You are quite right, I am looking at another statement.

Mr. LANGLOIS (*Gaspé*): If you look at page 4 you will notice the revenue increased due to extra trips.

Mr. HAMILTON (*Notre Dame de Grâce*): Yes, I am perfectly aware, Mr. Langlois, of everything in the report because I have studied it.

Mr. GORDON: The figures I have here show that on the increased tonnage which you will notice, 29,028 tons southbound, our revenue increased by \$305,779. The over-all increased revenue was \$497,564, so that \$305,779 of that was represented by the increase in export tonnage.

Mr. HAMILTON (*Notre Dame de Grâce*): The figure I am trying to arrive at, Mr. Gordon, your report states that shipments from Canada increased by 27 per cent southbound?

Mr. GORDON: Yes.

Mr. HAMILTON (*Notre Dame de Grâce*): Now, that is tonnage?

Mr. GORDON: Yes, that is tonnage.

Mr. HAMILTON (*Notre Dame de Grâce*): Revenue—

Mr. GORDON: Revenue is \$305,779.

Mr. HAMILTON (*Notre Dame de Grâce*): As a percentage?

Mr. GORDON: No, that is the figure which I have stated as \$305,779 of the total increase in freight revenue for the year, which was \$497,564.

Mr. HAMILTON (*Notre Dame de Grâce*): What I am trying to get at is was there a proportionate increase in the southbound freight revenue to the increase in the southbound freight tonnage?

Mr. GORDON: There was no change in the rates and therefore the answer would seem to be yes. I think the real significance of your question is this: if you look at the income figures you will find that under freight we had an increase between 1953 and 1954 of \$497,000 odd. Do you follow that?

Mr. HAMILTON (*Notre Dame de Grâce*): Yes.

Mr. GORDON: Now, I say that of that increase \$305,000 odd came from southbound freight and about \$192,000 came from northbound freight.

Mr. HAMILTON (*Notre Dame de Grâce*): Right. Now, having said that, sir, why was the increase in southbound freight so much greater than the increase in northbound freight; in other words, what I am trying to bring out here is that your prime problem is increase in your volume of traffic going south?

Hon. Mr. MARLER: I think it is just the opposite, isn't it?

Mr. HAMILTON (*Notre Dame de Grâce*): No, I am sorry; because Mr. Gordon said last year when you have competition in the hands of Alcoa and the Saguenay terminals who run ships southbound on the basis that they will take cargo at almost any price to fill the ships it makes a pretty hopeless situation.

Hon. Mr. MARLER: I appreciate that, yes.

Mr. HAMILTON (*Notre Dame de Grâce*): Then Mr. Gordon's problem is finding more southbound freight. He has shown us this year—part of it, of course, is due to the fact that he had more voyages and I would like to know

why he was successful in increasing his southbound traffic so much more than his northbound traffic because that might give us a further indication as to the hope for the future of this operation.

Mr. GORDON: Quite. Well, might I put it this way, that the traffic which moves southbound is traffic such as flour, potatoes, lumber, feed, hay, straw, vegetables, canned goods, meats, butter, cheese, paper, fish—things of that kind where the normal freight rate would give us a fairly good return if we were not faced with strong competition for that kind of traffic.

Now, northbound traffic consists largely of sugar and some liquor and that kind of traffic of itself is very highly competitive. There are a great many people in the business of handling sugar and liquor out of the West Indies, so on this we run into competition that makes it very difficult for us to get sufficient traffic of a revenue-producing character.

Mr. HAMILTON (*Notre Dame de Grâce*): You see, Mr. Gordon, others of us, certainly myself, are certainly interested in seeing this steamship line continue if it is possible for it to do so. Now, we find at least an interest and perhaps a hope in this situation in which the southbound traffic is increasing—because judging from your statement last year the southbound traffic remained the problem; your competition coming north is mostly filled with bauxite and that sort of thing which they are taking into Port Arthur and up the Saguenay river.

Mr. GORDON: You are comparing the wrong things. You are getting away from the fact that the increase in the handling of southbound traffic is compared with the previous year, which is a distortion, because in the previous year we had a strike period when nothing moved. The revenue produced by the southbound traffic cannot be compared with the previous year; and if it is taken on a normal year we would not show an increase.

Mr. HAMILTON (*Notre Dame de Grâce*): Actually, I was not interested so much in the comparison in that respect as in the comparison between the 12 per cent increase in northbound traffic and the 27 per cent increase in southbound traffic. Here is your problem, and you seem to be licking it. That is what interests me.

Mr. GORDON: I would like to accept that as a congratulation. Goodness knows there has been very little in that respect, but I cannot honestly say that we are succeeding because, from the standpoint of profits on this traffic, I cannot see that the traffic generated by this service from a purely commercial point of view would justify its continuance. The case for its continuance will have to rest on other reasons.

Mr. HAMILTON (*Notre Dame de Grâce*): I have one more question. Can you give us a breakdown? Your total of freight revenue was \$4,800,000 odd in 1954.

Mr. GORDON: Yes.

Mr. HAMILTON (*Notre Dame de Grâce*): Can you give us a division of that as between northbound revenue and southbound revenue?

Mr. GORDON: You know, Mr. Hamilton, I have prided myself for a long time in trying to outguess all the questions; but you are really making it tough. However, I will see what I can do.

The complicating factor is that there is inter-island service as well which makes it difficult for me to give you the breakdown as between north and south. I could have it analyzed but I am afraid I cannot answer you specifically in terms of what you ask. Inter-island traffic and charter revenue complicates the calculation.

Mr. HAMILTON (*Notre Dame de Grâce*): I understand that. In general, would it be anything like a 50-50 split, or is our northbound traffic much heavier than the southbound traffic?

Mr. GORDON: I could tell you that in terms of tonnage. This might give you some lead. In terms of tonnage we imported,—that is, we brought into Canada in 1954, a total of 181,446 tons; and we carried southbound a total of 136,635 tons. I have not got a breakdown in regard to the revenue. But that at least gives you the tonnage.

Mr. HAMILTON (*Notre Dame de Grâce*): Thank you very much.

Mr. FOLLWELL: I would like to ask Mr. Gordon if this service provides any direct or indirect tonnage revenue to the railways?

Mr. GORDON: We do not believe so. We have analyzed this question but we do not believe that the Canadian National (West Indies) Steamships brings any more tonnage to the railway than we would get if it were operated by an independent service.

Mr. FOLLWELL: You made mention of commercial interests and other interests. What do you mean by other interests?

Mr. GORDON: I have in mind the question of a commercial operation. This service might be regarded by the government to be a good thing for Canada, for trade reasons. If that is considered to be so, then I presume it would be the decision of the government as to whether or not they think it worthwhile to provide a subsidy which will take care of a deficit in the service. I have spoken purely from the standpoint of operating this service. Suppose I handed over the service to you as a private operator and you were putting your own money into it. I would warn you that if you did, you would lose money on the operation.

Mr. FOLLWELL: Purely and simply then your recommendation would be that the operation should be abandoned or closed out?

Mr. GORDON: Not necessarily so. There may be larger interests in the general community of Canada that would justify continuing it, even though it was operated at a loss. But I think we should do so with our eyes open and know what is involved in it. Of course that is a question of government policy on which I am not competent to pass opinion.

Mr. FOLLWELL: A so-called calculated risk?

Mr. GORDON: Yes. It may very well be considered by those responsible for the trade policy of this country that notwithstanding a loss in the operation of this service as such, that the other factors involved in it in respect to trade would well be worthwhile. That of course has been the history of the operation of the Canadian National West Indies Steamships right back to the time when it was inaugurated. The purpose was to provide a means of transport between Canada and the West Indies through a government agency, when private enterprise would not do the job.

If I wanted to go back into history, I could tell you that before this service was commenced tenders were called for on the basis of finding out whether private interests would be willing to provide a service for this purpose. But on the basis of tenders quoted it was decided that it would be cheaper for this company to be formed and operated by the Canadian National as part of its transport services, with the operating loss to be for the account of the government. That decision still stands, and you still have the question as to whether or not it is worthwhile.

Mr. KNIGHT: Are there certain private companies now operating from the same points?

Mr. GORDON: Quite a number. The one which is most obvious is the one which I have mentioned, the Saguenay Terminal, who operate largely on captive cargo northbound because they are transporting for the Aluminum Company, but they will take cargo south. There are also all sorts of casual operations by tramp steamers that come and go. One of the things that is of

significance in this operation and should be considered at the time the policy is being determined, is that this is the only service, that I know of, which provides a regular service. Other services are more or less casual operations. They do not undertake to have a ship on a specific day. We do, and we maintain a schedule.

Mr. MACDONNELL (*Greenwood*): Will the opening up of the seaway operate to give further possibilities of business to these ships?

Mr. GORDON: I would not think so. That is merely an opinion. I do not see how it would, because traffic does not originate in these parts. It starts from the eastern Canadian seaboard and goes south. It is purely an opinion.

Mr. MACDONNELL (*Greenwood*): I have one or two broad and general questions. Naturally one shrinks from the thought of an industry which is one of the too few Maritime Province industries coming to an end. Is the operation confined entirely to the West Indies, and would you say that competition is so keen that we should abandon hope of extending the trade? I have another question: Can you say anything as to the volume of trade and how much goes to the United States and whether, taking a broad view of our Canadian trade situation you could argue that this operation has a very definite value in itself which should not be lost? I have asked many questions in one, but you will see what is in my mind.

Mr. GORDON: I think I do. I am of the opinion that with the abolition of this service—if we may assume that—the available facilities in the form of steamship services are sufficient that it would have no great effect so far as the Canadian trade is concerned. I am speaking only in regard to the carrying of goods. I am not prepared to appraise the other effect, which is that of getting the Canadian flag into these waters, having a close and intimate association with the name Canada and its effect on the agents in these points. It has a warm family feeling which has value. How much that value is worth in terms of dollars and cents I am not sure, and that is where the appraisal has to be made, but I feel quite definitely that the facilities for the carrying of goods backwards and forwards between Canada and these points are quite adequate. There will be enough steamships around the world in one form or another to provide that service, but we do have an intangible value in those services that should not be lost sight of.

The last time I was down there, I was interested to see the reaction of the local population when a Canadian National Steamship came into port. It was an event; it was something that was really worth seeing. Whether we lose something by discontinuing the flag in these waters is something that will have to be appraised by the competent authorities, and I am sure our various Canadian agencies will be able to express an opinion on that point.

Mr. MACDONNELL (*Greenwood*): We do not trade into any South American points at the moment?

Mr. GORDON: No.

Mr. MACDONNELL (*Greenwood*): Is that outside the bounds of possibility?

Mr. GORDON: No. It is quite possible to extend these services. I do not see the justification for it at the moment, but there is nothing to prevent those services from being extended to any point.

Mr. BELL: What efforts have been made to look for new contracts?

Mr. GORDON: We have agents in the various places we are serving. It is a strange business in a way, because these agents may act for half a dozen steamship services. Their job is to have the shipper and the steamship service meet. What they think about the services, how they appraise regularity of service, and such things as personal friendships will enter into it, but these agents handle the placing of cargoes and they may place it on whatever ship

comes in. It may be Dutch, French, or Russian, for all I know, as long as it is a ship that happens to become available running between this port and that port. If they are acting for us along with others, it becomes a matter of their decision as to where they will place the cargo. The friendlier contacts that we have, the more chance we have of getting the cargo. It is a very competitive business.

Mr. BELL: Have we been able to obtain any new sugar contracts from Cuba for the future, for instance?

The CHAIRMAN: We will adjourn until after the vote is taken.

The CHAIRMAN: Can we resume, gentlemen?

Mr. BELL: I would like to ask a few more questions. First, you said there is some difficulty because you have to break schedules. I was wondering if perhaps the schedule is broken in some cases where our competitive business might be better?

Mr. GORDON: No. One of the reasons we gave up the "Lady" boats was because of the fact that we were bound to maintain schedules on a passenger basis. In the schedules we had to consider the human beings which require much greater consideration than freight, and having got rid of the essentially passenger ships we no longer have to meet these needs and in the movement of the ships we will go where freight is on any competitive basis. But against that we try to maintain a sailing schedule on such a basis that the shipper knows he can expect the Canadian National Steamships in port on such and such a date. It may be at 7 o'clock in the morning or it may be at 7 o'clock at night. It does not matter in regard to freight, but in regard to passengers, it did. We try to maintain the scheduled date of arrival so that the shippers can depend upon us in that respect. Also we enter into arrangements with a shipper to take a complete cargo, maybe sugar or molasses, and if it suits our purpose we may charter a ship to him which may have nothing to do with the schedule at all. It depends on whether or not we think we can earn a dollar. We are in that business and it has been part of our revenue this year which has been quite noticeable.

Mr. BELL: How has the charter revenue been this year?

Hon. Mr. MARLER: It is at the bottom of page 3 of the report.

Mr. HAHN: I have one question. In the balance sheet if the foreign currency had been accepted, sterling at 2.86 $\frac{2}{3}$ and francs at 15 francs on the dollar, would it have affected the balance sheet of the Canadian National Steamships at all?

Mr. GORDON: As far as I know there are no foreign exchange adjustments included in this balance sheet.

Mr. HAHN: I realize that.

Mr. GORDON: It does not affect this operation.

Mr. HAHN: Are there no foreign exchanges involved at all?

Mr. GORDON: No.

Mr. HAMILTON (*Notre Dame de Grâce*): To erase the income deficit in 1954 of \$628,000 would require only a 15 per cent increase in the freight revenue?

Mr. GORDON: Oh no. That would depend on the composition of traffic. We could handle traffic here which would increase our revenue but would increase our costs also and we have to find traffic which will give us net revenue, in other words the difference between the revenue and the cost of handling it.

Mr. HAMILTON (*Notre Dame de Grâce*): Had the dollar revenue in 1954 been 15 per cent higher the line would have operated on a comparatively easy basis and might have made a little money.

Mr. GORDON: It depends on what happens to the expense figure.

Mr. HAMILTON (*Notre Dame de Grâce*): That I realize. Other factors remaining the same. A difficulty I think you have said is that some of these ships are going where additional freight could be carried; you are not loaded to the top of your ship at every trip. That is another thing I think which gives us some cause for encouragement. We look to the West Indies as a large growing area. You see the work which is being done there towards confederation of these various small units down there; you see the increased interest which is being taken in them by England herself; the increased interest in the United States in many ways; and I think that we here in Canada have a great hope for the development of that area, not necessarily to an industrial potential which is going to be comparable to that of Canada or the United States, but, to anyone who has been down there as I have and lived there for a couple of years you know there is a tremendous capacity for development down there because they have not advanced economically anywhere comparable to the other parts of North America. We know, for example, some of the developments which are taking place in Jamaica on various grounds. I think all those factors, Mr. Gordon, are ones which give you—and you have said before that this is something which is not really yours to decide—it is more in the lap of the government.

But I do think we should put on the record—I would want to put on the record my own view without at this point asking a man to operate a steamship line on a year to year basis, which is hardly fair to a man, that with the growth potential of this area we would be much better if some further guarantee should be given to you so that you could make your plans on a one or two-year basis or a five or ten-year basis.

Mr. GORDON: Yes, I would like to say in the general Canadian interest, however, that we should keep in mind that it is a two-way proposition and there was a time when the countries in the West Indies themselves regarded this service as sufficiently interesting that they paid a subsidy for the service and that represented a considerable part of the income of this company. Those subsidies have all been cancelled and I have suggested to you in the course of any discussion that takes place that the Canadian representative should keep in mind that it is not only a Canadian interest but it is service that is of interest to the West Indies countries and there should be some exploration as to whether or not they are willing to do a little as well as Canada. I do not like to see the Canadian taxpayer the only person who has to fork out for the service in question.

Mr. HAMILTON (*Notre Dame de Grâce*): I think I would agree with you on that, and I will ask the minister, who is also close enough to hear your observations.

The CHAIRMAN: Shall the report carry?

Mr. MACDONNELL (*Greenwood*): It is a very unusual situation where one agent acts for several shipping companies. I presume you have come to the conclusion it would not be feasible to send your own special agents in there.

Mr. GORDON: Our own agents where?

Mr. MACDONNELL (*Greenwood*): I think you said the agents there might handle half a dozen companies.

Mr. GORDON: Yes.

Mr. MACDONNELL (*Greenwood*): I take it you have considered and rejected the idea of a Canadian agent devoted solely to your interests?

Mr. GORDON: We can't afford it. There is not enough traffic to justify a man doing nothing else and besides these agents referred to are specialists in the game and while they act for quite a number of people they really

always pick out the service which suits their purpose best, and the best thing for us to do to get the business is to convince the agent in question that our service is the one best suited to his requirements.

Mr. BELL: Mr. Gordon, if we stepped up passenger service to the West Indies—

Mr. GORDON: There is no opportunity there unless we go back into passenger business. The passenger accommodation on these diesel ships is very limited. My recollection is twelve cabins on the diesel ships and our demand for them is such that we are fully booked.

Mr. BELL: Well, there is quite a demand then.

Mr. KNIGHT: But the airlines put the Lady boats out of business.

Mr. GORDON: The airlines provide passenger service to a point that they competed with the Lady boats until there was no demand. After all, filling a Lady boat is a different thing to filling twelve cabins and there are still enough adventurers around the world who will fill twelve cabins.

Mr. BELL: May I come back to one matter, the point I was referring to at the beginning of the discussion? Do I understand from the minister that this is to be continued for one more year?

Hon. Mr. MARLER: I have said that once in the House and I have said it again in the committee this afternoon. I think it is rather abusing the time of the committee to say it again.

The CHAIRMAN: Shall it carry?

Carried.

Next, the budget of the Canadian National (West Indies) Steamships, Limited.

CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS, LIMITED

	1954 Budget	1954 Actual	1955 Budget
	\$	\$	\$
<i>Income Account—</i>			
Operating Revenues.....	4,940,000	5,105,082	5,444,000
Operating Expenses.....	5,220,000	5,424,983	5,622,000
Net Operating Deficit.....	280,000	319,901	168,000
Vessel Replacement fund earnings.....	175,000	166,741	28,000
Interest requirements on 5%—25 year Bonds due March 1st, 1955, principal amount \$9,400,000.....	470,000	470,000	78,000
Interest on Government Advances.....	6,000	5,250	60,500
Deficiency—Operations.....	581,000	628,410	288,500
<i>Capital Budget—</i>			
General Betterments.....	10,000	15,058	20,000

NOTE:—Funds for Capital Expenditures will be provided from Vessel Replacement Fund.

The CHAIRMAN: Shall the budget carry?

Mr. MACDONNELL (Greenwood): Just a minute.

The CHAIRMAN: It is on page 10, Mr. Macdonnell. It has been pretty well covered all the way through. Shall the budget carry?

Carried.

The next item then is the annual report of the Canadian National Railways Securities Trust. Now, this is a lengthy document with a great deal of data and I should take it that this should be published as a part of the report but that we should not ask to have it read in detail. There are many matters here relating to loans, principal and interest on loans, and I would suggest that it should be printed but that we should not ask to have it read all the way through.

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

MONTREAL, 2nd March, 1955.

The Honourable George Marler, M.P.,
Minister of Transport,
Ottawa.

Sir,

In conformity with Section 17 of The Canadian National Railways Capital Revision Act, 1952 the Trustees of The Canadian National Railways Securities Trust submit the following report of the transactions for the calendar year 1954.

Application was made to the Governor in Council by the Directors of The Canadian National Railway Securities Trust for the release of certain securities to be cancelled and cremated for the purpose of advancing the consolidation and simplification of the corporate structure of the Canadian National Railway System and approval was so granted under authority of Order-in-Council P.C. 1954-629 dated 29th April, 1954.

The Trustees present herewith the balance sheet at 31st December, 1954.

D. GORDON,
For the Trustees.

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

BALANCE SHEET AT 31ST DECEMBER, 1954

ASSETS		LIABILITIES	
Claims for Principal of Loans—		Capital Stock Owned by Canadian National Railway Company—	
Canadian Northern Railway.....	\$ 312,334,805.10	5,000,000 shares of no par value capital stock:—	
Grand Trunk Railway.....	118,582,182.33	Stated value at 1st January, 1952.....	\$ 378,518,135.02
Grand Trunk Pacific Railway.....	116,006,599.08		
Canadian National Railway Company.....	96,936,971.75		
	<u>\$ 643,860,558.26</u>		
Claims for Interest on Loans—			
Canadian Northern Railway.....	\$ 309,702,897.65		
Grand Trunk Railway.....	103,250,802.95		
Grand Trunk Pacific Railway.....	107,326,622.84		
Canadian National Railway Company.....	54,501,313.57		
	<u>574,781,637.01</u>		
Transactions of Canadian National Railway System from 1st. January, 1937, to 31st. December, 1951, affecting the book value of the capital stock of the Securities Trust.....	108,480,697.14		
Securities Held—		Amount by which the book value of claims and interest thereon exceeded the initial stated value as of 1st. January, 1937.....	948,604,757.39
Collateral Securities—Schedule A.1.....			
Other Securities —Schedule A.2.....			
	<u>\$ 1,327,122,892.41</u>		<u>\$ 1,327,122,892.41</u>

R. D. ARMSTRONG,
Comptroller.

CERTIFICATE OF AUDITORS

We have examined the books and records of The Canadian National Railways Securities Trust for the year ended 31st. December, 1954. The Collateral and Other Securities, as set out in Schedules A.1 and A.2 attached hereto, were verified by examination or by certificates from the depositaries.

We certify that, in our opinion, the above Balance Sheet is properly drawn up so as to exhibit a true and correct view of the accounts of the Trust as at 31st. December, 1954, in accordance with the provisions of The Canadian National Railways Capital Revision Act, 1952.

Dated at Montreal,
2nd. March, 1955.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

SUMMARY OF INDEBTEDNESS TRANSFERRED FROM THE GOVERNMENT OF CANADA TO THE SECURITIES TRUST

Loans Outstanding

CANADIAN NORTHERN RAILWAY:	
3½% Loan, Chapter 6, 1911.....	\$ 2,396,099.68
4% Loan, Chapter 20, 1914.....	5,294,000.02
5% Loan, Chapter 4, 1915.....	10,000,000.00
6% Loan, Chapter 29, 1916.....	15,000,000.00
6% Loan, Chapter 24, 1917.....	25,000,000.00
6% Loan, Vote 110, 1918.....	25,000,000.00
6% Loan, Vote 108, 1919.....	35,000,000.00
6% Loan, Vote 127, 1920.....	48,611,077.00
6% Loan, Vote 126, 1921.....	44,419,806.42
6% Loan, Vote 136, 1922.....	42,800,000.00
6% Loan, War Measures Act, 1918.....	1,887,821.16
6% Equipment Loan, Chapter 38, 1918.....	56,926,000.82
6 Mortgage covering loans above.....	

Total Canadian Northern..... \$ 312,334,805.10

GRAND TRUNK RAILWAY:

6% Loan, Vote 478, 1920.....	\$ 25,000,000.00
6% Loan, Vote 126, 1921.....	55,293,435.18
6% Loan, Vote 137, 1922.....	23,288,747.15
4% Loan to G.T. Pacific, Chapter 23, 1913, guaranteed by Grand Trunk.....	15,000,000.00

Total Grand Trunk..... \$ 118,582,182.33

GRAND TRUNK PACIFIC RAILWAY:

3% Bonds, Chapter 24, 1913.....	\$ 33,048,000.00
6% Loan, Chapter 4, 1915.....	6,000,000.00
6% Loan, Vote 441, 1916.....	7,081,783.45
6% Loan, Vote 444, 1917.....	5,038,053.72
6% Loan, Vote 110, 1918.....	7,471,399.93
Receiver's Advances, P.C. 635, March 26, 1919.....	45,764,162.35

Interest guaranteed by Government of Canada..... 8,704,662.65
 Interest guaranteed by Provinces of Alberta and Saskatchewan... 2,898,536.98

Total Grand Trunk Pacific..... \$ 116,006,599.08

Notes and Collateral Held

None. Charge is on premises mortgaged October 4, 1911.

None.

None.

Mortgages dated June 23 and June 26, 1916.

6% Demand Notes.....	\$ 33,012,414.32
6% Demand Notes.....	27,203,003.65
6% Demand Notes.....	40,031,122.27
6% Demand Notes.....	53,008,779.65
6% Demand Notes.....	50,259,312.47
6% Demand Notes.....	46,691,634.60
6% Demand Note.....	5,700,000.00
3½% Debenture Stocks.....	5,109,999.99
6% Demand Notes.....	56,858,496.44

Mortgage dated November 16, 1917.....

6% Demand Notes.....	\$ 25,479,226.97
6% Demand Notes.....	56,646,816.12
6% Demand Notes.....	23,288,747.15
4% Demand Note.....	15,000,000.00
4% G.T.P. Debentures.....	15,000,000.00

3% 1st. Mortgage Bonds.....	\$ 33,048,000.00
4% Sterling Bonds.....	7,499,952.00
Mortgage, June 28, 1916.....	
Mortgage, October 18, 1917.....	
Mortgage, October 18, 1917.....	
Receiver's Certificates.....	53,339,162.74
Cremation Certificates, coupons destroyed.....	8,698,170.42
Cremation Certificates, coupons destroyed.....	2,925,723.88

RAILWAYS AND SHIPPING

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

SUMMARY OF INDEBTEDNESS TRANSFERRED FROM THE GOVERNMENT OF CANADA TO THE SECURITIES TRUST

Loans Outstanding		Notes and Collateral Held
CANADIAN NATIONAL RAILWAY COMPANY:		
6% Loan, Vote 139, 1923.....	\$ 24,550,000.00	{ 6% Canadian Northern Demand Note.....\$ 12,655,019.57 G.T.P. Receiver's Certificates..... 3,313,530.01 G.T.P. Interest Coupons (Cremation Certificates)..... 1,530,831.96
5% Loan, Vote 137, 1924.....	10,000,000.00	{ 5% Canadian Northern Demand Note.... 1,318,315.86 G.T.P. Receiver's Certificates..... 4,691,173.58 G.T.P. Interest Coupons (Cremation Certificates)..... 1,530,822.24
5% Loan, Vote 377, 1925.....	10,000,000.00	{ 5% Canadian Northern Demand Note.... 9,496,718.21 G.T.P. Receiver's Certificates..... Cr. 1,422,425.17 G.T.P. Interest Coupons (Cremation Certificates)..... 1,530,802.80
5% Loan, Vote 372, 1926.....	10,000,000.00	{ 5% Canadian Northern Demand Note.... 9,062,624.30 G.T.P. Receiver's Certificates..... Cr. 364,898.78 G.T.P. Interest Coupons (Cremation Certificates)..... 1,530,880.56
5% Loan, Vote 336, 1929.....	2,932,652.91	5% Canadian National Railway Company Demand Notes..... 2,932,652.91
5% and 5½% Loans, Chapter 22, 1931.....	29,910,400.85	5% and 5½% Canadian National Railway Company Demand Notes..... 29,910,400.85
5½% Loans, Chapter 6, 1932.....	11,210,815.56	5½% Canadian National Railway Company Demand Notes..... 11,210,815.56
Less: adjustment authorized by the Capital Revision Act, 1937.....	Cr. 1,666,897.57	
Total Canadian National Railway Company.....	<u>\$ 96,936,971.75</u>	
Total Loans.....	<u>\$ 643,860,558.26</u>	

SCHEDULE A.2

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

SECURITIES TRANSFERRED FROM THE GOVERNMENT OF CANADA TO THE SECURITIES TRUST PURSUANT TO THE PROVISIONS OF THE CANADIAN NATIONAL RAILWAYS CAPITAL REVISION ACT, 1952

Description of Issue	Amount	
	Sterling Currency	Dollar Currency
	£	\$
Canada Atlantic Rly. Co. 4% Consolidated First Mortgage Sterling Bonds, due Jan. 1, 1955.....	1,245,300	
Canadian National Rly. Co. 4½% Twenty-five Year Guaranteed Bonds, due June 15, 1955.....		1,504,000
Canadian National Rly. Co. 4½% Twenty-five Year Guaranteed Bonds, due Feb. 1, 1956.....		2,632,000
Canadian National Rly. Co. 4½% Thirty Year Guaranteed Bonds, due July 1, 1957.....		864,000
Canadian Northern Alberta Rly. Co. 3½% First Mortgage Debenture Stock, due May 4, 1960.....	534,097	
Canadian Northern Ontario Rly. Co. 3½% First Mortgage Debenture Stock, due May 19, 1961.....	6,294,345	
Canadian Northern Rly. Co. 3½% First Mortgage Debenture Stock, due July 20, 1958.....	359,869	
Canadian Northern Rly. Co. 3½% First Mortgage Debenture Stock, due July 20, 1958.....		508,666
Grand Trunk Pacific Rly. Co. 4% Mortgage Sterling Bonds, Series "A" (Prairie Section), due April 1, 1955.....	1,364,500	
Grand Trunk Pacific Rly. Co. 4% Mortgage Sterling Bonds, Series "B" (Mountain Section), due April 1, 1955.....	1,402,900	
Grand Trunk Pacific Rly. Co., 4% First Mortgage L.S. Branch Sterling Bonds, due April 1, 1955.....	1,107,200	
Grand Trunk Pacific Rly. Co. 3% First Mortgage Sterling Bonds, due Jan. 1, 1962.....	1,754,500	
Grand Trunk Pacific Rly. Co. 4% Sterling Bonds, due Jan. 1, 1962.....	90,900	
Grand Trunk Western Rly. Co. 4% First Mortgage Bonds, due July 1, 1950..	649,500	
Grand Trunk Western Rly. Co. 4% First Mortgage Bonds, due July 1, 1950..		1,293,500

Mr. MACDONNELL (*Greenwood*): I am not suggesting it should be read in full but I am suggesting there should be a general explanation of the reasons for this trust at all.

The CHAIRMAN: Very well.

Mr. GORDON: Well, Mr. Macdonnell, this is my sixth year before the committee and I have never been able to explain this and I have no doubt that after six years more I will not be able to explain it, so if you will permit me I will take the unusual course of reading what I have to say. This will only take a minute and I hope will get this on the record so that it will stand as a record and as an explanation of what it is.

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

The Securities Trust is a corporation which was first created by Section 12 of the Canadian National Railways Capital Revision Act, 1937. Its entire capital stock consisting of five million no par value shares was held by the Minister of Finance on behalf of the Crown. The stock was issued in consideration of the transfer to the Trust by the Government of its claims against the Canadian Northern, the Grand Trunk, the Grand Trunk Pacific and the Canadian National Railway Companies for loans and accrued interest thereon (together with various securities collateral thereto). The Trust was created solely for the purpose of acquiring and perpetuating the Government claims and collateral against the Railway Corporations in the same way and to the same extent as they were then held by the Government subject however to provision for

their release with the approval of the Governor in Council. There were certain securities held by the public which it was considered might be advanced in their ranking or priority if the Government's claims against the Railway Companies had been cancelled outright.

Since the 1937 Act was passed a large amount of Railway securities has been retired in repatriation proceedings and otherwise. As a result of this the securities held by the public which might be advanced in ranking now have very little significance.

When the 1952 Capital Revision Act was under consideration it was considered the purposes for which the Securities Trust was created could be carried out as effectively if the Capital Stock of the Trust were to be owned by the Canadian National rather than the Government. The indebtedness of the debtor corporations was to remain unchanged and the restrictions as to the release of the securities to remain under the control of the Governor in Council.

The Canadian National Capital Revision Act, 1952 implemented the considerations in the preceding paragraph. Under this Act the Securities Trust was reconstituted. The five million no par value shares of the Trust were transferred to Canadian National Railway Company in consideration of the issue to the Government of an equal number of common shares of the Railway Company. In addition, under the 1952 Act, the Government transferred to the Securities Trust the securities held as collateral to Government Loans which were exchanged (under the Act) for preferred stock of the Railway. The collateral securities so transferred to the Trust were the repatriated securities previously referred to, having an aggregate principal value of \$405,552,989.

The 1952 Capital Revision Act provides that, "The Securities Trust shall not sell, release, destroy or otherwise dispose of claims, obligations and securities held by it except with the approval of the Governor in Council".

Now, would you like to know what it means, Mr. Macdonnell?

Mr. MACDONNELL (*Greenwood*): I just want to ask two very brief questions. My understanding is it is a legal device intended to maintain the legal relationship between the various series of creditors and that it has no significance as to the business you are carrying on from day to day in any way whatever.

Mr. GORDON: That is quite right. The position was that at the time of the formation of the organization there were a great many securities outstanding in the hands of the public and a great many of these came in. However, there were small amounts in the hands of individual holders who had bonds of the constituent companies, be it Grand Trunk, Canadian Northern, or as the case may be. They were small amounts but they did represent a mortgage on particular parts of the railway and therefore the securities trust was set up so that the government which had taken over the great mass of these securities would hold its claim rights rather than pay it off because if they had paid it off it theoretically might have improved the position of these minority holders.

Mr. MACDONNELL (*Greenwood*): I think you are quite wrong in saying you did not understand it.

Mr. GORDON: What I meant was I did not know whether I could explain it.

Mr. MACDONNELL (*Greenwood*): When you carry through the simplification of your capital structure and reduce the number of companies to the small number you mentioned earlier will this not gradually disappear?

Mr. GORDON: Yes, this will disappear when the legal reorganization is completed.

The CHAIRMAN: Shall the Securities Trust carry?

Carried.

The next item will be that of the auditors' report to parliament of the Canadian National Railway system, Canadian National (West Indies) Steamships, Limited, and in this matter I would suggest that we dispense with the reading of this report. I would suggest that it be incorporated to the proceedings. We have here the auditors of George A. Touche and Company, chartered accountants, Mr. F. P. Turville, C.A., Mr. J. D. Morison, C.A., and Mr. D. T. G. Padley, C.A.

GEORGE A. TOUCHE & CO.
CHARTERED ACCOUNTANTS
Coristine Building
410 St. Nicholas Street
Montreal 1

7TH MARCH, 1955.

CANADIAN NATIONAL RAILWAY SYSTEM

The Honourable the Minister of Transport,
Ottawa, Canada.

Sir,

We have audited the accounts of the Canadian National Railway System for the year ended 31st December, 1954 under authority of The Canadian National-Canadian Pacific Act, and we now report, through you, to Parliament.

Our examination of the accounts was made in accordance with generally accepted auditing standards, and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. In this connection we worked in collaboration with the executive accounting and financial officers at Headquarters having as a common objective the securing of maximum internal protection to the System in the control of cash receipts and expenditures, securities held, material stores and accounts receivable of all types. The System is further protected by fidelity bond insurance with outside underwriters. The audit tests were carried out in the offices of System Headquarters, Regions and Separately Operated Properties in Canada, the United States, London (England) and Paris (France).

Our audit of the accounts included the verification of the consolidated balance sheet and the consolidated income account and certification thereof.

Apart from the investment in Trans-Canada Air Lines, the holdings in the capital stocks of the Affiliated Companies are insufficient to give voting control and accordingly the Companies are not treated as units of the System nor have their accounts been audited by us. In the majority of instances they are audited by joint committees composed of System accountants and representatives of outside interests.

Progress has been made during the year in the general revision of the corporated structure of the System. Certain companies were amalgamated with the Canadian National Railways; other subsidiary companies were amalgamated under the name of Canadian Northern Consolidated Railways, and The Grand Trunk Pacific Telegraph Company was amalgamated with the Canadian National Telegraph Company.

CONSOLIDATED INCOME ACCOUNT

Deficit for the Year

There was a decrease of \$55,985,000 in railway operating revenues as compared with the previous year, principally accounted for by a decline of \$50,788,000 in freight revenues, which was compensated to the extent of \$32,584,000 by a reduction in railway operating expenses and \$4,109,000 in net equipment rents. The decline in net income from other sources was mainly accounted for by non-recurring charges resulting from the sale of the Prince Arthur and Prince Edward hotels and the Minaki and Pictou lodges, and the retirement of the Prince Rupert Dry Dock and a reduction in the gain on the redemption of sterling securities, a smaller amount of these securities having been redeemed than in the previous year.

Interest on bonds held by the public increased by \$4,258,000 resulting from the increase in the funded debt, while interest on government loans and debentures was \$1,136,000 less than in the previous year.

Depreciation

Provision for depreciation of Road and Equipment property has been charged to operating expenses on the same bases as in the previous year excepting that, as indicated in our certificate at the foot of the consolidated balance sheet and stated in the notes applicable thereto, hotel properties have been depreciated from 1st January, 1954, which will amortize their present book value over a period of forty years.

We have received certificates from responsible operating and executive officers to the effect that the fixed properties and equipment have been maintained in a proper state of repair and in an efficient operating condition during the year; that insofar as traffic demands would permit, such physical retirements which should have been made during the year as a result of wear and tear and obsolescence, have been made and that notification of all such retirements has been given to the Accounting department.

CONSOLIDATED BALANCE SHEET

Investment in Road and Equipment Property

Against the Corporate portion of the property investment brought into the National System accounts at 1st January, 1923, there have been properly applied the reductions authorized by the Canadian National Railways Capital Revision Act, 1937, but no similar reductions were authorized at that time covering the Crown property investments in the Canadian Government Railways. Since 1st January, 1923, the additions and betterments less retirements of the System have been shown on the basis of cost. During the year under review the additions and betterments less retirements amounted to \$147,462,000, the major portion thereof being for the purchase of rolling stock.

Special Funds, Other Investments, and Temporary Cash Investments

Included in the above were System securities aggregating \$20,577,000 valued at par and securities of the Federal Government and those of or guaranteed by the Provincial Governments amounting to \$120,376,000 carried at cost. The year-end market value of the Government securities was slightly in excess of cost.

The special funds referred to under this heading and amounting in total to \$118,388,000 comprise Capital and Other Reserve Funds, Insurance Fund and Pension Fund. The Insurance Fund increased during the year by \$942,000 and at the year end reached its objective of \$15,000,000. The Pension Fund stands at \$102,500,000 having increased by \$16,630,000 during the year.

Other Investments include unlisted securities of a miscellaneous nature held primarily for purposes of traffic benefit and are valued at or below cost.

Investments in Affiliated Companies

Investments in Affiliated Companies are represented by capital stocks, bonds and obligations for advances of companies affiliated with but not forming a part of the National System. Apart from the Trans-Canada Air Lines, these investments have been made, in association with other railways, primarily to secure the benefits of traffic interchange and terminal facilities. The basis of the balance sheet figure is cost or, in respect of certain United States securities, less than the special valuations approved by the Interstate Commerce Commission.

Other Balance Sheet Items

Accounts Receivable and Payable of all classifications have been tested by us with the subsidiary and controlling records, cash and other transactions subsequent to the year end, departmental files and general supporting information, but such accounts have not been verified by direct communication with the individual debtors and creditors.

A physical inventory of Material and Supplies was taken by the Railway as at 30th September, 1954, and in connection therewith we have received certificates from the responsible officers to the effect:

- (a) That the quantities were determined by actual count, weight, or measurement or by conservative estimate where such actual basis was impracticable, and
- (b) That the inventory pricing was laid down cost based on weighted average cost for ties, rails and fuel and on latest invoice prices for new materials in General Stores, and on estimated utility or sales value for usable second-hand, obsolete and scrap materials after making reasonable allowances for condition thereof.

The physical inventory valuation exceeded the ledger balances, and the latter were brought into agreement with the physical inventory through a credit to railway operating expenses.

Other deferred assets consist principally of deferred payments under agreement and sundry deferred accounts collectible.

Other unadjusted debits consist of the estimated salvage value of equipment and property retired; the unamortized cost of opening ballast pits which will be written off on the basis of yardage used; the estimated salvage value of non-perishable material in ballast pits and other temporary tracks; accepted interline freight claims paid in advance of investigation with other carriers, and miscellaneous debit items not otherwise provided for or which cannot be disposed of until additional information is received.

During the year there were two new issues of System bonds aggregating \$450,000,000 and system securities in the hands of the public of a par value of \$66,842,000 were redeemed, thereby increasing the funded debt at the year end by \$383,158,000. Government of Canada Loans and Debentures were reduced by \$215,368,000.

Other deferred liabilities consist principally of the outstanding capital value of the workmen's compensation awards by the Provinces of Ontario and Quebec, deferred payments of interest under agreement and percentages retained from contractors pending completion of work in progress.

Unadjusted credits include the estimated proportion of prepaid revenues on freight in transit; deferred payments of principal under agreement; excess of actual revenues over year-end estimates carried in suspense; estimated

liability for injuries to persons; estimated liability for overcharge claims, and miscellaneous items not otherwise provided for or which cannot be disposed of until additional information is received.

In compliance with Section 6 of the Canadian National Railways Capital Revision Act, 1952, the Minister of Finance purchased during the year from the Company at par 19,206,314 four per cent preferred shares of one dollar par value equal to three per cent of the gross operating revenues of the System for the twelve months ended 30th November, 1954. 1,659,248 additional preferred shares were purchased in January, 1955 of a par value equivalent to three per cent of the gross revenues for the month of December.

General

A substantial extension of machine accounting both for accounting and statistical purposes was undertaken during the year under review. Further extensions are contemplated or under study.

Where foreign currencies are involved, the balance sheet accounts of the System are converted generally as follows:—

- (a) United States Currency—at the dollar par of exchange.
- (b) Sterling Currency—at the former par of \$4.86 $\frac{2}{3}$ to the pound.
- (c) French Currency—at approximately 15 francs to the dollar for the original investment in Hotel Scribe and 359 francs to the dollar for working capital accounts.

Dollar amounts stated in this report are to the nearest thousand.

Yours faithfully,

GEORGE A. TOUCHE & CO.

GEORGE A. TOUCHE & CO.
CHARTERED ACCOUNTANTS
Cristine Building
410 St. Nicholas Street
Montreal 1

7TH MARCH, 1955.

CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS, LIMITED

The Honourable the Minister of Transport,
Ottawa, Canada.

Sir,

We have audited the accounts of the Canadian National (West Indies) Steamships, Limited for the year ended 31st December, 1954, and we now report, through you, to Parliament.

Our examination of the accounts was made in accordance with generally accepted auditing standards, and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. In this connection we worked in collaboration with the executive accounting officers having as a common objective the securing of maximum

internal protection to the Steamships in the control of cash receipts and expenditures, securities held, material stores and accounts receivable of all types. The Company is further protected by fidelity bond insurance carried with outside underwriters.

Our audit of the accounts included the verification of the balance sheet and the income and profit and loss accounts and certification thereof.

INCOME ACCOUNT

Provision for depreciation was made during the year on the following bases:

- (a) The three diesel powered and refrigerated vessels—5%
- (b) The five non-refrigated vessels—3%

We have received a certificate from the responsible officers that all equipment has been maintained in a proper state of repair and in an efficient operating condition during the year.

BALANCE SHEET

Assets

Investment in vessels is carried on the general basis of cost less accrued depreciation.

The Vessel Replacement and Insurance Funds are composed of investments in the securities of the Government of Canada, the Canadian National Railways (Guaranteed by the Government of Canada), the Province of Ontario and securities guaranteed by the Province of Ontario together with cash and sundry current assets. The year-end market value of these securities was slightly in excess of cost.

The Vessel Replacement Fund increased by \$269,000 during the year as a result of depreciation accruals charged to income account.

The Insurance Fund increased during the year by \$177,000. The insurance risks on all vessels are carried in the fund.

Accounts receivable and payable of all classifications have been tested by us with the subsidiary and controlling records, cash and other transactions subsequent to the year end, departmental files and general supporting information but such accounts have not been verified by direct communication with the individual debtors and creditors.

Discount on capital stocks represents the amount set up at the time of incorporation equal to the par value of the shares issued in consideration of the guarantee by the Government of Canada of the Steamships' bonds.

Liabilities

On 1st March, 1955, the Company's outstanding bond issue of \$9,400,000 was redeemed through funds provided by the Vessel Replacement Fund and the Government of Canada.

Capital Structure

Under date, 10th December, 1954, supplementary letters patent were obtained increasing the authorized capital of the Company from \$40,000 to \$1,640,000 by the creation of an additional 16,000 shares of a par value of \$100 each.

Where foreign currencies are involved, the balance sheet accounts of the Steamships are converted generally as follows:—

- (a) United States Currency—at the dollar par of exchange.
- (b) Other Foreign Currencies—at the current rates.

Dollar amounts stated in this report are to the nearest thousand.

Yours faithfully,

GEORGE A. TOUCHE & CO.

The CHAIRMAN: I think before we call on Mr. Turville, we should take this opportunity to thank Mr. Gordon and the officers of his department for coming here the last three days and giving us the benefit of their knowledge of the workings of the Canadian National Railways and the Canadian National West Indies Steamships. We hope that they will be able to come back with us again next year and will have a better report than that which has been submitted to us. We wish to thank you very much.

Mr. GORDON: Thank you. It is always a pleasure for me to come here and make a full disclosure of all appropriate details in connection with the Canadian National Railways.

The CHAIRMAN: Are there any questions to be asked of Mr. Turville in connection with the auditor's report, first of the Canadian National Railway system?

Mr. MACDONNELL (*Greenwood*): Is there anything which Mr. Turville wishes to say to us?

Mr. TURVILLE: I think that the body of the report is sufficiently full, and that there is nothing which I want to draw to your attention specifically, nothing that is not in this report.

The CHAIRMAN: Shall the auditor's report of the Canadian National Railway system carry?

Mr. MACDONNELL (*Greenwood*): Perhaps the auditor might say a word about currency which is referred to in the last paragraph of the report, where it says:

- (a) United States currency—at the dollar par of exchange.
- (b) Sterling currency—at the former par of \$4.86 $\frac{2}{3}$ to the pound.
- (c) French currency—at approximately 15 francs to the dollar for the original investment in Hotel Scribe and 359 francs to the dollar for working capital accounts.

I suppose that is just maintaining the situation which existed when the securities were issued?

Mr. TURVILLE: Exactly, that is true.

Mr. MACDONNELL (*Greenwood*): Might I ask about the sterling which is put in at the original par of \$4.86 $\frac{2}{3}$ to the pound. I am interested in that, and also in the French currency which is put in at approximately 15 francs to the dollar. I am also interested in that. Could you explain the use of the two figures?

Mr. TURVILLE: I would say this about the sterling valuation: I think that the committee should realize that the fact that \$4.86 $\frac{2}{3}$ is used instead of the current rates is not significant in the accounts of the Canadian National Railways. The net current assets representing mainly the London office sterling

balances, only amount to \$109,000. The balances which would be affected by any change in the conversion rate amount to less than .018% of the total assets of the system.

Hon. Mr. MARLER: Less than 2/100 per cent.

Mr. TURVILLE: And the percentage on the French valuation of 15 francs to the dollar is the valuation at the time the Hotel Scribe was built, and represents the capital investment in the hotel itself. The current assets are stated at 359 francs to the dollar which is approximately the current rate.

The CHAIRMAN: Shall the auditor's report carry?

Carried.

Then the auditor's report of the Canadian National West Indies Steamships, Limited. Are there any questions on that audit?

Mr. MACDONNELL (*Greenwood*): The only thing which occurs to me is how those figures are arrived at?

Hon. Mr. MARLER: That is on page 5 of the audit?

Mr. MACDONNELL (*Greenwood*): Can we be informed if there is any special information as to how that 3 per cent was arrived at, and also the 5 per cent?

Mr. TURVILLE: It is taking into account what is considered to be the useful life of these ships. It is 5 per cent per annum on the diesel vessels, and 3 per cent on the others. If my memory is correct, the diesel ships will be fully depreciated in 12 years, while the dry-cargo ships will be fully depreciated in 11 years.

Mr. MACDONNELL (*Greenwood*): You use 5 per cent and 3 per cent? The 5 per cent depreciates them in how many years?

Mr. TURVILLE: In 12 years from now. So they ought to be in useful service for 12 years. In other words, it will take twelve years to fully write them off.

Mr. MACDONNELL (*Greenwood*): How old are they now? In any event, in one case, you assume a life of 20 years, and in the other case you assume a life of about 33 years or something like that?

Mr. TURVILLE: I cannot tell you, but if it interests you, the diesel ships are 40 per cent depreciated, and the non-refrigerated vessels are 66 per cent depreciated.

The CHAIRMAN: Shall the auditor's report of the Canadian National West Indies Steamships, Limited, carry?

Carried.

We must deal with the four votes of the Department of Transport. They are to be dealt with by the minister. And I would ask Mr. Baldwin, the deputy minister, to come forward.

I wish to thank Mr. Turville and his associates who have come here today and explained the auditor's report both on behalf of the Canadian National Railway system and on behalf of the Canadian National West Indies Steamships Limited.

Mr. TURVILLE: Thank you very much, but I must say that I do not think I have earned my fee.

Mr. CHAIRMAN: Now then, we must refer to the four items of the estimates. The first item is No. 469 in the Department of Transport estimates.

469. Prince Edward Island Car Ferry and Terminals—To provide for the payment during the fiscal year 1955-56 to the Canadian National Railway Company (hereinafter called the National Company) upon applications approved by the Minister of Transport made from time to

time by the National Company to the Minister of Finance and to be applied by the National Company in payment of the deficit (certified by the auditors of the National Company) in the operation of the Prince Edward Island Car Ferry and Terminals arising in the calendar year 1955, \$1,553,000.

Mr. FOLLWELL: That is too much.

The CHAIRMAN: Shall the item carry?

Mr. MACDONNELL (*Greenwood*): We have discussed much smaller deficits in connection with the West Indies Steamships Limited, and I wonder if we might learn a little more about this \$1½ million and what is expected in the way of reducing it.

Hon. Mr. MARLER: The result of the 1954-55 shows that we had an operating revenue of \$527,993, whereas operating expenditures amounted to \$2,024,078, making a net loss of \$1,496,085. And to that we have to add interest on the capital expenditure provided by the Canadian National Railways at \$18,123; so that the deficit which we expect for the current year is \$1,514,208.

We anticipate that there will be a decrease in operating expenses mainly due to a reduction in the estimated requirements for equipment, repairs, and maintenance to the extent of \$25,000.

There will be an estimated reduction in operating revenue of \$20,000, so that we expect a net decrease in the estimated deficit in 1955 of \$5,000.

Last year, some hon. members may perhaps remember, that deficit provided for \$1,558,000 so that the provision this year is for \$5,000 less than last year.

Mr. MACDONNELL (*Greenwood*): It seems to me like an awful lot of money. It cost us \$2 million to run one vessel for a year. Can we have a breakdown of that expense?

Hon. Mr. MARLER: Yes, I think we can give that, sir. I have talked about revenues already. As I said a moment ago, we expect to have operating revenues for the coming year of \$502,000 and the estimated expenses for operations for 1955, the coming year, maintenance of way and structures \$152,000.

Mr. MACDONNELL (*Greenwood*): This is a ship we are talking about?

Hon. Mr. MARLER: Prince Edward Island Car Ferry and terminals.

Mr. MACDONNELL (*Greenwood*): \$152,000 is for what?

Hon. Mr. MARLER: Maintenance of way and structures. Then maintenance of equipment, \$314,500. The next item is transportation, \$1,456,000.

Mr. MACDONNELL (*Greenwood*): What does "transportation" mean?

Hon. Mr. MARLER: These are the operating costs of the vessels and of the terminals.

Mr. MACDONNELL (*Greenwood*): How many employees are there?

Hon. Mr. MARLER: Perhaps I might give you the other figures first. Miscellaneous operating expenses, \$98,900. General, \$23,492. This makes a total for the operating expenses of \$2,044,892.

Mr. MACDONNELL (*Greenwood*): Who operates this?

Hon. Mr. MARLER: This is operated by the Canadian National Railways.

Mr. FOLLWELL: Could I ask the minister a question regarding this? Like some other members, I do not know much about this, but it does seem like a good deal of money. Could you give us the background of how long this ferry has been running and if there are any agreements that the ferry should continue to run, with the Maritime provinces?

The CHAIRMAN: I think, Mr. Follwell, it is the only connection with the mainland which the people of Prince Edward Island have.

Mr. MACDONNELL (*Greenwood*): The ferry is practically a legend in the House of Commons, as we all know. It has been discussed for years. I am sure it is a fine ferry but, Mr. Chairman, I am frankly staggered at the cost. I have nothing much to compare it with, but I think that the one figure you gave for operating was \$1,456,000. Did you call that "operating"?

Hon. Mr. MARLER: That comes under the heading of "Transportation". That covers the employees on the ferries and the employees on the terminals.

Mr. MACDONNELL (*Greenwood*): How many are there?

Hon. Mr. MARLER: I understand that there are two ferries and there is a third vessel as a standby in the summer months.

Mr. MACDONNELL (*Greenwood*): May we have the number of employees?

Hon. Mr. MARLER: Unfortunately, I find that we have not the information as to the employees, because that is a matter for the C.N.R. I will be glad to supply the information to the committee, but unfortunately neither the officials of my department nor, as I understand it, the officials of the railway company have the information available at this moment.

Mr. CHURCHILL: What is the relation of the C.N.R. to this?

Hon. Mr. MARLER: The C.N.R. operate this for the account of the government.

Mr. BELL: Mr. Marler, you mentioned a decrease in the deficit of \$5,000.

Hon. Mr. MARLER: No, I said there would be a decrease of \$5,000 in the provision in the budget this year in contrast to the budget of last year.

Mr. BELL: Would you say briefly how this is going to be saved?

Hon. Mr. MARLER: I gave the figures a moment ago.

Mr. BELL: Could you tell us whether it is going to be saved by an increase in automobile carriage or something like that?

Hon. Mr. MARLER: We expect a reduction in operating expenses of \$25,000, explained by a reduction in the estimated requirements for equipment and repairs. That is \$25,000 less expenditures, but we expect to have a reduction in operating revenues of \$20,000. So that means a decrease in the deficit of \$5,000. I might say, Mr. Chairman, that I am anticipating Mr. Macdonnell's question that the operation of this ferry service is part of the terms of Confederation with Prince Edward Island.

Mr. MACDONNELL (*Greenwood*): That does not relieve us of the responsibility of making it economic. If we could have the number of employees, that seems to me such a relevant figure that I would suggest that this stand over if we cannot get that.

Hon. Mr. MARLER: I am quite agreeable to letting the item stand, and I shall try to get the information in the morning as to the number of employees. I would like to point out to the committee that the number is not constant, but fluctuates, as was evidenced perhaps when I said earlier that there is a vessel which is used as a standby in the summer months.

Mr. MACDONNELL (*Greenwood*): I am ready to be de-shocked, but at the moment I must say that I am shocked by the expense and I hope you will give us full particulars.

Hon. Mr. MARLER: All I can say is that I am no more anxious to spend this amount of money than you are, but I find that that is one of the expenditures to which we are committed and over which we have very little choice. I see that in 1949-50 the expenditures then amounted to \$1,040,000 and they have been going up constantly since, although there has been a decrease since 1953-54.

Mr. MACDONNELL (*Greenwood*): Mr. Gordon is going to knock off an additional \$32 million. So we might at least hope that this is not going to go up steadily.

The CHAIRMAN: Shall this item stand pending the provision of further information?

Agreed.

Item 473.

473. To provide for the payment during the fiscal year 1955-56 to the Canadian National Railway Company (hereinafter called the National Company) upon applications approved by the Minister of Transport made from time to time by the National Company to the Minister of Finance and to be applied by the National Company in the payment of the deficit (certified by the auditors of the National Company) in the operation of the North Sydney, Nova Scotia—Port aux Basques, Newfoundland, Ferry and Terminals arising in the calendar year 1955, \$2,350,000.

Mr. FOLLWELL: Do you have to subsidize all the Maritimes?

Hon. Mr. MARLER: This service is operated under the terms of the railways. Last year the vote was \$2,600,000, and in the budget we are speaking of now it is \$2,350,000.

Mr. MACDONNELL (*Greenwood*): That is deficit.

Hon. Mr. MARLER: That is a deficit. We anticipate operating revenues for the coming year of \$1,400,000 and operating expenses including floating equipment of \$3,750,000. The difference between these two amounts is \$2,350,000.

Mr. MACDONNELL (*Greenwood*): May we have a breakdown there? Is this one ship?

Hon. Mr. MARLER: No.

The CHAIRMAN: There is the *Burgeo* and others.

Mr. CARTER: The *Cabot Strait*, *Burgeo* and *Baccalieu*.

Hon. Mr. MARLER: The *William Carson* in the coming year.

Mr. CARTER: There are chartered vessels too. I think it might include perhaps the *Random* and the *Brigus*, two large ships.

Hon. Mr. MARLER: I am not aware of any intention to charter vessels in the coming season.

Do I understand, Mr. Macdonnell, that you would like to have the breakdown of the operating expenses?

Mr. MACDONNELL (*Greenwood*): Yes.

Mr. BELL: Have these items always been in the estimates that way?

Hon. Mr. MARLER: Yes.

Mr. BELL: Can you explain why these deficits are not shown through the C.N.R. as such?

Hon. Mr. MARLER: They are not C.N.R. operations strictly speaking.

Mr. LANGLOIS (*Gaspé*): C.N.R. is an agent for this.

Mr. MACDONNELL (*Greenwood*): May the item stand.

Hon. Mr. MARLER: Operating expenses of way and structures \$50,000; maintenance of equipment \$225,000; an item of transportation \$3,475,000. That makes a total of \$3,750,000.

Mr. MACDONNELL (*Greenwood*): I will be grateful if you will let that item stand so that we may have the breakdown.

The CHAIRMAN: The next item is vote 478 "Maritime Freight Rates Act". Are there any questions on this item?

478. Maritime Freight Rates Act—For the payment to the Railway Companies operating in the select territory designated by the Act, during the fiscal year 1955-56, of the difference occurring on account of the application of the Act, between the tariff tolls and normal tolls under approved tariffs (estimated and certified to the Minister of Transport by the Canadian National Railway Company and approved by Auditors of the said Company respecting the Eastern Lines of the Canadian National Railways, and in the case of the Other Railways by the Board of Transport Commissioners for Canada) on all traffic moved during the calendar year 1955 (Chap. 174, R.S.), \$10,575,000.

Mr. MACDONNELL (*Greenwood*): Would the minister give us the detail on that item also? Is that statutory and fixed in the statutes?

Mr. LANGLOIS (*Gaspé*): Yes.

Mr. MACDONNELL (*Greenwood*): It is a statutory amount?

Hon. Mr. MARLER: That is my understanding.

The CHAIRMAN: Shall the item carry?

Carried.

Vote 479 "Canadian National (West Indies) Steamships, Limited" deficit, 1955, \$288,500.

479. Canadian National (West Indies) Steamships, Limited—To provide for the payment from time to time to the Canadian National (West Indies) Steamships, Limited (hereinafter called "The Company") of the amount of the deficit occurring during the year ending December 31st, 1953, in the operations of the Company and the vessels under the control of the Company, as certified by the Auditors of the Company, and upon applications made by the Company to the Minister of Finance and approved by the Minister of Transport, not exceeding, \$288,500.

Hon. Mr. MARLER: That is the item we have already discussed.

The CHAIRMAN: Shall that item carry?

Carried.

Shall I report these items to the House subject to the information being given by the minister?

Mr. MACDONNELL (*Greenwood*): It is understood that they stand.

The CHAIRMAN: Now, if you will permit me for a moment I would like to ask the minister to say a word or two. We may be able to clear up some of the items which were suggested to stand.

Hon. Mr. MARLER: It was pointed out to me that last year when the committee considered these two votes the explanations were given by Mr. Donald Gordon of the Canadian National Railways, which is entrusted with the management of these two ferry services. So if Mr. Gordon could be recalled, I think he could probably answer most of the questions which members of the committee might care to put to him with regard to the operation of these two ferries which, as I say, are managed by the Canadian National and not by the Department of Transport.

Mr. MACDONNELL (*Greenwood*): I would welcome it very much, if Mr. Gordon would do that.

The CHAIRMAN: Mr. Gordon will please come forward.

Mr. MACDONNELL (*Greenwood*): Could Mr. Gordon give us an idea of the scope of operation? Can we feel that it has the Canadian National management behind it, and that it is a Canadian National company operation that is involved?

Mr. GORDON: I did not follow the early discussion I am sorry to say, but I think I can produce what the general question requires as I understand it.

The operation of the ferry between the mainland and Prince Edward Island originated really as a condition of Confederation. The general theory was that Prince Edward Island would be treated for rail purposes as if there was a bridge between the mainland and the island. The same condition was made in regard to Newfoundland. Mr. Carter, I am sure, will remember that before I became president of the Canadian National Railways, the question of freight rates arose in Newfoundland. A freight rate was established which was disputed on that very basis.

We had originally, quite honestly, quoted a freight rate allowing for the additional cost affecting the transportation from the mainland to Newfoundland, and the extra handling involved. But that rate was appealed to the Board of Transport Commissioners, and the result was that the mileage between Newfoundland and the mainland was considered as railway mileage, just as if it was on dry land, for the purpose of freight rates. That being the case, therefore the operation of both ferries is conducted by the Canadian National Railways on behalf of the government. It is entirely a Canadian National Railway operation since we took hold of it, and the situation is the same with the ferry at Prince Edward Island. We estimate the charge for the ferry which will come into service at Newfoundland, and in the accounts there is shown to our credit the value of the operation with the revenues which we attribute to the mileage as if it were railway. We debit the operation with our out-of-pocket costs, and the difference is the amount that you are asked to vote here. That is the subsidy for the ferry operation. We give to the operation as such credit for the actual traffic that goes over it from a railway point of view just as if it were a bridge, and as if the portion between the mainland and the island were part of the railway. We credit that with the amount the traffic earned by accounting formula and as I said before, we debit it with our out of pocket costs of operation, which is the amount you are asked to vote.

Mr. MACDONNELL (*Greenwood*): That makes it perfectly clear. May we take it that the operation has the benefit of the ordinary Canadian National management, and that it is treated entirely as if it were your own?

Mr. GORDON: That is true. We operate it as if we were the owners. We manage and operate it entirely as part of the Canadian National Railway operation and we charge merely enough to cover our costs on the basis that I explained. It is just direct out of pocket costs. We charge nothing for our overhead, just the actual amount over and above what would be a railway operation.

Mr. CHURCHILL: Do you provide transportation services to meet the need, or is there any desire for increased transportation services?

Mr. GORDON: We run a regular ferry service, but at peak loads we are constantly in difficulty about maintaining enough service to take care of the traffic. Generally speaking, we do pretty well. The facilities made available do meet the traffic requirements.

Mr. MACDONNELL (*Greenwood*): I should like to thank Mr. Gordon. It seems to me that that covers the situation.

The CHAIRMAN: Does that cover both those votes to your satisfaction? Then may I be permitted to present these four items to the House?

Carried.

NOTE: At this stage of the proceedings, the Committee agreed to call Mr. McGregor, President of Trans-Canada Air Lines, allow him to read his Annual Report and to defer his examination until Friday, April 1st. (See No. 4.)

APPENDIX A

Return to question of Mr. Hamilton (Notre Dame de Grâce).

C.N.R.—Mail Revenue

1953 Revenue	\$8,732,737
1954 Revenue	8,699,860
	<hr/>
Decrease	\$ 32,877
	<hr/>

Decrease in Volume:

On Canadian Lines	\$193,000
On U.S.A. Lines	115,773
	<hr/>
	\$ 308,773

Increase in Rates:

Canadian Lines—

Jan. 1/53 and April 1/53 .. \$ 97,000

U.S.A. Lines—

March 1/54

(Retroactive to Oct. 1/53) 178,896

	<hr/>	275,896
	<hr/>	\$ 32,877
	<hr/>	

APPENDIX B

Return to question of Mr. Hamilton (Notre Dame de Grâce).

Revenue for C.N.R. Dining & Buffet Service

Revenues:

1954	\$ 3,848,904
1953	3,651,820
	<hr/>
Increase	\$ 197,084
	<hr/>

Reconciliation:

Increased revenues from sale of meals	\$ 83,856
Increased revenues from sale of refreshments and lunches sold in coaches, etc.	\$ 113,228
	<hr/>
Net Increase	\$ 197,084
	<hr/>

APPENDIX C

LINES ABANDONED

1927-1954

Province or State	Track Miles Abandoned in Period						Total
	1927-29	1930-34	1935-39	1940-44	1945-49	1950-54	
Prince Edward Island.....						1-49	1-49
Nova Scotia.....		3-68	7-54				11-22
New Brunswick.....				28-59		2-79	31-38
Quebec.....	27-56	84-78	60-59	24-63	33-48		231-04
Ontario.....	44-37	98-04	178-81	77-03	28-49	73-04	499-78
Manitoba.....				5-45			5-45
Saskatchewan.....	10-31					21-69	32-00
Alberta.....	28-76	2-08	38-04	5-06	21-70	33-12	128-76
British Columbia.....			15-71				15-71
Canadian Lines.....	111-00	188-58	300-69	140-76	83-67	132-13	956-83
Vermont.....		35-35	29-62			2-73	67-70
Michigan.....				0-92	49-08	18-26	68-26
U.S. Lines.....		35-35	29-62	0-92	49-08	20-99	135-96
SYSTEM.....	111-00	223-93	330-31	141-68	132-75	153-12	1092-79

APPENDIX D

LINES ABANDONED SINCE 1927 TO DECEMBER 31, 1954

Province or State	Subdivision	From	To	Track Miles	Bd. Authority Given
P.E.I.....	Murray Harbour...	Charlottetown.....	Southport.....	1-49	1951
N.S.....	Milton Br.....	Milton Jct.....	Rapid Falls.....	3-68	1932
	Middleton.....	Bridgetown.....	Granville Gen.....	7-54	1935
N.B.....	St. Martins.....	Hampton.....	St. Martins.....	28-59	1940
	Caraquet.....	Tracadie.....	Sheila.....	2-79	1952
Que.....	Deschaillons.....	Lyster.....	Villeroy.....	11-39	1927
	Grand Mere.....	Allenby.....	Cap Rouge.....	5-07	1928
	" "	Grand Mere.....	M. 91. 38.....	7-51	1928
	Shawinigan.....	Aldred.....	Shawinigan Falls.....	3-59	1929
	Morency Br.....	Morency Jct.....	Mont Mills.....	6-22	1931
	Deschaillons.....	Parisville.....	Deschaillons.....	3-79	1931
	Noyan.....	Noyan.....	St. Hyacinthe.....	47-52	1931
	Sorel.....	Fortierville.....	St. Gregoire.....	27-25	1934
	Stoneham Br.....	Lorretteville.....	Stoneham.....	9-95	1935
	Versailles.....	S.S. & C. Jct.....	Farnham.....	10-87	1936
	La Tuque.....	Dombourg.....	St. Marc.....	22-25	1938
	Frelighsburg.....	Farnham.....	Frelighsburg.....	17-52	1939
	Lachute.....	Carbo.....	Cushing Jct.....	24-63	1940
	St. Lin.....	Joliette.....	Montfort Jct.....	33-48	1945
	Ont.....	Bethany.....	Millbrook.....	Omeme.....	14-62	1927
Sellwood.....		Milnet.....	Sellwood.....	4-50	1927
Sutton.....		Stouffville.....	Zephyr.....	16-15	1928
North Lake.....		Mackies.....	Sand Lake.....	9-10	1929
" "		Twin City.....	Mackies.....	33-66	1938
Wyebridge.....		Birch.....	Tay.....	8-21	1930
Kashabowie.....		Fort William.....	Neebing.....	1-93	1931
Deseronto.....		Deseronto.....	Trenton.....	24-58	1931
" "		Trenton.....	Brighton.....	7-75	1932
Hagersville.....		Jarvis.....	Port Dover.....	8-76	1931
N.St.C. & T.Ry..		Port Weller.....	Nia.-on-the-Lake.....	7-33	1931
" "		Shriners.....	Stamford.....	4-86	1947
" "		Niagara Falls and.....	District Lines.....	5-56	1947
" "		St. Catharines.....	End of Track.....		
" "		Geneva St.....	Queenston St.....	1-61	1947
" "		St. Catharines and.....	District Lines.....	3-30	1950
" "		Pt. Dalhousie.....	M. 1. 35.....	1-35	1950
Alvinston.....		Souterville.....	Kingscourt.....	3-08	1931
" "		Alvinston.....	Souterville.....	6-77	1937
Otterville.....		Simcoe Jct.....	Otterville.....	14-01	1932
" "		Hickson.....	Tavistock.....	6-31	1932
" "		Burgessville.....	Woodstock.....	9-17	1935
Harrisburg.....		St. George.....	Paris Jct.....	5-43	1932
Renfrew.....		Two Rivers.....	Cache Lake.....	4-46	1933
" "		Whitney.....	Two Rivers.....	16-46	1946

Province or State	Subdivision	From	To	Track Miles	Bd. Authority Given	
Ont. (cont'd)	Marmora.....	Marmora M.3.33.....	Cordova.....	6-19	1934	
	".....	M.2.75.....	M.3.33.....	0-58	1950	
	Tweed.....	Tweed.....	Bannockburn.....	18-56	1935	
	".....	Yarker.....	Tweed.....	33-94	1941	
	Orono.....	Ronnac.....	Greenburn.....	32-44	1936	
	Port Perry.....	Port Perry.....	Manilla Jct.....	13-00	1936	
	".....	Whitby.....	Port Perry.....	17-45	1941	
	Alliston.....	Allimil.....	Beeton.....	1-32	1936	
	Clarence Crk.....	Clarence Crk.....	Rockland.....	5-10	1936	
	Algonquin.....	James Bay Jct.....	Falding.....	2-86	1938	
	L'Original.....	Hawkesbury.....	Hurdman.....	55-93	1939	
	Oshawa Rly.....	Subway.....	Ross' Corners.....	2-71	1940	
	Exeter.....	Clinton Jct.....	Wingham Jct.....	22-93	1941	
	Lakefield.....	Port Hope.....	Millbrook.....	17-97	1951	
	Westport.....	Lyn Jct.....	Westport.....	40-14	1952	
	Renfrew.....	Chaudiere Jct. (Ottawa)	Nepean.....	9-70	1952	
Manitoba.....	Delta.....	Oakland.....	Delta.....	5-45	1941	
Sask.....	Saskatoon Tmls.....	Yorath.....	Govel.....	1-72	1927	
	Craven Br.....	Craven Jct.....	Craven.....	4-25	1928	
	Craik.....	Grasswood.....	Nutana.....	4-34	1929	
	Lampman.....	Blewett.....	Goodwater.....	21-69	1952	
Alberta.....	Brule.....	Obed.....	Solomon.....	17-47	1927	
	Sheerness.....	Wardlow.....	Stevenville.....	3-80	1929	
	Strathcona.....	Bretona.....	Terminal Jct.....	7-49	1929	
	Cardiff.....	Cardiff Jct.....	Cardiff.....	2-08	1930	
	Lovett.....	Foothills.....	Lovett.....	5-94	1935	
	Lac. St. Anne.....	Peace Riv. Jct.....	Darson Jct.....	32-10	1936	
	Red Deer.....	Red Deer Jct.....	Red Deer.....	5-06	1941	
	Athabaska.....	St. Albert.....	Morinville.....	12-21	1947	
	Endiang.....	Nevis.....	Alix.....	9-49	1948	
	Spondin.....	Spondin.....	Hemaruka.....	23-92	1950	
	Edmonton Tmls.....	Edmonton.....	South Edmonton.....	9-20	1954	
	B.C.....	Patricia Bay.....	Patricia Bay Jct.....	Patricia Bay.....	14-04	1935
		".....	Sydney Jct.....	Sydney.....	1-67	1935
Vt.....	South Londonderry.....	Brattleboro.....	South Londonderry.....	35-35	1930	
	(Turned over to Brattleboro & Whitehall RR)	Essex Jct.....	Whitehall RR.....			
	Cambridge.....	Essex Jct.....	Cambridge Jct.....	25-75	1938	
	Williamstown.....	South Barre.....	Williamstown.....	3-87	1939	
	Barre.....	Barre.....	South Barre.....	2-73	1950	
Mich.....	Saginaw.....	Bay City West.....	Bay City E.....	0-92	1941	
	Muskegon.....	Greenville.....	Simpson.....	49-08	1946	
	Cass City.....	Cass City.....	Bad Axe.....	18-26	1951	

APPENDIX E

Return to a Question of Mr. Carter

CANADIAN NATIONAL RAILWAYS

APRIL 14, 1955.

You will recall that during the recent meetings with the Sessional Committee on Railways and Shipping, you complained about the Company's ticketing and other passenger facilities at Gander and Grand Falls, Nfld., and in particular the ticketing of T.C.A. passengers when Torbay Airport is closed in.

Our procedure on being notified by T.C.A. is to have two members of our staff proceed to the T.C.A. terminal office at Gander to ticket the passengers and check their baggage there. The information we have is that these tickets are handled on exchange orders, no cash being involved. On some occasions, particularly Saturday nights, local ticket sales are heavy and on that account arrangements are made for an extra ticket seller to be on duty. However, our agent is unaware of there having been any difficulty with regard to having inadequate change when travellers pay for their tickets.

In Mr. Gordon's absence, I thought you would like to have this report.

Sincerely yours,

D. I. GRANT,
Executive Assistant.

APPENDIX F

CANADIAN NATIONAL RAILWAYS

APRIL 14, 1955.

You will recall raising a question during the recent meetings in Ottawa about the flood gates in the Port Mann area. Mr. Gordon had the matter investigated and in his absence I am sending you the following information.

There are three flood gates along the railway right-of-way between the Patullo Bridge and Port Mann which have been in place since about 1922. They are under the jurisdiction of the South Westminster Diking Commission and any alterations or extensions to works to prevent flooding in that area should be referred to the above-named Commission.

Sincerely yours,

D. I. GRANT,
Executive Assistant.

RAIL

Grand

MENTE

Time Co

M.G.M.
M.P.P.

HOUSE OF COMMONS

Second Session—Twenty-second Parliament
1955

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

Chairman: HARRY P. CAVERS, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 4

(Final)

THURSDAY, MARCH 31, 1955

FRIDAY, APRIL 1, 1955

Trans-Canada Air Lines' Report (1954) and Budget (1955).
Auditors' Report to Parliament.

WITNESSES:

Mr. G. R. McGregor, President, Trans-Canada Air Lines.

Mr. F. P. Turville, of George A. Touche & Co., Chartered Accountants.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1955.

SESSIONAL COMMITTEE
ON
RAILWAYS AND SHIPPING

Owned, operated and controlled by the Government

Chairman: H. P. Cavers, Esq.

Vice-Chairman: A. Dumas, Esq.

and Messers.

Bell
Carrick
Carter
Churchill
Fairey
Follwell
Fulton
Gillis
Hahn

Hamilton (*York West*)
Hamilton (*Notre-Dame de
Grace*)
Hanna
Harrison
Healy
James
Johnston (*Bow River*)
Knight

Langlois (*Gaspé*)
de Lavigne
Légaré
McCulloch (*Pictou*)
Murphy (*Westmorland*)
Pouliot
Weaver—26.

Antonio Plouffe,
Clerk of the Committee.

ORDERS OF REFERENCE

MONDAY, March 28, 1955.

Resolved,—That a Sessional Committee on Railways and Shipping owned, operated and controlled by the Government, be appointed to consider the accounts and estimates and bills relating thereto of the Canadian National Railways, the Canadian National (West Indies) Steamships, and Trans-Canada Air Lines, saving always the powers of the Committee of Supply in relation to the voting of public moneys; and that the said committee be empowered to send for persons, papers and records and to report from time to time and that, notwithstanding Standing Order 65 in relation to the limitation of the number of members, the said Committee consist of Messrs: Bell, Carrick, Carter, Cavers, Churchill, Dumas, Fairey, Follwell, Fulton, Gillis, Hahn, Hamilton (*Notre-Dame-de-Grace*), Hanna, Harrison, Healy, James, Johnston (*Bow River*), Knight, Langlois (*Gaspe*), Lavigne, Legare, Macdonnell (*Greenwood*), McCulloch (*Pictou*), Murphy (*Westmorland*), Pouliot, Weaver.

MONDAY, March 28, 1955.

Ordered,—That the annual reports for the year 1954 of the Canadian National Railways, the Canadian National (West Indies) Steamships Limited, the Auditors' Report to Parliament in respect of the Canadian National Railways and Canadian National (West Indies) Steamships Limited, tabled on March 21, and the report for the year 1954 of the Canadian National Railways Securities Trust and the Budget for the year 1954 of the Canadian National Railways and Canadian National (West Indies) Steamships Limited, tabled this day, be referred to the Sessional Committee on Railways and Shipping owned, operated and controlled by the Government, together with the following items of estimates for 1955-56:

Vote No. 469 Prince Edward Island Car Ferry and Terminals deficit, 1955.

Vote No. 473 North Sydney-Port Aux Basques Ferry and Terminals deficit, 1955.

Vote No. 478 Maritime Freight Rates Act.

Vote No. 479 Canadian National (West Indies) Steamships Limited deficit, 1955.

And that the Resolution passed by the House on February 4, 1955, referring certain estimates to the Committee of Supply be rescinded so far as the said resolution relates to Votes 469, 473, 478 and 479.

TUESDAY, March 29, 1955.

Ordered,—That the said Committee be empowered to print from day to day 1000 copies in English and 250 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 be given permission to sit while the House is sitting.

Ordered,—That the quorum of the said Committee be reduced from fourteen to ten members.

THURSDAY, March 31, 1955.

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

Attest.

Leon J. Raymond,
Clerk of the House.

REPORT TO THE HOUSE

MONDAY, April 1, 1955.

Mr. Cavers, from the Sessional Committee on Railways and Shipping, presented the Third and Final Report of the said Committee, which is as follows:

Pursuant to the Orders of Reference of the House of Commons of March 28 and 29, 1955, this Committee had before it for consideration the following:—

1. The Annual Reports of the Canadian National Railways, the Canadian National (West Indies) Steamships Limited 1954 and the Auditors' Report to Parliament in respect thereto.

2. The Annual Report of the Trans-Canada Air Lines for the calendar year 1954 and the Auditors' Report of Parliament in respect thereto.

3. The Annual Report of the Canadian National Railways Securities Trust for 1954.

4. The Capital Budgets of the Canadian National Railways, the Canadian National (West Indies) Steamships Limited for the year ending 1955, and the operating budget and capital budget of the Trans-Canada Air Lines for the calendar year 1955.

Your Committee held 11 meetings during which the above-mentioned reports and budgets and certain matters related thereto were considered and evidence advanced thereon.

The Annual Report of the Canadian National Railways for 1954 discloses a net operating revenue of \$14,171,906 after deducting taxes, equipment rents of \$11,720,611 and interest charges of \$31,209,393, bringing about a deficit of \$28,758,098 a part of which was due to the slow movement of grain. The deficit could have been substantially reduced by the deferment of the decision to proceed with the track-laying program; by accelerating the rate of lay-offs due to decrease in business as was done in the case of its competitors, but management felt it was in the best interests of the company to carry out their track-laying program as scheduled and to defer lay-offs until September, 1954, as well as to provide continued adequate service on all existing lines. The said Annual Report was adopted.

Your Committee showed interest in the progress on the erection of the new Queen Elizabeth Hotel. Plans for management of the hotel by Hilton of Canada Limited, the Canadian subsidiary of Hilton Hotels Corporation, were discussed. It was stated that this large hotel management organization could provide Canadian National Railways with unusual and special knowledge and a contact with large conventions which would prove valuable and encourage a continuous high degree of occupancy. It is hoped that the benefit of this type of association will make possible a greater margin of profit for the hotel than would be otherwise possible.

The modern ice-breaking ferry "William Carson" being constructed on federal government account for service between Port Aux Basques and North Sydney was delayed. It seems that this vessel will be turned over for operation to the Canadian National in mid-1955. The ferry to be operated for the federal government between Yarmouth, N.S. and Bar Harbour, Me. is expected to be ready in the summer of 1955. Terminals are being built at both ports and are expected to be completed before the vessel is in operation.

The Canso Causeway development is well advanced and rail facilities will be ready for traffic when vehicles can proceed over this causeway about May 15, 1955.

The Canadian National disposed of four of its hotels, namely the Prince Arthur in Port Arthur, Ontario; the Prince Edward in Brandon, Manitoba; Pictou Lodge in Nova Scotia, and Minaki Lodge in Ontario, because they had ceased to provide adequate revenues and were making little contribution to the traffic of the Railway. The hotels were sold to the purchaser who made the most advantageous offer.

The Annual Report of Canadian National (West Indies) Steamships Limited, for 1954, discloses a much improved picture over last year. The operating revenues showed an increase from \$4,509,342 in 1953 to \$5,105,082 in 1954 with an increase in operating expenses to \$5,424,983 but providing a decrease in the operating loss to \$319,901 as compared with \$822,446 in 1953.

The Committee was informed that the results of the company would be kept under review so as to arrive at a decision as to the advisability of continuing the operations. The said Annual Report was adopted.

The Annual Report of Trans-Canada Air Lines for 1954 discloses a net operating revenue of \$1,289,982 and that after payment of interest expense amounting to \$793,836 there was a resulting surplus of \$496,146. The Committee viewed and were accorded a short air trip in the new "Vickers Viscount" which will be used on the inter-city service. It is interesting to note that while the Committee was still in session on Friday, April 1st the first regular flight set out from Montreal at 4.30 p.m. and landed at Malton, 1 hour and 35 minutes later en route to Winnipeg, thus inaugurating the first Turbine propeller powered passenger service in North America. The Report noted with regret two major aircraft accidents which occurred in 1954. One accident on April 8th when a TCA North Star in mid-air over Moose Jaw was struck by an R.C.A.F. training aircraft. Thirty-one passengers and a crew of four lost their lives. The second on December 17th occurred approximately 9 miles West of Malton Airport when a Super Constellation landed on farmland but without casualties, injuries were of a minor nature. Action has been taken to strengthen regulations governing flight on established civil airways by other than civilian aircraft. Prior to the regrettable occurrence at Moose Jaw, TCA had in 7 years flown 3,541,000,000 passenger miles without a fatality. The said Annual Report was adopted.

The Auditors Report to Parliament with respect to the Canadian National Railways, the Canadian National (West Indies) Steamships Limited, and the Trans-Canada Air Lines as well as the Report of the Canadian National Securities Trust for the calendar year 1954 were severally considered and adopted.

The Financial Budgets of the Canadian Railways System, the Canadian National (West Indies) Steamships Limited and Trans-Canada Air Lines Limited for the calendar year 1955 were examined carefully and adopted.

The items of the Estimates for the year ending March 31st, 1956 being votes 469, 473 and 479 of the Department of Transport were considered and approved.

Your Committee is indebted to Mr. Donald Gordon, C.M.G., L.L.D.; Mr. S. F. Dingle; Mr. R. D. Armstrong; Mr. G. R. McGregor, Mr. W. S. Harvey, Mr. H. W. Seagrim, Mr. S. W. Sadler, Mr. D. E. McLeod, Mr. L. D. Palmer, and Mr. Turville, Mr. J. D. Morison and Mr. C. A. Padley for their valuable assistance during the meetings of this Committee.

A copy of the evidence adduced in respect of the matters referred is appended hereto.

Extract from Minutes of Proceedings of March 31, 1955

It being 9.30 o'clock p.m. the Committee having completed its consideration of the Annual Reports (1954) relating to the Canadian National Railways, proceeded to its study of the Annual Report of Trans-Canada Air Lines (1954).

Mr. G. R. McGregor was called. He introduced Messrs. Harvey, Seagram, Sadler, McLeod and Palmer.

Mr. McGregor read the Trans-Canada Air Lines Report. It was decided to defer its detailed examination to Friday, April 1st.

At 10.10 o'clock p.m., the Committee adjourned until Friday, April 1st at 10.30 o'clock a.m.

Antonio Plouffe,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

FRIDAY April 1st, 1955.

(9)

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government met this day at 10.30 o'clock a.m. Mr. Harry P. Cavers, Chairman, presided.

Members present: Messrs. Bell, Carrick, Carter, Cavers, Churchill, Dumas, Fairey, Follwell, Fulton, Gillis, Hahn, Hamilton (*York West*), Hamilton (*Notre Dame de Grâce*), Healy, James, Johnston (*Bow River*), Langlois (*Gaspé*), Lavigne, Legaré, McCulloch (*Pictou*), Murphy (*Westmorland*), Pouliot and Weaver. (23).

In attendance: Right Honourable C. D. Howe, Minister of Trade and Commerce and of Defence Production; Honourable George C. Marler, Minister of Transport; Mr. G. R. McGregor, President of Trans-Canada Air Lines; Mr. W. S. Harvey, Comptroller; Mr. H. W. Seagrim, Commander C. P. Edwards, Director.

Also Messrs. F. P. Turville, C.A., J. D. Morison, C.A., D. T. G. Padley, C.A., of George A. Touche and Company, Chartered Accountants.

The Chairman informed the Committee that Mr. Macdonnell (*Greenwood*) had been replaced on the Committee by Mr. Hamilton (*York West*).

The Committee commenced the detailed examination of the Trans-Canada Air Lines Annual Report (1954).

Mr. G. R. McGregor was called and questioned. He was assisted by Messrs. Harvey and Seagrim.

At 1.00 o'clock p.m., Mr. McGregor's examination still continuing, the Committee adjourned till 3.30 o'clock p.m. this day.

AFTERNOON SITTING

(10)

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

Members present: Messrs. Bell, Carrick, Cavers, Churchill, Dumas, Fairey, Gillis, Hahn, Hamilton (*Notre-Dame de Grace*), James, Knight, Langlois (*Gaspé*), Lavigne, Legaré, McCulloch (*Pictou*), Murphy (*Westmorland*) and Weaver. (17)

In attendance: Same as shown at the morning sitting.

Mr. McGregor was called and his examination concluded.

The Trans-Canada Air Lines Annual Report, its capital and operating budgets (1955) were adopted.

The Chairman expressed the Committee's thanks to Mr. McGregor and his officials. He also thanked him for arranging a flight on the new Vickers-Viscount. (See Appendix A.)

The Committee then considered the Auditors' report.

Mr. Turville was called and questioned. He was aided by Messrs. Morison and Padley.

The Auditors' Report was adopted.

The Chairman thanked the auditors and the witnesses were retired.

At 4.45 o'clock p.m., the Committee adjourned until 8.30 o'clock p.m. to consider *in camera* its report to the House.

NOTE: The Right Honourable C. D. Howe announced that the first scheduled Vickers-Viscount Flight in North America had just left Montreal on time (4.30 o'clock p.m.) en route to Winnipeg.

EVENING SITTING

(11)

The Committee, as agreed at adjournment time, met at 8.30 o'clock p.m. *in camera* to consider its report to the House. Mr. Harry P. Cavers, Chairman, presided.

Members present: Messrs, Bell, Carrick, Cavers, Dumas, Fairey, Follwell, Gillis, Hamilton (*York West*), Hamilton (*Notre-Dame de Grace*), Hanna, James, Knight, Langlois (*Gaspé*), Lavigne, Legaré, Murphy (*Westmorland*) and Weaver.—17.

The Chairman tabled copies of a draft report to the House.

The Committee considered same, paragraph by paragraph, and agreed on certain minor changes.

On motion of Mr. Langlois (*Gaspé*), the said draft was adopted as modified and ordered presented to the House as the Committees Third and Final Report.

At 9.30 o'clock p.m., the Committee adjourned *sine die*.

Antonio Plouffe,
Clerk of the Committee.

APPENDIX A

T.C.A. SPECIAL FAMILIARIZATION FLIGHT BY PARLIAMENTARY RAILWAY COMMITTEE

(Wednesday, March 30, 1955)

Accepting the invitation of the President of the Trans-Canada Air Lines to see and travel in the new Vickers-Viscount 40 Passenger Turbine Propeller Aircraft, the members of the Committee assembled under the Peace Tower and embussed at 12 o'clock noon.

The group emplaned at Uplands Airport at 12.30 o'clock.

Arrangements for this Flight were under the direction of Mr. L. D. Palmer, Special T.C.A. representative in Ottawa; Mr. D. McLeod, Director of Public Relations and Mr. M. Hildred, Assistant Director.

Captain A. Edwards, Flight Superintendent, Central Region, was at the controls.

A succulent full course lunch was served on board under the courteous supervision of Pursuer Stewart Phil Garber assisted by Stewardesses V. E. Scott and Thérèse D'Amours.

Messrs. Carrick, Churchill, Healy, Knight, Murphy (*Westmorland*) and Pouliot were unable to joint the group.

In addition to the members of the Committee, the following were the guests of Mr. McGregor: The Honourable George A. Drew, Mr. M. J. Coldwell, Mr. Solon Low, Mr. John Dickey, Mr. George Robertson of Halifax, Mr. H. J. Symington, Commander C. P. Edwards, Mr. W. R. Wright and representatives of the Press.

Having been airborne for one hour and thirty minutes, the group returned to Parliament Hill at 2.30 o'clock p.m.

Antonio Plouffe,
Clerk of the Committee.

THURSDAY, March 31, 1955.

The CHAIRMAN: I see that Mr. Gordon McGregor is present and he has asked if he might read tonight his report so that we could commence questions tomorrow morning. Is it the wish of the committee? Possibly we could have it read without any questions being put and then adjourn.

Mr. MACDONNELL (*Greenwood*): May it be understood that that is all.

The CHAIRMAN: Yes. I would like now to say that we are pleased to have here again this year Mr. Gordon R. McGregor, president of the Trans-Canada Airlines, and with Mr. McGregor, Mr. W. S. Harvey, Comptroller, Mr. H. W. Seagrim, General Manager, Operations, Mr. S. W. Sadler, Auditor, General Accounts, Mr. D. E. McLeod, Assistant Director, Public Relations, Mr. L. D. Palmer, Special Representative.

Mr. G. R. MCGREGOR (President, Trans-Canada Airlines): Thank you, Mr. Chairman. The report is dated February 28 and reads as follows:

MONTREAL, February 28, 1955.

TRANSCANADA AIRLINES

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

Sir:

The Board of Directors submit the Annual Report of the Trans-Canada Air Lines system for the calendar year 1954.

The steady growth of air transportation continued. Traffic carried and gross revenue earned from all operations were the highest on record and exceeded the 1953 results by a considerable margin. TCA benefited from the nation's economic development and, reciprocally, contributed to that development.

There was a marked increase in traffic of all types, with the volumes of passenger, commodity and mail transportation all continuing the vigorous growth of recent years.

A record amount of air transportation was made available to the public. Not only was capacity increased, but the introduction of tourist class service and freight rate reductions on domestic routes greatly extended the air transportation market.

New and longer range aircraft improved the quality of service both within Canada and on the North Atlantic route. Intensive preparations were made for further fleet expansion to take effect in 1955.

It is a matter of satisfaction that a financial surplus of \$496,146 was achieved in spite of the heavy expenses associated with these major aircraft acquisitions. This was the fourth consecutive year in which a surplus was recorded by the airline.

THE YEAR IN BRIEF

	1954	1953
Net income.....	\$ 496,146	\$ 256,230
Passengers Carried	1,438,349	1,307,810
Commodity Ton Miles	10,192,705	7,947,113
Mail Ton Miles	6,942,299	5,373,841
Available Ton Miles	158,093,399	149,140,771
Route Mileage	24,016	21,978
Aircraft Miles Flown	32,327,405	31,737,638

FINANCIAL REVIEW

There follows a tabulation of the 1954 operating results compared with those of 1953:

	1954	1953	Increase or (Decrease)
Operating Revenues	\$68,764,252	\$62,236,564	\$ 6,527,688
Operating Expenses	67,731,512	61,433,700	6,297,812
Operating Income	\$ 1,032,740	\$ 802,864	\$ 229,876
Non-Operating Income—Net	257,242	519,256	(262,014)
Interest Expense	\$ 1,289,982	\$ 1,322,120	(\$ 32,138)
	793,836	765,890	27,946
Income	\$ 496,146	\$ 556,230	(\$ 60,084)
Provision for Income Taxes..	—	300,000	(300,000)
Net Income	\$ 496,146	\$ 256,230	\$ 239,916

These figures represent a substantial increase in both the Company's earning capacity and attendant expenses, but comparatively little change in net income from the previous year.

Revenue from all sources increased by 10 per cent. Although passenger traffic remained by far the most important source of Company revenue, contributing \$53,123,868, substantial growth of freight and express revenues also took place. These amounted to \$2,724,368 and \$1,334,915, respectively, increases of 18 per cent and 10 per cent. Mail revenue of \$8,371,344 was up 8 per cent. It is of interest that this latter source of revenue, which once constituted a very large segment of Company income, in 1954 accounted for only 12 per cent of gross revenues.

A 10 per cent increase in passenger revenue was achieved in a year in which low fare tourist rates reduced the average return per passenger mile.

System operating expenses also increased by 10 per cent. Apart from development costs, from which little revenue benefit could be expected in 1954, the major factor in this rise was the increased service offered to the public. Heavy direct costs were associated with the 589,767 additional aircraft miles flown and the larger traffic volumes handled. Labour costs are a major component of airline expenses and the Company's payroll increased to \$30,791,557.

The unit cost of production increased by 4 per cent to 42.84 cents per available ton mile, but was balanced by an equivalent rise in revenue per available ton mile.

Investment in property and equipment during the year totalled \$17,950,000; of this amount \$14,920,000 covered the purchase of eight Super Constellations and one Vickers Viscount aircraft, together with associated spares. Continua-

tion of the program to expand the carrying capacity of the airline involves commitments for the acquisition of aircraft during the next three years, amounting to \$21,400,000. This obligation has been partially offset by progress payments approximating \$3,300,00.

Financing the fleet expansion entailed a recall of the \$11,000,000 on deposit with the CNR, and the further negotiation of temporary loans with the Railway totalling \$3,100,000.

As a result of aircraft losses, \$2,000,000 was appropriated from Surplus to reinstate the Insurance Reserve to \$6,000,000. These losses also affected the airline to the extent that the liability for corporate income tax was eliminated. As a consequence, an amount of \$367,907 representing prior provision was returned to Surplus. (See references on the financial statements).

OPERATIONS AND TRAFFIC REVIEW

The growth of air transportation on the Company's domestic and international services is illustrated by the following statistics:

	1954	1953	Per Cent Increase
Total Aircraft Miles Flown.....	32,327,405	31,737,638	2
Passengers Carried	1,438,349	1,307,810	10
Passenger Miles Flown	852,475,532	759,319,800	12
Passenger Miles Available	1,179,624,399	1,079,676,170	9
Mail Ton Miles	6,942,299	5,373,841	29
Air Freight Ton Miles	8,345,258	6,245,368	34
Air Express Ton Miles	1,787,000	1,648,741	8
Revenue Ton Miles Flown	102,305,202	89,149,605	15
Ton Miles Available	158,093,399	149,140,771	6

Expansion of Service

In 1954, TCA began to receive deliveries of two new types of aircraft which had been ordered as far back as August, 1951. Although delivery delays beyond the Company's control unfortunately slowed the intended expansion of fleet capacity, it was possible to provide the greatest amount of transportation service in the airline's history. With increased flight frequencies and larger capacity on many routes, the airline produced 6 per cent more ton miles and 9 per cent more seat miles than in 1953.

Six trans-continental flights were scheduled daily during the summer, four on a first-class basis and two of the tourist type. In September, Super Constellation equipment entered the trans-continental service, providing a daily round flight between Montreal and Vancouver, with intermediate stops at Toronto and Winnipeg only, so that maximum advantage could be taken of the speed and range of this aircraft. As a result, true trans-continental "express service" is now available, cutting approximately two hours from the previous flight time.

By June, Super Constellations were in daily North Atlantic service to the British Isles and Continental Europe. Their speed, range and carrying capacity greatly improved the quality of this long-range operation. On the majority of westbound flights, it had been necessary to stop at Iceland with North Star aircraft. But this is no longer required and the TCA base at that point was closed down. North Stars were withdrawn from the North Atlantic and transferred to domestic service where they were used advantageously on a number of routes.

Flight frequencies to Bermuda and the Caribbean were largely unchanged. Super Constellation equipment was used on some Southern flights as winter vacation travel increased.

TCA began air service between Eastern Canada and Mexico in January. This took the form of the extension of an existing Tampa flight once a week to Mexico City, but without traffic rights between those two points. Another important route change occurred in February when TCA service was extended to Sudbury on a new flight pattern across Northern Ontario between Sault Ste Marie, Sudbury, North Bay, Ottawa and Montreal.

Operational reliability was again of a high order, with 95 per cent of all scheduled mileage completed.

Passenger Traffic

The rising popularity of air travel showed no signs of slaking in 1954. TCA carried 1,438,349 passengers, an increase of 10 per cent and flew 852,475,532 passenger miles, up 12 per cent. This trend has been continuous for the past decade, during which period TCA has increased the facilities for air travel in terms of seat miles performed by twelvefold.

The 1954 traffic increase must, however, be attributed not only to the normal growth of the industry but also to general prosperity, an energetic sales programme in which national advertising was a key factor, and the fact that the Company was again able to avoid any increase in fares. This last influence cannot be over-emphasized. There has been no major fare increase by TCA since 1947. Substantially higher costs have been absorbed without price penalty to the travelling public thanks to the larger traffic volume and greater efficiency of operation. In 1954, the introduction of domestic tourist service reduced TCA's return per passenger mile on North American routes to 6.09 cents as compared with 6.28 cents a year previously. It is the Company's aim, within the bounds of economic stability, to make air travel financially available to more people. The tourist services, with their lower cost and simplified service standards, represent a further implementation of this policy.

Re-introduction of first-class service on the North Atlantic was made possible by the use of the larger Super Constellation aircraft. Since 1952, the airline has been conducting an all-tourist operation. The dual first-class and tourist services, which are provided in separate compartments of the same aircraft, proved extremely popular and TCA's percentage of seat occupancy during the latter half of the year was the highest on the North Atlantic.

Passenger traffic remained heavy on the Southern services, although of a markedly seasonal nature.

Sales, reservations and passenger handling facilities were improved to meet the steady increase of traffic. A trained service observing staff monitored ground service standards in the reservations offices and at Company counters. Over 5,000 telephone reservations contacts were sampled monthly to assess service quality.

Mail Traffic

TCA, in co-operation with the Post Office Department, helped through the carriage of first-class mail by air to provide Canada with one of the swiftest postal delivery services in the world. The mail so handled is confined to flights that offer appreciably better deliveries than surface transportation. On April 1st the scope of the service was extended to provide for the carriage of first-class mail of letter weight up to 8 ounces.

The airline flew 5,920,816 ton miles of mail in domestic service during 1954, an increase of 28 per cent. Remuneration for this transportation rose, on the other hand, by only 4 per cent under the contractual arrangement with the Post Office Department, which provides for progressively lower unit payments as mail volume grows. Mail pay per ton mile was \$1.03, as compared

with \$1.27 in 1953. Since 1946, when TCA received \$3.12 a mail ton mile the uniform trend has been towards reduced unit revenue.

Mail volume increased by 39 per cent on the North Atlantic, where 1,006,279 ton miles were flown, the bulk of this traffic moving eastbound.

Commodity Traffic—The growing importance of the air freight and air express services to Canada's business life was again apparent in 1954 as the airline flew 10,192,705 commodity ton miles, a 28 per cent increase. Air express volume was up by 8 per cent and air freight by 34 per cent. Commodity traffic moved on all TCA flights at home and overseas and the frequency of operations ensured service of a high order. TCA was able to offer freight shippers on many of its North American routes next day delivery within a 1,500 mile radius and second day delivery to points beyond.

Supplementing the standard mixed load flights were many all-cargo operations over the busier inter-city routes. With the addition of three Bristol Freighters to the fleet, the Company increased this activity and, in May, a regular all-cargo service using Freighters was begun between Montreal, Toronto and Winnipeg on the basis of five flights a week.

TCA's domestic air freight rates were lowered approximately 30 per cent on January 1st, following receipt of approval from the Air Transport Board. Application for the reduction had been made a year earlier.

Air freight volume on the North Atlantic was of record size and once again TCA led all other carriers serving the Montreal gateway.

Growing Canadian trade with the Caribbean area was reflected in increased air freight loads on Southern flights.

Property and Equipment—At year end the Company was operating a fleet of 59 aircraft consisting of seven Super Constellations, 22 North Stars, 26 DC-3's, a DC-3 Cargoliner and three Bristol Freighters. One Viscount was employed in ground and aircrew training. The efficiency of these aircraft and the thorough maintenance and overhaul procedures upon which the Company insists made possible a very satisfactory operational performance throughout the year. A special word should, however, be said of the North Star, an aircraft not always recognized for what it unquestionably is—one of the most reliable and economic air transports ever manufactured. The North Star has given splendid service to Canada and will continue to do so.

The Super Constellations that entered both domestic and overseas service during the year are among the most modern long-range transports in the world and the largest aircraft carrying Canadian registration. Their four turbo-compound engines develop 13,000 combined horsepower; they cruise at 300 miles per hour; and they have a range of 4,000 miles. These characteristics fit them admirably for the Company's long-haul overseas and trans-continental operations. TCA introduced the Super Constellations domestically with 63 first-class seats, and on the North Atlantic with 54 tourist-class and nine first-class seats.

The wide interest in the Company's re-equipment activities was demonstrated when public display tours of a Super Constellation and a Bristol Freighter were conducted in a number of cities. Within a one-week period, over 30,000 persons filed through the Super Constellation alone and many additional thousands visited the airports at which the aircraft were on view.

Construction by TCA of Canada's largest commercial aircraft hangar was completed at Malton Airport, a major hub of Company operations. At Winnipeg, the airline began a new Stores building to meet its growing supply requirements. Work was also well advanced in the latter city on a new engine test house that will incorporate the first airline facilities in North America for the testing of propeller-turbine power plants.

Ticket offices were renovated and enlarged at a number of points with a view to improved efficiency and appearance. Principal changes took place at Toronto and Montreal. New offices were opened in Glasgow and Mexico City.

TCA continued to provide maintenance and overhaul service at Winnipeg for R.C.A.F. training aircraft.

Two major aircraft accidents occurred in 1954, one involving fatalities. On April 8th, a TCA North Star, flying on course from Regina to Calgary, was struck in mid-air over Moose Jaw by an R.C.A.F. training aircraft. Thirty-one passengers and a crew of four lost their lives. As a result of this tragedy, action was taken to strengthen regulations governing flight in the air space of established civil airways by other than civilian aircraft. Prior to this regrettable occurrence, TCA had, over a seven-year period, flown 3,541,000,000 passenger miles without fatality.

On December 17th, a Super Constellation, operating northbound from Tampa, Florida, landed in farmland and burned at a point approximately nine miles west of Malton Airport. All passengers and crew escaped and injuries were, for the most part, of a minor nature.

Airport and Airway Facilities—The continued development of air transportation in Canada was again supported by a strong system of airports and airways, in the possession of which the nation is fortunate. Important runway improvements were undertaken by the Department of Transport at Regina, Winnipeg, the Lakehead, North Bay, Windsor and Gander. All of these were of operational value to the airline. Installation of high intensity approach lights proceeded satisfactorily at several airports. Very high frequency radio range facilities were installed on the Montreal-Toronto-Windsor airway. This modern navigational equipment is static free and provides visual rather than audible guidance to pilots.

Although mounting passenger traffic again taxed terminal facilities at many points, welcome remedial measures were begun at some airports and longer-term planning by the Department offered promise of general relief. Construction of new and larger airport terminal buildings of modern design got under way at Calgary, Saskatoon and Sudbury, while proposals for a large terminal to serve both domestic and international flights at Montreal were well advanced.

Routes—Scheduled operations, at December 31, 1954, extended over 24,016 miles of air routes. More than 50 communities in Canada, the United States, the British Isles, France, Germany, Mexico, Bermuda and the islands of the Caribbean were directly served by the airline and the indirect influence of its operations were felt over an immense area. In its seventeen years, TCA has expanded from an initial 122-mile service between Vancouver and Seattle to the world's ninth largest airline measured in passenger miles flown. The scope of its present operations is illustrated on the route map on pages 14 and 15.

Personnel—The Company's staff numbered 7,991 at year end. This was an increase of 13 per cent, required by the greater workload and by necessary provision for the further planned expansion of fleet and operations.

Experienced employees are essential to good Company performance and it is pleasing to note the high degree of employment stability within TCA. At year end, 275 members of staff had over fifteen years of Company service; another 1,081 had over ten years of service; and 2,305 more had been with the airline over five years. Thus, a total of 3,661, or 46 per cent of the Company personnel, had service in excess of five years.

Throughout 1954, Management Development courses were conducted for supervisory staff to ensure that those holding managerial responsibility are equipped for the future growth of the air transportation industry.

The Board of Directors wish to record their appreciation for another year of able and conscientious service by the staff who continue to be the airline's most valuable asset.

DEVELOPMENT

The continued development of an efficient national air service, operating to Canada's advantage both at home and abroad, remained the primary objective of Management.

Future Aircraft—In 1955, TCA will, with the introduction of the Vickers Viscount to its domestic routes, become the first commercial operator of turbine-propeller powered aircraft in North America. Intensive training of both air and ground staffs went forward throughout the year in preparation for Viscount deliveries.

With a cruising speed of 320 miles per hour and with the least vibration and quietest flight of any aircraft in commercial operation, this outstanding equipment is expected to provide a standard of air service on medium range routes unsurpassed on this continent.

Twenty-two Viscounts, equipped with four Rolls-Royce Dart engines of the propeller-turbine type are on order. The first deliveries have taken place and scheduled Viscount service will begin between Montreal and Winnipeg and intermediate points in the Spring. The new aircraft, each seating 40 passengers, will be progressively extended to other routes throughout 1955, 1956 and 1957.

It is, perhaps, of interest that the manufacturer of the Viscount undertook at TCA request a considerable number of structural modifications required by North American weather conditions and operating practices. As a result, this fine product of British design and construction comes to Canada fully equipped for service on this continent.

With the arrival of the Viscount, TCA will have a fleet of balanced proportions, abreast of current technical progress and capable of expanded public service.

Service Planning—In 1955, there will be increased flight frequencies on a number of routes. Although no major route extensions are contemplated, operations will commence to Timmins, replacing the previous stop at Porquis Junction on the Northern Ontario route and improving service to that area. A trans-continental all-cargo service, with converted North Stars, will begin this summer on a five-flight-a-week frequency.

The General Prospect—With a modern fleet and a staff of experienced, able and loyal employees, TCA is built on firm foundations and has every reason to face the future confidently. Its capacity for service in an industry of great potentialities and within the framework of national economic development, is steadily increasing. In 1955, the heavy fleet expansion programme will continue; the newly arrived Viscounts will be revenue producing only part of the year; and forecast of financial results must therefore be modest. But long-term prospects are good and the airline will endeavour to serve Canada's needs with equal regard for transportation quality and the maintenance of a sound financial position.

For the Directors:

G. R. MCGREGOR,
President.

TRANS-CANADA AIR LINES
Balance Sheet at December 31st, 1954

ASSETS		LIABILITIES	
Current Assets		Current Liabilities	
Cash.....	\$ 1,055,519	Accounts payable.....	\$ 4,202,602
Working funds.....	42,747	Traffic balances payable to other air lines.....	1,929,689
Special deposits.....	22,426	Air travel plan deposits.....	1,151,750
Accounts receivable		Salaries and wages.....	1,162,723
Government of Canada.....	\$ 1,941,998	Prepaid transportation.....	1,897,275
Traffic balances from other air lines.....	1,185,799	Other current liabilities.....	265,109
Air travel plan.....	973,988		
Agents.....	485,285		\$ 10,609,148
Other.....	1,457,856	Loans and Debenture—Canadian National Railways	
Materials and supplies.....	6,044,926	Notes payable.....	\$ 3,100,000
Other current assets.....	6,255,843	Debenture, 3½% maturing January 1st, 1973.....	20,000,000
	277,243		23,100,000
	\$ 13,698,704	Reserves	
Insurance Fund.....	6,000,000	Insurance.....	\$ 6,000,000
Capital Assets		Overhaul.....	837,413
Property and equipment.....	\$ 54,406,170		6,837,413
Less: Accrued depreciation.....	28,066,083	Capital Stock	
	\$ 26,340,087	Common stock—authorized 250,000 shares par value \$100 per share—issued 50,000 shares, fully paid.....	5,000,000
Progress payments on purchase of aircraft.....	3,326,889	Surplus	
	29,666,976	Surplus, January 1st, 1954.....	\$ 4,955,066
		Net income, year 1954.....	496,146
		Adjustment of prior years income taxes.....	367,907
			\$ 5,819,119
		Appropriated for Insurance Reserve.....	2,000,000
		Surplus, December 31st, 1954.....	3,819,119
	<u>\$ 49,365,680</u>		<u>\$ 49,365,680</u>

W. S. HARVEY,
Comptroller.

Certificate of Auditors

We have examined the books and records of the Trans-Canada Air Lines for the year ended 31st December, 1954, and, in our opinion, proper books of account have been kept by the Air Lines.

The above balance sheet and the relative statement of income are prepared on a basis consistent with that of the preceding year, and are, in our opinion, properly drawn up so as to give a true and fair view of the state of the Air Lines' affairs at 31st December, 1954, and of the income and expense for the year according to the best of our information and the explanations given to us, and as shown by the books of the Air Lines.

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

Dated at Montreal, 17th February, 1955.

GEORGE A. TOUCHE CO.,
Chartered Accountants.

STATEMENT OF INCOME

	1954	1953
Operating Revenues		
Passenger	\$53,123,868	\$48,242,942
Mail	8,371,344	7,786,119
Air Express and Freight	4,220,672	3,673,440
Excess Baggage	484,841	438,016
Charter	250,307	155,597
Incidental Services—Net	2,313,220	1,940,450
	<hr/>	<hr/>
Total	\$68,764,252	\$62,236,564
	<hr/>	<hr/>
Operating Expenses:		
Flight Operations	\$14,614,919	\$13,044,443
Ground Operations	11,008,253	10,037,292
Maintenance	19,346,433	16,318,973
Depreciation	3,883,838	5,339,271
Passenger Service	4,031,000	3,805,865
Sales and Reservation Service	8,975,232	7,837,869
Advertising and Publicity	1,830,414	1,513,726
General and Administrative	4,041,423	3,536,261
	<hr/>	<hr/>
Total	\$67,731,512	\$61,433,700
	<hr/>	<hr/>
Operating Income	\$ 1,032,740	\$ 802,864
Non-Operating Income—Net	257,242	519,256
	<hr/>	<hr/>
Interest Expense	\$ 1,289,982	\$ 1,322,120
	793,836	765,890
	<hr/>	<hr/>
Income	\$ 496,146	\$ 556,230
Provision for Income Taxes	—	300,000
	<hr/>	<hr/>
Net Income	\$ 496,146	\$ 256,230
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EVIDENCE

FRIDAY, April 1, 1955.

The CHAIRMAN: Gentlemen, we have a quorum. We will now have questions on the report of Trans-Canada Air Lines which was read last evening by Mr. McGregor, and I think probably we might commence at page 3 in the report and proceed through each page of the report until we have finally completed it.

Are there any questions then on page 3?

Carried.

Then, page 4, the itemized statement and figures of the year in brief. Are there any questions on page 4? Shall page 4 carry?

Carried.

Page 5, "Financial Review."

Mr. FOLLWELL: I notice, Mr. Chairman, that in 1954 there was no provision for income tax.

Mr. G. R. MCGREGOR (President, Trans-Canada Air Lines): It was due to the accidents. It is referred to later on.

Mr. FOLLWELL: A write-off?

Mr. MCGREGOR: Yes.

The CHAIRMAN: Shall the item carry?

Carried.

Page 6. Are there any questions on page 6?

Right Hon. Mr. HOWE: There is a paragraph in the middle of the page that explains the income tax situation.

The CHAIRMAN: Shall page 6 carry?

Carried.

Then the charts on page 7 on the growth of Trans-Canada Air Lines traffic from 1945 to 1954. Any questions on that page, page 7?

Shall page 7 carry?

Carried.

Then page 8, "Expansion of Service."

Mr. DUMAS: I wonder if Mr. McGregor would tell us if he has any large expansion of routes in mind?

Mr. MCGREGOR: There is no route extension planned but the program calls for expansion of capacity by the operation of more aircraft, increased flight frequencies and greater mileage flown over existing routes.

Mr. JOHNSTON (*Bow River*): I do not know whether this question is proper at this point or not. What is going to be the difference in price of travel in the Vickers Viscount and in the ordinary T.C.A. planes?

Mr. MCGREGOR: No difference.

Mr. JOHNSTON (*Bow River*): I understood the other day there would be a slight difference.

Mr. MCGREGOR: No.

Mr. JOHNSTON (*Bow River*): The same rate in the North Star as in the Vickers Viscount?

Mr. MCGREGOR: Yes. We only have two types of passenger fares filed under an approved Canadian tariff. One is for first-class service which includes the Viscount and the other is for tourist service, which applies only on the densely seated aircraft.

Mr. FOLLWELL: Do you have special rates for families in off-peak times?

Mr. MCGREGOR: Yes, the family fare plan permits the second, third and fourth member of the family to fly at half of the regular full one-way fare which is paid by the head of the family travelling.

Mr. JOHNSTON (*Bow River*): What do you mean by the third or fourth member of the family?

Mr. MCGREGOR: Wife and children and so on.

Mr. JOHNSTON (*Bow River*): And that is all first-class as well?

Mr. MCGREGOR: Yes, just on the first-class. There are no reductions on the tourist fares.

Mr. FOLLWELL: If we had two fellows and one said, "I am the brother of the other fellow," could he get half fare?

Mr. MCGREGOR: No, immediate family.

Mr. CARRICK: It is limited to certain days of the week too, isn't it?

Mr. MCGREGOR: Yes.

Mr. JOHNSTON (*Bow River*): Is it for certain times or throughout the year?

Mr. MCGREGOR: Throughout the year. At one time it only applied during the winter months.

Mr. FAIREY: But the restriction is that you must leave on a certain day?

Mr. MCGREGOR: Yes, Monday, Tuesday, Wednesday.

Mr. FAIREY: But it makes the rate comparable then to the tourist fare?

Mr. MCGREGOR: Yes, very close.

Mr. JOHNSTON (*Bow River*): Has there been any thought given to honouring the passes of members of parliament on the Trans-Canada Air Lines?

Right Hon. Mr. HOWE: There has been a lot of thought but the conclusions have always been against it. What we are afraid of is getting a solid plane load of pass holders. It is too small a unit to give passes profusely. Air travel is very closely restricted as to passes in every country.

Mr. JOHNSTON (*Bow River*): Of course, there is the transportation of members coming to parliament and going home?

Right Hon. Mr. HOWE: Yes, but they pay their fares.

Mr. JOHNSTON (*Bow River*): But they are reimbursed, though.

Right Hon. Mr. HOWE: That is reimbursed by the government.

Mr. JOHNSTON (*Bow River*): The passes are not accepted on any planes?

Right Hon. Mr. HOWE: No.

Mr. FOLLWELL: Do employees get free transportation?

Mr. MCGREGOR: On company business and there is a scale of vacation passes depending on the employee's length of service with the company.

Mr. FAIREY: There has been some question amongst those of us from the far west and the far east that we might be granted a restricted number of passes so we could get home once in a while instead of taking so long on the train — perhaps once or twice a year?

Right Hon. Mr. HOWE: If the government is willing to pick up the tab we will be glad to carry you.

Mr. FAIREY: It costs me \$325 to go home and back again.

Mr. DUMAS: I understand the service has been inaugurated to Sudbury?

Mr. MCGREGOR: Yes.

Mr. DUMAS: What about Timmins?

Mr. MCGREGOR: Begins today.

Mr. LANGLOIS (*Gaspé*): What about this proposed service from Montreal down to the maritimes with a scheduled stop at Québec, is it being considered?

Mr. MCGREGOR: Yes, there is a study under way at the present time. There is consideration being given to it.

Mr. FOLLWELL: I don't know if this would be the time to ask this question, but when we have an accident like we had last year how do you settle — by means of negotiation?

Mr. MCGREGOR: Yes, for that purpose we use the claims department of the Canadian National Railway.

Mr. FOLLWELL: Do you carry your own insurance or what?

Mr. MCGREGOR: The insurance arrangements are rather involved and the accidents are referred to later in the report, so I imagine that might be a better time to talk about insurance.

Mr. DUMAS: On the service to Timmins, Mr. McGregor, is there a stop at Earlington?

Mr. MCGREGOR: No, that stop is made by Canadian Pacific Air Lines.

Mr. DUMAS: I was wondering if you were stopping there to let off passengers?

Mr. MCGREGOR: No, it is not on our route licence.

Mr. JOHNSTON (*Bow River*): How do our fares for first-class passengers compare with those in the United States?

Mr. MCGREGOR: Offhand I would say they are about three-quarters of a cent a passenger mile higher.

Mr. JOHNSTON (*Bow River*): Why would that be?

Mr. MCGREGOR: Largely due to the price of fuel, which is about 30 per cent higher in Canada.

The CHAIRMAN: Are there further questions on page 8, "Expansion of Service"?

Mr. HAMILTON (*York West*): Mr. Chairman, did the meeting start at 10.30?

The CHAIRMAN: Yes, Mr. Hamilton.

Mr. HAMILTON (*York West*): My notice read 11 o'clock.

The CHAIRMAN: We sent out subsequent notices after the meeting last night. It was decided here last night that we would meet at 10.30 and subsequent notices were sent out last night. They were put in the mail boxes.

Mr. HAMILTON (*York West*): Well, I was not here at yesterday's meeting and I did not receive one.

The CHAIRMAN: I understand that you would not get one because of the fact that you had not been on the committee when the notice was sent out and you will get a copy this afternoon of the subsequent meeting. It was changed last night and you are to take the place of Mr. Macdonnell.

Mr. HAMILTON (*York West*): Yes.

The CHAIRMAN: We shall have to be careful because we have a Mr. Hamilton on the committee from Notre Dame de Grace. You are replacing Mr. Macdonnell?

Mr. HAMILTON (*York West*): Yes.

The CHAIRMAN: Are there any further questions about page 8, expansion of service? Shall page 8 carry?

Carried.

The next is page 9, "Passenger Traffic." There is one question that I might ask in regard to passenger traffic and I think it might come in here, Mr. McGregor. When persons are desirous of communicating with one of the airports for the purpose of sending wires to persons who may be leaving—I had occasion to have this happen in my own instance—I was told that you must know the number of the flight on which the person was leaving. I knew the name of the passengers and the time that they were leaving to go to England and I was able to give them the plane that they would be on other than the flight number. I didn't know that. I was told that it was necessary to have the flight number before a wire could be delivered. Is there any way that that situation could be rectified?

Mr. MCGREGOR: Yes, there is, easily. I am afraid the telegraph people tend to be a little bit vague about the arrangements. The airlines would be very glad to tell them the number of the flight if the departure time was provided. Any of our people could provide that information.

We have had more than one case of difficulty in connection with the delivery of telegrams, both to arriving passengers and departing passengers, because of unfamiliarity on the part of the clerical staffs of the telegraph companies.

Mr. FAIREY: I have had this experience of going down to meet my daughter who was supposed to be on a plane and she was not on it because of delays and so on, and I tried to find out what flight she was on and I was told, "We are not allowed to give that information." What is the reason for that?

Mr. MCGREGOR: Well, it is an old story, sir, and it dates back to the belief that passengers are entitled to some privacy in respect of their travels and the rule was made several years ago and I think it is generally accepted and approved although there are perfectly legitimate cases where it is a nuisance.

Mr. FAIREY: Yes, I know the officials said the reasons given was that some persons travelling do not want it known that they are travelling because of the nuisance of people meeting them and so on. On the other hand when you are meeting relatives and you are sitting around an airport that is twenty-five miles away you would like to know if there is any way in which you could find out what was happening.

Mr. McCULLOCH (*Pictou*): Mr. McGregor, sometimes you will call up for a seat on a plane and you are told there are no seats available and on the day of the flight there will be a seat available.

Mr. MCGREGOR: Yes.

Mr. McCULLOCH (*Pictou*): Can that not be remedied?

Mr. MCGREGOR: I am afraid not, Mr. McCulloch. I would think the general statement would be true that at least two-thirds of the original bookings on every flight are changed before the flight actually takes off. People make precautionary reservations in case they may be able to get away by a certain flight and then find they can't; but in any case seats often become open even a few hours before flight time.

There is another condition that will also cause the situation that you mentioned. A flight that is departing from Montreal has seats reserved on it for connections from the maritimes. If the maritime flight is delayed due to weather or other causes all the seats for those connecting passengers immediately come open prior to the departure of the flight from Montreal.

Mr. JOHNSTON (*Bow River*): When people are purchasing their tickets like that and you say two-thirds of them do not go they would have to pay for their tickets when they first make their application?

Mr. MCGREGOR: No, they may pay for their tickets, but that really does not matter. They can make a reservation without holding a ticket and at the time a deadline for a ticket pick-up is set. But even if they bought their ticket and failed to show up or notify us any length of time before flight time, that they were not going to travel, the money paid is completely refundable.

Mr. JOHNSTON (*Bow River*): You mean if they just fail to show up for the flight you have no possible chance of selling that seat, have you?

Mr. MCGREGOR: That is quite correct. That is the reason for this unpopular reconfirmation procedure instituted in an effort to reduce the number of empty seats that would otherwise occur. That again ties in with the fact that under present law if we do not provide a transportation service we cannot retain any of the money that we receive for the ticket.

There is a method of avoiding that which is rather complicated. It consists of dividing the price of the ticket into two parts, one for transportation and the other a reservation charge. In the event of what we call a "No show" we could retain the reservation charge if that arrangement was entered into but we can't retain any money legally for transportation if we have not provided the transportation service.

Mr. JOHNSTON (*Bow River*): Well, that does not apply on the railway, does it?

Mr. MCGREGOR: With respect to transportation, I believe it does, having regard to berths, staterooms and so on, I think payments can be retained.

Mr. LANGLOIS (*Gaspé*): Do you still require a six hours notice to confirm a reservation for a flight?

Mr. MCGREGOR: Only in the case of travel commencing at an airport other than where the ticket was purchased, or where there has been a stop-over.

Mr. LANGLOIS (*Gaspé*): I had a very annoying experience. Perhaps you have heard about it. I went to Montreal one day and I had a ticket to come back at 11.00 o'clock the next day. I did not confirm the fact that I was coming back at 8.00 o'clock the next morning because I was not going to get up at 5.00 o'clock in the morning in order to notify you. However, when I got to the airport in time for 8.00 o'clock I was told that I was too late. The result was that I would have had to wait all day in Montreal doing nothing, so I took the train back.

Mr. MCGREGOR: There is another method by which it could have been done. The regulations say six hours or more. You can reconfirm your flight the moment you arrive. That is a handy way of doing it.

The CHAIRMAN: If you are confirming a reservation at the airport from which the ticket was purchased, what is the period of time required?

Mr. MCGREGOR: There is no reconfirmation in effect at all, when your ticket has been purchased at the point from which travel starts.

The CHAIRMAN: Yes.

Mr. FAIREY: There are awkward spots on the Victoria-Vancouver run. Quite frequently, as you probably know, we go to Vancouver, and we may want to return from Vancouver long before the six hours which is required for notice of reconfirmation. Nevertheless there is the necessity for a six-hour period.

Mr. LANGLOIS (*Gaspé*): Would not three hours be sufficient?

Mr. MCGREGOR: We believe that three hours would be entirely satisfactory. We had three hours at one time but we changed over to six hours because, after a long period of operating without a reconfirming procedure, all the major United States airlines decided to adopt the plan which we have been using now for some time. They said that it should be six instead of three. So for the sake of uniformity and to avoid confusion in the passenger service we went along with the group and said that we would make it six hours too. I think that it is too long particularly in the case of short flights where you have to reconfirm from your originating point by telegram or other means.

Mr. FAIREY: I am interested in the fact there is such a large proportion of original sales which are not carried through. Did you say that by law you cannot impose a penalty except by splitting the tariff?

Mr. MCGREGOR: Yes.

Mr. FAIREY: Do you think there should be?

Mr. MCGREGOR: It would be a great convenience to the airlines as well as to the majority of the passengers.

Mr. FAIREY: It seems to me to be a tremendous imposition to hold a seat. I have known, as we all have, of passengers being refused seats on planes, yet those planes would go out with empty seats.

Mr. MCGREGOR: That is quite right.

Mr. CARRICK: What would be the cost to the T.C.A. in dollar value?

Mr. MCGREGOR: I do not think I could give it to you. We would have to investigate virtually every unused reservation to see if the related seat had been filled at the last minute by a "go show".

There would be difficulty in imposing a penalty because it would be argued that the man holding a reservation had telephoned and thought that he had cancelled his reservation.

Mr. HAMILTON (*York West*): What plans do you have for the extension of your tourist service?

Mr. MCGREGOR: There will be additional transcontinental tourist services operated this summer; there will be total of three tourist flights daily, and there will be additional tourist service to the Maritimes and to Newfoundland.

Mr. HAMILTON (*York West*): Is there any intention of carrying on a tourist service between the shorter ranged points with the older type of aircraft which are now being replaced?

Mr. MCGREGOR: That is the service which will be operated with the North Star aircraft? Yes the DC3's are not capable of the dense seating configuration which is necessary in order to have lower tourist fares.

Mr. HAMILTON (*York West*): The tourist flights would be done with North Star aircraft, and they are the ones which will be converted to a larger seating capacity?

Mr. MCGREGOR: Yes, some already have been converted.

Mr. CHURCHILL: Mr. Chairman, has this meeting already started?

The CHAIRMAN: It was scheduled to sit at 10:30. Notices were sent out last evening that the meeting would be held at 10:30. When Mr. Hamilton came in he said that he had not received his notice, and we thought that possibly that was because he was not formerly a member of the committee. But other members of the committee did receive their notices.

Mr. CHURCHILL: My notice reads 11:00 o'clock.

The CHAIRMAN: Is that so. There was another notice and I am advised by the clerk that it was sent out after last night's meeting, saying that the meeting would meet at 10:30. We decided that before we adjourned last evening. You were here last night when we adjourned?

Mr. HAMILTON (*York West*): I called Mr. Follwell this morning and asked him, and he said 11.00 o'clock too. I am not putting the blame on anybody.

Mr. MURPHY (*Westmorland*): We have covered the ground two or three times already so it won't make any difference.

The CHAIRMAN: We are now at page 9 of the annual report of T.C.A. at the heading "Passenger Traffic".

Mr. HAMILTON (*York West*): It may be that we will have an opportunity to question Mr. McGregor along similar lines.

The CHAIRMAN: Yes.

Mr. HAMILTON (*York West*): If you do not bother us too much. To repeat, this is the same aircraft that was used in first class service? I refer to the North Star's?

Mr. MCGREGOR: The North Star's will also be continued in first class service.

Mr. HAMILTON (*York West*): Is it the same aircraft which was used in the tourist service on the trans Atlantic flights which is being used on the first class domestic flights?

Mr. MCGREGOR: Part of the same fleet, yes.

Mr. HAMILTON (*York West*): Was there any difference in the seating capacity when they were being used on the tourist north Atlantic service, and on the first class domestic service?

Mr. MCGREGOR: No, not when first transferred.

Mr. HAMILTON (*York West*): They were the same aircraft?

Mr. MCGREGOR: The same aircraft.

Mr. HAMILTON (*York West*): I go on with the tourist aspects. There was no extension of the tourist service between the short points at all?

Mr. MCGREGOR: No, but it depends on how short.

Mr. HAMILTON (*York West*): I mean, for example, between Ottawa and Montreal, and Toronto and Montreal.

Mr. MCGREGOR: No. Between Regina and Winnipeg, and that general length of journey.

Mr. HAMILTON (*York West*): There is no intention to extend that type of service in the future when you put on the Viscounts?

Mr. MCGREGOR: No. The Viscounts will not be tourist-seated. They will be forty passenger, four abreast with rather wide leg spacing. The intention will be to extend the tourist service as the North Stars are made available for some of the shorter routes.

Mr. HAMILTON (*York West*): It is possible that we will have a North Star tourist service between short routes, that the Viscounts are going to be used on?

Mr. MCGREGOR: Yes.

Mr. HAMILTON (*York West*): Has there been any comparable tourist service in the United States on shorter hops?

Mr. MCGREGOR: I think the same general reasoning applies; only large aircraft are capable of dense seating, thereby getting, roughly, the same revenue with more seats at a lower fare. Tourist rates can be applied on shorter routes. But not if a route has a traffic volume so low that only the smaller aircraft are used.

Mr. HAMILTON (*York West*): Even with DC 3's, or aircraft of that type, even in the United States they do not have a tourist service?

Mr. MCGREGOR: I believe that is correct.

Mr. HAMILTON (*York West*): How long do you think it will be before we can expect to have a tourist type of service on the shorter hops?

Mr. MCGREGOR: It will depend on the route and the traffic volume, I would say a year or a year and a half.

Mr. HAMILTON (*York West*): That will be the time when there will be sufficient North Stars converted from the other lines. Have you got any particular use to put the DC 3's to?

Mr. MCGREGOR: They will continue to operate on many of the lower traffic volume; shorter routes. If any of them become redundant to requirements, they will be disposed of.

Mr. HAMILTON (*York West*): Do you have any plans at all to make use of those planes, or will they be available for carting work in connection with DEW line up north.

Mr. MCGREGOR: If they are redundant to our requirements, they will be offered for sale. There is a good market for them, as you probably know. There is another plan which has been adopted in the States of which we think rather well.

Large companies which can prove in the operation of aircraft of their own have purchased aircraft, usually released by the air lines, and have turned them over to scheduled air lines to be maintained, "crewed", and operated for the owner company. They carry the owner company's insignia and are used for no other purpose. It is a rather efficient way for a non-transportation company to provide its own transportation.

Mr. HAMILTON (*York West*): The only reason I pursue the tourist question is that a lot of people complain that because of the lack of tourist service on the shorter hops there has to be some stopping off for flights from Winnipeg to Ottawa, or something like that?

Mr. MCGREGOR: A very large proportion of that route is available at tourist rates.

Mr. HAMILTON (*York West*): That would be Winnipeg to Toronto; and you use them between Toronto and Ottawa.

Mr. MCGREGOR: Twelve hundred miles would be at the tourist rate, and two hundred miles would be at the first class rate.

Mr. HAMILTON (*York West*): In the brief, I think it is on page 9, with regard to the number of passengers carried, does that figure include the non-revenue passengers?

Mr. MCGREGOR: No. Just the revenue passengers.

Mr. HAMILTON (*York West*): They would not be considered when calculating your load factor, not at all; and have you any information? Do you keep a record of the number of non-revenue passengers which are carried?

Mr. MCGREGOR: Yes.

Mr. HAMILTON (*York West*): Could you give us any information on that?

Mr. MCGREGOR: Are you referring to company personnel?

Mr. HAMILTON (*York West*): I would say any person carried which was non-revenue.

Mr. MCGREGOR: It is something like 50,000 passengers a year.

Mr. HAMILTON (*York West*): You say something like 50,000 passengers. They would be chiefly company non-revenue passengers?

Mr. MCGREGOR: Yes.

Mr. HAMILTON (*York West*): Is there an agreement in connection with that? Is it contained in an agreement with "Calpa" i.e. Canadian Airline Pilots Association, that they be supplied with non-revenue transportation?

Mr. MCGREGOR: No. The company has a regulation with respect to the transportation of its own employees for vacation purposes. It is on a scaled distance basis with respect to their years of service with the company, and it applies to all company personnel, including the pilots.

Mr. HAMILTON (*York West*): It is not contained in any collective bargaining arrangement between the pilots and the company?

Mr. MCGREGOR: No.

Mr. HAMILTON (*York West*): There are about 50,000 of these passengers?

Mr. MCGREGOR: That includes people travelling on company business, supervisory people and so on.

Mr. HAMILTON (*York West*): Could you separate this as to how many are travelling on company business, and the others getting free transportation?

Mr. MCGREGOR: Yes.

Mr. HAMILTON (*York West*): How many would there be of each of those classes? Have you any idea?

Mr. MCGREGOR: For vacation employees, including their families which are eligible, the non-revenue passengers carried numbered 30,578 in 1954; and employees on company business numbered 20,056.

Mr. HAMILTON (*York West*): How many do you have outside that as non-revenue passengers, that is, for any other purpose?

Mr. MCGREGOR: I will read them to you: Department of Transport employees on their services, 182; post office department employees on their business, 62; Canadian National Railways employees, 626.

Mr. HAMILTON (*York West*): Why would they be getting it? Is there a retroactive arrangement there?

Mr. MCGREGOR: Yes. Many T.C.A. employees have an open system pass on the Canadian National railways.

Mr. HAMILTON (*York West*): I see. Is that the whole list?

Mr. MCGREGOR: No, it is not.

Mr. HAMILTON (*York West*): I am sorry.

Mr. MCGREGOR: Courtesy passes to members of the press, television—in other words, publicity passes—numbered 2,903.

Mr. HAMILTON (*York West*): Have you calculated the cost to the company of those who are transported free, or the gross revenue which is not collected?

Mr. MCGREGOR: I would say it would be very nearly zero, because nearly all these passes are issued on a space available basis.

Mr. HAMILTON (*York West*): A "go-show" basis?

Mr. MCGREGOR: Yes.

Mr. HAMILTON (*York West*): Have you made any calculation then, let us say, of the actual loss on the seat loss of revenue from this type of transportation?

Mr. MCGREGOR: No, because I do not think there would be any such loss. About the only costs associated with that transportation are the meals, and the work of lifting the man's suitcase into the aircraft.

Mr. HAMILTON (*York West*): Do you indicate in your statement any cost for the use of the planes for press and television people? Is that shown under advertising cost?

Mr. MCGREGOR: No, it is not charged to advertising.

Mr. HAMILTON (*York West*): Where would they be going?

Mr. MCGREGOR: To many different places all over the system. There are restrictions on international transportation of that type which are imposed by IATA, of which our company is a member. If it is considered either by public relations or the advertising department that the company would get good value out of the moving of an editor or his assistant to Winnipeg, or a flight of that nature, it will be granted.

Mr. HAMILTON (*York West*): I understand that type of service, or at least that type of public relations arrangement does not apply in the case of flights outside the country?

Mr. MCGREGOR: That is right.

Mr. HAMILTON (*York West*): Except in the case of some form of "familiarization" flight?

Mr. MCGREGOR: Yes.

Mr. HAMILTON (*York West*): Have you estimated the cost of that type of flight, that is, the free transportation involved in it?

Mr. MCGREGOR: No. Again that is done on a space available basis.

Mr. HAMILTON (*York West*): There is no way at all then whereby we can estimate the loss of revenue from your 50,000 free passengers which are carried yearly?

Mr. MCGREGOR: There is no loss of revenue. There may be an exceptional case, but I would be very doubtful of their being an appreciable loss in revenue.

Mr. HAMILTON (*York West*): These people would have to "bump" a revenue passenger off before it would cost you anything to handle them?

Mr. MCGREGOR: That is right, and that is distinctly against the regulations.

Mr. MURPHY (*Westmorland*): In that case, we should have members of parliament flying at no cost.

Mr. MCGREGOR: On a "go show" basis?

Mr. MURPHY (*Westmorland*): No, on a bump-off basis.

Mr. HAMILTON (*York West*): Is there any of this type of free transportation extended to any members of the House?

Mr. MCGREGOR: Three ministers only hold passes.

Mr. HAMILTON (*York West*): Who are the three ministers?

Mr. MCGREGOR: The Right Hon. Mr. Howe, the Minister of Transport, and the Postmaster General.

Mr. HAMILTON (*York West*): Are they included in this total of people who are shown there?

Mr. MCGREGOR: Their travel would be. Those are annual passes, so each time they travel they would appear in those figures.

Mr. HAMILTON (*York West*): Has this type of transportation on a free basis ever been extended to other members of the House?

Mr. MCGREGOR: No.

Mr. FOLLWELL: Too bad!

The CHAIRMAN: Before we have any further questions—I do not want to interrupt Mr. Hamilton—but I would like to say that there was a misunderstanding in connection with the notices. I said that the notices were sent out this morning, and I am informed by the Clerk of the committee that that has been done. There have been three items carried, so if there are any of you who were not here at the opening of the meeting and you want to ask questions on those items, you may do so, and we will have them on that understanding. Do you wish to continue, Mr. Hamilton?

Mr. HAMILTON (*Notre Dame de Grâce*): I am interested in the statement under "Passenger Traffic" relating to the sales program:

Sales, reservations and passenger handling facilities were improved to meet the steady increase of traffic."

From time to time we hear of individual cases where somebody has been most unhappy because of something that has happened. But by and large I think the aircraft industry, and the T.C.A. in particular, have a remarkable record in training their sales personnel and in handling the public generally.

Having said that, would Mr. McGregor tell us with respect to his advertising, whether he is concentrating it in Canada or in the United States?

Mr. MCGREGOR: In Canada.

Mr. HAMILTON (*Notre Dame de Grâce*): Have you any break-down of the percentage?

Mr. MCGREGOR: We have the actual expenditures in the two countries.

Mr. HAMILTON (*Notre Dame de Grâce*): I think that would be interesting.

Mr. MCGREGOR: Thank you very much for your comment.

Mr. LANGLOIS (*Gaspé*): Provided that he means it!

Mr. MCGREGOR: Our total advertising expenditure was \$1,700,000 in 1954, of which \$250,000 was spent in the United States.

Mr. HAMILTON (*Notre Dame de Grâce*): You have spent approximately \$1,450,000 for advertising in Canada?

Mr. MCGREGOR: Yes. There is a point however in the fact that the lineage cost of advertising in the United States is considerably higher than it is in Canada. So the proportion of U.S. lineage is even smaller.

Mr. HAMILTON (*Notre Dame de Grâce*): Can we set this up as against the points of origin of your traffic? Can it be done quickly without your having to worry about it too much?

Mr. MCGREGOR: Yes, we can give it by cities.

Mr. HAMILTON (*Notre Dame de Grâce*): I do not want you to go into too much detail. How much of your traffic originated in the United States versus traffic originating in Canada?

Mr. MCGREGOR: That would be rather difficult to give because a great deal of our trans-border travel, as we described it, originates actually in Canada, so that the passenger loads originating in New York, Cleveland and Chicago, do not mean necessarily that the service has originated there.

I would think that by nationality on our trans-border services, probably not more than 20 per cent of the passengers are of United States origin, but that is rather a shot in the dark, I am afraid.

Mr. HAMILTON (*Notre Dame de Grâce*): You attribute a great deal of credit to the increase in passenger traffic to your improved sales program. You say:

The 1954 traffic increase must, however, be attributed not only to the normal growth of the industry, but also to general prosperity, and an energetic sales program in which national advertising was a key factor,...

In other words, with good advertising and good selling you can "bump" your passenger traffic up quite considerably over what you might otherwise have expected it to be?

Mr. MCGREGOR: We are sure that is the case.

Mr. HAMILTON (*Notre Dame de Grâce*): Do you think there is a peculiarity in the airlines business which makes that applicable to airlines as opposed to other traffic?

Mr. MCGREGOR: I think perhaps there is still a certain resistance to the idea of air travel, that requires quite a little effort to overcome, and I think for that reason that air transportation reacts more to an advertising and sales program than, perhaps, other forms of transportation.

Mr. MURPHY (*Westmorland*): I understand that there is a discount given on passenger fares to salesmen.

Mr. MCGREGOR: To accredited commercial travellers.

Mr. MURPHY (*Westmorland*): It has been brought to my attention that clergymen receive a similar discount from the railways, and I would like to you to tell us whether consideration has been given, or would be given, to a similar discount for clergymen. I have in mind particularly clergymen of the Jewish faith, Rabbis, who must of necessity get from one point to another very quickly in the execution of their duties. Can consideration be given to a discount to clergymen? I think it would be excellent to have them on planes.

Mr. MCGREGOR: That request has been made from time to time and consideration has been given to it. A negative decision was taken on the grounds that there was almost no end to the effect of "letting down the gates" with respect to reduced transportation fares for professions and classes of people. It would extend to people engaged in charitable work, and even the medicos might consider themselves to have a special claim. I admit there is a strong case for this, but that, so far has been the decision.

Mr. FOLLWELL: Does T.C.A. operate any charter flights, Mr. McGregor?

Mr. MCGREGOR: Yes, many, Mr. Follwell.

Mr. FOLLWELL: I wonder if you could tell us the approximate revenue you get from charter flights.

Mr. MCGREGOR: (I think) that is given in the report. As a matter of fact, our charter revenue in 1954 was \$250,307.

Mr. FOLLWELL: Does T.C.A. have any special arrangement with any other airlines with regard to interchange of travel?

Mr. MCGREGOR: Yes.

Mr. FOLLWELL: Do you confine your dealings to certain airlines?

Mr. MCGREGOR: No, we have inter-line agreements with virtually every other airline with respect to which the two services meet at a point.

Mr. FOLLWELL: You do not have any pool system like you do on the railroad?

Mr. MCGREGOR: No.

Mr. FULTON: May I take advantage of this opportunity to go back to the earlier section to ask Mr. McGregor why, in the financial review of operations—if you turn to the details of expenditure I notice that there is an item of \$1½ million—

The CHAIRMAN: What page are you on?

Mr. FULTON: Page 5. If you turn to page 26 for the breakdown of operating expenses, I notice there is about \$1-½ less charged for depreciation this year than last year, and I was wondering why, why when you are bringing into service this great new fleet of Constellations. I would have thought that the depreciation would have been greater.

Mr. MCGREGOR: There were two factors which worked during the year to influence that, Mr. Fulton. All the North Star fleet became fully depreciated and the depreciation charges with respect to the North Stars came to an end. We began to get the Constellations in the late spring, and we received them steadily during the year. The increase in the depreciation resulting from the introduction of the Super Constellations did not offset the reduction in depreciation brought about by the fully depreciated condition of the North Star fleet.

Mr. FULTON: I see.

Mr. HAMILTON (*York West*): I assume that your depreciation charges this year will be considerably higher.

Mr. MCGREGOR: That is correct.

Mr. HAMILTON (*York West*): Are you anticipating a much greater revenue from the use of the Constellations?

Mr. MCGREGOR: Yes, coupled with a slight reduction in the net. That will appear in the operating budget when it is tabled.

Mr. HAMILTON (*York West*): I see. To get back to page 9 in connection with these handling facilities. These passenger handling facilities which the T.C.A. has—is that a T.C.A. responsibility at each airport?

Mr. MCGREGOR: In each city. The reservation offices are in the city, not the airport.

Mr. HAMILTON (*York West*): I see. They are leased premises.

Mr. MCGREGOR: Yes.

Mr. HAMILTON (*York West*): It is the airports themselves under the Department of Transport who supply the actual facilities for booking and passenger handling?

Mr. MCGREGOR: The space is provided by the Department of Transport and leased by the companies, and rental is paid for space behind the counters and for the rooms used for cargo handling. The actual furniture is provided by the company at its own expense.

Mr. HAMILTON (*York West*): And the fixtures represent an improvement made by the company?

Mr. MCGREGOR: Yes.

Mr. HAMILTON (*York West*): I do not want to be obnoxious on this question. I did not set you up, as my namesake (Mr. Hamilton, Notre Dame de Grâce) did. I do not know how to reword this question, but can you tell us how much revenue would have been produced if the 50,000 free passengers had paid their fares? Do you keep track of it in any way?

Rt. Hon. Mr. HOWE: Where did these passengers travel to?

Mr. MCGREGOR: Exactly. In the case where a system pass has been issued we would have no record with regard to where a man travelled, or whether he travelled from Ottawa to Toronto, or from Ottawa to Vancouver, I am afraid.

Mr. HAMILTON (*York West*): You have records of the individual passengers, but no calculation has been made of the amount of fare that might have been received from their transportation.

Mr. MCGREGOR: No. I think we could make a stab at it. We could take our average passenger travel, which we know down to a mile, and apply the fare on that, and assume that the passholders travelled on an average basis.

Mr. HAMILTON (*York West*): In other words, we could put 50,000 over \$1,436,349 and divide that into the gross revenue and we would have the figure.

Mr. MCGREGOR: I was not thinking of doing it that way. We might take 50,000 and say the average travel over the system is about 500 miles, and apply the average rate which is about 6 cents a mile and get the figure that way.

Mr. JOHNSTON (*Bow River*): How do you know these people would have travelled over T.C.A. if they had not been given a pass? They might have travelled by rail.

Mr. MCGREGOR: In the case of the 30,000 employees I am certain that would be the case.

Mr. JOHNSTON (*Bow River*): Just how would you calculate it?

Mr. HAMILTON (*Notre Dame de Grâce*): Would you say that the airlines generally in Canada, perhaps your own, since you are speaking for T.C.A., are hopeful of better facilities being provided at the airports?

Mr. MCGREGOR: Yes, and there is quite a bit being done. If I may speak on that point a little, Mr. Hamilton, I think it is true to say that passenger handling facilities at airports in Canada are generally far below requirements. On the other hand airlines operating in Canada, including T.C.A. are asked to make recommendations as to what they would like to see done with respect to the airways—the introduction of facilities, approach lighting, runways, lighting and buildings and I think, at least in the case of T.C.A., the recommendations have stressed the need for work to be done on the airways and those facilities which have to do specifically with flying, they have rightly taken priority over the requirements for buildings. I think it is possible now to say that the airway system generally is in excellent shape, and that concentration of attention may now be directed towards the buildings.

Mr. HAMILTON (*Notre Dame de Grâce*): Having said that, do you think that your passenger traffic would be helped and improved and increased in volume if the people were perhaps a little happier and a little more easily handled at the airports?

Mr. MCGREGOR: Yes.

Mr. HAMILTON (*Notre Dame de Grâce*): That would be a substantial factor in increasing your traffic?

Mr. MCGREGOR: I would not be certain it would result in many more passengers, but certainly it would produce happier ones.

Mr. GILLIS: I would like to ask Mr. McGregor if the airlines and transport people have ever considered the possibility of handing over the complete operation of the airports to Trans Canada Airways. We get a lot of bad publicity when transport makes some mistake. It might be better, I think, if the whole operation of the airports was taken over.

Mr. MCGREGOR: We would certainly need a lot more money Mr. Gillis. In some cases it would be a very satisfactory arrangement, perhaps. In others it would not. For instance, Montreal and Gander are airports which are used at least as much by other airlines as by T.C.A. and there might be as little resentment on the part of the other lines if T.C.A. was the administrator of the airport and all its facilities.

Mr. GILLIS: I do not consider that an objection. I think we have a right to run our own show. There is another point which I would like to raise. On many occasions we look in the newspapers and find that we have flown to Labrador, or into the north country, and taken Eskimo children to some centre and put them in hospital. We get a lot of advertising out of it. Besides, it is right and proper that such flights should be made. But within Canada itself, there is no arrangement for this sort of thing to be done. I am going to cite a concrete case to the committee. Last November a man in my own area met with an accident in the woods. He fell and shot himself in the side of the face, badly damaging his jaw, and it was necessary to send him out to Montreal immediately, since the medical facilities required were not available in the area. He had to charter a private plane, which cost him \$1,500 for the flight from Sydney to Montreal.

I am reasonably sure that if there had been some arrangement whereby people interested in this case could have got in touch with your manager at the city airport, Mr. King, the transport manager or possibly Mr. Morgan, your public relations officer in Sydney, some alternative arrangement could easily have been made. But nobody knew how to go about it, and in the result that man had to pay \$1,500. I am sure that if someone had known what arrangements were possible, our people could have done something about the situation. Such an accident is liable in any community. I believe that if T.C.A.

can issue passes to employees and certain other people, and can cut the rates for certain travellers, and fly into the northland to evacuate Eskimo children to centres of population, there should be some understanding that in a case of the kind which I have described, something could be done to assist our own people.

There is a large flight of R.C.A.F. planes at Greenwood, and I am sure the transport manager at Sydney if he had had any standing or authority could have called on the R.C.A.F. station to do the job. This man cannot afford to pay \$1,500. He is mortgaged for life. In addition he will be under treatment for his injury for a very long time. His fare of \$1,500 is not even deductible for tax purposes. I mention this now because I think that if we are in the business of carrying out mercy flights in other parts of the world we should have some understanding about what will be done in our country in similar circumstances.

Mr. MCGREGOR: If I may speak on that point, Mr. Chairman, I would say that T.C.A. has been approached on several occasions, frequently with respect to the moving of medical supplies and so on, and every time we have been approached, something effective has been done about it. There was a case of dropping blood plasma urgently needed at Kenora from Winnipeg a few years ago. You will recall the unhappy circumstances when several sailors were in bad shape in Halifax a few months ago. There was an emergency shipment of antidote needed there, and T.C.A. flew them in on an emergency basis. I think it will be found that the company is rather soft hearted and cooperative any time it is approached in connection with such matters. But I think you are quite right, Mr. Gillis, in saying that machinery is not set up for this provision.

Mr. GILLIS: I just mention this so that you can consider it.

Mr. MURPHY (*Westmorland*): I wish to ask a question about airport facilities for Moncton—

The CHAIRMAN: I think we are coming to the item Property and Equipment. Probably Property and Equipment would be the better place. However, you may ask your question now.

Mr. MURPHY (*Westmorland*): Last year when the committee met I asked Mr. McGregor about the movement of some services from Moncton concerning passenger traffic. At that time there was a consolidation of the services of the department, so that they were all in one place of work—some 14 employees. I also asked at that time if any thought had been given, or if any movement was contemplated of T.C.A. facilities from Moncton, and I was answered that it had not. Six months later in the year, because of the installation of machinery or other circumstances, there was a move made, and Mr. McGregor came to Moncton and told us at that time that it had not been contemplated and that it had come up in between the reports of the committee.

I want to read to members of the committee a press report of a speech which Mr. J. W. Bourgeois, Progressive Conservative member for Moncton delivered on Thursday, February 10, 1955. This is the press report. The speaker was J. W. Bourgeois, Progressive Conservative, Moncton, moving the address in reply to the speech from the throne, and in it he said as follows:

Mr. Bourgeois recalled that during the 1954 session of the House he had called for action to forestall if possible further layoffs in the C.N.R. and relocation of certain Trans-Canada Air Lines services from Moncton to other points.

He said Premier Flemming "was active in this regard", and he believed that through the premier's efforts the transfer of T.C.A. services to Halifax was delayed a year.

That, in the light of the committee report, seems to be an erroneous statement, and I would like a comment on it.

Mr. MCGREGOR: Mr. Murphy, I think what I said at the committee last year was not, perhaps, as you have described it. I think I said the company was entertaining no specific plans for the movement of staff from Moncton to Halifax, and that was true at that time. The situation as I explained in Moncton had been gradually worsening with respect to the financial inefficiency of operating from Moncton when the majority of flights terminated at Halifax. I do not know what might be behind the newspaper report that you read, but about a year ago or a slightly longer period ago than that, there was a communication from the premier saying he had heard rumours that T.C.A. was about to move from Moncton to Halifax, and he strongly urged that that should not be done. Those rumours were at the time unfounded, as I told you, and nothing was done about it, and it was not until the spring schedule was prepared for the summer operations of 1955 that it became imperative if we were not going to spend \$200,000 unnecessarily, that the move should take place. At that time the decision was taken, and there was no deferment or retardation in the operation of that plan, thanks to the very cooperative attitude adopted by Moncton.

Mr. MURPHY (*Westmorland*): Then the company carried out their plans according to schedule and they were delayed by no one—the premier of New Brunswick nor the mayor of Moncton nor myself as the member for Westmorland County.

Mr. MCGREGOR: That is correct. They were delayed by the reluctance to disturb our people and disturb Moncton.

Mr. HANNA: I would like to ask Mr. McGregor if he could tell us what progress is being made with the installation of radio range stations between Edmonton and Vancouver direct in order to avoid the "dog leg" that is now being followed?

Mr. MCGREGOR: I believe that is really a question for the Department of Transport who are responsible for the installation of these radio and navigational aids but I think it would be true to say that the planning is done on that and where the matter stands with respect to the application of that airway frankly I don't know.

Mr. HANNA: Is there any member of the Department of Transport here who might be able to tell us what progress is being made?

The CHAIRMAN: Not that I know of. There is no one here who could do it.

Mr. FAIREY: I was going to ask Mr. McGregor if he would tell us how the arrangements are made for the transport of passengers from the airfield to the downtown. Is that by a contract arrangement with the various transportation companies?

Mr. MCGREGOR: Yes, we have a form of contract that applies generally across the system. There are one or two exceptions under it where the distance is particularly long, as for instance, Hamilton to Malton but we enter into contracts with the selected ground transportation companies which usually are one of the taxi companies in the city.

Mr. FAIREY: You do not run any yourself?

Mr. MCGREGOR: We operate none of them ourselves.

Mr. HAMILTON (*Notre Dame de Grâce*): Mr. Chairman, in line with one or two comments which were made previously and in order that the members of this committee may best know how to make certain suggestions would Mr. McGregor give us some indication of, say, four or five cities where he feels that the passenger handling facilities of the airports are most in need of improvement from the viewpoint of your own air line?

Mr. MCGREGOR: Perhaps I can best answer the question; Mr. Hamilton, by saying that I think extensive work is most desirable at virtually every city in Canada except Vancouver and Moncton.

Mr. HAMILTON (*Notre Dame de Grâce*): I would have thought that there might be certain major ones such as Malton and Toronto, Ottawa and Montreal where proportionately and absolutely the need was far greater than at some other airports where the facilities might be inferior or where your traffic was so small that it was not a major item and that is what I was looking for. If we were to go through the whole Department of Transport, for example, and we said "We think you should get something done here in Toronto, Montreal and Ottawa right away" we would like to know that we were pushing on behalf of the air lines in the spots where the air lines would most like to see us push because we do not want to advocate an expenditure of millions of dollars of public funds without having some facts to back them up.

Mr. MCGREGOR: As I mentioned before, each year the air lines are requested to make their requests and to do so on an order of priority basis and that has been done and I think the Department of Transport have well recognized the comparative urgency between one city and another and I think that it is true to say at least from the air line standpoint that Montreal is in the greatest need and it is also true to say that the greatest concentration of planning by the Department of Transport has been applied to Montreal. The reason why I say Montreal is the worst is that we have two terminals in one airport, one for Atlantic and one domestic. It is extremely expensive and most inconvenient for passengers connecting between domestic and trans-Atlantic services.

The plan for a permanent Montreal terminal has been finalized sometime ago and my understanding is that work will be commencing early this spring. I would think the next order of urgency would be Toronto closely followed by Winnipeg and I am speaking of a point right off our own system now but I would think Quebec City should certainly have something done.

Mr. LANGLOIS (*Gaspé*): There is a plan in Quebec for a new terminal building and I understand work will commence this summer.

Mr. MCGREGOR: Yes, but to answer your question there is an order of priority established and recognized by the department.

Mr. HAMILTON (*Notre Dame de Grâce*): One question arises from what you have said. Do you feel that once the plans have been completed in Montreal that it will be completely satisfactory, that is, is your line satisfied with the proposed development in Montreal?

Mr. MCGREGOR: I personally have not seen the final plan but I would think generally speaking that would be right. There is always the problem as to for how long ahead one should build but I understand the plan is capable of expansion as air line traffic grows.

Mr. HAMILTON (*Notre Dame de Grâce*): You have not seen the plan yourself?

Mr. MCGREGOR: I personally have not but our people have.

Mr. FAIREY: I didn't hear what you said about Vancouver and Moncton. Did you say they were good or were bad?

Mr. MCGREGOR: Good.

Mr. JAMES: There has been some question of using Oshawa airport as an alternative to Toronto?

Mr. MCGREGOR: Yes.

Mr. JAMES: Any comments to make at this time?

Mr. MCGREGOR: There has been no action taken on the question of the Oshawa airport from the standpoint of installing facilities to fit it as an alternate. Weatherwise our studies would indicate that it would be a good one.

The CHAIRMAN: Shall the item carry?

Mr. FULTON: On the Victoria-Seattle run, what are the figures there. What is the situation in regard to revenue and so on? Is that a profitable operation?

Mr. MCGREGOR: I would say it was marginal, Mr. Fulton. There are three DC3 flights daily which are not too expensive to operate and they are well patronised particularly in the tourist season so I would think it could be said to be not a deficit operation.

Mr. FULTON: What are your plans in connection with replacing the type of aircraft.

Mr. MCGREGOR: On that run?

Mr. FULTON: Yes.

Mr. MCGREGOR: None.

Mr. FULTON: The reason I say that is I have only made the flight once and I am not an expert, but it so happened I had to make a trip to the States and returning I came from Seattle to Victoria and it was particularly noticeable that the aircraft did not compare favourably with the American; that it was just a small looking thing and there was very busy looking aircraft there. It was noticeable the one serving the point in Canada was so small. That is why I wondered if you had any plans for replacing it?

Mr. MCGREGOR: I am afraid it would be rather expensive to try and relate the aircraft on that run to trans-continental aircraft in the States.

Mr. FULTON: I suppose your position really is that the revenue does not justify it, at least at the present time.

Mr. MCGREGOR: The traffic volume does not. The desire is to have a reasonable frequency and if we put on a larger aircraft we would have to cut down to one flight a day and that would deteriorate the service.

The CHAIRMAN: Question?

Mr. FAIREY: In fact that is a continuation of the Vancouver-Victoria flight?

Mr. MCGREGOR: That is correct.

Mr. BELL: Supposing there were a municipally owned airport and they had good potential by increasing their traffic would you people, T.C.A., make any recommendations or have any liaison with the Department of Transport as to their taking over the airport or increasing their facilities there in any way? I understand the final decision would be the policy of the Department of Transport. But I was wondering if you would recommend it or say anything to the department about the situation?

Mr. MCGREGOR: We express our views as to what facilities would be desirable from an airline standpoint. And if I understand it correctly, the one or two cases of municipally owned airports in Canada closely associate their plans with the Department of Transport—in fact the Department of Transport so far as I know makes the expenditures with respect to facilities on the airports.

Mr. BELL: Would you care to comment on the situation in Saint John? Is this considered an up and coming municipal airport? I don't want to put you on a spot over it but they have a completely municipal airport at Saint John, New Brunswick. Are the facilities fairly good there?

Mr. MCGREGOR: Yes, but I don't think it is quite correct to say that it is completely municipally owned. The property is provided by the municipality, the runways are provided by the Department of Transport, also the radio and lighting facilities. The municipality has put up a building and has since extended it and I would say it is adequate and modern.

Mr. CHURCHILL: I have a question in regard to passengers and the making of reservations. One of the minor nuisances of air travel is that question of reconfirmation on return flights. Have you been able to make any improvements in that system with a means alleviating that necessity?

Mr. MCGREGOR: Unfortunately we covered that point before you came in and I explained why the reconfirmation procedure existed which in turn is related to the fact that we have no protection to our revenue arising from the failure of passengers to show up for departure of the aircraft. The whole object of the reconfirmation procedure which is just as much a nuisance to the airlines as to the passengers is to make sure that seats that are not being picked up as originally planned, are available for people who want to travel.

Mr. CHURCHILL: You have not been able to effect any change in regard to that?

Mr. MCGREGOR: The only change which has been made in the last few years is one for the worse in which the reconfirmation interval moved from three hours to six hours and I hope we will be able to go back to three hours again. We went to six hours in order to fit in with arrangements set up in the United States about a year and a half ago.

Mr. HAMILTON (*York West*): Along that line has there been any thought given to using the same system that the railways use in their sleeping car accommodation. In that case if you do not telephone in and give your ticket number and cancel you are left with your ticket. Could not some type of arrangement be made of that kind so that there is a responsibility and otherwise your ticket is considered to have been used?

Mr. MCGREGOR: Of course you are in a much better position to state the facts on this than I am, but we are informed that we cannot legally retain any part of the ticket unless, as mentioned earlier, we divided the ticket price into two pieces, one for transportation and one for reservation service. We could then, if the passenger fails to use the space retain the reservation money and refund him the transportation portion.

As I also explained earlier when this was being discussed there is an unlimited set of complications associated with "no-show" penalties because it can be claimed by the passenger that he did 'phone and the girl answered and he said: "I won't be on flight three. If you have no record that is not my fault and I should have a refund". It is a major problem and has been given a great deal of thought and, of course, unlike the railways we have the one ticket that covers the flight and the reservation of space too.

Mr. HAMILTON (*York West*): I cannot keep up with the chartered accountants but going back to the free transportation and one answer you have given me of your methods of calculation of 50,000 free passenger miles or 500,000 air miles of travel. If I multiply that by six cents per air mile my figure comes out to about \$1,500,000 free traffic. Is that reasonable?

Mr. MCGREGOR: Well, with the reservation that they probably would not have travelled otherwise.

Mr. HAMILTON (*York West*): In other words, if this traffic were pair for, and getting back to the question of having no cost to carry them because they are in the part of the aircraft that is not being used, then if they were paid for you would show no cost against it and an operating profit of about \$2 million instead of \$500,000. Would that be right.

Mr. MCGREGOR: I think that is rather a broad assumption.

Mr. HAMILTON (*York West*): It may be irrelevant as far as you are concerned, but I am saying is that approximately right?

Mr. MCGREGOR: It could be possible.

Mr. HAMILTON (*York West*): One other question dealing with tourist service and I think more probably it is on equipment because it is on page 9. In relation to the airlines in the States over the last three or four years—this question has nothing to do with the reliability or form of aircraft at all because

I see it is given a very good boost in a later page—would the North Star not be considered a tourist type of aircraft in the United States during the past two or three years?

Mr. MCGREGOR: No. A very close approximation of the North Star is the DC-6 as distinct from the DC-6-B.

Mr. HAMILTON (*York West*): Are you sure it is not closer to the DC-4?

Mr. MCGREGOR: Quite sure. The DC-4 is not pressurized and the DC-6 is. The North Star and the DC-6 have about the same wing span and the same undercarriage but with a pressurized cabin of the approximate dimensions of the DC-4.

Mr. HAMILTON (*York West*): You feel the amenities and riding comfort are equivalent to the planes in the states in the last three or four years?

Mr. MCGREGOR: Since the installation of cross-over exhaust I would say yes.

Mr. HAMILTON (*York West*): When was that put in—late in 1953?

Mr. MCGREGOR: We have had them in during the last year and a half, just about.

Mr. HAHN: Mr. McGregor, in these short hops such as from Vancouver to Victoria and Victoria to Seattle where it takes you as long a time to get to the airport as it does to get to the destination, what consideration, if any, has been given to the use of helicopters between those particular points?

Mr. MCGREGOR: Mr. Hahn, it has been very closely investigated both by our own airline and many others and so far it does not come within a very wide margin of proving in financially. Helicopters are small in capacity, extremely expensive to operate because of severe maintenance problems associated with the rotors and landing helicopters in congested areas in cities has many operating problems. So far, helicopters are considered to be extremely difficult to fly on instruments and to bring them into gusty areas in the vicinity of high buildings is not thought well of. There are some services operating in Europe with helicopters and I am told they are extremely unprofitable so far. I don't know if that will always be the case, but so far it is.

Mr. HAHN: I was thinking of the ones in Europe.

Mr. LEGARÉ: In view of your service overseas do you think the name Trans-Canada should be applied?

Mr. MCGREGOR: Well, it is not very descriptive of that operation going over the ocean. On the other hand, as you know, we also use the name Air Canada.

Mr. CARRICK: I would like to ask one or two questions along the lines of the questions asked by Mr. Hamilton of York West. My understanding is when you try to calculate what the Trans-Canada Air Lines would have paid if they could have used that space that was used by persons on passes you have to proceed on the basis that they would not get any revenue out of it unless those places were sold and paid for. Am I right in thinking that the only reason you let these people use these passes is that they have not been sold and paid for and the plane would travel empty anyway if these people with passes did not use them?

Mr. MCGREGOR: That is right, Mr. Carrick. The passes are issued on a space-available basis which simply means that if at the time of departure there is neither a reservation passenger there or a revenue "no show" passenger then the pass holders will travel.

Mr. HAMILTON (*York West*): It would not apply to all passes?

Mr. MCGREGOR: Not to all passes.

The CHAIRMAN: Shall the item carry?

Carried.

"Mail Traffic."

Mr. HAMILTON (*Notre Dame de Grâce*): I notice, Mr. McGregor, that there is almost exactly the same proportionate increase in mail traffic and commodity traffic, 28 per cent. On April 1, last year, we commenced this all-up mail service. Had that any effect on the increase in the mail tonnage?

Mr. MCGREGOR: Mr. Hamilton, the all-up mail has been in force much longer than that. There was a change made in the permissible weight of a letter that would travel at ordinary first-class rates on the all-up service, but the all-up service has been in force for about five years.

Mr. HAMILTON (*Notre Dame de Grâce*): That really was the point I wanted to make, that the effect of the all-up mail service was very minor in your increased mail traffic carried this year because it was only due to carrying a limited number of somewhat heavier letters?

Mr. MCGREGOR: Yes.

Mr. HAMILTON (*York West*): Does Trans-Canada Air Lines contribute in any way to the advertisements that are now being seen almost daily in the press advertising all-up mail?

Mr. MCGREGOR: No, we include mail in a lot of our general advertising which is mainly directed at passenger and commodity traffic and frequently those same advertisements mention the desirability of your letter going by air. But we do not contribute to the post office advertising program in any way.

Mr. HAMILTON (*York West*): I see. That mail is going to go all-up, in any case, whether that advertising is in the newspaper or not, is that right.

Mr. MCGREGOR: On certain routes.

Mr. HAMILTON (*York West*): Providing the weather is satisfactory and between main line points it will go airmail?

Mr. MCGREGOR: I think the stipulation, Mr. Hamilton, is providing its delivery is speeded up by the use of air it will go that way.

The CHAIRMAN: Mail traffic, will it carry?

Mr. HAMILTON (*York West*): Before you go on, Mr. Chairman, is the airmail now being carried on a straight revenue basis, that is, does the placing of the stamp on each envelope constitute what eventually is paid T.C.A. or does something have to be added in?

Mr. MCGREGOR: Are you asking does the revenue from the sale of stamps cover the air carriage charge?

Mr. HAMILTON (*York West*): You may not know the answer, but that is what I am asking.

Mr. MCGREGOR: I don't know domestically. I do know that it very much more than covers it on the transatlantic service.

Mr. HAMILTON (*York West*): In other words, you cannot tell whether the per ton charge for mail by the post office actually coincides or is less or greater than the amount of the postage on a letter?

Mr. MCGREGOR: No, the post office have collection and delivery charges other than the actual transportation of mail between airport and airport. I do not know what they are, but I do know I calculated the number of letters per pound on the transatlantic and the transatlantic postage rates that applied and on that basis revenue would appear to be substantially greater than is paid to us for the air transportation of that mail.

Mr. HAMILTON (*York West*): As far as the domestic use of aircraft in this service is concerned it may not be paying its way, that is, from the post office standpoint?

Mr. MCGREGOR: I cannot express an opinion on that.

Mr. LANGLOIS (*Gaspé*): The Post Office department would indicate that.

The CHAIRMAN: Carried?

Carried.

"Commodity Traffic."

Mr. FULTON: Are you contemplating an extension of the service Montreal-Toronto-Winnipeg-Vancouver?

Mr. MCGREGOR: Yes, Mr. Fulton, within the next six weeks.

Mr. HAMILTON (*York West*): Mr. McGregor, this system is utilizing the North Star aircraft—is that what is going to be used on this?

Mr. MCGREGOR: No, the service referred to in the report, the five flights a week to Winnipeg are Bristol freighter aircraft. These will be substituted on that run and will be completed to Vancouver with converted North Stars.

Mr. HAMILTON (*York West*): Would you go over that again? The Bristol freighter is now flying the short-run freight. Is that service with the Bristols going to be extended to the coast?

Mr. MCGREGOR: No, the Bristols will be taken off the trans-continental run and consigned to shorter hops and the trans-Canada service on a five-day a week basis will be extended to the coast and operated by converted cargo North Stars.

Mr. HAMILTON (*York West*): How many planes do you expect to have in that type of service?

Mr. MCGREGOR: Three.

Mr. HAMILTON (*York West*): Have you completed conversion of any of them yet?

Mr. MCGREGOR: Very nearly.

Mr. HAMILTON (*York West*): Does that provide the same type of cargo handling facilities you get out of the Bristols?

Mr. MCGREGOR: No, there will be restrictions on what can be loaded with respect to dimensions. The weight carried will exceed that of the Bristol and the speed of the transportation will, of course, be about double.

Mr. HAMILTON (*York West*): I assume there has been a slight delay in getting that service into effect. I think it was referred to a couple of years ago.

Mr. MCGREGOR: I seem to remember it.

Mr. HAMILTON (*York West*): You thought then that it would be within about a year.

Mr. MCGREGOR: Yes.

Mr. HAMILTON (*York West*): This is the same service that was proposed then?

Mr. MCGREGOR: That is correct.

Mr. HAMILTON (*York West*): In connection with the graph indicating the increase in this air freight traffic it appears that there has been a fairly acute or a sharp angle from 1953 to date, that is, comparing it with the previous increase in traffic. Now, did that result immediately after putting on the Bristol aircraft on inter-city hops? Were they in service during this period?

Mr. MCGREGOR: Mr. Hamilton, I think the major factor in that steepening of the curve was due to a reduction in rates.

Mr. HAMILTON (*York West*): And that was the reduction which was applied for at least two years ago?

Mr. MCGREGOR: Right.

Mr. HAMILTON (*York West*): Has it turned out to be an economical operation at the new rates?

Mr. MCGREGOR: Thus far, yes.

Mr. HAMILTON (*York West*): Do you anticipate the same rate of growth as you have now once you get the North Star aircraft into transcontinental service?

Mr. MCGREGOR: I do not think we will see another 34 per cent increase because we won't be making a further 30 per cent reduction in commodity rates and they certainly had an accelerating influence on the rate of growth. I think we will see the percentage rate of growth tend to flatten out.

Mr. HAMILTON (*York West*): On the North Stars have you calculated the amount of the conversion cost?

Mr. MCGREGOR: Yes.

Mr. HAMILTON (*York West*): Could you tell me what it is?

Mr. MCGREGOR: Yes, about \$25,000 an aircraft.

Mr. HAMILTON (*York West*): It is almost exactly what you had calculated previously?

Mr. MCGREGOR: Frankly I didn't remember but I am glad to hear it.

Mr. HAMILTON (*York West*): That will be the only amount then that you will have to calculate depreciation against, will it as far as this air freight service is concerned?

Mr. MCGREGOR: If we capitalize that modification, yes.

The CHAIRMAN: Shall the item "Commodity Traffic" carry?
Carried.

Mr. HAMILTON (*Notre Dame de Grâce*): Commodity ton miles, Mr. McGregor, represents a total—would it be correct to say—of air freight and air express?

Mr. MCGREGOR: Yes.

Mr. HAMILTON (*Notre Dame de Grâce*): Nothing else?

Mr. MCGREGOR: Nothing else.

Mr. HAMILTON (*Notre Dame de Grâce*): I will tell you there is a small discrepancy which disturbs me. You quote in your report 10,192,000 commodity ton miles, roughly, and then in the table on page 6 if you take the total of the air freight and air express they only total up to 10,132,000, so there is a discrepancy of about 60,000 ton miles there.

Mr. MCGREGOR: I was not quite correct in saying that was everything. The difference, 60,000 ton miles, represents diplomatic mail carried.

Mr. HAMILTON (*Notre Dame de Grâce*): So that is probably where your 60,000 ton miles came from?

Mr. MCGREGOR: Yes.

Mr. HAMILTON (*York West*): I would like to ask one further question in connection with this service. In connection with the North Star aircraft, will you be restricted in the amount of air freight that will be available since we won't find feeder lines equipment of the same character or category available as before at the stopping point or unloading point?

Mr. MCGREGOR: I do not think so, Mr. Hamilton. Projects such as the DEW line are bringing into the country a lot of freight type aircraft of various sizes, and I think we will be pretty well supplied with feeder lines.

Mr. HAMILTON (*York West*): Do you believe now it will be possible unload at Winnipeg and handle this type in a DC-3—the type of freight you are looking for?

Mr. MCGREGOR: Not in the volume the North Star carry.

Mr. HAMILTON (*Notre Dame de Grâce*): Is there any prospect of a substantial increase in commodity ton miles in the coming year due to an expanded service in connection with the DEW line or anything else?

Mr. MCGREGOR: Not with respect to T.C.A.

Mr. HAMILTON (*Notre Dame de Grâce*): Why would that be? Is T.C.A. being organized in order to participate in this lift?

Mr. MCGREGOR: The T.C.A. feeling in this matter is that none of the DEW line transportation is involved in our present route pattern. It is not normal to the requirements of ordinary traffic and it was none of our business to get into DEW line operations. I understand the DEW line activity will be by surface carrier to the rail head and that it will only operate in the extreme north by air.

Mr. HAMILTON (*Notre Dame De Grâce*): The equipment which might be used for those larger purposes—is it all being used continuously and effectively on your normal routes?

Mr. MCGREGOR: Very heavily.

Mr. HAMILTON (*Notre Dame de Grâce*): And there is no possibility of putting in for that traffic.

Mr. MCGREGOR: Not unless we acquired additional aircraft for the purpose.

Mr. HAMILTON (*York West*): Have you given any thought to the use of North Stars on trans-Atlantic air freight business?

Mr. MCGREGOR: We have.

Mr. HAMILTON (*York West*): I wondered if T.C.A. was interested.

Mr. MCGREGOR: We have looked into this rather carefully. The Super Constellation provides adequate cargo space on an ancillary basis.

The CHAIRMAN: Shall the item carry?

Carried.

The CHAIRMAN: Property and equipment. This deals largely with aircraft equipment, I think.

Mr. HAHN: Under this section we can consider the two major aircraft accidents which took place during the year. We have here a considerable controversy about them in the House, and certain accusations were made by members of parliament in respect thereto, and I think this is the place to clear the matter up, and deal with any misunderstandings which may have occurred. I was going to ask a question in connection with the Moose Jaw crash. Are the military airports advised when to expect T.C.A. planes, and told when to expect T.C.A. planes en route to their destination—

Mr. MCGREGOR: I would be very glad to answer your questions, Mr. Hahn, but I understand that this is referred to specifically in a later paragraph.

The CHAIRMAN: At the bottom of page 13. However, it comes under this heading.

Mr. MCGREGOR: Could I have the question again Mr. Hahn?

Mr. HAHN: Are the military airports advised when to expect T.C.A. planes en route to their destination, stating the time they will be over, particularly in the case of airports such as the R.C.A.F. training station in Moose Jaw?

Mr. MCGREGOR: That proposal was made very shortly after the Moose Jaw accident at one of the investigations which took place. It was carefully looked

at and the decision was that it would be an unwise arrangement to put into force for the reason that it would probably create in the minds of all the pilots concerned, both military and civil, a perfectly false sense of security.

There is no difficulty whatever with respect to having T.C.A. or any other commercial aircraft operating on the airway communicate with the control tower at those airports. There is, however, great difficulty in transmitting or relaying that information to the 30, perhaps 40 military aircraft which may be operating in the area. Some are operating on one radio frequency, and some are operating on another. Some are flying within range of the tower transmitter, and some are not. And if that message of the approach of a civil aircraft was relayed from the tower and the impression created that because that had been done, there would be no military aircraft found in the airway space constituting the airway, it would be entirely wrong. The decision taken at that time, not by T.C.A. was that it should not be done. Another instance in relation to that which I think is worthy of reporting is that with respect to Moose Jaw, for instance, T.C.A. is operating 12 flights a day in both directions past that station, which represents about 40 per cent of the total traffic on the airway. This means that there are something like 30 or 40 services operating past the station. To have a condition of alert existing for even 15 minutes with respect to each one of these aircraft would simply mean that the airway space would be permanently closed to military aircraft.

Mr. HAHN: Does C.P.A. advise them, do you know?

Mr. MCGREGOR: C.P.A. follows the exact rule which is observed by all airlines, that if it is approaching an airport at which it intends to land, it notifies the control tower of this intention. C.P.A. lands at Moose Jaw, and therefore they pass a message to that effect. If they do not intend to land at Moose Jaw they do not do it.

Mr. HAHN: The regulations where they do not land are similar to yours.

Mr. MCGREGOR: Yes.

Mr. HAHN: Another charge which was made was in connection with the elevation at which the planes flown by T.C.A. were to fly. If the T.C.A. planes maintained an altitude of 8,000 feet, I believe it would do much to overcome the accident risk, because the Harvards at this training school have a maximum altitude of only 6,000 feet, I believe.

Mr. MCGREGOR: Yes. I think there is a modicum of truth in that statement. While the Harvards can go higher than 6,500 feet, they do not normally operate at altitudes greater than this, and our aircraft are normally operated higher than 8,000 feet with respect to the west bound planes and 9,000 feet as a desired minimum with respect to east bound planes. But the reason why it is most unwise that there should be a required minimum altitude at which our aircraft can be operated on the airway is that, particularly on the prairies, it is frequently the case that the difference between 6,000 and 8,000 feet will mean the difference between flying in entirely safe conditions and flying in conditions of freezing rain, ice formation on the aircraft, turbulence due to thunder storm activity and so on. All aircraft operating on the airway under scheduled airline regulations file what is known as a flight plan, and in that flight plan the altitude at which the operation is going to take place is recorded and distributed over the traffic control ground circuits and that aircraft is not permitted to depart from that altitude without making a radio request for permission to so alter its altitude and receiving definite confirmation that that request has been acceded to.

Mr. HAHN: It might be better for safety, if our recommendation was that the R.C.A.F. should be asked to keep its aircraft at a lower level?

Mr. MCGREGOR: That is right. It has been done, and I would like to say that the attitude of the chief of the air staff is extremely cooperative in this matter. It is unfortunate that the station should be located so close to the airway and the suggestion has been made that trainer aircraft crossing the airway should do so below a minimum altitude until they are sure they are clear of the airway.

Mr. HAHN: There are two elements there. One is that unless you signal ahead there is no way of knowing that the airway is clear. Do you give any warning to the control tower?

Mr. MCGREGOR: We know our own position at all times.

Mr. HAHN: Does the R.C.A.F. flight know your position?

Mr. MCGREGOR: Probably not. But as I say there are as many as 30 flights in each direction going past almost in a continuous stream.

Mr. HAHN: Then to be sure that it is safe for the training planes to go up to that level again, we should at least contact the station to let them know our plane is passed. They would have no other way of knowing, would they?

Mr. MCGREGOR: There is the difficulty of transmitting that information to the training aircraft which I mentioned earlier.

Mr. HANNA: I realize that.

Mr. MCGREGOR: And also as I pointed out, I think the air force feels that traffic on the airway is such that they would be kept off it more often than not, and that the better arrangement would be to have a band of altitudes reserved for the use of civil aircraft on the airway, and that the training aircraft or other military aircraft should pass either below the bottom of that band or above it, and I think the altitudes suggested have been 3,000 and 25,000 feet, the space above 25,000 feet being reserved for the operation of jet aircraft.

Mr. HAHN: The other factor which has been mentioned is that it was undesirable—you used the term “unfortunate”—that we had the R.C.A.F. station along the same route. Would you be suggesting that we should remove our R.C.A.F. station from the route?

Mr. MCGREGOR: As a taxpayer, no.

The CHAIRMAN: Would it be possible to move the airstrip so that the scheduled flights would not pass over training depots?

Mr. MCGREGOR: There is only one case in Canada that I know of where we do actually pass over an R.C.A.F. airport. The airway lies, I think, seven miles north of the Moose Jaw training station.

Mr. CHURCHILL: I have some questions to ask in regard to what has been said in respect of the airways elevation. Have those suggestions that restrictions should be placed on the R.C.A.F. with regard to the altitude at which their flights should be made, actually been put into operation?

Mr. MCGREGOR: The regulations under which the R.C.A.F. operate have been very considerably modified during the past year, and the regulations as they now exist—if they are adhered to, are, in my opinion, entirely safe. The adoption of the band system has not, I believe, been promulgated, and I do not know that it will be. I rather think it may. On the other hand, the R.C.A.F. has agreed that all training operations will be conducted at least five miles clear of the edge of the airway.

Mr. CHURCHILL: I suppose that with or without these bands or restrictions, the safety of the pilot and the plane, depends upon the pilots own visual observation, does it not?

Mr. MCGREGOR: No, Mr. Churchill. I think that is not correct. We are getting rather technically involved, but there are two sets of regulations—I.F.R. and V.F.R. The regulations are such in both cases that regardless of

whether a lookout was possible, there could be no close approach of aircraft if the regulations are observed, and the reason that is the case is that aircraft moving in one direction on an airway are always separated by 1,000 feet of altitude from aircraft moving in the other direction. There is one level of altitude with respect to eastbound traffic and another with respect to westbound aircraft. Aircraft crossing through the airway are required now to do so, whether they are proceeding under visual or instrument conditions of flying, at an altitude of 500 feet, midway between the thousand foot multiples.

Mr. CHURCHILL: Are these regulations applicable all across Canada.

Mr. MCGREGOR: Yes.

Mr. HAHN: How long have they been in operation?

Mr. MCGREGOR: With respect to visual flying regulations, that has only been in force for a short time.

Mr. SEAGRIM: About six months.

Mr. CHURCHILL: That sounds like quite an improvement. On the other hand there is the danger that pilots will accept the fact that there is no possibility of anyone being in their way. They know that an approaching plane should either be below them or above them. Is there any danger there that a lookout might not be maintained as closely as in the past?

Mr. MCGREGOR: I do not think so. When visual conditions exist, and particularly in areas where there are known to be training planes being operated, there is a close lookout kept. But your point is well taken, because that was one of the reasons—this false sense of security referred to—why we and the air force doubted the wisdom of this announcement of the approaching passage of aircraft.

Mr. CHURCHILL: I am not putting this forward by way of criticism of the pilots, or anything of that kind. But I think we are all rather concerned about these things, and it is only two years ago I was mentioning how pleased everybody was with the remarkable record of safety of the T.C.A. So the questions I am asking are not of a critical nature at all. Is there a blind spot in the cockpit on the planes that you have now?

Mr. MCGREGOR: Yes. There are posts supporting the deck of the aircraft in exactly the same manner that there are in the windshield of an automobile. On the other hand these posts are kept as narrow as structural necessities will permit, and it only requires a very small movement of a pilot's head to enable him to see on either side of them and eliminate the blind spot.

Mr. CHURCHILL: I understand that on some occasions there is an automatic control system which is made use of?

Mr. MCGREGOR: An automatic pilot.

Mr. CHURCHILL: Is the same visual lookout maintained when the automatic pilot is being used?

Mr. MCGREGOR: Probably a more effective one.

Mr. CHURCHILL: There is less to look at on the panel?

Mr. MCGREGOR: Exactly.

Mr. CHURCHILL: Are the pilot and co-pilot normally together in the cockpit at the same time?

Mr. MCGREGOR: Yes.

Mr. CHURCHILL: And both are required to keep as good a lookout as possible?

Mr. MCGREGOR: Yes.

Mr. CHURCHILL: But they are hindered, are they not, by the complexity of the panel, the making of the log, and things of that nature?

Mr. MCGREGOR: Exactly. They have several other duties. They make a record of their instruments, a check is maintained on the consumption of fuel and a record is kept of the weather conditions encountered, but I stress the point again that if the regulations are adhered to by all aircraft concerned, the lookout is not the important thing, and it is further the case that a great proportion of our flights are carried out in overcast conditions where a lookout is not feasible.

Mr. CHURCHILL: And with the increasing use of the airways, naturally the danger has increased, and there is a constant need for the review of the regulations.

Mr. MCGREGOR: That is quite right.

Mr. GILLIS: What are the possibilities of using radar in aircraft?

Mr. MCGREGOR: This is a very live subject among the technical groups of airlines at the present time. There have been one or two radar installations tried out, and so far we, among other airlines, have agreed that they are not effective.

One must never lose sight of the fact that modern aircraft approaching each other on anything like opposing courses are shortening the distance between each other at a fantastic rate. In the case of Moose Jaw, I think it was calculated to be between 350 and 400 miles an hour, and this is with slow aircraft. It is considered that radar cannot pick up an aircraft with infallibility at the present time.

Mr. HAMILTON (*York West*): I think all of us notwithstanding these accidents are pretty proud of the safety record of Trans Canada Air Lines.

Mr. MCGREGOR: Thank you very much.

Mr. HAMILTON (*York West*): When we read the number of passenger miles flown here and the few fatalities we have had it is a pretty remarkable record. I was amazed a bit in connection with the Brampton and Malton accidents, and I think this deals with equipment too—I read about the engineering drawings in which apparently some of the parts of the aircraft were reversed, and I wonder what kind of check you make on your maintenance. Why should that not show up? I assume it must have shown up somewhere because if they were installed correctly, they were installed exactly opposite than the manufacturer's specifications.

Mr. MCGREGOR: When a new aircraft is received it is checked against manufacturer's manuals. If my information is correct, there were no errors in either the construction of the aircraft or its rigging or the actual condition that existed; there was a discrepancy, however, between that manufacturer's drawing, and the manual due to the fact that the drawings had not been modified to accord with the manual which was later issued by the manufacturer, the Lockheed company.

Mr. HAMILTON (*York West*): How often would that particular part of the aircraft be checked?

Mr. MCGREGOR: The parts of an aircraft that are checked, once it goes into normal operation varies—at least the interval between the checking times varies, depending on the nature of the part. There are checks numbers one to seven designated with respect to each aircraft. The number one check is done between each operation of the aircraft, the number two between longer intervals of operation etcetera. A number 7 check would probably be done after several thousand hours.

So far as the control systems are concerned, they are one of the very frequent check points.

Mr. HAMILTON (*York West*): That at least would be really a check before take-off almost every time, would it not, because the pilot himself would know whether his controls were working the flaps and tailflaps properly.

Mr. MCGREGOR: One of the pre-takeoff checks is a full test of all three sets of controls.

Mr. HAMILTON (*York West*): It would not have been possible in this case for the plane to have made the flight at all without reacting.

Mr. MCGREGOR: No, Mr. Hamilton, there was nothing wrong with the aircraft.

Mr. HAMILTON (*York West*): It would be known right away

Mr. MCGREGOR: Yes.

Mr. HAMILTON (*York West*): Under those circumstances there might have been a possibility on a major overhaul of someone down the line making a change, mightn't there?

Mr. MCGREGOR: Yes, but aircraft are test flown after overhaul before any revenue passengers are carried in them.

Mr. HAMILTON (*York West*): That is an additional precaution, that even if it were due to some error in the manufacturer's overhaul manual, it would have shown up on a test flight prior to passengers being carried?

Mr. MCGREGOR: That particular aircraft had been in use for crew training purposes, and later for regular service for over three months.

Mr. HAMILTON (*York West*): Can you tell me how long before flight you would have had an overhaul check which would have affected that part of the aircraft?

Mr. MCGREGOR: There was nothing wrong with any part of the aircraft.

Mr. HAMILTON (*York West*): But how long before would there have been a check of that part?

Mr. MCGREGOR: I can't say that. It might have been the day before or a week before.

Mr. HAMILTON (*York West*): In connection with these regulations that we have been talking about and that Mr. Churchill is talking about, are you satisfied now we have got the best regulations we can obtain for controlling aircraft in the area at airports that your company is using?

Mr. MCGREGOR: I would say the regulations are very good. Naturally an airline or any other operator would always like to see the millenium in which any aircraft not operated in the airway ever approached within 10 or 15 miles of it so I can't give an unqualified yes to your question, but I can say the regulations, if adhered to, are entirely adequate and should eliminate any possibility of a repetition of Moose Jaw.

Mr. HAMILTON (*York West*): Considering you say you can't ask for more, have you got anything to offer this committee as something you would like to see which would be an improvement?

Mr. MCGREGOR: Other than the one we have already referred to in which there would be a reserved band of altitudes I have no recommendations.

Mr. BELL: Mr. McGregor, some people were always inclined to say when this good record of Trans Canada Air Lines is mentioned: "Oh well, that is all right, but we have more rigid flying weather at the extreme". Would you comment on that? I am not trying to dispel the good record for a minute, but quite often people will say we don't go up too often in the bad weather. What is the story on that?

Mr. MCGREGOR: I would say we operate in bad weather more than any other scheduled airlines in the world, because we have the weather conditions that require it. Our limitations with respect to permissible altitudes and visibility at airports are exactly the same as used by other operators under the same conditions.

Mr. BELL: Then the fact that there is not any strict competition doesn't matter; in other words, if there were other airlines in direct competition with you there would not be a contest to see who would go up more often in bad weather for the business?

Mr. MCGREGOR: It may occur in certain cases but I know perfectly well it would not influence Trans-Canada Air Lines' judgment or its regulations.

Mr. HAHN: Mr. McGregor, I am quite satisfied with the answers you gave, but just in respect of what Mr. Bell said here I think that if our regulations are that strict that you are to be complimented on that. Where a matter of life and death is concerned we should exercise every precaution. My understanding is that at least on one occasion I have tried to charter a flight from Victoria to Vancouver and Trans-Canada Air Lines would not leave the ground because the ceiling was too low and that in the United States certain aircraft would be allowed to take off, but your regulations were a bit more stringent and I think I would like to compliment you on that.

Mr. BELL: Just for the record, Mr. Chairman, I would not want it understood I was criticizing that. I was just suggesting that perhaps it was easily possible because of lack of competition to choose the time you go up in the air.

Mr. MCGREGOR: I don't think commercial considerations would be allowed to influence safety considerations at all and I think the percentage of total schedules completed, shown in the report as 96 per cent is an indication of keenness to operate.

Mr. HAMILTON (*York West*): Mr. McGregor, here is something that has been bothering me. Has the increased industrialization in our cities presented a hazard to flying from a smoke standpoint and things like that that we did not have in, say, the pre-1945 days?

Mr. MCGREGOR: I would not think so. I think smoke control has fairly well kept pace with the increase in the industrialization that you refer to and at the same time very much better facilities have been installed at airports such as high intensity approach lighting and ILS approach systems.

Mr. HAMILTON (*York West*): I asked that question specifically because I think it is referred to in one of the Department of Transport's bills, that they are controlling smoke in the areas around airports. Has that been troubling the Trans-Canada Air Lines?

Mr. MCGREGOR: It does from time to time. We have, I think, more trouble with smoke from bush fires than from industrialized areas.

Mr. HAMILTON (*Notre Dame de Grâce*): Mr. Chairman, before I ask any questions on the subject would Mr. McGregor like to comment on noise annoyance and on the possible hazards to people in the built-up areas within several miles of our airports and I am thinking particularly of Montreal and Toronto although I imagine it has an effect in other cities.

Mr. MCGREGOR: Speaking of the two things in one block, which I think is correct, the regulations with respect to the continued building or building encroachment on the areas close to airports I think is being adequately dealt with and I think only recently regulations were issued with respect to Dorval. I do not think there is any more hazard with respect to aircraft flying into and out of airports than there is in flying over any other area.

Mr. HAMILTON (*Notre Dame de Grâce*): Now, that refers to hazard. We then have the question of noise annoyance, which really is substantially different from hazard and I speak now from specific knowledge of Montreal where certain approach routes will cut right across the city. Now, have you anything more to say on that?

Mr. MCGREGOR: I think that will tend to diminish with the development of aircraft types. Aircraft taking off are using a high percentage of their power and in the case of the piston-engined aircraft make a good deal of noise and because they have just recently taken off naturally they are at a comparatively low altitude. Not wanting to put in a plug for an aircraft type the Viscount is part of the answer to that.

Mr. HAMILTON (*Notre Dame de Grâce*): That actually is the note I had here because they are less noisy. Now, within ten or fifteen miles of an airport is any continuing record kept of altitudes of the aircraft?

Mr. MCGREGOR: The aircraft once they come under the air traffic control of an airport their altitude is absolutely controlled. They are cleared down to a specific altitude until they are given their final approach clearance at which time they announce the time they are leaving the altitude they have been authorized to leave and start descending and very often that is done in steps. They may be cleared to 5,000 feet because there is other traffic at lower altitudes in the air and later on a further clearance down to 2,500 feet or 3,000 feet. The communications that give those clearances are recorded normally. There is no other written record maintained that I know of.

Mr. HAMILTON (*Notre Dame de Grâce*): My point there is there is a minimum altitude, of course, for the aircraft over built-up areas and it has been indicated to me that at no time has the Department of Transport been able to verify or prove that these altitude requirements have been broken. On the other hand, I think we can both see the difficulty of people who feel the requirements might be broken from time to time of trying to establish the fact. There is no way in which that could be done save by a check against these clearances you mention.

Mr. MCGREGOR: I think probably the correct answer to that is to say that only in the case in which a ground control approach type of approach control applies and the actual position of the aircraft can be seen on the radar screen and that would only apply during the final approach.

Mr. HAMILTON (*Notre Dame de Grâce*): Just one more question. Referring specifically to Montreal you have two types of approach to an airport, one of which would be under CABU conditions.

Mr. MCGREGOR: Visual conditions.

Mr. HAMILTON (*Notre Dame de Grâce*): Right, and the other some type of instrument or ground control approach, and the reason I mention that is you may want to make a distinction. Is there any possibility of a new approach pattern for Dorval which would bring aircraft, particularly those coming from the east up the river and then making a turn into the airport rather than bringing them, as is the present system, over the centre of the city? I can see perhaps where under instrument flying conditions or under difficult flying conditions—

Mr. LANGLOIS (*Gaspé*): Mr. Chairman, on a point of order, I do not see in the report where air regulations are mentioned. That is actually what we are discussing now.

The CHAIRMAN: I think we have got a little beyond property and equipment. It might come under airport or airport facilities or routes, but it seems to me that it is not a matter relating to property and equipment.

Mr. HAMILTON (*Notre Dame de Grâce*): Well, the question is on the record. Perhaps, Mr. Chairman, it will only take a moment to finish it and I can get the answer, because it has as much relationship to this subject as the question of the accident and personnel has and personnel also is covered later.

I can see where with a great investment in instrument flying facilities both in the air and on the ground you might have to keep to the present pattern. Where those are not being used would it not be possible for a new approach pattern coming up the river and turning in towards Dorval?

Mr. MCGREGOR: As a matter of fact the actual approach to Dorval from the east is not over the city normally. An aircraft may be cleared under visual flight conditions only to make an approach in almost any manner, but an aircraft—and this applies to Trans-Canada Air Lines and those are the only ones I am speaking of with knowledge—approaches Dorval across the river from the south shore. The approach and the runway directions at Dorval are such and the fact that a large aircraft must be lined up with the runway a considerable distance away means that some of that flying may be done over a built-up area.

Mr. HAMILTON (*Notre Dame de Grâce*): In the interest of your own public relations and yourself, Mr. McGregor, would you say the high percentage of planes which sometimes come there within the built-up areas are not your aircraft but defence aircraft?

Mr. MCGREGOR: Yes, very definitely, because other North Stars do not use the cross-over exhaust and that makes them a great deal noisier. There are more R.C.A.F. North Stars operating from Dorval than those of Trans-Canada Air Lines.

The CHAIRMAN: Carried?
Carried.

Mr. CHURCHILL: Mr. Chairman, it could be this question overlaps, because my question deals with equipment and airways facilities and other things so I might ask it on the next section.

The CHAIRMAN: I think you might ask it on this section.

Mr. CHURCHILL: I will save it until the airways facilities, if you like.

Mr. HAMILTON (*York West*): You have had these aircraft, the Bristols and the Super Constellations operating long enough to get a picture of operating costs. How do they compare? You have the Viscount taking over the DC-3 run and the Super Constellations taking over North Star. How do they compare as to the cost per mile in operation?

Mr. MCGREGOR: We have not had sufficient experience with the Viscounts to form any accurate opinion because they are not in line service until today. With respect to the Super Constellation it is behaving very much as we expected it would and indicated costs per ton mile are very close to our calculations and those calculations assumed that they would represent a higher cost per ton mile in the earlier months of their service because there is always a shake-down period.

Mr. HAMILTON (*York West*): Now, how do they compare to the North Star in cost per ton mile?

Mr. MCGREGOR: I know they are considerably higher because the North Stars have expended their depreciation period.

Mr. HAMILTON (*York West*): But without depreciation, not working on a depreciation basis.

Mr. MCGREGOR: If we excluded that they would compare very favourably.

Mr. HAMILTON (*York West*): Which would be the higher?

Mr. MCGREGOR: The Super Constellation is higher per ton mile than the North Star. The North Star, I think, is the most economical aircraft of its class that has ever been operated.

Mr. CARRICK: Would that be so even in the initial flights of the North Stars to put it on a comparative basis?

Mr. MCGREGOR: Well, this is going back a long way and they were rather troublesome at first like the others are. I think it is true to say that the Super Constellations will never be as cheap to operate per ton mile as the North Star has been even when it finishes this shake-down period.

Mr. HAMILTON (*York West*): Assuming the shake-down period to have been completed of the North Stars and the shake-down period of the Super Constellations to have been completed the Constellation is more expensive?

Mr. MCGREGOR: We are speaking prior to my experience but I think that is probably true.

Mr. HAMILTON (*York West*): It may be it will affect your over-all financial picture in another year. Can you tell us the operating costs using these newer types of planes?

Mr. MCGREGOR: No, because I think our shake-down period on the Super Constellation is pretty well behind us.

Mr. HAMILTON (*York West*): So it should be shaken down before the end of the year and you should know the financial set-up?

Mr. MCGREGOR: Yes.

Mr. HAMILTON (*York West*): You talked earlier on the question of the helicopter, which has interested me a great deal because we have seen large-scale expropriations of land in the neighbourhood of airports. Has Trans-Canada Air Lines any long-range plans or has it investigated following through the new principles of aerodynamic design and boundary layer control which I think will shorten our landing space, and take-off distances—have you any indication of what effect these things may have on helicopters in the future?

Mr. MCGREGOR: We are really going into the future but the tendency naturally is that new developments such as boundary layer control all have advantages in a commercial sense. There is—and I am speaking about fifteen years ahead perhaps—a development being considered in which jet type aircraft would in fact blow themselves off the ground by vertical jet thrust.

Mr. HAMILTON (*York West*): In other words this is not a “Buck Rogers” idea. It is something we may anticipate in the next 10 to 15 years.

Mr. MCGREGOR: It may prove practical. Yes.

Mr. HAMILTON (*York West*): And those planes will be able to use much shorter runways for both take-off and landing?

Mr. MCGREGOR: I think that would be a broad statement because it would be necessary for safety purposes to be able to land those aircraft in a normal manner, but with everything functioning satisfactorily it would not be necessary to use a great proportion of the runway, and the planes could attain a satisfactory altitude very shortly after leaving the runway.

Mr. HAMILTON (*York West*): Would it be fair to say that you do not anticipate a continuance of the development of the past, which, with each stage of aircraft development has seen the lengthening of runways.

Mr. MCGREGOR: I think that will continue for at least another five years.

The CHAIRMAN: Shall the heading “property and equipment” carry?
Carried.

The CHAIRMAN: Airport and airway facilities. Mr. Churchill.

Mr. CHURCHILL: My questions arise out of the accident at Malton and have to do with the facilities provided at the airport for landing of aircraft. From the report on that accident, I understand that the aircraft was coming in under extremely difficult weather conditions and was using instruments.

The report mentioned the fact that some criticism might arise in the minds of some people because ground control approach was not available,—it was mentioned that that had been used recently at Idlewild airport—and an accident had resulted. That statement in the report aroused my interest in the matter, and what I would like to know now is whether facilities for landing aircraft have advanced as rapidly in connection with the airports used by T.C.A. as they have in some other airports, either those used by the R.C.A.F. in Canada, or airports in other countries, and particularly I would like to know what is the situation with regard to this method of ground control approach, and secondly high intensity lighting, because my understanding is that both these methods have been put into operation in some cases in order to facilitate landing of planes under difficult weather conditions.

Mr. MCGREGOR: Yes, I will try to answer that question Mr. Churchill, but I should make it clear that Mr. Seagrim is probably capable of giving the answer in much more detail on this subject if the committee would like to go into it, than I am. But I would say in general that the approach facilities at Canadian airports are up to international standards. Naturally we have many installations of I.L.S. which provide an indication to the pilot during his final approach as to where he is with respect to his lateral position and vertical position over the ground. There is an installation of G.C.A. at Gander, but while it is true to say that both G.C.A. and I.L.S. apply at Idlewild, I do not think it adds materially to the safety of operations. It is necessary there, to deal with the volume of traffic. It is possible to land aircraft at shorter intervals of time when both G.C.A. and I.L.S. are in operation. G.C.A. I may add, is extremely expensive and requires a highly trained ground staff to man it at all times.

Mr. CHURCHILL: How would you describe G.C.A.?

Mr. MCGREGOR: G.C.A. is basically radar, and it enables the position of an aircraft to be observed during its approach on a radar screen and its position to be reported by radio to the pilot. He is told that he will now commence a turn on to his final approach; he is told to alter course a few degrees left or right as it appears to the operator on the ground that the aircraft is moving left or right of the approach; the pilot is told whether he is above or below the required height—in other words, he is in continuous touch with the ground. The operator is able to see two or more aircraft at one time on the screen, and he can instruct the second aircraft what position it should take up, because he is able to follow the first aircraft on the screen, and see, for example, that it is about to touch down, and that the second plane can safely come in because the first will be 500 yards away by the time it comes in to land, and so on.

Mr. CHURCHILL: You mentioned the fact that this system was very expensive. I recognize that. You are in this difficult position, though, that the airports and the facilities on the airports are provided by the Department of Transport.

Mr. MCGREGOR: That is right.

Mr. CHURCHILL: Is it fair to ask if you have requested the Department of Transport to install G.C.A. equipment?

Mr. MCGREGOR: No, except in the case of Gander, I believe.

Mr. CHURCHILL: How do these requests originate? Is a matter of this kind left to the initiative of the Department of Transport, or would it be done on a recommendation from T.C.A.?

Mr. MCGREGOR: Recommendations with respect to airway facilities, radio, lighting and landing facilities are made by the company wherever we feel it is desirable to do so, and it is fair to say there is always a long list of recommendations confronting the Department of Transport.

Mr. CHURCHILL: I think one of your greatest interests would be in maintaining your good safety record, and I would hope that a recommendation would be forwarded through you with regard to G.C.A. to the Department of Transport because my understanding is that G.C.A. equipment is normally used by the R.C.A.F. Am I right or wrong?

Mr. MCGREGOR: I think you are not right Mr. Churchill. If I may, I would like to ask Mr. Seagrim. Are there any installations of G.C.A. used by the R.C.A.F. which are not available to civil air lines?

Mr. SEAGRIM: The R.C.A.F. operates G.C.A. at Goose Bay, but I believe that the civil operators who are allowed to operate in Goose Bay do use that G.C.A. on occasions.

Mr. CHURCHILL: Is G.C.A. available in only one place in Canada?

Mr. SEAGRIM: Only one place that I know of.

Mr. CHURCHILL: Do you use any R.C.A.F. stations for your purposes?

Mr. MCGREGOR: Goose Bay is an example of an R.C.A.F. station which we use and Dartmouth at Halifax which is a naval air station.

Mr. CHURCHILL: Now, as to the question of high intensity lighting which is another aid to landing, are any airports used by the T.C.A. equipped with that?

Mr. MCGREGOR: Yes. To my knowledge Toronto and Montreal and I am sure there are others.

Mr. SEAGRIM: I believe that Ottawa also has the high intensity lighting and it is the intention to install runway high intensity lighting on the major airports across Canada.

Mr. CHURCHILL: Is high intensity lighting available at Malton?

Mr. MCGREGOR: Yes.

Mr. CARTER: I would like to ask if Mr. McGregor can say whether there are any immediate plans for the expansion of terminal facilities at Torbay?

Mr. MCGREGOR: Not that I know of.

Mr. CARTER: You know that there is congestion there and that the terminal is far too small for the traffic that has to be handled.

Mr. MCGREGOR: The Hon. Mr. Marler is here and perhaps he can answer that.

Hon. Mr. MARLER: I cannot tell you that offhand. I could tell you if I was discussing estimates but I do not have my estimates book here.

The CHAIRMAN: Shall the item "Airport and Airway Facilities" carry?
Carried.

"Routes". Shall this item carry?

Mr. BELL: No. I would like to ask how the Caribbean route is going now?

The CHAIRMAN: Then we will adjourn now and commence again at 3.30 on the heading "Routes" on page 18.

AFTERNOON SESSION

The committee resumed at 3.30 p.m.

The CHAIRMAN: Now, gentlemen, we have a quorum. Our first heading for this afternoon is "Routes" on page 18. Are there any questions on routes?

Mr. HAMILTON (York West): I don't know whether this was dealt with previous to my getting to the meeting this morning, Mr. Chairman, but might we ask Mr. McGregor if he has any plans for an extension of service of any kind?

Mr. MCGREGOR: It was asked this morning, Mr. Hamilton, we don't plan any route extensions of a major character this year. There was the one already mentioned this morning of substituting Timmins for Porquis Junction on the northern route..

Mr. HAMILTON (*York West*): It will be an extension of the east-west route we have now?

Mr. MCGREGOR: I should add, if any new bilateral agreement was negotiated we could consider extending the service in line with the terms which might be provided by any such bilateral.

Mr. HAMILTON (*York West*): I don't know if I am in order at this time on this question. Is the system of feeder lines working in satisfactorily? Does it appear to be giving you enough of the transcontinental type of revenue from the north-south feeder line set-up we have?

Mr. MCGREGOR: I would hope that over the years there would be a considerable development in the north-south lateral operations. The more that feed onto the mainline operation and the more traffic moving from the mainline to the feeder lines the better, of course.

Mr. HAMILTON (*York West*): There are no plans to move into any other category of operations than what we have now which is pretty well east-west?

Mr. MCGREGOR: No.

Mr. HAMILTON (*York West*): Could you tell me this: in connection with the overseas routes has there been any survey made as to where you can pick up the traffic, that is, from the standpoint of east, central and western Canada?

Mr. MCGREGOR: Yes, wherever possible if a passenger simply presents himself at Montreal or Toronto and buys a ticket we don't question him as to where he started his travels but of the overseas tickets that are purchased at points across Canada a careful record is kept of the originating points.

Mr. HAMILTON (*York West*): Can you break that down for us at all as to just what percentage it is which comes from the different and geographical areas of the geographical areas you have?

Mr. MCGREGOR: I can give you a rough approximation. Montreal is the biggest source of trans Atlantic traffic. Toronto is second. I would be in doubt between Vancouver and Winnipeg as to which is the next—I would think Vancouver.

Mr. HAMILTON (*York West*): Have you any idea percentage-wise how much you pick up in those areas, that is, you say Montreal is largest, Toronto next?

Mr. MCGREGOR: We have flow charts. If you will accept just an opinion I would think something like fifty per cent of our trans Atlantic business came from Montreal and probably 25 per cent from Toronto and the remaining smaller percentage making up the 100 per cent.

Mr. HAMILTON (*York West*): Looking into next year's revenue picture do you feel that the remaining 25 per cent will be affected materially by the licensing of the so-called trans-polar route from Vancouver?

Mr. MCGREGOR: We have made an attempt to estimate that. From the whole of the west coast area which we serve including Seattle, Vancouver and Victoria, our trans Atlantic business last year was \$400 thousand in gross revenue. What proportion of that traffic and what might be regarded as normal growth that will be diverted to the Canadian Pacific Air Lines remains to be seen. I doubt if it would be half of it because I don't think the route will be as popular and it does not terminate in a big terminal such as London.

Mr. HAMILTON (*York West*): In other words, it has to fan out from another point in Europe?

Mr. MCGREGOR: Yes.

Mr. HAMILTON (*York West*): From those observations I would gather you are not too seriously concerned about the loss of business there. Would that apply in the same shape and form if we had licensing of someone out of Winnipeg on the same basis as out of Vancouver?

Mr. MCGREGOR: That becomes very much more painful because then all the traffic at Winnipeg, slightly east of it, but all west of it—Saskatoon, Regina, Calgary, Edmonton, would contribute to the traffic service of that kind.

Mr. HAMILTON (*York West*): But that service would in all likelihood, for instance, if it meant licensing on a bilateral agreement of an operator that might be going through there would have to be dispersed through another point in Europe—it would be under a disadvantage to that extent, wouldn't it?

Mr. MCGREGOR: No, I think that is not quite right because if we are going to talk facts we are speaking of SAS.

Mr. HAMILTON (*York West*): Yes.

Mr. MCGREGOR: They have traffic rights at Prestwick and they would undoubtedly operate there in order to get the U.K. traffic.

Mr. HAMILTON (*York West*): That is the information I would like to get. There appears to be 25 per cent of the trans Atlantic figures Winnipeg and west and specifically we are not sure which is the greater, Vancouver or Winnipeg but the Winnipeg business would create a greater hazard to you if someone else were licensed there?

Mr. MCGREGOR: A greater encroachment on our present revenues by a great deal.

Mr. HAMILTON (*York West*): This still would only be a small proportion of your total overseas revenue wouldn't it?

Mr. MCGREGOR: Well 25 per cent is a major proportion.

Mr. HAMILTON (*York West*): But you are not expecting to lose all of it up to Vancouver?

Mr. MCGREGOR: There is very little between Toronto and Winnipeg.

Mr. HAMILTON (*York West*): You mean you would lose the major portion of it on the Winnipeg proposition, you might lose the major portion of the westward business?

Mr. MCGREGOR: Yes, a greater proportion.

Mr. HAMILTON (*York West*): I see. Then, just to repeat the dispersal point would be different in the SAS proposition than it would be on the Canadian Pacific Air Lines?

Mr. MCGREGOR: Yes, in the case of Canadian Pacific Air Lines the terminal is Amsterdam. In the case of SAS it would be Prestwick for everything in the U.K. and presumably Stockholm or Copenhagen for the remainder.

Mr. HAMILTON (*York West*): What about the load factor on those routes, that is, trans Atlantic service—how do they compare with the domestic load?

Mr. MCGREGOR: Very nearly as high. They did not used to be but our load factor has been extremely high with the Constellations.

Mr. HAMILTON (*York West*): They would compare load factor wise with your domestic service?

Mr. MCGREGOR: Yes.

Mr. HAMILTON (*York West*): Is that phase of the operation now showing a profit?

Mr. MCGREGOR: Yes.

Mr. CHURCHILL: Just one question on the routes. I notice the report mentions the extension of Trans Canada Air Lines until it is now the ninth passenger air line in passenger miles flown. Two questions therefore for my information. Has it gone up in the scale? Was it lower down and has now crept up to ninth, and secondly, what are those leading air lines of the world which would bear comparison with the T.C.A.

Mr. MCGREGOR: To answer the first part we have risen in rank but not internationally. For some years we have held that rank on an international basis. That is referring to international traffic only, which is examined by IATA, but with reference to total passenger miles on the system that is an increase in rank of about five places in three years.

To answer the other part of your question the companies who are ahead of us are American airlines who continually advertise as being the greatest passenger carriers in the world, Trans-World Airlines, Eastern Airlines, Pan American, all of which are major airlines in the states; Air France, B.O.A.C. and Northwest Airlines, also in the states.

Mr. BELL: Could I ask Mr. McGregor if the Caribbean route is highly competitive?

Mr. MCGREGOR: No, it is not competitive, not between Canadian points.

Mr. BELL: Is that route a fairly profitable operation, more or less?

Mr. MCGREGOR: No, because the traffic is so extremely seasonal.

Mr. HAMILTON (*York West*): I suppose you feel you have got to keep branching out all the time and take some chances in building up the traffic on those routes?

Mr. MCGREGOR: We do not feel any particular urgency to branch out for branching out's sake, but it is desirable if a route shows potentialities that it be operated under not too good financial conditions for a while until it gets on its feet and that has been basically the history of the major routes.

Mr. HAMILTON (*York West*): It requires some time to establish the thing?

Mr. MCGREGOR: Yes.

Mr. KNIGHT: What is the percentage occupancy—I don't know if that is the correct term, but you know what I mean—on that West Indies flight?

Mr. MCGREGOR: It varies due to the seasonal character of the traffic, but we call it load factor and the over-all on the year in the Bermuda and Caribbean service is 58·5 per cent.

Mr. KNIGHT: How does it compare with the whole system?

Mr. MCGREGOR: Very much lower. The system figure is 72·3.

Mr. HAMILTON (*York West*): Is there any break-even point established for the company on that load factor?

Mr. MCGREGOR: Yes.

Mr. MCGREGOR: Yes, it varies by services to some degree and there is a special condition with respect to the Caribbean and southern services because again the Atlantic operation is seasonal to some degree and if we are equipped to handle the load during the higher traffic period it means that both equipment and personnel are to some degree surplus to the requirements of the Atlantic service in the wintertime. Thank heaven the traffic load to the Caribbean service increases out of phase with the Atlantic service. That is, during the winter months it increases. So that while we charge to the Caribbean service the full cost of the overhead, the aircraft and personnel, the fact is if we were not using them on those services they would probably not be efficiently used on domestic or Atlantic service.

Mr. HAMILTON (*York West*): Is there any difference in per mile rate between your overseas operations and domestic operations?

Mr. MCGREGOR: Yes, higher overseas.

Mr. HAMILTON (*York West*): It is a higher rate per mile per passenger on overseas. Does that apply over the southern system, say, to Tampa?

Mr. MCGREGOR: Not Tampa. That is not regarded as an overseas service. It is really a transborder service but to the Caribbean the higher rate per mile is applied.

Mr. HAMILTON (*York West*): In connection with this load factor I am interested in it because we were discussing whether free transportation could be provided without loss to the company. Now, in your graph on freight you indicate that the early drastic reduction in rate which was applied by you a year ago you think was the major factor in the large increase in the use of the airlines for freight purposes. Have you given any consideration to the same type of proposition for passenger service, that is, we are working on a 72 per cent load factor which gives us a fair amount of space available? Would the corresponding decrease in the cost to the traveller produce a great enough increase in load factor to bring transportation costs down and make more people travel?

Mr. MCGREGOR: To begin at the beginning of your question if we reduce the fares we would certainly accumulate some business but if you translate that into terms of load factor it cannot get very much higher. These are monthly load factors within the system and include the flight to Yarmouth, Kapuskasing and to Yorkton which may be operating at very low load factors. It does mean that over many days of the week on the popularly timed flights there are waiting lists and the industry is convinced that a load factor higher than 75 per cent means a great deal of customer dissatisfaction.

Mr. HAMILTON (*York West*): The solution then would appear to be we would have to invest in more capital equipment to do the job.

Mr. MCGREGOR: Exactly.

Mr. HAMILTON (*York West*): Has that been considered at all in relation to rates?

Mr. MCGREGOR: Yes.

Mr. HAMILTON (*York West*): Can we foresee any prospect of lowering rates with the utilization of these new planes we are getting?

Mr. MCGREGOR: The industry is a little unique, or the air line I should say, where everything has been going up air line fares have remained constant since 1947 and there have been some reductions such as the introduction of tourist fares and others with the result that the rates are slightly lower than they were in 1953. If the rise in costs which has been a factor over the last 8 or 9 years flattens out I think with increased volume, more efficient aircraft and so on, we could be reasonably hopeful that fares could be reduced. That is the aim of the air lines if it is possible.

The CHAIRMAN: Shall the item "Routes" carry?
Carried.

"Personnel"

Mr. CHURCHILL: On personnel would Mr. McGregor tell us how many are on the ground for those who actually do the flying in operating planes in the air of this total of \$7,991?

Mr. MCGREGOR: There are 463 pilots 17 Navigators and 356 Cabin Attendants against a total of 8,000.

Mr. CHURCHILL: What category are employed in the air. Are they pilots and co-pilots?

Mr. MCGREGOR: We use the general term pilot and the definition is captain and first officer. There are navigators used on certain operations and flight engineers on other types of equipment and cabin attendants who are stewards and stewardesses. Purser steward is the official name of the senior man.

Mr. CHURCHILL: Are you employing larger crews on these larger aircrafts now?

Mr. MCGREGOR: A larger attendant crew; 3 in the case of trans-Atlantic and the same front end crew of four. The reason that the front end crew remains the same is that the number of pilots is the same with two and a flight engineer has been substituted for the radio operator which was required when we used key equipment in communication on the Atlantic.

Mr. CHURCHILL: I am not interested in the controversy which developed in the House with respect to the pilot in connection with the Malton crash, but I noticed that some question was raised in connection with the comforts afforded to pilots on flights. I recall that the trans-Atlantic planes provide a compartment where there is an upper and a lower berth in which pilots or co-pilots and other members of the crew may relax. The planes which I understand are used here on the continental flights have only seating accommodation in the compartment. Is that the situation?

Mr. MCGREGOR: That is correct. Are we talking about the super Constellation?

Mr. CHURCHILL: Yes.

Mr. MCGREGOR: There is no place for the crew to lay down on domestic operations other than on the super Constellations.

Mr. CHURCHILL: Does that apply to the super Constellations on trans-Atlantic service?

Mr. MCGREGOR: What we call generally the overseas services which would include the southern operations.

Mr. CHURCHILL: Would the Viscount provide that type of accommodation?

Mr. MCGREGOR: No.

Mr. HAMILTON (*Notre Dame de Grâce*): Mr. Chairman, I was quite interested in the reference to management development courses and it has been my privilege to know a little bit about the development of these courses and the way in which the T.C.A. has run them. From my viewpoint I think they are a very remarkable achievement. In the efforts of Mr. McGregor's sales personnel do you feel that the operation of these courses has improved the efficiency of your staff and is perhaps partially responsible for the increase in the number of passengers and the increase in revenue?

Mr. MCGREGOR: We would like to think so. That, of course, is one of the purposes of the course. They are primarily designed for supervisory people. When I say supervisory I do not mean top brass, I mean the people actually directing the operation of the line organization. All of the senior sales group have been put through courses of that type and we certainly think we see good results from it.

Mr. HAMILTON (*Notre Dame de Grâce*): There are some other transportation services in Canada and they have different problems, but they are having difficulty in increasing their passengers and I was rather hopeful that you might give some ideas which could be passed on to them that would apply to this particular problem. One of your means of increasing this passenger traffic seems to be that you put a great deal of emphasis on your advertising and sales people by training them to the nth degree and they go out and get results for you.

Mr. MCGREGOR: I hope you do not make a similar suggestion to any other transportation company.

The CHAIRMAN: Shall the item "Personnel" carry?

Mr. HAMILTON (*York West*): In connection with personnel you have a permanent agreement I presume with C.A.L.P.A. in connection with pilots?

Mr. MCGREGOR: Yes. It is renewed roughly on an annual basis; sometimes 14 months and sometimes longer, but re-negotiation can be requested by C.A.L.P.A. or the company.

Mr. HAMILTON (*York West*): Are you in those negotiations now by any chance?

Mr. MCGREGOR: No. They were concluded about 8½ months ago.

Mr. HAMILTON (*York West*): I do not want to get into that problem which Mr. Churchill spoke about either, but do you anticipate any problem in re-negotiating that agreement because of the these questions which have been raised?

Mr. MCGREGOR: I am inclined to doubt it.

Mr. HAMILTON (*York West*): In other words you are strictly adhering to the agreement you have now and there have been no complaints?

Mr. MCGREGOR: That is right.

Mr. HAMILTON (*York West*): No official complaints to you?

Mr. MCGREGOR: The tendency has been for the pilots to try to fly their time in short periods because they are limited as to their overall time per month and the more time they have off the better they like it and the requirement of the company is to prevent too much of that packing in.

Mr. HAMILTON (*York West*): I do not know if this is a proper question, but Mr. McGregor is an old time flyer himself. Is there any real reason because someone does have a pilot problem that he should not be given another chance to fly?

The CHAIRMAN: I am wondering if that comes within internal management of the company and whether Mr. McGregor is in a position to answer that question just now. I think that is getting pretty close to a situation which might be difficult.

Mr. HAMILTON (*York West*): As a matter of fact I think it is a question connected with personnel.

The CHAIRMAN: I agree, that it has to do with personnel but I do not know whether Mr. McGregor is in the position to be able to make a statement of that kind.

Mr. HAMILTON (*York West*): For instance, in the helicopter service they say that every man is entitled to one crack-up and to be reemployed. Is that statement generally true?

Mr. MCGREGOR: If I may answer the question, I think it would depend entirely on circumstances. In the first place, we as a major passenger carrier have, I think, to be very much more careful than has to be the case in the movement of goods, particularly by helicopter. Furthermore, I think that helicopters are slightly more prone to crack-ups than conventional types of aircraft. We have reemployed pilots who have had minor difficulties such as bending a wing tip against a hangar door and that sort of thing, but, as I say, it would be purely a matter of the circumstances.

Mr. HAMILTON (*York West*): Provided they were re-examined physically and there was no difficulty in that way?

Mr. MCGREGOR: And providing there were no other disquieting conditions.

Mr. HAMILTON (*York West*): I presume, then, that you make a complete survey as to the qualifications of a pilot, regardless of what somebody else may have said about him.

Mr. KNIGHT: Mr. McGregor, I was wondering whether air personnel have any flying privileges, such as free flights and that sort of thing, by virtue of the fact that they are employees of the company. Is there such a thing, and to what extent?

Mr. MCGREGOR: It varies according to length of service. They and their immediate families are given vacation passes on the airline on a space available basis, depending on the length of service which they have had with the company.

The CHAIRMAN: Shall that carry?

Carried.

The next item is "Future Aircraft", on page 22. Are there any questions on this topic?

Carried.

"Service Planning", on page 23.

Mr. BELL: Under future developments, I wonder if you could say generally whether you are inclined to go into areas where there is competition? Have you examples of where T.C.A. has gone into competition with other companies in particular areas, or is there a tendency to stay away from them and just go into areas which are not being serviced?

Mr. MCGREGOR: I would say that there is no tendency of that kind, Mr. Bell. I think it is true to say that about 30 per cent of our total route pattern is competitive. The best example is the trans-Atlantic, and over the last three years that has been extended to Paris and Dusseldorf, which are competitive with other airlines, and in one case by direct competition from Air France. It is simply a matter of calculating whether there is enough room in our opinion for a second or third airline on the route in question.

Mr. BELL: Some of these highly competitive routes are just as profitable as the other ones, speaking generally?

Mr. MCGREGOR: Not just as profitable, no, and not as profitable as they would be if they were not subject to expense duplications.

Mr. BELL: In other words, T.C.A. is afraid of a little competition?

Mr. MCGREGOR: We are not afraid of a little competition in the right spot.

Mr. HAMILTON (*York West*): Dealing with service planning and flight frequencies, how many transcontinental flights do we have?

Mr. MCGREGOR: Five, at the moment. Six last summer and seven this coming summer.

Mr. HAMILTON (*York West*): As president of this organization, do you see the continuing necessity of adding flights?

Mr. MCGREGOR: Yes.

Mr. HAMILTON (*York West*): In another year it may be eight and seven?

Mr. MCGREGOR: It could well be.

Mr. HAMILTON (*York West*): How long do you think it would be? How many flights will you have to build up to before you can stand competition on that route? Have you made any plans in the future for that?

Mr. MCGREGOR: No. We have not planned on it. We have ordered aircraft on the basis that we will have to fill the demand.

Mr. HAMILTON (*York West*): In other words, the present commitments for purchases indicate that you will require a monopolistic condition for some time to come?

Mr. MCGREGOR: I think it should be worded the other way around. We ordered aircraft assuming that we will be carrying the traffic.

Mr. HAMILTON (*York West*): Will you need the same conditions as now to get the load factor you have been talking about?

Mr. MCGREGOR: That is our estimate.

Mr. HAMILTON (*York West*): There is no place in the future you can say, with fourteen or fifteen transcontinental flights that you can then see a place where a competitive service should be required?

Mr. MCGREGOR: It seems to me that if we are controlled as to the rates we are charged, as we are, like all transportation, and if we are satisfactorily meeting the demand and giving a decent standard of service, there is no reason why we should look forward to competition.

Mr. HAMILTON (*York West*): In other words, under those circumstances you would count on a continuing monopoly for this kind of services?

Mr. MCGREGOR: I would hope so on the basis that the more services the airline is operating the more efficiently they ought to be able to handle it. In the old days when there were three transcontinental services, each station had to have a ground crew and pay them for eight hours, though they only worked for twenty minutes when the aircraft went through. As more flights went through, the ground crew began to earn its keep. I see no end to that.

Mr. HAMILTON (*York West*): This type of service could go as high as twenty-five or thirty daily transcontinental flights. It would be on the same basis as you have been planning?

Mr. MCGREGOR: It should be the most efficient way.

Mr. HAMILTON (*York West*): That is contrary to most other businesses.

Mr. MCGREGOR: I suggest telephony, for instance.

The CHAIRMAN: Shall "Service Planning" carry?
Carried.

"The General Prospect"?

Carried.

Shall the report of Trans-Canada Airlines, 1954, carry?

Carried.

Can I have a motion to adopt the report of the Trans-Canada Airlines?

Moved by Mr. Langlois (*Gaspé*), seconded by Mr. Fairey, that the annual report of the Trans-Canada Air Lines carry.

Carried.

Next is the Budget for the year 1955.

Mr. HAMILTON (*York West*): We have not yet had a chance to discuss the financial statement.

The CHAIRMAN: We can do that while we are dealing with the report here. In the meantime, will you please pass around the budget?

Mr. HAMILTON (*Notre Dame de Grâce*): Mr. Chairman, on the balance sheet, under "capital assets", property and equipment are bulked, less accrued depreciation. Could Mr. McGregor tell us the value of his aircraft and the depreciation which has been accumulated against those aircraft to December 31st, 1954?

Mr. MCGREGOR: Yes, as I think I mentioned earlier. To deal with the depreciation first, the DC3 fleet, consisting of twenty-seven aircraft, has been fully depreciated since 1951; the North Star aircraft, to the number of twenty-two, fully depreciated in May, 1954, which left the Bristol aircraft, the three freighters, being of recent acquisition, being depreciated on a five-year basis. The Super Constellation aircraft are on a seven-year straight-line basis, for

our own accounting purposes. The Viscounts have not come under depreciation yet, and will begin today, as a matter of fact. Do you want the amounts of money?

Mr. HAMILTON (*Notre Dame de Grâce*): Yes. In other words, your total assets of aircraft versus your accumulated depreciation.

Mr. MCGREGOR: The total initial book value of the North Stars, and major spare components \$18,834,000 depreciated to the extent of \$18,174,000. On the Douglas DC3s, initial book value, \$4,950,000, depreciated \$4,815,000. The Bristol aircraft, initial book value \$1,178,000, depreciated \$231,000. The Constellation aircraft, book value, \$15,484,000, depreciation thus far, \$1,156,000.

Mr. HAMILTON (*Notre Dame de Grâce*): And the Viscounts, of course, are neither in assets nor depreciation?

Mr. MCGREGOR: They are in assets. The one delivered in 1954 with its parts is shown on the books at \$1,142,000.

Mr. HAMILTON (*Notre Dame de Grâce*): The next question is this; I understand it is your practice to keep all aircraft in, say, original state?

Mr. MCGREGOR: Yes, as far as that is physically possible.

Mr. HAMILTON (*Notre Dame de Grâce*): So that in effect if you entered into difficult times—and we hope that will not be necessary—you do have a substantial reserve, because you have some \$23 million of aircraft which have been fully depreciated, which, as of today, are almost as good as when you acquired them.

Mr. MCGREGOR: I mentioned the word "physical" and that is important; the value of an aircraft depreciates—not using the financial term—due to its obsolescence. It begins to lose its passenger appeal. That is why the value decreases; not because it is worn out in the physical sense of the word. While we might take some satisfaction out of the assets, to which you refer, the fact is that if we had to sell them or use them indefinitely, they would not have a high value because, in relation to more modern aircraft they would lose their ability to draw traffic.

Mr. HAMILTON (*Notre Dame de Grâce*): In so far as their service is concerned, those aircraft today are as good as when you got them.

Mr. MCGREGOR: As far as it is physical possible, the engines are replaced and the component parts, and so on.

Mr. HAMILTON (*York West*): You have a uniform rate which you adopt. Do you follow the practice of other airlines?

Mr. MCGREGOR: We follow closely the practice of the other airlines. The rate however is not uniform. We attempt to set a period of years over which they would depreciate, based on what we think the rate of deterioration in their passenger appeal is. We regard the piston-engined aircraft as more rapidly losing that appeal than the new types of Viscounts. For that reason we depreciated the North Stars on a six year basis, and the Super Constellations on a seven year basis, while the rate of depreciation for the Viscounts has not yet been determined!

Mr. HAMILTON (*York West*): Do you take advantage of the full government rate allowed? Do you take advantage of it tax-wise?

Mr. MCGREGOR: No.

Mr. HAMILTON (*York West*): You set you own formula?

Mr. MCGREGOR: We set our own formula and our own accounting. But we stay within the permissible government rate of depreciation, and the permissible government rate has not yet underrun our depreciation.

Mr. HAMILTON (*York West*): You have not taken advantage of the larger allowance which would be made to you?

Mr. MCGREGOR: No, because the permissible government rate is a sloping curve which will never end.

Mr. HAMILTON (*York West*): With respect to the planes which might become available for sale in connection with the DEW line, I assume that a fairly good price might be obtained for them right now. Have you taken into account that you would have recovered depreciation, and that you might run into a tax problem in connection with your forecast?

Mr. MCGREGOR: We have not considered that. In the first place, we only became liable for Federal corporate income tax in 1952, so the problem is a short lived one. It is quite true that probably the sale value of some of our fully depreciated aircraft exceeded the original value. That might be a problem if we sold the aircraft, but at the moment we have no aircraft for sale.

Mr. HAMILTON (*York West*): Are we on this statement now and may we ask questions on it?

The CHAIRMAN: Yes.

Mr. HAMILTON (*York West*): With respect to your travel plan deposit, and the corresponding liability with respect to your travel plan in your assets, there is a difference in the figures. Would that mean that some of the deposited funds had been used for travel purposes?

Mr. MCGREGOR: No, you mean the difference between year and year?

Mr. HAMILTON (*York West*): You say that there is a liability of \$1,151,000. I assume that is what these people have paid in in order to get their travel cards; and you show \$973,000 as assets. What is the explanation of the difference?

Mr. MCGREGOR: The figure you first referred to is the accrued deposits which have been made for the travel cards, while the other figure is the current billings which are due, for sums which have been billed for transportation delivered and still to be collected.

Mr. HAMILTON (*York West*): I see. In other words, it is in fact a credit extension and it has no bearing on the deposits?

Mr. MCGREGOR: That is right.

Mr. BELL: On the balance sheet, who holds the stock?

Mr. MCGREGOR: The Canadian National Railways.

Mr. BELL: How is it then that some of the Board of Directors are appointed by the Governor in Council and others by the shareholders; and there is one elected by the shareholders. What is the procedure? Why is there a distinction in that way?

Mr. MCGREGOR: Well, there is a stipulation in the Act under which the company was formed that a majority of the board would be named by the shareholders (the Act does provide for more than one shareholder) and the minority by order in council. That was true when the board consisted of only seven, but some two years ago it was increased to nine, and the proportion is now five to four whereas previously it was four to three.

Mr. BELL: Theoretically the Canadian National Railways would appoint shareholders to the Board of Directors, and the Canadian National Railways would appoint the shareholders?

Mr. MCGREGOR: No.

Mr. BELL: How does it work out?

Mr. MCGREGOR: The Canadian National Railways is the shareholder and it is the only one, and it appoints five directors.

Mr. BELL: The Board of Directors of the Canadian National Railways as such would appoint shareholders and directors of T.C.A. in practice?

Mr. MCGREGOR: That is right, appoint directors.

Mr. KNIGHT: Do not answer this question if it has already been answered before, because I was absent in another committee. With respect to this insurance fund, is it on record how it was built up?

The CHAIRMAN: Yes.

Mr. MCGREGOR: Not particularly with respect to this meeting. It is at the agreed ceiling of \$6 million as arrived at by the Board of Directors and it has been built up over the years by accruals to that fund. The rate of accrual was related to insurance premiums we would have had to pay to outside underwriters if we had done outside insuring.

Mr. HAMILTON (*York West*): Do you consider the balance in that fund as adequate?

Mr. MCGREGOR: Yes.

Mr. HAMILTON (*York West*): And it is cheaper than to carry it outside?

Mr. MCGREGOR: Very considerably; that \$6 million would be in the pockets of the insurance companies otherwise.

Mr. HAMILTON (*York West*): In connection with that item, have all the claims been made with respect to the two accidents we have had during the last year?

Mr. MCGREGOR: No. Over-all I would say about 60 per cent of them have been adjusted, and that the remainder are under negotiation.

Mr. HAMILTON (*York West*): That will not materially affect the financial statement?

Mr. MCGREGOR: No.

Mr. HAMILTON (*York West*): As a matter of fact, looking at it from the legal point of view, you have to pay anyway?

Mr. MCGREGOR: International passengers are limited.

Mr. HAMILTON (*York West*): Did T.C.A. have any representative taking part at the negotiation of the international agreement covering insurance and the liability treaty which is now before the House?

Mr. MCGREGOR: Only indirectly through IATA, which was present representing a number of carriers.

Mr. HAMILTON (*York West*): Are you aware of the provisions of that agreement? Do they pretty well fit in with your plan and meet your requirements?

Mr. MCGREGOR: It is not popular with some carriers, but I think it is a fair arrangement. The Warsaw Convention is extremely old.

Mr. HAMILTON (*York West*): Generally speaking you do feel that it is satisfactory to meet the international problem?

Mr. MCGREGOR: Yes.

Mr. HAMILTON (*York West*): And you would be satisfied with it?

The CHAIRMAN: Shall the balance sheet carry?

Mr. HAMILTON (*Notre Dame de Grâce*): There are offsetting items on the balance sheet in connection with the insurance fund. What do those assets in the insurance fund represent?

Mr. MCGREGOR: Money.

Mr. HAMILTON (*Notre Dame de Grâce*): Money?

Mr. MCGREGOR: Yes.

Mr. HAMILTON (*Notre Dame de Grâce*): Do we hold it in escrow or in trust?

Mr. MCGREGOR: It is invested in securities which the company permitted to purchase, which are dominion and provincial government securities, or securities guaranteed by those authorities, and it is in actual being.

Mr. HAMILTON (*York West*): I see that in conjunction with the current assets sheet there is a \$6 million item—would that be for this insurance fund?

Mr. MCGREGOR: It would be part of the breakup assets.

Mr. HAMILTON (*York West*): Are you troubled in any way with currency problems, that is, convertibility in connection with your operations?

Mr. MCGREGOR: No, we have been rather fortunate in that respect. There was an international clearing house set up some years ago, and there is another clearing house which has been in existence for an even longer time in the United States, and all the transactions involving foreign currencies are cleared there, and the net difference is very small.

The CHAIRMAN: Can we go on with the capital budget next?

Mr. HAMILTON (*York West*): What about the statement on the next page, page 36? In connection with the operational statement, may I ask Mr. McGregor how this year's operation statement compares with that of an airline of comparable size in the United States from the net profit standpoint. I am thinking here of Capital Airlines which is not too much out of line, I guess.

Mr. MCGREGOR: I would say that our net bears a lower relationship to our gross revenue than in the case of the more satisfactory airlines in the states.

Mr. HAMILTON (*York West*): Can you give us any explanation of that from an administration standpoint?

Mr. MCGREGOR: A higher volume of traffic serving larger centres. Capital Airlines serve, I think, something like 20 points. The T.C.A. serve 65, if I remember the figures correctly. A number of small stations comparatively infrequently used run costs higher. Fuel costs some 30 per cent less in the United States. Labour is generally said to cost somewhat less in Canada, but that does not offset the tremendous difference in fuel costs.

Mr. HAMILTON (*York West*): You think that on a comparative basis, this explains the difference in net profit of \$400,000 on \$68 million to Capital Airlines' \$3 million profit on about \$45 million.

Mr. MCGREGOR: No, there are a number of other factors which enter into it. By the nature of T.C.A. with respect to Canadian views, we are required as a company to maintain some extremely expensive facilities which do not apply to a company such as Capital Airlines. For instance, we have an expensive and, I may say, a rather famous engineering department. Capital has none. When Capital Airlines want aircraft, they look over the program of engineering modifications required by T.C.A., and tell Vickers that they will take the aircraft with those modifications.

Mr. HAMILTON (*York West*): How do they carry out their engineering program?

Mr. MCGREGOR: Quite frankly, they do not have one. When they want aircraft, they go to the manufacturer and say: "What do you have to sell us?" And then they either take it, or they don't. Conditions in Canada require a special approach. Cabin heating, ground heating, the domestic plumbing—if it is not to freeze up—it has to be dealt with in an entirely different way, so we have certainly felt a strong need to maintain an engineering department, and that is not an inexpensive luxury.

Mr. HAMILTON (*York West*): It boils down to this—that the independent airlines in the states are going to be able to take advantage of the money which we are spending on a good engineering department.

Mr. MCGREGOR: In that case it was so.

Mr. HAMILTON (*York West*): I understood they said: "We shall take the planes as delivered to T.C.A."

Mr. MCGREGOR: Incidentally we are getting something back from Vickers with respect to that engineering cost.

Mr. HAMILTON (*York West*): That goes against your argument.

Mr. MCGREGOR: We have not got it yet.

Mr. HAMILTON (*York West*): I do not want in any way to trap you on this question, but you are not suggesting that Capital Airlines do not have a maintenance group? They maintain their aircraft on pretty well the same principles as all other companies.

Mr. MCGREGOR: Yes.

Mr. HAMILTON (*York West*): There would not be so much difference in cost there?

Mr. MCGREGOR: No. The main difficulty is in the thinner traffic. Capital Airlines, selecting their routes to the degree permitted by the Civil Aeronautics Board, naturally confine themselves to the larger centres. In fact I think it is only a year or so ago that many of the larger airlines in the States were requesting permission to discontinue services to the smaller points.

Mr. HAMILTON (*York West*): But would not the engineering work which we do work "in reverse"? Would we not get benefits from it to the extent that all the "bugs" would be ironed out before aircraft came to us?

Mr. MCGREGOR: You might think so, but it is really not the case. T.C.A. Super Constellations have many engineering modifications in the model ordered by us which those ordered by airlines operating in more salubrious climates do not require.

Mr. CARRICK: May I ask a question? If you were trying to operate T.C.A. to make the maximum profit you could, and not to give a service to the public, could you think of any modifications you would make in order to bring this about? Am I right in thinking that you do not operate solely with a view to getting as much profit as you can?

Mr. MCGREGOR: We operate with a view to keeping ourselves from becoming an expense to the taxpayer, while at the same time maintaining a quality of service which we can be proud of. One great saving—I do not think it is one of which passengers would approve—would be to refuse to pay en route expense on delayed flights, and those delays are extremely prevalent in the two coastal regions in Canada. That would save perhaps a million dollars a year.

Mr. CARRICK: I suppose, also, you would cut out some of these thinner routes if you were looking to profit rather than to service?

Mr. MCGREGOR: Yes.

Mr. HAMILTON (*York West*): Before we leave that item—

Mr. GILLIS: We have been on that for the last three-quarters of an hour. We carried the report.

Mr. HAMILTON (*York West*): There seems to be some contradiction in connection with the answer on free transportation to this extent: in your answer

to me on load factor you pointed out that on the main routes between the main points we were operating at considerably higher than the normal factor of 72 per cent, and that is the reason it is brought down—because of these shorter “hops”. How do you fit that free transportation in? Are these people all on short “hops”.

Mr. MCGREGOR: No. But they are very frequently delayed, or “bumped” as we say—held up en route, often to their extreme pain, and occasionally, it may be, hunger. It is not unusual in the summer time to have 10 or 15 company personnel stopped for three or four days at a station, unable to get an aircraft.

The CHAIRMAN: Shall we proceed to the capital budget for 1955?
Agreed.

TRANS-CANADA AIR LINES

CAPITAL BUDGET

	Year 1955 Revotes	Estimates	TOTAL
Airplanes and components			
Airplanes	\$2,324,000	\$ 9,188,000	\$11,512,000
Airframe equipment	87,000	599,000	686,000
Power plants & engines	497,000	450,000	947,000
Propellers	4,000	101,000	105,000
Radio	70,000	66,000	136,000
Misc. flying equipment	12,000	39,000	51,000
Aircraft spares	1,124,000	305,000	1,429,000
Total	\$4,118,000	\$10,748,000	\$14,866,000
Ground facilities & components			
Ground communication	\$ 45,000	\$ 37,000	\$ 82,000
Hanger & shop equipment ..	591,000	397,000	988,000
Ramp equipment	135,000	87,000	222,000
Motorized vehicles	81,000	282,000	363,000
Office equipment	97,000	280,000	377,000
Engineering equipment	3,000	7,000	10,000
Storage & distrib. equipment.	17,000	14,000	31,000
Miscellaneous equipment ...	11,000	186,000	197,000
Total	\$ 980,000	\$ 1,290,000	\$ 2,270,000
Buildings	\$ 564,000	....	\$ 564,000
Contingency .....	....	\$ 300,000	\$ 300,000
Grand Total	\$5,662,000	\$12,338,000	\$18,000,000

The expenditure in respect of each of the above items may exceed the amount shown by not more than 10 per cent, without further approval, provided the total expenditure on the said items does not exceed \$18,000,000.

NOTE: There is included in “Airplanes” down payments on new aircraft which commit the Company to further payments aggregating \$5,450,000 during the period January 1956 to December 1957.

STATEMENT SHOWING SOURCE OF FUNDS FROM WHICH
CAPITAL EXPENDITURE IS TO BE FINANCED

Net income	\$ 200,000
Depreciation Accruals	6,010,000
Loans from CNR	11,900,000
	\$18,110,000

The CHAIRMAN: Shall the capital budget carry?

Mr. CHURCHILL: Mr. Chairman, I have a question. In this contract between the T.C.A. and the Department of Transport what is the relation between the Trans-Canada Air Lines and the Department of Transport? What does the Trans-Canada Air Lines provide and what does the Department of Transport provide at these airports?

Mr. MCGREGOR: Trans-Canada Air Lines provides all the equipment being used in connection with its own aircraft—ground power units, loading, special vehicles for moving baggage to and from the aircraft, heating units, cabin servicing units, fork lift trucks for lifting commissary into the aircraft.

The Department of Transport provides the ramp areas, taxi ways, runways and other facilities, Department of Transport buildings and the terminal buildings in which, as I mentioned this morning, Trans-Canada Air Lines rents space it specifically uses. Trans-Canada Air Lines also rents the hangar and office space of the Department of Transport buildings which it uses.

Mr. CHURCHILL: In regard to that heading "Ground Communications", what is that for?

Mr. MCGREGOR: Those are the ground radio stations maintained by the company for direct communication between the ground and the aircraft in flight for company traffic.

Mr. CHURCHILL: That question I asked this morning about G.C.A. would not that come under this heading?

Mr. MCGREGOR: No, because that would be used by every aircraft using the airport.

Mr. CHURCHILL: This is only your own Trans-Canada Air Lines communication service?

Mr. MCGREGOR: Yes.

Mr. HAMILTON (*Notre Dame de Grâce*): Mr. Chairman, Mr. McGregor in the course of this year is going to need about \$18 million for this capital budget. At the bottom of the budget he shows us a little statement on where the money is going to come from. I have a question in connection with that for this reason, it is apparent from your balance sheet in order to maintain any sort of reasonable working capital you cannot draw down any more of your own cash. You need everything you have in current assets for that, but you have got \$6 million in these insurance funds in the form of assets.

Now, if you were an independent organization on the same basis as Capital Airlines or something like that I could see where it would be quite necessary for you to keep that fund intact because you have no other source than within yourselves to find it. But actually what you propose to do, as I see it, is to turn to the Canadian National Railways and borrow from them almost \$12 million for the purposes of this capital budget. Would it not be wise since this reserve is there anyway and available to you to utilize this insurance fund for that purpose and you might save quite an amount in interest charges?

Mr. MCGREGOR: No to both questions, Mr. Hamilton. In the first place it is necessary for a company to show if it is self-insuring any proportion

of its risk in respect of international operation that this self-insurance fund is completely liquid so for that reason the money cannot be invested in the business and on the other count the difference in percentage between the revenue we get from that \$6 million invested and the money in interest charges we pay to the Canadian National Railways is infinitesimal.

Mr. HAMILTON (*Notre Dame de Grâce*): It was an appealing idea, that is all.

Mr. MCGREGOR: One that had occurred to me, I might add.

The CHAIRMAN: Any other questions?

Mr. BELL: Regarding buildings, Mr. McGregor, what is the policy of renting buildings wherever possible?

Mr. MCGREGOR: Not in every case, but the only buildings we own are hangars, stores buildings and such specialized buildings as engine test houses. We do not own any office accommodation.

Mr. HAMILTON (*York West*): Are these buildings on freehold land like the one at Malton, for instance, or leasehold?

Mr. MCGREGOR: Leasehold, long term.

Mr. HAMILTON (*Notre Dame de Grâce*): Looking ahead, Mr. McGregor, even beyond this capital budget, would you foresee continuing expenditures next year and the year after of a substantial nature for additional aircraft?

Mr. MCGREGOR: I think it is referred to in the note, Mr. Hamilton. It refers to the fact that this budget involves commitments for purchases of new aircraft in 1956 and 1957.

The CHAIRMAN: Shall the capital budget carry?

Carried.

The next is the operating budget for Trans-Canada Air Lines.

TRANS-CANADA AIR LINES

OPERATING BUDGET

Year 1955

Operation Revenues	\$78,000,000
Operation Expenses	\$77,160,000
Operating Income	\$ 840,000
Non-Operating Expense-Net	640,000
Income	\$ 200,000
Provision for Income Tax .....	.....
Net Income	\$ 200,000

The CHAIRMAN: Any questions on the operating budget? Carried?
Carried.

I would like now to take this opportunity of thanking Mr. McGregor for coming here and giving of his time and giving us a most satisfactory explanation of the workings and operations of Trans-Canada Air Lines during the past year and I am sure I express the thanks of all the committee and also to the other officials who have accompanied Mr. McGregor here. I also wish to express thanks to the minister, Mr. Howe, who has been here constantly throughout the time we have been carrying on deliberations.

Mr. MCGREGOR: Thank you very much, Mr. Chairman, and I would like to express appreciation for the very sympathetic hearing.

The CHAIRMAN: I would like also to express our thanks to you for the trip we had in the new Viscount last Wednesday. It was most interesting and enjoyable.

Then, we have here the auditors, Mr. Turville, Mr. Morison and Mr. Padley, who are the government auditors for Trans-Canada Air Lines.

Now then, I would ask that the Auditors' Report to Parliament be not read but taken as read and be attached to the minutes of the report of the committee. Are there any questions of Mr. Turville about that auditors' report?

GEORGE A. TOUCHE & CO.

Chartered Accountants

Coristine Building, 410 St. Nicholas St., Montreal 1

25th February, 1955.

TRANS-CANADA AIR LINES

The Right Honourable the Minister of Trade and Commerce,
Ottawa, Canada.

Sir,

We have audited the accounts of the Trans-Canada Air Lines for the year ended 31st December, 1954, under authority of the Trans-Canada Air Lines Act, as amended and we now report, through you, to Parliament.

Our examination of the accounts was made in accordance with generally accepted auditing standards, and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. In this connection we worked in collaboration with the executive accounting officers having as a common objective the securing of maximum internal protection to the Air Lines in the control of cash receipts and expenditures, securities held, material stores and accounts receivable of all types. The Air Lines are further protected by fidelity bond insurance with outside underwriters.

Our audit of the accounts included the verification of the balance sheet and the statement of income and certification thereof.

STATEMENT OF INCOME

Depreciation

Provision for depreciation on capital assets was made during the year on the following bases:

(a) Flight equipment in service—

North Star M2—over a period of six years from date of being put into service. The aircraft comprised in this fleet became fully depreciated in May 1954.

Super Constellation—over a period of seven years from date of being put into service.

Bristol—over a period of five years from date of being put into service.

DC 3—having been fully depreciated in 1951, no provision is required.

(b) Ground facilities—estimated useful life, the period depending upon the type of asset.

No depreciation has been provided on the Vickers Viscount aircraft received late in the year, as it has not yet been put into service.

We have received certificates from a responsible officer to the effect that all flight equipment and ground facilities have been maintained in a proper state of repair and in an efficient operating condition during the year, that such physical retirements as should have been made during the year, as a result of wear and tear and obsolescence have been made, and that notification of all such retirements has been given to the Accounting Department.

Non-Operating Income—Net

This account is principally comprised of interest on deposits with the Canadian National Railways and discounts earned on purchases.

Interest Expense

Interest Expense covers interest on the Canadian National Railway Company's investment in the long term debenture, together with interest on notes payable to the railways.

BALANCE SHEET

Current Assets

To meet delivery payments on new aircraft, the Air Lines withdrew during the year the surplus funds of \$11,000,000 which were on deposit with the Canadian National Railways. Interest at the rate of 3 per cent per annum had been paid to the Air Lines on these deposits.

Accounts receivable and payable of all classifications have been tested by us with the subsidiary and controlling records, cash and other transactions subsequent to the year end, departmental files and general supporting information, but such accounts have not been verified by direct communication with the individual debtors and creditors.

No physical inventory of material and supplies was taken by the Air Lines during the year. The inventories at 31st December, 1954, as represented by the ledger balances, are carried on the basis of latest invoice price of new materials and estimated utility or sales value for usable second-hand, obsolete and scrap material, and are supported by perpetual inventory records and periodic internal audit tests.

Insurance Fund

The Insurance Fund increased during the year by \$218,000, and at the year end amounts to \$6,000,000, consisting of securities of the Government of Canada, Canadian National Railways (Guaranteed by the Government of Canada), and securities issued or guaranteed by Provincial Governments, together with cash and sundry current assets. The year end market value of these securities was slightly in excess of cost.

Capital Assets

Property and equipment is carried on the basis of cost less accrued depreciation. Major capital expenditures during the year comprised the final payments on eight Super Constellations and one Vickers Viscount aircraft and associated spare parts, the final payment on the new aircraft hangar at Malton and payments on the stores building and engine test house at Winnipeg. Proper deductions have been made to record the loss of the North Star and Constellation aircraft.

Insurance Reserve

The portion of the loss arising from aircraft accidents during the year, insured through the Air Lines' Insurance Fund, has been charged against Insurance Reserve. To off-set the impairment thereby created, an appropriation of \$2,000,000 has been made from Surplus.

Surplus

As a result of aircraft losses, the corporation's liability for income tax has been eliminated, and an adjustment of \$368,000, being the amount previously recorded as income tax payable, has been credited to Surplus.

Where foreign currencies are involved, the balance sheet accounts of the Air Lines are converted generally as follows:

- (a) United States Currency—at the dollar par of exchange.
- (b) Sterling Currency—at the rate of \$2.80 to the pound.

Dollar amounts stated in this report are to the nearest thousand.

Yours faithfully,

George A. Touche, C.A.

Mr. HAMILTON (*York West*): The only question that I have, sir, is in connection with the depreciation taken. Has there been any consultation with any other airlines as to what is an acceptable means or has this been worked out solely by yourselves?

Mr. TURVILLE: It is a rate that has been determined by Trans-Canada Air Lines and as Mr. McGregor has already stated it is comparable with that used by many of the lines in the United States.

Mr. HAMILTON (*York West*): And it is below, of course, the government allowance?

Mr. TURVILLE: Very considerably.

Mr. HAMILTON (*Notre Dame de Grâce*): Mr. Chairman, just one passing observation I would like to make. I think many of us admire the annual reports of the Trans-Canada Air Lines and the Canadian National Railways and we all agree that they are sales pieces. I would like to find our auditors setting an example for parliament in the case of their document, which comes to us and which could not be considered a sales piece as it is for our use only. I think it should be produced as cheaply as possible. Actually you are paying five times as much as you need to. It is only for distribution to parliament and has no sales value. Couldn't it be turned out a little more cheaply?

Mr. TURVILLE: Might I say, Mr. Hamilton, I think it is a very modest document and the cost is not high.

Mr. HAMILTON (*Notre Dame de Grâce*): I am serious. It is obviously not a big item at all. It was purely a matter of principle. The price with cover is \$121; without cover it is \$21.

Mr. TURVILLE: I do not know whether I am stepping out of turn when I say this, Mr. Hamilton, that from our own firm's point of view we also have some pride. We like to produce statements for presentation to members of parliament which conform with our usual standard. We don't think we have been extravagant to put it in a cardboard cover.

Mr. HAMILTON (*York West*): In connection with the statement, sir, you do make a spot check, I assume, on pretty well all matters—accounts payable and accounts receivable?

Mr. TURVILLE: Yes, we make tests of all these things. The test is a spot check based on our own judgment both as to revenue and expenditures.

Mr. HAMILTON (*York West*): One thing I might ask you. Is there a check kept by you as auditors of the free transportation granted by the company? Is that gone into?

Mr. TURVILLE: No, we do not go into that. Its main importance is to my mind statistical.

Mr. HAMILTON (*York West*): But there is no check made on it as to whether the people travelling on free transportation passes come within the groups of people who have been described today?

Mr. TURVILLE: There is an internal check which results from the approval of senior officials of the airline.

Mr. HAMILTON (*York West*): Do you make a spot check of them the same as you do the other items?

Mr. TURVILLE: No. We rely on the integrity of statements of the administration that these people are either employees of the company or entitled to passes through their affiliation with the airline.

Mr. HAMILTON (*York West*): I was just going into the method that you used. There is no spot check of that transportation?

Mr. TURVILLE: No.

Mr. BELL: I think that possibly this question was answered, but the sterling currency rate is current as far as the T.C.A. is concerned whereas for the C.N.R. we took the former rate and that is because the holdings of the C.N.R. were calculated—

Mr. TURVILLE: Yes. I think I gave some explanation of that yesterday. The C.N.R. rate is being maintained perhaps not as far back as Confederation but almost and it is represented to a large extent by securities which are repayable in sterling. In the case of the Trans-Canada Air Lines that does not enter into the picture and the conversion rates which are in use by Trans-Canada Air Lines are those mutually agreed with the International Air Transport Association and cannot be changed unless there is more than a 10 per cent fluctuation.

Mr. HAMILTON (*Notre Dame de Grâce*): Do you test the inventories of the T.C.A. against physical inventory?

Mr. TURVILLE: If you will read the appropriate paragraph in our report you will find that this year there was not a physical inventory taken but we did compare the book records with the panel records and so on and make tests during the year.

Mr. HAMILTON (*Notre Dame de Grâce*): You did test it at certain points?

Mr. TURVILLE: Yes.

Mr. CARRICK: I suppose in testing the passes you would have in mind that it did not involve any money going in or any money coming out?

Mr. TURVILLE: Exactly. I do not think that it would be very useful for us to test them unless there was some record of dollars and cents.

Mr. CARRICK: It would hardly be within the scope of your duties.

Mr. TURVILLE: It would be trying to test something that was not there.

Mr. CARRICK: Something that was not your business.

Mr. HAMILTON (*York West*): What was that?

Mr. CARRICK: I am suggesting that it would not be any business of the auditors to spot check that because it does not involve money going in or out of the company.

Mr. HAMILTON (*York West*): It might involve money which should go in?

The CHAIRMAN: Shall the item carry?

Carried.

I believe there only remains one more meeting and that is for the purpose of preparing our report to the House. That meeting will be in camera. I am wondering as to when this meeting should be held to discuss the report. There

are a number of members on this committee who come from distances west and east who will probably want to get away for the Easter recess. Is it the wish of the committee that we sit tonight in camera to discuss that report.

Agreed.

And then we will be ready to make a report to the House on Monday.

Rt. Hon. Mr. HOWE: I have received the news that the first schedule Viscount flight in North America just departed on time at 4.30 out of Montreal.

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