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Canada. Parl. H. of C. Standing
Comm. on Railways and Shipping
Owned, Operated and Controlled
by the Govt., 1943/44.

Minutes of proceedings and
evidence.

DATE

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SESSION 1943
HOUSE OF COMMONS

STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

MONDAY, MARCH 29, 1943

TUESDAY, MARCH 30, 1943



WITNESSES:

- Mr. H. J. Symington, K.C., President, Trans-Canada Air Lines.
- Mr. Geo. Herring, Chief Superintendent of Air and Land Mail Services,
Post Office Department.
- Mr. O. A. Matthews, of George A. Touche & Company, Auditors.

OTTAWA
EDMOND CLOUTIER
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1943

ORDERS OF REFERENCE

MONDAY, 15th February, 1943.

Resolved,—That the Standing Committee of this House shall severally be empowered to examine and inquire into all such matters and things as may be referred to them by the House and to report from time to time their observations and opinions thereon; with power to send for persons, papers and records.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

TUESDAY, 2nd March, 1943.

Resolved, —That Standing Order 63 of the House of Commons, relating to the appointment of standing committees of the house, be amended by adding to the standing committees of the house for the present session a standing committee on railways and shipping owned, operated and controlled by the Government, to which will be referred accounts and estimates and bills relating thereto of the Canadian National Railways, The Canadian National (West Indies) Steamships, and Trans-Canada Air Lines for the present session, for consideration and report to the house; provided however that nothing in the resolution shall be construed to curtail in any way the full right of discussion in committee of supply; and that the said committee consist of: Messrs. Donnelly, Dubuc, Durocher, Emmerson, Ferland, Gray, Hanson (*Skeena*), Harris (*Danforth*), Hazen, Howden, Howe, Jackman, Lockhart, McCulloch, Maybank, Nicholson, Parent, Pouliot, Roebuck, Ross (*Middlesex East*), Sanderson, Shaw, Sissons.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

WEDNESDAY, 17th March, 1943.

Ordered,—That the name of Mr. Hanson (*York-Sunbury*) be substituted for that of Mr. Hazen on the said Committee.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

WEDNESDAY, 24th March, 1943.

Ordered,—That the name of Mr. Michaud be substituted for that of Mr. Howe on the said Committee.

Ordered,—That the Annual Report of the Directors of the Trans-Canada Air Lines, for the year ended December 31, 1942, be referred to the said Committee.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

MONDAY, 29th March, 1943.

Ordered,—That the Annual Budget of the Canadian National Railways and Canadian National (West Indies) Steamships Limited, and the Annual Reports for the year 1942, tabled to-day, viz:—Canadian National Railway System; Canadian National (West Indies) Steamships Limited; Canadian National Railways Securities Trust; Report of George A. Touche and Company, Auditors of the Accounts of the Canadian National Railway System, etc., be referred to the said Committee, together with the following items of the Estimates for 1943-44:—

Vote No. 385 Maritime Freight Rates Act—Canadian National Railways;
Vote No. 386 Maritime Freight Rates Act—Railways other than Canadian National;

Vote No. 405 Canadian National (West Indies) Steamships, Limited—Capital Advances;

Vote No. 406 Prince Edward Island Car Ferry and Terminals—Deficit, 1943.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

WEDNESDAY, 31st March, 1943.

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

Ordered,—That the quorum of the said Committee be reduced from 12 to 8 members.

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

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

REPORT TO THE HOUSE

MONDAY, 29th March, 1943.

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

FIRST REPORT

Your Committee recommends:

1. That it be given leave to print, from day to day, 500 copies in English and 200 copies in French of its minutes of proceedings and evidence, and that Standing Order 64 be suspended in relation thereto.
2. That its quorum be reduced from 12 to 8 members.
3. That it be given leave to sit while the House is sitting.

All of which is respectfully submitted.

J. P. HOWDEN,
Chairman.

MINUTES OF PROCEEDINGS

MONDAY, 29th March, 1943.

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

Members present: Messrs. Donnelly, Dubuc, Emmerson, Hanson (*Skeena*), Hanson (*York-Sunbury*), Howden, Jackman, McCulloch, Michaud, Nicholson, Ross (*Middlesex East*), Sanderson, Sissons.

Hon. Mr. Howe, former Minister of Transport, was also present.

In attendance: Commander C. P. Edwards, Deputy Minister of Transport; Mr. R. C. Vaughan, Chairman and President, Canadian National Railways; Mr. H. J. Symington, K.C., President, Trans-Canada Air Lines, and other officials of the Canadian National Railways and Trans-Canada Air Lines; Mr. George Herring, Chief Superintendent of Air and Land Mail Services, Post Office Department, and Mr. O. A. Matthews of George A. Touche & Co., Auditors.

On motion of Mr. Hanson (*Skeena*), seconded by Mr. Hanson (*York-Sunbury*), Mr. Howden was elected Chairman.

Mr. Howden took the Chair and expressed his thanks to the members for the honour conferred upon him.

On motion of Mr. McCulloch—

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

On motion of Mr. Hanson (*Skeena*)—

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

On motion of Mr. Donnelly—

Resolved—That the House be requested to reduce the Committee's quorum from 12 to 8 members.

The Committee proceeded to consider the Annual Report of Trans-Canada Air Lines for the year ended December 31, 1942.

Mr. Symington read from the report and was questioned thereon. He was assisted by Mr. O. T. Larson, Vice-President, and Mr. T. H. Cooper, Comptroller.

At the outset of Mr. Symington's evidence discussion arose as to the advisability of publishing the salaries of the operating officers of Trans-Canada Air Lines, and Mr. Hanson (*York-Sunbury*) moved that these salaries be made known to the Committee.

The question being put it was resolved in the negative.

In the course of his examination Mr. Symington filed a copy of the rules and regulations relative to the Trans-Canada Air Lines Pension Fund effective January 1, 1943.

Questions relating to air mail service were answered by Mr. Herring.

At 1 o'clock p.m. the Committee adjourned to the call of the Chair.

R. ARSENAULT,
Clerk of the Committee.

TUESDAY, 30th March, 1943.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government, met at 11 o'clock a.m., the Chairman, Mr. Howden, presiding.

Members present: Messrs. Donnelly, Dubuc, Emmerson, Ferland, Gray, Hanson (*Skeena*), Hanson (*York-Sunbury*), Harris (*Danforth*), Howden, Jackman, Lockhart, McCulloch, Michaud, Nicholson, Parent, Pouliot, Ross (*Middlesex East*), Sanderson, Sissons. Hon. Mr. Howe, former Minister of Transport, was also present.

In attendance: Commander C. P. Edwards, Deputy Minister of Transport; Mr. R. C. Vaughan, Chairman and President, Canadian National Railways; Mr. H. J. Symington, K.C., President, Trans-Canada Air Lines, and other officials of the Canadian National Railways and Trans-Canada Air Lines; Mr. George Herring, Chief Superintendent of Air and Land Mail Services, Post Office Department, and Mr. O. A. Matthews, of George A. Touche & Co., Auditors.

Mr. Symington resumed the reading of his Annual Report to the Shareholders of Trans-Canada Air Lines, and was further examined on the said Report. Mr. Symington was assisted by Mr. O. T. Larson, Vice-President, and Mr. T. H. Cooper, Comptroller.

In the course of Mr. Symington's evidence, Mr. Matthews was briefly examined in relation to depreciation account.

On motion of Mr. Jackman, it was resolved that the relevant parts of all treaties between Canada and the British Empire or foreign countries having to do with air transportation be incorporated as part of this day's proceedings. (*See Appendix "A".*)

On motion of Mr. Pouliot, it was resolved that all By-laws of Trans-Canada Air Lines be printed as an Appendix to this days' proceedings. (*See Appendix "B".*)

Mr. Symington having concluded the reading of his Report to the shareholders, it was suggested and agreed that a breakdown of the "Income Account" be prepared for members of the Committee before the next sitting.

At 1.00 o'clock the Committee adjourned until to-morrow, Wednesday, March 31, at 11.00 o'clock a.m.

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

March 29, 1943.

The Standing Committee on Railways and Shipping met this day at 11 o'clock a.m. The Chairman, Mr. J. P. Howden, presided.

The CHAIRMAN: Gentlemen of the committee, I thank you most kindly for the courtesies which you have bestowed upon me on this occasion. I now call the meeting to order.

Gentlemen, might I say, as in the case of last year, the officials of the transportation system have indicated that they are very short-handed and busy with their regular routine work and they would like if possible for the committee to expedite the review of the report. That does not mean that the report should not receive due consideration, but there are ways and means of saving time. As far as possible we should like to expedite the examination of this report.

Before we proceed we shall have to decide as to whether we wish permission to sit while the house is in session and also what the views are in regard to printing. There are usually a couple of motions that are submitted before the proceedings really advance to any degree and it is in connection with these two matters that I shall make a few remarks now. The first motion that is handed to me is that the committee request permission to sit while the house is sitting.

Hon. Mr. HANSON: Are you proposing to make that operative at once, for instance, this afternoon? We have budget resolutions, as you know, and we have to give some consideration to them.

The CHAIRMAN: It is up to the committee.

Hon. Mr. HANSON: Do we have to do it now?

Mr. DONNELLY: We can ask for permission to-day.

Hon. Mr. HANSON: Yes, but let us not go on for a little while.

Hon. Mr. MICHAUD: Let us make the motion to-day so it will take effect to-morrow.

Mr. McCULLOCH: I make that motion.

Mr. DONNELLY: I second it.

Motion agreed to.

The CHAIRMAN: Then, with regard to printing, I have been handed a motion that the committee request permission to print from day to day 500 copies in English and 200 copies in French of its minutes and proceedings and evidence and that Standing Order 64 be suspended in relation thereto.

Hon. Mr. HANSON: Do you have to have permission from John Thompson?

Mr. HANSON (*Skeena*): I make that motion.

Mr. McCULLOCH: I second it.

Motion agreed to.

The CHAIRMAN: Now, with regard to the quorum, the official quorum, I understand, is twelve.

Mr. DONNELLY: How many have you on the committee?

The CHAIRMAN: Twenty-three. Last year we had difficulty in getting the committee started because of a lack of a quorum and we reduced it to ten.

Hon. Mr. MICHAUD: The motion was "Ordered that the quorum of said committee be reduced from twelve to eight."

The CHAIRMAN: Will you deal with the matter now or do you wish to proceed as we are for a while?

Hon. Mr. HANSON: We will have to have a motion for that.

Mr. DONNELLY: I move the quorum be reduced from twelve to eight.

Mr. EMMERSON: I second it.

Motion agreed to.

The CHAIRMAN: Now, gentlemen, the committee is in your hands as to the method of procedure but we have only one report before us this morning and that is the Annual Report of the Trans-Canada Air Lines, so we have of necessity to take up the report this morning. The usual move is to have the president read such parts of the report as he deems wise and to follow him as we go along. Is it your wish that the committee shall proceed in this manner?

Some Hon. MEMBERS: Yes.

Mr. H. J. SYMINGTON, K.C., called:

Hon. Mr. HANSON: Before Mr. Symington begins his report may I ask a question of him?

The CHAIRMAN: Yes.

Hon. Mr. HANSON: The question I should like to ask is as to the composition of the board of directors and the officers. I notice the board consists of seven members, three of whom are representative of government departments, Mr. Edwards, Mr. Wilson and Mr. Herring; they are civil servants. The other four members of the board of directors include Mr. Vaughan, president of the Canadian National Railways, Mr. Symington, Mr. Gagnon and Mr. Northey. These are all company officials. Is that the policy of the government or of the C.N.R. or whoever is in control? Is it the policy of whoever is in control to have the board of directors entirely composed of officials of the civil service and of the Canadian National Railways?

Mr. SYMINGTON: I think it is covered by the Act, Mr. Hanson. Four of them are appointed by the Canadian National Railways board, and the other three are appointed by the Governor in Council.

Hon. Mr. HANSON: It is in the Act?

Mr. SYMINGTON: In the Act.

Hon. Mr. HANSON: Very well, that answers the question. Then, the officers of the company as a rule are all officers of the Canadian National Railways. I suppose that is to save duplication.

Mr. SYMINGTON: No, sir.

Hon. Mr. HANSON: Largely?

Mr. SYMINGTON: No, apart from myself you go all the way down to Hobbs, the secretary. All operating people are not in the railway company at all.

Hon. Mr. HANSON: No, the actual operation is not, but the secretary and Mr. Cooper the comptroller and Mr. Baldwin, auditor—he is not a railway man?

Mr. SYMINGTON: No.

Hon. Mr. HANSON: Mr. Cowie is in the C.N.R.?

Mr. SYMINGTON: Yes.

Hon. Mr. HANSON: Mr. Fairweather?

Mr. SYMINGTON: Yes.

Hon. Mr. HANSON: Mr. Thompson?

Mr. SYMINGTON: Yes.

Hon. Mr. HANSON: Mr. Schofield?

Mr. SYMINGTON: Yes.

Hon. Mr. HANSON: Dr. Dowd?

Mr. SYMINGTON: Yes. The arrangement, Mr. Hanson, is that we make an arrangement for the services of these railway people for the purpose of saving overhead and we pay them for their services. I can give you a list of the amounts in each department. I figure that we save, I should think, about \$60,000 to \$75,000 a year in overhead by the use of these departments of the Canadian National Railways, instead of having two separate organizations.

Hon. Mr. HANSON: That is to say, they get paid additional for their services?

Mr. SYMINGTON: They do not, but the company does. We contribute to the cost, let us say, of the medical services of the railway; we contribute \$5,000 for Dr. Dowd's services, but it does not go to Dr. Dowd, it goes to the Canadian National Railways medical services.

Hon. Mr. HANSON: Meaning by "we", the Trans-Canada?

Mr. SYMINGTON: Trans-Canada; yes.

Hon. Mr. HANSON: You pay for the services; it goes to the railway but not to the officers?

Mr. SYMINGTON: Quite so.

Hon. Mr. HANSON: Is there any objection to giving us the salaries of these gentlemen?

Mr. SYMINGTON: Well—

Hon. Mr. HANSON: The officers?

Mr. SYMINGTON: It always has been objected to. The directors, of course, get nothing, I get nothing.

Hon. Mr. HANSON: You do not need it.

Mr. SYMINGTON: It is a matter of personal opinion.

Hon. Mr. HANSON: I suppose, having regard to income tax, you do need it.

Mr. SYMINGTON: I think so; however, that is neither here nor there.

Hon. Mr. HANSON: I agree with you.

Mr. SYMINGTON: The operating men, we have not been in the habit of disclosing those salaries; it is really a business matter. We have competitors and—

Hon. Mr. HANSON: No competitors.

Mr. SYMINGTON: At any rate, it has not been the habit.

Mr. JACKMAN: No competitors.

Mr. SYMINGTON: I believe the committee decided each year that it was not—

Hon. Mr. HANSON: This is a company owned by the Crown and these people are public servants and there is no more reason why their salaries should not be made public than mine.

Mr. SYMINGTON: Well, I do not—

Hon. Mr. HANSON: It is the principle of the thing I am thinking of; it is indefensible.

Mr. SYMINGTON: I am in the hands of the committee or the government. True this is a government company in the sense it is owned by the Canadian National Railways, and the Canadian National have never disclosed the salaries of their people, as I understand it.

Hon. Mr. HANSON: Yes they did. They did it in 1934.

Mr. SYMINGTON: The principle has been followed by this company.

Hon. Mr. HANSON: The salaries were usually astonishing.

Mr. SYMINGTON: That may be so.

Hon. Mr. HANSON: I should like to know the salaries of these officials.

Hon. Mr. HOWE: I presume at the moment what you want is the contribution of Trans-Canada Air Lines to the railway on their account, is it not?

Hon. Mr. HANSON: Oh, no; it is very limited. I should like to know what these people are getting. I am a believer in paying good salaries. I think the government services as a rule are underpaid for good men, but I think the public has a right to know what the salaries are.

Hon. Mr. HOWE: I ask the honourable member if he does not think the proper man to give that evidence is the president of the railway when he is on the stand? After all, Trans-Canada Air Lines do not pay their salaries, and it does not seem to me that Mr. Symington is the appropriate person to ask for that information.

Mr. SYMINGTON: He is asking for Mr. Larson's and these other people's salaries.

Hon. Mr. HANSON: I am not asking for Mr. Fairweather's or Dr. Dowd's salaries; I presume they are well paid.

Mr. HANSON (*Skeena*): Should we not proceed with the report before we discuss the salaries?

The CHAIRMAN: It is quite legitimate. The only question that presents itself to my mind is whether the policy of the railway company has a right to be questioned by this committee.

Hon. Mr. HANSON: I am not questioning the quantum; I would probably approve every one of them, but what I am raising is the question of principle. Is not the public entitled to know what the salaries of these operating officials are?

The CHAIRMAN: You mean has the company the right to cover the salaries of the officials in the interest of business, of their own business?

Hon. Mr. HANSON: This is a publicly-owned company and there are no competitors.

Mr. SYMINGTON: May I suggest this to you? You are perfectly right, the government companies are underpaid.

Hon. Mr. HANSON: I said "civil servants".

Mr. SYMINGTON: Well, I think officials of the government companies relatively are underpaid too.

Hon. Mr. HANSON: That may be true.

Mr. SYMINGTON: And it is very difficult you see sometimes to get good men for your somewhat junior positions, with the idea that they will work up to higher positions, if a limit is put on their salaries by a parliamentary committee or if—

Hon. Mr. HANSON: I do not think a parliamentary committee would undertake to put a limit on their salaries.

Mr. SYMINGTON: Or if their private affairs are bandied about. I think it is an objectionable principle. As I say, I am in the hands of the committee, but I feel a public company should as far as possible be operated the same as a private company, if it has got to compete—

Hon. Mr. HANSON: You will notice, Mr. Symington, in the United States the salaries of the executive officials in private companies are now being published. The whole trend is that way, to let the stockholders know what is being paid. These people are in a different category in that they are servants of the public to a degree. In addition to that, if you are paying decent salaries you need not worry about your competitors. As a matter of fact, this company has no competitors.

Mr. SYMINGTON: Yes, it has.

Hon. Mr. HANSON: Well, in a very limited sense.

Mr. SYMINGTON: In the United States it is not because they are public servants. If the salaries of everybody in Canada under income tax regulations were published the same as in the United States I, of course, could have no objection to the salaries of these officials being published and discussed, but that has not been the policy in this country. Your salary and my salary in our private occupations are not published or a matter of public discussion and I do not think you should single out a man because he happens to work for a company that is owned by the government. I do not think he should be treated any differently from a man who works for a company that does not work for the public.

Hon. Mr. HANSON: All civil servants' salaries in Canada are published. We have had the Wartime Information Board salaries brought down in the house.

Mr. SYMINGTON: Maybe the civil service, but the civil servants are a little different from a privately-operated company.

Hon. Mr. HANSON: Your premise is wrong; this is not a privately-operated company, it is a government company.

Mr. SYMINGTON: It is a government-owned company as I say, but it is a company operating in actual business in the community and to my way of thinking should be no different from any other private company if you want to run it properly.

Hon. Mr. HANSON: Oh, yes.

The CHAIRMAN: If you move for this information we shall have to deal with it.

Hon. Mr. HANSON: I am asking for it.

The CHAIRMAN: If you ask for the information and make a motion to that effect will submit to the committee.

Hon. Mr. HANSON: I would like to hear the other members of the committee express an opinion.

Mr. HANSON (*Skeena*): If you get this information about the Trans-Canada Air Lines naturally we will be entitled to get the same information as far as the Canadian National Railways are concerned, and we have never had it before.

Hon. Mr. HANSON: I am not asking for that.

Mr. HANSON (*Skeena*): If you are asking for it from one company and receive it there is no reason why you should not ask for it with regard to the other one.

Hon. Mr. HANSON: Wait until we meet that, when we come to it.

Mr. HANSON (*Skeena*): I do not think the competing company has given out the information; I do not think the C.P.R. has ever told us what they are paying.

Hon. Mr. HANSON: You have no right to ask for it.

The CHAIRMAN: If there is no motion forthcoming, and there is none before the chair, we will proceed.

Hon. Mr. HANSON: I understand your ruling is we are not to get the salaries.

The CHAIRMAN: What is that again?

Hon. Mr. HANSON: I understand we are not to get the salaries.

The CHAIRMAN: That is right. As chairman I can only abide by what has been done in other years; unless, of course, you care to submit a motion.

Hon. Mr. HANSON: Then, I would move—I asked a question of the president of this company: if he could not give this committee the salaries of these operating officers.

Mr. SYMINGTON: You mean, those paid by the air lines?

Mr. HANSON: I am not asking for any of the men who are in the employ of the Canadian National Railways and who get nothing directly from this company.

Mr. DONNELLY: You want to know only the amount this company gets from the parent company?

Hon. Mr. HANSON: I am not asking that at the moment. Mr. Howe told us that; that they paid a contribution into the accounts—is that right?

Hon. Mr. MICHAUD: No, he referred to a saving.

Mr. JACKMAN: There is the actual amount paid by T.C.A. to the C.N.R. You said that the amount they paid would be in the neighbourhood of \$60,000 to \$75,000 of a saving. That represents an amount which otherwise the T.C.A. would have to pay certain officials. I think what Mr. Hanson wants to get at is, how much is paid by the T.C.A., and how much by the C.N.R.

Mr. SYMINGTON: I think perhaps I placed that amount a little bit higher than it should be. The information which Mr. Cooper has just given me indicates that the amount is \$31,400. Do you want that by departments?

Hon. Mr. HANSON: No, no. That is a very commendable thing. Now, I would like to know the salaries of these operating officers who are paid directly by Trans-Canada Air Lines.

Mr. JACKMAN: Mr. Chairman, we certainly had these figures for salaries for the chief men of the T.C.A. in previous years, as you will recall very well, which were given to us in that regard. You say the situation is entirely different where you are handling public moneys in contrast to private moneys.

Hon. Mr. HOWE: I might point out that while this company is under government control it is a subsidiary of the Canadian National Railways.

Hon. Mr. HANSON: That has been given before.

Hon. Mr. HOWE: I doubt it very much. I would like to see in any report of the meetings of this committee where in past years we have given a statement as to these salaries. I think I have attended nearly all of the sittings of this committee in connection with Trans-Canada Air Lines and I cannot remember of that having been done.

The CHAIRMAN: No, not on air lines.

Hon. Mr. HANSON: I see that in 1941 this company received \$3,058,120.95 for carrying mail, and that in 1942 they received \$3,211,921.74 for the same purpose. That money all comes out of the taxpayers of this country directly or indirectly; either in taxes or through the Post Office Department; so that a large proportion, forty per cent at least, of revenue income account in this company is from that type of service. Why should not the public know, they own the company; why should not we know what it costs to operate that, taking the lump sum?

Mr. SYMINGTON: Of course, on that point Mr. Hanson, the Post Office Department is a department of the government and they pay Trans-Canada Air Lines a certain amount for carrying mail and they collected \$6,000,000 from the public for the payment of the amount you have indicated.

Hon. Mr. HANSON: Yes.

Mr. SYMINGTON: It is the cost of the service.

Hon. Mr. HANSON: I agree with that. If this were directly under the Post Office Department then, of course, we could get all these figures in the house.

Mr. SYMINGTON: Of course; but that hardly makes them a public company. They also pay all the other air lines for carrying mail.

Hon. Mr. HANSON: You and I know the position quite well. You are fencing with me.

Mr. SYMINGTON: Oh no, I am not fencing at all.

Hon. Mr. HANSON: Oh yes, you are; and you are a good fencer; I have watched you.

Mr. SYMINGTON: You and I never had to fence.

Hon. Mr. HANSON: Perhaps I have used the wrong term.

Mr. SYMINGTON: I should say this; that I as the operating head of this company am trying to run it in a proper manner; and I do not think that the salaries ought to be disclosed; if the committee, of course, think otherwise, why, they will be.

Hon. Mr. HANSON: I put it to you that you refuse to disclose these salaries.

Mr. SYMINGTON: No, I do not refuse. I say that I think it is a mistake and I do not want to disclose them. If the committee says yes, all right.

Hon. Mr. HANSON: All right; of course, that is another question. I move that the salaries be given to the committee.

Mr. JACKMAN: I second that.

The CHAIRMAN: On a show of hands, I declare the motion lost. And now, that having been disposed of, we will proceed to a consideration of the report.

Mr. SYMINGTON, what part would you like to begin with?

Mr. SYMINGTON: I will read the whole thing.

The CHAIRMAN: All right, we will read the whole report.

Hon. Mr. HANSON: Paragraph by paragraph?

The CHAIRMAN: You can interrupt at any point you wish.

Hon. Mr. HANSON: I think probably every member of the committee has already read it.

The CHAIRMAN: All right, Mr. Symington.

Mr. SYMINGTON:

MONTREAL, March 16, 1943.

To the Shareholders:

The board of directors submit herewith the annual report of Trans-Canada Air Lines for the calendar year 1942.

The year's operations gave a further demonstration of the increasing usefulness of the air line to the people of the dominion. The volume of air mail, passenger and air express business again increased substantially and to meet the demand routes were extended and additional flights were provided. Covering Canada from sea to sea Trans-Canada Air Lines is an essential factor in national development and a powerful instrument in time of war.

RESULT OF OPERATIONS

	1942	1941	Increase
Operating Revenues	\$7,337,318.60	\$5,807,794.03	\$1,529,524.57
Operating Expenses	6,628,399.32	5,306,136.00	1,322,263.32
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Income Charges and Interest	708,919.28	501,658.03	207,261.25
	214,004.25	199,221.24	14,783.01
	<hr/>	<hr/>	<hr/>
Surplus	\$ 494,915.03	\$ 302,436.79	\$ 192,478.24

Hon. Mr. HANSON: Might we just pause there: what proportion of the passenger traffic is due to the war?

Mr. SYMINGTON: You cannot definitely say, Mr. Hanson. But what we do is to inquire about why everybody is flying—because precedence very well indicates that—and we figure that about seventy per cent were on war business.

Hon. Mr. HANSON: Now, that is passenger business?

Mr. SYMINGTON: That is passenger.

Hon. Mr. HANSON: What is the total of passenger traffic?

Mr. SYMINGTON: The total of passenger traffic is—I will give you that figure.

Hon. Mr. HANSON: The report, at page 15, gives it as 104,446 for 1942.

Mr. SYMINGTON: And passenger revenue is \$3,065,452.96.

Hon. Mr. HANSON: And 70 per cent of that—

Mr. SYMINGTON: Seventy per cent of that, as far as we can figure it out, has something to do with war business—

Hon. Mr. HANSON: Well, the government pays them, directly or indirectly.

Mr. SYMINGTON: Well, directly or indirectly.

Hon. Mr. HANSON: Well, it all amounts to the same thing; so that a little better than a million was civilian passengers.

Mr. SYMINGTON: When you say civilian, sir; I would think—

Hon. Mr. HANSON: Non-war; I will put it that way.

Mr. SYMINGTON: Non-war, perhaps; as nearly as one could judge.

Mr. DONNELLY: What would that include?

Mr. SYMINGTON: That is the gross revenue from passengers.

Hon. Mr. HANSON: That represents the total passenger revenue.

Mr. DONNELLY: If you take your \$2,100,000 odd to which you referred away from the total of \$3,065,000 odd, you have not got quite a million.

Hon. Mr. HANSON: According to my mathematics it would be \$920,000 odd—less than a million. That is what I have. With reference to the war you include air and naval?

Mr. SYMINGTON: All the armed forces, and all that sort of thing; as near as we can get to it. A man probably would try to make out that he is engaged in the war effort directly or indirectly so as not to be deplaned, you know; but we have one, two, three and four as to priorities. If somebody has to be deplaned for a "must" ride then we have a list as to which classification is to be deplaned and we deplane them in order.

Hon. Mr. HANSON: It would be fair to say that if there was not so much priority, there would be a larger volume of civilian passenger traffic?

Mr. SYMINGTON: Entirely. I am perfectly satisfied that with the growth of air travel that has taken place would fill all planes without effort.

Hon. Mr. HANSON: Now then, a lot of airmail is carried by you people.

Mr. SYMINGTON: I think we come to that.

Hon. Mr. HANSON: Now, may I ask you in respect to the table which you just read what your operating ratio is? I have made a rough calculation and I have calculated that in 1941 it was 91 cents out of every dollar, and in 1942 it was 90 cents. I am not in a position to tell you whether it is high or low.

Mr. SYMINGTON: I can tell you in just a minute, Mr. Hanson.

Hon. Mr. HANSON: Assuming that the amount that you got is right.

Mr. SYMINGTON: That is right, approximately correct.

Mr. DONNELLY: Are you not, as a matter of policy, keeping your operating ratio as high as possible? If it were lowered that would affect your mail contracts, would it not?

Mr. SYMINGTON: Automatically, of course. Just as soon as you make a profit down comes the mail rate for the next year. You will see as we go through the report the lowered revenues we get per pound mile.

Hon. Mr. HANSON: That is in here, in your operating expense here; it was something over 90 per cent of the operating revenue.

Mr. SYMINGTON: That is right.

Hon. Mr. HANSON: Last year the ratio was 91 per cent, roughly. I want to know if that is a fair operating ratio for air lines.

Mr. DONNELLY: If you lower the operating charge, you immediately change your mail contract rate.

Hon. Mr. HANSON: I want to know if that is, or can be considered, a fair operating ratio.

Mr. SYMINGTON: I would say that anything under ninety-five is a good operating ratio.

Hon. Mr. HANSON: What is the operating ratio of a similar transportation system in the United States? That is the only way in which you could measure it.

Mr. SYMINGTON: Yes. They are in the nineties.

Hon. Mr. HANSON: Can you give me any details on that?

Mr. SYMINGTON: I can find it for you. Their 1942 reports are not as yet—except for one, I think that of United.

Hon. Mr. HOWE: Might I point out that the operating revenue was limited under the Trans-Canada Act. I think it would be impossible, and certainly in the spirit of the Act undesirable, that there be too great a spread there. We never intended it to be a profit-making company.

Hon. Mr. HANSON: That is a new theory of government operation.

Hon. Mr. HOWE: If you will remember the provision of the Act, it is that at least 50 per cent of the profits in any year shall be applied to reducing the mail rate.

Hon. Mr. HANSON: You had better not tell Mr. Coldwell that. If he gets in power, then nothing will pay, if that is the spirit of this thing.

Mr. DONNELLY: As I understand it, last year he said the same thing, that as we make profits we reduce the cost of carrying the mail.

Hon. Mr. HANSON: Whether the operating ratio in this to the amount received is 90 per cent too high, I do not know.

Mr. SYMINGTON: I would say it is not. Of course, you have to recognize this: the fact that you have to do more work and therefore have higher operating expenses for less revenue naturally it will keep your operating ratio up. That is inevitable.

Hon. Mr. HANSON: If your premise is correct, yes; as you would do more work, your expenses go up.

Mr. SYMINGTON: Yes.

Hon. Mr. HANSON: But when you do more work you ought to have more revenue from outside sources.

Mr. SYMINGTON: We are getting more revenue every year from outside sources.

Hon. Mr. HANSON: I agree.

Mr. SYMINGTON: But the air mail revenue for the work done keeps continually going down. We will come to that in the report, and you will see what it means.

Hon. Mr. HANSON: The mail revenue, or at least a portion of it is in effect a subsidy.

Mr. SYMINGTON: We do not think it is a subsidy, if they get value.

Hon. Mr. HANSON: You do not like to call it a subsidy, but that is what it is because it is very much larger than what perhaps a competitive company would carry the mail for.

Mr. SYMINGTON: Not at all.

Hon. Mr. HANSON: Say, in the United States?

Mr. SYMINGTON: No, not at all.

Hon. Mr. HANSON: It is certainly larger than what they charge in the United States.

Mr. SYMINGTON: It is larger than what they charge in the United States on the transcontinental lines, I agree; but it is less than what they charge on the short lines in the United States.

Hon. Mr. HANSON: That may be so.

Mr. SYMINGTON: Of course, over all, it is more than they charge in the United States; but then you have a population of 130,000,000 as against 11,000,000, and the same breadth of country. That is inevitable.

Hon. Mr. HANSON: I suppose they have commensurate coverage in the United States relative to population?

Mr. SYMINGTON: No. I would think not.

Hon. Mr. HANSON: They have ten times the air lines that we have.

Mr. SYMINGTON: If you look at the United States' reports, you will find that in those years they got very high mail revenues and tremendous surpluses with which to work.

Mr. DONNELLY: If you look at page 13 of the report, you will find we carried 1,389,614 pounds of mail and got \$3,058,120.95. In the next year we carried 2,308,812 pounds of mail and got \$3,211,921.74. We got very much less money. If we had charged the same rate, we would have got more.

Hon. Mr. HANSON: Nobody would suggest that we should charge that high rate.

Mr. DONNELLY: Then our ratio would be lower.

Hon. Mr. HANSON: If you had got more money, your ratio would be lower, yes: But the point is that the cost of carrying the mail is still too high.

Mr. DONNELLY: That may be so.

Mr. JACKMAN: You have just made a suggestion that in the United States, with a larger country to serve and a greater volume of business probably, the cost should be lower because of the greater volume. Yet during the last year the T.C.A. increased their revenues 26 per cent and your ratio—that is, the relation of the cost of doing business to the gross—went down scarcely at all, which would indicate that the more business the T.C.A. does, the larger it becomes. We cannot expect any greater percentage of profit on the gross. In other words, you have almost a constant return or decreasing return the bigger you grow.

Mr. SYMINGTON: That is the whole theory of the act. We cannot do anything else. I have told this committee I do not like it, but the fact is that we are working for the post office, which is a department of the government. If we make a profit, we immediately reduce our mail rate for the next year. That is the whole theory of this undertaking.

Mr. JACKMAN: But that rate is still above that of competing lines or comparable lines in the United States?

Mr. SYMINGTON: There you are getting into a discussion, but I think your statement is wide. I do not think you can compare them at all. But if you are getting at the efficiency of operations, I can say to you that I think by almost every test I know, namely, the miles flown with the number of 'planes, hours in the air and all that sort of thing, this line is, in my humble judgment, the most efficient operating line on this continent; and I think it is so recognized.

Hon. Mr. HANSON: Let us concede at once that the operations are efficient. The service is good. Make no mistake about that. I am not here being critical about that. The only point I have in mind is as to whether the operating ratio is too high.

Mr. SYMINGTON: I have replied to you that I think it is not.

Hon. Mr. HANSON: All right. I do not know enough about it to carry it any further.

Mr. JACKMAN: Under the scheme of air mail contracts, we cannot expect a larger percentage of gross to go into net, no matter how much it grows in the future. Is that the interpretation you would put upon the outlook for the company?

Mr. SYMINGTON: I would think that, by and large, in principle, is about so. It will improve some. As the ratio of passengers to mail grows each year, you will get some additional revenue; but immediately that reduces your mail rate again. I have many theories about this thing. For instance, I would have thought that we should, as I told you last year, have been allowed to build up a reserve, because I never want to come to the government for any more money. But we cannot do that, of course, if we turn that back to the government through the other indirect channel.

Mr. HANSON (*Skeena*): It means that what the T.C.A. loses the Post Office Department gains.

Mr. SYMINGTON: Quite so; and that is a department of government.

Mr. JACKMAN: Just on the nomenclature of that item, income charges and interest, it is payment on the capital and any interest on money you may have borrowed.

Mr. SYMINGTON: No, it is not payment on capital. That is the exchange that we have had to pay for American purchases.

Mr. JACKMAN: You mean if you buy planes in the United States, the exchange comes with this account. It is a very odd name for it, if that is what it is.

Hon. Mr. HANSON: It should be charged to income, I think.

Mr. SYMINGTON: I am in error as to that item. That is made up of exchange, etc., \$13,270; interest on capital investment, \$200,734.

Mr. JACKMAN: In other words, you charge as operating expenses 5 per cent on the capital stock under the act.

Mr. SYMINGTON: Under the act, as operating expenses there is charged up 5 per cent on the capital stock.

Mr. JACKMAN: I raised the question one other time, I think, that I dislike the word "interest on capital stock" because capital stock never does pay interest. Why not clarify this matter?

Mr. SYMINGTON: It is in the definition in the act.

Mr. JACKMAN: They call it interest?

Mr. SYMINGTON: Yes. It is the only case I know of where interest on the investment is made an operating charge. That is done by the act and definition in the act.

Hon. Mr. HANSON: Why was it done?

Mr. SYMINGTON: It was done, I think, probably because, from the very nature of the company where you have to turn everything you get back to the government anyway, they want to insure the payment of interest on the investment before crediting the government back with the reduced mail rates.

Hon. Mr. HOWE: Of course, the theory of depreciation in Trans-Canada Air Lines is quite different from the theory of depreciation on the railway. The normal well-operated railway does not depreciate, but aeroplanes depreciate very rapidly.

Hon. Mr. HANSON: What is that again?

Mr. JACKMAN: But you set up depreciation in this company on aeroplanes, I think.

Mr. SYMINGTON: May I straighten this out by reading you the definition? The definition in the act reads as follows: "(i) operating expense means the expenditure actually and necessarily made by the corporation to earn gross revenue and shall include an allowance equal to five per centum per annum on the capital invested in the Trans-Canada Lines."

Hon. Mr. HANSON: That is, of course, the position of this item.

Mr. SYMINGTON: Yes.

Hon. Mr. HANSON: If it is a statutory provision, we will have to comply with it.

Mr. JACKMAN: Your interest is not in that definition. Personally, I object very much to it, because it is confusing. I would rather you called it "income charges and capital cost", if you have to call it anything.

Mr. SYMINGTON: It is not capital stock. It is interest on the capital investment. I do not know how else you can term it. That is it exactly.

Hon. Mr. HANSON: I think, under the reading of the statute, it is properly in the balance sheet all right. This company pays no income tax?

Mr. SYMINGTON: No. The company pays no income tax.

The CHAIRMAN: Shall we proceed?

Hon. Mr. HANSON: Not so fast.

Mr. NICHOLSON: Mr. Symington made one suggestion that I think the committee should consider at some time. As I recall it, the post office is now showing a profit on air mail service. I think Mr. Symington's suggestion was that the rate paid to the Post Office Department should not be further reduced and that a reserve should be built up for the T.C.A. I think this committee might give some consideration to that. I think his proposal is sound. It might be desirable to change the act, so that we can fix a definite rate that will be paid to the Post Office Department.

Hon. Mr. HANSON: It is dealt with in the next paragraph. It says, "In accordance with the provisions of the Trans-Canada Air Lines Act, 50 per cent of the surplus will be applied in reduction of the mail rate for the fiscal year April 1, 1943, to March 31, 1944, this reduction amounting to 8 per cent of the mail rate."

Mr. SYMINGTON: Yes.

Hon. Mr. HANSON: You are bound by statute?

Mr. SYMINGTON: Yes; we are bound by statute.

Mr. DONNELLY: You would have to change the statute.

Mr. SYMINGTON: We discussed that, as members of the committee who were here last year will remember; but I think that the air business is in a pretty fluid state just now, and I do not know that I would press that at the moment.

Hon. Mr. HANSON: I think perhaps that is wise. After all, this company is a pioneer company and had to be assisted from the beginning to establish itself. As a matter of fact, I would say to Mr. Howe and the committee, frankly, that I think the company has made great progress. There is not any doubt about that. But, of course, it is due largely to the war; although I think, in any event, it would have made progress as people became air minded and like to travel by air. I am not hitting this company at all.

Mr. SYMINGTON: I understand.

Hon. Mr. HANSON: I think the company is doing all right.

Mr. SYMINGTON: It may be interesting to you to know—and I was interested, certainly—that we have taken the statements over the years since its beginning, and our earnings and our deficits now balance within \$6,000 of each other.

Hon. Mr. HANSON: That is not bad. That is over how many years?

Mr. SYMINGTON: Five years. This new company—the statement was made there—has now paid all its deficits for the first two years and has balanced accounts and paid the interest on its investment.

Mr. NICHOLSON: Am I right in assuming that the post office department has operated the air mail service at a profit during the last year? I think that statement was made.

Mr. SYMINGTON: Yes, that is a correct statement. I will come to that.

Mr. NICHOLSON: If that is the case, it hardly seems fair for the T.C.A. to give a further reduction of 8 per cent as proposed.

Mr. SYMINGTON: Yes. Of course, there is this compensation that we always have to keep in mind. If times are not so good, and there is a deficit, then of course the post office rate goes up. We always have to keep that in mind. That is the other side of the picture.

Hon. Mr. HANSON: Is that in the statute?

Mr. SYMINGTON: Yes.

Hon. Mr. HANSON: Or in the contract?

Mr. SYMINGTON: It is in the contract.

Hon. Mr. HANSON: Based on the statute?

Mr. SYMINGTON: It is a contract made in the terms of the statute.

Hon. Mr. HANSON: Yes; based on the statute.

Mr. SYMINGTON: It is fixed, "If in the preceding year the corporation incurred a deficit, the rate or rates for the current year shall be fixed so as to produce an increase in the sum total to be paid on account of the said rates equal to the deficit for the preceding year." That is, if we suffer a deficit, then the mail rates are increased for the succeeding year.

Hon. Mr. HANSON: In other words, the company can always fall back on the Post Office Department to take care of it.

Mr. SYMINGTON: Exactly; to take care of this deficit.

Mr. NICHOLSON: You would prefer to leave the arrangements as they are in the meantime?

Mr. SYMINGTON: I think so.

Hon. Mr. HANSON: You cannot lose very much and you cannot gain very much by carrying more?

Mr. SYMINGTON: That is it exactly.

Mr. DONNELLY: What do you mean when you say the Post Office Department is making a profit?

Mr. SYMINGTON: I will put it to you shortly in these terms. In rough figures the post office got from the public for the air mail we carried last year approximately \$6,000,000. It is \$6,000,000 and something. They paid us \$3,000,000. Therefore they got \$3,000,000 more. But it costs them something to do business, apart from our part of the operation; and in these calculations they deduct 2 cents of the 6 cents, or \$1 of the \$3 to contribute to their general overhead costs of the post office.

Hon. Mr. HANSON: They have to service it.

Mr. SYMINGTON: Exactly. You take off the \$3,000,000. It is still according to the principle that was laid down in this committee last year. They have, after taking off the 2 cents to meet their general overhead, and after taking off what they paid us, about \$1,300,000. There may be a difference of some few figures between the post office and ours, but generally speaking that is about the position.

Hon. Mr. HANSON: In other words, they have a billion to the good?

Mr. SYMINGTON: Yes, and we contribute \$2,000,000 and something to their general overhead expenses.

Hon. Mr. HANSON: You have to keep in mind, too, that if there was not an airmail service the post office would be making bigger profits because it would be going by the ordinary routes?

Mr. SYMINGTON: I do not think so—possibly, Mr. Hanson—but you see the airmail rates are 3 cents higher.

Hon. Mr. HANSON: I know, but perhaps we are not talking about the same thing. If there were no airmail at all with the increase in business the Post Office Department would naturally have an increase in returns. Part of it is diverted in this way. I am not complaining. I agree.

Mr. SYMINGTON: Yes, that is right.

Mr. HANSON (*Skeena*): Let us proceed.

Hon. Mr. HANSON: The telegraph companies would get more business.

Mr. DONNELLY: No doubt about that.

Hon. Mr. HANSON: I am not objecting to the setup, but I think that the mail subvention should come down as rapidly as circumstances will permit.

Mr. SYMINGTON: And as profits will permit.

Hon. Mr. HANSON: What is that?

Mr. SYMINGTON: As profits will permit.

Hon. Mr. HANSON: Surely, based on profits.

Mr. HANSON (*Skeena*): Let us proceed, Mr. Chairman.

Mr. SYMINGTON: And, of course, Mr. Hanson you know that now the mail rate has come down from 60 cents to 42 cents, do you not?

Hon. Mr. HANSON: Yes, it has been reduced. I understand that.

The CHAIRMAN: Let us proceed, please.

Hon. Mr. HANSON: Before proceeding I would like to tell you this, that you will proceed much further without trying to urge the committee to go on. Let us have a frank discussion. Let us not be hurried.

Mr. SYMINGTON:

Operating revenues totalled \$7,337,319, an increase of \$1,529,525 or 26 per cent over the preceding year, indicating the continued growth in the earning power of the company. Passenger revenues increased \$717,024; mail revenues increased \$153,801; express revenues increased \$94,209; other revenues increased \$564,490. The average mail rate for the year was 45.57 cents per mile as compared with the average rate for the previous year of 48.16 cents per mile. Mail revenue contributed 44 per cent of the total revenue as compared with 53 per cent in 1941, 62 per cent in 1940 and 70 per cent in 1939.

Hon. Mr. HANSON: Operating revenues increased 26 per cent over last year and operating expenses were approximately the same, the same increase. Have you got that figured out?

Mr. SYMINGTON: I can tell you how that is, Mr. Hanson, cost of living bonus, \$247,208, as opposed to \$78,000 last year. In addition to that our war services go into operating expenses. They also go into operating revenues, of course, but they are supposed to be done without profit, and they have grown very very much. You can see that other revenues there of \$564,000 show the size of those operations.

Hon. Mr. HANSON: Just for my information, what are those war services?

Mr. SYMINGTON: Well, I can give you a list of them.

Hon. Mr. HANSON: What do they do?

Hon. Mr. HOWE: Special war activities, on page 7.

Mr. SYMINGTON: Department of Munitions and Supply, we overhauled aircraft, 8; we overhauled engines, 28; we overhauled instruments, 6,671; we overhauled accessories, 1,892; propellers overhauled, 515.

Hon. Mr. HANSON: It is work of that type.

Mr. SYMINGTON: Work of that type; now they have built another big plant which we are undertaking for them, and that is the basis of it.

Hon. Mr. HANSON: And it is supposed to be without cost?

Mr. SYMINGTON: Supposed to be without cost.

Hon. Mr. HANSON: That is a very good service. Now, the mail rate has come down a little bit. How does that compare with the trans-continental American mail rate per mile in the United States?

Mr. SYMINGTON: I tried to study that subject, Mr. Hanson, and I could not come to any real conclusion on it because of the mix-up between short and long hauls handled by the same company. What I found was this: insofar as I was able to study it on the short lines, such as the Northeastern, which runs from Boston here, and the central companies in the United States, they were all given an increase reactive to last October, and their rates were up to about 49 cents as opposed to our 42 cents. On the other hand, on the transcontinental routes it was difficult to get the rates, but I should say they were relatively around 30 cents or 32 cents but there is this difference. Under their rates, it is based upon 300 pounds of mail, and over that they get increased payment for it. Here we have got to reserve 1,200 pounds of mail for the post office. They have first call on 1,200 pounds of mail, and they pay a flat mileage rate for it. We get nothing more whether we carry 1 pound or 1,200 pounds. That is the difference in the system.

Hon. Mr. HANSON: The two cases are not quite comparable.

Mr. SYMINGTON: They are not quite comparable.

Mr. DONNELLY: What do the public pay for their mail charges in the United States? Is it 6 cents, 6 and 7 now?

Mr. SYMINGTON: Yes 6—not 7—they have not done that. That is a tax really, but their airmail rates up to this last budget, which put on the 1 cent tax are the same as ours.

Hon. Mr. HANSON: Are we going to pay that extra cent, too?

Mr. SYMINGTON: The budget says so.

Mr. JACKMAN: May I interpose a question here? I do not know where else it would come in. What would be the effect on the airmail if you raised the rate to 10 cents, or the government did?

Mr. SYMINGTON: I could not tell you that.

Mr. JACKMAN: What is your shrewd business opinion, Mr. Symington?

Mr. SYMINGTON: I have stopped guessing long ago about the air. Public reaction is a thing you deal in more than I do. I really could not say.

Mr. JACKMAN: I should think with the type of mail that is carried that it makes no difference whether you charge 7 cents or 10 cents. Is that not your conception?

Mr. SYMINGTON: If you ask my opinion about the air business I would say to you in my judgment all first class mail will be carried by air in the not too very far distant future.

Hon. Mr. HANSON: I should not be surprised except in the shorter hauls?

Mr. SYMINGTON: Yes, unless these helicopters may pick up mail bags by dropping down or you may pick up mail bags flying by. There have been tremendous strides, but I would go off the deep end far enough to say that in my opinion before many years all the first-class mail will be carried by air.

Mr. JACKMAN: Will you give an opinion on this question? Do you say that the airmail would appreciably fall off in volume if the rate was raised from 6 cents or 7 cents to 10 cents?

Mr. SYMINGTON: Oh, as far as that goes I think there would be some falling off.

Mr. JACKMAN: About 5 per cent?

Mr. SYMINGTON: I could not tell you that. Mr. Herring of the post office is here, but I could not guess on that because I do not deal with that.

Hon. Mr. HANSON: Perhaps Mr. Herring could tell us.

Mr. HERRING: Of course, the ordinary mail rate has been increased from 3 to 4 cents, so there is a 3 cent spread; but I do not think we need to anticipate any particular reduction in the volume of air mail. I have discussed it with different people, and I was rather struck with the argument, that with regard to the big mailers, who are the big business people, it is a matter of no importance to them whether they pay 6, 7, 8 or 9 cents because it reduces their excess profits.

Hon. Mr. HANSON: Possibly the Minister of Finance would have something to say about that. It is a matter of opinion after all. I would think that a man would pay 10 cents as quickly as he would pay 7 cents for airmail. It is speed he wants.

Mr. DONNELLY: With regard to the mail that you pay 7 cents for, is the majority of it just ordinary letters or is there something more than that?

Mr. HERRING: All airmail will be 7 cents.

Mr. DONNELLY: That is the ordinary letter, but when you get a larger parcel what do you pay?

Mr. HERRING: You still pay 7 cents an ounce.

Mr. DONNELLY: Do you get many of 2 ounces, 3 ounces, 4 ounces, and parcels, in fact?

Mr. HERRING: Yes, we get quite a few of them, but 98 per cent of them are letters which average about 50 to the pound.

Mr. JACKMAN: I would like to ask Mr. Herring this question. Have you been able to make any kind of analysis as to who uses airmail? Is it mostly business houses, or does a substantial portion appear to come from individuals who would not be subject to corporation taxes?

Mr. HERRING: A very considerable proportion is social mail. It is rather astonishing, but the records show that over 50 per cent of it is social mail, I would say, such as from one woman to another.

Mr. SYMINGTON: People who are tardy letter writers and decide that they will send it by airmail so as to get there more quickly the letter they should have written a few days ago, even of a social character.

Hon. Mr. HANSON: He says it is the ladies. Our experience deals with the domestic telephone. I am interested in the telephone business and we find that the long talkers are the women. Did you say that 10 cents would bring in a lot more money?

Mr. HERRING: No.

Mr. JACKMAN: I would like you to clarify that.

Mr. HERRING: I said that it would be immaterial to a business man whether he paid it to the post office department or as excess profits.

Mr. JACKMAN: That consideration affects business mail but over half of the airmail apparently arises from private sources, social mail, etc., where the users of it would not have any saving in taxes whatsoever, so there would be a real addition to the revenue there in the increase in the airmail rate, particularly if it was made 10 cents. While you have not expressed yourself I rather take it that on

these social letters, which are somewhat belated and are rushed off at the last moment, they would still be willing to pay 10 cents rather than 7 cents?

Mr. HERRING: I do not agree with that. I think that we would lose most of our social mail. That is my own personal opinion.

Mr. JACKMAN: May I ask what you base that on?

Mr. HERRING: Just that there is a big difference between 6 cents and 10 cents.

Mr. JACKMAN: It is 7 cents and 10 cents, and furthermore the differential between 6 and 3 is much greater than the differential between 7 and 4, so if you pay 4 cents you might as well pay a few cents extra; you might as well pay 6 cents extra if there is any urgency at all about the message. I do not quite understand why you think there would be a great falling off if the rate was made 10 cents. It makes no difference to a business man, and from the social end of it I should think that 3 cents additional might make a little difference in that it would show how much more apologetic the person is for not having answered sooner if they pay 10 cents.

Mr. HERRING: I use airmail a lot myself socially, and there is no particular urgency about my correspondence, and I am quite satisfied if the rate went up to 10 cents I would do otherwise.

Hon. Mr. HANSON: You are giving that as your own reaction?

Mr. HANSON (*Skeena*): Is there any intention to raise the rate to 10 cents? I have not heard it. Are we discussing that?

Mr. SYMINGTON: We cannot raise it.

Hon. Mr. HANSON: Mr. Symington, I asked at the opening of this paragraph that you give me the increase in operating expenditures in percentage, if you have it.

Mr. SYMINGTON: The next paragraph sets that out.

Operating expenses totalled \$6,628,399, an increase of \$1,322,263 or 25 per cent over the preceding year, reflecting the enlarged scale of the company's services and the payment during the full year of the cost of living bonus. There is included a charge of \$100,000 to cover estimated liability in connection with the employees' pension plan, this charge relating to the year and also the prior period.

Hon. Mr. HANSON: What does the cost of living bonus cost you?

Mr. SYMINGTON: \$247,000 as opposed to \$78,000 the year before.

Hon. Mr. HANSON: They are setting up a pensions plan. Is that contributory?

Mr. SYMINGTON: That is a contributory pensions plan. We have started it, and we think we are doing a good thing. We are a young company to do it, but as you know, if you start it early you have not got to find several millions of dollars later on to do it after rights have accrued. So we did it at the earliest possible time and we had to add to this year's expenses \$100,000 estimated as being our contribution with the retroactive feature because these men have the right to come in from the time they have been with the company. It is a contributory pension plan, actuarially correct, gone into with great care, and we are proud of having brought it in.

Hon. Mr. HANSON: I congratulate you.

Mr. JACKMAN: Who looks after the investment?

Mr. SYMINGTON: There is a committee of seven under the plan. I have a printed copy of the plan which I will file with the committee if they would like it. It answers all the questions. On page 3 of this little booklet it says: "The pension plan shall be administered by a committee of five members con-

sisting of the vice-president in charge of operations of the Trans-Canada Air Lines, who shall be chairman, two other officers of the company to be appointed by the board of directors and two elected by the eligible employees from amongst their number. Such elected members shall hold office for a term of one year or until his successor is elected."

Mr. JACKMAN: That is functioning now?

Mr. SYMINGTON: It started on March 1.

Hon. Mr. HANSON: Will that be under Mr. Larson?

Mr. SYMINGTON: Mr. English is going to be the chairman of this board. I want to correct this, with regard to this printed page; it was changed at the final meeting of the board because we thought Mr. Larson had enough to do and we put in, "or his assistant", and Mr. English will be the chairman.

Hon. Mr. HANSON: There are two from the company and two from the employees?

Mr. SYMINGTON: Yes.

Hon. Mr. HANSON: Who are they?

Mr. SYMINGTON: Mr. Baldwin, the auditor for the company and Mr. Bain, the superintendent of maintenance.

The CHAIRMAN: And the two representatives—are they named yet?

Mr. SYMINGTON: Mr. Armstrong and Mr. Pink.

Hon. Mr. HANSON: Now, then, is there a trust fund?

Mr. SYMINGTON: A separate fund, separately invested.

Hon. Mr. HANSON: Are the funds invested or are they on paper?

Mr. SYMINGTON: No, they are set aside and invested—a complete separate fund.

Hon. Mr. HANSON: A trustee system?

Mr. SYMINGTON: Yes, Dominion of Canada's only.

Mr. JACKMAN: Guaranteed?

Mr. SYMINGTON: Yes.

Mr. JACKMAN: They have some fund here that they have municipals in.

Mr. SYMINGTON: This is purely dominion government and guaranteed.

Mr. JACKMAN: Does the plan give any benefits which would not accrue under the dominion government annuity scheme where the rate is higher than you get for the employees?

Mr. SYMINGTON: The plan is based on the purchase of an annuity at the time a man retires—a dominion government annuity—from the contributions of himself and the company.

Hon. Mr. HANSON: In the case of an employee being killed by accident what provision is made for his dependents under this plan?

Mr. SYMINGTON: There is no provision made for his dependents in so far as the pension fund is concerned. Of course, his estate gets what was put in plus interest. Casualty insurance is carried.

Hon. Mr. HANSON: For the benefit of the employee, or his dependents? Was consideration given? I think this is important. This is a very hazardous occupation. I think it is generally recognized.

Mr. SYMINGTON: I would not agree with that.

Hon. Mr. HANSON: Now, under our government superannuation a civil servant's widow gets a portion of his pension. Has consideration been given to the same principle in a matter of this kind?

Mr. SYMINGTON: It was thought out carefully. In the first place we do not think that this is a perilous service. True, if anything happens it is pretty fatal,

but the percentage actually—the figures show that it is the safest way to travel—even safer than walking on the street. Of course, mind you, we are not a company that has reserves; this has got to be kept within reason. This pension plan was secured for the old aged employees. It is based upon a mutual contribution. If a man dies in the meantime his money comes back with interest, of course. At the time of his retirement he has purchased an annuity or he can elect, I think, with respect to an annuity for himself and family. Of course, that necessarily reduces or increases the amount of the annuity, but it is his to do what he wants with.

Hon. Mr. HANSON: Of course, this company and its personnel are young. It will be some time before this really becomes a big charge on the fund, and in the course of years you should have quite a substantial fund built up in order to provide for something for dependents. You would have to have a higher rate.

Mr. SYMINGTON: Yes, very much so. In all the provinces we contribute to workmen's compensation and we also have group insurance.

Hon. Mr. HANSON: That is important too—group insurance?

Mr. SYMINGTON: Yes.

Hon. Mr. HANSON: For every employee while he is still employed?

Mr. SYMINGTON: We are trying—

Hon. Mr. HANSON: The only thing you have omitted is with regard to the suggestion I have made.

Mr. SYMINGTON: Yes, the pilots made representations to us and we considered that carefully.

Hon. Mr. HANSON: I hope you will continue to consider it carefully.

Mr. JACKMAN: Was this plan approved by the Minister of National Revenue for the purpose of getting income tax deduction for anything contributed by the employees?

Mr. SYMINGTON: Yes.

At December 31, 1942, Trans-Canada Air Lines was providing service—air mail, passenger and express—over routes totalling 4,857 miles between the Atlantic and the Pacific seaboards. This was an increase in route mileage of 833 miles as compared with December 31, 1941. The routes now operated are as follows:—

	Miles
Halifax—Vancouver (via Toronto).....	3,255
Toronto—Windsor	206
Lethbridge—Edmonton	301
Toronto—New York.....	365
Moncton—St. John's, Nfld.....	730
	4,857

Mr. JACKMAN: The 833 miles were new routes?

Mr. SYMINGTON: It is on the next page.

Mr. JACKMAN: Have you had any contributions from the Newfoundland government?

Mr. SYMINGTON: No. Well, I think not; it is a treaty matter; but we certainly get none. Perhaps, I should make that reservation that Trans-Canada gets none.

Mr. JACKMAN: There is no government subvention from them?

Mr. SYMINGTON: Not to Trans-Canada.

Mr. JACKMAN: The service has worked out very well, has it not?

Mr. SYMINGTON: It is our best paying service actually; it is crowded.

Mr. JACKMAN: That is due to the war.

Mr. SYMINGTON: Undoubtedly.

Mr. JACKMAN: And the United States government.

Mr. SYMINGTON: The United States government do not pay us anything.

Mr. JACKMAN: They pay their fares.

Mr. SYMINGTON: Oh, yes, they pay their fares.

Mr. JACKMAN: But no subventions.

Mr. SYMINGTON: No.

The scheduled miles for T.C.A. aircraft were 22,670 per day, an increase of 3,906 miles as compared with December 31, 1941. The miles flown during 1942 amounted to 7,688,902 as compared with 7,274,815 in 1941, an increase of 414,087.

Under treaty arrangements between the government of Canada and the Newfoundland commission of government, service between Moncton, N.B., Sydney, N.S., and St. John's, Newfoundland, was inaugurated by Trans-Canada Air Lines on May 1, 1942, on the basis of one round trip per day. From the inception, the service operated virtually to capacity, and on November 1, 1942, a second daily trip was added to meet traffic requirements. The Newfoundland-Canada service is an important one, providing much faster transportation for essential business.

Mr. JACKMAN: What are the other increases?

Mr. SYMINGTON: To meet the growth in business to and from the maritime provinces, service between Montreal, Moncton and Halifax was increased from two to three round trips per day on November 1.

Mr. JACKMAN: That would account for the increase.

Mr. SYMINGTON: Yes.

Mr. JACKMAN: Is not that a duplication and an extension—more service on the same route, rather than a new route—it did not go to Halifax?

Mr. SYMINGTON: Airport facilities having become available, the company plans, in conjunction with the post office authorities, to extend its line to Vancouver island as soon as the necessary permit issues from the Board of Transport Commissioners. This will give Victoria and other island communities direct air mail service to the central and eastern provinces. Passengers and express will also be carried.

Hon. Mr. HANSON: Of course, there is an existing route there now. Are you going into competition with that route or are you eliminating it?

Mr. SYMINGTON: I do not know. Originally we had that route, but it was turned over to Canadian Airways under some temporary arrangement. Subsequently, upon Canadian Airways selling out, a successor company had a service to Vancouver island—a boat service. The post office authorities and the Transport department sent for me and said they wanted our line extended to Victoria, and arrangements were made with the R.C.A.F. to use their Patricia bay field. It is a land field, not a water landing. They passed an order in council and put us under the Act so we had to furnish a service, which we are very glad to do. Now, what will be the result with respect to those boats that are flying over there I do not know, but the people were complaining very much about the service. They had to go across either by steamboat or one of the air boats and stay all night in Vancouver in order to take our plane out of there. There was no connection. And they protested and that is how the situation arose. I do not know what is going to happen in the future.

Hon. Mr. HANSON: One line operating under a licence; is it proposed to revoke the licence?

Mr. SYMINGTON: I don't know.

Mr. HANSON (Skeena): Has any consideration been given to extending the air service on the Pacific coast from Vancouver island to Alaska taking in Ocean Falls, Powell river, Prince Rupert and those places?

Mr. SYMINGTON: Not so far as I know at the moment. You cannot really give consideration to any extensions these days because you just cannot get the materials or the personnel to use them. This extension does not amount to anything because the plane running to Vancouver goes to Victoria and comes back and it is only a matter of a few minutes' operation, but it does join up the capital of one province with the dominion. That is how that matter arose.

Hon. Mr. HANSON: My capital is the only one that has no connection with anyone. That is a fact; you might bear that in mind.

Mr. SYMINGTON: I am bearing it in mind.*

Hon. Mr. HANSON: The present air line pioneered this route for a good many years with no profit in it.

Mr. SYMINGTON: I do not know—I do not know anything about that. What I do know is that we originally contemplated the island. We first made an arrangement whereby we sublet to the Canadian Airways and the contract with the Post Office Department was made direct later on with the Canadian Airways.

Hon. Mr. HANSON: When you say you sub-let it, you did not enter the field, you allowed them to enter the field. Were they paying you anything?

Mr. SYMINGTON: No. If my recollection serves me right we were supposed to carry the mail to Vancouver island and we did not have the service and we sub-let to the Canadian Airways. There was no airport available, for land planes. Patricia bay was built as a military airport and is the only land port available.

Hon. Mr. HANSON: And the position is still in a state of flux, is it not?

Mr. SYMINGTON: I do not know. That is none of my business, really. We were put under the statute and therefore we will furnish the service.

Hon. Mr. HANSON: Are you asking to have exclusive rights?

Mr. SYMINGTON: We have not asked anything, sir.

Hon. Mr. HANSON: You have exclusive rights under the statute, have you not?

Mr. SYMINGTON: No, I do not think so.

Hon. Mr. HANSON: You have on the transcontinental flights?

Mr. SYMINGTON: I do not think under the statute we have; I think it is a matter of policy, probably; I do not think we have under the statute.

Hon. Mr. HANSON: Well, that may be correct. I must confess it is a long time since I read the statute, but the fact is that you have the sphere exclusively to yourselves.

Mr. SYMINGTON: Unquestionably up to the moment that has been the policy of the government. I think it is safe to say that, yes. We certainly have exclusiveness on our own run, there is no doubt about that.

Mr. JACKMAN: Is that the policy of the government or the Board of Transport Commissioners?

Mr. SYMINGTON: No, I do not think so. Of course, the thing governs itself. Once you are put under the T.C.A. Act and the T.C.A. has to comply, then the government in self-defence of course must give the post office contract to that line or else it is going to cost the government double money, so the thing automatically works that way.

Hon. Mr. HANSON: That is the effect.

Mr. SYMINGTON: The effect of it, yes.

Hon. Mr. HANSON: To give you exclusiveness.

Mr. SYMINGTON: Yes, I think that is the effect, and I think that was the intention.

Hon. Mr. HANSON: No doubt it was. This raises the whole question, you see, of private enterprise in the air field and what is going to be the future of private enterprise in flying in this country, and it is an important thing.

Hon. Mr. HOWE: I think it is like the telephone service, it is not susceptible to competition. The air is a natural monopoly. The service is operating much more cheaply that way. If you get competition and if your revenues are not sufficient to maintain your equipment it becomes a danger to the public. The United States has segregated their operations into non-competitive operations, and I think that if anyone studies air transportation they will come to the conclusion that it must be non-competitive.

Hon. Mr. HANSON: Yes, but of course the United States government is not in the air field.

Hon. Mr. HOWE: In the States no, but they recognize that principles in allocating routes to private companies.

Hon. Mr. HANSON: That may be so and it may be very sound, but your comparison with the telephone company is hardly correct for this reason, that the telephone companies are under control—

Hon. Mr. HOWE: So is this one.

Hon. Mr. HANSON: —of a public commission, you are not.

Hon. Mr. HOWE: Oh, yes we are, under the most stringent control.

Hon. Mr. HANSON: Well, in theory.

Hon. Mr. HOWE: We have two controlling factors, the Board of Transport Commissioners fix the rates and allocate the routes, and the Department of Transport Safety Division very strictly regulate the operations themselves, the requirements of operations.

Hon. Mr. HANSON: That is for safety purposes.

Hon. Mr. HOWE: Yes.

Hon. Mr. HANSON: Do you seriously tell me the Board of Transport Commissioners in any way question your rates?

Mr. SYMINGTON: We file them, sir, of course, and in certain competitive irregular situations we have to meet competitive rates. We could never have higher rates, for instance, than the United States transcontinental business or we would not do the business and that holds down our passenger rate and under the Act—of course, I will admit the interpretation of the section is a most difficult one—the air rates must come down so they are no higher than similar service, but that is what the Act itself says.

Mr. JACKMAN: I do not understand that, perhaps because I am not very familiar with the Act itself. You say that if the government says to the T.C.A., "You shall carry the mail from Vancouver to Victoria," or from any other designated points, you are then obliged to do so, and you are supposed to apply to the Board of Transport Commissioners for a licence, but in that way you exterminate all competition. Air mail must carry the costs. Your costs are going to be much less, perhaps, from Vancouver to Victoria than the existing service which is purely a local one there and it is unlike taking over a telephone company, because you do not take over the assets and communications, etc., you simply wipe them out and give no compensation, I take it. If that is the way it operates what is to prevent the government saying to you, "You must extend your air mail route," as it were, "into another service." Is that the way you get your command or order from the government that you must carry the air mail?

Mr. SYMINGTON: Under the Act if the Postmaster General and the Minister of Transport make a recommendation to Council that any route be declared a route under the Trans-Canada Act and the Governor in Council passes it, then automatically by the statute we are called upon to furnish the service.

Hon. Mr. HANSON: That is the lever.

Mr. SYMINGTON: Yes.

Hon. Mr. HANSON: A matter of government policy.

Mr. SYMINGTON: Entirely.

Mr. DONNELLY: Do you consider it more profitable to run the main lines of the Trans-Canada lines than it would be to run feeder lines to certain places?

Mr. SYMINGTON: Well, I think as I said last year the feeder lines may well become the most profitable ones; I still think that is probably so.

Hon. Mr. HOWE: It is more expensive to operate the higher standard of equipment that is required for the main lines.

Mr. DONNELLY: I am just asking that question because a statement was made in the House of Commons not long ago that Trans-Canada or the government was carrying on the main air lines because it was the most expensive part of it and were letting the feeder lines, the more profitable ones, go to private companies; that the Trans-Canada Air Lines were running the most expensive ones and the most profitable ones were going to the private companies.

Hon. Mr. HOWE: I do not think that was the reason for the division; the reason the government took the transcontinental was the private interests had not undertaken that operation and it was thought that a system of operation must depend on a first-class transcontinental line. The government went into that field to provide that service.

Hon. Mr. HANSON: That was the basis in their minds.

Hon. Mr. HOWE: Yes. Of course, branch line operations have equipment whose planes usually have a lower standard than those used on the main line. For instance, your main line plane to-day costs \$200,000; I suppose the average branch line plane costs about 20 per cent or 25 per cent of that.

Mr. DONNELLY: Do these branch lines act as feeders for Trans-Canada?

Hon. Mr. HOWE: Yes, and we act as feeders for them; it works both ways.

Hon. Mr. HANSON: Would you say one complemented the other?

Hon. Mr. HOWE: Yes.

Hon. Mr. HANSON: There is no reason why you should not get along in that way provided they give standard service.

Hon. Mr. HOWE: Yes. Trans-Canada timetable schedules list the side operations with which they connect and therefore we can route over Trans-Canada that business.

Hon. Mr. HANSON: Do you intend to extend your field to the branch line service?

Hon. Mr. HOWE: No.

Mr. JACKMAN: That is where some of the difficulty comes in, what is branch line and what is main line. Formerly your principle was the line between Vancouver and Victoria was a branch line. Now by order in council it becomes part of the main line and the T.C.A. takes it over and ousts any pioneers operating there and who were perhaps operating at a loss for ten years; and apparently they are given no compensation unless there is some provision for compensation. You may get some other place declared by the Postmaster General, and the other officers, a branch line. They may state that they want the T.C.A. to carry the mail some place else and ipso facto the T.C.A. looks after it and the existing

line who only gets a mail subvention passes out of existence. Is that the state of affairs that private enterprise in this country or pioneers are going to be up against?

Hon. Mr. HOWE: It does not necessarily pass out of existence; it is a very mobile thing. Private line operation can move to another route.

Mr. JACKMAN: It has been said in the past that a line could not operate without a mail contract.

Hon. Mr. HOWE: That is true, yes. I mean to say the service is a mobile thing, the fixed investment is not great and it can move to another route and usually does.

Mr. JACKMAN: That is quite impossible, I should think.

Mr. SYMINGTON: You talk about main lines—I don't put Victoria Island as one in the category of a hardship to anyone at all. I would say roughly that you certainly will always retain your main line routes in Canada. That would be my opinion.

Mr. JACKMAN: That seems quite sensible.

Mr. DONNELLY: I think you are right.

Hon. Mr. HANSON: If you start putting a competitor out of business you want to have some thought for him.

Mr. SYMINGTON: Is it unkind when, as suggested, he has been losing money for the last ten or fifteen years by maintaining his operations?

Hon. Mr. HANSON: I quite understand your implications, but I have seen people remain in business in the hope that better days would come; and in my opinion, a man who has faith and puts up his money—just because he happens to be running behind is no reason why he should be wiped out.

Hon. Mr. HOWE: Perhaps I could give you an interesting figure which has just been handed to me. The average passenger fare for Trans-Canada is 5·32 cents per mile whereas the average cost for passenger travel on other services—that is other scheduled run services—is 19·29 cents per mile.

Mr. DONNELLY: That is, travelling in the air?

Hon. Mr. HOWE: Yes.

Hon. Mr. HANSON: I should think it might very well run higher than that. You take that service we have from Moncton to Charlottetown, it runs very much higher than that, I should think.

Mr. JACKMAN: I take it that you are not impugning the management of the present private companies?

Hon. Mr. HOWE: No, quite the reverse.

Mr. JACKMAN: If the situation is the reverse, then why are you closing them out?

Hon. Mr. HOWE: We invited them to come into the T.C.A., and they did not come.

Mr. SYMINGTON: You can see from figures like that why the public throughout the country are continually making demands on Trans-Canada Air Lines to come into their cities. There are two important factors involved there; the first you have to recognize is the character of the service, and next is its cheapness.

Hon. Mr. HANSON: And they have better planes.

Mr. SYMINGTON: Yes. They are two entirely different types of service. It is easy to appreciate why there is a continuous demand from people throughout Canada to have Trans-Canada Air Lines come to their communities. There is no doubt about that.

Mr. JACKMAN: That is why we think the policy should be well defined there, so we shall know exactly what is going to happen, and so that people who have put their money into private lines may know what is going to happen.

Mr. SYMINGTON: I have no views on that. That is a government matter. Of course, a great deal is heard of the argument that all these lines took the initiative and pioneered the routes; but the only source of revenue for any of them is the mails. That is the fact.

Hon. Mr. HANSON: Take an extreme case; I have travelled on the Yukon-Southern. They have a pretty good service—they fly Boeings, ten-passenger planes—and they have spent a lot of their money in there. Now, I have heard rumours—I think the hon. Mr. Howe has already given a statement to the newspapers making the declaration that sooner or later Trans-Canada was going to take over that route.

Mr. SYMINGTON: I do not think he said that; the route to Alaska, yes.

Hon. Mr. HANSON: Yes, I meant that, the route to Alaska; that would mean the route to the north country.

Hon. Mr. HOWE: And another factor to be considered there is that the Yukon-Southern is a private company, and as such it cannot handle the business.

Hon. Mr. HANSON: Yes, the Yukon-Southern cannot handle that business to-day. But, suppose they could not; the C.P.R. bought them out, they can handle that business—do you know whether that is so or not, has the C.P.R. bought up the Yukon-Southern?

Hon. Mr. HOWE: I understand that they have purchased the Yukon-Southern.

Hon. Mr. HANSON: I thought they had; I thought I saw it the other day.

Hon. Mr. HOWE: You are right. I am told that they have.

Hon. Mr. HANSON: What about charges for airports?

Mr. DONNELLY: What charges do you make?

Mr. SYMINGTON: That is fixed by the Department of Transport, or by the municipalities who have their airports.

Hon. Mr. HOWE: The charges are the same as those made to the T.C.A.

Mr. SYMINGTON: You have to take into consideration the international services. I mean many of these routes—you talk about the Windsor route, for instance; one might say that is not a main line service. It is a service of the character of a main line service; through a thickly populated part of the country; and it is headed to Detroit and Chicago—it is a point of exit. And, as I understand the policy, T.C.A. is to run the international services. That is my understanding of it. If it is changed that is another matter.

Mr. JACKMAN: Why didn't the government go into the service between Vancouver and Victoria? I understand the first line they had out there was between Seattle and Vancouver. You leave the field open and some person opens the service to that part of the country and then you come along and say that it is being taken over by the T.C.A.; you decide to extend your run, which calls for little or nothing to do; and you obviously put the little company out of business. That, it seems to me is a matter for concern. The area wanted the service in the first place and it was supplied by private lines; and after it is established the T.C.A. comes along and takes it over.

Mr. SYMINGTON: I do not think you are quite right in that.

Mr. JACKMAN: I think that is hardly equitable.

Mr. SYMINGTON: I think I explained that before; we could not fly to the island because there was no air base; therefore we sublet to Canadian Airways.

Hon. Mr. HANSON: In the first instance it was developed by a private

Mr. SYMINGTON: In the first instance, no—it was pretty generally understood from the outset that Vancouver island was going to be connected up with the mainland by Trans-Canada Air Lines, but until such time as airport facilities became available the route was sublet to Canadian Airways. They went into it with their eyes open and knew what to expect.

Hon. Mr. HANSON: They knew what was likely to happen. There can be no doubt about that. That is not an unreasonable position. I would not quarrel with you about that, and I am glad to have that clarification; that any existing services which are not on the main line, for the present at least are not to be disturbed. We have that to-day.

Mr. JACKMAN: One of the reasons that this question becomes of some importance is that some of these private lines have been receiving applications from our boys in the air force, even as far away as Africa, asking for positions in the post-war period. Naturally, they must know what the policy of the government is going to be. Is the T.C.A. going to extend itself so as to have a complete monopoly of all the worthwhile lines in Canada? It simply amounts to this, that as soon as a private line becomes profitable it is going to be taken over by the T.C.A. The question is, are all these private lines going to become a part of the T.C.A., or are they going to be permitted to continue and develop as private enterprises. It seems to me that the post-war aspect for them is one deserving of consideration.

Mr. SYMINGTON: That is an argument, as I said to you before, which does not appeal to me as being very sound. We get a lot of applications of that kind, and it is perfectly impossible—it would be absolutely silly of us to agree to hire men after the war; to tell them that they will have a job to come to when they get back. We don't know what the air lines are going to be; nor, do we know how many of these fliers will be coming back, or if a particular man who makes an application will survive. About all that can be done is to do what we have done—to say that our policy is going to be to hire all the returned fliers we can when they come back. I do not see how any air line can possibly say any more than that.

Hon. Mr. HANSON: I do not think you could go any further than that.

Mr. SYMINGTON: I do not see how one could.

Mr. HANSON (*Skeena*): No, it is a matter of government policy. We do not know what the policy of the government will be after the war; nor do we know what government will be in office then.

Mr. SYMINGTON: The company plans for a shorter route across the continent, crossing the Great Lakes to Winnipeg and thence to points of exit in western Canada and the Yukon territory.

Hon. Mr. HANSON: That brings up the Yukon; you are definitely going into that territory?

Mr. SYMINGTON: Definitely going into it, as I understand it; to Whitehorse and Alaska. As you know, it is an international route. Whether there will be a local route along it or not, I do not know.

Extension of the company's service to the Yukon territory and Alaska has been deferred, Alaska having been declared a military zone by the United States government and all civil flying operations prohibited there.

Hon. Mr. HANSON: That of course would not apply to the service to Whitehorse and Yukon?

Mr. SYMINGTON: No, that is in all Canadian territory.

Mr. SISSONS: You have said, "Alaska having been declared a military zone by the United States government and all civil flying operations prohibited there"; that would not apply to the extension of your line from Edmonton to Whitehorse?

Mr. SYMINGTON: Oh, no, quite so.

An understanding has been reached between the governments of Canada and the United States to maintain the existing agreement respecting international air services until after the close of the war, but either contracting party may re-open the negotiations following six months' notice.

Hon. Mr. HANSON: What is the existing agreement with respect to international air services?

Mr. SYMINGTON: It is a rather long story, but the situation roughly is this. Whatever lines were existing at the time were frozen completely. If military operations require flying and landing in Canada and anything else in Canada on the way to any other place, they have the right to do it, during the war, as a military operation, the same way as R.C.A.F. has the same right over American territory.

Hon. Mr. HANSON: That is purely for military purposes?

Mr. SYMINGTON: Yes, that is purely for military purposes; and it distinctly states that no commercial business can be done and it ends with the war on six months' notice.

Hon. Mr. HANSON: That is all this means.

Mr. SYMINGTON: That is all it means.

Hon. Mr. HOWE: There is an agreement beyond that which has been filed in the House of Commons. There is an agreement between the United States and Canada affecting each route that is operated between the two countries—that is from government to government.

Hon. Mr. HANSON: That would be for civilian flying?

Hon. Mr. HOWE: That agreement expired, I think, this spring; it is a three-year agreement and it has been extended by mutual agreement, until the end of the war.

Hon. Mr. HANSON: What is the effect of that?

Hon. Mr. HOWE: The effect of that is that certain routes are designated to be flown by United States companies and subject to United States law and certain other routes are designated to be flown by Canadian companies, subject to Canadian law.

Mr. SYMINGTON: The position was frozen. I think I stated that.

Hon. Mr. HOWE: The position was frozen.

Hon. Mr. HANSON: How much have they got and how much have we got?

Hon. Mr. HOWE: They have many more routes. We have the route we wanted. We have the route from Toronto to La Guardia field. They have a route to Moncton. They have a route to Montreal. They have a route to Winnipeg, a route to Lethbridge and a route to Vancouver.

Hon. Mr. HANSON: Is there a route from Bangor to Boston?

Hon. Mr. HOWE: Yes.

Hon. Mr. HANSON: Is there provision for servicing Canadians on that route?

Hon. Mr. HOWE: Yes. Canadians have the same right of travel that the Americans have.

Hon. Mr. HANSON: I had the idea that was confined to military operations.

Hon. Mr. HOWE: No.

Mr. SYMINGTON: There are the same "must" rides there as here.

Hon. Mr. HOWE: These services go beyond Moncton—north of Moncton and east of Moncton.

Hon. Mr. HANSON: Yes. They go up into Labrador.

Hon. Mr. HOWE: Yes; military services there.

Mr. JACKMAN: All these American companies have rights to fly into Canada, and certain terminal facilities, and the only facility we have is Toronto to La Guardia field.

Hon. Mr. HOWE: That is right.

Mr. JACKMAN: Agreements have been extended until the duration of the war?

Hon. Mr. HOWE: That is right.

Mr. JACKMAN: And most of these cover not only military transportation but ordinary civilian travel?

Hon. Mr. HOWE: That is right.

Mr. JACKMAN: Apart from this Lethbridge privilege that the United States air lines have, is there any route which the Americans have in British Columbia? This one comes to Lethbridge but where does it come from in the United States?

Mr. SYMINGTON: It ends at Lethbridge, yes; it is from Great Falls, Montana, to Lethbridge.

The CHAIRMAN: Gentlemen, do you think that we should consider whether we should sit this afternoon? We should have to obtain unanimous consent of the house in order to do so.

Mr. JACKMAN: The budget resolutions are of great importance. I do not think, speaking for myself, that we can be out of the house very much while they are being discussed.

Mr. HANSON (*Skeena*): Could we not sit this evening?

Hon. Mr. HANSON: The same situation prevails. I think we ought to adjourn until to-morrow. We have made good progress. We have got the preliminary canters over.

The CHAIRMAN: It is a matter for the committee to decide.

Hon. Mr. HANSON: It will be opposed, if there is any attempt to do it.

Mr. McCULLOCH: I think it would be a very good thing to meet this afternoon. These gentlemen are here from Montreal, and officers of the Trans-Canada Air Lines. They are all very busy men.

Mr. JACKMAN: The budget happens to be more important than the officers from Montreal, Mr. Chairman.

Mr. McCULLOCH: Is that so?

Mr. JACKMAN: Oh, quite.

Mr. McCULLOCH: That might be your opinion.

Mr. JACKMAN: Well, I submit it to the committee.

Hon. Mr. HANSON: We have not the right to meet this afternoon anyway, yet. I think you will have to give some consideration to the convenience of members of this committee who have other duties to perform. I cannot be here this afternoon, if the budget resolutions are on.

Mr. DONNELLY: As a matter of fact, unless it is unanimous, Mr. Chairman, we cannot get the consent of the house.

The CHAIRMAN: We would have to have unanimous consent to adopt the report.

Mr. DONNELLY: Yes. We cannot get the adoption of the report without unanimous consent; we cannot get the permission of the house to sit unless it is unanimous.

Hon. Mr. HANSON: Do not try the steam roller.

Mr. DONNELLY: No.

Mr. HANSON (*Skeena*): As Mr. Hanson stated, was not the unanimous recommendation to-day for leave to sit to-morrow or any other day we wish?

Mr. DONNELLY: That is all right.

Mr. HANSON (*Skeena*): Is that not what was suggested?

Hon. Mr. HANSON: We cannot sit this afternoon, as far as I am concerned. I do not see the necessity for all this great flock of officials here, anyway. I have often wondered why we had to have them.

Mr. SYMINGTON: I have only two, and I want them here.

Mr. JACKMAN: When do you expect the Canadian National Railway reports?

Hon. Mr. MICHAUD: We will table them this afternoon; the motion to refer them to this committee will be made this afternoon.

Hon. Mr. HANSON: That is all right, but we ought to have a little time to study them.

Mr. SYMINGTON: It is a pleasant study this year.

The CHAIRMAN: You may as well proceed with this report until one o'clock, then.

Mr. SYMINGTON: Very well.

The Company is giving consideration to, and undertaking research in connection with, plans for oceanic and international flying, but the formulation of detailed programmes must await developments.

Hon. Mr. HANSON: That is very interesting reading. How far have we gone and what have you got in your mind?

Mr. SYMINGTON: We have got a lot in our minds, and we are doing a lot. We are intensively engaged in preparations. I do not know that I can go very much further than that; but I can assure the committee that we are giving it practical attention.

Mr. HANSON (*Skeena*): Is there not some line between Europe and Canada now, or was there not last year?

Mr. SYMINGTON: No. There is a ferry command for the transport of bombers and a transport service for the return of crews and to the latter we contributed three crews to learn ocean flying, and we have those crews all trained. We also commenced yesterday or Friday the flying of a large 'plane to Goose, to meet the requirements of transport there, which 'plane, when through there, will fly to England and back.

Hon. Mr. HANSON: Is that to be a permanent route?

Mr. SYMINGTON: Well, it is a government operation. Really, Mr. Hanson, we are engaged in planning ships, drawing them, both for immediate and for post-war further development.

Hon. Mr. HANSON: What you are telling us is that Trans-Canada is going into the ocean traffic.

Mr. SYMINGTON: Absolutely, as directed.

Hon. Mr. HANSON: As soon as you can?

Mr. SYMINGTON: As soon as we can; and we do not think that we are overlooking any bets.

Hon. Mr. HANSON: Any what?

Mr. SYMINGTON: Any bets in the situation.

Mr. HANSON (*Skeena*): Last fall I remember they could send air mail to continental Europe—Sweden, for instance. I got some mail via England.

Mr. SYMINGTON: There has been none for some time now.

Mr. EMMERSON: That has been operated by another company.

Mr. SYMINGTON: Yes.

Hon. Mr. HANSON: Are you proposing, in that connection, to make your ocean transport exclusive as a field, as far as Canada is concerned?

Mr. SYMINGTON: I do not know. That is a matter, I imagine, you will have to put to the government.

Hon. Mr. HANSON: I am asking you and what your principle is. You are the fellow who is doing the thinking.

Mr. SYMINGTON: As far as Trans-Canada is concerned, Trans-Canada is preparing to carry on its oceanic international traffic.

Hon. Mr. HANSON: I will ask you to go a step further. Are you proposing to hold the field to yourself or are you going to let somebody else have a look-in?

Mr. SYMINGTON: I would say that naturally we would prefer to hold it to ourselves; but if the government takes another view, we cannot.

Hon. Mr. HANSON: You do not have to tell me that. Is that your proposal, not your wish?

Mr. SYMINGTON: There is no proposal that I know of, Mr. Hanson. We are simply preparing to fly on the assumption that we are the instrument of the government in international flying and will be required to fly. That is the basis upon which we are proceeding.

Hon. Mr. HANSON: Of course, that is not the thesis upon which other governments heretofore have operated. Imperial Airways was not always owned or controlled by the government.

Mr. SYMINGTON: It is now, of course.

Hon. Mr. HOWE: It was, of course, the chosen instrument of the United Kingdom government for overseas flying.

Hon. Mr. HANSON: That is quite a different thing. They encouraged private enterprise.

Hon. Mr. HOWE: Britain has never encouraged private enterprise other than through its chosen instrument.

Mr. SYMINGTON: What happened in Great Britain was that Imperial Airways could not stand the gaff and it had to be taken over by the government.

Hon. Mr. HANSON: After the war necessitated it.

Mr. SYMINGTON: No, I think it was before the war. B.O.A.C. was formed before the war I think.

Mr. JACKMAN: Has it come to your attention that Sweden, which is looked upon as a fairly progressive and somewhat socialistic state, has recently formed an air transportation company to do business across the ocean with the United States and also in Europe backed by a number of private interests, and the government-owned aviation company is going to facilitate it by letting it have the use of any airports or research facilities which it has? Have you investigated that?

Mr. SYMINGTON: No. The whole air is completely filled with guesses as to what every nation is going to do. I do not know any subject that is more in the public mind and eye to-day than international flying. In my humble judgment nobody can make up his mind until after the international situation is settled. Therefore each country must prepare to meet the situation as it arises. Trans-Canada is endeavouring to do that.

Mr. JACKMAN: Is there any fear in your mind that the Canadian people will not be well serviced in regard to trans-oceanic air transportation if you do not step into the field?

Mr. SYMINGTON: I do not think it will be as well served.

Hon. Mr. HANSON: What you are telling us, Mr. Symington, is that you are going to go into the field no matter what happens, and you will not go so far as to tell me that you will not let anybody else in?

Mr. SYMINGTON: I would answer that in this way. If the government lets us go into the field we are going into it. Naturally the government has got to put up the money for us to go into that field; and, of course, I do not need to say to you that any competition on the ocean between two companies of one country would be absolutely and completely fatal in my judgment. You will have competition enough with outside companies without having competition among ourselves. That is sure.

Hon. Mr. HANSON: It seems to me I have heard the slogan, "competition ever, amalgamation never". I think it would be true after the war. Let us have a little competition.

Mr. SYMINGTON: Yes; but you see, Mr. Hanson, the cubic carrying content of a plane, its cost, and its cost of operation, will not permit of competition, and if you have it you are done, in my judgment.

Hon. Mr. HANSON: That is a very dogmatic statement.

Mr. SYMINGTON: Well, I believe it and I have looked into it very much.

Hon. Mr. HANSON: If private enterprise is willing to risk its capital you say they should not have the right to do it?

Mr. SYMINGTON: Mr. Hanson, I quite agree with you except for this, that no company can run it without a very liberal mail rate. It cannot be done. Do not make any mistake about it. It just cannot be done. It could not possibly exist without competition if it did not have a liberal mail rate.

Hon. Mr. HANSON: It could not exist at all.

Mr. SYMINGTON: It could not exist at all without a liberal government mail rate.

Mr. JACKMAN: In order to get a permit to fly across the ocean do you apply to the Board of Transport Commissioners here, or what ropes do you go through?

Mr. SYMINGTON: I do not know. We have not made any application yet. I really have not gone into it. The only permit we will ask will be from the British government, I expect, and from the Canadian government. What details they have to go through I have not gone into.

Mr. JACKMAN: Are there any other existing companies that are as far advanced in regard to trans-oceanic transportation as T.C.A.?

Mr. SYMINGTON: In Canada?

Mr. JACKMAN: Yes, Canadian-owned companies?

Mr. SYMINGTON: Oh, I would think not.

Hon. Mr. HANSON: What is the United States proposing to do in this connection? Are they proposing to use Pan-American?

Mr. SYMINGTON: That is a very hot subject down there. I think there is no question about what the administration want to do but whether they will do it or not, I do not know. They are the only country in the world that I know of to-day that has what you call private ownership of the air. As to whether that will continue I do not think my opinion is worth more than anybody else's on it. There is great rivalry between the different private lines. They are stabbing each other in the back. A little line that runs from Boston to Montreal put in application for 27,800 miles of international routes before the Civil Aeronautic Association in the United States the other day, a company that has never made a dividend, with small capital, and it has actually filed for routes to Great Britain, Germany, and so on, and to Moscow and with the Civil Aeronautic Association in the United States for 27,000 miles of international

routes, and they are all doing the same thing. What is going to be the outcome I do not know.

Mr. HANSON (*Skeena*): It is one o'clock, Mr. Chairman.

The CHAIRMAN: It is one o'clock. The committee will rise.

Mr. HANSON (*Skeena*): To meet at the call of the chair?

The committee adjourned at 1 o'clock p.m., to meet at the call of the chair.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

March 30, 1943.

The Standing Committee on Railways and Shipping met this day at 11 o'clock a.m. The Chairman, Mr. J. P. Howden, presided.

The CHAIRMAN: Gentlemen, I presume that without any further delay we will proceed from where we left off with the presentation of the report of Trans-Canada Air Lines for 1942. That was on page 5, passenger services.

Mr. H. J. Symington, recalled:

Mr. SYMINGTON: Mr. Chairman, before starting I want to correct a statement I made in answer to a question by Mr. Hanson, so that there may be no mistakes. In reading over the record I find that I stated with respect to the four directors appointed by the government that they were appointed from the board of directors of the C.N.R. by statute. I change that word "from"; they are appointed "by", instead of "from" the board of directors under the statute. I do not want to mislead the committee or Mr. Hanson on that point.

Hon. Mr. HANSON: That is quite all right, Mr. Symington; I quite understand. Have we finished with this question of air transport?

Mr. SYMINGTON: We were just at the heading, "Passenger Service".

Hon. Mr. HANSON: Yes. We had just got down to that. We have not taken that up. Before we leave that, Mr. Symington, I desire to direct your attention to an article reprinted from the *Financial Times*, by Austin L. Cross, entitled "Has Canada an After-the-War Air Policy". Would you care to tell us anything about the plans with respect to post-war air policy?

Mr. SYMINGTON: Well, I do not think I can say very much more than I said yesterday, Mr. Hanson. So far as the T.C.A. is concerned, the T.C.A. is very assiduously engaged in preparations for ocean transport on the theory that they are going to be in it after the war. We are doing everything possible now; by that I mean, with respect to a study of the aircraft, a study of the routes, designing, constructing, training and so on; to be ready for the situation when it comes. More definite than that I cannot be at the moment.

Hon. Mr. HANSON: That is pretty general, isn't it?

Mr. SYMINGTON: It is general, but it is specific in fact.

Hon. Mr. HANSON: Well, are you proposing to duplicate the work which has already been done?

Mr. SYMINGTON: I beg your pardon?

Hon. Mr. HANSON: Are you proposing to duplicate the work which has already been done, either by the government or by private corporations or companies?

Mr. SYMINGTON: I do not know what work has been done by private corporations. I do know something about what the government is doing. They ask our advice, naturally, on the subject of international air regulations, meteorological services, communications and that sort of thing; and what our ideas are about the size and type of ships and all that sort of thing.

Hon. Mr. HANSON: That is operational. What I would like to get from you or from somebody, flatly, is this: is it the intention of T.C.A. or of the government to have a monopoly of air transportation in Canada?

Mr. SYMINGTON: I am afraid you would have to get that from the government or the minister. I could not give it to you.

Hon. Mr. HANSON: You would not care to express any opinion on it?

Mr. SYMINGTON: No, I could not.

Hon. Mr. HANSON: That would be your advice, though.

Mr. SYMINGTON: No. I think I stated I have not changed the position I took last year. I said that traffic of a main line character and traffic to points of exit should be run by the government; but as to feeder lines, they should be left to private industry. I have not changed my opinion on that.

Hon. Mr. HANSON: There is something in that. Well then, by main lines you mean just what?

Mr. SYMINGTON: Well, the character of a main line is, of course, somewhat indefinite and I think must be because you cannot define it to meet all future conditions. Where the government has had to put in fields, signalling systems, communications and that sort of thing relative to high-class, fast, scheduled transportation—whatever they designate in their judgment that the circumstances dictate that the class of service which we are giving should be given is what I would call service of a main line character.

Hon. Mr. HANSON: It is a well-defined term in the railway world, is it not?

Mr. SYMINGTON: Well, there are main lines and branch lines, yes. But, for instance, in the railways there is a main line south and there are two main lines north; I would think that eventually there will be a main line east and west, north, as well as the present southern part of the country; for instance, Winnipeg to Edmonton would be characterized as of a main line character.

Hon. Mr. HANSON: On pages 8 and 9 there is a map showing Trans-Canada Air Lines.

Mr. SYMINGTON: Yes.

Hon. Mr. HANSON: Bearing in mind that the settled part of Canada is a strip of roughly 3,000 miles long and about 300 miles wide, generally speaking the main lines would be running east and west. Now, that would be my view of a main line, traversing the country from one end to the other. Would that not necessitate that all the others coming in to meet this main line be private lines or feeder lines?

Mr. SYMINGTON: You perhaps did not follow me. I meant as to main lines, lines of a main line character and lines to points of exit—that is, such as Windsor.

Hon. Mr. HANSON: And south.

Mr. SYMINGTON: Well, or such as you see from Edmonton to Alaska. The Lethbridge-Edmonton route was taken because it leads to Alaska and the orient. That is the reason, that is why what might have been considered a branch line was taken.

Hon. Mr. HANSON: Of course, I suppose you will operate all lines to points of exit, and that might be anywhere. For instance, the line from Fort William to Duluth, or from Vancouver up the coast.

Mr. SYMINGTON: As I understand it, Fort William-Duluth if such a line were going to be run, as I understand government policy at the moment—and that is T.C.A. policy—that would be run by the T.C.A.; because it is a matter of negotiations between governments.

Hon. Mr. HANSON: Well, generally speaking, it is the intention of the government and your company—and I presume in a measure for them—

Mr. SYMINGTON: No, no; I do not want you to presume that at all. You cannot assume that at all.

Hon. Mr. HANSON: You might allow me to presume it.

Mr. SYMINGTON: You can draw any implications you like; but do not consult me on questions of policy, that is their business. They now ask us certain questions of operation but I have nothing to do whatever with government policy.

Mr. DONNELLY: I take it then that it is your opinion that if we had two Trans-Canada Air Lines neither one of them would be making any profit; that is, if one were competing with the other.

Mr. SYMINGTON: Absolutely not; except that they would be an expense to the government, and in that way to the people of Canada.

Mr. DONNELLY: It may be some years before there would be sufficient traffic to warrant us doing that.

Mr. SYMINGTON: Absolutely.

Hon. Mr. HANSON: There does not look to be much chance for private enterprise from this. I am surprised at you, Mr. Symington, because I have always thought of you as the great champion of private enterprise.

Mr. SYMINGTON: You cannot always tell, Mr. Hanson.

Mr. DONNELLY: He has just championed private enterprise with respect to this feeder line traffic by private companies.

Hon. Mr. HANSON: But you can't pin him down as to what are feeder lines.

Mr. JACKMAN: Might I ask Mr. Symington in regard to these boards: yesterday refusal was given as to indicating salaries, do the board of directors of Trans-Canada draw any remuneration at all?

Mr. SYMINGTON: No, sir.

Mr. JACKMAN: But as directors of the C.N.R. system they do; that is, those who are also directors of the air lines.

Mr. SYMINGTON: Under the Canadian National-Pacific Act they do.

Mr. JACKMAN: And the amount of \$5,000.

Mr. SYMINGTON: Yes.

Mr. JACKMAN: As to the others appointed by the Governor in Council, do they draw anything for sitting on the board?

Mr. SYMINGTON: No.

Passenger Service

Revenue passengers numbered 104,446 in 1942, as compared with 85,154 in 1941, an increase of 23 per cent. The average passenger journey ranking military officers and other persons travelling on business essential was \$29.35 and per passenger mile 5.32 cents, as compared with \$27.58 and 5.31 cents respectively in 1941.

In April, 1942, the dominion government established a procedure under which space on the company's flights may be requisitioned for ranking military officers and other persons travelling on business essential to national defence. The company was instructed to classify passenger lists, giving preference to the military travelling on duty and to business men engaged in essential war work.

Hon. Mr. HANSON: You have spoken about revenue passengers, how many non-revenue passengers were carried?

Mr. SYMINGTON: The figure is 2,806.

Hon. Mr. HANSON: Who were they, principally?

Mr. SYMINGTON: T.C.A. employees on business, 1,333; dependents of T.C.A. employees on vacation, 818; employees of the Department of Transport on business, 427; courtesy trips, to press and Canadian Broadcasting Corporation, etc., 159; employees of airplane and engine manufacturers on test flights, 2; employees of the Post Office Department on business relating to air mail service, 51; and employees of other airlines, 16.

Hon. Mr. HANSON: That second class you mentioned.

Mr. SYMINGTON: Yes, an employee and his family are allowed one trip per year if a seat is available, a trip contingent on space.

Hon. Mr. HANSON: Is that part of your working arrangement with your union?

Mr. SYMINGTON: With the union, yes.

Hon. Mr. HANSON: Is that part of the working arrangement?

Mr. SYMINGTON: Yes, sir.

Hon. Mr. HANSON: All right, that is all.

Mr. McCULLOCH: Could there not be a better arrangement made about passengers? I know the case here a week ago Wednesday where a man got on the plane here at Ottawa Wednesday night, he had a meeting in Halifax on Thursday, he got on the plane at Ottawa and was put off at Montreal and had to return to Ottawa. He missed his meeting. Could he have been told before he left here that the passenger list was filled up at Montreal?

Mr. SYMINGTON: Well, I would like to have the particulars in the case, Mr. McCulloch. I cannot answer that off-hand; unless it was something of a military nature that came up at the Montreal airport, someone who came there with a "must ride" order from the government. Unless such was the case he should not have been deplaned, and if he was deplaned he should only have been deplaned if there were not somebody else of less importance than he was in the character of his business. The list that the government have given to us is such that when we get a "must ride" order from them we are to deplane in the following order: pleasure, vacation and miscellaneous travel; next, members of the armed forces on furlough; next, passengers travelling on ordinary business and then passengers travelling on war effort business. And now, that is the precedence that we take. When somebody comes along with a "must ride" order then we inquire of everybody why they are travelling. If it is for vacation, they are miscellaneous—they must get off first. If there are none of that class, then if the passenger is a member of the armed forces travelling on furlough, he must get off. If there are none of them, then the passenger travelling on ordinary business; and then the passenger travelling on war effort business; and so on through the list to the ones travelling on "must" rides. I really could not answer your question specifically without knowing all the circumstances. As perhaps you know passengers are required to pick up their transportation at least three hours before take-off time, otherwise they are out.

Mr. McCULLOCH: You see, there is only about thirty-five minutes difference between Ottawa and Montreal.

Mr. SYMINGTON: Quite so.

Mr. McCULLOCH: They would certainly have known before then that that airplane was filled.

Mr. SYMINGTON: Not necessarily. What happens would be this: somebody comes in from the States, either say from New York or by train from Detroit—the ferry people, and that sort of thing. He goes to the desk just before plane time and he puts down a government "must" ride and we have got to give him a ride. The result of that is that somebody has to be taken off.

Mr. McCULLOCH: And then this man had to come back to Ottawa.

Mr. SYMINGTON: That is unfortunate, I think.

Mr. McCULLOCH: The T.C.A. paid his board when he was there in Montreal but he had to come back to Ottawa at his own expense.

Mr. SYMINGTON: In other words, under the conditions under which you travel on the air line—if he is put off his expenses are paid and he gets the right to a seat on the next plane available whenever he can be put in. But if

he changes his mind and decides he is not going on, then we do not pay his fare, in that case, say back to Ottawa.

Mr. McCULLOCH: Would he have to buy a ticket to Montreal again say he wanted to go by air and go that way?

Mr. SYMINGTON: I would think so. Unless he had good reason, he should have stayed in Montreal and gone on on the next plane. I would like the particulars on it. These things do occur, naturally.

Mr. McCULLOCH: I will give them to you. There is one other thing, with regard to industries: I understand that if they pay a certain amount into T.C.A. they got a 15 per cent reduction.

Mr. SYMINGTON: That is what is known as the air travel card.

Mr. McCULLOCH: And they get a 15 per cent discount?

Mr. SYMINGTON: A 15 per cent deduction where you are travelling on air travel card.

Mr. McCULLOCH: I understand you have to make a deposit of \$425.

Mr. SYMINGTON: Yes.

Mr. McCULLOCH: And if you use up to \$300 of these tickets a year you get the discount.

Mr. SYMINGTON: Yes, that is for the year.

Mr. McCULLOCH: Is that going to be in force next year?

Mr. SYMINGTON: It was cancelled in the States and we applied—we are not under the same air restrictions here—and Mr. Donald Gordon said, no; that is an increase in fare so it stands here.

Hon. Mr. HANSON: And you have to keep it up. It seems to me that that is rather a discrimination against the ordinary traveller.

Mr. SYMINGTON: That is true; but it was put in, as you know, Mr. Hanson—

Hon. Mr. HANSON: I don't know anything about it.

Mr. SYMINGTON: Well it was put in early in the business. Airlines went to the big business houses in an endeavour to train them to go into the air business; if they were doing a certain amount of business to try to encourage them to use air lines services to a greater extent. It was a little more expensive than travel by rail and we thought that if they were encouraged to make use of air line it would be good business so we made them the offer that if they used \$300 worth of transportation in a given year we would allow them a discount.

Hon. Mr. HANSON: That is the same principle that applies to commercial travellers on the railways, is it not?

Mr. SYMINGTON: Yes. And now, I notice here in the report of the United Air Lines that on July 1, 1942, the 15 per cent discount to charge customers under the volume travel plan, and the 10 per cent reduction, and the half fares, are eliminated—it is expected that these discounts will be resumed after the war. But, as I said, we were not allowed to follow on that.

Mr. NICHOLSON: Have you a credit card system on the T.C.A.?

Mr. SYMINGTON: Yes sir.

Hon. Mr. HANSON: I think we are all agreed that there have to be priorities in war time, but I hope they will cease just as soon as the war is over.

Mr. SYMINGTON: Well; as far as "must" ride service is concerned, that is sure. They are a headache to the company, naturally. We have to be very careful and assiduous in our explanations to people who unfortunately are disappointed. People are naturally put out and annoyed by that sort of thing.

Hon. Mr. HANSON: They are irritated.

Mr. SYMINGTON: They are irritated; and we do not want to sacrifice the goodwill which we feel we have built up, so we go to extreme lengths to try to explain to them what has happened.

Hon. Mr. HANSON: When a man buys a ticket and pays for it, it constitutes, as you and I know, a contract; it is made known to him before he pays that he may be taken off a plane?

Mr. SYMINGTON: Oh yes.

Hon. Mr. HANSON: That is part of the contract?

Mr. SYMINGTON: Yes. It has been very well brought home to people; in fact, it has been so well brought home to them that many figure it hardly worthwhile to try to travel by air and we were losing traffic on account of it so we had to go about it in another way: we sent people letters assuring them that room was still available, even more than circumstances would sometimes seem to indicate to them.

AIR MAIL SERVICE

The increase in the volume of air mail carried by Trans-Canada which has marked each previous year's operations continued throughout 1942. During the year, 2,308,812 pounds of mail were carried, as compared with 1,389,614 pounds in 1941, an increase of 66 per cent. The average mail load per mile increased from 230 pounds in 1941 to 321 pounds in 1942, which is higher than the average loading on United States domestic air lines, according to the latest published figures. The revenue of the air line did not increase proportionately for the reason that the payments to the company for the carriage of air mail are based not on poundage but on plane miles flown in mail service. Indeed, on a poundage basis the compensation received by the company is steadily decreasing. Mail revenue per pound mile in 1940 was 3.2 mills, in 1941, 2.1 mills and in 1942, 1.4 mills.

I might add there in December it was 1 mill.

Hon. Mr. HANSON: I am not sure that I quite follow that. I do not know enough about this sort of thing, but everything is first-class mail?

Mr. SYMINGTON: Yes.

Hon. Mr. HANSON: What we ordinarily call first-class mail?

Mr. SYMINGTON: Yes.

Hon. Mr. HANSON: Are newspapers and periodicals carried the same way?

Mr. SYMINGTON: They are carried at the same rate if they are shipped but, of course, they are not. They are carried by the pound rate if they are shipped air mail.

Hon. Mr. HANSON: Is it on a poundage basis?

Mr. SYMINGTON: Well, they charge the public, of course, on an ounce basis.

Hon. Mr. HANSON: But you do not get paid on that basis?

Mr. SYMINGTON: We do not get paid on that. If we fly 100 miles on one route we are paid 42 cents per mile. Of course, if we have not any mail it is all the better for us because there is more room for passengers, but if the mail grows often it causes great trouble because two men, say, are going on a trip; one of them is de-planed; the other fellow gets in and finds an empty seat and then there is the deuce to pay. The reason is there is an extraordinary lot of mail that has first claim, and we will only lift so much in the plane so the seat has to be left vacant.

Hon. Mr. HANSON: I see. I am straightened out on that. The public is charged on the basis of poundage weight?

Mr. SYMINGTON: Yes.

Hon. Mr. HANSON: But the air line gets paid on the basis of plane miles?

Mr. SYMINGTON: On the basis of plane miles.

Hon. Mr. HANSON: Now, I think we had some discussion on this yesterday, and I do not want to go over old ground, but it is anticipated, is it not, that this mail traffic will increase?

Mr. SYMINGTON: Oh, I think so, definitely, yes.

Hon. Mr. HANSON: My understanding is under the statute, or contract based on the statute, that automatically the rate goes down that the line gets; that is right?

Mr. SYMINGTON: According to its profits, yes, sir.

Hon. Mr. HANSON: All right.

Mr. SYMINGTON:

Air Express Service:

For urgent war industry shipments there was instituted a system whereby space on the company's aircraft may be requisitioned through the government. Military shipments and the needs of war industry were the principal factors in an increase of 109 per cent in the volume of air express handled: 362,837 pounds in 1942 as compared with 173,192 pounds in 1941.

Hon. Mr. HANSON: This service is to the public as well?

Mr. SYMINGTON: Yes.

Hon. Mr. HANSON: Have the public patronized this service pretty well as compared with government and military service, or is it mostly military?

Mr. SYMINGTON: Oh, yes, they have, the most of it, because we carried only 8,991 pounds of priority express and 11,762 pounds of priority baggage for the R.C.A.F. ferry pilots. Ferry pilots and their baggage have priority. For instance, we bring people from Detroit with their baggage, these American pilots who fly their bombers over. Because of weather conditions they get notified that a plane will go to-morrow and we have to bring those people down and give them "must" rides.

Hon. Mr. HANSON: That is quite understandable and quite proper. Then you anticipate an increase, too, in this service from the commercial world?

Mr. SYMINGTON: Oh, indeed, yes.

Hon. Mr. HANSON: And I suppose it is fairly profitable?

Mr. SYMINGTON: Yes, it is.

Hon. Mr. HANSON: How does it compare with passengers? Take a similar weight and space; is the express charge higher than the passenger charge?

Mr. SYMINGTON: It is less than the passenger but it is very much higher than ordinary express.

Hon. Mr. HANSON: Oh, I understand that, but you can only carry so much weight.

Mr. SYMINGTON:

Airway Facilities

A continuing program of improvements to runways, field facilities, airport lighting and navigational aids was maintained throughout the year by the Department of Transport. The operations of the weather reporting service of the meteorological branch of the department were extended and a number of new observation and reporting centres established.

Hon. Mr. HANSON: Now, Mr. Symington, there is a question as to airway facilities. Are they established and maintained by the Department of Transport apart from the company or how is it done? Who owns the airway facilities? Who pays for them?

Mr. SYMINGTON: Mostly Transport; municipalities own some, and we pay rental; all air lines pay rental to one or the other for the use.

Hon. Mr. HANSON: You pay rental to the Department of Transport?

Mr. SYMINGTON: Yes.

Hon. Mr. HANSON: What is the capital cost of the facilities established at public expense? I mean by that federal expense?

Mr. SYMINGTON: I cannot give you the figure but, of course, it is very great. Probably the Department of Transport can give that.

Hon. Mr. HANSON: It is enormous.

Mr. SYMINGTON: It is naturally very large.

Mr. EDWARDS: In round figures, \$18,000,000 paid out of civil appropriation.

Hon. Mr. HANSON: What is that?

Mr. EDWARDS: \$18,000,000.

Hon. Mr. HANSON: That is the total capital cost for Trans-Canada Airways?

Mr. EDWARDS: That is wholly dominion. In addition to that there are about \$5,000,000 which have been spent by municipalities and by cities.

Hon. Mr. HANSON: I want to know the amount referable to the Trans-Canada Airlines service.

Mr. EDWARDS: I will bring that a little later on, sir. You can say to all intents and purposes about \$16,000,000 of that.

Hon. Mr. HANSON: How much rentals do they pay?

Mr. EDWARDS: Our revenue last year was of the order of \$100,000.

Hon. Mr. HANSON: What is that percentage?

Mr. JACKMAN: .06 per cent.

Hon. Mr. HANSON: That is a pretty generous subsidy, is it not, to the operation of Trans-Canada Airlines?

Mr. SYMINGTON: May I point out that these facilities are used by the R.C.A.F., the military, everybody.

Hon. Mr. HANSON: Oh yes.

Mr. SYMINGTON: It is not exclusively for us by any manner of means.

Hon. Mr. HANSON: But that is in wartime.

Mr. SYMINGTON: Yes, true.

Hon. Mr. HANSON: Your operation expenses are greatly reduced by the fact that you pay a mere pittance to the government for the facilities that you use?

Mr. SYMINGTON: That is probably so if you concede that is a duty of an airline. I do not know any country in the world, including the United States, where the same thing has not been done.

Hon. Mr. HANSON: That may be true, but I am trying to look at it from a business standpoint. You pay \$100,000 for the rental of airway facilities that cost \$16,000,000. I do not say you have exclusive use of them at all but you have the major use of them?

Mr. SYMINGTON: I do not know that we have the major use of them, no. After all we are flying 24 planes out of I do not know how many thousands flown here in Canada.

Hon. Mr. HANSON: As a business proposition and apart from war you would not say \$100,000 was enough for the use of those facilities?

Mr. SYMINGTON: I think it is the same principle, probably, as canals, Mr. Hanson. It is a system of travel.

Hon. Mr. HANSON: Do not bring that up, please.

Mr. SYMINGTON: I do not want to have the efforts belittled unfairly because it is so in every country that all landing fields are furnished by the governments.

Hon. Mr. MICHAUD: Would it require an expenditure of \$18,000,000 for your requirements?

Mr. SYMINGTON: No.

Hon. Mr. HANSON: I did not say they did, but it seems to me that \$100,000 rental for the use of the facilities is quite inadequate.

Mr. SYMINGTON: It is the same basis practically as we pay for our service at La Guardia field in New York. It is based on the number of landings, and it is exactly the same principle throughout.

Hon. Mr. HANSON: The number of landings?

Mr. SYMINGTON: Yes.

Hon. Mr. HANSON: How much per landing?

Mr. SYMINGTON: Well, I am not sure how much per landing.

Mr. EDWARDS: The standard rate is \$150 per month per trip for the first one, and \$50 per month per trip after that, and that applies to the American lines, to every aircraft that uses the airport. If an outsider comes in he pays \$2.

Hon. Mr. HANSON: That is the accepted standard. In other words, it comes down to this—and I am not objecting to it—that the country is giving an additional subsidy to the airline transportation system. Let us have the fact, that is all.

Mr. SYMINGTON: I would immediately concede if the government did not build the landing fields there would be no air transportation; that is sure.

Hon. Mr. HANSON: There is the same thing in navigation. I am not objecting to that but I want the fact brought out.

Mr. SYMINGTON: All I want to bring out is it is not indigenous to this country; it is the same all over.

Hon. Mr. HANSON: I agree, but the fact remains just the same that airline transportation, like navigation, is getting a substantial subsidy out of the public treasury?

Mr. SYMINGTON: Well, if that is the way you want to put it, it is all right.

Mr. HARRIS: You say all countries; do you refer to the Irish Free State, for example?

Mr. SYMINGTON: I really do not know about the Irish Free State.

Mr. HARRIS: Do you know if it applies with regard to the United Kingdom?

Mr. SYMINGTON: Yes, so far as the landing of flights there are concerned I think that is right.

Mr. HARRIS: The cost would be about the same?

Mr. SYMINGTON: Yes.

Mr. HARRIS: You do not know definitely?

Mr. SYMINGTON: Not definitely, but it is approximately.

Mr. HARRIS: There are none of your staff here that know whether or not that is the fact?

Mr. SYMINGTON: At the moment, of course, Mr. Harris, they are all militarized and under control. There is no charge. The general principle of landing in England is the same, and I think approximately the same fees.

Mr. HARRIS: We understand the principle. We are trying to find out about the cost.

Mr. SYMINGTON: It is approximately the same.

Mr. HARRIS: Does it apply to Mexico and South America?

Mr. SYMINGTON: I cannot give you the exact figure. I am inclined to think probably Mexico is free. They are very anxious to get lines in there. They have got the American Airline and also the Union Airline, but it is approximately either free or roughly the same; nothing to do, in other words, with the value of the investment.

Mr. HARRIS: In Bermuda it is about treble, is it not?

Mr. SYMINGTON: Of course, Bermuda has been mostly boats, not land planes.

Mr. JACKMAN: How does this principle work out, for instance, on a typical field? Let us take the one on Vancouver Island. You can make many landings by paying \$150 per month there, one landing a day; is that the way it works?

Mr. SYMINGTON: Two a day; we make two a day.

Mr. JACKMAN: Two landings a day, and you pay \$150 a month?

Hon. Mr. HANSON: You can make ten for the same amount?

Mr. SYMINGTON: No, \$50 for each additional trip.

Mr. JACKMAN: A trip is two landings; is that what you mean?

Mr. SYMINGTON: A landing and a take-off is one.

Mr. JACKMAN: A landing and a take-off is one and you pay \$150 a month for the privilege of landing twice in a day; is that it?

Mr. SYMINGTON: Yes.

Hon. Mr. HANSON: Dealing further with the servicing of the plane at the point of landing and departure, is that done by your own employees?

Mr. SYMINGTON: Yes. You see, we build hangars and so on at these places and have landing space there.

Hon. Mr. HANSON: I was thinking of Moncton where I have often been. There is a very substantial number of people who come out to service the plane.

Mr. SYMINGTON: Those are all T.C.A. employees.

Hon. Mr. HANSON: What about weather service? I suppose that is free, is it not?

Mr. SYMINGTON: Yes.

Hon. Mr. HANSON: It should be, anyway. If the whole country gets it free you are entitled to it. They do serve a very valuable purpose.

Mr. SYMINGTON: An absolutely necessary purpose.

Hon. Mr. HANSON: You would have to supply that if it were a purely commercial proposition?

Mr. SYMINGTON: Quite right.

Hon. Mr. HANSON: It is a very fine service. I am glad to say that.

Mr. SYMINGTON:

Property and Equipment

The company's plant and equipment have been well maintained and are in good condition.

The flight equipment of the company as at December 31, 1942, consisted of:

11 Lockheed 14-08 aircraft, equipped with two Pratt and Whitney Twin-row Wasp engines each of 1200 horsepower.

1 Lockheed 14H aircraft, equipped with two Pratt and Whitney Hornet engines each of 850 horsepower.

12 Lockheed Lodestar aircraft, equipped with two Pratt and Whitney Twin-row Wasp engines each of 1200 horsepower.

To provide equipment for the Newfoundland service and the increased schedules to the Maritime Provinces, and to replace aircraft requisitioned by the government, six additional Lodestar aircraft were acquired in the last half of the year and are now in service.

Hon. Mr. HANSON: Just there, have you in contemplation anything in the shape of freight carriers? That is a great question in the United States?

Mr. SYMINGTON: Yes, it is being studied there.

Hon. Mr. HANSON: You have not got anything yet?

Mr. SYMINGTON: When I say we have not got any I said yesterday we had procured a plane, and that commencing last Friday we carried in that plane 13,000 pounds to a certain airport—here the censor speaks.

Hon. Mr. HANSON: Do not mention it. Pardon me; I interrupted you.

Mr. SYMINGTON: It is all right.

Mr. HARRIS: It is common knowledge that an effort is being made to use a Newfoundland base for the transporting of freight by gliders from perhaps even as far distant as Montreal. Would you take under consideration, Mr. Chairman, the advisability or practicability of having this committee meet, perhaps in camera, and have this organization tell the members of this House what success they are having with regard to the gliding of freight traffic from point to point? I think that comes right at this point. We are entitled to ask these questions. I do not want you to do anything at all that will in any way harm the war effort but we, who have the responsibility of passing on the Trans-Canada Airlines, have the right to know.

Mr. SYMINGTON: We have done no gliding at all, nor done anything about it.

Mr. HARRIS: Is something being done about it?

Mr. SYMINGTON: Not by T.C.A., no.

Mr. HARRIS: You might divide the line very thinly between T.C.A. and other services.

Mr. SYMINGTON: Nothing that T.C.A. is connected with, nothing at all.

Mr. HARRIS: None of your engineering branches or your research branches are giving any attention to the matter of gliding freight to overcome the submarine menace?

Mr. SYMINGTON: Nothing except reading what appears on the subject; there has been no designing, no nothing.

Mr. HARRIS: Your organization is not being used to facilitate that in any way whatsoever?

Mr. SYMINGTON: No, not at all.

Mr. HARRIS: Have you a research department in connection with your operations looking into the matter of more simple ways of handling freight? You have no research department?

Mr. SYMINGTON: We have a research department but that is not what it is engaged on at the moment. We are primarily not a freight line.

Mr. HARRIS: You are a passenger and certainly a mail line.

Mr. SYMINGTON: We are a mail line and a high speed passenger line. That is what we are.

Mr. HARRIS: Your research department has not given any attention to gliding mail?

Mr. SYMINGTON: No.

Mr. HARRIS: Nothing has been done on that by your organization at all?

Mr. SYMINGTON: No.

Hon. Mr. HANSON: Having regard to the expansion visualized in this report is your equipment sufficient?

Mr. SYMINGTON: Well, it is worked very hard, Mr. Hanson, but you cannot get equipment these days.

Hon. Mr. HANSON: I think you are doing pretty well. We are doing pretty well in aircraft production on this continent.

Mr. SYMINGTON: In this country or on this continent?

Hon. Mr. HANSON: On this continent.

Mr. SYMINGTON: That is true, but you cannot get aircraft from the United States. They are making military aircraft.

Hon. Mr. HANSON: How much more can you expand your service with the limitation on your equipment?

Mr. SYMINGTON: Not very much more.

Hon. Mr. HANSON: You are at the limit, are you not?

Mr. SYMINGTON: We are pretty nearly.

Mr. LOCKHART: There is no hope for equipment from Canadian manufacturers at all yet?

Mr. SYMINGTON: They are all working on it, sir, all designing and all drawing. They are also looking towards the future. When I say all, a great many of them are, to my knowledge.

Hon. Mr. HANSON: Aircraft companies.

Mr. SYMINGTON: Something is being done in that regard, yes.

Mr. LOCKHART: Would you say that satisfactory progress is being made having in mind the future equipment that is required?

Mr. SYMINGTON: I cannot speak with knowledge of them all, sir. I know one or two where I think they are very alert, and doing a good deal.

Mr. LOCKHART: It seems to be the general feeling that we are going to be dependent on outside capital for equipment for many, many years?

Mr. SYMINGTON: I would not think for many, many years. I do not think there can be any doubt our friends to the south will have a great advantage over everybody in the world with respect to ability to create that type of ship because they have been building practically all the transport and all the bombers for use in this war. I should not say all the bombers, but on this continent, all the bombers.

Hon. Mr. HANSON: And they know it, and then some; they intend to dominate the air world.

Mr. SYMINGTON: We quite understand that situation.

Mr. NICHOLSON: What are the prospects of securing sufficient equipment to inaugurate the proposed service from Toronto to Sault Ste. Marie and on to Winnipeg and Edmonton?

Mr. SYMINGTON: That will be the first equipment we will probably get, and I think it will be within a reasonable time.

Mr. NICHOLSON: Do we have to wait until the war is over?

Mr. SYMINGTON: I hope not.

Hon. Mr. HANSON: At all events, the situation is now that you are carrying all the business your equipment will justify?

Mr. SYMINGTON: Within measurable limits, yes, I would say that is so.

Hon. Mr. HANSON: I hope that the factor of safety, overhaul, and that sort of thing, is not being overlooked?

Mr. SYMINGTON: On the contrary, I think we are getting tighter all the time.

Hon. Mr. HANSON: I am glad to hear that. The man who flew us back over the Atlantic was an Imperial Airways man, and he said that he was more careful every trip that he took, after having flown 18,000,000 miles, or something like that.

Mr. SYMINGTON: That is a lot of miles.

Hon. Mr. HANSON: Anyway, he had flown an immense amount, and he was more careful every time he took off. I think that should be the guiding principle.

Mr. SYMINGTON: That is probably the reason he is alive, Mr. Hanson.

Mr. JACKMAN: What percentage of the passenger seats are occupied now as compared with last year?

Mr. SYMINGTON: Seventy-four as against sixty-seven.

Mr. JACKMAN: And you were very pleased with last year's performance so you are extremely gratified now.

Mr. SYMINGTON: I think the improvement has come because of the steps we took to try to eliminate "non-show" passengers and that sort of thing by various telephone calls and "must-pick-ups" a certain number of hours before and so on.

Mr. HARRIS: This might be the only place where I would be in order to discuss the Newfoundland section of the service.

The CHAIRMAN: We discussed that yesterday.

Mr. HARRIS: Is any of this equipment that you purchased during the calendar year 1942 for trailing gliders?

Mr. SYMINGTON: No.

Mr. HARRIS: Then, in your new additions which you contemplate for 1943 you are in the same position are you; will any of that be for trailing gliders?

Mr. SYMINGTON: I do not know whether we will get any in 1943, but if we do the consideration has not been given to equipment capable of hauling gliders.

Mr. HARRIS: May I put this suggestion on the record. Before we meet again next year to discuss this same problem which, to my mind, it is necessary that we support in every way, Trans-Canada Air Lines, I would like to say in the same sentence that we should be a little sensible about the way we are subsidizing these people from four or five different angles; but if we are going to subsidize this organization then we want to see it develop into one of the best organizations of its kind in the world both from the point of view of maintenance of equipment and operation and everything that goes with it. Next year I would like to put on the record, if we are organized as we are now, very pertinent questions with regard to gliders, freight and passengers and what not from Montreal to Newfoundland and from Newfoundland to, perhaps, the Irish Free State or the United Kingdom, to overcome the menace which worries all of us, the submarine menace. I would like the research department to give some thought to that matter and in due course, either in a camera session or otherwise, inform the members of the House of Commons actually what is being done. If you are not going to make this one of the best organizations in the world, then we are going to criticize some of the subsidies that we are voting for you willingly now in order that we may reach that objective. I feel disposed to criticize the subsidies, as I said last year, unless we can have a real forward movement in every branch of the service.

Mr. SYMINGTON: Well, Mr. Harris, I think if you would direct the attention of the government to the fact that we are to consider that type of service—

Mr. HARRIS: That is why I am speaking now; that is why I am putting this on the record.

Mr. SYMINGTON: Of course, we are operating under an Act. With great deference I do not think we are subsidized; I think we give full value to the Post Office Department and the Air department, but if the government contemplates that this is to be a freight road, a freight line hauling gliders after the war—because now that is a military proposition, it seems to me, and we have to keep the two very much apart—

Mr. HARRIS: Mr. Chairman, I do not want words put in my mouth. I did not say anything, Mr. Chairman, with regard to after the war. The war is on and the real reason for my remark is that the war is on and because this menace is here. I based my observations on that fact. We have this organization which should be giving thought and study to the transport of mail, freight and passengers; that is their line of business, and I am asking that that matter be given some consideration. I will not have words put in my mouth such as "after the war"; I am thinking of now.

Mr. SYMINGTON: Then, that is a military operation.

The Lockheed 14H aircraft of the company were improved by the installation of Twin-row Wasp engines, replacing Hornet engines. By December 31, the engine substitution had been completed in eleven aircraft and the change was made in the twelfth aircraft in February, 1943.

Additions to property and equipment totalled \$2,040,166, and retirements amounted to \$1,267,237, resulting in a net increase in investment account of \$772,929, as follows:—

Additions

Purchase of six Lockheed Lodestar aircraft complete with radio	\$ 1,144,599
Purchase of Pratt & Whitney Twin-row Wasp engines to replace Hornet engines—final payment	287,716
Value of eleven Lockheed 14-08 aircraft	539,868
Servicing and office equipment	35,601
Betterments to fixed property and miscellaneous	32,382
	<hr/>
	\$ 2,040,166

Hon. Mr. HANSON: Why was that done?

Mr. SYMINGTON: These engines had done their full hours in the air, and we got heavier engines.

Hon. Mr. HANSON: You have sold them.

Mr. SYMINGTON: True, that is pretty much of a war condition. At any rate, we had flown them more than the given number of hours.

Hon. Mr. HANSON: Were they sold back to the makers or were they sold to other flying companies?

Mr. SYMINGTON: They were sold, sir, to Central America, Australia, and the Canadian Pacific air service.

Hon. Mr. HANSON: There must have been a lot of value left in them.

Mr. SYMINGTON: I may say to you that we were very pleased to get the money—there is no doubt about that—for them.

Hon. Mr. HANSON: They were probably sold pretty cheap, were they? Who put the valuation on them?

Mr. SYMINGTON: They were not sold very cheap; at least the purchaser did not think so.

Hon. Mr. HANSON: \$10,000 a piece?

Mr. SYMINGTON: Yes, well that was a find. If it had not been for the war we would not have got anything for them.

Hon. Mr. HANSON: Maybe not. You may be right. At all events, they were useful to the purchaser.

Mr. SYMINGTON: Yes.

Hon. Mr. HANSON: And they are being used, I supposed?

Mr. SYMINGTON: I suppose so. I do not know. I suspect they are. You understand that the Hornet engine is no longer in production; you cannot get spare parts for it.

Hon. Mr. HANSON: That is the real reason for the displacement—if you could not get parts.

Mr. SYMINGTON: They are no longer in production at all that Hornet engine.

Retirements

26 Hornet engines sold.....	\$ 270,600
Cost of eleven Lockheed 14H aircraft, converted to 14-08's.....	983,512
Servicing equipment and miscellaneous.....	13,125
	<hr/>
	\$1,267,237

Net increase in property and equipment account \$ 772,929

Hon. Mr. HANSON: Just for my information, how do you finance this?

Mr. SYMINGTON: We finance it by a call-up of stock, or if we have the money, out of current account, depreciation account, of course.

Hon. Mr. HANSON: Partly from the three sources, is that the idea?

Mr. SYMINGTON: Yes. We issued 850,000 dollars of additional stock this year.

Hon. Mr. HANSON: That would be new capital.

Mr. PARENT: Who took up the stock?

Mr. SYMINGTON: The Railway. The capital stock was increased during the year by \$850,000; surplus \$494,915; \$1,344,915; depreciation \$344,177—that is a decrease; self insurance \$110,989.

Hon. Mr. HANSON: I cannot follow you. How much is the depreciation.

Mr. SYMINGTON: \$344,177.

Hon. Mr. HANSON: That leaves how much?

Mr. SYMINGTON: Self insurance \$110,989. That is all on page 11 of the report.

Mr. EMERSON: The value of the eleven Lockheed 14H aircraft figures out about \$49,000 each, and over on your retirements you say the cost of the eleven Lockheed 14H aircraft, converted to 14-08's is \$89,410 each.

Mr. SYMINGTON: The way the auditors do it is this: \$983,512 in retirements at the original book cost. The figure on the other side, \$539,868 was the old depreciated book cost plus the cost of the new engines.

Hon. Mr. HANSON: The depreciated book value.

Mr. SYMINGTON: Yes, depreciated book value plus the cost of the new engines.

Hon. Mr. HANSON: Generally speaking, I wanted to know out of what funds or class of funds these additions were financed. I gather they were financed from three sources?

Mr. SYMINGTON: Four: capital, insurance reserve, depreciation and operating surplus.

Hon. Mr. HANSON: And capital?

Mr. SYMINGTON: Capital, yes.

Mr. JACKMAN: I would like to say something with regard to the way they have handled the accounting on the conversion of the Lockheed 14H to 14-08. As I understand it they have written the whole thing off in the \$983,000 item?

Mr. SYMINGTON: Yes.

Mr. JACKMAN: And they have taken the undepreciated value which was on the books and added to it the cost of the new engines and set it up as a new capital asset.

Mr. SYMINGTON: Quite so.

Mr. JACKMAN: Why did they not leave the books as they were instead of carrying out this confusing accounting and add an item for improvements?

Mr. SYMINGTON: The reason is that we have an entirely different article upon which depreciation starts again. We have really got to some extent a new plane, but the book cost estimate was what is shown here—the old one—the 14's were written off, and the 14-08's—a different type—are then put on at actual cost. The original amount less the amount already paid for by depreciation plus the actual cost of the new engines.

Hon. Mr. HANSON: You are telling us that you have a new capital asset?

Mr. SYMINGTON: A new capital asset at actual cost.

Mr. JACKMAN: Is there any advantage or disadvantage to the T.C.A. in the rates of depreciation which will be charged by this method of handling the accounts?

Mr. SYMINGTON: No, I think it is actually in accordance with the principles laid down, that we depreciate these things upon a certain fixed rate, upon what they cost and that is the only way I know of arriving at the cost of the 14-08's.

Hon. Mr. HANSON: It is an accounting problem?

Mr. JACKMAN: It interferes with their earnings very greatly. It is complicated. I do not know whether I should go into that or not. You have written off \$983,000. I presume this is all out of the operating account for the one year.

Mr. SYMINGTON: No, it has nothing to do with that. We just write it off on the one side, take it out of depreciation reserve, and we set up the undepreciated part for these converted planes on the other.

Mr. JACKMAN: You charge \$983,000 to the accumulated depreciated reserve?

Mr. SYMINGTON: Yes; and credit it on the other hand, with what we have set up as value—the actual undepreciated part of the new plane to which it contributed.

Hon. Mr. HANSON: For a new asset.

Mr. SYMINGTON: Yes, for a new asset.

The paid in capital of the company is now \$4,600,000, an increase during the year of \$850,000. The new capital was used to finance the purchase of six Lodestar aircraft. The self insurance reserve increased by \$110,990, and is now \$403,162. The depreciation reserve at December 31 stood at \$1,504,190.

Hon. Mr. HANSON: What is the rate? I suppose it varies on the asset?

Mr. SYMINGTON: Twenty-five per cent per year on aircraft.

Hon. Mr. HANSON: And a lesser amount on others?

Mr. SYMINGTON: Six thousand hours on engines.

Hon. Mr. HANSON: Who put up the \$850,000 capital stock?

Mr. SYMINGTON: The money came from the Canadian National Railways.

Hon. Mr. HANSON: Did not the government put up any?

Mr. SYMINGTON: No, they do not own any stock—it is all from the Canadian National Railways.

Mr. JACKMAN: What did the books show when you sold those twenty-six Hornet engines? Did you realize a profit or a loss as compared with the book cost?

Mr. SYMINGTON: We realized a profit.

Mr. JACKMAN: I thought you probably would in these times.

Mr. SYMINGTON: A capital profit of \$101,490. I tried to contend that that should not be taken off airmail rates but it was.

Mr. JACKMAN: It went into your profits?

Mr. SYMINGTON: Yes.

Mr. JACKMAN: Were there any further capital profits—what I call capital profits—which went into the operating accounts—substantial amounts, I mean.

Mr. SYMINGTON: No sir, there were none at all.

Now, we come to personnel—

Mr. HARRIS: Just before you go on with that, would you explain that self insurance reserve increase and tell us at the same time how much outside insurance you carry, and how much insurance is carried by organizations other than your own.

Mr. SYMINGTON: Yes, sir. I think you will be glad to know Mr. Harris that we have at last got to the position where we are becoming completely self insurers, except with respect to fire in the hangars where a good many aircraft may be stored at one time.

Mr. HARRIS: What premiums were you paying in 1942 with respect to crash insurance; how much did you pay by way of premiums last year, the year in which you say you became more or less self insured?

Mr. SYMINGTON: That is a change which has just been made. We carried the crash insurance this past year ourselves. The total amount paid for outside insurance was \$156,919.86.

Mr. HARRIS: And for the current year of 1943 you have no outside insurance?

Mr. SYMINGTON: We will have about \$30,000—\$33,000, I think. We have set up a separate fund to be invested as an insurance fund of \$400,000; and the reason we did that—apart from the fact that I think it is the proper thing to do—is that we have agreements with the other air lines who have a contractual liability to the people to whom they sell their tickets and where part of the run is over our lines and they have to have guarantees that if anything happens the passenger is going to have a proper place to get his damages, so that having got that fund fixed at \$400,000 we have now become self insurers on all the operations except for the big hangars where there may be four or five planes in at once and where the fire hazard is high and the loss potential so great that we felt we ought not to undertake it with only a fund of that size; and the premium on that is relatively small, it is around \$33,000 for three years.

Mr. HARRIS: Are you still under contract to outside adjusters in the matter of crash?

Mr. SYMINGTON: In the matter of crash, ending May 1st, no.

Mr. HARRIS: Is it your purpose to retain outside adjusters?

Mr. SYMINGTON: I do not know that we have given consideration to that, Mr. Harris; we start assuming all of these risks at the expiration of the policies on May 1st.

Mr. HARRIS: Have you settled up on the Armstrong crash?

Mr. SYMINGTON: That has all been settled.

Mr. POULIOT: Who are your insurance brokers?

Mr. SYMINGTON: The Canadian National Railways' insurance department.

Hon. Mr. HANSON: Coming back to the point you raised a moment ago about when you are selling capital assets and considering that as an operating profit, that does sound very strange to me. I am inclined to agree with you.

Mr. SYMINGTON: On the other hand, Mr. Hanson, the other point of view is that any revenue has a bearing on the mail rate where they charge up depreciation, and they calculated that in our depreciation. Their contention is that there is a profit made by salvage and that it would affect depreciation; and I must say that I do not know that I could disagree with them—I tried to—that they are really entitled to it. That is the position.

Hon. Mr. HANSON: They insisted?

Mr. SYMINGTON: They insisted, yes.

Hon. Mr. HANSON: What did the auditors say about it?

Mr. SYMINGTON: I think they are inclined to agree with the Post Office Department, that as the Post Office Department pay for depreciation they ought to get credit for any salvage.

Mr. NICHOLSON: If there were a loss of \$400,000 it would work the other way.

Mr. SYMINGTON: It would work the other way.

Mr. JACKMAN: I suppose that \$150,000 included in incidental services was taken into the income account?

Mr. MATTHEWS: In the adjusted depreciation charges you will find that the rates of the earlier years were amended. The rates charged for depreciation have been a little high. Now, this year when the final value of the planes became evident, the amount that has been provided for depreciation under operating expense account in the past years has been revised and that amount is taken in in the depreciation account for the year, as Mr. Symington says. The depreciation rate of previous years has been charged to this expense.

Mr. JACKMAN: You were not able to follow up your policy, you had to make a readjustment.

Mr. MATTHEWS: Not a readjustment—we brought it in line with what turned out to be the actual fact.

Mr. JACKMAN: As the result of fortuitous circumstances, apparently.

Mr. MATTHEWS: No. not in the light of circumstances, in the light of experience.

Mr. JACKMAN: It was fortunate that you were able to dispose of these engines to the ferry command people.

Mr. MATTHEWS: That is right, but the fact still remains that the depreciation charge made to operating expense was made in the light of final experience.

Mr. JACKMAN: But it does not enter in the revenue.

Mr. MATTHEWS: In determining the depreciation charge for the year the amount that has been over accrued in previous years is treated as deduction on the books. Under the circumstances we consider that to be proper treatment in the light of Trans-Canada contract.

Mr. JACKMAN: It only entered in the profit and loss account so far as the mail contract was concerned, not so far as equipment was concerned.

Mr. HANSON (Skeena): Mr. Chairman, I cannot hear what is being said and I am sure the reporter cannot. This is important, and I think it should be on the records; Mr. Matthews should take the stand as a witness.

The CHAIRMAN: You are right, Mr. Hanson. I will ask the witness to come up here where he can be heard. If you want this to appear in the record,

you will have to ask your questions clearly and the witness will have to speak, loudly enough to be heard up here or otherwise the reporter cannot take it.

Mr. POULIOT: I have only one question to ask; do you charge the Post Office Department depreciation due to the handling of the mail bags from the airplanes.

Mr. MATTHEWS: Did you say, the mail bags?

Mr. POULIOT: Yes, because they are an item of considerable cost to the Post Office Department.

The CHAIRMAN: Order. I think we will ask Mr. Symington to continue.

Mr. SYMINGTON:

Personnel

The total personnel of the company as at December 31, 1942, was 1,662, of whom 464, or approximately 30 per cent, were women. The policy of employing women and ex-service men was continued throughout the year. Included in the various activities in which women are now employed are those of agents, chauffeurs, cargo handlers, radio operators, stockkeepers and workers in the mechanical shops.

Mr. JACKMAN: Would you be in a position to speak about what total personnel are employed by private companies?

Mr. SYMINGTON: No, I would not.

Mr. JACKMAN: I read in an article some place that the C.P. Airways had 7,000 employees. I presume that they might be engaged in other types of work—what would they be doing?

Mr. SYMINGTON: I do not know. I really do not. They do some government work in connection with cadet training and that sort of thing. But I have not gone into their affairs at all, Mr. Jackman.

Hon. Mr. HANSON: A private company would have altogether about 10,000 employees.

Mr. SYMINGTON: That may be; I would not know.

Hon. Mr. HANSON: I would tell you your policy. If your policy were to prevail these people would be out of a job.

Mr. SYMINGTON: Somebody is going to provide the service, Mr. Hanson.

Mr. PARENT: I notice that the total amount you show for salaries and wages is \$99,931.46; does that represent the salaries of these 1,662 employees?

Mr. SYMINGTON: Oh, no. Where are you reading from?

Mr. PARENT: From page 11.

Mr. CHAIRMAN: We are on page 7 now.

Mr. PARENT: I noticed an item of current liabilities in connection with salaries and wages and I thought this was the time to bring it up.

Mr. SYMINGTON: Oh, as to current liabilities, those are the unpaid amounts, wages for a week or for two weeks — whatever it may be.

Mr. POULIOT: Were you asked by national selective service to supply them with a list of those engaged in essential occupations?

Mr. SYMINGTON: Yes, and we supplied them with the name of every person in the employ of Trans-Canada Air Lines we considered essential.

Mr. POULIOT: Would you have any objection to tabling that list?

Mr. SYMINGTON: I do not know, Mr. Pouliot that I have it. I was having great difficulty in connection with the personnel of T.C.A. and I conferred with the national selective service people and they said, you furnish us with a list in all the districts of the people and their occupations and indicate who are

essential; and you understand the seriousness of the situation and we look to you, it is your responsibility not to ask for anybody who is not essential; so we furnished it. I haven't got in here. I probably have it in my office.

Mr. POULIOT: Have you some embarrassment regarding the names of the individuals? Will you please tell the committee what are the occupations that you consider essential for your service in the T.C.A.—men and women.

Mr. SYMINGTON: We do not consider any of the women essential. We have now substituted up to about forty per cent of personnel with women. We consider the flying personnel, the mechanics and key men as absolutely essential and some of the despatchers, one or two of the superintendents and that sort of thing.

Mr. POULIOT: And the mechanics?

Mr. SYMINGTON: That is pretty well limited to pilots, engineers and radio position operators.

Hon. Mr. HANSON: That sounds reasonable.

Mr. SYMINGTON: To date 204 men in our service have enlisted.

Mr. HARRIS: Are the T.C.A. still using the services of the purchasing department of the Canadian National Railways?

Mr. SYMINGTON: Yes.

Mr. HARRIS: Then this word "total" — total personnel of the company is really just the operational personnel, is it not?

Mr. SYMINGTON: Yes; I feel that perhaps the term as used may be a little wide.

Mr. HARRIS: I think, Mr. Chairman, the report ought to be amended so there will be no misunderstanding of the situation. Apart from the purchasing agent there are a lot of other services which are — quite properly from the standpoint of economy — given to the T.C.A. by the Canadian National Railway; perhaps part time in many instances, where it permits of bulk purchases and where it permits of bulk services which have nothing to do with operational services. Now, could we not have something that would not mislead us on this? This word "total" certainly misleads me. The total is not 1,662 by any means. Let me put it to you this way, Mr. Chairman. If there were no Canadian National Railways at all, none of their personnel available to the T.C.A., and you had to establish the services, all that is supposed to cover the total of your personnel would be considerably more than 1,662.

Mr. SYMINGTON: Mr. Harris, might I explain? You were not here yesterday. The thing is quite clear on the record. Out of a total bill of \$2,600,000 we paid a certain department of the Canadian National Railway \$31,300 for services they perform. As I say, our total bill is two \$2,600,000, and the C.N.R. are paid for certain purchasing services and so on \$31,300 per annum.

Hon. Mr. HANSON: And the cost would be much less.

Mr. SYMINGTON: I quite agree, but it is to the joint advantage of both. It will be more next year, there is no doubt about that.

Mr. HARRIS: You could not put up the services for \$31,000 odd.

Mr. SYMINGTON: I am very glad to have that statement; because we have been attacked, as you know, on the other side.

Hon. Mr. HANSON: By whom?

Mr. SYMINGTON: By various people that we were paying—this came up in the committee the other day—that we were paying too much out in that way. But, as business men we get reports—I had a survey made—from which, of course, you figure your position. The figure I have indicates that next year we will have to pay the Canadian National more, because the service is growing as the line grows. It does not stay fixed.

Hon. Mr. HANSON: From that we can take it, I think, that you are not paying enough.

Mr. SYMINGTON: Sure, that is the position indicated.

Hon. Mr. HANSON: Well then, we ought to know mathematically what the service is and what it costs them.

Mr. SYMINGTON: That is difficult to get at, but there is an indirect saving in not having two sets of medical organizations and purchasing organizations when the whole organization is there.

Mr. JACKMAN: Do you say that as business men they meet and consider themselves as organizations; or, is the relationship that of father and child?

Mr. SYMINGTON: Well, I think you can concede that business men can sit down and discuss these things on a fairly reasonable basis and arrive at what they both conclude is a fair result.

Mr. JACKMAN: I think, referring to your own figures, that the saving which costs you \$31,300 amounts to around \$60,000 to \$75,000.

Mr. SYMINGTON: That is quite true. On the other hand, Mr. Jackman, they have practically no additional personnel, and they do receive a contribution of \$31,300. You must anticipate, I think, that it will rise to \$40,000 next year. We went over it item by item and department by department, and it is a saving; there is no question about that.

Mr. JACKMAN: I appreciate that.

Mr. SYMINGTON: And I think both sides try to be fair.

Mr. JACKMAN: You are overlooking the fact that the railways are inclined to charge all the traffic will bear, that is their background.

Mr. SYMINGTON: The T.C.A. will not let them charge what the traffic will bear; if you want to put it that way.

Mr. POULIOT: Can you give us the detail of the work performed by the personnel of the organization?

The CHAIRMAN: Go ahead with the report, Mr. Symington.

Mr. SYMINGTON:

A high percentage of the male personnel of Trans-Canada Air Lines has enlisted in the armed forces, and manpower is one of the serious problems confronting the company. Deferments under the National War Service regulations have been requested only for such employees as are necessary to maintain safe operation.

Classes were conducted for the training of pilots, dispatchers, stewardesses, radio operators, passenger agents and shop workers, in order to retain the present high standard of efficiency under existing conditions.

A joint co-operative committee, with management and employee representation, was formed at the Winnipeg repair base. This committee serves as a medium for employees to discuss working conditions with the management and to place before it suggestions for improving efficiency in plant operations and for increasing production, and is instrumental in establishing educational facilities for employees. It is proposed to establish similar committees at other points.

Hon. Mr. HANSON: Have you a union?

Mr. SYMINGTON: We have a local union. It is not a company union. I might say that the mechanics are members of the A.F. of L.; but that does not include the airmen.

Hon. Mr. HANSON: You recognize the right to join international unions?

Mr. SYMINGTON: Yes.

Hon. Mr. HANSON: The same as the railways?

Mr. SYMINGTON: Yes.

A contributory pension plan for company employees was instituted. Participation in the plan is optional for employees in service prior to March 1, 1943, but compulsory for employees entering the service after that date. Employees in service prior to adoption of the plan are allowed the option of making retroactive payments to the fund. The plan permits contributions at from 2 per cent to 10 per cent of the employee's salary with the company matching contributions up to 5 per cent. The cost to the company is estimated at between 3 per cent and 3½ per cent of the payroll.

Mr. JACKMAN: Is it taking very well?

Mr. SYMINGTON: Yes, it is.

Mr. JACKMAN: There are no complaints about it having been made compulsory?

Mr. SYMINGTON: No, there have been no complaints about that, the only thing is what we discussed yesterday—the pilots made certain representations with respect to an earlier retiring age for them.

Mr. JACKMAN: What is the average life of a pilot?

Mr. SYMINGTON: I do not know that. In some cases they are flying quite old and some do not last so long; but we take the position with respect to the pilots that their background, training and everything else fit them to be the men who will naturally succeed to some type of ground jobs after it is unwise to fly them.

Hon. Mr. HANSON: That is only fair.

Mr. SYMINGTON: Yes, I think so.

Mr. NICHOLSON: In connection with the third paragraph under personnel, "classes were conducted for the training of pilots, dispatchers, etc."; are these classes held continuously? What would you say about that?

Mr. SYMINGTON: Yes. All of our pilots have to go through refresher courses, link trainers and so on. You have got to give continued attention to detain in an air line—you have got to avoid "familiarity-breeds-contempt," carelessness and so on; and they are almost continuous.

Hon. Mr. HANSON: And there are new gadgets being invented all the time.

Mr. SYMINGTON: Oh yes.

Mr. NICHOLSON: Could you tell us something about the training you give generally to your staff about being gracious with travellers who are grounded and unable to fly on account of weather conditions—it seems to me your staff are very courteous.

Mr. SYMINGTON: We have a class of three weeks on that, a three weeks' training course in meeting the public, and so on and so forth.

Special War Activities

T.C.A. is operating for the Department of Munitions and Supply a new engine and propeller overhaul plant adjacent to the company's main shop at Winnipeg. The plant is working on the overhaul of military aircraft, engines, propellers and accessories, and production will be placed on a three-shift instead of its present two-shift basis as additional personnel is trained.

The instrument shop at Winnipeg is working twenty-four hours a day on the overhaul and repair of instruments for military aircraft. A considerable volume of work was undertaken during the year at Winnipeg for other war plants, and the facilities of the company at various

airports across Canada were extensively used for the servicing of military aircraft.

The co-operation of Trans-Canada Air Lines with British Overseas Airways Corporation in the north Atlantic transport operation was considerably extended during the year. At Montreal airport the maintenance and overhaul work on these overseas air transports is performed by Trans-Canada. Upwards of 200 of Trans-Canada's skilled mechanics are continuously employed at the Montreal airport on this work.

Mr. JACKMAN: Referring back to the 1,662 personnel which you mentioned in the previous paragraph, how many of these might be engaged on work which is extraneous to the operations of the T.C.A. and who are directly employed?

Mr. SYMINGTON: In the neighbourhood of 200.

Hon. Mr. HANSON: Is this on a cost basis, or on a cost plus basis.

Mr. SYMINGTON: It is on a cost basis.

Hon. Mr. HANSON: You make no profit?

Mr. SYMINGTON: Not other than—I mean, I cannot say to the cent; the principle and theory is that it is a cost operation.

Hon. Mr. HANSON: It is a service operation?

Mr. SYMINGTON: Yes.

Mr. HARRIS: With respect to the co-operation of Trans-Canada Air Lines, etc., would you care to enlarge upon that?

Mr. SYMINGTON: The next sentence, I think, answers that.

Mr. HARRIS: Is that the co-operation you give.

Mr. SYMINGTON: Is that not co-operation?

Mr. HARRIS: Yes.

Mr. SYMINGTON: We have three crews flying the ocean. I talk to them and they talk to me. We do their medical services. We are in continuous and constant communication. We look after all their ground work, radio coverage and so on.

Mr. JACKMAN: I see you say there are 200 men engaged on that; and in the previous paragraph you talk about men in Winnipeg; is that another 200 men on extraneous work?

Mr. SYMINGTON: That is another 200.

Mr. JACKMAN: Is that a total of 400 out of the 1,662?

Mr. SYMINGTON: Yes, sir.

Mr. JACKMAN: Are there any others out of that 1,662 who are not engaged full time on T.C.A. work—any substantial number?

Mr. SYMINGTON: Well, there is no substantial number. We are flying back and forth for air transport, for the R.C.A.F., to these armed bases and that takes two crews to run that.

Mr. JACKMAN: What type of plane are you servicing for these people?

Mr. SYMINGTON: They are using the Liberator planes, big four-engined planes. They fly across—they take diplomatic mail and bring back the pilots who fly over the bombers.

Hon. Mr. HANSON: That is the Dorval operation?

Mr. SYMINGTON: Yes, that is the Dorval operation.

Three flight crews, each consisting of a captain, first officer, flight engineer, radio operator and navigator, were assigned to supplement the flight crews of British Overseas Airways Corporation, the navigators being seconded from the R.C.A.F. for duty with the company. Supervisory personnel of the company also participated in this trans-oceanic operation.

Mr. HARRIS: Have these flight crews training in gliders?

Mr. SYMINGTON: No, I do not think there have been any gliders for them. I have not seen any. I would not know.

Radio coverage, dispatch and station service were furnished for the operations of the R.C.A.F. communications squadron. The company's engineering and a flight staffs assisted the National Research Council and the R.C.A.F. in studies relating to icing conditions.

Outlook for 1943

Further increases in passenger, express and mail traffic are anticipated in 1943. There will also be development in the field of special war activities engaged in by the company.

Hon. Mr. HANSON: What do you refer to there, or are you at liberty to say? I do not want to know if it is any state secret.

Mr. SYMINGTON: These two new shops that are now in at Winnipeg will get into full production, and they are continually from day to day calling on us for more assistance or service.

Mr. POULIOT: Does this include post-war air planning?

Mr. SYMINGTON: Does which include what, Mr. Pouliot?

Mr. POULIOT: Post-war air planning.

The CHAIRMAN: Does this include a post-war air plan?

Mr. SYMINGTON: What is "this"?

Mr. POULIOT: The outlook for 1943.

Mr. SYMINGTON: No, I should not think it did.

Hon. Mr. HANSON: This does not mean very much. It is just a pious wish.

Mr. SYMINGTON: It is simply this, Mr. Hanson, that during the years as they go by we find we have always had to increase our service to the military establishments, quite properly, and needless to say we desire it. It is growing each year.

Hon. Mr. HANSON: You have not anything special in mind?

Mr. SYMINGTON: Nothing special in sight, no.

Mr. NICHOLSON: You mentioned earlier in your report you had reduced the "no show" business. What specifically have you done? What possibilities are there of improving it?

Mr. SYMINGTON: We have formed a central control that follows up through every booking, every ticket office in the system. "Have you contacted passenger No. so and so; are you sure he is going; is there any likelihood he will not be going," and so on and so forth? Then too, the passenger must now take up and pay for his ticket at least three hours before plane time, not keep the reservation.

Hon. Mr. HANSON: They told me down at the Chateau I had to take up and pay for the reservation when the reservation was confirmed.

Mr. SYMINGTON: I think they must have something in for you, Mr. Hanson.

Hon. Mr. HANSON: Well, maybe they have; I do not know.

Mr. NICHOLSON: What is the picture for last year as compared to the previous year? Have you anything to show that?

Mr. SYMINGTON: Yes, we have. I do not know that I have got it here. Each month we show the position of every office as to what they have done with respect to "no show" passengers. We have graded them one, two, and three, right over the whole system, and what they were the month before, and if they are falling back they are jacked up. Very close tab is kept on it, and they are kept up to the mark with respect to keeping down "no show" passengers. If the

"no shows" go up we think there is something wrong with the office where it occurred, generally speaking.

Mr. NICHOLSON: Have you figures showing the percentage of air space that was used last year as compared to the previous year?

Mr. SYMINGTON: Less than 1 per cent of the total this year.

Mr. NICHOLSON: What is the figure for a year ago?

Mr. SYMINGTON: Last year about 3 per cent, and before that, very bad.

Hon. Mr. HANSON: People are alive to the fact if they do not go they do not get accommodation.

Mr. JACKMAN: Have you opened up any new passenger booking offices during the year, Mr. Symington?

Mr. SYMINGTON: St. John's, Newfoundland, was opened. Offices at London, Ont., Seattle, Wash., and the district traffic office, Toronto, were closed.

Mr. JACKMAN: One opened and three closed?

Mr. SYMINGTON: Yes.

Mr. JACKMAN: How many of your booking offices are run conjointly with the C.N.R.?

Mr. SYMINGTON: Every C.N.R. ticket office sells Trans-Canada, but in St. John's, Halifax, Montreal, Ottawa, Toronto, New York, Windsor, Winnipeg, Calgary, Edmonton, Vancouver and Victoria, we have offices of our own.

Mr. JACKMAN: You have your own?

Mr. SYMINGTON: Yes.

Mr. JACKMAN: What is the arrangement made with the C.N.R. offices? Do you pay them a commission on what they sell?

Mr. SYMINGTON: We pay them a small commission on what they sell.

Mr. JACKMAN: Is it a comparable commission to what would be charged by a railway in the United States that was booking for an airline there? Is it 10 or 15 per cent, or what?

Mr. SYMINGTON: It is 5 per cent, which is about what the airlines pays us, or we pay them.

Mr. JACKMAN: It is a strictly competitive rate?

Mr. SYMINGTON: A strictly competitive rate.

Mr. JACKMAN: It is not part of the \$33,000 at all?

Mr. SYMINGTON: No.

Hon. Mr. HANSON: Mr. Symington, having come to the end of your presidential report I would like to call your attention to the fact that the most populous part of the province of New Brunswick is in no way served by your line, and I wonder what you are trying to do in connection with that. The city of Saint John—I do not like to use any derogatory term, but the little airway there is unsatisfactory, to say the least. People there are very much dissatisfied. The city of Fredericton is within ten miles, or twenty miles at the outside, of the beam and gets no service. We are almost on the direct line between Montreal and Moncton but we have been overlooked.

Mr. SYMINGTON: Personally I would like to go into Saint John. As you know the airport there, such as it was, could not possibly handle our planes.

Hon. Mr. HANSON: I quite agree.

Mr. SYMINGTON: It is quite hopeless, and that was the situation when the war came on. We built at Blissfield, as you know, but that does not meet the situation.

Hon. Mr. HANSON: No, I am afraid it is too far away.

Mr. SYMINGTON: So far as Trans-Canada is concerned it would like very much to go into Saint John but it cannot go in until the facilities are provided

for it to go. That is sure. Then there are considerations before we can go any place. Under the Trans-Canada Act the postmaster-general and the Minister of Transport must make a recommendation to council that we do it. Council must pass it and declare this a point on the Trans-Canada and then automatically under the Act we are in.

Hon. Mr. HANSON: I have always understood that the Post Office Department were well disposed, let me put it that way.

Hon. Mr. HOWE: The whole difficulty is the airport.

Hon. Mr. HANSON: I think there is something in that but Mr. Howe, have you ever considered having the airport within 10 miles of the city?

Hon. Mr. HOWE: We have searched everywhere for 20 miles and have not found a suitable site. It is very, very difficult country. If we can get a suitable airport within 20 miles of Saint John I assure you we will go in.

Hon. Mr. HANSON: That is a fair statement. I think that is a very fair statement. I quite agree that without very great expense you could not utilize the present airport for ships of your size, but you do make the definite statement that if they can find a location within 20 miles the proposition will be reviewed and, if possible, put into effect.

Hon. Mr. HOWE: Of course, in making that I may say we have very small appropriations for civil air.

Hon. Mr. HANSON: Do not go away from me.

Hon. Mr. HOWE: I am just saying that.

Hon. Mr. HANSON: I was very much encouraged by your statement. I do not want you to retract now at all.

Hon. Mr. HOWE: I am just saying when we can get civil appropriations, which we do not get now, to develop the field.

Hon. Mr. HANSON: There seems to be no trouble about money at all. I am told by these brain-trusters down in the east block and over in the Bank of Canada that money is the least of their troubles. They are going to provide everything in the way of finance after the war.

Hon. Mr. HOWE: It is different with the department that looks after civil aviation.

Hon. Mr. HANSON: I think they will find it different, too, but that is what they tell me. Then, with regard to the situation at Fredericton we can get an airport within 2 or 3 miles.

Hon. Mr. HOWE: That, of course, is a different operation. It is off the beam.

Hon. Mr. HANSON: It is not very far off the beam. You go right over Fredericton Junction, less than 20 miles away.

Hon. Mr. HOWE: The whole situation of serving off the beam locations has got to be studied after the war. All I can say is we will have to review that very carefully.

Hon. Mr. HANSON: You will not commit yourself there.

Hon. Mr. HOWE: You cannot very well do both Saint John and Fredericton. If we can do Saint John or Fredericton that will be about all.

Mr. HARRIS: Yes, pursue either one of them, Mr. Chairman.

Hon. Mr. HANSON: We have been by-passed all our lives. I suppose we will have to continue.

The CHAIRMAN: What does the committee wish to do with the balance of this report?

Mr. POULIOT: I would like to say now that the service between Montreal and Quebec is appreciated, and following the remarks made by Mr. Hanson I wonder if it would not be possible to continue the service to Rivière du Loup. The Chairman is familiar with the place. He spends the summer there, and

thinks it is the best place to spend the summer. There are also many other reasons, and I hope that T.C.A. will consider it seriously. Would you do so, Mr. President?

Mr. SYMINGTON: Will I do so, Mr. Pouliot? You know me.

Mr. POULIOT: I know you.

Mr. EMMERSON: There is a question bearing on this; with regard to the different airports that Trans-Canada uses, do you keep a monthly or yearly record of the days at each port where flying conditions are such that the planes are grounded, and when they are available, and do you tabulate the various ports?

Mr. SYMINGTON: Absolutely, I get a report every morning which deals with every port, every trip, whether it is routine, whether it is 5 minutes late, or whether it is 1 hour late, meteorological reports and operation reports, every day on every airport.

Mr. EMMERSON: Is there a report that can be available to the committee of the number of days out of the year that the planes at each port are not able to fly or to land or take off, or they are not usable by T.C.A.?

Mr. SYMINGTON: The meteorological department of the government in Toronto have it. It would be quite some work, I imagine, for us to collect the information. We get it, of course, each day, but the meteorological department in Toronto have the condition at every airport every day.

Mr. EMMERSON: But you keep no records of the ports you use?

Mr. SYMINGTON: Oh, yes.

Mr. EMMERSON: You keep reports for the year showing how many days you are not able to fly?

Mr. SYMINGTON: Well, for us, as I say, it might be some little trouble putting them together, but what happens on every flight every day is shown, on every flight every day, "could not go into Armstrong," or "by-passed Armstrong and landed at so and so," that is all recorded every day, of course.

Mr. EMMERSON: Where is that report obtainable to show the usability of each airport, if I may put it that way?

Mr. SYMINGTON: From a weather standpoint.

Mr. LARSON: The meteorological bureau at Toronto.

Mr. JACKMAN: Since the inception of commercial air transportation has it been necessary for any line that wanted to fly particular routes to get permission from the Board of Transport Commissioners?

Mr. SYMINGTON: I think so, yes.

Mr. JACKMAN: They decide the same as they do in the case of the railways who shall service a particular route and whether a competing line shall be allowed?

Mr. SYMINGTON: I think they have been, yes, I think so.

Hon. Mr. HANSON: You are always notified and heard?

Mr. SYMINGTON: I do not know that we have always been notified and heard.

Hon. Mr. HANSON: I think you should be.

Mr. SYMINGTON: Certainly, of course, we notify other people, and I presume we are notified. I do not know, Mr. Hanson. At any rate, these things come before the board, and I presume they look at it and say, "So and so shall be given notice."

Mr. JACKMAN: Would you think that the board might be improved if they had someone on it who knew the technical position of flying rather than simply the old railway men?

Mr. SYMINGTON: Of course, the departments handle all their safety factors, and that sort of thing. I would not like to give an opinion on that.

Hon. Mr. HANSON: Have they technical advisors on air transportation?

Mr. SYMINGTON: That I do not know. I have never been before them.

Mr. POULIOT: Are there regulations governing the operation of your system besides the Act?

Mr. SYMINGTON: Yes.

Mr. POULIOT: Were the members of the committee ever given those regulations?

Mr. SYMINGTON: Regulations are passed by the departments, or by the Board of Transport Commissioners.

Mr. POULIOT: Yes, but I wonder if the Board of Directors of the T.C.A. pass regulations that are in their jurisdiction within the Act and within the rulings of the Transport Board? They have regulations as all other corporations have.

Mr. SYMINGTON: We have got by-laws of the corporation, certainly.

Mr. POULIOT: Yes. Would they be available to the members of the committee?

Mr. SYMINGTON: Personally, I am quite sure I have no objection to making them available.

Mr. POULIOT: It is a part of the management, and it would help the members in their work to have everything that is considered as law for the T.C.A.

Mr. SYMINGTON: I am sure so far as I personally am concerned there is no reason why the by-laws of Trans-Canada should not be given to this committee.

Mr. POULIOT: Especially concerning the issuance of passes and all that; there must be by-laws?

Mr. SYMINGTON: No, sir, not even a member of parliament, Mr. Pouliot.

Mr. POULIOT: We know that very well, but I wondered if there were some passes issued to a certain number of people.

The CHAIRMAN: That was dealt with this morning.

Mr. POULIOT: Yes, pardon me. Would you have any objection to letting us have the by-laws governing the T.C.A.?

Mr. SYMINGTON: I do not think there is the slightest objection.

Hon. Mr. HANSON: Mr. Symington, looking over the financial report I do not see any item set up for the question of taxes. Does this company pay any taxes of any character?

Mr. POULIOT: The property belongs to the government, and when the airplanes are on the ground they are movable.

Hon. Mr. HANSON: Pardon me, Mr. Pouliot, I was directing my question to Mr. Symington.

Mr. SYMINGTON: I can give you a list of what we pay in the line of taxes. We pay very little, of course, because we are an emanation of the Crown and the Crown owns all the fields which we use. Unemployment Insurance Act, Canada, \$13,264; Unemployment and Compensation Act, New York, \$586.35; Unemployment Insurance Compensation Act, Washington, \$26.20; Federal Insurance Contribution Act, United States, \$382.50; Federal Unemployment Tax Act, United States, \$68.06; municipal taxes, \$10,857.52.

Hon. Mr. HANSON: Where is that, in Canada?

Mr. SYMINGTON: Winnipeg, Montreal, Seattle, New York City.

Hon. Mr. HANSON: That is all fixed assets?

Mr. SYMINGTON: That is all fixed assets; business taxes, \$2,252.

Hon. Mr. HANSON: Whereabouts?

Mr. SYMINGTON: Edmonton, Regina, Winnipeg, Windsor, London, Montreal.

Hon. Mr. HANSON: That is a municipal tax, too?

Mr. SYMINGTON: That is right, yes; excise stamps for cheques; aircraft engine certificates; aircraft radio licences; aircraft registrations; applications for licences to operate scheduled service; bond to cover entry of aircraft into New York state; corporation tax, province of Quebec; province of Saskatchewan, education tax; ground radio licences; increase over 1941 Unemployment Insurance of Canada, \$7,998.71, and reversal of accrual in 1941 of \$20,000, a total of \$34,590.

Hon. Mr. HANSON: How much?

Mr. SYMINGTON: \$34,590.

Hon. Mr. HANSON: That is your tax bill?

Mr. SYMINGTON: Yes.

Hon. Mr. HANSON: That is very small, is it not?

Mr. SYMINGTON: Yes.

Mr. JACKMAN: There was reference in the president's remarks to some treaties, one between Newfoundland and this country in regard to landing, and also reference to arrangements—I suppose they are made under treaty or in some written form—between our country and the United States. Would it be too much trouble to incorporate as a supplementary appendix to our hearing the relevant paragraphs in these treaties or arrangements which have to do with aerial transportation and the landing of foreign craft on our soil and the landing of our craft on foreign soil? There is very great interest, not only on the part of members, but on the part of the public, in international flying.

Hon. Mr. HOWE: I think that has been tabled in the House.

Mr. SYMINGTON: The Department of External Affairs would have that.

Mr. JACKMAN: As to the aerial treaty with Newfoundland it may be accessible—I will not say readily accessible—but I think interest is so general that they might well be incorporated in our own minutes. What about the understandings with the United States? You did not say they were treaties.

Hon. Mr. HOWE: There are no understandings except an exchange of notes.

Mr. JACKMAN: On page 5, paragraph 7.

An understanding has been reached between the governments of Canada and the United States to maintain the existing agreement respecting international air services until after the close of the war...

Hon. Mr. HOWE: That was tabled only a few days ago, an exchange of notes.

Mr. JACKMAN: I have no doubt that we can get them but one has to go to considerable trouble, and in view of the interest I would suggest that they be incorporated as an appendix, putting in only the relevant parts of them if they are very long and deal with other matters that we are not concerned with, but people are alarmed at the extension which some of the United States airlines have made in western Canada. In fact, it was stated by one of these flying men—of course, quite unofficially—that they were here to stay. I think we must know exactly what their position is.

Hon. Mr. HOWE: They have no permanent rights. They are allowed to fly for the military and naval service of the United States government. They are not allowed to carry revenue passengers or revenue freight.

Hon. Mr. HANSON: It is apparently understood that they end within a reasonable time after the war?

Hon. Mr. HOWE: The only permits that have been given have been given to the United States Army or Navy, not to any private firm.

Hon. Mr. HANSON: In some of these cases after years of user they begin to claim vested rights.

Hon. Mr. HOWE: We are watching that. We do not like certain situations.

Hon. Mr. HANSON: You have to give way on account of the war.

Hon. Mr. HOWE: Yes, but the only permits that have been granted are permits to the United States army or navy.

Hon. Mr. HANSON: And it is proposed to strictly limit that.

Hon. Mr. HOWE: Yes, limited to the duration of the war.

The CHAIRMAN: I would like to suggest that if there is any information you particularly wish the only way you can definitely secure it is by a motion through the committee.

Mr. JACKMAN: I will move that the relevant parts of all treaties and understandings with the British Empire or foreign countries be incorporated as an appendix to this report.

Hon. Mr. HANSON: I will second that.

Mr. SYMINGTON: We have no agreement. You will have to ask the department for that.

Hon. Mr. HANSON: Would the department undertake to provide that? It seems reasonable.

Hon. Mr. HOWE: That is a matter for the Department of External Affairs. I cannot think that there would be any objection to it.

Hon. Mr. HANSON: Will you suggest it?

Hon. Mr. HOWE: Yes.

The CHAIRMAN: There is a motion before you. I did not quite follow the motion, but I will ask Mr. Jackman to state his motion again and then we will vote on it.

Mr. JACKMAN: I move that the relevant parts of all treaties between Canada and the British Empire or foreign countries having to do with air transportation be incorporated as part of this report.

Hon. Mr. MICHAUD: In the minutes of this meeting.

The CHAIRMAN: The motion has been moved by Mr. Jackman, and seconded by the Hon. Mr. Hanson. All those in favour?

Motion agreed to.

The CHAIRMAN: What do you wish to do with the balance of this report? Are you finished with it?

Hon. Mr. HANSON: You have got the whole balance sheet.

Mr. SYMINGTON: The other is just added for information.

Mr. POULIOT: Before we do that I would like to put a motion that all by-laws of T.C.A. be published as an appendix to the report of the committee.

The CHAIRMAN: Who is your seconder, Mr. Pouliot?

Mr. HARRIS: I will second that.

The CHAIRMAN: It has been moved by Mr. Pouliot, seconded by Mr. Harris, that the president of Trans-Canada Airlines be asked to append a copy of the by-laws of the Trans-Canada Airways organization to the report.

Hon. Mr. HANSON: There are by-laws and by-laws. Does he mean the general by-laws?

Mr. SYMINGTON: I cannot remember what they are, Mr. Hanson, but it will be very general.

The CHAIRMAN: All those in favour of this motion?

Motion agreed to.

The CHAIRMAN: Will we proceed with the reading of the balance sheet or just interrogate the witness from time to time?

Mr. HARRIS: Just before you call it 1 o'clock, could we have a breakdown of this income account, particularly operating expenses, operation and maintenance? They are all in one item. That does not give us much information.

Hon. Mr. HANSON: It seems to me at this point that ought to be printed as a breakdown for us so that we can study them before we come to our next meeting. Would it be possible to have those breakdowns put on paper and submitted to the committee, say to-morrow morning, or whenever we meet?

Mr. SYMINGTON: That, of course, all depends on the detail that you want.

Hon. Mr. HANSON: It is a big sum of money. Of course the real meat of this income account is in the breakdown.

Mr. JACKMAN: Perhaps United Airlines would be some guide as to what we want.

Mr. SYMINGTON: I have it and there is nothing like as much in it as there is in ours now, but I have no objection to adding, if it meets the committee's wish, a breakdown of operating expenses, but there are breakdowns and breakdowns, some going to the last detail. Naturally there may be things that you do not want.

Mr. HARRIS: The ordinary breakdown one finds in an industrial balance sheet; there is certainly nothing comprehensive about this particular account.

Hon. Mr. HANSON: I think the accountants would know exactly what was meant by that.

Mr. HARRIS: Operations separated from maintenance, plant repairs, and so on.

The CHAIRMAN: Gentlemen, it is 1 o'clock. I assume we will meet to-morrow at 11.

Mr. HARRIS: Can we have this breakdown before we meet?

Mr. LOCKHART: Can it be arranged so that this committee will not conflict with the Committee on Social Security? They are both meeting at the same hour.

The CHAIRMAN: Social Security is only meeting one day a week at present and they are having a meeting to-day so there will be no conflict.

Mr. HANSON (*Skeena*): Are you going to ask concurrence in the presentation of yesterday's report to sit?

The CHAIRMAN: Not to-day because we were headed off yesterday. There is no use going back to-day. We will ask concurrence to-morrow. The meeting is adjourned until to-morrow at 11 o'clock.

The committee adjourned at 1 o'clock p.m. to meet again on Wednesday, March 31, 1943, at 11 o'clock a.m.

APPENDIX "A"

Pertinent Extracts from Exchanges of Notes, Etc., Regarding International Aviation Arrangements Filed by Department of Transport

UNITED STATES

*ARRANGEMENT BETWEEN CANADA AND THE
UNITED STATES OF AMERICA
RELATING TO AIR NAVIGATION*

(Effective August 1, 1938)

ARTICLE III

(a) Each of the Parties to the present arrangement shall grant, in time of peace, liberty of passage above its territory to aircraft of the other Party duly registered in the territory of such other Party, provided that the conditions set forth in the present arrangement are observed.

(b) It is, however, agreed that the establishment, and operation by an enterprise of one of the Parties of a regular air route or service to, over or away from the territory of the other Party, with or without a stop, shall be subject to the consent of such other Party.

(c) Any air transport enterprise of either Party applying for permission to operate such a route or service shall be required to submit its application through diplomatic channels.

ARTICLE IV

(a) The aircraft of each of the Parties, passengers and goods carried thereon and personnel employed on the aircraft shall, while within or over the territory of the other Party, be subject to the laws in force in that territory, including all regulations relating to air traffic applicable to foreign aircraft, the transport of passengers and goods, and public safety and order, as well as any regulations concerning entry and clearance, immigration, passports, quarantine and customs.

(b) Subject to the provisions of the preceding paragraph and to the laws and regulations therein specified the carriage of passengers and the import or export of any goods which may lawfully be imported or exported will be permitted in aircraft of either Party into or out of territory of the other Party; and (subject to the same proviso) such aircraft passengers and goods carried thereon and personnel employed on the aircraft shall enjoy in the territory mentioned the same privileges as aircraft of such other Party and shall not, merely by reason of the nationality of the aircraft, be subjected to any other or higher duties or charges than those which are or may be imposed on aircraft of the territory referred to or the aircraft of the most favoured country, engaged in international commerce, or on their passengers, goods and personnel.

ARTICLE VI

The fuel and lubricating oils retained on board aircraft of either Party arriving in or leaving territory of the other Party shall be exempt from customs duty, even though the fuel and lubricating oils so retained are used by the aircraft on a flight in that territory.

ARTICLE VII

Aerodromes open to public air traffic in territory of either Party shall, so far as they are under its control, be open to aircraft of the other Party, which (subject to the same proviso) will also be entitled to the assistance of the meteorological, radio, lighting and day and night signalling services at such aerodromes. Subject again to the same proviso, the scale of charges at such aerodromes for landing and accommodation shall be the same for aircraft of each of the Parties.

ARTICLE VIII

(a) The term "air commerce" as used in the succeeding paragraph of this article means:—Navigation of aircraft in territory of either Party in the conduct or furtherance of a business; and the commercial transport of passengers or goods between any two points in the territory of either Party.

(b) Air commerce may, in the territory of either Party, be reserved exclusively to its own aircraft, with the reservation of the stipulations contained in Article III concerning regular air routes or services for which special consent is necessary, the aircraft of either Party may, nevertheless, proceed from any aerodrome open to public air traffic in territory of the other Party to any other such aerodrome for the purpose of taking on board or landing the whole or part of their goods or passengers, provided that such goods are covered by through bills of lading and such passengers hold through tickets, issued respectively for a journey the starting place and end of which are not both points between which air commerce has been reserved; and such aircraft while so proceeding from one aerodrome to another shall, notwithstanding that both such aerodromes are points between which air commerce has been reserved, be entitled to the treatment set out in this arrangement.

ARTICLE X

(a) All aircraft of either Party flying in or over the territory of the other Party must carry clear and visible nationality and registration marks whereby they may be recognized during flight.

(b) Such aircraft must also be provided with certificates of registration and airworthiness and with all the other documents prescribed for air traffic in the territory in which they are registered.

(c) The persons employed on such aircraft who perform duties for which a certificate of competency or licence is required in the territory in which the aircraft is registered, must carry such documents as are prescribed by the regulations in force in that territory.

(d) The other persons employed on board must carry documents showing their duties in the aircraft, their profession, identity and nationality.

(e) Each of the Parties reserves the right to require lists of the passengers and persons employed on board as well as a manifest of the goods carried on the aircraft.

(f) The certificate of airworthiness, certificates of competency or licences issued or rendered valid by the competent authorities of either country in respect of its aircraft or of the crew of such aircraft shall be recognized as having the same validity in the territory of the other country as the corresponding documents issued or rendered valid by the competent authorities of such other country; provided that with respect to certificates of competency or licences issued or rendered valid by either country in favour of nationals of the other country, such recognition may be refused by the latter country.

ARTICLE XIV

(a) Aircraft of either Party entering or leaving territory of the other Party shall make a first landing at and depart from only an aerodrome open to public air traffic and designated as an airport of entry where facilities exist for the enforcement of customs, passport, quarantine and immigration regulations and the entry and clearance of aircraft; and no intermediate landing other than a forced landing may be effected before arriving at such an airport on entry into the territory concerned or after leaving such an airport on departure from that territory. In special cases, and subject to the same provisions as to intermediate landing, the competent authorities may allow a first landing at or a departure from another aerodrome where the above-mentioned facilities have been arranged.

(b) Each of the Parties reserves the right to require that aircraft entering its territory shall make its first landing at the airport of entry nearest to the point where the aircraft has crossed the frontier, with the understanding, however, that in this event, permission may be granted for the aircraft to make its first landing at an airport of entry other than the one nearest to the frontier.

(d) Lists of aerodromes in territory of either Party which are designated as airports of entry for the purposes of this article will be communicated as soon as possible to the other Party. Any subsequent alteration in these lists will also be communicated to such other Party.

ARTICLE XVII

(a) The present arrangement or any part thereof may be terminated by either Government at any time upon sixty days' notice given in writing to the other Government.

(b) On the date that the present arrangement becomes effective, the reciprocal arrangement between the United States of America and Canada for the admission of civil aircraft, the issuance by each country of pilots' licences to nationals of the other country and the reciprocal acceptance of certificates of airworthiness for aircraft imported as merchandise, entered into by an exchange of notes dated August 29, 1929 and October 22, 1929, will be supplanted with the exception of the provisions of the latter arrangement which set forth the conditions governing the issuance of pilots' licences and the acceptance of certificates of airworthiness for aircraft imported as merchandise.

*Arrangement Between Canada and the United States of America
Relating to Air Transport Services.*

(Effective August 18, 1939)

ARTICLE I

Having in mind the desirability of mutually stimulating and promoting the sound economic development of air transportation between the United States and Canada, the Parties to this Arrangement agree that the establishment and development of air transport services between their respective territories by air carrier enterprises holding proper authorizations from their respective Governments, shall be governed by the following provisions.

ARTICLE II

The present Arrangement shall apply to continental United States of America, including Alaska, and to Canada, including their territorial waters.

The privileges accorded by this Arrangement shall be available only to air carrier enterprises bona fide owned and controlled by nationals of the respective parties.

ARTICLE III

Each of the Parties agrees, subject to compliance with its laws and regulations, to grant to air carrier enterprises of the other Party permits for non-stop services through the air space over its territory between two points within the territory of the other Party; provided, however, that inland non-stop services between the United States and Alaska shall be the subject of a separate understanding.

Each Party further agrees, subject to compliance with its laws and regulations and on a basis of reciprocity, to grant operating rights to the air carrier enterprises of the other Party for the operation of international services between a place in the territory of one Party and a place in the territory of the other Party.

The details of the application of the principle of reciprocity contained herein shall be the subject of amicable adjustment between the competent aeronautical authorities of the Parties to this Arrangement.

ARTICLE IV

Any air carrier enterprise of either Party applying for permission to operate in territory of the other Party shall be required to transmit its application through diplomatic channels in accordance with Article III (c) of the Air Navigation Arrangement effected by an exchange of notes between the two Parties, signed on July 28, 1938.

The air carrier enterprises of each Party will be required to qualify before the competent aeronautical authorities of the other Party under the latter's applicable laws and regulations before being permitted to engage in the operations contemplated by this Arrangement, and upon so qualifying will be issued permits or licences by such authorities accordingly.

ARTICLE V

The terms of the permits referred to in Article IV, the airports to be used by the respective services, the routes or airways to be flown within the respective territories of the Parties between the designated airports, and other appropriate details of the conduct of the air transport services contemplated by this Arrangement, shall be determined by the competent aeronautical authorities of the Parties. Any permit issued by the competent aeronautical authorities for the air transport services contemplated hereunder shall be valid only so long as the holder thereof shall be authorized by its own Government to engage in the service envisaged by such permit. The holding of such permit shall be subject to compliance by the holder with all applicable laws of the issuing Government and with all valid rules, regulations and orders issued thereunder. Such permit may not be revoked for any cause other than non-compliance with such laws, rules, regulations or orders or for such reasons as the public interest may require.

ARTICLE VI

Each of the Parties hereto agrees not to impose, and to use its best efforts to prevent the imposition of, any restrictions or limitations as to airports, airways or connections with other transportation services and facilities in general to be utilized within its territory which might be competitively or otherwise disadvantageous to the air carrier enterprises of the other Party.

ARTICLE VII

The aircraft operated by United States air carrier enterprises shall conform at all times with the airworthiness requirements prescribed by the competent

aeronautical authorities of the United States for aircraft employed in air transportation of the character contemplated by this Arrangement.

The aircraft operated by Canadian air carrier enterprises shall conform at all times with the airworthiness requirements prescribed by the competent aeronautical authorities of Canada for aircraft employed in air transportation of the character contemplated by this Arrangement.

The competent aeronautical authorities of the Parties hereto may communicate with a view to bringing about uniformity of safety standards for the operations contemplated by this Arrangement and compliance therewith, and whenever the need therefor appears the Parties may enter into an agreement prescribing such uniform safety standards.

ARTICLE VIII

The matter of the transportation of mail shall be subject to agreement between the competent authorities of both Parties.

ARTICLE IX

The operations contemplated hereunder shall be conducted subject to the applicable terms of the Air Navigation Arrangement effected by an exchange of notes between the two Parties signed on July 28, 1938.

ARTICLE X

This Arrangement shall remain in force for a period of two years and thereafter until terminated on six months' notice given by either Government to the other Government.

Arrangements for Giving Effect to Article III of the Air Transport Arrangement Between the Two Governments, Entered Into on August 18, 1939

(Effective December 3, 1940.)

EXISTING SERVICES:—

International air transport services actually in operation between the two countries, for which certificates and permits have been issued by the respective Governments, to be confirmed. Services with respect to which applications for formal certificates or permits are now pending other than those services specifically listed below, shall be subject to disposition at the sole discretion of the appropriate agency of the Government before which such applications are pending.

WITH RESPECT TO NEW SERVICES:—

Each Government to take the appropriate steps to permit the operation by air carrier enterprises of the other, holding proper authorization from their own Governments, respectively, during the period ending December 31st, 1942, in accordance with the following specification of the routes and of the nationalities of the air carriers by which service over each route will be operated between:

Bangor, Maine—Moncton, New Brunswick	United States
New York, New York—Toronto, Ontario	Canada
Buffalo, New York—Toronto, Ontario	United States
Windsor, Ontario—Any point or points in the United States	United States
Detroit, Michigan—Any point or points in Canada	Canada
Great Falls, Montana—Lethbridge, Alberta	United States

The Canadian Government to co-operate in, or to permit or undertake the establishment on behalf of a United States air carrier, subject to Canadian law, of the necessary aids to air navigation, along the coast of British Columbia.

Further decisions with respect to routes and services to Alaska to be reserved for future consideration.

NEWFOUNDLAND

Pertinent Extracts from Exchange of Notes Between Canada and the Newfoundland Commission of Government Authorizing Trans-Canada Air Lines to Fly Into Newfoundland, Effective April 1, 1942

Paragraph 1. Permit shall be from April 1st, 1942, renewable from year to year thereafter.

Paragraph 2. Six months' notice of cancellation may be given by either Newfoundland Government or Trans-Canada Air Lines.

Paragraph 3. Granting of this permit will not affect inter Government agreement covering operation of Trans-Atlantic Air Service.

Paragraph 4. Newfoundland Government undertake not to grant a permit for commercial flying between Newfoundland and North American continent which may compete with traffic of Trans-Canada Air Lines under this permit without prior consultation with Canada.

Paragraph 5. Trans-Canada Air Lines shall provide a service comparable to that given on Trans-Canada Air Line Service in Canada.

Paragraph 6. Initial frequency shall be one round trip daily six days a week, weather permitting, but this frequency of schedule may be increased without further permit.

Paragraph 7. Rates and regulations for carriage of passengers and express shall be comparable to those prevailing from time to time on Trans-Canada Air Lines in Canada.

Paragraph 8. Conditions governing carriage of mail by air on service shall be agreed on by postal authorities of Canada and Newfoundland from time to time.

Paragraph 9. Trans-Canada Air Lines operations shall be conducted in accordance with air regulations for Canada and air customs and Immigration regulations prevailing from time to time.

Paragraph 10. Government of Newfoundland shall exempt from custom duty and tax, all aircraft, engines, parts and accessories, radios, motor tank trucks, materials for original construction and equipment for hangars and buildings at aerodromes, and all other equipment necessary for establishment and operation of services which may be imported by Trans-Canada Air Lines or by the Government of Canada. Provided that this exemption from duty shall not apply to vehicles or equipment of any class used on public high roads other than motor tank trucks nor to other articles or materials not specified above e.g. office supplies and equipment, consumable stores, wearing apparel of all kinds, foodstuffs imported by or from Company or to be used in any hostel or by its employees or passengers.

Paragraph 11. Government of Newfoundland shall permit entry, free of duty and tax, of special aviation fuel and petroleum products necessary for operation of aircraft on services.

Ends.

Pertinent Extracts from 1935 Trans-Atlantic Agreement

"Having met in conference in Ottawa to consider questions connected with the institution of Transatlantic Air Services for the carrying of mails and eventually passengers and freight, we, the representatives of the United King-

dom, Canada, the Irish Free State and Newfoundland, record the following conclusions unanimously reached by the conference which, subject to the final consideration and approval of our respective governments, it is agreed should form the basis of any arrangement entered into.

PART I

Development Program

1. The government will co-operate in a program of development of a transatlantic air service. All practicable preference will be given to the direct route, including the Irish Free State and Montreal, but this understanding is not to be taken as preventing the use of alternative routes for purposes of development.

Two stages of development are contemplated:

(a) An initial stage, during which survey and experimental flights will be made and other investigations carried out, followed by services which may be seasonal and irregular, this stage being hereinafter referred to as "the experimental stage"; and

(b) the establishment of a regular service, this stage being hereinafter referred to as "the regular flying stage". This stage will commence as soon as a minimum of three months' continuous flying on a schedule of two services a week is practicable.

18. Each government will arrange for the provision, within its own territory, of the airports and the radio and meteorological services and other aids to air navigation, which may be necessary for the transatlantic air service during the experimental stage and thereafter. It is understood, however, that the Government of Canada will provide for the radio and meteorological services within Newfoundland, upon a basis to be agreed between the Governments of Canada and Newfoundland.

NOTE: Due to the intervention of the war the experimental stage, mentioned in paragraph one, was never completed. Canada's obligations for Radio and Meteorological development in Newfoundland, as given in paragraph 18, have been carried out.

Pertinent Extracts from Exchange of Notes Tabled in the House by the Prime Minister on February 22, 1943, Renewing the 1940 Supplementary Air Transport Agreement.

"The 1940 agreement... supplements the 1939 agreement. The 1939 agreement is now terminable on six months' notice. The terms of the new Exchange of Notes, the 1940 Agreement is also terminable on six months' notice and expires without notice at the end of the war.

APPENDIX " B "

BY-LAWS OF TRANS-CANADA AIR LINES

BY-LAW NUMBER 1

A By-Law relating generally to the transaction of the business and affairs of Trans-Canada Air Lines (herein called "the Corporation").

BE IT ENACTED by the Directors of the Corporation as a by-law as follows:—

CHARTER

1. The powers and authorities of the Corporation shall be as set out in Chapter 43 of the Statutes of Canada, 1937, as amended from time to time, and as set out in other Statutes or authorities from time to time in force and applicable to the Corporation.

HEAD OFFICE

2. The head office of the Corporation shall be at the City of Montreal.

SEAL

3. The seal, an impression whereof is stamped on the margin hereof, consisting of two concentric circles between which appears the name of the Corporation and in the centre of which appear the word and figures "Incorporated 1937", shall until otherwise ordered by the Directors be the seal of the Corporation.

SHAREHOLDERS' MEETINGS

4. The annual meeting of the shareholders shall be held at the head office of the Corporation on the third Tuesday in the month of March in each year, for consideration of the report of the directors and the statements of account for the preceding fiscal year, the election of directors, and the transaction of such other business as may properly come before the meeting.

5. Special meetings of the shareholders may be called at any time by the directors of their own motion and shall be called by them on signed requisition of shareholders holding not less than one-tenth of the issued shares of the Corporation stating the general nature of the business to be transacted at the meeting. Special meetings shall be held at such times and places as the directors may determine.

6. At least seven days' notice of each meeting of shareholders, whether annual or special, shall be given to each shareholder of record, by delivering a written or printed notice to him personally, or by mailing such notice in a postage-prepaid envelope addressed to him at his address as it appears on the share register of the Corporation. No publication of any notice of a meeting of shareholders shall be required. Every notice of a special meeting shall, besides stating the time and place of the meeting, state briefly the objects thereof.

7. With the consent in writing of all the shareholders a meeting may be convened by shorter notice, or without any notice, and in any manner they see fit; and any meeting may be held at any time without notice if all of the shareholders are represented at any such meeting personally or by proxy and do not then object to the meeting being held.

8. At all meetings of shareholders the presence, in person or by proxy duly authorized, of the holders of a majority of the issued shares shall constitute a quorum for the transaction of business. In the absence of a quorum the holders of a majority of the shares represented in person or by proxy may adjourn any meeting from time to time.

BOARD OF DIRECTORS

9. The four directors electable by the shareholders (and constituting, with the three directors appointed by the Governor in Council, the Board of Directors of the Corporation) shall be elected at the annual meeting of the shareholders, or at a special meeting held for that purpose.

10. The continuing directors may act notwithstanding any casual vacancy in the Board of Directors.

11. The directors may meet at any time or place for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. The quorum necessary for the transaction of business shall be a majority of the Board. Questions arising at any meeting shall be decided by a majority of the votes of the directors present including the Chairman, and in case of an equality of votes the Chairman shall, in addition to his original vote, have a casting vote.

12. The President shall preside at all meetings of the directors at which he is present. In his absence the directors present shall choose one of their number to act as Chairman of the meeting.

13. The Board of Directors or a majority thereof may without meeting decide or act by way of a written minute or concurrence signed by the directors or a majority of them. A note of such written minute or concurrence shall, at the first meeting thereafter of the Board of Directors, be entered in the minute book of the Board. Provided that a majority decision or action by way of a written minute or concurrence shall not be valid unless or until all directors have had notice of the subject matter thereof.

EXECUTIVE COMMITTEE

14. The directors may appoint an Executive Committee of three of their number. Such committee may exercise all the powers of the directors, but every act or decision of the committee shall be reported by it to the board at its next ensuing meeting.

MINUTES AND BY-LAWS

15. There shall be duly entered in one or more books provided for the purpose minutes of all meetings of the shareholders, directors and Executive Committee (if any); and any such minutes or copies thereof or extracts therefrom and any of the Corporation's By-laws or copies thereof or extracts therefrom shall, if certified as such by the Secretary or an Assistant Secretary under the seal of the Corporation, be received in evidence without further proof.

OFFICERS

16. The officers of the Corporation shall consist of a President, who shall be elected by the directors from among their number, and a Vice-President in charge of Operations, a Secretary, a Treasurer, a Comptroller, a Chief Counsel, and such other officers as may from time to time be appointed by the directors or by the President.

PRESIDENT

17. The President shall be the chief executive officer of the Corporation and, subject to the directors, shall exercise general control over all its affairs and

employees, and cause the business of the Corporation to be duly and efficiently carried on in conformity with the relevant Statutes and By-Laws.

VICE-PRESIDENT IN CHARGE OF OPERATIONS

18. The Vice-President in charge of Operations shall, subject to the By-laws and to the President, have charge of all operations of the Corporation. He shall report to the President.

SECRETARY

19. The Secretary shall attend all meetings of the shareholders and directors and shall keep a complete record of their proceedings, and shall notify the shareholders and directors of the time and place of all meetings. He shall be the custodian of the stock certificate book, share register and seal of the Corporation, and of all deeds, contracts, leases and other documents of the Corporation. In the absence of the Secretary an Assistant Secretary shall perform his duties.

TREASURER

20. The Treasurer shall have the care and custody of all moneys, funds and securities of the Corporation, and shall deposit or cause to be deposited all funds of the Corporation in and with such depositaries as the directors shall, from time to time, direct. He shall perform such other duties as are incident to his office or as may be required of him from time to time by the directors. If required to do so he shall give a bond in such sum and with such sureties as shall be satisfactory to the directors. In the absence of the Treasurer an Assistant Treasurer shall perform his duties.

COMPTROLLER

21. The Comptroller shall keep the accounts of the Corporation and render detailed reports thereof from time to time as required by the directors or the President and shall perform all such other duties as are incident to his office.

CHIEF COUNSEL

22. The Chief Counsel shall be the chief consulting officer of the Corporation in all legal matters and, subject to the directors and the President, shall have control of all matters of legal import concerning the Corporation.

23. Other officers of the Corporation shall perform the duties usually appertaining to their respective offices unless their duties shall have been specifically defined at the time of appointment.

PERSONNEL AND REMUNERATION

24. Officers, employees and agents of the Corporation, with the exception of those elected or appointed by the directors, shall be appointed by the President. The President may delegate this authority to another officer or officers of the Corporation in whole or in part.

25. The President shall submit for approval at the first meeting of the directors each year, a list of salary ratings and shall fix the compensation of officers, employees and agents of the Corporation for the ensuing year or adjust the compensation of officers, employees and agents of the Corporation during the ensuing year, within such approved ratings. The President may delegate this authority to another officer or officers of the Corporation in whole or in part.

26. Except when expressly authorized by the directors, no officer, employee or agent shall be engaged on terms requiring longer notice of termination of employment than one calendar month.

27. The President may suspend or dismiss any officer, employee or agent of the Corporation except those appointed by the directors. The President may delegate this authority to another officer or officers of the Corporation in whole or in part.

BANKING

28. Accounts in the name of the Corporation and trust accounts not in the name of the Corporation may be opened and operated in such bank or banks and in such manner as the directors may from time to time by resolution approve.

EXECUTION OF DOCUMENTS

29. Transactions covering expenditures, guarantees, direct or contingent obligations, leases or sales, involving in any one case over \$25,000 or for a period running for more than five years shall require approval by the directors. When such approval has been given the relative documents may be executed by being sealed with the Corporation's seal and signed by the President or the Vice-President of Operations, together with the Secretary or an Assistant Secretary.

30. Documents relating to transactions required for the ordinary carrying on of the Company's business, and not being transactions referred to in Section 29 may be executed with or without the Corporation's seal and signed by the President, the Vice-President of Operations or such other officer or officers as may from time to time be appointed for the purpose by the directors, and with or without the signature of the Secretary or an Assistant Secretary; provided that an original copy of all documents so executed shall forthwith be deposited in the Secretary's Department.

31. Powers of Attorney for the purpose of enabling the ordinary business of the Corporation to be carried on may from time to time be executed under the Corporation's seal, signed by the President or the Vice-President of Operations, together with the Secretary or an Assistant Secretary.

32. The President or the Vice-President of Operations, together with the Secretary or an Assistant Secretary, are authorized to appear before a notary in the Province of Quebec and sign, execute and deliver or accept in the name and on behalf of the Corporation and with or without the affixing of the Corporation's seal, documents of any nature which require execution by the Corporation; also to appoint under the seal of the Corporation from time to time officers of the Corporation or other persons as the attorney of the Corporation with power to sign, execute and deliver or accept in the name and on behalf of the Corporation any document or documents for a purpose set out or referred to in the power of attorney appointing such attorney. Any such power of attorney may contain such limitations as the said officers may from time to time think fit.

33. All documents referred to in Sections 29 to 32 inclusive shall prior to execution be approved by the Chief Counsel or by a legal officer designated by him.

34. Reports, returns or other formal documents relating to the affairs of the Corporation required by governmental or other authorized agencies may be executed by the office or officers required by the respective forms to execute such documents; and copies of such documents need not be deposited in the Secretary's Department.

35. Share certificates shall be issued under the seal of the Corporation signed by the President and countersigned by the Secretary or an Assistant Secretary.

CAPITAL EXPENDITURES

36. The President shall submit to the directors each year a budget of the estimated capital requirements for the ensuing year, which may make provision for unforeseen or contingent expenditures.

37. No project involving capital expenditures shall be commenced nor any commitment made prior to the approval of such budget, unless authorized by the directors.

38. No project, involving a net change in investment of \$5,000 or more out of the budgeted contingency fund shall be undertaken without prior approval of the President.

39. The President shall submit to the directors periodically a statement of commitments made and expenditures incurred on capital account.

PURCHASES OF MATERIALS AND SUPPLIES

40. Purchase of equipment, materials and supplies for a sum greater than \$10,000 shall be by tender unless in the opinion of the directors the interests of the Corporation will be best served by dispensing with tenders.

41. Tenders for purchases estimated to cost less than \$2,000 shall be opened and contracts awarded by an officer or employee to be designated from time to time by the President.

42. Tenders for purchases estimated to cost \$2,000 or more shall be opened in the presence of two officers or an officer and employee to be designated from time to time by the President. Contracts for purchases amounting to less than \$25,000, may be awarded by an officer designated from time to time by the President, provided that if the lowest tender is not accepted the approval of the President shall be obtained before the contract is awarded.

43. Tenders or proposals for purchases of \$25,000 or more under a single purchase, stocking order, or group of purchases for the same thing at the same time, shall be submitted to the President for approval of the directors before contract is awarded.

44. Envelopes in which tenders are received shall have clearly marked thereon the date and exact time of receipt, and when opened shall be endorsed as to date and time of opening and each page of each tender shall be initialled by the officers and/or employee by whom opened.

CONSTRUCTION CONTRACTS

45. For work estimated to cost not more than \$5,000 contracts may without calling for tenders be awarded by an officer or officers to be designated from time to time by the President, on the standard or short form of contract approved by the Corporation's counsel.

46. For work to be performed by other than Corporation forces and estimated to cost over \$5,000 competitive sealed tenders shall be called. If the estimated cost is less than \$25,000 a contract shall be awarded on the approval of the President. For work estimated to cost \$25,000 or more the tenders shall be tabulated and referred to the President for submission to the directors. Contracts when awarded under this section shall be in the general form of contract approved by the Corporation's counsel.

47. Tenders for work referred to in Section 46 shall be opened by officers designated from time to time by the President. Envelopes in which tenders are received shall have clearly marked thereon the date and exact time of receipt and when opened shall be endorsed as to date and time of opening and each page of the tenders shall be initialled by the officers by whom opened.

48. It shall be a condition of all tenders that there be deposited with each tender an accepted cheque on a chartered bank of Canada, payable to the Corporation, for five per cent of the total amount of the tender. Cheques shall be returned to unsuccessful tenderers immediately after a decision has been made as to the award of the contract.

49. It shall be a condition of the acceptance of a tender, whether so expressed in the acceptance or not, that the tenderer shall not later than two weeks from notification of acceptance of tender furnish the Corporation with a

surety bond of a Guarantee or Indemnity Company approved by the Corporation and having an office in Canada (preferably in the Province in which the contract will be performed) for the full amount of the specified contract price, and expressed in terms approved by the Corporation, as security for the due fulfilment of all the provisions of the contract. Such bond shall be retained until the passing of the final estimate. If such bond shall not be in the possession of the Corporation within two weeks as aforesaid the Corporation shall have the right to retain the amount of the deposit as liquidated damages, to reject the tender and to award the contract to another tenderer.

50. Upon the opening of tenders all deposit cheques shall be immediately taken charge of by the Treasurer, who will retain them in safe keeping until advised as to their return or retention.

51. Except for special reasons, tenders shall be invited by public advertisement but if in the opinion of the President it is considered advisable to call for tenders by letter from selected contractors, public advertisement may be dispensed with.

52. Where the work concerned is such that it can be carried out satisfactorily by local contractors, then the advertisement may be made in local newspapers only; but if the work is of considerable magnitude or involves a special type of work, public advertisement for tenders shall also be made in newspapers published in adjacent cities where the headquarters of large contractors or manufacturing concerns are located.

Passed and adopted by the directors as a By-Law of Trans-Canada Air Lines January 6th, 1939.

Sanctioned and confirmed by the Shareholders January 6th, 1939.

S. J. HUNGERFORD,
President.

W. H. HOBBS,
Secretary.

(Seal)

TRANS-CANADA AIR LINES

BY-LAW No. 2

Entitled "A By-Law relating to the preparation and issue of tariffs of tolls."

Be it enacted by the Directors of Trans-Canada Air Lines (herein called the Corporation) as a By-Law of the Corporation, as follows:—

Pursuant to Section 18 of The Transport Act, 1938, the officers below mentioned are respectively authorized and empowered from time to time to prepare and issue tariffs of the tolls to be charged in respect of the operation of the Corporation's aircraft:—

Vice-President in charge of Operations.

Assistant to the Vice-President in charge of Operations.

General Traffic Manager.

This By-Law shall remain in effect until cancelled or amended by the Directors.

Passed by the Directors this 6th day of January, 1939.

Witness the seal of the Corporation.

S. J. HUNGERFORD,
President.

W. H. HOBBS,
Secretary.

(Seal)

Approved by Board of Transport Commissioners, Order No. 57006, dated January 26th, 1939.

TRANS-CANADA AIR LINES

BY-LAW No. 3

Entitled "A By-Law relating to the Preparation and Issue of Tariffs of Express Tolls".

Be it enacted by the Directors of Trans-Canada Air Lines (herein called the Corporation) as a By-Law of the Corporation, as follows:—

Pursuant to Section 18 of The Transport Act, 1938, the General Manager, Express Services, be and is hereby authorized and empowered from time to time to prepare and issue tariffs of the tolls to be charged in respect of the Express Services of the Corporation's aircraft.

This By-Law shall remain in effect until cancelled or amended by the Directors.

Passed by the Directors this 8th day of March, 1939.

Witness the seal of the Corporation.

S. J. HUNGERFORD,
President

(Seal)

W. H. HOBBS,
Secretary.

TRANS-CANADA AIR LINES

BY-LAW No. 4

The Vice-President in charge of operations, or the Assistant to the Vice-President in charge of operations, or the General Traffic Manager of the Corporation are respectively authorized by this By-Law to prepare and issue passenger tariffs of the tolls to be charged in respect of the aircraft owned or operated by the Corporation.

The General Manager, Express Services, is authorized by this By-Law to prepare and issue tariffs of tolls to be charged for the carriage of goods in respect of the aircraft owned or operated by the Corporation.

Such officers are authorized to submit the same to, and file the same with, the Board of Transport Commissioners for Canada, as required by The Transport Act, 1938.

By-Law No. 2, dated January 6, 1939, and By-Law No. 3, dated March 8, 1939, are hereby repealed.

The above By-Law was passed by the Directors this thirteenth day of April, 1939.

Witness the seal of the Corporation.

S. J. HUNGERFORD,
President.

(Seal)

W. H. HOBBS,
Secretary.

Approved by Board of Transport Commissioners, Order No. 57359, dated April 28, 1939.

TRANS-CANADA AIR LINES

BY-LAW No. 5

Be it enacted by the Directors of Trans-Canada Air Lines as follows:—

By-Law No. 4 (relating to the preparation and issuance of passenger tariffs) as passed by the Directors on the thirteenth day of April, 1939, is hereby amended by deletion therefrom of the words "Assistant to the Vice-President in charge of operations" and the substitution therefor of the words "Assistant Vice-President in charge of operations".

Passed by the Directors this sixteenth day of January, 1942.

Witness the seal of the Corporation.

H. J. SYMINGTON,
President.

(Seal)

W. H. HOBBS,
Secretary.

Approved by Order No. 61929 of the Board of Transport Commissioners for Canada, dated February 25, 1942.

SESSION 1943
HOUSE OF COMMONS

STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

WEDNESDAY, MARCH 31, 1943



WITNESSES:

- Mr. H. J. Symington, K.C., President, Trans-Canada Air Lines,
- Mr. R. C. Vaughan, Chairman and President, Canadian National Railways.
- Mr. N. B. Walton, Executive Vice-President, Operation and Construction Departments, Canadian National Railways.
- Mr. T. H. Cooper, Comptroller, Canadian National Railways and Trans-Canada Air Lines.
- Mr. O. A. Matthews, of George A. Touche & Company, Auditors.

OTTAWA
EDMOND CLOUTIER
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1943

WEDNESDAY, March 31, 1943.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government, met at 11 o'clock a.m., the Chairman, Mr. Howden, presiding.

Members present: Messrs. Donnelly, Dubuc, Durocher, Emmerson, Ferland, Hanson (*York-Sunbury*), Hanson (*Skeena*), Harris (*Danforth*), Howden, Jackman, Lockhart, McCulloch, Nicholson, Parent, Pouliot, Ross (*Middlesex East*), Sanderson, Sissons.

In attendance: Commander C. P. Edwards, Deputy Minister of Transport, Mr. R. C. Vaughan, Chairman and President, Canadian National Railways, Mr. H. J. Symington, K.C., President, Trans-Canada Air Lines, and other officials of the Canadian National Railways and Trans-Canada Air Lines; Mr. O. A. Matthews of George A. Touche & Company, Auditors.

The Committee resumed consideration of the Annual Report of Trans-Canada Air Lines.

Mr. Symington was recalled and examined on the Balance Sheet and Income Account. He was assisted by Mr. O. T. Larson, Vice-President, Mr. W. F. English, Assistant Vice-President, and Mr. T. H. Cooper, Comptroller.

Witness filed a brief statement respecting the provision of funds for capital purposes in 1942. He also supplied members with a breakdown of operating expenses as requested at the previous sitting.

In the course of Mr. Symington's examination, Mr. Matthews and Mr. Cooper were also briefly examined.

Consideration of the Report of Trans-Canada Air Lines being completed, the said Report was adopted on motion of Mr. Hanson (*Skeena*).

On behalf of the Committee the Chairman thanked Mr. Symington, who was retired.

The Committee then proceeded to consider the Annual Report of the Canadian National Railway System for the year ended 31st December, 1942.

Mr. R. C. Vaughan, Chairman and President, was called. He read from the Report and was examined thereon. Mr. N. B. Walton, Executive Vice-President, operation and construction departments, and Mr. T. H. Cooper, Comptroller, assisted and were also examined.

At 1.00 o'clock, p.m., the Committee adjourned until tomorrow, Thursday, April 1st, at 11 o'clock a.m.

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

March 31, 1943.

The Standing Committee on Railways and Shipping met this day at 11 o'clock a.m. The Chairman, Mr. J. P. Howden, presided.

The CHAIRMAN: Gentlemen, we have a quorum so let us get started.

Mr. SYMINGTON: Mr. Chairman, yesterday the Hon. Mr. Hanson asked a question about the provision of funds for capital purposes in 1942, and after I had made the answer he said he was not sure he understood it so I will, with your permission, sir, file a short statement showing how funds were provided.

The CHAIRMAN: Very good.

Hon. Mr. HANSON: I hope it will be in very plain language so I can understand it.

Mr. SYMINGTON:

Funds provided by—

Issue of capital stock	\$850,000	
Surplus earnings	494,915	
Increase in self-insurance reserve.....	110,990	
Decrease in depreciation reserve.....	374,176	
		<u>\$1,081,729</u>

Utilized for—

Capital expenditures	\$772,929	
Increase in working capital.....	308,800	
		<u>\$1,081,729</u>

Then Mr. Pouliot asked for the by-laws of the company. I would like to file those. (*See Appendix "B" of Minutes of Proceedings and Evidence of March 30, 1943.*)

The CHAIRMAN: All right.

Mr. SYMINGTON: Then we were asked for a breakdown of operating expenses which I have managed to get. I would ask you to have them distributed to the members of the committee. I provided Mr. Harris with a copy yesterday while these were being typewritten.

The CHAIRMAN: Have you completed the balance sheet?

Mr. HARRIS: No. I think Mr. Chairman, you might take up the observations made by the witness seriatim, as it were, or has Mr. Hanson anything to say?

Hon. Mr. HANSON: No.

Mr. HARRIS: Mr. Chairman, I think the committee probably should have a few observations from the witness with regard to operating expenses and revenue, and pointing out the reasons why in most cases there is a very sharp advance, and in some cases quite a lesser amount being used during the current year 1942 versus 1941.

Mr. JACKMAN: Mr. Chairman, have we proceeded with the balance sheet yet?

The CHAIRMAN: No. Do you want to take the balance sheet up item by item?

Mr. JACKMAN: It is customary to do it. It will not take a minute if there is nothing in it.

The CHAIRMAN: All right, we will proceed that way.

Mr. SYMINGTON: Do you want me to read it?

The CHAIRMAN: I guess so.

Mr. SYMINGTON: Balance sheet as at December 31, 1942.

ASSETS

Current Assets—

Cash	\$ 688,451 16
Working Fund Advances	5,769 01
Special Deposits	2,214 53
Accounts Receivable	807,784 44
Traffic Balances Receivable	453,076 10
Balances Receivable from Agents	24,091 59
Materials and Supplies	826,140 51
Other Current Assets	142,537 07
	\$2,950,064 41

Mr. JACKMAN: Have you any comment to make on any of the items, Mr. Symington, any slow pay?

Mr. SYMINGTON: No, I can give a list. They are nearly all government. Post Office Department, \$290,000; Department of Munitions and Supply, \$160,000; Department of Transport, \$12,000; Department of National Defence, \$31,000; Canadian Pacific Airlines, \$40,000; British Overseas Airways, \$161,000.

Hon. Mr. HANSON: Are they prompt payers?

Mr. SYMINGTON: Yes, I think we have no complaint.

Hon. Mr. HANSON: I have heard some complaints but I think it is the magnitude of the work.

Mr. HARRIS: It is not very prompt payment if you have outstanding over 60 days close to \$1,000,000 on \$6,000,000 or \$7,000,000.

Mr. SYMINGTON: I am informed that 60 days is the usual time.

Mr. HARRIS: You would not call 60 days prompt payment.

Mr. JACKMAN: You are still a little short for working capital requirements or cash?

Mr. SYMINGTON: No, if you take current liabilities you see accounts payable, \$685,000; there is \$996,289 as opposed to. . .

Mr. JACKMAN: You are doing all right; you have got more than you require.

Mr. SYMINGTON: Yes.

Hon. Mr. HANSON: I think you are very lucky.

Mr. JACKMAN: Just noticing the accounts payable, \$685,000, I suppose there is no advantage in using cash to pay those immediately? There are no discounts in your business?

Mr. SYMINGTON: No, and they are fairly current. They are sundry gas and oil accounts, \$106,000; Boeing Aircraft \$89,947; that was in connection with the new engine conversion; Receiver General of Canada, \$51,000; Imperial Oil Limited, \$46,000; British American Oil Limited, \$33,000; Shell Oil, \$23,000; Canadian transportation tax, \$23,000, and so on.

Mr. JACKMAN: How much is that for the Receiver General?

Mr. SYMINGTON: The Receiver General of Canada, \$51,308.51.

Mr. JACKMAN: Is that on unemployment insurance, and things like that?

Mr. SYMINGTON: Unemployment insurance, etc.

Mr. JACKMAN: You do not have any trade discount, I suppose, in this business?

Mr. SYMINGTON: No.

Hon. Mr. HANSON: Unemployment Insurance do not give you any discounts for cash.

The CHAIRMAN: All right, go ahead.

Mr. SYMINGTON:

Investment in Affiliated Companies	\$ 2,250.00	
Prepayments—Insurance	33,957.64	

Mr. JACKMAN: Is that self-insurance or an outside company?

Mr. SYMINGTON: That is outside insurance.

CAPITAL ASSETS:

Property and Equipment	\$ 5,883,683.48	
Less Accrued Depreciation	1,504,189.83	\$4,379,493.65
		<hr/>
		\$7,365,765.70

Mr. LOCKHART: Mr. Chairman, can we have a slight breakdown on the depreciation?

Mr. SYMINGTON: Yes.

Mr. LOCKHART: Just a brief summary of the type of depreciation you have carried on.

Mr. SYMINGTON: Yes. Aircraft, \$461,118.28; that consists of a 4-year life on the regular planes and 3-year life on the converted planes with the new engines, and the total of that, as of December 31, 1942, is \$461,118.28. Propellers and hubs, \$160,970; that is 7,000 hours in use. Aircraft engines; the Hornets are now completely depreciated and on the twin Wasps we have raised that depreciation to 6,000 hours service as opposed to 4,000 for the old Hornets, and the amount is \$269,724.18. Aircraft Communications Department, 33 sets of Bendix with spares and a unit 5-year life, \$140,664.94. Miscellaneous flying equipment, 5-year, \$3,151.71. Ground communication equipment, 5-year life, \$221,374.19. Hangar equipment, 10 years, \$23,246.53.

Mr. LOCKHART: Are buildings based on a 10-year depreciation?

Mr. SYMINGTON: That is equipment. We come to the buildings later on. Shop equipment, 10 years, \$62,201.74. Motor vehicles and equipment, heavy ten, light five years, \$47,506.69; Fuel storage and equipment, 10 years, \$1,793.10. Furniture and fixtures, 20 years, \$11,000. Airport Lighting equipment, 20 years, \$88.19. Miscellaneous ground equipment, 10 years, \$13,510. Buildings and other improvements, 3 per cent, \$87,021. That makes a total of \$1,504,189.83.

Mr. DONNELLY: You have some insurance in outside companies that you do not carry yourself?

Mr. SYMINGTON: Some of the policies are expiring May 1. We now insure everything in our own self-insurance except, as I explained, large hangars where there may be five or six airplanes in them, and a fire risk there might be a very heavy loss. Our premiums on that are \$33,000 for the three years, or \$11,000 a year.

Mr. JACKMAN: Perhaps while we are discussing insurance, Mr. Symington, you have a reserve on the other side for self-insurance of \$403,161.60. What is the contra item against that on the asset side? You have not got a fund set up for it, have you?

Mr. SYMINGTON: No. At the moment it is in cash but as I explained we are taking it out and putting it in a special account made necessary by the

fact we insure passengers who buy tickets from other lines, and we have got to protect them and have got to satisfy them.

Mr. JACKMAN: You are going to segregate part of the assets as a special fund?

Mr. SYMINGTON: Yes.

Mr. JACKMAN: And you are going to put the money only in government or government-guaranteed bonds?

Mr. SYMINGTON: Quite right.

LIABILITIES

Current Liabilities:

Accounts Payable.....	\$685,459 41	
Traffic Balances Payable	47,193 13	
Salaries and Wages	99,931 46	
Other Liabilities	163,705 13	
		\$996,289 13

Mr. PARENT: What period of time does the \$99,931 cover in current liabilities, salaries and wages? Would that be 2 weeks or a month?

Mr. SYMINGTON: Approximately 2 weeks.

Hon. Mr. HANSON: What are your other liabilities?

Mr. SYMINGTON: Pension accrual, \$100,000; accrual for refund on tickets sold on air travel cards, \$23,198; tax accrual, \$20,000; revenue suspense, \$14,449; miscellaneous, \$6,000. That pension accrual of \$100,000 is the main item there.

Reserves:

Self Insurance	\$403,161 60	
Operating	29,700 00	
		\$432,861 60

Capital Stock:

Common Stock Subscribed—par value	\$5,000,000 00	
Less Uncalled Subscriptions to common stock	400,000 00	
		\$4,600,000 00

Surplus:

Balance at 1st January, 1942...	\$ 841,699 94	
Surplus for year 1942.....	494,915 03	
		\$1,336,614 97
		\$7,365,765 70

The copy of the certificate of the auditors that I have before me reads:—

We have examined the books and records of the Trans-Canada Air Lines for the year ended the 31st December, 1942, and 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 affairs of the Air Lines as at the 31st December, 1942, and that the relative Income Account for the year ended the 31st December, 1942, is correctly stated.
16th March, 1943.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

Hon. Mr. HANSON: May I ask Mr. Matthews to tell the committee, if he will, the character of the audit you carry on?

Mr. MATTHEWS: We indicate that in our report to parliament.

Hon. Mr. HANSON: I have not had a chance to read it.

The CHAIRMAN: If we are going to interrogate Mr. Matthews we will have to have him come up where the stenographer can catch it.

Hon. Mr. HANSON: As long as it is going to be done some time; the point is if you pass it now, you may forget it.

The CHAIRMAN: The stenographer cannot hear you down there. He complained quite bitterly yesterday at not being able to get the testimony.

Mr. MATTHEWS: In our report to parliament it covers the National System, Securities Trust, Trans-Canada Airlines and the West Indies Steamships. In regard to Trans-Canada Airlines this is what we report:—

The Trans-Canada Air Lines have not been included as a constituent unit of the National system although 100 per cent stock ownership of the Air Lines is vested in the Canadian National Railway Company. A separate Balance Sheet and Income Account have been certified by us at the 31st December, 1942.

The Insurance Reserve, covering the aircraft against flying risks together with employers' liability, is not specifically invested, the relative funds being included in the general working capital of the Air Lines.

The surplus for the year 1942, as shown by the Income Account of the Air Lines, is after making provision for:—

- (a) Estimated amount of retroactive contributions to be made by the company under the 1943 Pension plan;
- (b) Interest at 5 per cent on the Capital Investment in accordance with with the Trans-Canada Contract, and
- (c) Depreciation on Capital Assets at rates similar to those used by other major air line companies in North America, in accordance with the Trans-Canada Contract.

In the matter of current maintenance policy we have received certificates from the responsible officers to the effect that the Properties and Equipment have been maintained in a proper state of repair and in an efficient operating condition during the year 1942.

Hon. Mr. HANSON: I want to know just what kind of an audit is made; is it a test audit, a check audit or balance sheet audit?

Mr. MATTHEWS: Here is what we said:—

The test audit which we have made for the year 1942 is similar in scope to that of the National System and may be outlined briefly as follows:

- (a) Examination of major expenditure authorities, embracing mainly the recorded Resolutions of the Directors, Corporate By-laws, Acts of Parliament and Orders in Council;
- (b) Audit tests covering a cross-section of the major expenditures so authorized;
- (c) Examination into the adequacy of the internal audit control in general as exercised by the accounting staff of the company covering Cash Receipts and Expenditures, Material Stores, Accounts Receivable, etc., and
- (d) Audit and certification of the Balance Sheet and Income Account for presentation to Parliament.

In the report on the national system we go into that in greater detail.

Hon. Mr. HANSON: That is fine. The check is at most an internal audit just to make up the balance sheet.

Mr. MATTHEWS: That is right, yes.

Hon. Mr. HANSON: You yourself do not have a staff in there continuously?

Mr. MATTHEWS: Oh, yes; in the National railways we have a staff all the year round, in the Trans-Canada Air Lines just at intervals during the year.

Hon. Mr. HANSON: That is fine.

Mr. JACKMAN: May I ask you this question before you leave, Mr. Matthews: Under (a) of the subparagraph above the words you just read, you say:

(a) Estimated amount of retroactive contributions to be made by the Company under the 1943 Pension Plan . . .

How much was that and did it come out of the operating surplus for the year, charged as operating expenses for the year?

Mr. MATTHEWS: That is what we tell you here, yes, \$100,000.

Mr. JACKMAN: Although it refers to the previous years you did so well in 1942 that you decided to charge it all against—

Mr. MATTHEWS: Mr. Chairman, in relation to the income account for the year as a whole we considered that against the depreciation credit we discussed yesterday. The depreciation credit arose, as we explained yesterday, out of the depreciation rates in the prior years being higher than the final experience turned out to be and as a matter of fact there is no option in that regard because Trans-Canada contract so prescribes that; the net result is affected very little by both items.

Mr. JACKMAN: In other words, what you mean is, the depreciated assets were pretty well taken up by making it enough to put the pension plan on a sound basis.

Mr. MATTHEWS: That is right; the two amounts are pretty close so that the net result is not affected by either of the two items.

The CHAIRMAN: Is there anything further?

Mr. JACKMAN: Under that item of reserve in liabilities, what is the operating reserve of \$29,700?

Mr. SYMINGTON: That was for deferred maintenance. We were half-way through renewing the seats in our planes at the end of the year and we were allowed to carry over deferred maintenance reserve \$23,000.

The CHAIRMAN: We are now on page 12.

Mr. SYMINGTON:

INCOME ACCOUNT

Gross Revenue:	Year 1942	Year 1941
Passenger	\$3,065,452.96	\$2,348,428.46
Mail	3,211,921.74	3,058,120.95
Express	173,020.25	78,811.56

Mr. HARRIS: Mr. Chairman, I wonder if this would be the opportune time to give us the rates for the years 1942 and 1941 relating to mail?

Mr. SYMINGTON: Yes, sir; the rate for 1942 was 45.57 cents; the rate for 1943, 42.08, fiscal year.

Mr. JACKMAN: For 1941?

Mr. SYMINGTON: 48.16.

Hon. Mr. HANSON: 1942 was what?

Mr. SYMINGTON: 45.57.

Hon. Mr. HANSON: 1943?

Mr. SYMINGTON: 42·08. Now, continuing with the income account:

Express	\$173,020 25	\$78,811 56
Excess Baggage	29,460 29	18,341 12

Mr. DONNELLY: What proportion of express would you say was due to military operations?

Mr. SYMINGTON: Well, I do not think we can exactly say. What we gave you yesterday was what had been given priority, the pounds in express which amounted, if I remember correctly, to 11,000 pounds. That was priority express for war purposes.

Mr. LOCKHART: Has there been a reduction in the express rate in the same proportion as in the mail rate?

Mr. SYMINGTON: No, sir.

Mr. LOCKHART: No change at all?

Mr. SYMINGTON: No change at all. Continuing with the statement:

Excess Baggage.....	\$ 29,460.29	\$ 18,341.12
Incidental Services.....	857,463.36	304,091.94

Hon. Mr. HANSON: That is a large item; is that principally war work?

Mr. SYMINGTON: It is war work, repairs.

Mr. HANSON (Skeena): How many pounds is each passenger allowed to take?

Mr. SYMINGTON: Forty pounds; over that is excess.

Hon. Mr. HANSON: Do you put any limit on the weight of passengers?

Mr. SYMINGTON: No, neither do we charge double fare, but we have to ask the weight to know the total weight of the ship.

Mr. DONNELLY: What about children, is it the same as on the trains?

Mr. SYMINGTON: We have half fare for children.

Mr. DONNELLY: At what age do they travel for half fare?

Mr. SYMINGTON: Twelve and under.

Mr. DONNELLY: All the way down?

Mr. SYMINGTON: Yes.

Mr. EMMERSON: What about babes in arms?

Mr. SYMINGTON: They go free; infants in arms not occupying a seat go free.

Total	\$7,337,318.60	\$5,807,794.03
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Operating Expenses:	1942	1941		
Aircraft:				
Operation and				
Maintenance	\$3,412,048.39	\$3,011,315.13		
Depreciation	505,763.74	567,953.87	\$3,917,812.13	\$3,579,269.00

Mr. HARRIS: Mr. Chairman, I wonder at this stage if we could have a little information on this figure that has been broken down. I think the members of the committee have a copy of the breakdown.

The CHAIRMAN: Will you allow the witness to read it through and then come back to it after?

Hon. Mr. HANSON: It seems a waste of time to ask Mr. Symington to read all these figures when we have them before us. He wants to get through and we want to help him.

The CHAIRMAN: As a matter of fact it has proved a most satisfactory practice in the past.

Hon. Mr. HANSON: It is just to help lazy men who do not read these things.

Mr. SYMINGTON: May I suggest that these figures go in the record in their entirety?

The CHAIRMAN: It is desirable that these figures go into the record. If the committee have no objection we will have them read so as to put them in the record.

Hon. Mr. HANSON: I have no objection.

The CHAIRMAN: Go ahead.

Mr. SYMINGTON:

Ground Facilities:

Operation and

Maintenance	1,397,072.81	1,029,651.13		
Depreciation	133,893.37	140,571.12	1,530,966.18	1,170,222.25
Incidental Services.....			599,512.32	155,488.20
Traffic and General Administration.....			545,517.88	394,260.97
Tax Accruals.....			34,590.81	6,895.58
Exchange, etc.....			13,270.25	11,721.24
Interest on Capital Invested.....			200,734.00	187,500.00
Total			\$ 6,842,403.57	\$ 5,505,357.24
Surplus			\$ 494,915.03	\$ 302,436.79

Mr. HARRIS: I should like to revert now to the breakdown and I should like to ask this question of Mr. Symington. Mr. Symington, you have in front of you No. 611, aircraft repairs increased 60 per cent.

Mr. SYMINGTON: Yes, sir. Well, now, first may I explain to the committee those classifications. The numbers you see are classifications of accounts for air carriers operating under the jurisdiction of the Board of Transport Commissioners for Canada, and all these items and the breakdown of them are what are set up by the Board of Transport Commissioners for all air lines. You ask me for 611.

Mr. HARRIS: Only as a matter of quick reference. On page 5 of your financial statement. In order to expedite the matter I drop right down to No. 611.

Mr. SYMINGTON: 611.

Mr. HARRIS: Yes, just as an example.

Mr. SYMINGTON: I can give you that, sir. That was the engine substitution job. I can give you those figures if you want them, Mr. Harris.

Mr. HARRIS: Aircraft engines, that would be extra service, 20 per cent.

Mr. SYMINGTON: Yes.

Hon. Mr. HANSON: From whom do you buy your gasoline?

Mr. SYMINGTON: All of the oil companies.

Hon. Mr. HANSON: How do you distribute it?

Mr. SYMINGTON: Well, we take ease of delivery; we sit down and divide the field; the price is the same.

Hon. Mr. HANSON: I have no doubt the price is the same, but which company gets the major part of this, McColl-Frontenac?

Mr. SYMINGTON: No, I think the Imperial Oil Company are the largest, are they not?

Hon. Mr. HANSON: What is the breakdown between the big companies, how much from Imperial and how much from McColl-Frontenac?

Mr. SYMINGTON: Without going into decimals, Mr. Hanson, it is about 40 per cent Imperial, 25 per cent British American, 20 per cent McColl-Frontenac, and 15 per cent Shell.

Mr. JACKMAN: That applies to gasoline and oil?

Mr. SYMINGTON: No.

Mr. JACKMAN: Just gas?

Mr. SYMINGTON: Just gas.

Mr. LOCKHART: Was there a comparative breakdown between 1941 and 1942? I have 1942 here.

Mr. SYMINGTON: There is a comparative breakdown which I sent to Mr. Harris as he had raised it yesterday, and I just cut it out of my book. Whoever had these reports typewritten for you last night apparently only took the 1942 list. Mr. Harris, I imagine, is the only one who has the comparison; I sent it over to him myself; I cut it out of the other book.

Mr. HARRIS: It is pretty difficult for the members of the committee to follow it unless they have a prepared statement.

Mr. SYMINGTON: I quite realize that, and I was very much surprised when I saw this here this morning. But I think if there is any doubt, or if anybody asks for an item, I will give the comparative figure the same as you have it.

Mr. HARRIS: I will be as brief as I can, if I may, Mr. Chairman, and run over a few of these items. Depreciation on item 626 is only 25 per cent of what it was last year. I imagine it is the new set-up of the capital structure on depreciation. That is item 626 on aircraft engines.

Mr. SYMINGTON: Aircraft engine depreciation, credit for \$100,000 in that account from salvage of the engines we sold.

Mr. HARRIS: Coming down to item 632, airport and hangar employees, there is an increase there of 50 per cent. That seems abnormal. There is an increase from \$214,000 last year to \$326,000 this year.

Mr. SYMINGTON: The information given to me is that our increased services and employment, plus the largest part of the cost-of-living bonus is in there.

Mr. LOCKHART: Is there any increase in the salaries and wages?

Mr. SYMINGTON: No, no increase. There is an increase of staff, though.

Hon. Mr. HANSON: What is the percentage?

Mr. SYMINGTON: Of staff?

Hon. Mr. HANSON: Yes, in numbers.

Mr. SYMINGTON: I will give you that.

Hon. Mr. HANSON: There is a 50 per cent increase in the amount of money paid. What is the increase in staff on the percentage basis?

Mr. SYMINGTON: 1,208 to 1,662. That is the total staff.

Mr. HARRIS: Item 636, travelling and office expenses, moved up 20 per cent, from \$151,000 to \$182,000.

Mr. SYMINGTON: Yes. The main item in that is \$100,000 for teletype. We have completed the teletyping of the whole system, and the increase or rather the amount in there for teletype for 1942 is \$100,000.

Mr. HARRIS: Is that item 636?

Mr. SYMINGTON: Yes.

Mr. HARRIS: That is all charged as expense. It was not capitalized in your office?

Mr. SYMINGTON: No. That is an expense, an operation expense. It is a rental charge on the teletype machines and teletype services. We pay out \$100,000.

Hon. Mr. HANSON: Do you buy them or rent them?

Mr. SYMINGTON: No. We do not buy them.

Hon. Mr. HANSON: You rent them.

Mr. JACKMAN: You pay \$100,000 a year for rental?

Mr. SYMINGTON: \$100,000 for the services.

Mr. HARRIS: What are the services for 1941?

Mr. SYMINGTON: We pay that to the telegraph company for the channels in their lines to give us the teletype service; some to the C.N. and some to the C.P.

Mr. HARRIS: In 1941 you also had teletypes?

Mr. SYMINGTON: \$60,000.

Mr. HARRIS: That is to say, it moved up from \$60,000 to \$100,000; and that accounts for the \$40,000 increase in your office expenses.

Mr. SYMINGTON: For travelling and office expenses—the office expenses portion of it. The other is, I think, commensurate with the increased staff and the increased travelling by reason of the increased business.

Mr. HARRIS: What portion of that is travelling expenses?

Mr. SYMINGTON: 15 per cent.

Mr. HARRIS: Coming to item 649, repairs are trebled, from \$13,000 to \$34,000. Is that for any particular building?

Mr. SYMINGTON: Those were alterations in partitions and work rooms in our shop in Winnipeg.

Mr. HARRIS: The next item is 650, which moved up from \$34,000 to \$85,000. That is shop expenses—indirect labour and material. Would that be outside contracts with somebody?

Mr. SYMINGTON: That is the way they are charged with respect to increased government work. Direct wages are charged in directly, but superintendence, overhead and so on are charged in in that item.

Hon. Mr. HANSON: What do you mean by indirect labour?

Mr. SYMINGTON: Indirect labour is superintendence, overhead and so on—janitors, cleaners and all that sort of thing.

Hon. Mr. HANSON: Oh, yes.

Mr. SYMINGTON: We furnish the department with the direct labour, the man actually making the machine.

Mr. HARRIS: Store expenses, \$30,000 to \$48,000.

Mr. SYMINGTON: About the same reason; stores for the new plants for the government.

Mr. HARRIS: Express expenses doubled, from \$21,000 to \$47,000.

Mr. SYMINGTON: The business, of course, doubled.

Mr. HARRIS: What is the maintenance reserve of \$6,500?

Mr. SYMINGTON: The maintenance reserve was some painting—signs and so on—that was in the course of completion at the end of the year.

Hon. Mr. HANSON: What is the rate of depreciation applied to the ground facilities?

Mr. SYMINGTON: What item is that?

Mr. DONNELLY: Item 660.

Mr. HARRIS: Item 660, from \$140,000 to \$133,000.

Hon. Mr. HANSON: What is the rate?

Mr. SYMINGTON: I read all that when I was giving the appreciation.

Hon. Mr. HANSON: But I cannot remember that.

Mr. SYMINGTON: Do you want me to read it again?

Hon. Mr. HANSON: No, I do not. But we have not got the evidence.

Mr. SYMINGTON: I quite agree. It is shop equipment, motor vehicles and equipment, fuel storage and equipment, furniture and fixtures.

Hon. Mr. HANSON: I know what it is. What I want is the percentage.

Mr. JACKMAN: The percentage on ground equipment.

Mr. SYMINGTON: From five years to twenty years and 3 per cent on buildings.

Mr. HARRIS: Incidental services, item 676. There we have an item of \$486,293.87. Last year it was \$76,000.

Mr. SYMINGTON: That is the direct labour on the war work.

Hon. Mr. HANSON: Sales mean service really, does it not?

Mr. SYMINGTON: Yes. That is sales.

Mr. HARRIS: Salaries and wages again are up from \$100,000 to \$125,000. The other item I should like to inquire about is pensions and welfare, item 696, \$100,000.

Hon. Mr. HANSON: The contribution.

Mr. SYMINGTON: That is the new pension fund.

Mr. HARRIS: You also have set up in your balance sheet "other liabilities, \$163,705.13." Of that, \$100,000 is also the same fund, is it not? Do I understand your total contribution is \$200,000?

Mr. SYMINGTON: No. \$100,000.

Mr. HARRIS: How do you relate this \$100,000 to that which is on the balance sheet?

Mr. SYMINGTON: The balance sheet carries the accrual and the expense account carries the cost.

Mr. HARRIS: I understood you to say when we were going over the balance sheet that the \$100,000 of this \$163,000 was the pension fund, or the liability for the pension fund. Is that right?

Mr. SYMINGTON: That is the credit, and this one is the debit. Of the \$163,000, only \$100,000 was pension.

Mr. HARRIS: You mean \$100,000 was pension?

Mr. SYMINGTON: Yes.

Mr. HARRIS: What is going to be the cost for 1943? What is your estimate?

Mr. SYMINGTON: About \$8,000 a month; 2½ to 3 per cent of the payroll.

Mr. HARRIS: I just want to make one observation, Mr. Chairman. The balance sheet as a balance sheet, in my opinion, is quite sound, and set-up for operating revenue and expenses is quite sound. Of course, the reason is that they have access to business which is not very hard to obtain, particularly during a time of war. But what I am thinking about is what is going to transpire in the post-war period. They may be busy for one or two years, but at the rate at which the expenses are accelerating year by year, I think a note of warning ought to be left with the management not to run wild. That is to say, if it cost you \$5,300,000 last year, this year \$6,600,000 and next year another increase and so on, we may find ourselves with a costly unit here which will not have enough revenue to pay for the cost.

Hon. Mr. HANSON: We always have the treasury to fall back on. Any government organization always realizes that they have the best banker in the country.

Mr. SYMINGTON: I hope you do not think that of this company, Mr. Hanson.

Hon. Mr. HANSON: I think that of all government companies.

Mr. SYMINGTON: I see.

Hon. Mr. HANSON: They always lean on the treasury.

Mr. JACKMAN: When needed.

Hon. Mr. HANSON: Yes, when needed.

Mr. SYMINGTON: We think we are helping the treasury.

Mr. JACKMAN: Does the Board of Transport Commissioners set the rates of depreciation for the air lines?

Mr. SYMINGTON: No.

Mr. JACKMAN: You do not have any income tax authorities to discuss it with. It is simply between the operating management as to depreciation?

Mr. SYMINGTON: And the post office.

Mr. JACKMAN: And the post office?

Mr. SYMINGTON: And the auditor general, in fixing the air mail rates; because, of course, it makes a great difference.

Hon. Mr. HANSON: The auditor general is bound by statute, and so are all the officials. That is the governing factor.

Mr. SYMINGTON: The treasury officials, whoever looks after it. The post office are the ones particularly interested, of course.

Hon. Mr. HANSON: Quite.

Mr. JACKMAN: I suppose the Board of Transport Commissioners do set the rate for the airways in Canada and the depreciation which shall be charged.

Mr. COOPER: No.

Mr. JACKMAN: They have nothing to do with it?

Mr. COOPER: No.

Hon. Mr. HANSON: That is a standard system of railway accounting?

Mr. SYMINGTON: Yes. We are not doing anything different from anybody else.

Hon. Mr. HANSON: Are you trying to follow a standard system of airline company accounting?

Mr. SYMINGTON: Yes.

Hon. Mr. HANSON: Or are you setting up your own system?

Mr. SYMINGTON: No. When I say that, I should say that we have perhaps in some instances made what we would consider an improvement in accounting methods, from the study of the American airline accounting; but by and large it is all the same system used.

Hon. Mr. HANSON: Generally speaking.

Mr. SYMINGTON: Generally speaking, yes.

Mr. HARRIS: As a matter of fact, it is your own system. This system is not in accord with the Interstate Commerce Commission.

Mr. SYMINGTON: Practically the same, yes. We sent our people down there. They went into it with the Civil Aeronautics Association.

Mr. HARRIS: Yes. But you are not governed by them?

Mr. SYMINGTON: No. We are not governed by them. We are not compelled, but we do without compulsion.

Hon. Mr. HANSON: You use your own discretion afterwards.

Mr. SYMINGTON: Yes. We think we made some improvements and so did the Board of Transport Commissioners think we made some improvements.

Hon. Mr. HANSON: That is to say, you have set up more depreciation than is demanded by the Interstate Commerce Commission?

Mr. SYMINGTON: I would not say that is so.

Mr. COOPER: No. The Interstate Commerce Commission has no jurisdiction.

Mr. HARRIS: They have over the railways, of course.

Mr. COOPER: Over the railways, yes.

Mr. HARRIS: Quite.

Mr. COOPER: With respect to depreciation on air lines, we asked the various air transport corporations of the United States what their percentages were.

Mr. HARRIS: And then used your own discretion?

Mr. COOPER: Then we discussed it with the management and agreed on rates that should be charged in our accounts.

Mr. HARRIS: You are really not bound by any other unit at all. You have set up a depreciation which, in my opinion, is quite sound. If the Canadian National Railways and the other railways had done the same thing thirty or forty years ago, we would be in much better shape now. If you keep up this practice, you are still going to be sound twenty years hence.

Mr. JACKMAN: The point is that you are not governed by anybody, the Board of Transport Commissioners, the Interstate Commerce Commission or anybody else; therefore, you use your own judgment after studying what other units have been doing.

Mr. COOPER: That is quite correct.

Hon. Mr. HANSON: May I perhaps go back to the mail contract with the Post Office Department.

Mr. SYMINGTON: They, of course, could object to our rate of depreciation, as it enters into the mail rate.

Hon. Mr. HANSON: They have offered objection.

Mr. SYMINGTON: They have not objected to our depreciation but we do have quite strenuous discussions regarding costs. They have fined us \$10, \$50 or so on once in a while for mishandlings—what I mean to say is they go into costs thoroughly for the purpose of deciding whether we are doing it in the right way.

Hon. Mr. HANSON: I hope you don't let yourselves get into a fix like the one the Wartime Prices and Trade Board did, they had to pay out \$50,000 legal fees to get in \$125,000 in fines.

Mr. HARRIS: I would like to complete my observation by saying that the rate is still too high.

Mr. SYMINGTON: Well, I studied that as much as I could, Mr. Harris, and checking up the various American air line expenditures I find that generally speaking when 50 per cent of their revenues come from mail they about break even. Below that they made money; that seems to be about our experience. Over there their passenger business is relatively much greater than ours because they have different planes; and, they do not have the long jumps to make. We could not fly their planes in this country—and they naturally carry a much greater percentage of passenger traffic than we do.

Mr. HARRIS: You were speaking of gross revenue and an average rate; I was thinking about the rate of 19 cents in vogue over there as against the 42-cent rate—that is quite a difference. I understand all the difficulties but I just wanted to point that out as a fact.

Mr. SYMINGTON: We went into that—and there is nothing there, they only carry a load of 300 pounds where we have to carry 1200 pounds.

Hon. Mr. HANSON: The two positions are not quite comparable and anyway it all gets down to the cost of carrying mail.

Mr. SYMINGTON: All I can say is that we are trying to operate as well as we can. As you know, we are not working for ourselves. It does not do us any good at all; the only purpose served is the reduction in the mail rate.

Hon. Mr. HANSON: You have the power behind you—

Mr. SYMINGTON: It is that kind of a company. We have the security but we have not got the profit.

Mr. JACKMAN: How much do you calculate you make on the money your company is using by way of capital—some \$200,000 odd; would that amount to 5 per cent on the capital invested?

Mr. SYMINGTON: We made \$700,000 and something, do you see.

Mr. JACKMAN: I presume that \$494,000 would be 17½ per cent of the money invested.

Mr. SYMINGTON: I should think that would be about right.

Hon. Mr. HANSON: And that is after all write-offs.

Mr. JACKMAN: I suppose you appreciate the advantage this company has in comparison with the position of an ordinary private company which would have to pay anything over a fixed amount in the form of excess profit taxes.

Mr. SYMINGTON: I do not see any difference in it; frankly, it all works out to the same thing. I do not see that it makes any difference how the money that comes out of these services, whether the excess earnings go back to the government through the Post Office Department or through the Department of National Revenue.

Mr. JACKMAN: I just wanted there to throw a complete and fair light on the amazing success that this company has had as compared with private companies. A private company which carried on the same business would find that it has to take its standard earnings for the 1936-39 period—or, if that were held to be unethical, if they were a new industry, they might be allowed 5 per cent on their capital. You have apparently been allowed to earn 17½ per cent or so on your capital. That is an advantage which an ordinary company does not enjoy.

Mr. SYMINGTON: They would be allowed to earn 17½ per cent just the same, but they would have to pay it back in the form of excess profit tax, whereas we pay it direct to the government.

Hon. Mr. HANSON: Do you pay it all back, or is it reflected in a reduction in the mail contract?

Mr. SYMINGTON: It is reflected about 50 per cent in the reduction in the mail contract; and as to the balance, in the balance sheet which you have before you, but it is still government money. We cannot get any more money or make any more money—if we were to make 100 per cent it would all go back in the same way, the Canadian National Railways could not make any more out of it, it all goes to the government.

Mr. JACKMAN: We appreciate that, but you get a great deal of kudos from the press for building up this company and showing the tremendous success of public ownership. What I want to point out is that you do not labour under the same conditions as does a private company, and, therefore, there is no fair basis of comparison.

Mr. SYMINGTON: I am not doing any comparing at all, I am just giving you the figures and the facts.

Mr. JACKMAN: It is obvious that you have done very well; only at the expense of the rest of the taxpayers having to pay for all these other services—the history has been the same with hydro in Ontario and other public-owned utilities.

The CHAIRMAN: Might I ask members of the committee whether they wish to have the balance of this report taken as read, without any further discussion; or if they wish Mr. Symington to run through these latter pages.

Mr. SYMINGTON: I might say, Mr. Chairman, that this being a five-year period, these are only for information; we added them in just for the information of the committee.

Mr. JACKMAN: Might I ask that next year we have the operating expense break-down as it has been provided supplied in tabulated form and incorporated in the report?

Mr. SYMINGTON: We will have it submitted in the report next year.

Hon. Mr. HANSON: Interest on capital investment; that is the item to which I referred the other day—that is hardly a correct description; there is nothing in there in the nature of capital stock. Could that not be clarified by using another description, payable under statutes?

Mr. SYMINGTON: I read the statute; but, of course, these accounts are not prepared by me.

Hon. Mr. HANSON: No, I appreciate that.

Mr. SYMINGTON: The statute calls for that, that is the reason we put it in that way. As I say, it is the only account I know of where interest on investment, the investment being in stock, is made an operating expense, so that there never can be a dividend in this company at all by any chance.

Hon. Mr. HANSON: The net earnings would all be reflected in reductions in the mail rate, that is the theory on which you are operating.

Mr. SYMINGTON: Yes, that is the theory we find in the statutes.

Hon. Mr. HANSON: Suppose that goes up, you would be accumulating a huge surplus.

Mr. SYMINGTON: Oh, no; because, you see, you might have a capital surplus account only in the thousands and then you would have to have more planes. My fear is that we are not being given a good enough run for our money, that we will have to come back to meet the plane situation with government money.

Hon. Mr. HANSON: That is further capital expenditure?

Mr. SYMINGTON: Yes. Under the present set-up we cannot do that.

Hon. Mr. HANSON: But private enterprise does have a capital set-up.

Mr. SYMINGTON:

STATISTICAL DATA

Route mileage operated	4,857	4,024
Plane miles flown—revenue	7,172,130	6,384,651
Mail revenue miles flown	7,085,923	6,243,806
Plane miles flown—non revenue	516,772	890,164
Revenue passengers carried	104,446	85,154
Percentage of passenger occupancy	74	67
Average passenger journey—miles	551	520
Air mail carried—pounds	2,308,812	1,389,614
Express carried—pounds	362,837	173,192
Excess baggage carried—pounds	175,158	112,924

Since the inception of operations the company has flown a total of 22,235,865 plane miles in revenue service and a total of 143,526,358 passenger miles.

CANADA'S NATIONAL AIR SERVICE

Five Years of Development

Trans-Canada Air Lines grew out of the need for a swift, modern system of transportation between communities scattered across an area of more than three thousand miles, out of a vision of a more closely integrated nation and a

nation playing an increasingly important part in the affairs of the world. Scarcely had T.C.A. begun transcontinental operations than Canada entered the war and the air line assumed a new additional importance.

Incorporated by Act of Parliament in the spring of 1937, Canada's national air service was designed to operate over an airway—airports, fields, radio range system, meteorological service—which was being built up by or with the assistance of the Dominion Government. Under the provisions of the legislation, the Canadian National Railways holds the capital stock of the Company and provides many essential services.

For the efficient operation of its lines Trans-Canada has created at Winnipeg one of the most complete aircraft engineering and maintenance shops on the continent, has developed a dispatch and communications system especially suited to this swift form of transport, a passenger service system to provide for the comfort and well-being of its patrons, traffic offices in the principal centres of population, and has trained flight and other skilled personnel in the highest standards of modern air line practice. Whereas in 1937 the Dominion had no extended "on the beam" instrument flying, Trans-Canada has to-day more than 100 captains and first officers at the controls of its planes, all of whom have met the exacting tests which Trans-Canada has instituted. The training of personnel for the various branches is carried on continuously by T.C.A.—shop force and flight crews, radio technicians, airport and station staffs, traffic representatives and stewardesses, etc. Trans-Canada is, in great measure, a Canadian civilian university of the air.

T.C.A. began in a small way, with a commercial operation over a route 122 miles long between Vancouver and Seattle. This went into effect in September, 1937. Within the succeeding five years, the air line grew until its route mileage increased to 4,857 miles in 1942.

In 1938, when the first limited mail and express service across Canada began operation, the revenue miles flown amounted to 1,122,179. On the basis of present operations, revenue miles flown are more than 8,250,000 per annum.

Air mail volume was six times greater in 1942 than in 1938; air express was nearly fifty times greater; more than fifty times as many passengers were carried.

Trans-Canada now has 24 twin-engined Lockheed aircraft with the latest type Pratt & Whitney Twin-row Wasp engines.

It provides two transcontinental round trips daily between Halifax and Vancouver, two round trips between Moncton, Sydney and Newfoundland, two between Toronto and New York, two between Toronto, London and Windsor (with connections for Chicago), two between Lethbridge, Calgary and Edmonton, additional trips between Toronto, Ottawa, Montreal, Moncton and Halifax.

Besides maintaining swift passenger, air mail and express service, which is of strategic importance to Canada in war and peace, T.C.A. is fighting on the home front in many other ways.

T.C.A. ground crews overhaul and maintain the trans-oceanic transports operating between Canada and Great Britain and T.C.A. crews participate in the flights. Trans-Canada's association with trans-Atlantic flying began with the first North Atlantic trial flights six years ago, T.C.A. handling the Canadian arrangements for Imperial Airways (now British Overseas Airways Corporation).

In addition to engaging a considerable number of employees at Montreal in connection with trans-Atlantic flights, war work has brought an increase in T.C.A. shop forces at Winnipeg of approximately 40 per cent. Many of the new employees are women, replacing men who have been granted leave of absence to go on active service. Thousands of instruments and accessories are overhauled by T.C.A. for the Royal Canadian Air Force, the Royal Air Force, the British Overseas Airways Corporation and the Commonwealth

Air Training Plan; engines are overhauled and propellers reconditioned; tools are manufactured; annealing and other work is being done for aircraft manufacturers in war industry; and T.C.A. has assisted in important experiments for the National Research Council.

One hundred and sixty-three employees of Trans-Canada Air Lines have enlisted in the Navy, the Army and the Air Force, as pilots, navigators, observers, technicians, etc.

The following is a brief year-by-year summary of the developments during the past five years:

1938

When the year opened, T.C.A. had 71 employees and five Lockheed Electras, carrying ten passengers, pilot and co-pilot. By December, the staff had increased to 332 and nine Lockheed Fourteens had been added to the fleet . . . During 1938, the Vancouver-Seattle operation was continued, and air mail and express shipments were carried between Montreal, Toronto and Vancouver, and between Lethbridge and Edmonton . . . Hangars were completed at Winnipeg and Lethbridge and another begun at Toronto . . . A repair base and overhaul shop was established at Winnipeg . . . Stations with complete radio facilities were opened.

1939

In February, mail and express service to Calgary was established . . . Regular air mail and express night schedules went into effect between Montreal, Toronto and Vancouver in March . . . A month later, passenger service began on this route and between Lethbridge, Calgary and Edmonton . . . Air mail service, on a daylight schedule, was extended in November to Moncton . . . The Electras were sold . . . Six Lockheed Fourteen were acquired, bringing the fleet up to fifteen . . . The Toronto hangar was completed and another erected at Montreal . . . Work was begun on a hangar at Moncton . . . Extensions to the Winnipeg hangar and shops were completed.

1940

Early in the year, air mail and passenger service to Moncton was in operation . . . Air mail and express were carried between Toronto, London and Windsor, beginning in July, and in August passenger service was established . . . A second daily flight went into effect on the transcontinental route and another daily trip was added between Toronto, Ottawa and Montreal . . . Six Lockheed Lodestars were purchased . . . The hangar at Moncton was opened . . . Shop facilities at Winnipeg were expanded to provide the additional accommodation required to take care of instrument repairs for military aircraft . . . Operation and traffic headquarters were transferred from Montreal to Winnipeg.

1941

Service was extended to Halifax in April and to New York, from Toronto, in May . . . Operation of the Vancouver-Seattle service was discontinued . . . The hangar was completed at Montreal's new airport at Dorval . . . Shops and facilities at Winnipeg and Toronto were further extended . . . Maintenance and overhaul of aircraft used in the Atlantic return ferry service was undertaken.

The CHAIRMAN: If there is no further discussion will someone please move the adoption of this report.

1942

Service was extended to Sydney, N.S., and St. John's, Newfoundland, in May... With the addition of six Lodestars, the fleet was increased to twenty-four... The Lockheed Fourteens were improved by installation of Twin-row Wasp engines of 1200 horsepower, replacing Hornet engines of 850 horsepower... New schedules brought into effect in November brought the daily mileage to 22,670, or 8,250,000 miles a year... T.C.A. crews participated in trans-Atlantic flights... The year saw the highest passenger load factor, and new records for volume of mail and express carried... T.C.A. undertook the operation of the new engine shop erected at Winnipeg by the Department of Munitions and Supply for the overhaul of military equipment.

Air Mail (in pounds)

1938.....	367,734
1939.....	523,906
1940.....	927,037
1941.....	1,389,614
1942.....	2,308,812
Total.....	5,517,103

Air Express (in pounds)

1938.....	7,806
1939.....	45,819
1940.....	105,788
1941.....	173,192
1942.....	362,837
Total.....	695,442

Passengers

1938.....	2,086
1939.....	21,569
1940.....	53,180
1941.....	85,154
1942.....	104,446
Total.....	266,435

Revenue Miles Flown

1938.....	1,122,179
1939.....	2,760,090
1940.....	4,770,219
1941.....	6,384,651
1942.....	7,172,130
Total.....	22,209,269

On motion by Hon. Mr. Hanson, seconded by Mr. McCulloch the report of Trans-Canada Air Lines was adopted.

The CHAIRMAN: I would like to thank Mr. Symington now on behalf of the entire committee for his courtesy and the plain-speaking manner in which he has given his evidence. We now go on to Canadian National Railways.

We will now proceed to give consideration of the report of the Canadian National Railways and I will call on Mr. Vaughan.

Mr. R. C. VAUGHAN, Chairman of the Board and president of the Canadian National Railways, *called*.

Mr. VAUGHAN: Mr. Chairman, if you prefer it I will read the report right through and then the members could ask such questions as they may wish. I merely suggest that as a way in which we might possibly make more progress; I am, of course, entirely at the disposal of the committee.

The CHAIRMAN: What is the wishes of the committee in this respect, that Mr. Vaughan go right through the report and then come back to discuss it afterwards or, do you prefer to discuss it as we go along?

Hon. Mr. HANSON: I think we will do better if we have informal discussion as we go along. I may not be here tomorrow.

The CHAIRMAN: All right.

Mr. VAUGHAN:

MONTREAL, March 16, 1943.

The Honourable J. E. MICHAUD, K.C., M.P.,
Minister of Transport, Ottawa.

SIR,—In conformity with the Canadian National-Canadian Pacific Act, 1936, the board of directors submit the following report of the operations of the Canadian National Railways for the calendar year 1942.

The traffic of the railway rose to unprecedented levels. Freight traffic was more than double that of the peak of the last war and 40 per cent in excess of the peacetime record of 1928. Passenger traffic was 80 per cent greater than in 1928. The railway hauled 71,545,000 tons of revenue freight and carried 30,363,000 revenue passengers.

Hon. Mr. HANSON: How much of your 40 per cent increase or, rather how much of your total business has come from the various government departments and agencies; I mean by that what proportion is due directly to the war?

Mr. VAUGHAN: I do not think we have the exact figure in that respect. All we can do is, Mr. Hanson, to give you the prewar figures and the present figures.

Hon. Mr. HANSON: Oh well, that is hardly good enough; I want to know how much the government is paying under war expenditures, war taxes, war loans, to make up this increase in traffic and how much is civilian traffic.

Mr. VAUGHAN: It will be a tremendous job to break that down.

Hon. Mr. HANSON: I suppose it would be.

Mr. VAUGHAN: It comes from all sources; the government pays some, and the shippers and consignees pay some. The revenue comes from points all over the country.

Hon. Mr. HANSON: What you are telling me is that you cannot do it.

Mr. VAUGHAN: I do not think we could.

Mr. JACKMAN: Could you indicate a proportion on the basis of how much of the national income the government is spending? Let us assume that the government spends five million out of a total of nine million, that would be five-ninths of the total business arising out of the war.

Mr. VAUGHAN: I do not think it would be that much.

Mr. JACKMAN: You do not.

Mr. VAUGHAN: I do not think that much.

Mr. JACKMAN: A rough estimate might be one-half?

Mr. VAUGHAN: About one-third or one-quarter.

Mr. PARENT: Do you mean to say that you have no records in your accounting department that would show what increases were brought to the Canadian National Railways in this year's operations as compared with the previous year?

Mr. VAUGHAN: We have a statement, of course, of all the commodities which we handle which would show the increase in those various commodities, but it would be a tremendous task to analyse the business as we receive it from every industry in Canada to determine whether it is the result of the war.

Mr. PARENT: Could we get those figures?

Mr. VAUGHAN: I do not think so, it would be impossible; it would take months with an accounting staff to prepare the information.

Hon. Mr. HANSON: You would know I suppose how much comes to you directly from the government?

Mr. VAUGHAN: Oh yes, we would know that amount.

Mr. DONNELLY: And you would have the same thing, I suppose, with respect to passenger traffic; you could tell us what proportion of that comes directly to you from the government?

Mr. VAUGHAN: Yes.

Mr. DONNELLY: What about the men who pay their own, have you a record of that?

Mr. VAUGHAN: No.

Hon. Mr. HANSON: Have you made an estimate of what the increase in freight traffic and in your passenger traffic has been due directly to the fact that the nation is at war?

Mr. VAUGHAN: I think the only way in which I could answer that now is to say that over a period of twenty years the average gross earnings has been \$230,000,000 and last year it was \$375,000,000.

Hon. Mr. HANSON: So that it will be a fair inference to say that considerable of the increase was due to the war.

Mr. VAUGHAN: I would think it fair to say that a large proportion of the difference is due to the war.

Hon. Mr. HANSON: I think that is a fair statement. It would not be all due to that because people have more money.

Mr. VAUGHAN: Yes.

Mr. JACKMAN: This is a general statement, but it is relevant: assuming that we keep in full employment after the war, is there anything particular in the nature of war business that creates much greater traffic for the railway than you would expect in normal times?

Mr. VAUGHAN: I think there is some greater business undoubtedly as the result of the war than there would be in normal times because there are a great many commodities being made that would not be made in the same volume in normal times.

Mr. JACKMAN: We are assuming that we have full employment.

Mr. VAUGHAN: If there is full employment and other articles are being made and men are being employed in as great numbers as at the present time, I think our gross earnings would closely approximate what they are now.

Mr. JACKMAN: Of course, there is a tremendous export business now, and some good long haul stuff.

Mr. VAUGHAN: We could have a memorandum prepared showing what the Defence departments and various other government departments pay.

Mr. JACKMAN: The problem is really a general one, namely: would you expect to have as great a railroad business with as much traffic in normal times as you have now, provided you would have full employment?

Mr. VAUGHAN: I would not think we could expect to go to the present figure, but we might go back to the 1928 figure when we had pretty well full employment and when there was no war. Our gross earnings in 1928 were \$304,000,000.

Mr. JACKMAN: As against \$375,000,000 now.

Mr. VAUGHAN: As against \$375,000,000 now.

Mr. JACKMAN: That would be a rough approximation?

Mr. VAUGHAN: Yes.

Mr. JACKMAN: You should have plenty of equipment and perhaps excess equipment to carry the amount of traffic you would expect in a post-war period, assuming full employment?

Mr. VAUGHAN: That is correct. I think we can do reasonably well on gross earnings of \$300,000,000.

Mr. JACKMAN: \$300,000,000 would keep you out of the red, of course.

Mr. VAUGHAN: Yes, I think so.

Mr. JACKMAN: But you have to have about that much.

Mr. VAUGHAN: Yes. Of course, traffic is our problem. We have a terrific overhead and a tremendous machine to keep going. We have to operate certain unprofitable parts of it whether times are good or bad.

Hon. Mr. HANSON: The trouble with the National system in my view—and I am only expressing my own opinion—is that in days gone by you were loaded up with unprofitable lines.

Mr. VAUGHAN: True.

Hon. Mr. HANSON: As a matter of public policy. Now, people should keep that in mind when they are critical of the National system. How much was written off for the unprofitable lines?

Mr. VAUGHAN: There was no capital written off. The amount written off represented almost entirely accumulated deficits.

Hon. Mr. HANSON: Oh, yes, it was the operating deficits that were written off.

Mr. VAUGHAN: Yes.

Hon. Mr. HANSON: So you still have loaded onto the system—and I think this ought to be stated publicly, at least by me—that the National railways have been loaded up from time to time by parliament, expressing the will of the people, with roads that have been a detriment, which have been uneconomic and unprofitable. We ought to realize that fact to be fair to the road.

Mr. VAUGHAN: That is a perfectly correct statement.

Hon. Mr. HANSON: Surely, I think there is no doubt about it. The public, when they criticize the National system, very often lose sight of that fact. I know what it is in my own little province. Take all those dead branch lines; they did not cost so much, but there is the cost of operation.

Mr. VAUGHAN: Take one line in particular, the St. Johns-Quebec, which runs up the St. John valley, we had to assume the interest on the bonds. That line was promoted, I think to some extent, by the New Brunswick government; the dominion government took it over and we have a loss on that short line of approximately \$500,000 a year.

Hon. Mr. HANSON: I am surprised to hear it was so large.

Mr. VAUGHAN: It is a loss in operation of perhaps \$200,000 and interest charges on nearly \$300,000.

Hon. Mr. HANSON: And the public ought to realize that that railway was built under pressure from the people. I know all about it.

Mr. VAUGHAN: Yes.

Hon. Mr. HANSON: And it was done to rectify what was considered an injustice to the province when the transcontinental was located back through the woods.

Mr. VAUGHAN: We assumed interest on \$6,000,000 of bonds on that branch.

Hon. Mr. HANSON: The provincial government retains part of it yet.

Mr. VAUGHAN: The Gaspé line of 200 miles was very much the same. These have all come in since the Canadian National Railways was formed.

Mr. DUBUC: How much is now rectified by depreciation?

Mr. VAUGHAN: None of it is rectified by depreciation.

Hon. Mr. HANSON: That is a dead weight debt.

Mr. DUBUC: Mr. Vaughan has told us that they reduced the capital, and there is the loss which has disappeared with the capital.

Hon. Mr. HANSON: You wrote off the operating deficit and transferred that from the railway indebtedness to the general indebtedness of the country.

Mr. VAUGHAN: Yes, plus interest charged by the government on those deficits.

Hon. Mr. HANSON: You are not able to give us what part of your increase is due to the war?

Mr. VAUGHAN: I am afraid I cannot do it.

Hon. Mr. HANSON: It must be very large. If in the case of the T.C.A. it was 70 per cent it should be safe to say that the increase would be around \$75,000,000, although I think it would be much more than that.

Mr. VAUGHAN: I think it would be fair to say that the increase would be at least \$75,000,000 due to the war.

Hon. Mr. HANSON: The government of Canada itself must pay much more than that a year.

Mr. DONNELLY: The average has been \$230,000,000 and now it has gone up to \$375,000,000.

Mr. VAUGHAN: Yes, of course, but we went through some very depressed years from 1929 on, and they were hardly normal years.

Hon. Mr. HANSON: Quite so.

Mr. HANSON (Skeena): I think the differential between the revenue in 1938 and the revenue this year would be the differential between peace time and war time.

Mr. VAUGHAN: Except that 1938 was hardly a normal year. The traffic was little less than normal, and there was a great deal of unemployment in 1938.

Hon. Mr. HANSON: 1937 would be a better year.

Mr. HANSON (Skeena): Take 1937—one of the normal years.

Mr. VAUGHAN: Gross revenues reach \$375,000,000, averaging over \$1,000,000 per day. Net revenue, after the payment of all operating expenses, was \$86.6 million, an increase of \$20,000,000 over the previous year. The cash surplus, after payment of taxes, interest paid to the public and to the government, was \$25,000,000, an increase of \$21,000,000 over 1941.

Hon. Mr. HANSON: Let us stop there. What was your operating ratio?

Mr. VAUGHAN: It is given in the report on page 6; it was 76.93 per cent.

Hon. Mr. HANSON: That is the best record you ever had?

Mr. VAUGHAN: Yes.

Mr. DONNELLY: What was it last year?

Mr. VAUGHAN: 78.12.

Hon. Mr. HANSON: And in the bad years it was the same?

Mr. VAUGHAN: Yes.

Hon. Mr. HANSON: How does it compare with the class one railways in the United States?

Mr. VAUGHAN: I will answer that question for you a little later; I think we have the information here some place.

Mr. JACKMAN: Would you give us the operating ratios of the three or four other railways in the States that have other indebtedness than we have?

Mr. VAUGHAN: We can do that, although it would probably be an unfair comparison, because we do not have the breakdown of their accounts.

Hon. Mr. HANSON: Have they a standard system of accounting?

Mr. JACKMAN: No, they have not.

Mr. VAUGHAN: We follow the I.C.C. system. Of course, we have many subsidiary departments and outside operations that the railways in the United States have. We operate express companies and commercial telegraphs. The expenses of those companies are included in our revenues and expenses.

Hon. Mr. HANSON: This is a consolidation, is it?

Mr. VAUGHAN: Yes.

Hon. Mr. HANSON: We cannot get a true picture of the railways.

Mr. VAUGHAN: You are getting it so far as we are concerned, Mr. Hanson, because all these properties are included in the railway operations.

Hon. Mr. HANSON: They are included in the whole Canadian National system, but my experience is that we get the subsidiaries and affiliated companies separately and then consolidate them.

Mr. VAUGHAN: These are really not affiliated companies; they are departments of the Canadian National Railways so far as we are concerned.

Hon. Mr. HANSON: Express; do you treat that in the same way?

Mr. VAUGHAN: Yes, that is a department of the railway. I think with the Canadian Pacific Railway the Canadian Pacific Express is a separate company, and, perhaps, their telegraph company is, too. Our branches are railway operations.

Hon. Mr. HANSON: They are departments?

Mr. VAUGHAN: Yes, they are departments.

Hon. Mr. HANSON: How long has that obtained?

Mr. VAUGHAN: A number of years; I do not recall how long.

Mr. COOPER: Our express service is treated as a department of the railway under a special Act of Parliament. I think it is fair to say that considering the nature of the express business, it is more correctly shown as a railway operation than as a separate operation.

Hon. Mr. HANSON: I would not argue the point with you, because I have not considered it. I am rather surprised that any comparison you might make between this railway system and any other railway system is not comparable because you have not got the same set-up.

Mr. COOPER: It is quite comparable, sir, except with respect to express and telegraphs. Our separately operated companies, which are not rail transportation companies, are not included either in our revenues or expenses.

Hon. Mr. HANSON: There is a limitation on what I had in mind?

Mr. COOPER: Yes.

Hon. Mr. HANSON: The railway includes express and telegraphs but not your other companies such as coal mines?

Mr. COOPER: That is correct.

Hon. Mr. HANSON: With that exception they are similar?

Mr. COOPER: They are quite comparable; and I would like to emphasize that our accounts are kept in accordance with the regulations of the Interstate Commerce Commission.

Mr. DONNELLY: Would you say that an operating ratio with regard to your company would be comparable with the American roads if they had different freight rates?

Mr. COOPER: I think if they had the same geographical conditions, climatic conditions, and the same traffic conditions—

Mr. DONNELLY: They have higher freight rates, and the ratio would not be comparable.

Mr. VAUGHAN: They have nothing like the climatic conditions which we have, and there are so many things which might enter into a ratio: the amount charged for, perhaps, deferred maintenance and the amount written off; you would have to have a breakdown of their situation as compared with ours; although there is no question that most of the railroads in the United States—at least many of the big railroads—have a lower operating ratio than we have. For instance, we had to bring into this country last year five million tons of coal, and in freight and duty alone, without the cost of the coal, we paid approximately \$3 a ton on the average.

Hon. Mr. HANSON: That is one of the handicaps. Are your wage rates the same as theirs or lower?

Mr. VAUGHAN: I think, perhaps, if you take the wages by and large that our rates are a little lower than theirs.

Hon. Mr. HANSON: How do their passenger rates compare with yours, are they lower?

Mr. VAUGHAN: I think their average passenger rate is higher than ours.

Hon. Mr. HANSON: My recollection is that in some parts of the United States the mileage rate is lower than it is in Canada.

Mr. VAUGHAN: There may be individual cases of that kind, but taking it as a whole their average passenger rates are higher than ours.

Mr. DONNELLY: And their freight rates are quite a little higher.

Mr. VAUGHAN: Their average per ton-mile rate is higher than ours by, I think, from 8 to 10 per cent.

Hon. Mr. HANSON: I think that is right. Before we leave this, the nearest you can get to a comparison is with the Canadian Pacific, and they do not like that.

Mr. VAUGHAN: I do not think it is fair to compare us with the Canadian Pacific. I would like to make this clear that we try to keep away from saying anything about the C.P.R. so far as we can. We are good neighbours.

Hon. Mr. HANSON: And get along pretty well.

Mr. VAUGHAN: We try to mind our own business without saying anything about them but, on the other hand, I do not think it is fair to compare us with them unless you have their accounts, and Touche and Company examine their accounts and, of course, it would be unreasonable to do that because they are a private company and that is their private business.

Mr. DONNELLY: It is a good thing to have one company watch the other.

Hon. Mr. HANSON: The public inevitably make a comparison between the two. The operating ratio of the Canadian National has been higher than the C.P.R. I am trying to help you. You have handicaps that they have not. You have barren territory that they have not.

Mr. VAUGHAN: We have many thousands of miles more of lines with unprofitable mileage to operate than they have.

Mr. PARENT: The C.P.R. get a lot of government business.

Mr. JACKMAN: Mr. Chairman, you may recall last year in the report of the committee to parliament we recommended that a system of uniform accounting be adopted in this country but, owing to the tremendous shortage of clerical help, etc., the carrying out of that recommendation be deferred until after the war is over. Is that not so?

The CHAIRMAN: That is true.

Mr. JACKMAN: Because we do want to get some standard of comparison so that we may know how the C.N.R. is doing.

The CHAIRMAN: I think it has been recommended by our auditors for some years that we have a standard form of accounting.

Hon. Mr. HANSON: That is by Touche and company.

The CHAIRMAN: Yes.

Mr. VAUGHAN: There are several reasons why the C.P.R. should do better than we can. In the first place we have many thousands of miles more of unprofitable lines to operate. In the next place our fixed charges are over double theirs; they have 20 odd million dollars against our 50 million dollars. In the third place we have no outside revenue like they have.

Hon. Mr. HANSON: I think that is a very sound statement. I should say, you are quite correct on all three, and you are not to blame for it either.

Mr. VAUGHAN: No.

Mr. JACKMAN: Before we leave it this year we have an increase of \$25,000,000 in cash surplus over last year. What was the estimate last year that was brought forward?

Mr. VAUGHAN: When we appeared before this committee last year we said we thought we would do as well in 1942 as we did in 1941 and have five or six million dollars surplus.

Hon. Mr. HANSON: That was very conservative.

Mr. JACKMAN: You did not say anything at all then last year.

Hon. Mr. HANSON: Business was accelerating. Have you reached your peak?

Mr. VAUGHAN: I do not think we have. I would not say we have reached the capacity of our transportation machine. We are hard pushed here and there, but I do not think we have reached the capacity of our machine yet.

Hon. Mr. HANSON: You will take on a little more business?

Mr. VAUGHAN: Yes.

Hon. Mr. HANSON: Whether you can do it or not.

Mr. VAUGHAN: Yes, we are always looking for more business. We do have difficulties particularly at weekends, with passenger travel.

Hon. Mr. HANSON: I guess we all have that. I have felt that myself.

Mr. NICHOLSON: Can you make any estimate as to the percentage increase you can handle with your present facilities?

Mr. VAUGHAN: That would be difficult. It would depend whether it was long haul or short haul traffic, and the character of the traffic.

Hon. Mr. HANSON: Mr. Vaughan, is it not a fact that you are pretty hard pressed and if you take on very much more it would be at the danger of safety in the passenger service?

Mr. VAUGHAN: Our business is limited more at the present time by equipment than otherwise.

Hon. Mr. HANSON: Locomotives?

Mr. VAUGHAN: Locomotives and cars, but we are hoping to get some more locomotives and some more cars.

Mr. EMMERSON: A slight increase may have occurred in some sections, and in other areas you have reached what you might call saturation?

Mr. VAUGHAN: On some sections we are nearly up to capacity, but I would not say we are up to actual capacity on any section yet so far as the railway is concerned. We are limited by equipment to a certain extent.

Hon. Mr. HANSON: I suppose in the west you are not up to capacity. There is no large movement there?

Mr. VAUGHAN: No, and we have a line which we are operating from Nakina east to Hervey junction which is not doing a great deal of business even to-day.

Hon. Mr. HANSON: It is a spotty condition?

Mr. VAUGHAN: Yes.

Mr. NICHOLSON: You have advertised a great deal with a view to having shippers fill up box cars to capacity. What results have you had from that campaign?

Mr. VAUGHAN: We have had very good results. Shippers have co-operated very well with us and that has given us the use of many more cars.

Mr. JACKMAN: This may not be the appropriate place to bring it in but, advertising having been mentioned, what is the purpose of those joint advertisements which you are putting in along with the C.P.R.? Nobody likes to say very much about advertising, perhaps because of our friends in the press, but nevertheless it does use up a tremendous amount of pulpwood and it is pretty costly to the taxpayers to have these adds go in.

Hon. Mr. HANSON: Have a heart, the newspapers have got to live.

Mr. VAUGHAN: It was thought by the railways this was an opportune time to carry on these advertisements. I have got Mr. Thompson here, the manager of our public relations and publicity department, I think he can make a statement to you on it.

Mr. JACKMAN: I do not see that it helps the country very much. I will put it that way. It may help the railway a little bit.

Mr. VAUGHAN: The railways have endeavoured to point out to the public some of their difficulties, and they have also endeavoured to point out to the public some of the things we have done to meet this emergency.

Mr. JACKMAN: It was a good-looking ad, and well done by the artist, but the only real message was contained in two lines with small bold faced type, "Please do not ride over weekends", but the rest of it was just pure publicity.

Hon. Mr. HANSON: Propaganda.

Mr. JACKMAN: Have you increased your advertising appropriation for this year over last year? How does it compare with normal years?

Mr. VAUGHAN: Our advertising appropriations are away down below normal years. Our appropriation for 1943 is just about the same as it was last year. Referring to page 18, in 1942 our advertising expense was \$361,000 against \$555,000 in 1941.

Hon. Mr. HANSON: That is small.

The CHAIRMAN: Would it be possible at all to incorporate that Nakina line east in a second transcontinental line connecting up such terminations as Longlac, Port Arthur and Winnipeg?

Mr. VAUGHAN: If there was business demanding it we could send a lot more traffic over the line from Nakina east to Hervey junction, but we are able to handle the business over our line which runs from Nakina down through Longlac and Capreol into Toronto and Ottawa, and down that way.

Hon. Mr. HANSON: On this question of publicity the railways feel it is good business to maintain proper public relations, not only with the public but with the press. My observation over a good many years is that unless it is

political there is very little criticism of railways in the public press. That is a correct statement, is it not, Mr. Vaughan?

Mr. VAUGHAN: It is true there has not been very much criticism from the press but we hope there has not been any particular reason for it.

Hon. Mr. HANSON: You just reach out and take them into your bosom. I think I know the technique pretty well. I have watched it over a good many years.

Mr. HANSON (*Skeena*): Let us proceed.

Hon. Mr. HANSON: I wish I could get it in my political career.

The CHAIRMAN: We will proceed.

Mr. VAUGHAN: The company's locomotives travelled....

The CHAIRMAN: You are on page 3.

Mr. VAUGHAN: I am ahead of my story.

RESULT OF OPERATIONS

	1942	1941	Increase or Decrease
Operating Revenues	\$375,654,543 40	\$304,376,778 12	\$71,277,765 28
Operating Expenses	288,998,674 72	237,768,437 13	51,230,237 59
Net Operating Revenue.....	\$ 86,655,868 68	\$ 66,608,340 99	\$20,047,527 69
Other Income and Profit and Loss Accounts	12,610,407 85	12,247,025 13	363,382 72
Net Income Available for Interest	\$ 74,045,460 83	\$ 54,361,315 86	\$19,684,144 97
Interest on Funded Debt held by Public	34,949,557 92	44,698,226 88	9,748,668 96

Hon. Mr. HANSON: Is that due to the fact that you bought in a large part of these securities?

Mr. VAUGHAN: It is due to these vested securities. You will notice loans to the government are up and the loans to the public are down.

Interest on Government Loans...	\$14,032,634 59	\$ 5,646,762 24	\$ 8,385,872 35
Cash Surplus	\$25,063,268 32	\$ 4,016,326 74	\$21,046,941 58

Hon. Mr. HANSON: If you paid income tax what would become of your cash surplus under present-day conditions on 1942 account? Would you have any surplus?

Mr. VAUGHAN: It would be reduced. Our position, of course, is this: while we do not pay any income tax, we pay everything that we earn back to the government. We have given the government a cheque for the \$25 million surplus.

Hon. Mr. HANSON: I am not criticizing, I am trying to suggest this, that the National Railway system, if put on the basis of a privately-owned corporation with comparable earnings and expenses, would not show a cash surplus of \$20 million or anything like it.

Mr. VAUGHAN: You have in mind, of course, that the excess profit tax, etc., would take a large portion of that.

Hon. Mr. HANSON: I have in mind the laws of this country would compel you to pay as it compels me to pay into the treasury for the support of the war.

Mr. VAUGHAN: Yes; as against that, Mr. Hanson, if we were a privately-owned company we would not have \$50 million fixed charges; some of these railways would have gone through the wringer long ago and we would have fixed charges of perhaps \$15 million, and we do not get a subsidy for operating colonization lines such as the railroads do in Australia and some other countries.

Hon. Mr. HANSON: Your cost of funded debt comes off before you strike a proper balance sheet?

Mr. VAUGHAN: Yes.

Hon. Mr. HANSON: That argument is washed right out. I agree that there is a good deal in your contention that you have been loaded up with a lot of things, and I sympathize with that position, nevertheless the public ought to understand—I hope this will get out to the press and not be suppressed—that if this system were paying income tax this cash surplus, which, of course, is a very fine surplus, would largely disappear. In other words, you would not be benefiting from the war as everybody else is not.

Mr. VAUGHAN: I suppose if we paid income tax we would have to pay around 40 per cent.

Hon. Mr. HANSON: Of your net.

Mr. VAUGHAN: Yes.

Hon. Mr. HANSON: It depends on what your basis would be.

Mr. VAUGHAN: We figure it would be around 40 per cent.

Hon. Mr. HANSON: Certainly you would be entitled to be classed as a depressed industry in the base period.

Mr. VAUGHAN: Yes.

Hon. Mr. HANSON: There is no doubt about that.

Mr. VAUGHAN: Yes.

Hon. Mr. HANSON: That would be 40 per cent of \$25 million, \$10 million.

Mr. VAUGHAN: That is correct.

Mr. NICHOLSON: If you had taken over the railways on the basis on which it would have been bought up by a private firm, what would be the difference in the fixed charges that would be paid?

Mr. VAUGHAN: That is very difficult to say. Take the C.P.R.; all their lines in the United States have been in the receiver's hands, lines like: Duluth, South Shore and Atlantic, Soo line, Wisconsin Central and Spokane International. The Soo line has gone through receivership and their fixed charges will be about one-fifth or one-quarter of what they were before.

Hon. Mr. HANSON: Maybe we made a mistake in that regard, but I was not here and you were not here.

Mr. VAUGHAN: That was not my problem.

Hon. Mr. HANSON: In the old days the defence was, it was in war time. That was the reason or the alibi, I do not know which. It was not done because the country was at war, but because it was thought that it would be a reflection on the national credit. Now, if our foresight had been as good as our hindsight the country might have acted differently.

Mr. VAUGHAN: You recall the bonds of the privately-owned companies were guaranteed either by the dominion or provincial government; they did not have much alternative.

Hon. Mr. HANSON: Yes, I quite agree; that was an additional reason. They could not let the provincial governments go broke.

Mr. VAUGHAN: Yes.

Hon. Mr. HANSON: The federal government might have stood up against the emergency, but the provincial governments probably could not.

Mr. VAUGHAN: Unfortunately, that burden is on our shoulders for all time.

Hon. Mr. HANSON: Yes, it is a sad situation. The bondholders were saved. Of course, that gives our friends the C.C.F. another argument against private—

Mr. JACKMAN: They are not against government funds.

Hon. Mr. HANSON: Not against government funds.

Mr. JACKMAN: What rate do you pay the government on these government loans which are replacing—

Mr. VAUGHAN: Three and one-half per cent.

Mr. JACKMAN: What is the average rate, approximately, on the securities you are getting from the old country?

Mr. COOPER: We come to that later in our report; we saved about one million dollars a year as a result of repatriation.

Hon. Mr. HANSON: A good operation.

Mr. JACKMAN: There is one other question I should like to ask. I am now referring to the line, "Other income and profit and loss accounts, \$12,610,407.85 as against \$12,247,025.13." That is a relatively small increase percentagewise as compared with the increase in the net operating revenue of the railway system. Are there any particular items to point out or any particular reason why they have not gone up relatively as much as the income of the railway system?

Mr. COOPER: Mr. Chairman, we can deal with that now, but it is dealt with later on in another section of the report.

Mr. VAUGHAN: Shall I proceed?

The CHAIRMAN: Yes.

Mr. VAUGHAN:

The year's operations gave further proof of the value of the Canadian National System to the nation. The greatly increased demands of the armed forces, of the war industries, and of the civilian population for transport, communications and other services, were fully met, and the Company markedly extended its own production of ships and munitions.

One of the problems was to handle the great volume of business without large increases in equipment and personnel, the supplies of which were difficult to obtain. Many measures were taken to meet this situation, and new records of performance were established.

There was an increase, as compared with pre-war records, in the daily mileage made by cars and locomotives, in the tonnage of the average freight train, and in the tonnage of freight loaded into the average car.

Hon. Mr. HANSON: I have not been able to read this thing before, and consequently have not made a study of it. Would it be permissible in the national interest to tell us the company's production of ships and munitions?

Mr. VAUGHAN: I can say this in a general way, that we have built a number of minesweepers and 10,000-ton cargo boats at our Pacific coast shipyards. We are building guns and gun carriages in the National Railways munitions plant and building some secret devices in our shops.

The Company's locomotives travelled 90 million miles, in one important group the locomotives averaging 375 miles per day throughout the year.

Hon. Mr. HANSON: Have you been able to keep up your maintenance at the increased rate?

Mr. VAUGHAN: Generally speaking we have been able to keep all our locomotives sufficiently maintained to keep them in safe running order, but perhaps some heavy repairs on those locomotives have had to be deferred, but it has not impaired the immediate efficiency of the locomotives.

Similarly, an increase in the serviceability ratio improved the freight car situation by 3,900 units as compared with 1939. New freight cars obtained numbered 1,163, bringing the system's total to 90,353.

The increased passenger traffic was handled by increasing the number of trains, the length of trains, and the daily mileage made by passenger cars. The passenger transportation service to war plants has become of increasing importance, and each day the Canadian National is transporting 20,000 workers to and from these plants. Twenty-five new and 106 second-hand units of passenger equipment were purchased during the year.

Mr. JACKMAN: Did you get the second-hand ones from the States again?

Mr. VAUGHAN: Yes. We got those from the States, from the Pullman Company.

Hon. Mr. HANSON: I have noticed a great many wooden cars. I have often thought there was great danger in using them. You do not use them in your through-express, of course.

Mr. VAUGHAN: No.

Hon. Mr. HANSON: Only once in a while you see them.

Mr. VAUGHAN: Yes.

Hon. Mr. HANSON: Is that not a pretty dangerous practice?

Mr. VAUGHAN: They are always placed in positions in the train where the danger will be least.

Hon. Mr. HANSON: You put them at the end.

Mr. VAUGHAN: We do not put wooden cars in between steel cars.

Hon. Mr. HANSON: I hope the day will come when we will not have any more wooden cars.

Mr. VAUGHAN: There were very few of those cars in the service before the war. But all railroads have had to press into service every bit of usable equipment that they had.

Hon. Mr. HANSON: They have a car on the eastern branch between Fredericton and Newcastle which, I am told—

The CHAIRMAN: Louder, please.

Hon. Mr. HANSON: I am told it was brought over from the island and changed to standard gauge, and that it was made before confederation.

Mr. DONNELLY: Came over with the *Mayflower*.

Hon. Mr. HANSON: Yes. I had thought of writing to Mr. Appleton about it, but after all—

Mr. VAUGHAN: We will take them off after the war.

Hon. Mr. HANSON: I will never ride in it.

Mr. JACKMAN: Have you had to ask for, or has there been any amelioration of the rules governing railway traffic to enable you to use old equipment, by the governing body?

Mr. VAUGHAN: No.

Mr. JACKMAN: By the Board of Transport Commissioners?

Mr. VAUGHAN: No. There has been no alteration in the safety measures as laid down by the Board of Transport Commissioners.

Mr. JACKMAN: There is a provision you have under the I.C.C. for the braking system.

Mr. VAUGHAN: Yes.

Mr. JACKMAN: Under the I.C.C. it was ten years.

Mr. VAUGHAN: Yes.

Mr. JACKMAN: I believe that has been postponed.

Mr. VAUGHAN: We are equipping the cars that go through the shops with the new brakes as we can get them; and we have equipped a tremendous number

of cars with those new brakes. Also we have practically no cars left with the old arch bar trucks. We have cast steel trucks on all our box cars.

Mr. JACKMAN: As far as the railway is concerned, the program has been carried out as if there was no particular difficulty.

Mr. VAUGHAN: That is correct, to the extent that we can get the material.

Hon. Mr. HANSON: That is a very real problem, the obtaining of material.

Mr. VAUGHAN: It is a problem, but we have been reasonably successful so far.

Hon. Mr. HANSON: You got the steel for the Montreal terminals all right.

Mr. FERLAND: Mr. Chairman, if you will permit me, I should like to ask a question. You mentioned that each day the Canadian National transported 20,000 workers to and from the war plants.

Mr. VAUGHAN: Yes.

Mr. FERLAND: Do those workers get free transportation?

Mr. VAUGHAN: Not so far as we are concerned, no. We make a deal with the industry involved, and the industry makes a deal with its workers.

Mr. FERLAND: So far as the Canadian Car and Munitions is concerned, the workers coming from Montreal get free transportation on your cars?

Mr. WALTON: No. We are paid by the industry. There is a regular schedule of charges based on the number of cars in the train, the number of trains running and the distance.

Mr. FERLAND: They get a pass?

Mr. WALTON: I do not know what the employees' arrangement with the industry is, but the railway gets paid by the industry according to a pre-arranged schedule of charges, which is the same for each.

Mr. FERLAND: But to travel on your road to the industry, they have a pass from the railroad to establish their identity?

Mr. WALTON: Yes. They have to establish their identity. In some cases this is what is done. Their button which allows them to go into the plant is their identification for the train. Then the responsibility rests on the officials of the industry to see that unauthorized people do not ride. But we do not collect individual fares.

Hon. Mr. HANSON: The cost, of course, comes out of the individuals. It does not come out of the government.

Mr. WALTON: One reason for that arrangement was that on some of these quite short trips there would not be time to actually collect the fare from each passenger.

Hon. Mr. HANSON: Quite so. Then, of course, they wanted service for the workers, and they had to make arrangements to get them to work.

Mr. WALTON: That is right.

Mr. VAUGHAN: I might mention some of these services:—

Quebec—Val Rose	15	miles
Winnipeg—Cordite	9.3	miles
Montreal—Fairchilds	9.9	miles
Maisonneuve—Cherrier	13.7	miles
Parkdale—Magor	12.14	miles
Chicoutimi—Arvida	5.5	miles
Prince Rupert—Port Edward	8.6	miles

Those are some of the workmen's services which we operate.

Hon. Mr. HANSON: Those are considered to be a national service and the government bears the cost in order to get the men there and back and keep in production.

Mr. WALTON: I presume it is the only way the industry could get these men there.

Mr. EMMERSON: Is it not true that on some of your trains you use more than one conductor. On account of the traffic you have to use larger train crews.

Mr. WALTON: Yes, that is quite true. We have had to do that.

Mr. EMMERSON: In collecting the fares there is an assisting conductor?

Mr. WALTON: It is a common practice on the various roads, where the number of people are beyond a certain figure, that what is called an "assistant conductor" is used.

Mr. EMMERSON: In order to be able to collect the fares?

Mr. WALTON: Yes.

Mr. VAUGHAN: We want to see that we get all the fares that are coming to us.

Mr. EMMERSON: In the matter of longer mileage for locomotives, what is the practice, for instance, on through trains, such as through freights—that is fast freights—and through passenger trains? Do the locomotives go beyond the divisional points that they used to have when engines were changed? Do they run right through, just changing the engine crews?

Mr. VAUGHAN: That is correct. For instance, on our passenger trains from and to Halifax we run one engine from Montreal to Halifax.

Mr. EMMERSON: Is that done on the freights?

Mr. WALTON: No.

Mr. VAUGHAN: No, not on the freights.

Mr. EMMERSON: Just on the passenger.

Mr. WALTON: There are some difficulties in connection with the freight operation that are not present in the passenger, such as changes of tonnage capacity and so on. Generally speaking, you cannot extend the long engine run to the same extent an freight that you can on the passenger by reason of the nature of the engine and other conditions.

Hon. Mr. HANSON: Are you able to clean them at any point?

Mr. WALTON: Yes. The fire is cleaned and they are coaled and watered and the engine crews changed—a direct change from one engine crew to another—and the engine continues on.

Hon. Mr. HANSON: And it has worked out all right?

Mr. WALTON: It has worked out all right. There is the odd time in severe weather when an engine has to come off at one of these intermediate points. But, generally speaking, it works all right. In fact, our mechanical people tell us that the fewer times you have to knock the fire out of the engine, the less damage there is to the fire box tubes and so on.

Hon. Mr. HANSON: I know of one exception. There was a case, I understood, of a wreck at Jacquet river, or somewhere, where the engine had not been cleaned at Campbellton due to the lack of time; at least that was the report from Campbellton.

Mr. WALTON: I do not recall the case.

Hon. Mr. HANSON: They ran into a freight train. No, it was a freight engine. Perhaps I should not refer to that now, because I am not quite clear about it in my own mind.

Mr. WALTON: I do not remember any such circumstance.

Mr. VAUGHAN: I do not remember any such occasion.

Hon. Mr. HANSON: I remember the incident but I am not just quite sure in my mind as to the particulars. It is very interesting to hear that you are running your engines straight through from Halifax to Montreal.

Mr. WALTON: Actually the longest run we have is from Winnipeg to Edmonton.

Mr. VAUGHAN: In reality that same engine goes through to Jasper.

Mr. WALTON: So the length of the run without any other than intermediate attention is over 1,000 miles.

Hon. Mr. HANSON: They are very good engines. There is no doubt about it.

Mr. VAUGHAN:

Meeting the demands for wartime service is the company's main contribution to the war effort. Any credit for the success attained in the face of limitations of material and manpower must be shared with the company's staff, its patrons and the governmental agencies, all of whom have been quick to understand the railway's problems and have given their wholehearted support.

Difficulties in obtaining railway supplies and equipment are, however, increasing as the war goes on, and it is the view of the directors that the provision of priorities to enable the railway to maintain its operating machine in an efficient state will continue to be of vital importance.

Mr. JACKMAN: This tribute to the men in the company's service is undoubtedly well deserved, particularly in view of the fact that so many men have enlisted. One sometimes wonders how you are able to carry on. You have had 10,000 or 15,000 of your men join the armed forces and yet you are handling this tremendous increase in traffic. I am just wondering how some of the old union rules which were put in, probably in an endeavour to spread the work, are operating at the present time.

Mr. VAUGHAN: I think perhaps Mr. Walton could tell you some instances.

Mr. WALTON: I have seen the articles which have been appearing in some of the magazines with respect to the so-called "feather-bedding" rules in the United States. I would say that we have very little of that in Canada. One provision over there, which is a state law in certain of the states, is in regard to a third brakeman on trains. We do not have that position here.

Hon. Mr. HANSON: Is that on freight or passenger?

Mr. WALTON: That was on freight. Some of their other regulations that work against the best operation we are not faced with. In regard to other conditions, during the depression the men voluntarily agreed through their brotherhoods to reduce the number of miles—these men are all paid on a mileage basis—in order to spread the work. That has definitely been taken up now. Any restrictions which were put on with a view to spreading the work substantially have been withdrawn—I say, substantially. There may be the odd location where work still is at a minimum in outlying districts, some place where restrictions of that kind still remain.

Hon. Mr. HANSON: But all the slack has been taken up?

Mr. WALTON: Yes, generally speaking.

Mr. JACKMAN: How far does a locomotive engineer drive for a day's pay?

Mr. VAUGHAN: They usually are limited to division points; but occasionally an engineer may work as much as sixteen or eighteen hours in the day, but then he is given sufficient hours off in which to get thoroughly rested before he is put on service again.

Mr. WALTON: The average trip would be probably 150 miles, from terminal to terminal.

Mr. JACKMAN: What I want to get at is this. In some of these articles in the press I have seen it stated that the workers, on account of the arbitrariness of their rules, receive at times unreasonable rates or double the amount of pay. For instance, they run 150 miles or 300 miles for a day, and if they happen to

go 310 miles they must be paid, for that extra 10 miles, the same amount as they received for the 300.

Mr. WALTON: No, there are no cases of that kind here. There is something to be said for the double pay. For instance, if a man, say, has a run of 150 miles on a passenger train and then, due to some emergency, we require to put him on a freight train, he then begins another day; and I do not think you can find much fault with his receiving another day's pay for that.

Hon. Mr. HANSON: I would think it would be perfectly justified, because he begins a new day.

Mr. EMMERSON: Has there been any change in the compulsory retirement age?

Mr. VAUGHAN: No. Our compulsory retirement age is 65; but I should clarify that to this extent, Mr. Emmerson. In connection with our telegraphers, shop men, conductors, engineers, etc., in view of our urgent need of them, we continue these men on beyond the 65-year age limit, providing they pass a medical examination.

Mr. WALTON: That is in terms of extending the man-power as far as reasonably possible.

Hon. Mr. HANSON: In connection with the man-power question, you have had, of course, to take on a great many new people, have you not?

Mr. VAUGHAN: Yes.

Hon. Mr. HANSON: And I understand you have been calling up the junior men. How have you been getting along with national selective service in that respect?

Mr. VAUGHAN: Mr. Coleman and myself have recently made certain representations to the labour department in connection with the selective service, and I think our suggestions will probably meet with favour; and if they do, we do not anticipate any difficulty.

Hon. Mr. HANSON: Are you able to say what those were?

Mr. VAUGHAN: What we did, Mr. Hanson, was to specify certain positions that we considered to be essential, stating that in our opinion men who were engaged in those positions should not be drafted for war service.

Hon. Mr. HANSON: Did you make any representations against voluntary enlistment?

Mr. VAUGHAN: No, sir.

Mr. EMMERSON: And you had to make some changes in regard to the age limit of young men coming in?

Mr. WALTON: Yes. We have had to rearrange our age limit so that new employees could be accepted in order to man the service.

Hon. Mr. HANSON: That was because of the regulation.

The CHAIRMAN: Gentlemen, if you have no objection, we will meet again tomorrow morning at 11 o'clock.

Mr. EDWARDS: Mr. Chairman, I should like to file, for the information of the committee, the exchange of notes regarding the international aviation arrangement.

The CHAIRMAN: Those will be included in the report (*See Appendix "A" of Minutes of Proceedings and Evidence of March 30, 1943.*)

The committee adjourned at 1:00 o'clock p.m. to meet again at 11:00 o'clock a.m. tomorrow, April 1st, 1943.

SESSION 1943
HOUSE OF COMMONS

STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 3

THURSDAY, APRIL 1, 1943



WITNESSES:

- Mr. R. C. Vaughan, Chairman and President, Canadian National Railways.
- Mr. N. B. Walton, Executive Vice-President, Operation and Construction Departments, Canadian National Railways.
- Mr. T. H. Cooper, Comptroller, Canadian National Railways.
- Mr. O. A. Matthews, of George A. Touche & Co., Auditors.

MINUTES OF PROCEEDINGS

THURSDAY, April 1, 1943.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government met at 11 o'clock a.m., the Chairman, Mr. Howden, presiding.

Members present: Messrs. Donnelly, Dubuc, Durocher, Emmerson, Ferland, Gray, Hanson (*Skeena*), Hanson (*York-Sunbury*), Howden, Jackman, McCulloch, Michaud, Nicholson, Parent, Pouliot, Ross (*Middlesex East*), Sanderson, Shaw, Sissons.

In attendance: Commander C. P. Edwards, Deputy Minister of Transport, Mr. R. C. Vaughan, Chairman and President, Canadian National Railways, Mr. N. B. Walton, Executive Vice-President, Mr. T. H. Cooper, Comptroller, and Mr. O. A. Matthews, of George A. Touche & Company, Auditors.

The Committee resumed consideration of the Annual Report of the Canadian National Railway System for the year ended 31st March, 1942.

Mr. Vaughan was recalled and further examined.

Messrs. Walton and Cooper were also briefly examined on questions relating more particularly to their respective departments.

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

AFTERNOON SITTING

The Committee met again at 4.45 p.m. Mr. Howden presided.

Members present: Messrs. Dubuc, Durocher, Emmerson, Ferland, Hanson (*Skeena*), Howden, Jackman, McCulloch, Michaud, Pouliot, Ross (*Middlesex East*), Sanderson, Shaw, Sissons.

Mr. Vaughan concluded the reading of the Annual Report of the Canadian National Railway System, this being followed by consideration of the Consolidated Balance Sheet at 31st December, 1942.

Messrs. Walton, Cooper and Matthews also gave evidence.

At 6.00 o'clock the Committee adjourned to meet again to-morrow, Friday, April 2, at 10.30 a.m.

R. ARSENAULT,

Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,
APRIL 1st, 1943.

The Standing Committee on Railways and Shipping met this day at 11 o'clock a.m. The Chairman, Mr J. P. Howden, presided.

The CHAIRMAN: Order please, gentlemen. We have a quorum and we can go ahead. We were dealing with the Canadian National Railways' report and we will proceed from where we left off yesterday.

Mr. VAUGHAN: I think we were on page 5 yesterday, just starting it.

The CHAIRMAN: Yes, proceed.

Mr. VAUGHAN:

The present indications are that the traffic of the railway in 1943 will exceed that of 1942. This will call for even greater effort, but the directors have confidence in the ability of the system to meet the demands made upon it.

The railway continues to be actively engaged in the manufacture of munitions of war, including guns and gun carriages. Cargo vessels of 10,000 tons are being built in the company's shipyards to meet wartime needs, and its drydock facilities are being used for repairs to ocean-going craft.

The average number of employees, including express and telegraphs but exclusive of hotel and subsidiary company employees, was 94,592 during the year. The total payroll was \$177,042,773.

Mr. DONNELLY: Is that much of an increase in the number of employees?

Mr. VAUGHAN: Yes. In 1941 we had 89,536 and that was increased by approximately 5,000 over 1940.

Mr. JACKMAN: How many of your employees have gone to the armed services, I presume it would be around 12,000 or 15,000?

Mr. VAUGHAN: From the railway alone, something over 10,000 have joined the armed services; and we have a good many of our people in the merchant marine service.

Mr. JACKMAN: It must be quite a problem to know what you are going to do about the men you are taking on now; and it will be even more of a problem when it comes to giving men who have returned from overseas their jobs back. What is your policy on that, your thought?

Mr. VAUGHAN: That is something we will have to deal with when we come to it. We have promised our men who have gone overseas that when they return their old positions will be waiting for them and that their seniority would not suffer.

Mr. JACKMAN: That is good.

Mr. VAUGHAN: We have also agreed to protect their pension status.

Mr. JACKMAN: That is fine. I think we are all heartily in accord with a policy of that kind. Have you made any promises to any of the people you are taking on the railways now as to what their prospects will be for continuing on after the war? Have you made any commitments?

Mr. VAUGHAN: No, sir, we have not done that in any case.

Hon. Mr. HANSON: How do you regard them, as temporary?

Mr. VAUGHAN: As temporary; and if we require them to continue after the war they will become permanent.

Hon. Mr. HANSON: You are going to have a problem when that arises. Have you given any consideration to or made any plans about doing your share of taking up the slack in unemployment in the nation; if as and when that time arrives?

Mr. VAUGHAN: We have given that matter a good deal of consideration, Mr. Hanson.

Hon. Mr. HANSON: All I can say is that if you have solved that problem you are entitled to your just reward.

Mr. VAUGHAN: When the War is over, and the urgent need for men no longer exists, our men over sixty-five, who have been retained in service during the War, will be retired and it may be that in order to take care of our younger men, we may have to retire some men below the age of sixty-five.

Hon. Mr. HANSON: Yes, that would be one factor; but they are still employable, are they not?

The CHAIRMAN: May I ask this question: I understand there is a working arrangement with the Railway Brotherhood that after a man is in the employ of the company for six months he becomes permanent automatically. How does that apply in regard to war?

Mr. VAUGHAN: That does not apply to them—if there is no place for them to work they will have to be released.

Mr. EMMERSON: But would they not retain their rights as to employment? They would still have their seniority. If you needed new men they would have first claim for employment when employment was available.

Mr. VAUGHAN: Oh yes, they would be senior to anyone who came in after them.

Mr. EMMERSON: That is what I understood, that they were callable when work was available for them.

Mr. VAUGHAN: We hope that when business is normal again that we will have a substantial reserve with which to catch up on maintenance.

Hon. Mr. HANSON: That will not be true of the running trade, that would be the mechanical trade?

Mr. VAUGHAN: That is correct.

Hon. Mr. HANSON: What is your big increase in, the running trades or the mechanical trades?

Mr. VAUGHAN: I will get those figures for you, Mr. Hanson. I think we have the figures some place and I will get them for you.

Hon. Mr. HANSON: You will agree with me, will you not, that the big problem in this country is embarking upon full employment after the war.

Mr. VAUGHAN: Yes, I entirely agree.

Hon. Mr. HANSON: What is the view of the Canadian National Railways as to its functions and duties—if I may use that term—towards fulfilling that adequately? I hope that the railway as a great national enterprise will use its best endeavours to adjust the question of employment so as to do its share toward that end, because I think that, notwithstanding all this talk about social security, employment is the fundamental thing that we must aim for in this country.

Mr. VAUGHAN: I think you are right.

Hon. Mr. HANSON: This institution has its part to play. You can hand out all the insurance money you like, but nothing will take the place of employment.

Mr. VAUGHAN: We dislike very much having to lay off men, but when our gross earnings are declining we must reduce our expenses.

Hon. Mr. HANSON: You have a problem there.

Mr. VAUGHAN: Unfortunately, that automatically brings about a reduction in the staff.

Hon. Mr. HANSON: Yes, there are no new enterprises on which you can embark; that is your limitation.

Mr. VAUGHAN: I do not know what the policy of the government will be after the war, but if they intend to carry on works in order to assist in taking up the slack of unemployment, and if they would allocate specific sums to the two large railways, I am sure we would see that the money was spent to the best advantage and in a way that would give the greatest amount of employment and provide useful facilities.

Hon. Mr. HANSON: Yes. Would you think it was part of your duty to lay plans towards that end and indicate policies to the government in that regard?

Mr. VAUGHAN: As a matter of fact, Mr. Hanson, we have a committee working on that.

Hon. Mr. HANSON: That is good. I am glad to hear it; because I hope this thing will not be left to the brain-trusters of the country; enterprise, business, has got to do 9/10ths of this job.

The CHAIRMAN: In the matter of railway replacements, it would make very little difference whether you made those yourselves or paid for them, there would be the same amount of labour in either case. Would there be any very great difference in cost? Would it cost you as much to build them as to buy them?

Mr. VAUGHAN: There is not much difference.

Hon. Mr. HANSON: If the facilities are not available and the cost is a factor, it would be better not to embark on new enterprises of that character?

Mr. VAUGHAN: If we were to start in on the wholesale building of equipment, we would need additional facilities and we do not want to spend the money that would be required for them.

Mr. McCULLOCH: Your equipment will be pretty well run down.

Mr. VAUGHAN: As I said yesterday, we are keeping our equipment in serviceable condition, but there will be some heavy repairs to be made after the war.

Mr. McCULLOCH: I understand there is a lot of steel that you cannot get now.

Mr. VAUGHAN: That is correct, it is very difficult to get steel.

Hon. Mr. HANSON: In your financial set-up are you privileged to lay up any reserve against that day when we will have to take up this additional maintenance and this repair work?

Mr. VAUGHAN: We set aside this year—at least, in 1942—\$12,500,000 for deferred maintenance which we have charged into our operating expenses. We will have that money available to spend later on and it will not at that time have to go into our expenses again.

Hon. Mr. HANSON: That is a good policy. I think that is very sound.

Mr. VAUGHAN: Yes.

Mr. DONNELLY: Can you give us any idea as to how many new men you have had to employ for military work, government work?

Mr. VAUGHAN: That would be very difficult to estimate. I think I better file with the committee a statement of the number of employees for the last

ten years or so. We have, for instance,—in response to your question—we have 1,900 men in our munitions plant in Montreal.

Hon. Mr. HANSON: Of course, that will automatically stop some day.

Mr. VAUGHAN: Quite.

Hon. Mr. HANSON: That is a subsidiary company, isn't it?

Mr. VAUGHAN: It is a government company.

Hon. Mr. HANSON: You are operating for them?

Mr. VAUGHAN: Owned entirely by the government; we are charging a fee for supervising the operation.

Hon. Mr. HANSON: Yes; you do not feel the same responsibility for them as you have for say railway employees.

Mr. VAUGHAN: No, we do not; although I want to say this, that a number of our own men had to be put into that plant to get it started.

Mr. JACKMAN: Loaned, so to speak.

Mr. VAUGHAN: I mean, expert mechanics.

Hon. Mr. HANSON: As to those employed in this munition factory; do they have any seniority rights on the road?

Mr. VAUGHAN: No.

Mr. JACKMAN: They are hired outside the railway?

Mr. VAUGHAN: Yes.

Hon. Mr. HANSON: They are not railway employees.

Mr. VAUGHAN: No; but our railway employees who went in there to work temporarily will not lose their standing with the railway. Any new employees taken on will not be considered railway employees.

Mr. JACKMAN: Referring to that last paragraph which you just read, as to the number of employees in subsidiary companies; does that refer only to hotels, or to these crown companies you are running?

Mr. VAUGHAN: We do not put in any of the National Railway Munitions plant employees; we do not include any of the employees of Montreal Fruit and Produce Company or of the Montreal Stockyards—

Mr. JACKMAN: But all the hotels?

Mr. VAUGHAN: —or the persons at the Prince Rupert Dry Dock company or places like that.

Hon. Mr. HANSON: You do not include companies which you control as subsidiaries.

Mr. VAUGHAN: No.

Mr. JACKMAN: But you do include the hotels and your regular subsidiaries?

Mr. VAUGHAN: I will ask Mr. Cooper to answer that.

Mr. COOPER: No, sir. We do not include in the number of employees those engaged in ancillary services including hotels.

Mr. JACKMAN: Before you leave that particular paragraph entirely: with respect to the relationship between revenue and expense, is it very hard to find a standard of comparison between the C.N.R. either in this country or in the United States? I was wondering if you could say anything as to whether or not the C.N.R. has got as much, or more, or less of the gross revenue to net as compared let us say to the C.P.R. or to some of the large American railways. How much of your gross have you got to net relative to other railroads?

Mr. VAUGHAN: I think Mr. Cooper has some figures on that.

Mr. COOPER: Well, in comparison with the Canadian Pacific we had an increase in gross of \$71,000,000 of which \$20,000,000 was reflected in net.

Mr. JACKMAN: That is in the year—

Mr. COOPER: That is in 1942 as compared with 1941. The Canadian Pacific had an increase in gross of \$36,000,000 and they carried to net an additional \$11,200,000.

Mr. JACKMAN: Your gross you said was \$71,000,000—and how much did you say your net was?

Mr. COOPER: Our additional net was \$20,000,000.

Mr. JACKMAN: So the C.P.R. carried a third and you carried about 30 per cent—just a little bit less.

Mr. COOPER: The relationship is very similar, as a matter of fact.

Mr. JACKMAN: The C.P.R. had a net of a third of the \$36,000,000 gross; they had a net of \$11,200,000.

Mr. VAUGHAN: It is almost impossible to make comparisons with the C.P.R., unless we know what is included in their expenses, and unless they are quite comparable with ours.

Mr. JACKMAN: I realize that, but what we were talking about before was, is there any way of getting a comparison. After all, all of these differentials have been there in the past and now we have a war which brings about an increase. Could we not reach a reasonably fair basis of comparison?

Mr. VAUGHAN: We have no idea what amounts they charged into deferred maintenance or to other accounts. To-day we are charging into our accounts \$24,500,000—deferred maintenance, writing down inventories, extra depreciation and things of that kind; that is reflected in our operating ratio.

Hon. Mr. HANSON: They are a taxed company and you would expect them to charge all the traffic could bear.

Mr. VAUGHAN: I think they are capable of looking after themselves.

Mr. JACKMAN: If you had charged off items as reserve, for instance that \$24,000,000 figure, it would be good policy if you would put that in your revenue or in your income statement.

Mr. COOPER: Oh yes, it is all in our income statement.

Mr. JACKMAN: You have?

Mr. COOPER: Yes. I do not think what the company charges into its accounts is controlling as to what enters into taxable income. For example, we have taken up \$12,850,000 for deferred maintenance.

Mr. JACKMAN: Yes.

Mr. COOPER: Now, certainly if we were in the United States, the Internal Revenue department would not admit that item in computing taxable net income.

Mr. JACKMAN: You mean they would not allow it all?

Mr. COOPER: No.

Hon. Mr. HANSON: They would not?

Mr. COOPER: No. And I may add this, assuming we fixed in our judgment what we regard as the correct depreciation percentage, in turn the Internal Revenue department would restate those percentages, to what they considered were the correct percentages and in general amounts which they allow for tax purposes would be less than the carrier or company might think proper.

Mr. JACKMAN: In other words you might have carried a net that would have been greater than would have been allowed by the Department of National Revenue, with the result that your published statement would not conform with your tax statement. You would not be allowed to charge off so much, and you would have to carry more of a profit, would you not?

Mr. COOPER: No, I do not think the income tax people dictate what is reported in the company's accounts as revenue, expense, income, or anything else. For tax purposes they define what is taxable income and what are allowable deductions; and they may agree, or they may not agree, with what you include in your accounts.

Hon. Mr. HANSON: Oh yes, that is not a bad practice. Now I am speaking with proper reserve and with some deference; but I have been on a number of boards and I know we go into this thing very carefully, particularly the final accounts for the year; and the directors question them and they also question the treasury department as to how they will go with the income tax people, and they always say that this will be allowed and that will be allowed; and we never try to put anything into the shareholders' statement that we are not reasonably certain will be agreeable to the income tax people. You are taking the view that a private company's statement of accounts to shareholders is not controlled by that.

Mr. COOPER: That would be my general view, yes.

Hon. Mr. HANSON: Have you anything to base that on besides your opinion?

Mr. COOPER: My opinion is based on my experience with respect to our American railways.

Hon. Mr. HANSON: Oh, yes.

Mr. COOPER: We have to go before the International Revenue department in Washington and discuss these matters there.

Hon. Mr. HANSON: And they are a pretty hard-boiled lot.

Mr. COOPER: They are. Let us say in the matter of depreciation we decide on 4 per cent as being a correct charge to set up against locomotives. They might say to us it should be $2\frac{1}{2}$ per cent and they will strike out of our accounts for the purposes of taxation the $1\frac{1}{2}$ per cent which they consider excessive. After all, if a company were permitted to pay taxes on what it thinks is its net income, I don't know how you would be able to finance a war.

Hon. Mr. HANSON: We can draw our own inference.

Mr. VAUGHAN: I think, Mr. Hanson, it depends on the result the company wants to show.

Hon. Mr. HANSON: It is a legitimate thing when you are dealing with a taxing authority to make fair and reasonable deductions. I want to say that I never saw any crime in trying to keep down taxation on the part of anybody.

Mr. COOPER: We have reached the stage in our U.S. companies—and I think it is a general situation,—that we maintain two sets of accounts, one which is that of the corporation and the other to disclose the taxable income.

Hon. Mr. HANSON: That is not my experience.

Mr. COOPER: On that, sir, the taxable income permitted by the Internal Revenue department is generally more favourable to the government than the company's statement.

Hon. Mr. HANSON: I gathered that.

Mr. COOPER: So when you said it is not permitted here I think it would be the other way about. I think they would rather encourage the re-stating of the accounts for tax purposes on a more favourable basis than shown in the company's accounts.

Mr. JACKMAN: Mr. Cooper, may I ask you this? Let us take that particular item in regard to the establishment of a reserve to cover repairs and renewals, \$12,850,000; in your opinion that would not be allowed to a private company. If you had not spent the money during the current year then these items of repairs and renewals could not be set up as a reserve and charged to the current year's operations before you arrived at your net income?

Mr. COOPER: For tax purposes?

Mr. JACKMAN: Yes.

Mr. COOPER: I can say in the United States the Internal Revenue department has already given a ruling on the matter of deferred maintenance. They have issued a ruling that amounts entered into the carrier's accounts as deferred maintenance will not be recognized as deductions from income in arriving at the taxable net.

Hon. Mr. HANSON: That is a pretty severe ruling.

Mr. JACKMAN: In these times.

Hon. Mr. HANSON: When you need the maintenance and when you just cannot expend the money they rule that out?

Mr. COOPER: Yes, sir.

Hon. Mr. HANSON: I think they are a little more liberal down town here.

Mr. COOPER: I have in my papers here a brief which the American Railway Association submitted to the Internal Revenue department in Washington on this very matter. It is a rather long brief, and I would not trouble the committee with it, but if Mr. Hanson or Mr. Jackman would like to read it I would be glad to show it to them.

Hon. Mr. HANSON: I would like to read it all right. I am not sure I would understand it.

Mr. JACKMAN: We would rather have your expert opinion. Then it is likely, in your opinion, Mr. Cooper, that our department here would rule somewhat similarly to the United States Internal Revenue department?

Mr. COOPER: I would not like to say what they would do.

Mr. JACKMAN: Let me ask you this then. Do you believe that the setting up of this reserve on the two items of repairs and renewals, \$12,850,000 constitutes necessary reserve and measures the wear and tear during the operating year, 1942, or is it something which, because you are doing very well, you have set up for fear the evil day strikes you? Is it actual or just an extra reserve which you do not need but you are in a position to set it up and very wisely and conservatively you are doing so?

Mr. COOPER: I would like to answer that question. As an accountant I think the establishment of a reserve by a charge to operating expenses is essential if the accounts of the company are to be stated correctly. I think if there is a certain portion of the cost of operation that is not being paid currently, but is nevertheless taking place, that the accounts should reflect that fact.

Hon. Mr. HANSON: I agree with you absolutely.

Mr. COOPER: What was the other half of the question?

Mr. JACKMAN: That answers it.

Mr. COOPER: The other half of the question was as to whether the amount was adequate or proper in relation to the physical conditions. I am quite sure you would not take my opinion as an accountant as to the amount of deferred maintenance from a physical point of view. That is a matter for the engineers. It is a matter for the technical officers. Mr. Walton could answer that question better than I could.

Mr. WALTON: I may say we have gone to a good deal of trouble to establish what we think is a fair estimate in that connection by securing reports from each of our regions as to work necessarily deferred on account of shortage of labour, shortage of material, or whatever the cause may be, both in respect of maintenance of way and maintenance of equipment, and this figure that we are including this year is the result of that actual survey by the men in charge of the different departments and regions.

Hon. Mr. HANSON: I suppose you know, Mr. Walton, that our Department of National Revenue have been examining certain companies over a period of ten years with respect to their charges of maintenance and repairs as against operations rather than applying them to capital? It may be news to the public but they have had down through the paper companies a staff of engineers examining particularly almost every item charged for maintenance and repairs to operations, which is the proper place, in my judgment, to see if some of them should not be charged to capital. That is a pretty sever attitude to take. Of course, you do not have to meet that condition.

Mr. WALTON: No, we are pretty well standardized. The records are open as far as that goes, and it is standard practice.

Hon. Mr. HANSON: I think you would have to substantiate it in full, but it is true that during the depression years you did not make proper maintenance of your branch lines.

Mr. WALTON: We did not advance our position at all.

Hon. Mr. HANSON: Your position on the branch lines deteriorated.

Mr. WALTON: Yes.

Hon. Mr. HANSON: It was inevitable under the circumstances. Probably you could substantiate a very large sum.

Mr. VAUGHAN: What I would like to make clear is that we did not just pick that amount out of a hat. We went into it very carefully. Mr. Walton went into it with his officers, and we had a round-table discussion and went into every item that makes up the amount.

Mr. JACKMAN: Of course, looking at the appendix to the report they spent on maintenance of way and structures \$57,000,000 odd against \$47,000,000 in the previous year but even that does not begin to measure the physical deterioration.

Mr. WALTON: That does not keep pace with the increased wear and tear on account of added traffic.

Mr. JACKMAN: It is quite possible, as Mr. Vaughan just stated, to build up a fairly meticulous account and arrive at the figure which we have of \$12,850,000. I do not mean that it is exact, but it is quite capable of reasonable proof before reasonable people.

Mr. VAUGHAN: I would like to say this that the additional amount we spent on maintenance does not represent the difference it would in normal times because wages and cost of living bonus have gone up and materials have increase, and that is responsible for the increased totals to a considerable extent.

Mr. WALTON: Just to clear up a point that Mr. Jackman raised; you mentioned \$57,000,000 versus \$47,000,000. That \$57,000,000 includes deferred maintenance in 1942.

Mr. JACKMAN: Oh, it does.

Mr. WALTON: Just about halfway down, \$4,350,000; if you take that out you have a spread of about \$6,000,000 rather than \$10,000,000.

Mr. JACKMAN: I think the railway has done the right thing in setting up a reserve for this purpose.

The CHAIRMAN: I think perhaps we had better consider the report when we come to it. Shall we proceed?

Mr. VAUGHAN: I have the employees here now if you would like to have them. I think Dr. Donnelly asked that question. In 1942 we had on maintenance of way 22,435 employees, and in 1941 we had 22,255. On maintenance of equipment we had in 1942, 23,768 as against 22,608 in 1941. Then we had in the transportation department—other than train crews—11,340 in 1942 as

against 10,432 in 1941. Then we come to train end engine crews, conductors; we had 15,101 in 1942 against 14,001 in 1941, the total being 94,592 in 1942 against 89,536 in 1941.

Mr. WALTON: In addition to those numerical comparisons all short time has been eliminated. The men are working full time now so there is something else in addition.

Mr. JACKMAN: Reverting to the other subject we were on, the increase in the gross carried to net appears to be fairly comparable without getting the exact percentage between the two big railways in this country. Do you know how it compares with those three lines in the United States which are larger than the C.N.R. in gross intake?

Mr. COOPER: I would be very glad to give you a little statement making that comparison. I do not have it here.

Mr. JACKMAN: I realize it may not be exactly fair but it is perhaps the best we can get in the way of a comparison.

Mr. VAUGHAN: Their density of traffic is very much greater. Take the Pennsylvania railroad; they earned \$830,000,000 odd on a mileage of 10,000. We have to operate nearly 24,000 miles to earn less than half that.

Hon. Mr. HANSON: There is no doubt about that. That is a very vital factor.

Mr. VAUGHAN: Yes, very much indeed.

Mr. FERLAND: Mr. Vaughan, I would like to go back to the transportation situation and ask you if the company has decided to put into operation again the three or four daily passenger trains running from Montreal, Joliette and Chicoutimi that have been cancelled for some time?

Mr. VAUGHAN: That matter is under consideration. I think it is quite likely that before long those trains will be restored.

Mr. FERLAND: Would you kindly make a statement as to the reason why those trains were discontinued?

Mr. VAUGHAN: The reason that those trains were taken off was on account of the accumulation of freight during the very severe weather. Also because of not having enough engines in that territory to handle the regular passenger trains and all the extra freight trains that were waiting to move.

Hon. Mr. HANSON: An abnormal condition.

Mr. VAUGHAN: Yes, it was a very abnormal condition. The weather was exceedingly severe and the arrangement was made after discussion with the transport controller. It was felt it was a very necessary thing to do.

Mr. FERLAND: I am informed you have had an increase of very heavy traffic due to the construction of the Shipshaw barrage and then you have to carry bauxite imported from the United States to the Aluminum Company, but do you expect those conditions will be improved?

Mr. VAUGHAN: We expect that the aluminum traffic will keep up. In addition to bauxite there is a tremendous amount of other traffic. In discussing the matter with the Aluminum officials we find there are about 170 carloads that it is necessary to take into Arvida every day to make alumina without taking into account all the incidental material that the Aluminum Company need in the way of oils and coal and everything of that kind. The Aluminum Company probably requires itself about 200 carloads a day without taking into consideration at all the requirements of the hundred odd thousand people up there living between Chicoutimi and Dolbeau.

Hon. Mr. MICHAUD: Mr. Ferland, during this winter on the single track there has been an average of 271 cars of freight a day hauled from Rivière à

Pierre on to the Chicoutimi area. That is to meet the requirements of the industries and the population. Out of that thirty carloads of provisions a day have to be taken in to feed the population in that area, and owing to the grades only fifteen cars of freight can be taken with a locomotive over a distance of I do not know how many miles, but there are very heavy grades, so it gives you an idea why all the motive power had to be taken and devoted to hauling freight to meet those requirements. Then the railway had to contend with weather conditions besides that.

Mr. VAUGHAN:

Freight revenue increased \$48,870,000, or 20.4 per cent over the previous year. Passenger revenue increased \$16,403,000, or 51.4 per cent. Corresponding increases are reported in the other revenue accounts such as mail, express, sleeping car, dining car, and commercial telegraphs.

Hon. Mr. HANSON: Which are the systems that exceed yours in gross?

Mr. VAUGHAN: The three systems exceeding us in gross are first, the Pennsylvania; second, the New York Central, and third, the Southern Pacific. We were third until all this war traffic came along for the Southern Pacific. Of course, they serve that whole territory on the Pacific coast where a large number of war industries are located.

Effective March 18, 1942, freight rates were increased in the United States by 6 per cent on all commodities, except agricultural products, livestock and low grade products of mines including coal, on which commodities smaller increases were granted. The Board of Transport Commissioners authorized corresponding increases in the Canadian proportion of through rates on international traffic. As of February 10, 1942, passenger fares were increased by 10 per cent on United States lines.

Hon. Mr. HANSON: You only got the corresponding increase in international traffic. Have the railways made any application for an increase in Canada?

Mr. VAUGHAN: No sir, we have not.

Hon. Mr. HANSON: I thought that was in the offing.

Mr. VAUGHAN: We have not made any application for an increase.

Mr. DONNELLY: Why?

Mr. VAUGHAN: Our average per ton mile rate is and has been lower than the United States for many years, but we have not found it necessary as yet to apply for an increase in freight rates.

Hon. Mr. HANSON: Of course, your necessities are not quite as great. You do not have to pay \$15,000,000 to \$18,000,000 a year income tax. However, you are not applying.

Mr. VAUGHAN: No, sir.

Mr. JACKMAN: What are the reasons in the United States which make the application, and the granting of the application, for an increase in freight rates applicable there which might not be applicable in this country, Mr. Vaughan? Are the conditions not very similar?

Mr. VAUGHAN: The labour board in Washington granted an increase in wages to the employees of the United States railroads. The increased cost of materials was substantial there the same as here. This increase in rates was allowed them to take up part of that increased expense.

Mr. JACKMAN: The increase in the cost of materials is common to both countries?

Mr. VAUGHAN: I think so.

Mr. JACKMAN: Is the increase in wages common?

Mr. VAUGHAN: Our cost of living bonus pretty well offsets their increases over there.

Hon. Mr. HANSON: Does it? What does the cost of living bonus cost you?

Mr. VAUGHAN: It is in the report. The cost of living bonus cost us last year \$15,548,595. In addition to that we paid increased wages on our United States lines which amounted to \$2,639,143, so our increase in wages was really \$15,548,595 plus \$2,639,143, something over 18,000,000.

Mr. JACKMAN: You are not suggesting there is anything in the United States picture which entitles them to a 6 per cent increase in rates that does not obtain in Canada?

Mr. VAUGHAN: I would rather not make any remarks on that.

Mr. JACKMAN: I am only asking for facts. I am sure I do not know.

Mr. VAUGHAN: The fact is they got an increase, and I presume they were justified in applying for it or they would not have got it.

Mr. JACKMAN: I do not doubt that. The I.C.C. is not handing out something for nothing. At the same time I am asking are there conditions, to your knowledge—and I am sure you must know—applicable in the United States which entitled them to an increase and the same conditions are not applicable here?

Mr. VAUGHAN: I think proportionately the same conditions exist here.

Hon. Mr. HANSON: That would be natural. What is the difference in the grain rates between Canada and the United States?

Mr. VAUGHAN: I could not say that offhand. As you know, every bushel of grain we move from Montreal to Halifax and Saint John we move at a loss. We do not even get our wages and material out of it.

Mr. DONNELLY: But going from Montreal to Winnipeg you get the same practically as they do in the United States?

Mr. VAUGHAN: I have not got the rates here.

Mr. DONNELLY: Going west, I mean.

Mr. VAUGHAN: I think perhaps it is fair to say our local interior rates might be somewhat similar to the rates on the American lines but, of course, our export rates are very, very low.

Hon. Mr. HANSON: That statement you made about hauling from Montreal to the maritimes just illustrates how geography operates against the maritimes.

Mr. VAUGHAN: Portland was the port of the Grand Trunk, as you know, before consolidation. Portland is just 300 miles from Montreal. We switched much traffic to Canadian ports and now we haul that grain into Saint John and Halifax—in the case of Halifax, over 800 miles—for the same rate as we hauled it to Portland, 300 miles.

Hon. Mr. HANSON: Of course, the government give you a little subsidy on that.

Mr. VAUGHAN: Even taking that into account.

Hon. Mr. HANSON: It is still a loss?

Mr. VAUGHAN: It is still at a loss.

Hon. Mr. HANSON: Do you say that with the assistance under the Maritime Freight Rates Act added in you are still hauling that grain at a loss?

Mr. VAUGHAN: Yes, sir.

Mr. COOPER: I may be wrong in this but I think, Mr. Hanson, that the Maritime Freight Rates Act applies only to freight local to or outbound from the maritime provinces.

Hon. Mr. HANSON: You are probably correct. It is a long time since I looked at it.

Mr. VAUGHAN:

Operating Expenses.—Operating expenses totalled \$288,998,000, an increase of \$51,230,000 or 21·5 per cent. The operating ratio in 1942 was 76·93 per cent, the lowest on record.

The wartime cost-of-living bonus cost the railway \$15,449,000, of which \$13,695,000 was charged to operating expenses. Wage rate adjustments under the United States railway labour mediation agreement cost the railway \$2,639,000, of which \$2,435,000 was charged to operating expenses.

Hon. Mr. HANSON: Your operating ratio is very much improved?

Mr. VAUGHAN: Yes.

Hon. Mr. HANSON: 72·12 in 1941.

Mr. COOPER: In 1941 it was 78·12 and in 1942 it was 76·93.

Mon. Mr. HANSON: 1940?

Mr. COOPER: In 1940 it was 81·82; 1931, it was 99·4; 1931 was the highest.

Hon. Mr. HANSON: That was your highest point. That was a bad year.

Mr. COOPER: Very bad.

Mr. VAUGHAN: "The cost of protecting the railway against possible sabotage was \$683,000 against \$552,000 in 1941. This expense is absorbed by the railway as an operating cost."

Hon. Mr. HANSON: That is a war expenditure. Would not the nation bear that?

Mr. VAUGHAN: We have done our best to have them do so, but we have not been able to persuade them to.

Mr. DONNELLY: Do the other railways have to pay the same for their protection?

Mr. VAUGHAN: Oh, yes.

Hon. Mr. HANSON: The government refused to recognize any responsibility for that protection?

Mr. VAUGHAN: Yes. I did not quite catch Mr. Donnelly's question.

Mr. DONNELLY: Do the C.P.R., for instance, have to pay for their own protection?

Mr. VAUGHAN: Yes, the C.P.R. have to pay for their own protection, but they do not spend much more than 10 per cent of what we do because we have a lot more vulnerable points, and we protect our lines to a greater extent than they do.

Hon. Mr. HANSON: I notice that since the United States came into the war they are protecting bridges and international boundary points with troops. I happened to notice that one day. The bridge I have in mind was guarded by coloured troops at government expense, so they have recognized the principle.

Mr. VAUGHAN: They have different arrangements in different states.

Hon. Mr. HANSON: In different states?

Mr. VAUGHAN: Yes.

Hon. Mr. HANSON: It is a national problem, though.

Mr. VAUGHAN: Yes.

Hon. Mr. HANSON: They do get some assistance from governmental authorities in the United States which is denied in Canada?

Mr. VAUGHAN: Correct. At some points on our line in the Prince Rupert area the mounted police are protecting—

Mr. WALTON: Yes, there are a few other areas which are considered possibly more hazardous where the government does the protecting. They are restricted. In most cases we have to take it on at our own expense.

Hon. Mr. HANSON: Have you had any sabotage at all?

Mr. VAUGHAN: No. I do not think we have had any sabotage.

Hon. Mr. HANSON: There was some in the last war. The Vanceboro bridge was blown up.

Mr. VAUGHAN: Yes, I know.

Hon. Mr. HANSON: But you have made representations to have the government pay part of the expense?

Mr. VAUGHAN: Yes, we have represented that it is an expense they should bear.

Mr. HANSON (*Skeena*): They do at some places.

Mr. WALTON: At hazardous places they do it, but there are only a few of those, and the rest is our responsibility as the matter now stands.

Mr. SHAW: Have you a break-down of that \$683,000 somewhere in the report? I think that would give us a more complete picture of the whole thing.

Mr. VAUGHAN: I do not think I have a break-down here, but I can get it for you.

Hon. Mr. HANSON: What would be the benefit of that?

Mr. VAUGHAN: Do you want to know where these men are employed?

Mr. SHAW: What I have in mind, Mr. Chairman, is this: we are given to understand that on certain main line bridges, for example, government protection has been provided—at least, I have been told by officials of the government—and I was trying to have some consideration given to certain points where there are bridges over which a considerable quantity of steam coal goes. I was informed that while the government is providing some protection that protection was given only on the main line.

Mr. VAUGHAN: The protection they provide is very restricted. I doubt if the censor would want us to give any information as to where these guards are.

Mr. SHAW: I would not expect to get that information.

Mr. VAUGHAN: Generally speaking the work is done by ourselves. I do not know how many instances there are where the government provide the guards, but we could give that information to you.

Hon. Mr. HANSON: The government have refused to recognize any responsibility except in a few isolated cases; the management have to assume the responsibility and must make the decision as to what they will do, and we cannot help them in that regard.

Hon. Mr. MICHAUD: There is a committee of civil servants and mounted police whose duty it is to look after the protection of vulnerable spots in Canada. The civil servants work with the mounted police and all the defence departments, and they have made rulings and they have selected points which are protected by certain agencies.

Hon. Mr. HANSON: But mostly at the expense of the owners.

Hon. Mr. MICHAUD: It works three ways.

Hon. Mr. HANSON: Mostly at the expense in this case of the railway.

Hon. Mr. MICHAUD: Yes.

Hon. Mr. HANSON: It seems to me that this is a national obligation and the railway ought to be relieved of it.

Hon. Mr. MICHAUD: The committee has selected certain points which are protected at federal expense.

Mr. VAUGHAN: "Deferred repairs and renewals: last year's report gave an indication that shortages of labour and materials for repairs and renewals were becoming evident and would increase as the available supplies were diverted to war purposes. During the year the difficulties in this respect have increased. Under these conditions, repairs and renewals not immediately essential have had to be deferred. Within the railway itself, priorities and the most rigid measures of control over maintenance expenditures have had to be enforced to the end that the limited supply of labour and materials shall be utilized primarily to maintain the railway in condition to render effective service to the national war effort."

Hon. Mr. HANSON: That is an important point. Have you made any representations to the government or the Department of Labour as to maintaining your labour position, in order to maintain the railway, to use your own words, "in condition to render effective service to the national war effort"?

Mr. VAUGHAN: Yes sir, we have. The C.P.R. and ourselves made joint representations to the Labour department and we have outlined to the Labour department the specific positions which we think should be exempted.

Hon. Mr. HANSON: And with what result?

Mr. VAUGHAN: The matter is under consideration.

Hon. Mr. HANSON: Still under consideration?

Mr. VAUGHAN: Yes.

Hon. Mr. HANSON: That is the classic answer.

Mr. JACKMAN: You read the words, "...labour and materials shall be utilized primarily to maintain the railway in condition to render effective service to the national war effort." I presume that there are some things you have in mind which you can defer because you can get along without them, but which ordinarily you would fix up. You are confining yourself there to the bare bones for the necessitous operations for the war effort. I presume that is the way in which you built up that amount of \$12,850,000 for repairs and renewals—things which should ordinarily be repaired for sound and safe maintenance but which you were able to get along without and do so on account of shortages?

Mr. VAUGHAN: All those matters were taken into account in arriving at that charge. We had another objective in view too: we did not want to use anything that was required for war purposes or that might be needed elsewhere, such as lumber and other things; we have tried to keep our requirements down to the minimum.

Mr. JACKMAN: I was wondering if you could give us an example of something which would ordinarily be repaired during the year but on account of shortages of lumber and materials you are able to defer until some future time and still get along quite safely; and yet you have made provision in your accounts to pay for that when the time comes?

Mr. DONNELLY: Painting stations and things like that.

Mr. WALTON: The painting of buildings and the painting of steel structures, rail renewals which possibly should be done but can be deferred; ballasting operations. With the number of locomotives that are required for traffic we are putting forth our best effort to get by without a heavy re-ballasting program on many of the lines. Probably that is what you might term half a job.

Mr. JACKMAN: There is a whole multitude of small items which you can defer but which ordinarily would be handled within the year?

Mr. VAUGHAN: Yes.

Mr. JACKMAN: I understand that one lumber company—at least a tie company was forced to close down because they could not get men, and that the railways are clamouring for ties; is that so?

Mr. VAUGHAN: We are getting the ties we need. We have had difficulty in getting them. But we have a substantial supply of ties on hand. Owing to the fact that we have been putting in more treated ties for a number of years back our tie requirements are not nearly as great as they were ten years ago.

Mr. DONNELLY: What percentage of ties are treated ties?

Mr. VAUGHAN: At the present time it is something around 50 per cent.

Mr. DONNELLY: Creosoted?

Mr. VAUGHAN: Yes.

Hon. Mr. HANSON: That is an interesting statement. I remember years ago when the railways were having to erect barricades against people who wanted to supply ties.

Hon. Mr. MICHAUD: That was not very long ago either.

Mr. JACKMAN: Are you drawing on your inventory of ties?

Mr. VAUGHAN: No, I do not think we have been required to do that yet; we are getting enough currently to meet our requirements.

Mr. JACKMAN: The requirements you put in, but not the ones you would like to put in?

Mr. VAUGHAN: Yes. Of course, we cannot tell what our total tie deliveries we will get until the spring.

Hon. Mr. HANSON: Are you paying a fair price?

Mr. VAUGHAN: Yes, sir, we always pay a fair price.

Mr. JACKMAN: Do you foresee a shortage?

Hon. Mr. HANSON: Is there a ceiling on ties?

Mr. VAUGHAN: No, there is not. The price of ties has been raised very substantially, and the increase has been permitted by the Wartime Prices board.

Hon. Mr. HANSON: I am glad to think that there is one place where the primary producer is getting a break.

Mr. JACKMAN: Do you foresee a shortage if the war continues for another three years, say?

Mr. VAUGHAN: I think if the war continues that long it will perhaps be difficult to get all the ties we need; then we will have to draw on our inventory.

Mr. JACKMAN: Have many of the usual sources of supply dropped out in the present year?

Mr. VAUGHAN: Yes, sir, there are quite a few people who did supply us with ties who apparently have gone into a more profitable business now.

Mr. JACKMAN: Any business at all, in some cases, because there is no manpower. You are not worried about the manpower situation in regard to the making of ties, are you?

Mr. VAUGHAN: Not at the moment.

Hon. Mr. HANSON: The railway always got its ties pretty cheaply, and I do not blame any tie producer for dropping out if he can find any other place to go.

Mr. VAUGHAN: There was always a relationship between the price of ties and the price of lumber.

Hon. Mr. HANSON: Not very much.

Mr. VAUGHAN: And there is a big advantage to a tie operator getting a railway contract.

Hon. Mr. HANSON: I always thought it was refuge for the distressed.

Mr. EMMERSON: The picture has changed since they went into hardwood ties.

Mr. VAUGHAN:

To the extent repairs and renewals, not immediately essential, have been deferred it has been considered both proper and advisable to establish a reserve therefor, created by charges to operating expenses. Such charges give recognition to costs related to the revenues of the current year and the reserve provides a means of avoiding the charging of these against the revenues of subsequent years. This accounting procedure is consistent with recently issued Interstate Commerce Commission regulations for United States railways. Based on estimates prepared by the technical officers of the railway, the amount carried to reserve was \$12,850,000 of which \$4,350,000 was for track and structures and \$8,500,000 was for rolling stock and shop machinery.

Mr. JACKMAN: Yes, such charges are related to revenue; that is the point I was trying to develop a while ago; "such charges give recognition to costs related to the revenues of the current year—" And then you go on to speak of your reserve for track and structures and your reserve for rolling stock and shop machinery—

Mr. COOPER: They both run together, Mr. Jackman; additional traffic naturally increases the amount of wear and tear and consequently the amount of depreciation on the property.

Hon. Mr. HANSON: This seems to be based on a recognition of costs: is that the principle?

Mr. WALTON: They are really costs that should have been and would have been in this year's operation had materials been available and had the level of traffic been such as to permit of the work having been done; that is really the picture.

Hon. Mr. HANSON: Oh yes.

Mr. JACKMAN: And you say there, "this accounting procedure is consistent with recently issued Interstate Commerce Commission regulations for United States railways." I thought you said they would not allow it?

Mr. COOPER: The authorities do not allow it for income tax purposes, but the Interstate Commerce Commission by their accounting regulations now permit railways to charge these amounts up.

Mr. JACKMAN: Even though they are not expendable at the moment?

Mr. COOPER: They are different branches of government.

Mr. JACKMAN: I realize that; but you mean that the Interstate Commerce Commission rules one way and the other branch rules the other way; it is difficult to follow their reasoning.

Mr. COOPER: The Interstate Commerce Commission permits railways to charge deferred maintenance to expenses but the Internal Revenue Department refuse to admit such charges for income tax purposes.

Mr. JACKMAN: Inconsistency between the government departments—is a case of heads you win, tails I lose. It depends on which department you are running, apparently.

Hon. Mr. HANSON: Have we any standards here in Canada set by our board of transport commissioners on this subject matter similar to what they have in the United States? Have our people down here in the Board of Transport Commission set up any standards?

Mr. COOPER: No; but I do not want to be critical of our authorities.

Hon. Mr. HANSON: I would not either; as you know, I never am.

Mr. COOPER: They always come around about ten years later than the Interstate Commerce Commission.

Hon. Mr. HANSON: That is good. I hope the newspapers will put that on the front page.

Mr. HANSON (*Skeena*): And that the ministers of the crown take notice of it too.

Hon. Mr. HANSON: Really, that is a startling statement. I have no doubt it is true. If a responsible official of the Canadian National Railways says that the Board of Transport Commissioners in Canada is always about ten years behind their opposite number in the United States; that is an indictment.

Mr. COOPER: I do not think we have the machinery here.

Hon. Mr. HANSON: Don't talk about machinery, they would get it, they are good at establishing machinery. The fact of the matter is that they are not on to their job according to you. That is a fair deduction.

Mr. COOPER: We have been endeavouring for a period of years to get uniform accounting regulations which would govern the accounting of railroads in Canada similar to what we have in the United States.

Hon. Mr. HANSON: Yes, and you have never got there.

Mr. COOPER: We, that is the Canadian National Railways, think our regulations should be similar if not identical with those of the Interstate Commerce Commission, in order to afford comparisons between Canadian railways and United States railways; and in our case, because a large portion of our railway is in the United States and of necessity we are compelled to keep our accounts in accordance with their regulations.

Hon. Mr. HANSON: That is very understandable. I hope the press will give adequate publicity to that statement.

Mr. VAUGHAN: Shall I proceed with depreciation?

Hon. Mr. HANSON: Yes, proceed.

Mr. VAUGHAN:

Depreciation: It is considered desirable that the depreciation accounting policy of the railway shall be indicated so that the record may be clear as to the basis on which the accounts herein presented have been stated. Depreciation as used herein is intended to mean the loss in service value of units of depreciable property used in railway operations not restored by normal maintenance.

Hon. Mr. HANSON: That is good definition of depreciation.

Mr. JACKMAN: Perhaps Mr. Vaughan would just amplify what is meant by that so that we will be able to understand it clearly—"loss in service value of units of depreciable property used in railway operations not restored by normal maintenance". Let's take a locomotive as a typical example, or some other item of equipment if you prefer.

Hon. Mr. HANSON: Perhaps Mr. Walton could give us something on that. This is very interesting, and I do not quite understand its full implication.

Mr. COOPER: When we speak of the service value of a locomotive we do not mean its original cost.

Hon. Mr. HANSON: No.

Mr. COOPER: We mean the difference between the original cost and the salvage value, and the difference is the service value, the value consumed in service.

Hon. Mr. HANSON: You mean between the time of purchase and scrapping?

Mr. COOPER: Yes. And in depreciation accounting we try to amortize that service value over the service life of the unit, that is what we call depreciation accounting.

Mr. JACKMAN: Do I understand then that if a locomotive costs \$100,000 new and the engineers place a salvage value on it of \$10,000, that would leave a service value of \$90,000 and that would amount to a depreciation of \$9,000 a year if it had a life of ten years.

Mr. COOPER: That is it. It would be \$90,000, and we would spread that amount over the life expectancy of that unit.

Hon. Mr. HANSON: Sound, is it not?

Mr. COOPER: Absolutely. With respect to the original cost that of course in factual, with respect to the estimate service value, that is a matter of judgment. We ask our maintenance engineers what we might expect the salvage value to be—and I may say that the general relationship of salvage to original cost is about 8 per cent.

Hon. Mr. HANSON: That is on certain classes of equipment.

Mr. COOPER: It varies. Taking rolling stock equipment as a group the average salvage value is between 8 per cent and 9 per cent of the original cost. Then we ask our mechanical engineers what is the life expectation of the unit, expected to be in service; and in that way we are able to compute the percentage.

Hon. Mr. HANSON: That you say is the correct formula?

Mr. COOPER: Yes, that is the practice used by every carrier in the United States, without exception.

Mr. JACKMAN: I suppose we should have an interpretation of exactly what types of property are embraced in your interpretation for accounting purposes of depreciable property.

Mr. COOPER: I can say, for instance, that land is not depreciable property. Grading; that is not depreciable property. The Interstate Commerce Commission do not recognize rails, ties, ballast, track fastenings, and things of that sort, as items subject to depreciation accounting. I think they would be considered depreciable but they are not subject to depreciation accounting.

Hon. Mr. HANSON: It seems to me that ties should be.

Mr. COOPER: Well, let us take ties. Under depreciation accounting when a unit is worn out you are supposed to remove it from the investment account and charge it to your depreciation reserve. Imagine what we would have to do. We have over 90,000,000 ties on the Canadian National Railways; and if we had to write out every tie and transfer it from our investment account whenever it had to be replaced, it would involve a tremendous amount of work, you could hardly justify the expense of the army of accountants you would need.

Hon. Mr. HANSON: That is a matter of convenience to you.

Mr. COOPER: Yes, sir.

Hon. Mr. HANSON: I understand that, they have a similar problem in the telephone business.

Mr. JACKMAN: In regard to ties, when they wear out you have to replace them and charge them to maintenance?

Mr. COOPER: That in right.

Mr. JACKMAN: Those are features of the property which are not depreciable. Then, of course, you have some border line cases.

Mr. COOPER: There is a difference between types of property which are non-depreciable and those which are not subject to depreciation accounting.

Hon. Mr. HANSON: You do make that distinction.

Mr. COOPER: I said the land is not depreciable, and rails are depreciable but not subject to depreciation accounting, because of the difficulty in accounting.

Hon. Mr. HANSON: They are taken care of under maintenance?

Mr. COOPER: Yes, sir.

Hon. Mr. HANSON: You have to take care of them in some way.

Mr. COOPER: Oh, yes. There's no question but what our rail structure is well maintained. We must see to that if we are going to keep the trains running.

Mr. JACKMAN: What about buildings, let us say hotels?

Mr. COOPER: They are depreciable property but not subject to depreciation accounting under the I.C.C. regulations.

Mr. VAUGHAN: We might complete this paragraph which is a statement of our depreciation policy as it effects the Canadian National Railways, and then there will be no misunderstanding about it. There has been considerable discussion in other years in this committee about this subject of depreciation accounting and we thought we would make our position as clear as we could. I will proceed with the reading of the statement if you will permit me.

An accounting must be made of such loss either at the time the property is taken out of service or by instalments spread over its useful life. If the loss is taken at the time the property is retired from service the accounting is said to be on the retirement basis. On the other hand depreciation accounting seeks to apportion the loss to each of the fiscal periods during which the property is in service. The difference is one of time and not of amount.

In the United States, where railway accounting is rigidly controlled by the Interstate Commerce Commission, both retirement and depreciation accounting have been in force at the one time. Retirement accounting has been required with respect to fixed property (buildings, stations, shops, bridges and the track structure) and depreciation accounting has been mandatory with respect to equipment (locomotives, cars, work equipment and vessels). On Canadian National system lines in the United States, the accounting regulations of the Commission have been adhered to strictly at all times. On the Canadian lines both fixed property and equipment were dealt with on the retirement accounting basis until 1939, but effective January 1, 1940, a change over to depreciation accounting was made for equipment, thus making the accounts for the whole system uniform and comparable with those of Class I railroads of the United States.

A recent order of the Commission, however, prescribes the adoption by United States railroads, effective January 1, 1943, of depreciation accounting for certain classes of fixed depreciable property including buildings, stations, shops, bridges, etc., but excluding the track structure (rails, fastenings, ties, ballast) which will remain on the retirement basis. This order will be followed by the United States lines of the system but it is not intended at this time to extend it to the Canadian lines of the system. The change constitutes an important departure from a long established practice and it seems advisable to wait until the experience of the United States carriers is available. In any event, compilation of the data necessary to permit its adoption would involve a large amount of work on the part of the technical officers of the railway, and it is not reasonable that work of this nature should be undertaken at this time when there are more important things to be done.

Hon. Mr. HANSON: I noticed in the paragraph beginning "In the United States, where railway accounting is rigidly controlled by the Interstate Commerce Commission"; you say "retirement accounting has been required with respect to fixed property (buildings, stations, shops, bridges and the track structure) and depreciation accounting has been mandatory with respect to equipment (locomotives, cars, work equipment and vessels)." Buildings—buildings might never be retired, unless they were burnt down. It seems to me that they ought to be depreciated annually. I notice you say they are placed under depreciating accounting in the United States.

Mr. COOPER: For many years buildings have been on a basis of retirement accounting, and in my opinion the present change is one which has been very largely dictated by the tax problem. The railways have opposed the application of depreciation accounting to fixed properties for thirty years but, in the year 1942 when the excess profit taxes were brought in, the railways asked the Commission for permission to change from retirement accounting to depreciation accounting.

Hon. Mr. HANSON: As a result of the tax burdens over there.

Mr. COOPER: In my opinion that is the only reason it is being done. And we do not have that tax problem here; at any rate, we think it is wise to see what the experience of American railways is—they may run into all sorts of trouble and they may have to make adjustments; and we thought we might just as well stand by and let them work the problem out. But, in any event, we take the position that under war conditions it would quite unreasonably to ask our engineering department to set aside their necessary duties and start in giving the accounting people data on original costs and estimating service lives and salvage values which would be necessary in order to enable us to make the change over.

Mr. VAUGHAN: You see, Mr. Hanson, the United States railroads over a long period of years have spent approximately \$200,000,000 in the valuations of their properties; and, notwithstanding the fact they have had the authority for over twenty years, to put in this depreciation accounting, they only started it as from the 1st of January of this year.

Hon. Mr. HANSON: Of course, the ordinary individual has been writing off structures year by year; that is the natural thing to do.

Mr. JACKMAN: Well, Mr. Vaughan, I assume here that you have not put in a depreciation accounting which they have in the United States—I mean, such things as stations, shops and so on—now, does it extend to a multitude of small items which would involve the employment of an army of accountants—Mr. Cooper spoke about that—but with respect to ships, stations and so on, they are all very large structures. I should think that their average value would perhaps be in the nature of thousands of dollars and perhaps might be more easily included in depreciation accounting.

Mr. COOPER: I can see your reason, Mr. Jackman, in favoring depreciation accounting with respect to substantial units of property. I do not think it should be applied to the multitude of small structures and other items of fixed property which are repaired, restored and renewed from time to time and charged to our maintenance account.

Mr. JACKMAN: Then, in regard to hotels, they should certainly be on a depreciation basis—are they?

Mr. COOPER: Not yet.

Hon. Mr. HANSON: Have they been able to make anything yet?

Mr. JACKMAN: Oh yes, they are making all kinds of money. By the way, have we got the hotel account?

Mr. VAUGHAN: Yes.

Mr. COOPER: I just want to say for the record that the commission (the Interstate Commerce Commission) require depreciation accounting for fixed property, but that does not extend to hotel property.

Mr. JACKMAN: They do not own very many hotels.

Mr. COOPER: Whatever the reason is, it does not extend to them. I do not want anybody to say that in that respect the C.N.R. is contrary to the I.C.C. requirements.

Mr. JACKMAN: Do they depreciate hotel properties over there?

Mr. COOPER: I cannot tell you that.

Mr. JACKMAN: In my opinion I think hotels should certainly be depreciated year by year, particularly when you are making money, great big money with some of them.

Mr. VAUGHAN: Among the larger property retirements for which provision was made through the operating expense accounts were: \$242,000 for No. 1 Elevator at Portland, Maine; \$231,000 for roundhouse and shop facilities at Southwark Yard, St. Lambert; and \$1,250,000 for the old car shops at Point St. Charles. The provision for equipment was \$16,975,000. The total provision in the 1942 accounts for maintenance of railway property, including repairs, renewals, depreciation and retirements, was \$129,197,000.

I think that shows all of our properties are not being included.

Hon. Mr. HANSON: Just a minute; are you out of business in Portland, Maine?

Mr. VAUGHAN: No, sir; not altogether. This was an old elevator which was not in very good condition. It was built in 1897. We still have one elevator left at Portland.

Hon. Mr. HANSON: Are you operating it?

Mr. VAUGHAN: There is still some grain going through it.

Mr. DONNELLY: What did this elevator cost?

Mr. COOPER: \$289,000. We have \$47,000 of salvage.

Mr. DONNELLY: What size was it; how many bushels?

Mr. COOPER: I think it was a million and a half bushels, as I recall offhand.

Mr. EMMERSON: It was an old wooden structure?

Mr. VAUGHAN: Yes.

Amortization of War Projects: A charge of one million dollars was included in operating expenses as a further provision against the retirement loss anticipated at the termination of the war in respect of facilities provided solely for wartime traffic and which are not expected to have any usefulness for ordinary commercial operations.

Hon. Mr. HANSON: That, of course, is ordinary policy. I am thinking about the reasonableness of the statement of the Minister of Munitions and Supply on this question of wartime depreciation. Perhaps Mr. Cooper would make a little statement here; would he state what he thinks of the soundness of the position from an accounting standpoint with respect to this; because I am a believer in the theory that these things must be depreciated.

Mr. COOPER: With respect to our wartime projects, do you mean?

Hon. Mr. HANSON: Yes, your depreciation on your wartime projects. Will you state your views on that, would you tell us what you would do? We have a school of thought which thinks that this should not be allowed.

Mr. COOPER: We will take as an example a siding built into a defence industry. We have our cost, and our estimate of salvage.

Hon. Mr. HANSON: In that case do you not make them pay over a stated period?

Mr. COOPER: Not if it is on railway property.

Hon. Mr. HANSON: You make them pay a rental?

Mr. COOPER: Yes.

Hon. Mr. HANSON: All right.

Mr. VAUGHAN: I might say that they pay for all the perishable property and do the grading and everything of that kind and then we supply the non-perishable property at a rental.

Hon. Mr. HANSON: That is a standard contract?

Mr. VAUGHAN: A standard contract, yes.

Hon. Mr. HANSON: But these have a very short life time.

Mr. COOPER: That is what we figure.

Hon. Mr. HANSON: I should write it off over the period.

Mr. COOPER: This is quite correct.

Hon. Mr. HANSON: Now, would you proceed and give us a justification for that.

Mr. COOPER: In the case of this spur that we take as an example; let us say that the original cost is \$100,000 and the estimated salvage value \$20,000; there is a difference of \$80,000 and I think that that loss should be charged to the revenue which is created by that expenditure.

Hon. Mr. HANSON: Yes.

Mr. COOPER: That is, that it should be charged up during the war. I assume that after the war that facility will have no use for commercial operation.

Hon. Mr. HANSON: And if you were a tax-paying body you would justify that, and stand behind it, in the theory that it has got to be absorbed in that way and not taken back.

Mr. COOPER: Yes, sir. And I might say too, Mr. Hanson, that in the United States that question has been before the Internal Revenue department and they accept the charge as an allowable deduction. They require a five-year period but we are writing these costs off in a matter of 3½ years.

Hon. Mr. HANSON: Any ordinary individual here in Canada has to go before the War Depreciation Board; you don't have to do that?

Mr. COOPER: No, sir.

Hon. Mr. HANSON: I do not see any good reason why you should if you are not paying taxes. The principle is pretty sound, isn't it?

Mr. COOPER: We would argue strongly for it if we were before the tax authority.

Hon. Mr. HANSON: I think I would too, although I am not an accountant.

Mr. VAUGHAN:

INVENTORY RESERVE: Notwithstanding price controls, there has been some rise in the prices of materials used in maintenance and operation. For example, inventory prices in September 1942 compared with September 1939 show an increase of \$3.48 per ton for new rail, 9.4 cents per tie and \$1.02 per ton for locomotive fuel. The price index for general railway stores increased by 13.5%. An inventory reserve has been created in the amount of \$3,839,000 (based on normal quantities) as a provision against the loss which would have to be taken if prices should revert to their pre-war level at the termination of the war.

Hon. Mr. HANSON: That is very sound, and I am glad to be able to tell you that we recognize that principle in taxation. Take the woodpile of a pulp and paper company—if we had to take a loss on a depreciated inventory after the war, it would practically put us out of business. I think the principle is sound that we should take a present basic period, say the period after 1939, and then everything over and above that by way of increase in inventory—I agree that we should have something by way of protection with respect to it.

Mr. EMMERSON: In this case you have an extra cost of \$1.02 per ton; that is not on the price of the coal, that is on the cost of transporting the coal to the place you want it.

Mr. VAUGHAN: It includes everything, that includes the delivered cost to our line—it is the average increase in the delivered coal to our line.

Hon. Mr. HANSON: How about the fuel situation?

Mr. VAUGHAN: Our fuel situation at the present time is favourable; except perhaps, on the Atlantic region. We have had more difficulty in getting coal there than any other part of the system.

Hon. Mr. HANSON: Production is down?

Mr. VAUGHAN: Yes, and there is much greater demand for coal.

Hon. Mr. HANSON: Yes, and there is difficulty during the winter in transportation, I suppose.

Mr. VAUGHAN: In other words, the principal reason has been that the production was not there to meet the demand.

Hon. Mr. HANSON: You no longer have any water transportation?

Mr. VAUGHAN: No.

Hon. Mr. HANSON: It is all your own haul?

Mr. VAUGHAN: Yes.

Hon. Mr. HANSON: And you have a bottleneck there from the Cape Breton area, have you not?

Mr. VAUGHAN: That has not been a factor in the coal supply.

Hon. Mr. HANSON: I am glad to hear that.

Mr. VAUGHAN: We put in facilities at Point du Chene last year in order to relieve that bottleneck, and can handle a lot of coal by that route.

Hon. Mr. HANSON: That is by water?

Mr. VAUGHAN: By water, yes. Before the war we brought up the river perhaps a million tons of coal between Quebec, Montreal, Levis and Chicoutimi. I do not think we got 15,000 tons up the river last year. Before the war we were using coal from the Maritime provinces as far west as Toronto and Cochrane. Now we have to rail American coal into Monk and Riviere du Loup.

Mr. HANSON (*Skeena*): Are you still operating the old coal mine in the United States?

Hon. Mr. HANSON: They will never give that up. That is a good proposition, is it not?

Mr. VAUGHAN: Generally speaking over a long period of time that has been a profitable operation. When we come to the point where we can buy coal cheaper than we can produce it we shut the mines down and buy coal.

Hon. Mr. HANSON: You have never gone into the West Virginia coal field?

Mr. VAUGHAN: We buy some coal from west Virginia. We buy some coal from western Kentucky. We buy coal from many points in the United States.

Mr. JACKMAN: Does price control operate on most of the materials that you need for your maintenance and operations? You used the word "notwithstanding" there?

Mr. VAUGHAN: There are many things we use where the wartime prices board have permitted an increase. For instances, there is a substantial increase on ties, rail, and coal. Those are very big items in the cost of operation.

Mr. JACKMAN: Generally the overall ceiling applies to nearly everything you buy except where the board have made specific provision for an increase?

Mr. VAUGHAN: Yes, but those are items that affect us very seriously. Lumber has gone up. Ties have gone up. Coal has gone up. Steel has gone up.

Mr. GRAY: I just left the Reconstruction committee and they say you have not been bringing coal as far east as Montreal and Toronto, if you believe Mr. MacNicol. What do you say to that?

Mr. VAUGHAN: We cannot get enough Nova Scotia coal now to meet our requirements in the maritime provinces.

Hon. Mr. HANSON: It is a question of production?

Mr. VAUGHAN: Yes. We are taking every ton of coal we can get in Canada that is usable.

Mr. GRAY: How far are you bringing it?

Mr. VAUGHAN: We are bringing some Nova Scotia coal up as far as Levis, but we are not getting sufficient and we are compelled to rail American coal down to Riviere du Loup and Monk and in some cases to Edmundston to meet our requirements. Before the war we used Alberta coal as far east as the head of the lakes. Last year we had to take in 700,000 tons of American coal at the head of the lakes to meet our requirements and we had to use that coal halfway across Saskatchewan.

Mr. GRAY: You think you are using the limit of Canadian coal?

Mr. VAUGHAN: We are using every ton of Canadian coal we can get.

Mr. SHAW: Do you anticipate any difficulty in securing the coal you require from the United States?

Mr. VAUGHAN: Not unless conditions change materially. Their situation is different to ours. Their production has greatly increased and our production in Canada has not increased to any great extent.

Mr. SHAW: But they have not placed any restriction upon the exportation of American coal to Canada?

Mr. VAUGHAN: No.

Mr. DONNELLY: What proportion of the coal in the United States do you get out of your own mine?

Mr. VAUGHAN: We brought in last year perhaps 5,000,000 tons of coal from the United States, and perhaps 1,500,000 tons of that came from our own mine and the balance from other mines.

Hon. Mr. HANSON: You would buy Canadian coal if it was available?

Mr. VAUGHAN: Yes, sir.

Hon. Mr. HANSON: That is your statement?

Mr. VAUGHAN: We would be glad to get it.

Mr. NICHOLSON: Have you any compilation of the percentages of American and Canadian coal used over the period of the last five years?

Mr. VAUGHAN: I have some figures here in that connection. In 1938 we purchased 2,401,903 tons of Canadian coal.

Mr. NICHOLSON: What are the United States figures for that year?

Mr. VAUGHAN: In the United States we purchased in 1938 2,012,540. In 1942 we purchased 4,720,257 tons of American coal, and we purchased 2,847,000 tons of Canadian coal. We got more Canadian coal in 1942 than we did in 1938 by 400,000 tons, but we got less Canadian coal in 1942, by 300,000 tons, than we did in 1941.

Mr. NICHOLSON: How much of the 4,000,000 last year came from your own mines in the United States?

Mr. VAUGHAN: Our total production at that mine runs about 1,800,000 or 1,900,000 tons, but a substantial quantity of that is used on our United States lines. There is probably 500,000 tons of that used on our United States lines.

Hon. Mr. HANSON: Mr. Vaughan, if you have completed the figures as to quantities and derivation can you give us the question of figures on costs?

Mr. VAUGHAN: I can give you the average mine cost. The average mine cost of United States coal in 1938 was \$1.64. In 1942 it was \$2.01. The

average cost of Canadian coal in 1938 at the mine was \$3.32 and in 1942 it was \$3.74.

Mr. EMMERSON: Is that the cost at the point of delivery, at the mine mouth?

Mr. VAUGHAN: Yes, delivered to us on cars at the mine.

Hon. Mr. HANSON: Where you take delivery of it?

Mr. VAUGHAN: Yes.

Hon. Mr. HANSON: On the question of B.T.Us how is the comparison?

Mr. VAUGHAN: Generally speaking we get a better quality of coal from the United States than we do from Canada.

Hon. Mr. HANSON: You have not any figures on it?

Mr. VAUGHAN: No, I have not got figures here on that. There are certain mines, as you know, in the maritime provinces, and also in western Canada, which produce a good grade of coal, but there are a lot of mines that produce a poor grade of coal.

Mr. JACKMAN: What are the Canadian costs?

Mr. VAUGHAN: The Canadian cost of coal on the average in 1942 was \$3.74 against an average price in the United States of \$2.01.

Hon. Mr. HANSON: Nearly double.

Mr. NICHOLSON: You have not a rough estimate of the B.T.Us?

Mr. VAUGHAN: I would say the B.T.Us of the United States coal run from 14,000 to 14,500. We have some coal in Canada that runs that but there are, of course, other features entering into it. We take delivery of coal from some mines in Canada that do not run more than 11,000 B.T.Us.

Mr. GRAY: Getting back again to what you may be able to do, will you make a statement as to whether you can increase your purchasing of Canadian coal?

Mr. VAUGHAN: Yes, undoubtedly we can if the coal is available.

Mr. GRAY: What do you mean by that?

Mr. VAUGHAN: That is, if we can get it from the mines.

Mr. JACKMAN: Any relation to price?

Mr. VAUGHAN: The question of price has not been involved in the use of Canadian and United States coal at all.

Mr. SHAW: Supply may be the determining factor in wartime. Would you also say it is the determining factor in peacetime or was it price that determined the volume of American coal consumed?

Mr. VAUGHAN: Price undoubtedly was a consideration but, as I have said, when we used Canadian coal before the war as far as Toronto and Cochrane—that is Nova Scotia coal—we had brought that coal about as far as we could. Canadian coal mines were able to sell us that coal at a comparable price on account of the subvention which they got from the Dominion government.

Hon. Mr. HANSON: That is the story.

Mr. GRAY: Let me follow that one step further. We have had in the Reconstruction committee suggestions that Canadian coal should be purchased by the Canadian National railways and that you should be using more Canadian coal now. You say that if you can purchase it you will use it?

Mr. VAUGHAN: The only reason we are not using it is because we cannot get it. We are appealing every day to the coal mines in Canada to give us more coal.

Mr. GRAY: I would like Mr. McCulloch, who knows this story much better than I do, to make a statement.

Mr. McCULLOCH: In normal times I think the mines probably could supply the C.N.R. with more coal than what they buy from them; is that not right?

Mr. VAUGHAN: I think so. I think there is more coal produced in the maritime provinces that we can use.

Mr. McCULLOCH: But during the war years there are so many different factories and airports and things like that down in Nova Scotia which are using coal now that the coal mines in Nova Scotia cannot supply the quantity that the C.N.R. will take from them at the present time. In normal times the Nova Scotia coal mines get their share of the Montreal market. I think it would take the output of the Nova Scotia mines with what they use in the maritime provinces.

Mr. VAUGHAN: I think that is a fair statement.

Mr. JACKMAN: May I ask this, Mr. Vaughan? In normal times you always endeavour to run the C.N.R. as a straight business proposition?

Mr. VAUGHAN: Yes, sir.

Mr. JACKMAN: And buy in the cheapest markets?

Mr. VAUGHAN: Yes.

Mr. JACKMAN: If the government wants the railway to use Canadian coal then the ordinary way to make it available to you is to pay a subvention on it so it is offered to you at a competitive price?

Mr. VAUGHAN: That is the only way we can use it.

Mr. JACKMAN: I understand from being a member of this committee for a few years that the C.N.R. is run as a straight business proposition?

Mr. VAUGHAN: Yes, it is.

Mr. McCULLOCH: You were making a comparison between the American cost of coal and the Nova Scotia coal mine.

Mr. VAUGHAN: What we do is we say to the coal company, "American coal will cost so much at Toronto or Belleville or some place else; if you can meet that price we will buy your coal."

Mr. McCULLOCH: For the benefit of the committee I was talking about the difference in price between American coal and Nova Scotia coal, and in connection with that, American coal can be mined without any water. There is no water in the American mines.

Hon. Mr. HANSON: That is quite evident.

Mr. McCULLOCH: In Nova Scotia coal they take up from 10 to 20 tons of water to every ton of coal.

Mr. VAUGHAN: That is true. Mining conditions are entirely different in Nova Scotia.

Mr. DONNELLY: How far east do you bring western coal normally?

Mr. VAUGHAN: Normally to the head of the lakes and Sioux Lookout.

The CHAIRMAN: Redditt used to be the old point.

Mr. VAUGHAN: Yes, we were taking it through to there when the war came along.

Mr. DONNELLY: At the present time it is going halfway across the prairies.

Mr. VAUGHAN: At the present time we are compelled to rail American coal halfway across Saskatchewan.

Mr. NICHOLSON: According to the figures, you used about 47 tons of American coal last year for every 28 of Canadian coal. I understand you would increase the percentage of Canadian coal indefinitely if the coal was available here?

Mr. VAUGHAN: Yes.

Hon. Mr. HANSON: Price is a factor.

Mr. VAUGHAN: It always follows that the price must be acceptable. I may say we paid the Dominion government nearly \$3,500,000 in duty and excise on American coal last year.

Mr. SHAW: Mr. Vaughan, I believe you indicated last year you were using American coal as far west as Edmonton. I know you said to-day approximately halfway across Saskatchewan. There is a slight difference there. Would that indicate an improved position?

Mr. VAUGHAN: I do not recall ever having said we used American coal as far west as Edmonton.

Mr. SHAW: I am only speaking from memory.

Mr. VAUGHAN: No, I do not think we did that. I said Edmunston, N.B. The names are somewhat similar.

Mr. JACKMAN: May I ask one question about that inventory reserve? I suppose that is in line with inventory reserves which many operating companies in Canada are allowed to set up, or is it that the reserve which they are allowed to set up applies to their main raw materials, they being processing companies and you supplying a public service? Not being a processing company you have no one main raw material like cotton or wool or pig iron; it is purely an inventory which you use in the operation of your own company? Is that so? Do you know if that would be allowed under our income tax?

Mr. COOPER: Would our charge to expenses be allowed?

Mr. JACKMAN: No, would your inventory reserve be allowed as a proper reserve to be set off against taxation?

Mr. COOPER: I would not like to say that I am thoroughly conversant with Canadian income tax problems, but it is my understanding that this charge would be permitted.

Mr. JACKMAN: If it were cotton or wool it would be, but I am just wondering whether it would be so when it is only used in the manufacture of the service.

Mr. COOPER: I think they would restrict it to what I call normal quantities.

Mr. JACKMAN: I realize that.

Mr. VAUGHAN:

Other Income and Profit and Loss Accounts

The accounts grouped under this caption include taxes, equipment and joint facility rents, results of hotel and subsidiary operations, interest and dividend income, and other miscellaneous income and profit and loss transactions, details of which will be found on pages 14 and 15 of this report. The aggregate charge in 1942 was \$12,610,000, an increase of \$363,000 over the previous year.

Hon. Mr. HANSON: Have we a statement anywhere of what those accounts are?

The CHAIRMAN: It will be in the regular statement.

Mr. COOPER: On pages 24 and 25 we show a list of companies which are in Canadian National Railways system and we indicate by a star against the names of the companies those which are treated by us as affiliated companies, and as to any of those which are active companies the results are excluded from the railway revenue and expense accounts and taken in through the item which we are now discussing. If you turn to page 15 there is set out in greater detail the income account of the system for the year 1942. We show revenues and expenses and net revenue. This group of accounts includes everything except net revenue and interest. All these other accounts are lumped together and the net of them is some \$12,600,000.

Hon. Mr. HANSON: Where is that shown on page 15? Does that go into your consolidated account?

Mr. COOPER: On page 15 we show the consolidated income account and it is broken down under its various captions.

Hon. Mr. HANSON: I may be all wrong, but the aggregate charge—

Mr. JACKMAN: It is the word "charge".

Hon. Mr. HANSON: That is confusing.

Mr. COOPER: Some of them are income credits, and some of them are charge items.

Hon. Mr. HANSON: Which way is the balance?

Mr. COOPER: The balance of all these items amounts to a charge of \$12,610,000.

Hon. Mr. HANSON: Is that a debit against your consolidated income account?

Mr. COOPER: Yes, sir.

Hon. Mr. HANSON: That is a loss.

Mr. COOPER: Would you turn back to page 3? Under net revenue, which was \$86,600,000, we show the aggregate net of all these other items amounting to \$12,600,000.

Hon. Mr. HANSON: It is shown there as a loss.

Mr. COOPER: As a deduction, yes.

Hon. Mr. HANSON: That is a very sizeable item.

Mr. COOPER: If you look on page 15 where the detail is shown we start off with taxes, \$6,000,000. Then hire of freight cars, \$5,000,000; joint facility rents, debit \$2,300,000.

Hon. Mr. HANSON: That is for the operation of your own system, but how is that \$12,000,000 again? It is the aggregation. Go ahead.

Mr. JACKMAN: What page is the breakdown of that \$12,000,000 on, Mr. Cooper?

Mr. COOPER: On pages 15 and 16.

Mr. JACKMAN: You pick out the items there. There is no item of \$12,610,000 as a sub-total.

Mr. COOPER: No, I grant you that.

Hon. Mr. HANSON: That is a very sizable item. It is a debit against your consolidated income account. Could we not have the detail of that?

Mr. COOPER: Yes. I would like to read them so there will not be any misunderstanding.

Hon. Mr. HANSON: Have you got a copy of it?

Mr. COOPER: It is on page 15.

Hon. Mr. HANSON: There is no table of it?

Mr. COOPER: No, but I can assure you if you add this up you will find it will amount to \$12,000,000. Railway tax accruals, \$6,020,000; rent from locomotives, which is a credit item, \$108,000; rent from passenger-train cars, \$276,000; rent from floating equipment, \$10,000; rent from work equipment, \$107,000; joint facility rent income, \$1,874,000; hire of freight cars, debit \$5,115,000; rent from locomotives, which is a debit, \$62,000; rent for passenger-train cars, \$495,000; rent for floating equipment, \$17,000; rent for work equipment, \$7,000; joint facility rents, debit, \$2,383,000.

Mr. DONNELLY: Mr. Vaughan, do you get your freight cars back from the United States?

Mr. VAUGHAN: It is something we are following up all the time, but this statement indicates that in 1942 we had many more foreign cars on our lines than our cars were on their lines because we have a debit balance against us of \$5,000,000.

Hon. Mr. HANSON: Is this debit balance a constant thing with you year in and year out or do you have a credit sometimes?

Mr. VAUGHAN: There may be times when we have a credit, but we have not had a credit during the war.

Mr. DONNELLY: Do I understand you to say this year you have had more American cars than you have had heretofore?

Mr. VAUGHAN: Yes. There are many more American cars coming in to Canada.

Mr. DONNELLY: Is that only lately or has it been so for some time?

Mr. VAUGHAN: It is a war condition. It has been so ever since the war.

Mr. WALTON: We are moving large quantities of bauxite and materials of that kind originating in the United States, and that naturally brings a large number of their cars on to our lines.

Hon. Mr. HANSON: This includes also the rent you paid the C.P.R. and I suppose they have a contra against you?

Mr. WALTON: Yes.

Hon. Mr. HANSON: What is the balance between the two Canadian railways?

Mr. WALTON: There is not a great difference. It fairly well approximates.

Mr. EMMERSON: I can understand rolling stock going across the line, but where are the locomotives?

Mr. WALTON: We have a few small locomotives rented to outside companies.

Mr. EMMERSON: That is what it means.

Mr. WALTON: That would be in that. There are some other operations.

Mr. EMMERSON: Would that be outside of Canada?

The CHAIRMAN: Gentlemen, it is just about 1 o'clock. We would like to know what you are going to do about this afternoon.

Hon. Mr. HANSON: I am in a very difficult position. As far as I am concerned I want to help Mr. Vaughan, but I have been waiting two or three days to say something in the House and I have not got to it yet. I want to talk about the Prince Edward Island car ferry service.

The CHAIRMAN: The afternoon will be broken on account of Mr. Eden being here, but I think we can get an hour or so after 4 o'clock.

Mr. HANSON (*Skeena*): I move that we meet after Mr. Eden gets through his speech.

Hon. Mr. HANSON: Oh, do not do that. However, I am not going to put my wishes against the whole committee.

The CHAIRMAN: 4 o'clock.

Mr. DONNELLY: You had better say half past four.

Hon. Mr. HANSON: Why do you not let these gentlemen go home to-day and come back next week? Would you not like that, Mr. Vaughan?

Mr. VAUGHAN: I would rather stay here until we are finished.

The CHAIRMAN: The meeting will continue as soon after 4 o'clock as possible.

The committee adjourned at 1 o'clock p.m. to meet again as soon after 4 p.m. to-day as possible.

(AFTERNOON SESSION)

The Committee resumed at 4.45 o'clock p.m.

The CHAIRMAN: Order, please. Would you all come up where we can hear and be heard. All right, I would just go right along Mr. Vaughan.

Mr. VAUGHAN:

Interest Charges: The total requirements for interest on funded debt held by the public were \$34,949,000, being \$9,749,000 less than in 1941.

Interest payments to the Government on loans for capital purposes were \$14,032,000, being \$8,386,000 more than in 1941.

The primary reason for the decrease in interest paid to the public and the increase in interest paid to the Government lies in the repatriation of securities referred to elsewhere in this report.

Cash Surplus: After the payment from revenue of all operating expenses, taxes, fixed charges, etc., the cash surplus for the year was \$25,063,000. The Dominion's equity as shareholder in Canadian National Railways has been increased by that amount. The improvement in surplus earnings over 1941 was \$21,046,000.

CAPITAL EXPENDITURE ACCOUNT

The net expenditures on property investment account for additions and betterments during the year 1942 amounted to \$21,109,065.

The following equipment was acquired during the year: under Hire Purchase Agreement with the Dominion Government, 30 Northern type locomotives, 300 flat cars, 463 gondola cars, 250 hopper cars, 25 first class coaches and 15 baggage cars; under the 1941 Grand Trunk Western Equipment Trust, 25 Northern type locomotives and 16 Diesel switching locomotives; also 100 refrigerator cars built in the Transcona Shops, 50 second-hand ballast cars, 6 mail cars, 106 second-hand coaches which have been reconditioned and put into service as coaches, colonist cars, sleepers and diners and 12 units of work equipment. 743 hopper and gondola cars were rebuilt at the Leaside Shops.

The following equipment was retired during the year: 24 locomotives, 159 freight cars, 5 passenger cars and 67 work units.

Mr. EMMERSON: Are you still using these diesel-electric cars; or, has any of that been retired?

Mr. VAUGHAN: We are using most of them, Mr. Emmerson, we are still using them.

The CHAIRMAN: You do not build anything other than refrigerator cars in your Transcona shops, do you?

Mr. VAUGHAN: That is the type of cars we have been making there. I think they have also built some cabooses there.

FINANCE

New Issues: The following securities were issued during 1942:

\$3,692,000 2½% Grand Trunk Western Railroad Equipment Trust of 1941, being the remainder of \$5,692,000 equipment trust certificates dated June 1, 1941, unissued in 1941, due to delay in the delivery of the equipment:

\$9,313,232 3½% obligation for purchase of railway equipment, repayable 1943 to 1957. Under Order in Council 3433 dated May 14, 1941, the railway was authorized to enter into a hire-purchase agreement with

the Government for the purpose of acquiring railway equipment to the value of \$22,250,000. Of this amount \$9,313,232 was expended by the Government until all of the equipment has been delivered and the final cost has been ascertained.

Retirement of Obligations: The following securities matured and were retired during 1942:

\$20,000,000	2%	Canadian National Railway Company 4-Year Dominion Guaranteed Bonds due January 15, 1942.
1,153,764	4%	Grand Trunk Pacific Branch Lines Company Bonds due February 15, 1942.
6,424,000	4½%	Canadian Northern Western Railway Company First Mortgage Debenture Stock and Bonds due February 16, 1942.
4,447,000	3½%	Halifax and South Western Railway Company First Mortgage Guaranteed Debenture Bonds due September 30, 1942.

\$32,024,764

Mr. ROSS: Could we not have this put in and dealt with in one section; taken as read? This is more or less a review.

Mr. HANSON (*Skeena*): They have asked that we have it read.

Mr. CHAIRMAN: I think we better go ahead and read it. That is the only consideration we will have, as we go over it.

Mr. ROSS: There will be a multitude of questions on it and I thought it would be quite all right for the time being.

The CHAIRMAN: What do you think, Mr. Vaughan?

Mr. VAUGHAN: Whatever you say.

The CHAIRMAN: I think you better go ahead.

Mr. HANSON (*Skeena*): Yes, better go ahead.

Mr. VAUGHAN: All right.

In addition there were the normal annual payments of principal under equipment trust, sinking fund and serial issues, which totalled \$9,490,775.

During the year the following Government advances were repaid:

3½%	Advances, Branch Line Construction Act, 1936.....	\$	638,908	55
3½%	Advances, Trans-Canada Air Lines Act, 1937.....		550,000	00
3½%	Advances, Financing and Guarantee Act, 1938.....		1,717,008	90
3½%	Advances, Financing and Guarantee Act; 1939.....		11,110,409	29
			<u>\$14,016,326</u>	<u>74</u>

Of this total, \$4,016,326.74 was repaid out of the surplus earnings of 1941 and \$10,000,000 was a payment on account of 1942. A further payment of \$15,063,268.32, being the balance of the 1942 surplus, will be made before the close of the Government's fiscal year.

Mr. HANSON (*Skeena*): That has been paid to the government?

Mr. VAUGHAN: That amount has since been paid.

Mr. HANSON (*Skeena*): To the government?

Mr. VAUGHAN: Yes.

Repatriation of Securities: The arrangements made between the Governments of Canada and the United Kingdom, under which Canada has given financial assistance to the Government of the United Kingdom to enable it to purchase war supplies in Canada provided, among other things, for the repatriation of Canadian National Railway securities.

Mr. HANSON (*Skeena*): Can you tell us how much of that has been repatriated?

Mr. VAUGHAN: I think it is right in the report here, Mr. Hanson.

Mr. HANSON (*Skeena*): All right.

Mr. VAUGHAN:

On January 26, 1942, the Treasury of the United Kingdom issued a vesting order naming as the price to be paid for the securities the market price at the close of business on that date. Under Order-in-Council 2484 dated March 28, 1942, the Company was authorized to repurchase from the Dominion, at the vesting price, the railway securities purchased by the Dominion from the Treasury of the United Kingdom. Under Order-in-Council 8858, dated September 3, 1942, the Company also has purchased from the Dominion other Canadian National securities which had been acquired by the Treasury of the United Kingdom prior to the vesting order of January 26, referred to. Under Orders in Council 2886 dated April 11, 1942, and 7197 dated August 14, 1942, provision was made whereby holders not subject to the vesting order of Canadian National Railway securities listed in the vesting order might surrender their holdings for redemption at the vesting price. Under Orders-in-Council 2484 dated March 28, 1942, and 9773 dated October 27, 1942, all of the 4% Guaranteed Stock issued by the former Grand Trunk Railway Company of Canada outstanding and not vested in the Treasury of the United Kingdom was called for redemption at par on November 1, 1942. Additional 4% Perpetual Debenture Stock issued by the said Grand Trunk Railway Company was redeemed under the arrangements referred to in the 1940 Annual Report.

Mr. HANSON (*Skeena*): Does that take in the amount about which there was a dispute?

Mr. VAUGHAN: You are referring to the Grand Trunk dispute?

Mr. HANSON (*Skeena*): Yes.

Mr. VAUGHAN: No; that referred to principally preferred stock, I think. How about that, Mr. Cooper?

Mr. COOPER: The dispute referred to both common and preferred.

Mr. VAUGHAN: They were already owned by the government.

Mr. HANSON (*Skeena*): Yes, I know they were.

Mr. VAUGHAN:

Loans for the purchase of these securities have been made to the Company by the Government, bearing interest at $3\frac{1}{2}\%$ per annum, repayable on demand and secured by promissory notes and by the securities so purchased.

In all, these transactions in 1942 have dealt with railway securities having a par value of \$289,320,520. The cost of redemption was \$278,045,685, resulting in a reduction in the capital debt of the railway of \$11,274,835. This amount, less \$202,242 discount not amortized prior to the date of redemption, has been accounted for as a capital gain through the Proprietor's Equity account. These transactions have resulted also in an annual income saving of \$1,049,000 (interest less exchange).

Mr. HANSON (*Skeena*): That is good work.

Mr. VAUGHAN:

The schedule of securities attached to the United Kingdom Treasury vesting order dated January 26, 1942, included the sterling shares of capital stock of the Atlantic and St. Lawrence Railroad Company. The

Atlantic and St. Lawrence Railroad extends from Island Pond, Vermont, to Portland, Maine, a distance of 147.79 miles, and has been operated by Canadian National Railways and its predecessors under a 999 year lease dated August 1, 1853. Before the Canadian National Railway Company may purchase the shares of the Atlantic and St. Lawrence Railroad Company, approval and authorization by the Interstate Commerce Commission is necessary. An application for such approval and authorization was made to the Commission dated December 15, 1942. On January 8, 1943, the Commission issued its order favourable to the application. The accounting entries reflecting the purchase of these securities will be made in the 1943 accounts.

Line Abandonments

An application was made to the Board of Transport Commissioners to abandon 29.8 miles of line between Neidpath and Swift Current, Saskatchewan. The Board refused permission to abandon 14.9 miles of line between St. Remi and Hemmingford, Quebec. The Board granted permission to abandon, in co-operation with the Canadian Pacific Railway, 6.5 miles of Canadian National line and 53.4 miles of Canadian Pacific line between Forth (near Red Deer) and Ullin, Alberta, but an appeal from the Board's order has been taken to the Governor in Council.

General: The relations between management and the employees were maintained on a harmonious basis throughout the year. In co-operation with the Manpower Board Division of the Department of Labour arrangements were made for the individual deferment of military training for employees in essential services, such as employees in train and engine service, shop crafts, agents, operators, maintenance of way employees, and others with technical qualifications.

To facilitate the movement of coal from the Cape Breton mines to points in central Canada, the railway as agent for the government arranged for the construction of a coal handling plant, storage area, and ancillary facilities, at Point du Chene, in the Province of New Brunswick.

As a measure to increase the supply of iron ore, arrangements were made for the railway as agent for the government to rehabilitate the Northern New Brunswick and Seaboard Railway (owned by the Province of New Brunswick but not operated for some time) from Nepisiquit Junction on the Bathurst Subdivision to the Bathurst properties of Canada Iron Foundries Limited.

Mr. POULIOT: Before we go further would you be kind enough to tell us how many passenger cars froze at the Turcot yards in Montreal during the last winter? I was told that a large number of cars had been frozen because they were not looked after by the same men as used to do that work. Is that true?

Mr. VAUGHAN: I have not heard of any particular complaints. Have you heard of anything, Mr. Walton?

Mr. WALTON: No, I have not.

Mr. VAUGHAN: I do not think we had any particular trouble. Of course, we had a lot of trouble getting equipment in and out of the station during the period of the heavy snow, but we did not have any equipment frozen that I know of.

Mr. POULIOT: Extensive repairs have been made to all erecting shops of the railway except at Riviere du Loup which is an old divisional point and one of the very few erecting shops in Canada. I wonder if there cannot be an

enlargement of the shop there to manufacture munitions and help somewhat in the war effort otherwise than by repairing engines?

Mr. VAUGHAN: I think most of your men at Riviere du Loup are pretty well employed.

Mr. POULIOT: Yes, but there are men who are not fit for service but who are able workers. I tell you if you enlarge the shop I would promise you good reliable working men who have experience in trades and who would do very well there. I cannot understand it, Mr. Vaughan, because there is more railway business, but this is one of the few places in Canada where nothing has been done, no war industry except the railway, and there are facilities there. You have the power. It is very easy to enlarge the shop. Moreover there is some machinery that is not working to capacity, and to my great surprise some of it was sent down to Moncton.

I will tell you right here, Mr. Vaughan, the difficulties we have with Moncton. They are a square-headed people. You can well remember the trouble we had at Riviere du Loup. In the first place it was due to graft between a former Conservative postmaster general and a former Liberal lieutenant-governor who had lots in Quebec city and could not dispose of them. Both of them are dead, and may their souls rest in peace. They had lots in Quebec that they could not sell. It was a swamp. In order to justify the sale to the Borden government in the first days of the government they sold that to the government—

The CHAIRMAN: Order, please. I do not think this should go into the record.

Mr. POULIOT: I gave no names. This is a thing that has been mentioned in the House, and when I said it in the House the Speaker did not call me to order. I do not see why you should be more severe in committee than the Speaker is in the House. I want to inform the officers of the railway as to what happened. It was not due to them. It was pure graft. There was no need for the St. Malo shops in Quebec but the land was sold to the government. There should have been some justification for purchasing the land. Therefore they built those shops and as they had no men or machinery to put there they took men and machinery from Riviere du Loup for the most part.

Then I had to fight with the railway to get machinery down to Riviere du Loup after the shops were turned into a munitions plant in Quebec city. It was only due to the intervention of Mr. Lapointe with Mr. Hungerford I did it because through some intrigue all that would have been sent to Moncton. Now Moncton is putting the blanket over us again and it is a shame. I hope with the new general manager in Moncton it will work better than it did. In the past we could not get a decent answer from Moncton. I hope also that man Barnes there who is chief—what do you call it—

Mr. VAUGHAN: Chief mechanical officer.

Mr. POULIOT: —will get out as soon as possible.

Mr. McCULLOUGH: I take exception to that. I have had a lot to do with him over the last twenty years and I tell you I have never run across a finer gentleman than Mr. Barnes in Moncton.

Mr. POULIOT: If he was fine with you he was crooked with us, I want to say to the railway it was just a family affair. He was just thinking of promoting his son-in-law. It is impossible to have justice with those people. I have to make an exception for Mr. Thompson who is the superintendent at Campbellton. I have known Mr. Barnes for a long time and I have to say that. Riviere du Loup has been treated most unfairly by Moncton. We would like to join the central region if we did not have to take Mr. Masse, the general superintendent in Quebec city. I am not prejudiced. I complain bitterly of some Free Masons

at Moncton but I complain also of that member of the Knights of Columbus at Quebec City. He is just as bad as the others. We have no fairness. Moreover, he thinks he must show his authority by being impolite to the men and being unfair to them. There is no reason for him staying there. There is no justification for having him as general superintendent in Quebec city.

I have always co-operated with the railway. When there is trouble between some of the men and the railway I try to act as, what we call in court, *amicus curiae*, a friend of the court. I try to help matters. My relations with Montreal have been very pleasant. My relations with Mr. Bond of Toronto have been pleasant, too. I have no complaint about Mr. Appleton, who is a very old gentleman, but I complain bitterly about Mr. Barnes. He should go, and it is my duty in the public interest to say so. There is no reason to keep that nasty little Masse in Quebec city. I do not say that because I am against a French-Canadian. I say that because I want fair play for the men. We also have always suffered from Moncton. Moncton wanted to get everything and they wanted to keep us with them. It is most absurd that one part of the province of Quebec is under the control of Toronto and the other part under the control of Moncton. We are divided in two, and why? Because there was competition between Toronto and Montreal regarding the head office, as to whether it should have been in Toronto or Montreal. I am ready to do anything for the railway but I want some co-operation from the railway. Mr. Vaughan knows it quite well. I will say to him and all officials of the railway that I want to be just as fair as possible but so long as the railway has the same policy as the government to keep in office all evil-doers we will make no progress. You have to cut some heads in order to have progress. It is the heads of nonentities. I am sorry to say so but it is my duty to say so, not only on behalf of my people but also for the railway and for the country.

MR. EMMERSON: Mr. Chairman, I just want to say one word. I regret very much that Mr. Pouliot has found it necessary to make some very unkind remarks about Mr. Barnes. The record that the Moncton shops have made in comparison with the other shops of the system speaks for itself. He is a man who is held in very high regard, not only by the railway men in the Atlantic region but by the people of Moncton, and I think pretty well the whole province of New Brunswick and, in fact, Nova Scotia.

MR. POULIOT: Opinions are free, but I hope the railway will seriously consider doing something for Riviere du Loup and with Riviere du Loup. I say that to the railway in the most friendly spirit.

MR. VAUGHAN: I think you have been co-operating with the railway but I really think you are unfair to Mr. Barnes. Mr. Barnes has been a very valued officer of the railway for a long time. However, it just happens that Mr. Barnes is retiring at his own request.

MR. POULIOT: Mr. Vaughan, your speech is the same as I heard in the House from the Minister of Finance. I know you are too great a man to copy anybody's speeches. I would like to have your own made and it should be "yes" to my request.

HON. MR. MICHAUD: That would be yours then.

MR. EMMERSON: There is one question with regard to this work that was done at Point du Chene. Do you anticipate you will be able to use it to some real advantage this coming year. Your difficulties there, of course, have been that you have not had coal.

MR. VAUGHAN: We have had it up actively with the Dominion Coal Company to see if they would not send a larger quantity of coal through Point du Chene this year. I think it depends to a large extent upon the vessels they are able to get through the shipping board at Ottawa. They are trying

to get more to carry coal between Sydney and Point du Chene. They are hopeful of getting them. If that happens we certainly can handle more coal through Point du Chene than we did last year.

Mr. EMMERSON: Is that new carrier built? Has the full plant been established? Is the carrier built and established yet or is it still the old system?

Mr. VAUGHAN: We were using trucks last year, and the belt is now there. I think it is in process of installation. Of course, it is difficult to instal it at this time of the year but the belt is there ready to be installed.

Mr. WALTON: There was some question as to whether it was needed for some war project in which case we may be required to release it and continue with the trucks, but other than that we are prepared to instal it.

Mr. VAUGHAN: We will instal it if they do not take it away from us for some other purpose.

Mr. EMMERSON: You have it there now?

Mr. VAUGHAN: I understand we have the belt.

Mr. WALTON: It is there but there is some question whether some war project requires it, and if that happens the operation can be carried on the same as last year with the trucks.

Mr. McCULLOCH: How many boats do you think you will have coming up to Point du Chene?

Mr. VAUGHAN: I cannot give you that information. We tried to get that information ourselves, but we have been unable to do so. We have put it up very actively both to the Dominion Steel Corporation and the fuel administration at Ottawa.

The CHAIRMAN: I think now would be a good time to put in our record a statement from you with regard to just how much western coal you could use if it were obtainable. I am thinking about this other committee that Mr. Gray was in representing this morning, the reconstruction committee. I think it will be a good thing to have a statement in our report as to the amount of western coal that could be absorbed by the railway.

Mr. VAUGHAN: I will have to do some figuring on that. I think I said this morning we could use any quantity of Canadian coal available of suitable quality. I repeat that statement.

The CHAIRMAN: At the local price; you do your own haulage.

Mr. VAUGHAN: Yes; the question of price has not been involved. I think the question of price could always be adjusted. We will take any quantity of coal that is offered to us by those Canadian mines.

Mr. DUROCHER: Could these Canadian mines put out a greater output than they do at the present time?

Mr. VAUGHAN: As I understand it the Canadian mines are producing every ton of coal that they can with the men available.

Mr. DUROCHER: That means if they had more men at their disposal they could produce more?

Mr. VAUGHAN: I think that is true.

Mr. McCULLOCH: I understand some of the army men are coming back to the mines.

Mr. VAUGHAN: Yes.

Mr. McCULLOCH: I noticed that in the paper. Of course, a lot of the reduction in the output in Nova Scotia is through absenteeism.

Mr. VAUGHAN: Yes.

Mr. McCULLOCH: Mr. Gray made a statement with regard to Cape Breton that about 14 per cent were absentes and 6 per cent were on the sick list, making a total of 20 per cent.

The CHAIRMAN: What I have in mind is this: I suppose as chairman I should not say too much, but there are endless quantities of coal in the west and as a reconstruction feature if we could get this coal moving it would help a great deal. They cannot use it down east because it costs too much to haul across the continent. They used to bring it down at a subvention of \$7 a ton. Even then they could not compete with eastern coal.

Hon. Mr. MICHAUD: There are large deposits of coal in the province of Saskatchewan.

The CHAIRMAN: Very, very large.

Hon. Mr. MICHAUD: We have had to haul American coal out there in the past winter.

Mr. McCULLOCH: I should like to say a word about the Thorburn-McBain seam. There are 5,000,000 tons of coal in the McBain seam, and Mr. Poole's analysis showed it was one of the best steam coal in the province. It would be very easy to get out that coal. I was telling them in the other committee if they put 200 men to work there and have an output of 500 tons a day it would last for twenty-five years.

Mr. Ross: Where?

Mr. McCULLOCH: Thorburn, six miles from New Glasgow. The population there was about 1,500, and I suppose it is down to 900 now. The miners there are all employed in other mines in Nova Scotia, but they have their homes in Thorburn and I think it would make a very cheap coal if it were used.

Mr. VAUGHAN: I suppose someone will develop that sooner or later.

Mr. McCULLOCH: Well, I think in time some of the older mines will go out and they will have to develop the McBain seam.

Mr. VAUGHAN: I should like to make this clear that while at the present time, and I think since the beginning of the war, we could have taken and can take all the Nova Scotia coal and western coal that is available, that does not apply in times of depression, when our coal consumption drops away down.

Mr. McCULLOCH: I understand that.

Mr. POULIOT: Mr. Chairman, may I ask Mr. Vaughan to be kind enough to give us some information regarding positions that are essential, railway positions that are essential and recognized as such by the selective service.

Mr. HANSON (Skeena): He gave us all that two days ago.

Mr. POULIOT: It was not given by Mr. Vaughan.

Mr. VAUGHAN: There are many positions. There is a list now being furnished to the Department of Labour. There are trainmen, agents, telegraphers, mechanics and men of that type who are essential to the service of the railway.

Mr. POULIOT: Brakemen and firemen?

Mr. VAUGHAN: Engineers.

Mr. POULIOT: Telegraphers, operators?

Mr. VAUGHAN: Yes.

Mr. POULIOT: And with whom do you deal as a railway expert in the National Selective Service?

Mr. VAUGHAN: We deal mostly with the minister.

Mr. POULIOT: The minister himself?

Mr. VAUGHAN: Yes.

Mr. POULIOT: And he transfers it to the board?

Mr. VAUGHAN: Yes. The C.P.R. and ourselves have made joint representations to the Minister of Labour.

Mr. POULIOT: You do not pass any more through the Adjutant General's branch of the Department of National Defence?

Mr. VAUGHAN: No, sir.

Mr. POULIOT: Mr. Vaughan, I should like to make a suggestion with regard to the train service between Montreal and Toronto and also via Ottawa. I wonder if it is not possible to have the best coaches put in the front of the train so as to give an opportunity to the early comers to get seats there and then put the older cars in the rear if you have to have them. Naturally those who would come first would be entitled to better places in the cars. Also would it not be possible to tell the brakemen to stop at the entrance of the car until the car is filled and then go to the other car and tell people to get into the other car? It could be done easily.

Mr. VAUGHAN: We have a committee now, Mr. Pouliot, studying that situation to see how we can improve the conditions in those cars. We have requests to put parlour cars on again; we have requests to reserve seats at a charge in the first-class coaches and we have requests of all kinds from different people, members of parliament and others as to what we should do in connection with this service and we are giving it much study at the present time.

Mr. POULIOT: Of course I do not object to coaches nor to first-class cars, old first-class cars, but it seems to me it is the duty of the brakeman to see that some cars are not overjammed while others have nobody in them. There should be a distribution of the travelling public.

The CHAIRMAN: They do that now.

Mr. VAUGHAN: They try to do that as best they can. Of course, the brakeman is sometimes outside busy helping women and children, too, trying to do the best he can for everybody.

Mr. POULIOT: I will tell you this: when I came to Ottawa the last time this week while some cars were filled to capacity others were not. Then, people have many parcels with them at times when they travel and it is pretty hard for them to go along the whole way to find accommodation when they take it for granted that the accommodation is given by the brakeman who is at the door of the car.

Mr. VAUGHAN: Brakemen are supposed to notify the passengers if there is a place ahead so that they won't all go into the one car or crowd into two or three cars.

Mr. POULIOT: What happens is this, he does it from the rear, and the first two cars in the rear are jammed to the limit. Then, there was a dining car and the cars ahead were alright, nobody thought of going ahead.

Mr. VAUGHAN: We will be very glad to take your representations under consideration.

Mr. POULIOT: It is very little but it will help us all.

Mr. ROSS: Following that up, in connection with reservations, is it possible for a passenger to purchase a section on one ticket?

Mr. VAUGHAN: I did not get that.

Mr. ROSS: Is it possible now for a passenger to purchase a section on one ticket only?

Mr. VAUGHAN: Yes.

Mr. ROSS: It still is?

Mr. VAUGHAN: Yes.

Mr. ROSS: Therefore he can purchase two berths although he sleeps in only one?

Mr. VAUGHAN: He can buy a section if he wants to, yes.

Mr. ROSS: I take exception to that under the present conditions even if he purchases two sections on two tickets.

Mr. VAUGHAN: Of course, it is a very difficult thing for us to regulate, because sometimes it might appear that a car is not going to be filled and then at the last minute a lot of people may come down who have not actually made reservations, they go to the sleeping-car office and attempt to purchase space at the last minute and it may be that someone is getting a section who only needed a lower berth or an upper berth; but these are all matters that are being studied with the Transport Controller at the present time, because we realize sometimes these things do occur and we are seeing what can be done about rectifying them.

Mr. ROSS: Under the extraordinary conditions which now exist in the way of travel and movement of troops, I think every attention should be given to this because I have heard of cases where a passenger has gone down to the station and purchased a berth at the last minute or gone down to try to purchase a berth at the last minute and then walk off and stay at the hotel, they could no find a seat and at the same time there will be a passenger with a whole section on one ticket.

Mr. VAUGHAN: Instructions of that kind should come, I think, from the government or from the Transport Controller, but we are cooperating with them, as Mr. Michaud knows. The Transport Controller reports to Mr. Michaud, and there are a great many things being dealt with every day in regard to improving the service and making more accommodation available for passengers.

Mr. ROSS: I hope so.

Mr. DUBUC: Did you not alter that regulation when you put three trains instead of seven on the Chicoutimi service?

Mr. VAUGHAN: I have not any recollection of it having been altered, Mr. Dubuc.

Mr. DUBUC: I am sure somebody should have thought of it. To have only three trains a week instead of seven is a big enough sacrifice without having one passenger buying a whole section. Many of our people have to travel to Montreal during the night on a day coach.

Mr. VAUGHAN: I think your point is very well taken.

Mr. DUBUC: It has not been thought of I am sure it should have been.

Mr. VAUGHAN: I would not say it has not been thought of. I think it has because a great many things have been discussed with the Transport Controller. All these things sometimes may seem slow in adjustment, but there are many things to consider in connection with that. But we will pursue that matter further because it does seem only right if the train is extremely crowded that every berth vacant should be made available.

Mr. DUBUC: It has not happened I will expect from now on, until the seven trains are put back into service, that your agents should be told to sell only one berth to one ticket, not a section.

Mr. VAUGHAN: What would we do then if we had half a dozen sections vacant in the car?

Mr. DUBUC: I can tell you this, the number of berths that you could sell in the last two months to the people who have to take that trip in a day coach because they have to go to Montreal is sufficient compensation for what you might lose if you happen to have a few sections vacant now.

Mr. VAUGHAN: We will certainly go into that, Mr. Dubuc and Colonel Ross. I think it is well worth going into.

Mr. ROSS: In other words, ration the space and you cannot make a mistake.

Mr. DUBUC: If you ration the trains it is only reasonable you should ration the berths as well. I have had lots of complaints from people, but because it was a war measure I did not want to interfere. There is a war on and we have to suffer. It is very hard for the whole population there. There used to be seven trains a week and now there are only three.

Mr. POULIOT: It was done under order of the Transport Board or under the order of the Board of Railway Commissioners? As I understand it, the rate for an upper for half the price a lower was done under an order of the old Board of Railway Commissioners or the Transport Board.

Mr. VAUGHAN: I do not recall that, Mr. Pouliot.

Mr. POULIOT: Do you deal any more with the Transport Board in regard to these things, or the Transport Controller?

Mr. VAUGHAN: Well, you have two agencies. We still have to conduct our regular business through the Board of Transport, but in connection with extraordinary matters, such as we are discussing, they are matters which come under the Transport Controller.

Mr. POULIOT: Would the minister be kind enough to tell us what are the relations between the Board of Transport Commissioners and the Transport Controller?

Hon. Mr. MICHAUD: The Board of Transport Commissioners?

Mr. POULIOT: Yes.

Hon. Mr. MICHAUD: The Board of Transport Commissioners is a statutory institution under the Transport Act and they have to administer the Railway Act practically, and it is a peacetime organization. The Transport Controller is an officer appointed under the War Measures Act to regulate war material transport primarily, and in order to regulate his war material transport he has to interfere with passenger transport to make room for the other.

Mr. POULIOT: What are the relations?

Hon. Mr. MICHAUD: There are no relations. Both report to the Minister of Transport, but one is not dependent upon the other. There are no alternative relations.

Mr. POULIOT: The matter is decided afterwards by order in council?

Hon. Mr. MICHAUD: Afterwards?

Mr. POULIOT: Yes, after you have both reports is the matter submitted to council?

Hon. Mr. MICHAUD: Not of necessity, because the order in council establishing the office of Transport Controller gives him wide powers and by that order in council he exercises those powers.

Mr. POULIOT: Under his signature?

Hon. Mr. MICHAUD: Yes, under his signature.

Mr. POULIOT: And with the approval of the minister?

Hon. Mr. MICHAUD: And with the approval of the minister.

Mr. POULIOT: And without the approval of the minister it does not go into effect? Under the order in council of the Transport Controller with regard to railway business is it necessary for the Transport Board to get in touch with the Transport Controller before making a decision?

Hon. Mr. MICHAUD: No.

Mr. POULIOT: They are independent?

Mr. JACKMAN: Just before you leave this subject of reservations, may I make this remark: if you want to get reservations to Toronto, for instance, you apply some days in advance. You have to leave your name and at 3 o'clock of the day on which you want your reservation you have to send a messenger down or go down and pick up your transportation. It seems to me that it might be better if in place of some people reserving all the time on the possibility that they might need it if they were required to pay cash for it it might make it easier for many of those who are genuine travellers going through to a destination to obtain tickets. I could mention a case that I ran across in Toronto one Sunday, an official of the Wartime Prices and Trade Board had no less than three tickets reserved, but his two senior men having gone by plane in the afternoon and he was in such a rush to catch the train that he was unable to cash in the tickets. I said, "If you like, I will cash them for you." I had no difficulty in cashing the reservation, but he was not able to use his senior officer's vacant chair. Are there very many vacant berths on the trains these days? I know it cannot be a very big percentage. Is there a certain amount of vacancy due to the fact that people make reservations and turn them in at the last moment and you have not got the opportunity to sell them? That applies to both railways, of course.

Mr. VAUGHAN: That does happen occasionally. I am not absolutely sure at the present time exactly what regulations are in effect in regard to reservations. Do you know, Mr. Walton?

Mr. WALTON: Those regulations in regard to the cut-off time at 3 o'clock were planned by our people with a view to making as many reservations as possible available that were not going to be used on the day of making the trip. It was thought that if a general arrangement were made whereby you had to buy the berth whenever you decided to go, maybe several days in advance, it would run into a lot of refunds, whereas the 3 o'clock cut-off time for trains that left late in the evening would still give plenty of time for people who find that afternoon that they are going, to get the advantage of cancellation.

Mr. JACKMAN: Do you think you should have a rule that you cannot cancel within some hours of train time? As it is now, they are cancelling right at the last minute and given a refund.

Mr. WALTON: The thought in connection with that was that it might work against us in that if you could not cancel, then you would have an empty berth. The demand is such these days that we like to think we are taking advantage of all possible cancellations, if they are inevitable, to get the use for others.

Mr. JACKMAN: I do not want to generalize from a single instance which came within my own purview. But I am asking are there very many cases like that? Do you find you have one or two berths per car?

Mr. WALTON: No. I am told by our people who handle the reservations that the present arrangements work out very well. There may be the odd exception, of course.

Mr. POULIOT: Very often there is a waiting list for reservations.

Mr. WALTON: Yes; which comes in for action whenever these cancellations do take place.

Mr. POULIOT: There is a reservation made for a lower; and when there is no lower available there is a reservation for an upper. As soon as the lower is available, then the reservation is changed.

Mr. WALTON: That is right.

Mr. POULIOT: It works out fine. I must congratulate them. They do fine work.

Mr. ROSS (*Middlesex East*): There is one question I should like to ask of Mr. Vaughan in connection with the many freight cars we have over here from the American lines. To what use can we put those freight cars or to what use can the C. N. put those freight cars and how long can they use them in a general way before they have to be returned to the American lines?

Mr. VAUGHAN: They are covered by regular per diem rules which are international rules between American railroads and Canadian railroads. Those cars that come over here, come over loaded and they go to their destinations. We try, as far as we possibly can, to load them homeward.

Mr. ROSS (*Middlesex East*): I suppose they are doing the same thing across the line.

Mr. VAUGHAN: Yes. But, of course, we have many more of their cars than they have of our cars, as the per diem balance shows. The rates are the same. We pay a dollar per car per day. The per diem rules are quite elaborate.

Mr. WALTON: There is not so much a general and definite order in regard to the length of time you can keep the cars. The provision applies more to loading them in the direction of their home, owning road when they are loaded. The imposition of the per diem charge is intended to encourage the return of the car because of building up expense, and we have a department who are continually chasing these cars and endeavouring to find loads in the proper direction for them and generally to utilize them to the best advantage. In addition to that, the American Association of Railroads have a car service division, and it is their duty to follow up all cars that are unduly delayed. They have a tracing arrangement which points to these cars if they are unduly delayed with a view to getting them loaded in the direction of the home road. It is a very elaborate arrangement, but it does work out to the good utilization of what we call "foreign cars" owned by other roads, and avoids just as much as we can the hauling of empty cars.

Mr. ROSS (*Middlesex East*): The same arrangement, of course, applies on the United States roads. They are under the same regulations?

Mr. WALTON: Yes. It is a two-way arrangement.

Mr. ROSS (*Middlesex East*): The picture does not look as black, then, especially if we have more cars of theirs than they have of ours.

Mr. VAUGHAN: The arrangement is working out very well.

The last item on here is with regard to the staff, and I should like to emphasize that.

THE STAFF

The officers and employees in all departments of the Canadian National Railways have worked loyally and efficiently to meet the new situations arising out of the war, and the directors record their appreciation and thanks. Upwards of ten thousand members of the staff are serving in the navy, the army and the air force, and others are serving in the Merchant Marine.

That completes the narrative part.

Mr. JACKMAN: Mr. Chairman, I have a question before you leave that. I am fairly well in accord with what the staff and the employees have done

in contributing towards the war effort for good and adequate transportation. There is a general feeling on the part of some, however, that railway employees are able to make rather large wages. Is that true or false? Have you any figures that indicate the average wages for running crews—for the engineers, brakemen and others? Can you give us a picture of that at all, for the year 1942, say?

Mr. VAUGHAN: We can give you figures that would show the average earnings of this class of employees for 1942. I do not know whether we have them here or not. These men are not making any extraordinary wages. Of course, where the men are paid by mileage and they have an extreme mileage per month, their wages would be a little higher. But, generally speaking, they are not making any extraordinary amount. Their wages have not changed, except to the extent of the cost of living bonus.

Mr. HANSON (*Skeena*): That arrangement is between the union and the railway companies?

Mr. VAUGHAN: I did not hear that.

Mr. HANSON (*Skeena*): The arrangement for the wages to be paid per mile for the engineers is between the union and the railway companies?

Mr. VAUGHAN: Those are the schedules in effect.

Mr. HANSON (*Skeena*): The schedules in effect with the union.

Mr. WALTON: I might just say that while you may find some members of the various trades on the railway making fairly high earnings possibly for a given month, there are times we have been very glad to have their services, with the amount of business we have had to handle, even though it made a fairly high earning for some of them. Because of the number that have gone to the armed forces and so on, it has been a problem to properly man the road.

Mr. JACKMAN: What I am really asking is this. Does a first-class engineer on a good run—

Mr. WALTON: They are all first-class.

Mr. EMMERSON: A senior engineer.

Mr. JACKMAN: Take a senior engineer, if you like to put it that way, on a good run, who is getting an average amount of overtime in this emergency. Does he make \$2,000, \$3,000, \$4,000 or \$5,000 a year?

Mr. WALTON: I think Mr. Cooper has some averages here.

Mr. VAUGHAN: Mr. Cooper will read the averages.

Mr. COOPER: The number of men in the running trades last year was 15,101.

Mr. JACKMAN: I did not hear that.

Mr. COOPER: 15,101.

Mr. JACKMAN: Men?

Mr. COOPER: Men. The total wages were \$41,920,000, which is somewhat less than \$3,000 a year.

Mr. JACKMAN: I have no doubt that the average is not extreme. But owing to union rules and perhaps accidental circumstances, do some of these engineers make extremely high wages?

Mr. VAUGHAN: I do not know what you would call extremely high, Mr. Jackman.

Mr. JACKMAN: I would think \$5,000 would be quite a lot of money for an engineer.

Mr. POULIOT: I would put it this way, Mr. Vaughan. Sometimes the men have to work a very long time.

Mr. VAUGHAN: Yes.

Mr. POULIOT: Once when I was going down home—and it is not such a great distance; it is only 400 miles—a train was one full day late.

Mr. WALTON: You would run into very excessive payments on that which cannot be avoided.

Mr. POULIOT: It is no fun for a man to be in charge of a train for such a length of time.

Mr. WALTON: No, it certainly is not.

Mr. VAUGHAN: You would not find very many \$5,000 a year men. There might be the odd man who would make that, but he would have to work hard for it. He would have to work a good deal of overtime to make that rate.

Mr. WALTON: There is one thing we find about these cases where apparent excessive earnings may be made over a brief period. Very often a man has to lay off for three or four days after that, because of long hours and exposure to the weather and that sort of thing. You can pick out short spaces when a pretty heavy earning appears, but taken over a month or two or three months, with the weather and other conditions, it does not result in, I would say, excessive earnings over a period.

Mr. JACKMAN: That is what I am asking for. How much do these men earn in a year under present circumstances?

The CHAIRMAN: It depends on the number of miles you run, I suppose.

Mr. JACKMAN: If you have 15,000 men who earn, on an average, close to \$3,000 a year,—and they are all skilled artisans or whatever you call them in the trade who have to put in years of apprenticeship—I suppose there must be some in that who get a very high rate, because the average was \$3,000. A good many will not get \$3,000.

Mr. WALTON: I think you will find the odd one runs up to the rate of \$5,000. But you will not find very many at \$5,000 when you take the whole year around, figuring the idle time, sickness and so on, for which there is no compensation whatever.

Mr. JACKMAN: I am really trying to help out your manpower problem. If you can get \$5,000 running an engine, there is not much use going in for accountancy, law and the other professions. I think the public ought to know that.

Mr. WALTON: Of course, again those high earnings are a matter of the time being. In quieter times there will be no earnings of that order.

Mr. JACKMAN: But we are not going to have quieter times after this war.

Mr. WALTON: Oh.

Mr. VAUGHAN: There are probably a good many going in for accountancy and law who would not be willing to do the work that these men do.

Mr. POULIOT: And they could not.

The CHAIRMAN: What are you going to do with these tables, gentlemen? We have a balance sheet on page 12.

Mr. HANSON (*Skeena*): Is a motion to adopt the report in order?

Mr. VAUGHAN: How would you like me to deal with this? Would you like me to read the tables or give the totals or what does the committee desire?

Mr. HANSON (*Skeena*): Before we start in on these tables, Mr. Chairman, I should like to get a breakdown of the hotel expenses incorporated in the minutes.

The CHAIRMAN: Are there any items in this balance sheet you want to discuss?

Mr. JACKMAN: Mr. Chairman, I am going to protest to some extent in this matter. We wish to be as co-operative as it is possible to be, but these balance sheets are given to us after the committee starts sitting. That is something I hope will never happen again, Mr. Minister, because we have not got time to study them. We have very important matters on in the house, and I have not had an opportunity to go over this balance sheet yet; and always in the past we have gone over it, item by item. Surely the members will find various things they wish to inquire into as they proceed.

Mr. POULIOT: You cannot protest. They have asked you what you think, and everybody will agree with what you say.

Mr. JACKMAN: A mild protest is a request.

Mr. POULIOT: Just an observation.

Mr. VAUGHAN: I think the fault may be ours. Some of us have got quite a lot of travelling ahead of us, and we asked if this meeting could not be brought on a little earlier this year and you very kindly co-operated with us. I think if there is any fault about bringing it on hurriedly, it belongs to the railway officials and not to the government.

Mr. JACKMAN: I see.

Mr. HANSON (*Skeena*): I should like to get a statement as to the different hotels, how much the cost was, the surplus and the deficit.

Mr. VAUGHAN: We will get you a statement to that effect.

Mr. HANSON (*Skeena*): I should like to give notice of that now so that you will have a chance to get it.

The CHAIRMAN: Shall we carry page 12?

Mr. JACKMAN: Mr. Chairman, this is the whole consolidated balance sheet for the railway. I think we should have some opportunity of discussing it.

Mr. HANSON (*Skeena*): Take any item you like, Mr. Jackman.

Mr. ROSS (*Middlesex*): As a member of this committee, and perhaps as an old soldier, I would just like to pay a compliment to the staff. I see we have over 10,000 members of the staff now serving in the army, navy and air force, with others serving in the merchant marine. I would just like to say that that is a wonderful and outstanding record. And I would like to say further to that, that this discipline, if you wish—of the regulations under which they service in the C.N. would add to the quality of their service in the different branches of the armed forces. And I think, Mr. Vaughan, you are to be congratulated on having a showing of that kind from the Canadian National while at the same time keeping up the quality of service that exists at the present time.

Mr. VAUGHAN: Thank you very much, Colonel Ross.

Mr. POULIOT: I agree with you, Colonel Ross; but on the other hand there should be no curtailment of manpower if the railways are to carry on. And, as I said the other day in the house, what is done by the army is more heroic than what is done by railway men; but the work of railway men is just as noble as that of those in the armed forces; and it is necessary, and this is a war industry which is helping the army out—the army and as well the civilian population. And if we had no railway it would be impossible to transport troops from one point to another and to transport food and the tools which the army need; and the same thing applies with respect to the civilian population; and also the feeding of our allies. For that reason I do not see why any man who renders useful work in the railways at all should be permitted to leave the railways. Railway men should be frozen so that there would not be any further difficulties such as we have had in some cases in the recent past.

The CHAIRMAN: Is there any discussion on page 12?

Mr. JACKMAN: First of all, with your indulgence, I am going to ask Mr. Vaughan what rate of interest the government is charging under that hire-purchase agreement with respect to \$22,250,000.

Mr. VAUGHAN: They charge us $3\frac{1}{2}$ per cent.

Mr. JACKMAN: Let me ask you this too: if we consider the amount of rolling stock which is required to carry on the present volume of traffic as 100 and the post war volume of traffic as 80, will you require very much in the way of new rolling stock? You would require some, of course, but can we expect a large increase in rolling stock equipment which would tend to give employment to men in the great equipment companies?

Mr. VAUGHAN: I think that would depend entirely upon the traffic available.

Mr. JACKMAN: I am suggesting that if it is now 100, using that as an index, and if the post war figure is 80—that would be a decline of 20 per cent, which is not so much—under your expert management (I say that quite sincerely) you are able to make use of your present rolling stock to a much greater extent than perhaps would have been considered conceivable or possible before—you have new tricks now to expedite shipments and so on—in relation to an estimated volume of traffic after the war of 80 per cent as compared to 100 now, would you need very much in the way of new equipment? Some people are expecting that the railways will provide ways and means of re-employment after the war when they begin to re-equip themselves with the rolling stock which is wearing out now and which perhaps will then have to be replaced.

Mr. VAUGHAN: If we drop back to 80 say from 100, my own opinion is that our new equipment requirements will not be very great.

Mr. JACKMAN: For some years after the war?

Mr. VAUGHAN: There is certain obsolescence of equipment going on from time to time and we have quite a number of cars destroyed every year in the ordinary course of business which must be replaced; but I am of the opinion that for some time after the war we will not need to purchase any large volume of equipment. That depends upon traffic.

Mr. JACKMAN: Thank you.

The CHAIRMAN: Do you wish this table, the consolidated balance sheet, to appear in the record?

Mr. McCULLOCH: Yes.

Mr. VAUGHAN: You do not wish me to read the balance sheet in complete detail?

Some Hon. MEMBERS: No.

The CHAIRMAN: I do not think that is necessary.

CONSOLIDATED BALANCE SHEET AT 31st DECEMBER, 1942

		ASSETS		
INVESTMENTS:				
Road and Equipment Property....	\$ 1,890,440,355	48		
Improvements on Leased Property	4,226,219	87		
Miscellaneous Physical Property..	66,145,762	46		
				\$ 1,960,812,337 81
Sinking Funds:				
System Securities at par.....	\$ 435,678	60		
Other Assets at cost.....	321,176	91		
				756,855 51
Deposits in lieu of Mortgaged Property Sold:				
System Securities at par.....	\$ 1,966,500	00		
Other Assets at cost.....	2,701,212	23		
				4,667,712 23
Maintenance Funds				8,425,000 00
Investments in Affiliated Companies.....				42,021,102 57
Other Investments:				
System Securities at par.....	\$ 211,000	00		
Other Assets at cost.....	534,435	46		
				745,435 46
				\$ 2,017,428,443 58
CURRENT ASSETS:				
Cash	\$ 10,242,498	81		
Special Deposits.....	7,808,223	95		
Bills Receivable.....	75,000	00		
Net Balances Receivable from Agents and Conductors	18,114,935	21		
Miscellaneous Accounts Receivable.....	19,894,312	02		
Material and Supplies—Ledger Balances.....	48,456,428	23		
Interest and Dividends Receivable.....	686,827	93		
Rents Receivable.....	184,477	13		
Other Current Assets.....	10,709,440	00		
				116,172,143 28
DEFERRED ASSETS:				
Working Fund Advances.....	\$ 220,735	57		
C.N.R. Insurance Fund:				
System Securities at par.....	\$ 10,828,963	45		
Other Assets at cost.....	1,351,543	95		
				12,180,507 40
Other Funds.....	756,886	25		
Other Deferred Assets.....	4,278,717	58		
				17,436,846 80
UNADJUSTED DEBITS:				
Rents and Insurance Premiums paid in advance...	\$ 178,970	23		
Discount on Capital Stock.....	189,500	00		
Discount on Funded Debt.....	8,883,269	25		
Other Unadjusted Debits.....	3,955,793	68		
				13,207,533 16
				<u>\$ 2,164,244,966 82</u>

CERTIFICATE OF AUDITORS

We have examined the books and records of the companies comprising the Canadian National Railway System for the year ended the 31st December, 1942, and subject to our report to Parliament, we certify that, in our opinion, the above Consolidated Balance Sheet is properly drawn up so as to exhibit a true and correct view of the affairs of the System as at the 31st December, 1942, and that the relative Income and Profit and Loss Accounts for the year ended the 31st December, 1942, are correctly stated.

16th March, 1943.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

CONSOLIDATED BALANCE SHEET AT 31st DECEMBER, 1942

LIABILITIES

STOCKS:			
Capital Stocks of Subsidiary Companies held by Public.....	\$	4,564,600	00
LONG TERM DEBT:			
Funded Debt Unmatured:			
Held by Public.....	\$	795,773,932	14
Held in Special Funds.....		13,442,142	05
			809,216,074 19
DOMINION OF CANADA (Accounts treated as assets in Public Accounts of Canada):			
Loans	\$	502,856,460	88
Canadian Government Railways—Working Capital		16,771,980	54
			519,628,441 42
CURRENT LIABILITIES:			
Traffic and Car-Service Balances—Credit.....	\$	8,820,309	43
Audited Accounts and Wages Payable.....		13,083,237	44
Miscellaneous Accounts Payable.....		4,338,900	95
Interest Matured Unpaid.....		6,656,933	50
Unmatured Interest Accrued.....		7,018,836	34
Unmatured Rents Accrued.....		403,347	04
Accrued Tax Liability.....		2,516,298	54
Other Current Liabilities.....		3,470,454	31
			46,308,317 55
DEFERRED LIABILITIES.....			7,805,190 66
UNADJUSTED CREDITS AND RESERVES:			
C.N.R. Insurance Reserve.....	\$	12,180,507	40
Accrued Depreciation.....		40,132,934	85
Maintenance and other Reserves.....		18,680,642	60
Other Unadjusted Credits.....		11,000,244	03
			81,994,328 88
DOMINION OF CANADA—PROPRIETOR'S EQUITY—(See Note)			
Represented by—			
1,000,000 shares of no par value capital stock of Canadian National Railway Company....	\$	18,000,000	00
5,000,000 shares of no par value capital stock of The Canadian National Railways Securities Trust		298,842,882	17
Capital Expenditures on Canadian Government Railways		377,885,131	95
			694,728,014 12
CONTINGENT LIABILITIES:			
For major contingent liabilities, including pension plans, see page 23.			
			<u>\$ 2,164,244,966 82</u>

NOTE:—The Proprietor's Equity is included in the net debt of Canada and is disclosed in the historical record of Government assistance to railways as shown in the Public Accounts of Canada in accordance with The Canadian National Railways Capital Revision Act 1937.

T. H. COOPER,
Comptroller.

The CHAIRMAN: We will now discuss the principal features of this balance sheet, should the members of the committee so desire.

Mr. VAUGHAN: I will just refer to the principal items.

Mr. JACKMAN: With respect to maintenance funds: that is what we were talking about this morning, that is the amount you have in reserve with which to do maintenance work later on?

Mr. COOPER: Yes, that is so; to the extent of \$8,425,000. I might say also that the reserves are invested in dominion securities.

Mr. JACKMAN: That is the money you are going to spend after the war for maintenance?

Mr. COOPER: Yes.

Mr. JACKMAN: Then, as to investments in affiliated companies—could we have a breakdown of that amount?

Mr. COOPER: You will find it on page 23.

Mr. JACKMAN: Then, under current assets, the item of material and supplies—ledger balances: is that a new term?

Mr. COOPER: Yes. In 1942 for the first time we did not have a staff available with which to make a complete physical check-up.

Mr. VAUGHAN: I might say this, that we run a continuous monthly inventory so that our inventory is accurate; but the annual detailed check of the auditors has not been made.

Mr. JACKMAN: Do you also make a spot inspection to see that the amounts check with the certificates of the officers?

Mr. VAUGHAN: Mr. Matthews, can you tell us about that?

Mr. MATTHEWS: 1942 was the first year in which physical inventories were not taken but in the prior years when physical inventories were taken at the principal inventory points we made certain checks on the physical inventories and adjustments with the book figures. This year the ledger balance as kept at the stock record points were the basis for it.

Mr. JACKMAN: So the man-power shortage is part railways and part accounting?

Mr. MATTHEWS: That is right.

Mr. VAUGHAN: In the years in which we did take inventories there was never very much of a difference. There would be less than 1 per cent of a difference; sometimes it would be over and rarely under.

Mr. JACKMAN: I see interest and dividends receivable; this is a consolidated figure to begin with?

Mr. COOPER: Yes.

Mr. JACKMAN: This item is interest or dividends from stock held in companies in which you have an interest?

Mr. COOPER: That is so.

Mr. JACKMAN: Have you a list of those?

Mr. COOPER: You mean the total of this item?

Mr. JACKMAN: If we could have that.

Mr. COOPER: You have the companies from which we receive dividends and interest on page 23 of the report. The principal item in this amount is the interest due to Canadian National Railways by the Northern Alberta Railway. Their bond interest is due for payment on February 1.

Mr. JACKMAN: Who owns the Northern Alberta Railway?

Mr. COOPER: The Northern Alberta Railway is owned 50 per cent by the Canadian National and 50 per cent by the Canadian Pacific.

Mr. JACKMAN: Did they earn their bond interest?

Mr. COOPER: Yes, definitely.

Mr. JACKMAN: Then, as to the C.N.R. insurance fund: I presume that is what made inquiries about in previous years. Are there any securities held in that fund below cost or par value?

Mr. COOPER: No. I am pleased to say the market value for these securities is higher than their ledger value.

Mr. JACKMAN: That is the other asset shown at cost \$1,351,543.95?

Mr. COOPER: Yes.

Mr. JACKMAN: You are not buying any securities for that fund except dominion government or dominion guaranteed?

Mr. COOPER: I would not say that, we do buy our own railway securities.

Mr. VAUGHAN: I would say they are mostly guaranteed.

Mr. COOPER: Not necessarily except in the pension fund.

Mr. VAUGHAN: There may be the odd one that is not guaranteed, I think you will find that the large proportion are guaranteed.

Mr. JACKMAN: Are you buying some of the securities of lines which you use which are not guaranteed?

Mr. VAUGHAN: There are some securities outstanding upon lines which we operate; such as the line between Coteau and Ottawa, the old Canada-Atlantic bonds.

Mr. COOPER: Here is the list of the securities that we held at the end of 1942: System securities, \$10,828,000; Dominion of Canada bonds, \$4,341,000; municipal and other bonds, \$995,000; provincial bonds \$736,000 and Canadian National-West Indies Steamship bonds, \$100,000.

Mr. JACKMAN: In the unadjusted debits, do you write off each year part of the funded debt; I presume you must write off a certain amount each year.

Mr. COOPER: Discount on funded debt?

Mr. JACKMAN: Yes.

Mr. COOPER: Yes we do, but not discount on capital stock. There is no reason why we should write off discount on a perpetual stock. It is never due and never has to be met.

Mr. JACKMAN: It may be an asset I doubt if it is.

Mr. COOPER: You will notice on the other side of the balance sheet an item—capital stock of subsidiary companies held by the public—if you turn to page 25 you will see that included in the total is the Montreal and Southern Counties Railway, stock held by the public \$189,500. That stock was all issued without consideration so it is shown on the other side of the balance sheet as issued for discount, it is all discount. It is simply a contra account.

Mr. JACKMAN: Has it any value at all?

Mr. COOPER: I do not think so.

Mr. JACKMAN: If it is going to be there perpetually why do you not in these rather flush times straighten up your balance sheet in regard to it?

Mr. COOPER: Well I cannot see any purpose in that, Mr. Jackman. We have on the liability side capital stock issued \$189,000. It is held by the public.

It is worthless. There is no need for us to write it off. I should think if anyone were going to write it off, it would be the owners.

Mr. JACKMAN: You are carrying it in your asset side as a debit.

Mr. COOPER: Carrying it as an unadjusted debit.

Mr. JACKMAN: Is that part of the same group that we talked about last year?

Mr. COOPER: Yes.

The CHAIRMAN: Gentlemen, it is six o'clock. We will meet again to-morrow morning at 10.30 o'clock.

The committee adjourned at 6.00 o'clock to meet again to-morrow, April 2, 1942, at 10.30 o'clock a.m.

SESSION 1943
HOUSE OF COMMONS

STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 4

FRIDAY, APRIL 2, 1943



WITNESSES:

- Mr. R. C. Vaughan, Chairman and President, Canadian National Railways.
- Mr. N. B. Walton, Executive Vice-President, Operation and Construction Departments, C.N.R.
- Mr. T. H. Cooper, Comptroller, C.N.R.
- Mr. O. A. Matthews, of George A. Touche & Co., Auditors.
- Mr. F. M. MacLennan, Railway and Financial Services, Dept. of Transport.

OTTAWA
EDMOND CLOUTIER
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1943

REPORT TO THE HOUSE

SECOND REPORT

MONDAY, April 5, 1943.

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

SECOND REPORT

Your Committee has considered the following items of the Estimates referred to it on March 29, 1943, and approves of same, viz.:—

Vote No. 385—Maritime Freight Rates Act—Canadian National Railways.....\$3,350,000 00

Vote No. 386—Maritime Freight Rates Act—Railways other than Canadian National..... 900,000 00

Vote No. 405—Canadian National (West Indies) Steamships, Limited—Capital advances..... 20,000 00

Vote No. 406—Prince Edward Island Car Ferry and Terminals—Deficit, 1943 475,000 00

All of which is respectfully submitted.

J. P. HOWDEN,
Chairman.

MINUTES OF PROCEEDINGS

FRIDAY, April 2, 1943.

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

Members present: Messrs. Donnelly, Dubuc, Durocher, Emmerson, Hanson (*Skeena*), Hanson (*York-Sunbury*), Harris (*Danforth*), Howden, Jackman, McCulloch, Michaud, Nicholson, Ross (*Middlesex-East*), Shaw and Sissons.

In attendance: Commander C. P. Edwards, Deputy Minister of Transport, Mr. R. C. Vaughan, Chairman and President, Canadian National Railways, Mr. N. B. Walton, Executive Vice-President, Mr. T. H. Cooper, Comptroller, and other officials of the Canadian National Railways; Mr. O. A. Matthews of George A Touche & Co., Auditors.

The Committee resumed consideration of the Annual Report of the Canadian National Railway System for the year ended 31st December, 1942.

Messrs. Vaughan, Walton and Cooper were recalled and examined on the Consolidated Balance Sheet, Income Account, Profit and Loss Account, Operating revenues and expenses, equipment, etc.

Mr. Vaughan filed a statement respecting the hotels operated by the C.N.R., and a breakdown of income and profit and loss accounts. (*Incorporated in minutes of evidence*).

At 1.00 o'clock, the Committee adjourned until 3.30 p.m.

AFTERNOON SITTING

The Committee met again at 3.45 p.m., the Chairman, Mr. Howden, presiding.

Members present: Messrs. Donnelly, Dubuc, Emmerson, Gray, Hanson (*Skeena*), Howden, Jackman, McCulloch, Nicholson, Ross (*Middlesex East*), Shaw and Sissons.

The Committee gave further consideration to the Annual Report of the Canadian National Railway System for the year ended December 31st, 1942.

Messrs. Vaughan, Walton and Cooper were further examined on the said Report.

On motion of Mr. Donnelly,—

Resolved,—That the Annual Report of the Canadian National Railway System for the year ended 31st December, 1942, be adopted.

The Committee then proceeded to consider the Canadian National Railways Budget for the year 1943, Messrs. Vaughan and Cooper being questioned thereon.

On motion of Mr. McCulloch,—

Resolved,—That the Canadian National Railways Budget for the year 1943 be adopted.

The following items of the Estimates for the fiscal year ending March 31, 1944, were considered, viz.:—

Vote No. 385—Maritime Freight Rates Act—Canadian National Railways	\$3,350,000 00
Vote No. 386—Maritime Freight Rates Act—Railways other than Canadian National.....	900,000 00
Vote No. 405—Canadian National (West Indies) Steamships, Limited—Capital Advances.....	20,000 00
Vote No. 406—Prince Edward Island Car Ferry and Terminals—Deficit, 1943.....	475,000 00

On motion of Mr. Hanson (*Skeena*),—

Resolved,—That the said estimates be approved and that the Chairman report accordingly to the House.

The Annual Report of Canadian National (West Indies) Steamships, Limited, for the calendar year 1942 was read by the President, Mr. Vaughan.

On motion of Mr. Emmerson,—

Resolved,—That the said Report be adopted.

The Committee then proceeded to the consideration of the Annual Report of the Canadian National Railways Securities Trust for the year ended December 31, 1942.

On behalf of Dr. W. C. Clark, Deputy Minister of Finance and Chairman of the Trustees, Mr. F. M. MacLennan, Railway and Financial Services, Department of Transport, read the report.

On motion of Mr. Emmerson,—

Resolved,—That the said Report be adopted.

Mr. O. A. Matthews, representing George A. Touche & Co., Auditors, was called. He read The Auditors' Report to Parliament for the year ended 31st December, 1942, on the Canadian National Railway System, the Canadian National Railways Securities Trust, Trans-Canada Air Lines and Canadian National (West Indies) Steamships, Limited.

Following examination of Mr. Matthews, the Auditors' Report was adopted on motion of Mr. Hanson (*Skeena*).

Witness retired.

On motion of Mr. Gray,—

Resolved,—That a subcommittee consisting of the Chairman and Messrs. McCulloch, Shaw and Jackman, be appointed to draft the Committee's Report to the House.

On motion of Mr. Hanson (*Skeena*) the Committee adjourned to the call of the Chair.

R. ARSENAULT,

Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

April 2, 1943.

The Standing Committee on Railways and Shipping met this day at 11 o'clock a.m. The Chairman, Mr. J. P. Howden, presided.

The CHAIRMAN: Order; we were at the balance sheet yesterday.

Mr. HANSON (*Skeena*): Page 12.

Mr. VAUGHAN: There are one or two statements which were asked for, Mr. Chairman. There was a statement in respect of hotels. I will file it so it will go on the record.

HOTELS—OPERATING INCOME

	1942	1941	Gain or Loss
Account 502 Revenues from otel Operations..	\$4,895,506.40	\$4,467,078.53	\$428,427.87
Account 534 Expenses of Hotel Operations. . .	4,174,077.36	3,733,762.27	440,315.09
Account 535 Taxes on Hotel Property	151,705.62	141,815.55	9,890.07
	\$ 569,723.42	\$ 591,500.71	\$ 21,777.29

INDIVIDUAL HOTELS

Year 1942	Revenues	Expenses	Taxes	Net
Charlottetown	\$ 106,872.89	\$ 107,061.33	\$ 4,899.00	\$ 5,087.44
Pictou Lodge	17,776.21	20,378.01	316.00	2,917.80
Nova Scotian	694,949.83	550,958.34	15,746.35	128,245.14
Chateau Laurier	2,095,889.30	1,651,869.19	64,587.72	379,432.39
Prince Arthur	196,849.39	185,401.47	6,476.11	4,971.81
Minaki Lodge	76,189.45	54,065.39	236.75	21,887.31
Fort Garry	473,706.60	418,808.43	29,566.84	25,331.33
Prince Edward	141,716.89	132,913.07	4,114.37	4,689.45
Macdonald	568,629.44	474,331.70	16,583.88	77,713.86
Jasper Park Lodge	187,435.05	245,827.58	6,152.27	64,544.80
Bessborough	335,491.35	332,462.85	3,026.33	2.17
	\$4,895,506.40	\$4,174,077.36	\$151,705.62	\$569,723.42

Year 1941	Revenues	Expenses	Taxes	Net
Charlottetown	\$ 107,829.07	\$ 102,473.79	\$ 4,562.67	\$ 792.61
Pictou Lodge	28,597.59	28,104.96	321.94	170.69
Nova Scotian	603,286.42	481,569.55	12,930.38	108,786.49
Chateau Laurier	1,759,514.59	1,290,283.00	63,487.59	405,744.00
Prince Arthur	208,032.97	181,726.46	6,073.83	20,232.68
Minaki Lodge	71,122.58	63,317.60	416.00	7,388.98
Fort Garry	415,601.82	379,538.18	27,761.25	8,302.39
Prince Edward	131,541.61	131,966.54	3,658.01	4,082.94
Macdonald	418,741.72	399,670.93	15,245.14	3,825.65
Jasper Park Lodge	429,699.00	374,121.82	5,486.32	50,090.86
Bessborough	293,111.16	300,989.44	1,872.42	9,750.70
	\$4,467,078.53	\$3,733,762.27	\$141,815.55	\$591,500.71

Then I am not sure whether it was Mr. Hanson or Mr. Jackman who asked for a breakdown of the other income and profit and loss accounts. I will put that in here.

OTHER INCOME AND PROFIT AND LOSS ACCOUNTS, YEAR 1942

Debit Accounts

Railway Tax Accruals	\$ 6,020,140	74
Hire of Freight Cars—Debit Balance.....	5,115,873	74
Rent for Locomotives.....	62,772	33
Rent for Passenger-Train Cars.....	495,442	65
Rent for Floating Equipment.....	17,883	33
Rent for Work Equipment.....	7,325	35
Joint Facility Rents—Debit.....	2,383,882	98
Miscellaneous Rents—Debit.....	541,459	33
Miscellaneous Tax Accruals	96,057	78
Miscellaneous Income Charges and Appropriations.....	2,291,787	85
Rent for Leased Roads and Equipment.....	1,483,345	19
Interest on Unfunded Debt.....	192,017	48
Amortization of Discount on Funded Debt.....	1,012,379	87
Loss from Retired Road and Equipment—Debit.....	2,356,466	06
	\$22,076,834	68

Credit Accounts

Rent from Locomotives.....	108,629	51
Rent from Passenger-Train Cars.....	276,871	98
Rent from Floating Equipment.....	10,413	38
Rent from Work Equipment.....	107,544	10
Joint Facility Rent Income.....	1,874,215	00
Net Hotel Operating Income.....	569,723	42
Income from Lease of Road and Equipment.....	55,002	57
Miscellaneous Rent Income.....	796,904	21
Miscellaneous Non-Transportation Property—Credit.....	351,632	50
Separately Operated Properties—Profit.....	629,843	17
Dividend Income	372,336	75
Income from Funded Securities.....	2,380,836	57
Income from Unfunded Securities and Accounts.....	301,051	74
Income from Sinking and Other Reserve Funds.....	199,163	57
Miscellaneous—Income.....	1,295,022	30
Miscellaneous—Credit	137,236	06
	9,466,426	83
	\$22,610,407	85

I think it was Mr. Hanson who asked for some information in regard to our grain rates in the west as compared with the rates on the United States lines. I have some figures here which I might mention which will indicate the difference in the rates. The rate in Canada from Regina to Fort William, 776 miles, is 20 cents per 100 pounds. From Glasgow, Montana, to Duluth a distance of 779 miles, the rate is 38 cents. That is nearly double the Canadian rate.

Hon. Mr. HANSON: That is a comparable haul, is it?

Mr. VAUGHAN: Yes, comparable in every respect. Going the other way to the Pacific coast the rate from Wilson, Alta., to Vancouver, 780 miles, is 22 cents. From Helena, Montana, to Seattle, 775 miles, it is 42 cents. We have taken the nearest mileages we could in the United States.

Mr. HANSON (*Skeena*): Is that the export rate or the domestic rate?

Mr. VAUGHAN: It is the export rate.

Hon. Mr. HANSON: I do not want to labour this question but there is great complaint in our country about the domestic rates as against the export rates. It has been stated on many occasions—I think it is true—that in the days before the war you could ship grain or flour from Canada to Antwerp and back to Halifax cheaper than you could bring it from the west to Halifax. Is that situation correct?

Mr. VAUGHAN: I would be surprised at that, Mr. Hanson. We have not got the exact rates with us, but the rates, as you know, are all subject to the approval of the Board of Transport.

Hon. Mr. HANSON: Of course, there is a great differential between the export rate and the domestic rate?

Mr. VAUGHAN: The export rates are lower than the domestic rates.

Hon. Mr. HANSON: Very much lower in a case of that kind, are they not?

Mr. VAUGHAN: The export rates are nearly always lower than the domestic rates.

Hon. Mr. HANSON: I realize that. You would not like to say it is quite as bad as I suggest?

Mr. VAUGHAN: I do not think it would be.

Hon. Mr. HANSON: Well, it is bad so far as the people of the Maritimes are concerned.

Mr. VAUGHAN: I have not heard any complaint from the Maritime provinces in regard to the rates for a long time.

Hon. Mr. HANSON: All you have to do is mention it.

Mr. HANSON (*Skeena*): Until we got a cheaper rate for feed grain to British Columbia a few years ago they could ship feed grain to Japan and China cheaper than they could ship it to the Fraser valley, but that was adjusted some years ago.

Mr. VAUGHAN: There is one other question. I think it was Colonel Ross who raised the question about sleeping car accommodation. He asked why we would reserve a section for one man when there was a shortage of accommodation. We have been in touch with that matter since the question was discussed here yesterday. Mr. Walton has some information he can give you on the subject.

Mr. WALTON: What I find is that the sale of a section for one passenger occupancy is a tariff regulation which is on file with the Board of Transport Commissioners and cannot be changed without the consent of the wartime prices and trade board. Our people are preparing an application now in conjunction with the Canadian Pacific asking for the cancellation of that provision so as to open up all that space for use by the greatest number of people.

Hon. Mr. HANSON: That is quite justified. In the days of low traffic they besought you to take a full section, but I do not believe you are justified in maintaining that now. I agree you are right.

The CHAIRMAN: We were on page 13.

Mr. VAUGHAN: We were on the liabilities side of the balance sheet.

Hon. Mr. HANSON: Had you finished the assets?

Mr. VAUGHAN: Yes, we finished the assets last night.

Mr. JACKMAN: Just before you go on I understand there was one increase in passenger rates, namely from some point in the east to the Pacific coast? I understand it was to accord with some change in the American system and in order that our line would be on a competing basis, but there is a certain amount of feeling out on the western coast that rate was, if not unjustified, at least discriminatory against people living on the coast?

Mr. VAUGHAN: That is true. There was some small adjustment.

Mr. JACKMAN: Was it very small?

Mr. VAUGHAN: Yes, the increased revenue to the railways is very small in connection with it.

Mr. JACKMAN: On a ticket how much?

Mr. VAUGHAN: It was something that was necessary to be done on account of our arrangements with the United States lines.

Mr. JACKMAN: How much was the increase in the rates for passengers here?

Mr. VAUGHAN: I have not got those figures. We could give them to you. Our total increased revenue for the railway would be something like \$100,000 on account of the adjustment in passenger rates brought in by the increase in the United States.

Mr. JACKMAN: Why do we have to follow the increase in the United States? Why could we not go on our own, particularly in wartime?

Mr. VAUGHAN: We have many favourable arrangements with the United States lines in regard to international rates and transcontinental rates and they notified us that unless we went along with them they would withdraw these international rates which we have been trying to build up for a period of 50 years, and that would have left us out on a limb.

Mr. JACKMAN: Have you had very much of a repercussion on the western coast?

Mr. VAUGHAN: No, the complaints have been few. I have not got my file with me but I have only heard of one or two complaints.

Mr. JACKMAN: Yesterday I gave the management a rather blanket endorsement; from what I could see of them they were endeavouring to do a very good job operating under public ownership with the virtues and effects of that system. I was speaking also about this practice of feather bedding, and you have told me that as far as the management is concerned that you have no reason to ask for any change in that connection, that the practice as at present operating is quite satisfactory. I wonder if you would be good enough to tell me how far the cab men—I believe that is the classification—take a modern train for a day's run in order to earn a day's pay? You know what I am driving at anyway, Mr. Vaughan, whether I have expressed myself in railway language or not?

Mr. VAUGHAN: I will let Mr. Walton explain that.

Mr. WALTON: One hundred miles is considered as a day's work in this sense, that there is a regulation which would prevent us, for instance, from calling a locomotive engineer out for service, having him go through the necessary preparatory moves, take his engine and train and then run say ten miles, and we say, "that is all for today; you have done ten miles; you will be paid for ten miles." There is a minimum of 100 miles once he starts on a road trip in order, as I say, that he will not be called out under conditions such as I have spoken of. 100 miles is a day in that sense but if it is 125 miles from one terminal to another he is paid for the 125 miles.

Mr. JACKMAN: On a mileage basis?

Mr. WALTON: On a mileage basis.

Mr. JACKMAN: What happens, let us say, on the route from Montreal to Toronto, which is 330 odd miles, is it not?

Mr. WALTON: 333 or 334.

Mr. JACKMAN: Does one engineer and cab crew handle the locomotive?

Mr. WALTON: No, one train crew runs through but as regards the engine crew one run is Montreal to Brockville, and one Brockville to Belleville, and one Belleville to Toronto.

Mr. JACKMAN: You have three runs?

Mr. WALTON: Yes.

Mr. JACKMAN: It takes three runs for the whole journey?

Mr. WALTON: It is approximately 125 miles from Montreal to Brockville, ninety-five miles from Brockville to Belleville, and 112, or thereabouts, from Belleville to Toronto.

Mr. JACKMAN: How many hours does it take to go from Montreal to Toronto?

Mr. WALTON: On passenger trains, from six hours and forty-five minutes to eight hours, according to the different trains. I am speaking of passenger trains now.

Mr. JACKMAN: You have three different crews?

Mr. WALTON: Yes.

Hon. Mr. HANSON: Three different engine crews.

Mr. WALTON: Yes.

Mr. JACKMAN: Is there anything physically to make it an over-arduous task for one cab crew to do the through run?

Mr. WALTON: It is considered too arduous and I think the argument is correct. On no run that I know of anywhere is anything like 334 miles undertaken straight away.

Hon. Mr. HANSON: It is a part of the working conditions with the union, is it not?

Mr. WALTON: As far as the working conditions of the union are concerned they prescribe a change-off at these respective terminals. All we would save by running one engine crew clear through on this undoubtedly long run, as against changing them the way we do, is in the cost of that middle trip from Belleville to Brockville or Brockville to Belleville where we now have to pay 100 miles for 95, but the others are over 100 miles anyway so they get the actual miles from Montreal to Brockville and Belleville to Toronto.

Mr. JACKMAN: I realize it may not make very much difference whether you change crews or not as long as you have to operate under union rules.

Mr. WALTON: Just a moment; in that regard apart from any union rules, if the union rules were not there, we would not contemplate running men on locomotives straight away for 334 miles.

Mr. JACKMAN: I quite realize that. In other words though, if it takes six and three-quarter hours to eight hours to do this run and you have three different crews what on earth do the men do the balance of the day?

Mr. WALTON: Is that a matter of concern?

Mr. JACKMAN: Their leisure time is not our concern or yours but the average time is two and a half hours even allowing for a 7 and a half hour average run. Surely a man does not earn a day's pay in two and a half hours.

Mr. WALTON: As I say, the 100 miles is taken as the equivalent of a day's pay for the purpose I have spoken of, so that we will not call a man on duty, with all the preparation that goes with it, for a very few miles.

Mr. JACKMAN: You cannot call a man on duty for ten or twenty miles, and that is quite right. There should be a rule that you must not do that without compensating him adequately. But on the other hand, it does seem to be pretty ridiculous in these days, when you are operating under war necessity, with an acute shortage of train men such as engineers and so on, that they should get a day's pay for two and a half hours work, and they do no more work for the rest of the day. Do they do any more work for the rest of the day?

Mr. WALTON: Of course, they get their engine ready at the start of the trip. There are certain duties at the completion of the trip. They have to take the engine to the round house and so on. I might mention also that these are odd cases, and in the total there are a very small proportion, of men with runs such as you speak of. There are a great many with slower runs, passenger, and still slower runs freight, where the hours worked as compared with the miles are a great deal longer than this particular high speed line which you have chosen to refer to; and also, of course, it is the senior men who hold runs such as we are looking at of Montreal-Toronto. They have put in anywhere from twenty to thirty or thirty-five years working up to a run of that kind, which may have been some consideration.

Hon. Mr. HANSON: I think it is a well established system. It has been operating all right for years. You take the run from Windsor station, Montreal,

to St. John, New Brunswick. They have five different crews on the engine on that run, and it is less than 500 miles. The train crews change once at Megantic. That is the conductor. It is a well-established principle in railway operations. I do not understand the term "feather-bedding" myself. I have never heard it before.

Mr. JACKMAN: It is too-well established, perhaps.

Mr. WALTON: I think the reference to "feather-bedding", if I may just say so, in some of these articles that have been written, refers, in some measure at least, to decisions that have been given by the National Labour Board in the United States, some of them causing long retroactive payments where the question has been in dispute for a considerable time. In Canada we have a Board of Adjustment on which the various roads and the brotherhoods are represented; and the manner in which the various grievances, some of which may involve questions of the manner of paying for a certain run, have over a period of years been adjusted in a manner which I can say quite satisfactory to the railways; and in no case that I can recall have retroactive payments of any extent—possible briefly, but no great extent—been involved. Some of these cases in the United States have involved retroactive payments reaching back two years or more and many thousands of dollars paid to the men who are alleged to have been aggrieved by these conditions. We have nothing like that in this country.

Mr. JACKMAN: I have only chosen the Montreal to Toronto run because it is natural for me to do so, living as I do in one of those cities. But it happened to be a rather bad case, apparently. Are there not other runs which are somewhat similar in the working out of the crews?

Mr. WALTON: I suppose it is inevitable, when years ago the mileage basis was accepted as a means of payment for the so-called running trades, that you would get a few cases where with an extremely fast or quite fast service making the miles quickly, the resultant number of hours worked would be small. But on the whole, I think the mileage basis of payment for men who earn their livelihood by running the miles is a fair and reasonable way to pay for it. There is a certain encouragement to get over the road in good time when they can; and if, due to no fault of their own, delays creep in, then they get paid overtime. But the method of payment by mileage, I think, is a fair proposition. Always you can put your finger on an occasional case like I speak of where presumably undue compensation may creep in or a short day be involved.

Mr. JACKMAN: What puzzles me about this is that 100 miles a day seems like a very small run. I think it does to most railway men too. Am I correct in that assumption?

Mr. WALTON: Yes. But the 100 miles applies equally to the way-freight and the switching train which probably takes ten or twelve hours to cover this 100 miles. I should like to impress on you that the 100 miles is a so-called day chiefly for the purpose I have mentioned at the outset, for protection against a call for one half hour's work, and then say that is all you get for the day.

Mr. JACKMAN: A day's operation is not confined to that?

Mr. WALTON: No. It is not confined to that.

Mr. JACKMAN: It works a hardship against the war effort. I appreciate your point of view, but I find human nature to be the same in all classes of people. If I were in your shoes, I would not want to disturb the relation with my employees, because I have got a big job on my hands. I want to keep the traffic moving. You are not as much concerned whether the costs are perhaps a little bit more than they might be, as you would be if you were on the verge

of bankruptcy, you were about to perhaps lose your position and the railway pass in to some other person's hands. I suppose that these rules apply to your rivals as well as applying to yourself, perhaps for the same reason. But you have no pressure brought to bear on you, as I see it, to cause changes to be made where you think there may be unfairness at the present time.

Mr. WALTON: Possibly I should clear up a point that I have not made clear enough. Since wartime traffic has been handled in the present volume, we have had a good many cases where men in the running trades, by reason of the irregularity of their runs—and to a certain extent this short day you speak of creeping in—have had eighteen to twenty-four hours, or possibly a little longer in some cases, of lay-over. We have said, "Here, will you be available for a trip in between?" They have said, "Yes." And they have gone out. This does not interfere with good manpower usage in times of necessity. It is true when they are assigned to certain runs, if other men are available, they have the preference. But we have found that many of these men who are on so-called regular runs, where there is time in between to make a trip which is of not too great a length, are entirely willing to do so and do respond. So that if your question is from the angle of so-called loss of manpower, that has been explored and there is no particular loss.

Mr. JACKMAN: Let us assume that the men are the same as they are everywhere else, with a good high average of patriotism and will work; notwithstanding that they do get high wages, a great deal flows back into the treasury through taxation. But you could do with fewer men; or I will put it this way: you have got the maximum of effort out of it, but it is costing the country a great deal more money because these men have two days, if you like, spare time and you ask them for an extra day's work and they willingly respond. But you have to pay them for that extra job.

Mr. WALTON: We have to pay them, but they only get the going rate on the job they go out on. They do not get any inflated pay because of a job they do during a lay-off period. If they take the job we ask them to go out on, they get the going rate.

Mr. JACKMAN: I realize they may not get time and a half or double time, as they do in some cases.

Mr. WALTON: No, they do not.

Mr. JACKMAN: But they are fairly well-paid people, to start with, and they get extra pay. I noticed that from these articles; and I presume, like all articles, they pick out the highlights in order to make it interesting. I should think it would be of great interest to hear from you as to what other branches of your line have a similar situation as that which obtains in the line from Montreal to Toronto. Where else have you got the obvious situation where you could eliminate one out of three shifts?

Mr. WALTON: I do not know that there are very many, but we arranged at least six months ago for our different territorial managements to review the various set-ups on runs, just with a view to taking advantage of any opportunity which there might be such as I have spoken of, to work in additional work on top of a regular assignment, if the business reached a point where more men were needed and that was the only way of getting them. That has been explored and they have a set-up made so that they can take advantage of it as the occasion might require.

The CHAIRMAN: Mr. Walton, does not the physical exhaustion element underlie this whole thing?

Mr. WALTON: It has to be given consideration right along. You cannot expect a man to—for instance, your question about one engine running straight through from Montreal to Toronto—men will not stand as much as machines will. It cannot be done.

Mr. JACKMAN: I realize that. You have three crews while you admit it could be adequately done by two.

Mr. WALTON: It is just the question of the run from Brockville to Belleville.

Mr. JACKMAN: Would you answer yes or no, two crews would be adequate to take the train from Montreal to Toronto?

Mr. WALTON: I think they might be.

Mr. JACKMAN: Without undue wear on the personnel?

Mr. WALTON: It is quite doubtful.

Mr. JACKMAN: You say it is quite doubtful?

Mr. WALTON: Yes, to do it in two; I do not think it is a reasonable proposition.

Mr. JACKMAN: You think then that 100 miles is a fair day's work for the cab men.

Mr. WALTON: No, not necessarily. One cannot answer such a question categorically. In miles, under the most favourable conditions, it is an extremely light day's work. One hundred miles under maximum conditions of way freight and switching at many points is a full day's work for anybody.

Hon. Mr. HANSON: Is there not a distinction in working conditions as between passenger, express, freight services? I thought there was.

Mr. WALTON: There are differences in rates, of course.

Hon. Mr. HANSON: Different rates of pay as to that?

Mr. WALTON: Yes.

Hon. Mr. HANSON: Let me say this: is it not a fact that this point is a matter which has been faced over a long period of years and you have arrived at a certain result after long negotiations with the unions?

Mr. WALTON: That is correct, sir.

Hon. Mr. HANSON: And nobody wants to disturb the position.

Mr. WALTON: That is correct.

Mr. JACKMAN: But, there is a war on.

Hon. Mr. HANSON: I know. So far as I am concerned, I have no criticism to offer; and I have known very many locomotive engineers in my life time and have had some very good friends among them; and they do not live to be old men, they are running jerk water freight trains on the branch lines and when their retirement age comes they are ready to retire, most of them. That has been my experience with them.

Mr. VAUGHAN: These men have considerable responsibility, in addition to at times having 700 or 800 passengers they have a million dollars worth of property behind the engine.

Mr. NICHOLSON: During some of the weather we have had this winter it would be hardly feasible to ask crews to run from Montreal to Belleville, that would be too long a run; and it would be hardly feasible to set up a terminal half way between Montreal and Toronto. Taking all things into consideration I think the men on these trains do a good day's work from the time it takes to get ready for the run and put the engine away. I think it is unfair to step on to the train in the parlour-car and assume that because we can travel from Montreal to Brockville in a couple of hours that the engine crew must do the same thing. It is equally unfair to assume that every member of parliament works twenty-four hours a day the week round; those are the hours that the house is in session, and most of us find we have a lot of work to do before the house meets and after it rises; and so with the engineer and firemen, they have

work to do before they start their run. I think it would be a very unpopular move on the part of the Canadian National to make a change and increase that 100 miles to say 150.

Mr. VAUGHAN: It would be impossible for the Canadian National Railways to do it. It simply could not be done. These schedules are in effect all over the United States and Canada. One hundred miles has been recognized as the basic rate for computing compensation for at least fifty years. It certainly would be unwise to suggest making a change in the middle of a war.

Mr. JACKMAN: Fifty years; is that the length of time since it was established as one hundred miles?

Mr. VAUGHAN: It goes away back. I can remember it for over forty years.

Mr. JACKMAN: One hundred miles constitutes a day's run?

Mr. VAUGHAN: Yes.

Mr. JACKMAN: Of course, what lies behind this whole thing is the improvement in the type of engine that you have, in road beds and so on with a result that a man can do a much bigger day's work; and while some of these rules might have a real basis to them for spreading work when there is not enough to go around, nevertheless when the country is having an acute shortage of man-power I do think you should be able to get some amelioration of the rules as long as we have the emergency.

Mr. WALTON: There may be some force in the argument as to the better motive power and the better conditions of the road bed, that have enabled men in many cases to earn their day's pay in a shorter time. It has also enabled an improvement of delivery for the railway with the result that a good many more ton miles can be handled in the same length of time.

Mr. JACKMAN: Of course.

Mr. WALTON: It is a two-way advantage anyhow.

Mr. JACKMAN: Your unit costs are not going up, but you cannot expect people to take all of the profits to themselves, it must be spread among the public, as our standard of living increases generation after generation. Your argument is untenable.

Mr. WALTON: It goes to the public in the form of better operating performance which we have been able to give.

Mr. JACKMAN: Mr. Vaughan, you have what is known as a stereo rail car; what is that, a single car?

Mr. VAUGHAN: It is a single car which has a device on it for detecting transverse fissures and other defects in the rails.

Mr. WALTON: It is a diesel-operated single unit car manned by the experts who operate the machines in it for detecting flaws; plus a conductor and flagman to handle the train orders and operations over the road while it is doing the work necessary to check up rail conditions.

Mr. JACKMAN: How many in the total crew?

Mr. WALTON: I think it is operated with a conductor and flagman; I would not be positive about that at the moment.

Mr. JACKMAN: How many men do they carry all the time?

Mr. WALTON: It carries, I think, three in the crew; but we do not pay them, we have a contract with the company who owns the car. Other than the employees whom we supply to get the car over the road, the wages of any of the men who may be supplied are provided for in the contract.

Mr. JACKMAN: So you are using three of a crew on this car.

Mr. WALTON: Two, if I remember correctly.

Mr. ROSS: I think there is certain merit in Mr. Jackman's statement, Mr. Walton; if you follow this train from Montreal to Chicago.

Mr. WALTON: In what regard?

Mr. JACKMAN: With respect to the changing of the cab crews.

Mr. ROSS: On the run from Montreal to Chicago, considering the number of sections.

Hon. Mr. HANSON: That is on the international run?

Mr. ROSS: Yes.

Mr. WALTON: The next section of that run is Toronto and Sarnia.

Mr. JACKMAN: That is a long run, about how far?

Mr. WALTON: It is around 170 miles. And now, if you are comparing the day's run—

Mr. ROSS: Just follow that through, will you please?

Mr. WALTON: Then Port Huron to Battle Creek, which is about 160 miles; and Battle Creek to Chicago, which is just about another 160 or 165 miles.

Hon. Mr. HANSON: And it takes six crews to run—how many miles?

Mr. WALTON: Roughly, 800.

Mr. ROSS: How many sections?

Mr. WALTON: There are six operating sections; three from Montreal to Toronto, one from Toronto to Sarnia, and two from there to Chicago.

Hon. Mr. HANSON: Then, with respect to these operating sections, I suppose you cannot arbitrarily stop at 100 miles or 150 miles

Mr. WALTON: No, sir. You have to go to the round house terminal because that is where your facilities are.

Hon. Mr. HANSON: But you have three crews from Toronto to Chicago travelling a good deal further than the three crews from Montreal to Toronto. There seems to be some inequity there.

Mr. WALTON: Yes. When you compare the unequal distance per trip but there is also an overall maximum on these mileages, so that if a man makes more miles on his single trip he will make less trips a month.

Hon. Mr. HANSON: That does not help you very much because you are employing other cab men.

Mr. JACKMAN: Yes, and you are not using your manpower to its maximum.

Mr. WALTON: Except for the three men I spoke of a few moments ago—where they are short runs or a long lay over, we use them on extra runs, as I have indicated.

Mr. JACKMAN: What is the average maximum that a man will work; or, that you would give him; or, who sets the limit?

Mr. WALTON: There is a general maximum now. Generally in the freight service it is around 3,800 miles a month and in passenger service it is around 4,800. I am just speaking from memory. I am not sure that my figure is right.

Mr. JACKMAN: Yes, it is right. One hundred and sixty miles a day, that would be 4,800 for a passenger run; and 3,800 or 127 miles per day in the freight. In an article I have before me which appeared in the *Readers' Digest* for March—I imagine this is general information about conditions on the railways in the United States—it says:—

“The crew in the cab of the B & O's Royal Blue between New York and Washington may work only one day in three. On the southern Pacific's Los Angeles-San Francisco Daylight, the engine crew is permitted to make only 12 runs a month. If the unions would let

engineers on the Union Pacific's Streamliner work six 8-hour days per week for one month, these men would earn \$2,000 and the rules would require them to lay off four months to catch up with their mileage limitation." This is true also of the Santa Fe's Super-Chief and the Milwaukee's Hiawatha.

In our investigation, we asked nearly every railroad workman with whom we talked if he thought 4800 passenger miles a month was the limit of work an engineer or a fireman could do safely and efficiently.

'Hell, no,' frequently was the reply. 'It might have been 40 years ago, when the rule was first cooked up,' one veteran engineer declared. 'I'd like to handle this run every day for the duration. But I'd be making more money than most vice-presidents and it wouldn't look so good the next time we ask for a raise. So the union holds me down to around \$400 a month.'

Is that foolish talk by a reporter or is it fairly well in accordance with the facts and does it apply to the Canadian situation as well as to the American?

Mr. WALTON: I do not know that I can set a limit on what a man's physical endurance would be for a month. 4,800 miles, as I mentioned a moment ago, is what we recognize as a month's run in passenger service; but so far as the unions or brotherhoods are concerned they have gone along with us in making any additional use that we want to of the men up to what they feel their physical condition will stand if we require it.

Hon. Mr. HANSON: Is not the Toronto-Montreal run rather an extreme illustration?

Mr. WALTON: That is our heaviest main line section, yes.

Mr. JACKMAN: Are there any peculiar rules affecting switching?

Mr. WALTON: Switching?

Mr. JACKMAN: Yes, that would not seem reasonable to anyone who was not familiar with it.

Mr. WALTON: I do not know just what you refer to; I cannot think of what might be the point, Mr. Jackman. If you can outline it more definitely I will give you the best answer I can.

Mr. JACKMAN: Do you have a practice which is termed in the States "returning light"?

Mr. WALTON: That applies largely to a great many of the large terminals in the United States. It is a proposition in connection with interchange of traffic between two railroads, and they do over there what I think is rather an iniquitous practice in that if the crew of road A delivered, say, traffic to road B then they come back with just the engine because road B had a right to the work on that traffic, and the crew of road A would just bring back their engine. We have very little of that in this country because of the absence of the extremely large terminals involving in some cases many miles to travel to make the transfer from one terminal to the other, and I honestly do not know of any cases in Canada where there is any hardship in that regard.

Mr. JACKMAN: I did not say hardship.

Mr. WALTON: I am not trying to evade the point. In most of these locations the so-called interchange tracks are reasonably close, and they leave cars on one track and pick up cars on another track and bring them back. There is not any—

Mr. JACKMAN: They do not travel light in Canada; I gather from what you say that there is no reason why they should travel light in Canada.

Mr. WALTON: I do not know about the reasonableness of it because of the fact we have no difficulties over it; the picture is not as extreme, would not be in any case in Canada.

Mr. JACKMAN: Due to circumstances?

Mr. WALTON: Due to circumstances and the absence of these very large terminals such as extend many miles out from Chicago.

Mr. JACKMAN: If the average engineer's run is 4,800 miles a month how is his basic pay determined? It is determined on the 100-mile route, but how is it arrived at?

Mr. WALTON: How is he paid?

Mr. JACKMAN: Yes.

Mr. WALTON: He is paid on a time basis converted into miles because all his earnings for the month total up to so many miles. He is paid on a time basis converted into miles at twenty miles an hour for getting his engine ready or any other preparatory work there may be before going out on the run.

Mr. JACKMAN: How much work does the engineer and the fireman do in the preparation of the engine?

Mr. WALTON: It is not so much a matter of preparation as prior inspection; that is, what we call terminal inspection. He has to know that the machine he is going to take out is satisfactory to him; no matter what the shop staff may certify that they have done on the locomotive, the man who is going to run it is saddled with the responsibility of knowing on his own check-up that it is all right.

Hon. Mr. HANSON: He has that responsibility and is paid for it?

Mr. WALTON: He is paid for it.

Hon. Mr. HANSON: How long has that rule of half an hour before—

Mr. WALTON: Half an hour?

Hon. Mr. HANSON: He has half an hour to put away his engine?

Mr. WALTON: Yes.

Mr. ROSS: He wants a last look at the gun.

Mr. WALTON: Yes. As soon as he turns a wheel leaving town he starts on miles. He is on miles until he reaches the other terminal. If for any reason any passenger train fails to make 20 miles an hour, which is the overtime limit, then he goes on overtime. In other words, he is paid miles or hours on the route, whichever is the greater.

Mr. JACKMAN: Suppose I go to the roundhouse and take my engine to Montreal, starting from Toronto. I get half an hour for inspection. Does that account for ten miles?

Mr. WALTON: Yes.

Mr. JACKMAN: Now, I get into the cab and I start off. Then the first section is Brockville. How many miles is that from Montreal?

Mr. WALTON: One hundred and twenty-five.

Mr. JACKMAN: That is five and one-quarter hours, is it?

Mr. WALTON: No, we do not put that into hours if he makes it straightaway. He gets a certain rate per mile and he gets 125 times that rate.

Mr. JACKMAN: What is the rate per mile?

Mr. WALTON: I would have to look that up.

Mr. JACKMAN: Give me it roughly.

Mr. WALTON: There are different rates. We have the rate, starting with the smallest locomotive that takes a rate at so many cents and a fraction per hour. It would probably be around 6.3. Now, that is purely from memory.

Mr. JACKMAN: Six point three cents per mile?

Mr. WALTON: Yes.

Mr. JACKMAN: That would be \$7.25 to \$7.50, somewhere around there. He has got half an hour already. That gives another ten miles.

Mr. WALTON: Yes.

Mr. JACKMAN: That would be 63 cents or a total of \$8.13 which he gets. Is that all he makes for the day?

Mr. WALTON: There is also provision for final time at Brockville so that it may be—

Mr. JACKMAN: Another half an hour? That is not very excessive. How do you get the rate up? \$8.73 is not a large sum. Where does he get the extra money? \$8.73 a day is not going to give him a tremendous amount for his work.

Mr. WALTON: No.

Mr. JACKMAN: It is not going to give him enough.

Mr. WALTON: No.

Mr. JACKMAN: How does he get the rest of the money?

Mr. WALTON: The rest of what money?

Mr. JACKMAN: He is earning \$4,000 to \$5,000 a year at least.

Mr. WALTON: No. You may remember yesterday I said there may be a few cases of engineers getting up to \$5,000 a year; that is the very point I have been trying to make. While there may be a few cases to reach these higher figures, there will not be a great many, and if you find very many of the really high-paid men I think you could take it as a fact that they have put in very long hours to make this larger amount of money.

Hon. Mr. HANSON: What you are telling us is that the conditions that used to obtain with regard to these high-paid men does not exist now?

Mr. WALTON: No.

Hon. Mr. HANSON: But it used to obtain years ago?

Mr. WALTON: Yes.

Hon. Mr. HANSON: Let me give you an illustration. There is an express which runs from St. Stephen to Edmundston, New Brunswick. True it is a branch line. I do not think it runs as far as 175 miles. My old friend Charlie Henderson ran that as conductor for at least twenty-five years.

Hon. Mr. MICHAUD: Possibly forty.

Hon. Mr. HANSON: Mr. Michaud knows him very well. I do not think he was conductor for forty years—I will say twenty-five years—he did that six days a week, and on the schedule rates of pay he had a fine income, and I told him to hug that job as long as he could. When he retired an additional crew was put in there. Two crews used to do it with two conductors, and I am not sure but that two cab crews did that. When he retired and the older men went off and the other men came in that road was probably handled by three crews instead of two, and one reason for that was to give more employment in the days of the depression, we will say, or when work was slack. So all these men with the high incomes have been cut down. I will give you another illustration: the C.P.R. ran a road from Fredericton to Woodstock called the Gibson branch. My old friend Charlie McGibbon was the conductor until the day he died. He went on duty at half-past six in the morning and took his train out at 7 o'clock and got to Woodstock and laid over four or five hours and came back to Fredericton at 8 o'clock in the evening and had a half-hour to put his train away. He made about \$15 a day, and we used to check it in the baggage car and try to find out what he was going to make that year and I would tell him he should hug that job. He had a run of six days a week. Now two crews are doing it. There is

a fiction in the minds of the public that these men are making an immense amount of money. That may have been true at one time, but it is not true now.

Mr. WALTON: The percentage has been steadily decreasing; but it has been held to consistently in spite of this wartime traffic.

Mr. JACKMAN: Do the men get a day off a week as well as the Sabbath?

Mr. WALTON: In the running trades there is no recognition of Sunday as such because of the peculiar way in which the traffic runs, except on way freights and branch lines where there is no operation on Sunday; but on the main line we have to take the traffic as it comes.

Mr. JACKMAN: You must give them a day's holiday.

Mr. WALTON: They get exactly the same rate for running Sundays as for running any other day.

Mr. JACKMAN: I am asking if they do not have a regular Saturday or Sunday holiday and whether they run five or six days a week?

Mr. WALTON: They may work any number of days a week.

Mr. JACKMAN: I am talking of time hours.

Mr. WALTON: There is no recognition of Sunday or any other day or the equivalent in these running trades. That is another of the disadvantages in that line of work. You cannot say that you will be in on a definite day or at home on a definite day unless you choose to lay off on your own account and forfeit the pay. You cannot say to any man that he will be off on Sunday.

Mr. JACKMAN: Out of seven days—seven consecutive days—does the man work five days or six days or seven days?

Mr. WALTON: I cannot answer that question, because on one day if it is freight service, for example, he may go on duty at four in the morning.

Mr. JACKMAN: What do you aim to do? Do you aim to give a man a holiday a week or not?

Mr. WALTON: No, we do not do so. The purpose of this custom with regard to a monthly mileage is that he will have a certain number of hours out of the month free of duty but he does not get it because it happens to be a Tuesday or a Saturday; he gets it in between trips.

Mr. JACKMAN: I understand that.

Hon. Mr. HANSON: These men have no holidays with pay?

Mr. WALTON: None whatever.

Hon. Mr. HANSON: You may recall—perhaps you do not—that an attempt was made to have a seventh day of rest whether it was Sunday or not but that didn't go through.

Mr. WALTON: Yes, it just was not possible particularly on lines connecting with United States traffic, and now in time of war, of course, it would be unthinkable.

Mr. SHAW: While we are at this point, at some time or other I wish to discuss the aspect of superannuation. Would this be an appropriate time to do so? We are dealing with salaries, and this is a very important matter, and if this is the appropriate time I should like to discuss this matter.

The CHAIRMAN: We might as well go on with it now.

Mr. SHAW: I have before me a letter relating to a Mr. W. E. Evans of Edmonton who was employed on the Canadian National Railway and retired because of ill health. Now, I would not bring this matter forward if it were an individual case, but there are certain charges and allegations which I think should be considered by this committee. I shall read one or two paragraphs from this letter which was not written by Mr. Evans but written by a responsible individual on his behalf:—

When the basis of the pension was changed from a non-contributory to a contributory scheme, Evans had completed about 18 years of continuous service. During all this period there was only one month in which he was unemployed, and he neither applied for nor received any vacation.

In 1937 he received an official notification to the effect that the period of continuous service for purposes of his non-contributory pension would be 18 years 3 months, and that the amount of his pension would be \$399, provided he qualified by having the necessary length of service and had attained the pension age.

When he applied for his pension recently, he received a revised statement showing his period of continuous service cut down from 18 years 3 months to sixteen years odd. On protesting this he was able to show from his own records that they had made a mistake and the figure was revised again to 17 years 1 month.

He happens to be one man in the whole service who kept detailed records, and he protested this revision, showing an error of about four months. However, this will make no difference to the reduced amount of pension he gets because of the revision in his service. It appears that the revision was made by deducting every day he was not working, even though he was at home and available for duty.

Considering the long and continuous service which he rendered, that this was recognized when he was informed in 1937 that his service for pension purposes would be reckoned as 18 years 3 months, it strikes me as the worst kind of meanness to revise his pension just when he is to receive it. Even if they had made a technical error, surely a man with such a service record and who had received no leave of absence for a vacation or illness during all that time could have been given some concession.

Evans tells me that this kind of thing is carried out on a wholesale scale among the older men qualifying for pensions.

He goes on to state that Evans has masses of evidence which he can produce in connection with this matter. I think this is a very important matter, and that we should get some information from the officials of the C.N.R.

Mr. VAUGHAN: We will get some information on the Evans case. I do not recall it, but our pension rules are very cut and dried affairs and every man is given his pension strictly in accordance with the pension rule. We have 100,000 employees today and we must treat them all alike. Men at different times are trying to get additional service for periods when they have been out of service for one thing and another. We have a committee who deal with matters of that kind and everything is gone into very carefully on its merits, and I am sure that no injustice is done to any man.

Hon. Mr. HANSON: On your interpretation of the rules?

Mr. VAUGHAN: Exactly. On our pension board we have representatives of labour and no representations have been made to us by labour that we are not treating our men fairly.

Hon. Mr. HANSON: I received a communication this week from a trackman at Brown's Flats in New Brunswick—that is on the St. John-Quebec line—who was there for eighteen years, about, and he has reached what I assume is the retiring age and he has been notified that he is not eligible for any pension. I do not know anything about it.

Mr. VAUGHAN: The fault lies with the man because that service pension was decided upon at the end of 1934 and every man should have checked up with our pension department in the meantime to see that his service pension was properly established.

Hon. Mr. HANSON: It was up to him, was it?

Mr. VAUGHAN: Yes.

Hon. Mr. HANSON: Oh, well, now—was it?

Mr. VAUGHAN: Not altogether, but he always has the privilege of taking the matter up with our pension department and finding out what his record is for pension purposes, and sometimes they do not do it.

Hon. Mr. HANSON: I am afraid that was the case here. However, I cannot go into the details of this case because I have not got the reply; but this man certainly looked forward to the time when he thought he was going to get something, and he is out. This may be an extreme case. The pension is a valuable one from the standpoint of the employee. I hope it is interpreted liberally.

Mr. VAUGHAN: I think the men in our pension board interpret the pension rules liberally. In fact, if there is a question of doubt they would rule in favour of the man.

Mr. SHAW: Mr. Chairman, may I ask Mr. Vaughan if he would check this case and inform me as to the discoveries. From what I have been told verbally apparently this man has made every effort and he feels he has been discriminated against. It is also stated on his behalf that this practice is general among the older men qualifying for pensions. I do not think it should be dropped.

Mr. VAUGHAN: We have had very few complaints from our men, but I will get you full particulars of that case and give them to you.

Hon. Mr. HANSON: Mr. Vaughan, can you or somebody briefly state the pension provisions? There is more than one scheme, is there not?

Mr. VAUGHAN: We have three pension schemes. There is the old provident fund on the Canadian government lines. No new members were taken into that after the Canadian National pension scheme was started.

Hon. Mr. HANSON: Was that contributory or not?

Mr. VAUGHAN: Contributory, yes; of course, the old members who are in that are still carrying on and still contributing. Then there is the Grand Trunk superannuation scheme. They have not taken any new members in for over 35 years but the old members are still contributing and carrying on. Under those two pension schemes the ages of retirement and pension allowable are different. So far as the Canadian National scheme is concerned, which everybody is now on and has been on for some years, it is based, of course, on a man's service. The service pension was set up for every man at the end of 1934 based on his years of service and his average pay over a period of ten years.

Mr. EMMERSON: Over the last ten years?

Mr. VAUGHAN: The highest ten years in service.

Mr. EMMERSON: The last ten years?

Mr. VAUGHAN: The highest ten years in service, the best ten years in service; his service pension was based on that. Then he builds that pension up in accordance with what he contributes and the railway matches dollar for dollar up to 5 per cent. That is, if he contributes three we contribute three; if he contributes five we contribute five; if he contributes ten we contribute five. We will not go above 5 per cent.

Hon. Mr. HANSON: His contribution is optional on himself?

Mr. VAUGHAN: Yes.

Hon. Mr. HANSON: Ultimately that will be the only pension system as these older men drop out?

Mr. VAUGHAN: Exactly.

Hon. Mr. HANSON: You will have a uniform system then?

Mr. VAUGHAN: Yes.

Mr. DUBUC: What is the retiring age, 65 or 70?

Mr. VAUGHAN: Sixty-five is the compulsory retiring age.

Mr. ROSS: When a man enters the service how is he made conversant with the different pension regulations?

Mr. VAUGHAN: A copy of the pension rules are available for him.

Mr. ROSS: There is no effort to disseminate information continuously through the system?

Mr. VAUGHAN: That is going on all the time. The employees are kept fully informed of the pension rules.

Mr. ROSS: But not of their own status?

Mr. VAUGHAN: They have their own representatives on the pension committee. Three members of the labour unions are on the pension committee.

Mr. ROSS: I know there are always places where they can apply for information, but if it is anything like the army they just let the thing fritter away, and the first thing you know they are in trouble. They do not keep in close touch with the regulations. That is why I asked that question.

Mr. VAUGHAN: We aim to keep the employees fully informed. We have our Canadian National magazine and other means of doing so.

Mr. ROSS: I was just going to ask that.

Mr. VAUGHAN: It publishes articles from time to time on pensions, and I think our employees are kept fully informed.

Hon. Mr. HANSON: In addition to that do you not post notices at certain terminals of any changes in these things?

Mr. VAUGHAN: If there were any changes in the pension rules, which are few and far between, notices would be posted, yes.

Mr. JACKMAN: What is your experience as to the percentage of contribution by the employees? Do they take advantage of the plan up to the full 5 per cent for the most part?

Mr. VAUGHAN: They contribute all kinds of amounts, Mr. Jackman. Some do not contribute at all, and therefore they can only hope to get a comparatively small pension when they retire. Many contribute 1 or 2 per cent and we have a few contributing 10 per cent. I could not tell you offhand the proportions that contribute various amounts.

Mr. JACKMAN: I want to find out what human nature does in a case like this. That is my reason for asking the question. A good many do not take advantage of the generous or salutary provision of the railway in matching dollar for dollar up to the full extent. It is something they should do for their own interest.

The CHAIRMAN: Can we proceed on page 13?

Mr. JACKMAN: I think Mr. Vaughan has an answer there.

Mr. VAUGHAN: I probably could get for you, Mr. Jackman, the number of men who contribute 1, 2, 3, 4 or 5 per cent. I have not got it with me.

Mr. JACKMAN: That is most interesting. They should be encouraged to contribute up to the maximum of 5 per cent. Members of parliament wish they had the opportunity of doing that.

Mr. VAUGHAN: You would be surprised at the number of men who are drawing out their contributions from time to time. They get hard up or sickness may strike them. Some man may have \$800 or \$900 or \$1,000 to his credit and he will withdraw it.

Mr. JACKMAN: Then you have to withdraw your contribution, too?

Mr. VAUGHAN: It is cancelled, but we encourage our men to contribute to the pension plan because we know it is in their interest.

Hon. Mr. HANSON: You carry your own insurance?

Mr. VAUGHAN: Yes, we carry our own insurance on all railway property with the exception of a very few risks that are covered outside.

Hon. Mr. HANSON: And your fund is now up to \$12,000,000?

Mr. VAUGHAN: Yes, sir.

Hon. Mr. HANSON: Is this invested in your own bonds?

Mr. VAUGHAN: I think we gave that yesterday. Some of it is invested in our own bonds and some guaranteed bonds and a little of it was invested some years ago in municipal and other bonds.

Mr. EMMERSON: You were speaking of withdrawals from the pension fund. What penalty is there with regard to that in the case of men who, on reduction of staff, are laid off? Does that withdrawal affect their pension and their seniority rights when it comes to taking on men again?

Mr. VAUGHAN: No, their pension does not in any way affect their seniority rights one way or another.

Mr. WALTON: Is it seniority rights you are asking about?

Mr. EMMERSON: Yes.

Mr. WALTON: So far as seniority is concerned a man who has worked for us, other than the casual worker, once he is established with us if there is a reduction in the force he is given preference over newcomers so long as he keeps in touch with us, but if he is required and cannot be immediately located then he is permanently dropped. That is the seniority if that is what you are asking.

Mr. EMMERSON: There were cases under the provident fund where men were laid off from the shops in 1930 and 1931 and they withdrew their provident fund money and lost their seniority rights, as I understood it, and position on the seniority list.

Mr. WALTON: I do not see how pension and seniority can conflict. One is a service proposition and the other is governed by the regulations on pensions.

Mr. COOPER: There was a condition under the Intercolonial fund and it came into operation in the period of depression. Some of the men did get their moneys from the fund, left the service of the railway, and by so doing lost their seniority rights.

Mr. EMMERSON: Some of the men had to leave the service because there was no work for them.

Mr. COOPER: They do not leave the service of the company because there is no work. They just lay off.

Hon. Mr. MICHAUD: In order to get the amount of money they paid into the fund it was a condition of the old Intercolonial contract that they had to abandon the service of the railway in order to be entitled to withdraw. That is, in order to get their money they had to comply with the provision.

Mr. EMMERSON: Exactly. That is the penalty. To get the premium they had to withdraw. They had to sign away their rights.

Hon. Mr. MICHAUD: Yes.

Mr. EMMERSON: During the depression when they had to have money, they withdrew their money. They had to sign away their rights. Is there any such condition in the present pension fund?

Mr. COOPER: In the Canadian National pension fund the only condition under which an employee can withdraw his funds is a state of urgent financial necessity; and that, has been construed as sickness by the Pension Board. For instance, take the case of a man who lays off; that would not be considered a reason why he should withdraw his contribution from the fund. He must be faced with some hospitalization costs which he cannot possibly finance or something of that nature; because, to him, it is a very serious loss. He not only loses his pension benefit which he has built up, but he loses the company's matching contribution. As a member of the pension fund board, I can say that we scrutinize every application for a refund of contributions, and we refuse to permit a refund of contribution unless we are perfectly satisfied that the employee must have his money to meet an emergent personal financial situation.

Hon. Mr. HANSON: I take it that he is out.

Mr. COOPER: He cannot repay it.

Mr. VAUGHAN: He can resume contributions again.

Mr. COOPER: Yes, he can resume his contributions.

Mr. EMMERSON: It does not interfere with his right to come back on the railway?

Mr. VAUGHAN: No, not at all.

Mr. EMMERSON: If he has withdrawn it because of pressing conditions and at the same time he has been laid off on account of reduction in staff?

Mr. VAUGHAN: It does not interfere with that at all. On the Canadian National general plan, we do discourage our men as much as we possibly can against withdrawing their contributions from the fund.

Hon. Mr. HANSON: Is that true of the old provident fund?

Mr. VAUGHAN: The old provident fund is different and the Grand Trunk fund is different. They had certain benefits in those pension schemes that our general fund has not. For instance, with the Intercolonial provident fund I think they got one-sixtieth for each year's service. If a man retired after forty years service, he would get forty-sixtieths. I think in the Grand Trunk superannuation fund he gets $1\frac{1}{2}$ per cent for each year of service. But in the Canadian National fund the terms are not nearly so liberal. The greatest a man can get is 40 per cent of his highest average ten years salary. He cannot get more than that under any conditions when he retires.

Mr. JACKMAN: You mentioned a service pension as if it were something by which a man had a right to pension if he withdraws? What is that service pension?

Mr. COOPER: The service pension is something entirely at the expense of the company.

Mr. VAUGHAN: The service pension was set up for every employee at the end of 1934. He did not have to contribute to that. The service pension was set up by the railway, but he builds that up in accordance with subsequent contributions.

Mr. JACKMAN: That was just to take care of the service prior to 1934?

Mr. VAUGHAN: Yes.

Mr. JACKMAN: It does not apply to service since then?

Mr. VAUGHAN: That is right. Shall we go on with the balance sheet?

The CHAIRMAN: Page 13?

Mr. VAUGHAN: Yes.

LIABILITIES

Stocks:

Capital stocks of subsidiary companies held by public.....	\$ 4,564,600.00
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Long term debt:

Funded debt unmatured:

Held by public.....	\$795,773,932.14	
Held in special funds.....	13,422,142.05	809,216,074.19

Hon. Mr. HANSON: Has there been a substantial reduction in the funded debt held by the public?

Mr. VAUGHAN: Yes.

Hon. Mr. HANSON: We might have some details of that. Where is it?

Mr. VAUGHAN: We will give you those figures.

Hon. Mr. HANSON: All right.

Mr. JACKMAN: Before you go on, may I mention the item with which we closed yesterday, namely capital stocks of subsidiary companies held by the public, \$4,564,600 and the contra item on the other side, namely discount on capital stock, etc. related to it. Last year, as you probably recall, it was suggested that some of these subsidiary companies in which you had part ownership should be put through the bankruptcy courts, if you like, so that you would acquire full ownership and thereby derive the full benefit of any of the improvements you were making on them. I do not know whether we had an expression of opinion from you as to what your view was on that, either as to the principle or as to the timeliness of it. Would you care to express yourself now?

Mr. VAUGHAN: Our legal department have it in hand now. There are many complications in connection with it, but I had it up with them just a few days ago. They are giving intensive study to it with a view to determining what is the best thing to be done having regard to all the circumstances.

Mr. JACKMAN: Are there any, I will not call them critical angles to it, or politic angles? I think you understand what I mean. Is it better for the company, inasmuch as it is not going to mean very much except to straighten up the accounts, give you a better looking balance sheet, and complete ownership in this thing in case something does turn up in the future which might prove embarrassing. Are there any reasons why it should not be done?

Mr. VAUGHAN: Not from that standpoint. The principal reason seems to be legal complications, but we are trying to get at the bottom of this.

Hon. Mr. HANSON: I suppose each case is a problem in itself?

Mr. VAUGHAN: It is. There are a great many of these shareholders who cannot be found. We have been trying to get in touch with them. They have apparently passed out of the picture and no one knows where they are.

Hon. Mr. HANSON: It is easy enough to deal with them.

The CHAIRMAN: Proceed.

Mr. VAUGHAN: Mr. Cooper will answer Mr. Hanson's question.

Mr. COOPER: In 1942 there was a reduction in the amount of the funded debt outstanding to the amount of \$325,178,000.

Hon. Mr. HANSON: In 1942?

Mr. COOPER: Yes.

Hon. Mr. HANSON: \$325,000,000?

Mr. COOPER: Yes.

Hon. Mr. HANSON: That is repatriation from Britain?

Mr. COOPER: \$289,000,000 of that was by process of repatriation, yes.

Hon. Mr. HANSON: What did they consist of—Grand Trunk securities?

Mr. COOPER: You want the different issues?

Hon. Mr. HANSON: If you could file a table, it would meet the situation.

Mr. COOPER: Yes. We can file a table showing that.

Hon. Mr. HANSON: It is not in the accounts here?

Mr. COOPER: No, sir.

Hon. Mr. HANSON: With respect to the balance of \$26,000,000, may I ask what they were? Were they ordinary retirements?

Mr. COOPER: Yes. On page 9 of the report we show that \$32,024,000 of securities matured and were retired during 1942.

Hon. Mr. HANSON: That is matured?

Mr. COOPER: And then there was \$9,490,000 of principal under equipment trust and sinking fund issues which were brought in.

Hon. Mr. HANSON: Those are other maturities?

Mr. COOPER: Yes, sir.

Hon. Mr. HANSON: Then you paid the government \$14,000,000. You might file that table. How did you finance this \$299,000,000?

Mr. COOPER: We borrowed the amount from the dominion.

Hon. Mr. HANSON: From the dominion government?

Mr. COOPER: Yes.

Hon. Mr. HANSON: Are they outstanding? According to this balance sheet, they are not outstanding as a liability.

Mr. COOPER: Oh, yes, they are.

Hon. Mr. HANSON: You have transferred them from a liability to the public to what?

Mr. COOPER: To the dominion.

Hon. Mr. HANSON: To the dominion of Canada?

Mr. COOPER: Yes.

Hon. Mr. HANSON: Do they come into the \$519,000,000?

Mr. COOPER: That is right. You will see the details of that on page 22.

Hon. Mr. HANSON: If they are there, all right.

Mr. COOPER: Yes. The details of the \$502,000,000 shown on page 22 show the different financing acts; and you will notice in that amount is \$277,000,000 for repatriation of securities; also \$106,000,000 which was also repatriation of the Grand Trunk debenture stock.

Hon. Mr. HANSON: These are held by the government against the railways?

Mr. COOPER: Yes.

Hon. Mr. HANSON: Do they obtain any income from them?

Mr. COOPER: Oh yes, sir.

Hon. Mr. HANSON: So it is really a transfer to the government of Canada and is done as a matter of government policy?

Mr. COOPER: Yes, sir.

Hon. Mr. HANSON: No saving to you?

Mr. COOPER: Oh yes, definitely; there was some saving.

Hon. Mr. HANSON: You got a low rate of interest?

Mr. COOPER: Yes, there was a saving in interest on the securities outstanding; the average interest rate was something like 3.92 and dominion advanced the money at 3.5.

Hon. Mr. HANSON: Do the government own these securities?

Mr. COOPER: That is for the government to say, I suppose.

Hon. Mr. HANSON: That answers my question. I have always wondered on this question of working capital; you have to borrow the working capital now under present conditions, or do they not allow you to provide your working capital out of earnings; why is that?

Mr. COOPER: Under what might be called prewar conditions, normal conditions, the railway had adequate working capital, but with the expansion of business due to war we have had to increase our working capital and we had to borrow some from the government; in addition we have used some of the money created by reserves, which have been discussed in this committee.

Hon. Mr. HANSON: Now, then, as you say, you have to have working capital due to the increased demands being made on the road and where you have not sufficient in your reserve you have to borrow from the government?

Mr. COOPER: Yes.

Hon. Mr. HANSON: Where other people would borrow from banks?

Mr. COOPER: That is true.

Mr. JACKMAN: That amount of \$16,000,000, Canadian government railways working capital, is that filed from the government?

Mr. COOPER: No. That is an item of a special nature. When the Canadian government railways were operated directly by the Department of Transport they required a certain amount of working capital and it was advanced out of public funds for the Canadian government railways—

Mr. JACKMAN: Voted each year by parliament.

Mr. COOPER: It had been voted. When the Canadian government railways were transferred to the Canadian National for management the working capital came to use with the road and we took it up in our accounts on one side as a working capital asset and on the other side as a liability to the Dominion, and the liability has remained more or less stationary since 1923.

Mr. JACKMAN: You have continued that arrangement?

Mr. COOPER: Quite.

Mr. JACKMAN: Was it \$16,000,000 from the government?

Hon. Mr. HANSON: You pay interest on that?

Mr. COOPER: No, sir. In the old days of the Canadian government operation, that railway was not charged by the government with interest on public funds used for their construction and operation. Since 1923 the Canadian National Railways have had to finance the additions and betterments and find equipment for it—that is, for the Canadian government roads—the cost of doing that has become a charge against Canadian National Railways. Under Canadian government operations that cost would have been absorbed in the public accounts.

The CHAIRMAN: Order, gentlemen, please; the reporters state that they find it difficult to hear the proceedings; would you speak a little louder, please?

Hon. Mr. HANSON: Oh, I am sorry. Have you any other similar situations in your accounts to this one, or is that the only one?

Mr. COOPER: That is the only one, and it has been in our balance sheet for the last twenty years.

Mr. JACKMAN: This identical amount?

Mr. COOPER: Yes, the identical figure; I do not think it has changed for twenty years. They turned over \$16,000,000 of stores and accounts receivable and we absorbed that into working capital. We are not attempting to repay it to the dominion government. We do not think we should.

Mr. JACKMAN: Surely you must make some adjustment from an accounting standpoint; you could not carry that forward year after year.

Mr. COOPER: I do not think so, Mr. Jackman.

Hon. Mr. HANSON: Now, Mr. Cooper, with respect to the securities repatriated; were all the securities held in Britain against the company repatriated; or, are there still some outstanding securities over there?

Mr. COOPER: The vesting order issued by the British treasury, of course, could only lie against the securities owned by British residents or residents of the United Kingdom.

Hon. Mr. HANSON: It only went that far; might it not operate against securities held by foreigners, people in other European countries—it could not go that far?

Mr. COOPER: The vesting order was against securities owned by residents of the United Kingdom.

Hon. Mr. HANSON: It did not include securities owned by foreigners, residents there?

Mr. COOPER: Then, if any of these securities affected by the vesting order are held by Canadians we have undertaken to buy them in at the vesting price.

Hon. Mr. HANSON: You mean from Canadians residing in Canada?

Mr. COOPER: Yes, sir.

Hon. Mr. HANSON: I am not speaking of that; I speak of securities of the system physically held in Britain by United Kingdom Nationals, or of any persons holding them say from other countries of Europe—you say it did not apply to them?

Mr. COOPER: No, the vesting orders certainly do not extend beyond residents of the United Kingdom.

Hon. Mr. HANSON: I see, it was limited to that.

Mr. COOPER: Yes, sir.

Hon. Mr. HANSON: So there may be, there are undoubtedly then some still outstanding which have not been repatriated, and they will be held mostly on the continent?

Mr. COOPER: You might have securities of a particular issue held in north Ireland, they would be subject to the order; but if held in southern Ireland they would not be subject to it.

Hon. Mr. HANSON: So there may still be a further substantial quantity yet of these shares outstanding?

Mr. COOPER: There may be some of the securities held by other than British residents, just how much it is hard to say.

Hon. Mr. HANSON: You said you were making an offer to Canadian owners on the basis of the same price as was indicated in the vesting order; what has been the effect of that offer?

Mr. COOPER: I cannot put my finger on the amount at the moment. There has been a certain amount turned in under the offer made by the railway. I may add that it was a rather small amount.

Hon. Mr. HANSON: How much remains to be repatriated from overseas, can you give us that?

Mr. COOPER: It is very difficult to say that; there may be quite an amount of outside securities that have not yet been turned in.

Hon. Mr. HANSON: Even those held by the British government?

Mr. COOPER: I was thinking of residents of the United Kingdom who, because of war conditions, may not have been able to find their securities, that they may

be tied up in estates and for one reason or another have not yet been turned in; but they are legally I think the property of the British government and the interest on them would be discontinued—sooner or later the transfer of the securities will be made.

Mr. JACKMAN: Is there any reason to think that that might be a substantial amount; after all, you have stopped the interest on them.

Mr. COOPER: I don't think it is any large amount.

Mr. VAUGHAN: In addition to what was included in the vesting order we called for redemption the remainder of an issue of \$60,000,000 Grand Trunk 4 per cent guaranteed stock not subject to the vesting order. The general policy has been to get in as many sterling securities as it is possible to get in; mainly by the vesting order, and otherwise by offers made for that purpose by the company.

Hon. Mr. HANSON: And, by legal retirement?

Mr. COOPER: Yes.

Hon. Mr. HANSON: Are any of those held in France?

Mr. COOPER: I have no doubt there will be some, and some in Germany.

Hon. Mr. HANSON: You are not able to tell us what proportion or how much, in dollars and cents, of these securities really should be repatriated under the scheme and which are still outstanding or where?

Mr. COOPER: No, I am afraid I cannot answer that; I think it would be a small proportion.

Mr. JACKMAN: Have you any way of telling when the coupons are presented for payment in Canada, United States or Great Britain where these securities are located that you have not been able to retire? Do you get them from other countries? Can you tell from your banking connections where a coupon is presented for payment?

Mr. COOPER: Yes. Most of these are registered securities. The register shows the domicile of the registered holders.

Mr. JACKMAN: Most of these securities are registered?

Mr. COOPER: Yes.

Mr. VAUGHAN: We have a registration office in London, England, as well as in Canada.

Mr. JACKMAN: Debenture stock?

Mr. COOPER: Debenture stock would all be registered.

Mr. JACKMAN: Most of these securities we are talking about are debenture stock?

Mr. COOPER: A large proportion, yes.

Mr. JACKMAN: Do you know exactly?

Mr. COOPER: In the case of registered stock, yes, we know where they are.

Hon. Mr. HANSON: I think we should have this because due to the international situation, we will say, of lend-lease, there may be complications later, somebody else may have a claim against the securities.

Mr. COOPER: Can we have exactly what it is you want?

Hon. Mr. HANSON: If it is not too much trouble I should like to know how much in terms of dollars and cents—that is, gross, and if you can give us the details so much the better—of your securities are still held in Britain or elsewhere on the other side.

Mr. COOPER: When you say "other side" you mean in Europe?

Hon. Mr. HANSON: In Britain and Europe, if you can give us that information.

Mr. COOPER: Let us say the United States?

Hon. Mr. HANSON: No, I am not asking that at the moment because there is no reason for that; whatever there is outside of the United States—

Mr. COOPER: Yes.

Hon. Mr. HANSON: —and Canada.

Mr. COOPER: We shall try and get that for you.

Hon. Mr. HANSON: It is a reasonably small quantity, you say?

Mr. COOPER: Yes.

Hon. Mr. HANSON: The registered stock is easy but the bearer bonds may be more difficult.

Mr. VAUGHAN: We will get all the information we can on it, Mr. Hanson.

Current Liabilities:

Traffic and Car- Service	
Balances — Credit	\$ 8,820,309.43
Audited Accounts and Wages	
Payable	13,083,237.44
Miscellaneous Accounts Payable.....	4,338,900.95
Interest Matured Unpaid.....	6,656,933.50

Hon. Mr. HANSON: That is a very sizable sum for interest matured unpaid. What does it mean?

Mr. COOPER: Interest accrued to December 31, 1942, which is not yet due for payment. It may be due, for instance, on the 1st of March. We would have four months' accruals in that amount. We charge four months' interest to our income statement and set up liability under this.

Hon. Mr. HANSON: To take care of the situation?

Mr. COOPER: Yes. The railway accounts are on an accrual basis, not on a cash basis.

Mr. SHAW: May I ask to whom these interest charges are payable?

Mr. COOPER: To the holders of the securities, and the securities themselves are all listed on pages 21 and 22 of the report.

Mr. SHAW: What I had in mind in particular was the bank interest. What proportion of that is bank interest?

Mr. COOPER: Not any.

Hon. Mr. HANSON: The government is the railway's banker; they do not borrow from the bank.

Mr. COOPER: We are not borrowing from the bank at all today, no.

Mr. VAUGHAN:

Unmatured Interest Accrued.....	\$ 7,018,836.34
Unmatured Rents Accrued.....	403,347.04
Accrued Tax Liability.....	2,516,298.54
Other Current Liabilities.....	3,470,454.31
	<hr/>
	\$46,308,317.55

Hon. Mr. HANSON: You have tax accruals in certain municipalities and in the provinces. What is your total tax bill?

Mr. VAUGHAN: Six million odd.

Hon. Mr. HANSON: What does your competitor pay, do you know that, including income tax, if you know?

Mr. COOPER: Our taxes in 1942 were \$6,930,000.

Hon. Mr. HANSON: That goes principally to provinces or municipalities or to where?

Mr. COOPER: It would be to municipalities, also unemployment insurance tax.

Hon. Mr. HANSON: What proportion would be unemployment insurance? What I am trying to get at is this, you pay actually no direct taxation; unemployment insurance is an insurance premium.

Mr. COOPER: Unemployment insurance 1942, paid the dominion government by the railway, \$784,000, by the express department \$33,000, by the telegraph department \$38,000.

Hon. Mr. HANSON: Then you paid Workmen's Compensation too; is that included?

Mr. COOPER: No, sir; that would not be a tax, that would be an operating expense.

Hon. Mr. HANSON: That is a necessity?

Mr. COOPER: Yes.

Hon. Mr. HANSON: Then the balance would be, whatever it is, paid to the provinces and municipalities.

Mr. COOPER: We have a lot of United States taxes.

Hon. Mr. HANSON: I am thinking of Canada. What I am trying to arrive at is this. You pay the provinces of Canada certain sums by way of lump sum taxation.

Mr. COOPER: No, sir; not in 1942. The provinces vacated the corporation tax field.

Hon. Mr. HANSON: That was done away with?

Mr. COOPER: Yes.

Hon. Mr. HANSON: That was done by arrangement with the provinces?

Mr. COOPER: Yes.

Hon. Mr. HANSON: Did you gain that?

Mr. COOPER: Yes we gained by that.

Hon. Mr. HANSON: Other people did not.

Mr. VAUGHAN: Our competitors gained it just as much as we did.

Hon. Mr. HANSON: I was not aware of that; if I knew, I have forgotten. I never could understand why railways should pay taxes to the province of New Brunswick. Personally they never gave you any services for the amount you paid them, and they did not turn any of the taxation over to the municipalities. They got that taxation for a great many years under the law of the province. Now I think they do pay some money to the municipalities. In the past the province of New Brunswick was simply grabbing that up for their revenue and they did not pass it along to the municipalities. It is different now.

Mr. JACKMAN: Just by way of offering a correction to your statement, Mr. Vaughan, that you competitors shared also in the release from provincial taxation, may I say, of course all companies shared in the release from provincial taxation; however, they get it through federal taxation because it was made so onerous and so heavy that the provinces had to get out of the field. As far as the insurance companies were concerned they were given release and so were the banks, but in order that they should not be any better off than they were before the dominion government put a very special assessment on banks and insurance companies so that they would pay at least as much as they were paying before. I should think your company was probably the only corporation in Canada that got a break on this.

Mr. VAUGHAN: I would say, this, Mr. Jackman, that there are advantages and disadvantages to us in being under government control. I mentioned the other day some of the disadvantages to the extent of many millions of dollars, this is probably where we get some advantage to the extent of a comparatively small amount of money.

Mr. JACKMAN: May I ask a general question about your current banking? Suppose the traffic increases very greatly in the year, as it has during the past year, and you find yourself temporarily short of working capital, you cannot go to a commercial bank, I suppose, to get the money, you have to see it beforehand, budget for it, and get it from the government?

Mr. COOPER: We have borrowed from the government with regard to working capital.

Hon. Mr. HANSON: Temporary working capital during the year. If you find that you will need another \$5,000,000 you go to the government and ask for a loan?

Mr. COOPER: I think we got about two and a half million dollars in 1942 from the government for working capital. I might say too that the government, on the other hand, is owing us a very substantial sum for traffic.

Mr. VAUGHAN: On which we get no interest.

Hon. Mr. HANSON: Do you pay the interest on these current advances?

Mr. COOPER: We certainly do.

Mr. VAUGHAN: Three and one-half per cent. That is the general rate we pay the Dominion of Canada.

Mr. COOPER: At the end of 1942 the dominion government were owing us for traffic and other accounts of that nature \$15,815,000.

Hon. Mr. HANSON: Do you find they are much slower pay than the ordinary commercial customers?

Mr. COOPER: I would say they are slower, and one reason for that is that the size of the account is tremendous. If you take only the accounting—take the number of warrants which are turned in by the armed forces to our agents who remit them to the central revenue office where they are collected and put in the for of bills against the government—there is a considerable amount of work involved and that involves delay.

Hon. Mr. HANSON: Do you run an account with the banks—a checking account? Do you borrow occasionally from the banks, or did you do so in days gone by?

Mr. VAUGHAN: We have in days gone by borrowed from the banks with the approval of the government.

Mr. COOPER: That is not recent.

Hon. Mr. HANSON: Not in your position today; you have a credit balance.

Mr. VAUGHAN: We have a credit balance with most of the banks.

Hon. Mr. HANSON: What rate of interest did the banks charge you in the old days?

Mr. VAUGHAN: I could not say that offhand, we always made the best deal we could with the banks and I think we got a reasonably low rate at that time.

Hon. Mr. HANSON: Of course, they cashed all your cheques free of charge and they rendered a lot of service, and they are entitled to some compensation.

Mr. COOPER: Our statement shows at the end of the year in the current assets, \$10,242,000 of cash at the banks.

Mr. JACKMAN: You are allowed interest on that, I presume?

Mr. COOPER: There is a small interest. You know how small the interest rate is today.

Mr. JACKMAN: I was wondering how the banks can afford to look after your business when you never borrow from them, and you do not have a large deposit except working capital?

Mr. COOPER: They get the benefit of whatever balance we have. They have the use of that money. It is worth something to them.

Mr. VAUGHAN: They are all after our banking accounts.

Mr. JACKMAN: I suppose, of course, that it brings other business. That must be the answer.

Hon. Mr. HANSON: It takes it away from some of the banks.

Mr. VAUGHAN: Dominion of Canada—Proprietor's Equity.

DOMINION OF CANADA—PROPRIETOR'S EQUITY

	Balance at 31st Dec., 1941	Change during year	Balance at 31st Dec., 1942
Canadian National Railway Company, Capital Stock	\$ 18,000,000 00		\$ 18,000,000 00
The Canadian National Railways Securities Trust, Capital Stock	267,283,019 32	\$31,559,862 85	298,842,882 17
Capital Expenditures on Canadian Government Railways	377,893,343 58	8,211 63	377,885,131 95
	<u>\$663,176,362 90</u>	<u>\$31,551,651 22</u>	<u>\$694,728,014 12</u>

Hon. Mr. HANSON: Is that \$8,000,000 the old figure?

Mr. COOPER: That is carried through from the time of the capital revision.

Hon. Mr. HANSON: How much was cut out then?

Mr. COOPER: Well, the Canadian Northern capital stock was \$100,000,000 and there was \$82,000,000 of it cut out. \$18,000,000 is the amount which the dominion had paid to acquire the stock of the Canadian Northern Railway.

Hon. Mr. HANSON: That was actual cost.

Mr. COOPER: Yes, sir.

Hon. Mr. HANSON: Now, with regard to the five million shares of Canadian National Railway security trust will we deal with that later on?

Mr. COOPER: Yes, sir.

Hon. Mr. HANSON: This capital expenditure of \$377,000,000 odd, is that the figure put in for the old Canadian government railways that were taken over?

Mr. VAUGHAN: That is right.

Hon. Mr. HANSON: Plus the material and so forth? That is the physical property?

Mr. VAUGHAN: Yes, sir.

Hon. Mr. HANSON: That has never been depreciated, I suppose?

Mr. COOPER: No.

Hon. Mr. HANSON: It still stands as the accumulated value?

Mr. COOPER: There have been some adjustments. Some of the government property has been transferred from the Department of Transport to the Department of Public Works, and we make an adjustment of those.

Hon. Mr. HANSON: It remains constant.

Mr. COOPER: Substantially so.

Hon. Mr. HANSON: That includes the transcontinental.

Mr. COOPER: Yes. It is all the government railways except the Hudson Bay road.

Hon. Mr. HANSON: That is in a class by itself. Are you operating that?

Mr. COOPER: We are operating it as an agent for the government.

Hon. Mr. HANSON: Only. That is what you have always done.

Mr. COOPER: Yes, since about 1926.

Mr. JACKMAN: Who gets the balance sheet of that railway?

Mr. COOPER: The government.

Mr. JACKMAN: When do we see it?

Hon. Mr. HANSON: Never. You can get it in the public accounts.

Mr. JACKMAN: Do they publish an operating statement too?

Hon. Mr. MICHAUD: Not in detail, no. I have not got the public account—there is a lump sum, I think, showing the difference between the cost of operation and the actual disbursements.

Hon. Mr. HANSON: Outgo and income—mostly outgo?

Mr. VAUGHAN: The Hudson Bay road is doing a little better than earning its operating expenses now.

Hon. Mr. MICHAUD: The eskimos seem to have come into their own.

Mr. VAUGHAN: The next item is major contingent liabilities. That is followed by the certificate of the auditors, George A. Touche & Co.

Mr. JACKMAN: Do you want to take up these contingent liabilities now?

The CHAIRMAN: That is about all we have to do with this report.

Mr. VAUGHAN: I think we will make better progress if we keep to the various pages of the report, one at a time. We are at page 15, I think. I will deal with the totals on page 15, if that is agreeable to the committee.

CONSOLIDATED INCOME ACCOUNT

	1942	1941
Railway Operating Revenues.....	\$375,654,543 40	\$304,376,778 12
Railway Operating Expenses.....	288,998,674 72	237,768,437 13
Net Revenue from Railway Operations.....	\$ 86,655,868 68	\$ 66,608,340 99
Railway Tax Accruals.....	6,020,140 74	6,926,512 63
Railway Operating Income.....	\$ 80,635,727 94	\$ 59,681,828 36
Rent from Locomotives.....	108,629 51	114,457 21
Rent from Passenger-Train Cars.....	276,871 98	222,056 70
Rent from Floating Equipment.....	10,413 38	466 31
Rent from Work Equipment.....	107,544 10	168,327 51
Joint Facility Rent Income.....	1,874,215 00	1,677,688 15
Hire of Freight Cars—Debit Balance.....	5,115,873 74	3,460,502 17
Rent for Locomotives.....	62,772 33	32,450 19
Rent for Passenger-Train Cars.....	495,442 65	302,130 23
Rent for Floating Equipment.....	17,883 33	68,283 58
Rent for Work Equipment.....	7,325 35	21,623 27
Joint Facility Rents—Debit.....	2,383,882 98	2,263,257 44
Net Railway Operating Income.....	\$ 74,930,221 53	\$ 55,626,577 36
Revenues from Hotel Operations.....	4,895,506 40	4,467,078 53
Expenses of Hotel Operations.....	4,174,077 36	3,733,762 27
Taxes on Hotel Property.....	151,705 62	141,815 55
Net Hotel Operating Income.....	\$ 569,723 42	\$ 591,500 71

CONSOLIDATED INCOME ACCOUNTS—*Con.*

	1942	1941
Income from Lease of Road and Equipment.....	55,002 57	70,903 32
Miscellaneous Rent Income.....	796,904 21	792,089 48
Miscellaneous Non-Transportation Property—Credit.....	351,632 50	292,654 63
Separately Operated Properties—Profit or <i>Loss</i>	629,843 17	360,935 35
Dividend Income	372,336 75	550,072 00
Income from Funded Securities.....	2,380,836 57	1,944,841 41
Income from Unfunded Securities and Accounts.....	301,051 74	232,495 73
Income from Sinking and Other Reserve Funds.....	199,163 57	156,311 39
Miscellaneous Income	1,295,022 30	1,293,854 96
Miscellaneous Rents—Debit	541,459 33	557,368 63
Miscellaneous Tax Accruals.....	96,057 78	90,068 01
Miscellaneous Income Charges and Appropriations.....	2,291,787 85	1,941,613 79
Income Available for Fixed Charges.....	\$ 78,952,433 37	\$ 58,601,315 21
Rent for Leased Roads and Equipment.....	1,483,345 19	1,499,376 48
Interest on Funded Debt—Public.....	34,949,557 92	44,698,226 88
Interest on Government Loans.....	14,032,634 59	5,646,762 24
Interest on Unfunded Debt.....	192,017 48	145,202 57
Amortization of Discount on Funded Debt.....	1,012,379 87	1,172,786 26
Total Fixed Charges.....	\$ 51,669,935 05	\$ 53,162,354 43
Income Balance transferred to Profit and Loss.....	\$ 27,282,498 32	\$ 5,438,960 78

Mr. NICHOLSON: Has Mr. Vaughan figures available for the worse year?

Mr. VAUGHAN: We have that information available and we can give it to you.

Hon. Mr. HANSON: Are you going to skip from page 14?

Mr. VAUGHAN: We will come back to that. The amount at the bottom of page 15 is carried over to page 14.

Mr. COOPER: The worst year was 1933 when our gross revenues were \$148,519,000 and our expenses were \$142,812,000 with a net revenue of \$5,707,000.

Mr. NICHOLSON: Your operating revenue has always exceeded your expenses?

Mr. COOPER: We have always managed to pay our expenses.

Hon. Mr. HANSON: Of course, that does not include any interest.

Mr. COOPER: No, sir.

Hon. Mr. HANSON: In any proper accounting should that not include interest?

Mr. COOPER: Not as an operating expense; interest is charged against income for the year.

Mr. HANSON: That is right.

Mr. VAUGHAN: Railway tax accruals, \$6,926,512 in 1941 and \$6,020,140 in 1942.

Mr. JACKMAN: Where is that?

Mr. VAUGHAN: Page 15.

Mr. JACKMAN: Why is that down from \$6,900,000 to \$6,000,000? I am not sure I understand that exactly.

Mr. VAUGHAN: One reason it is down is on account of the provincial taxes about which Mr. Hanson spoke.

Mr. JACKMAN: If that is the main one that is enough.

Mr. VAUGHAN: That is the main reason. Railway operating income, \$59,681,828 in 1941 and \$80,635,727 in 1942. Do you wish me to read all this or just the totals?

Hon. Mr. HANSON: Just the totals.

Mr. JACKMAN: I do not know whether it would help people to read your report if you would group your debit and credit items together a bit more instead of having them all mixed up here. I do not know what the purpose of this report is and to whom it goes. There are no shareholders except the Crown. I do not suppose you send it out to all your employees, but you have almost got to be an accountant to understand some of it. If you are not used to accounting terms it is difficult to understand and comprehend it.

Mr. COOPER: I think there is some point in what you say, Mr. Jackman, but this is the ordinary railroad income statement set up on the standard form provided by the authorities, and on that basis is comparable with all other carriers. I can see for the information of this committee it might be set up a little differently. This report goes into the hands of bankers and financial houses and other carriers, and from their point of view what might be satisfactory for the committee might not be satisfactory for them. So we cannot please both of you, but what we did yesterday was to file a statement, which will be in the minutes of this committee, grouping all the credit items and all the debit items breaking down the total of \$12,000,000 which was referred to yesterday.

Hon. Mr. HANSON: May I ask where your capital expenditures are in this report?

Mr. COOPER: They are on page 20.

Hon. Mr. HANSON: Property investment account.

Mr. COOPER: It shows our expenditures in 1942 were \$21,109,000.

Hon. Mr. HANSON: Some time during this investigation I would like to have some sort of breakdown on the figures which were used by the Minister on the 19th of March at page 1417 of Hansard in which he said the Canadian National railways has spent \$4,646,375 in New Brunswick since the beginning of the war. I would like to have a breakdown of those figures. I have obtained from an issue of the *St. John Telegraph Journal* of March 27th the following figures: For 1939, \$549,135; 1940, \$1,086,846; 1941, \$2,421,595; 1942, \$588,799, making a grand total of \$4,646,375. I want to know whether those were capital expenses and what was their character.

Mr. COOPER: A question has been asked on that and we are at work in Montreal trying to get that detail together.

Hon. Mr. HANSON: That would include the new train operating device, for instance?

Mr. WALTON: That is not entirely in New Brunswick, only a portion of it.

Hon. Mr. HANSON: We are trying to test out these figures because there is a feeling in the province that we have just had chicken feed down there out of the war expenditure. The effort made in this speech to which I referred showed that New Brunswick had not fared so badly, that we had \$80,000,000 or \$90,000,000 spent in the province and it included this item of \$4,646,375 to swell the total. Of course, there is a great lack of war employment down there in a province that has subscribed—this is just a general observation—so generously to Red Cross, to government loans, to all other war effort. We feel we have been slighted in the government war expenditure.

The CHAIRMAN: Shall we proceed?

Mr. VAUGHAN: I may say we have not spent a dollar any place or in any province that we did not need to.

Hon. Mr. HANSON: I will make that quite clear. I am not indicating the railway at all, but I want to know what these figures are to see if they bear out the Minister's statement. I will lay the cards right on the table.

Mr. JACKMAN: Just before you leave the terminology of this income account, why do you not put your debit items in italics? I notice you use italics elsewhere in the statement at the back. Would that not draw one's attention more clearly to the fact some of these items are out-go and others are income? That is in the difference of \$18,000,000 and \$74,000,000.

Mr. COOPER: I think we could improve this. I grant you for the purposes of this committee this statement could be set up in a better fashion, and next year we will try and do so.

Hon. Mr. HANSON: Of course, you would arrive at the same thing.

Mr. COOPER: Yes.

Mr. JACKMAN: Of course, you cannot please everyone. We are not asking that you suit us alone because after all you can explain it to us but on page 18 under transportation expenses where you have got two items—

Mr. McCULLOCH: Let us wait until we get to that.

Mr. JACKMAN: I am sorry, but I wish to take this up now; operating joint yards and terminals, you have got the debit there in ordinary type and you have got the credit in italics; why do you not use that method for the consolidated income account?

Mr. COOPER: I think that is a good suggestion.

Mr. JACKMAN: All right.

Mr. VAUGHAN: Do you wish me to read all these items after railway operating income or just the totals?

Hon. Mr. HANSON: Just the totals.

Mr. VAUGHAN: Net railway operating income, \$74,930,221 in 1942 as against \$55,626,577 in 1941. Revenues from hotel operations, \$4,895,506 in 1942 as against \$4,467,078 in 1941. Expenses of hotel operations, \$4,174,077 in 1942 as against \$3,733,762 in 1941.

The CHAIRMAN: Are they all paying now?

Mr. VAUGHAN: It depends on what you call paying.

Mr. NICHOLSON: Could we have a breakdown showing the position?

Mr. VAUGHAN: We have already filed that. That is in the record now.

Hon. Mr. HANSON: The trouble is I have never received any of the printed report of this committee. Has it been printed yet?

The CHAIRMAN: Just the first report as far as I know.

Mr. VAUGHAN: We have not seen any.

Mr. EMMERSON: The order to print it was held up in the House.

Hon. Mr. HANSON: I offered to let that part go through.

The CHAIRMAN: The printing was only authorized on Wednesday so they could not get at it.

Hon. Mr. HANSON: I offered to let that go through.

Mr. JACKMAN: As a result of these hotel operations for the year you had quite a bit bigger gross, \$230,000 odd nearly and you made \$22,000 less money.

Mr. VAUGHAN: You will observe that \$10,000 of that has been taken up in taxes. Of course, the cost of living bonuses are in there, and the cost of meals and rooms as you know, have been frozen. We could not increase them to meet our added expense.

Hon. Mr. HANSON: They took the opportunity to increase them before that order came in. I am not complaining but that is kind of a joke, you know. You got out from under.

Mr. VAUGHAN: It was not done with that purpose. We did not know the order was coming along.

Mr. McCULLOCH: They are getting more for their coffee now.

Hon. Mr. HANSON: Yes, in the dining room cars but not in the hotels.

Mr. VAUGHAN: The cost of living bonus in hotels in 1941 was \$100,000; in 1942 it was \$255,000, an increase in the cost of living bonus alone of \$155,000.

Hon. Mr. HANSON: You cannot have your cake and eat it too. If you are going to have higher expenses, you have got to take the consequences. There is a squeeze somewhere. If there is a deficit, you have to pay it from other sources. It is the old story of trying to interfere with and defeat the laws of supply and demand, and it just cannot be done.

Mr. JACKMAN: You expect this year, I suppose, that your gross from hotel operations will undoubtedly equal if not exceed last year. How are you finding your costs?

Mr. VAUGHAN: I think our gross will exceed what it was last year, and I would be disappointed if we did not have a better net result at the end of the year.

Hon. Mr. HANSON: But you find your costs gradually creeping up, little by little, all the time, do you not?

Mr. VAUGHAN: Yes, they are.

Hon. Mr. HANSON: There is no doubt about that.

Mr. JACKMAN: How can you expect to make as much as you made last year out of your hotels?

Mr. VAUGHAN: Perhaps by giving a little less service.

Mr. JACKMAN: By making the pie a little smaller?

Mr. VAUGHAN: We are certainly trying to keep expenses down as well as we can.

Mr. HANSON: (*Skeena*): The summer hotels are going to be closed up this year, are they not?

Hon. Mr. HANSON: Will that operate as a saving?

Mr. VAUGHAN: I did not catch that.

Hon. Mr. HANSON: The summer hotels, Mr. Hanson of *Skeena* observes, are to be closed this summer.

Mr. VAUGHAN: Yes.

Hon. Mr. HANSON: Will the net result of that be a saving to the system? I mean, in dollars and cents?

Mr. VAUGHAN: I do not think there will be very much difference. In normal times these summer hotels do not do very much better than break even. Jasper did better than any of them; but last year Jasper did not have a good year. *Minaki*, I think, had a fairly good year last year. *Pictou lodge* has never made any money.

Hon. Mr. HANSON: It will probably be closed for good.

Mr. VAUGHAN: Well, I hope so.

Mr. EMMERSON: No. Do not suggest that.

Hon. Mr. HANSON: It is a nice place to go, anyway. I will say that.

Mr. VAUGHAN: Our hotel situation has been showing an improvement constantly over a period of years, but we had less net revenue in 1942 than in 1941.

Mr. JACKMAN: Have you the operating statements for the two months or three months of this year? Perhaps you have your third month, although that is hardly likely yet.

Hon. Mr. HANSON: No, not yet.

Mr. VAUGHAN: The two months, I think, show a larger profit.

Hon. Mr. HANSON: Better than last year?

Mr. ROSS: How is the hotel Vancouver coming on, the new C.N. Hotel in Vancouver?

Mr. VAUGHAN: Vancouver hotel is doing about as well as could be expected. The Vancouver Hotel Company is owned jointly by the Canadian Pacific Railway and ourselves.

Mr. ROSS: That is why I asked the question.

Mr. VAUGHAN: It is a joint operation. I think we can give you the net earning from operations there.

Mr. HANSON (*Skeena*): That would be in the breakdown of the hotels which you gave us, would it not? That would include the Vancouver hotel?

Mr. VAUGHAN: No. The Vancouver hotel is not included there because we do not operate it. It is operated by an independent company.

Mr. HANSON (*Skeena*): Would you give us that just now, because I was anxious to get that.

Mr. VAUGHAN: The net result of operations for the Vancouver hotel in 1942 was \$143,611.

Hon. Mr. HANSON: That is just operations?

Mr. VAUGHAN: Yes.

Hon. Mr. HANSON: Without depreciation, interest or anything like that?

Mr. COOPER: There is no interest there. We depreciate furniture and furnishings.

Hon. Mr. HANSON: Did the C.P.R. put up half the money for the cost of the hotel?

Mr. VAUGHAN: No.

Hon. Mr. HANSON: Who own the hotel?

Mr. VAUGHAN: We own it and we rent it.

Hon. Mr. HANSON: You rent it to the company?

Mr. VAUGHAN: We rent it to the operating company; and the C.N. and the C.P. each have a half interest in the company.

Hon. Mr. HANSON: Let me say that it is a grand hotel. It should have a little bit of publicity. It will not hurt it.

Mr. ROSS: It is one of the best in Canada.

Mr. JACKMAN: Is your restaurant one of the most difficult items now to handle, with the rising costs in the hotel business, having regard to your food bill and services?

Mr. VAUGHAN: The food supply is difficult.

Mr. JACKMAN: There is no ceiling on some of the items of food. What I am getting at is whether or not the 5 cent increase is justified in the price of non-alcoholic beverages. It is not much of an item to you people, I know, but I am told by some restaurant people that they do not know where their costs are at all, they are jumping around so much, with no ceiling on many food items. Is that your experience?

Mr. VAUGHAN: It is on some of the farm items—farm produced items. There are not ceiling on all of them. In answer to your question, Mr. Jackman, where you asked for the result of operations of hotels for the two months of this year compared with last year, we show a net hotel operating income for the two months of this year of \$146,607 against \$52,000 for the two months last year.

Hon. Mr. HANSON: That is \$73,000 a month.

Mr. JACKMAN: Can you tell me whether or not you are making more on your restaurant end,—that is, the food end—than you were last year?

Mr. VAUGHAN: I could not say that without checking up the statements.

Hon. Mr. HANSON: The big item is room rent. If you keep your hotel full, you are all right.

Mr. VAUGHAN: If you have a reasonably high occupancy you do fairly well.

Hon. Mr. HANSON: How is the Chateau Laurier doing? Pretty good, is it not?

Mr. VAUGHAN: Yes. You will have in the statement we gave you the net earnings of the Chateau Laurier for last year.

Mr. JACKMAN: We have not that yet.

Mr. EMMERSON: It is filed.

Mr. VAUGHAN: The net earnings of the Chateau Laurier for 1942 were \$379,432.

Mr. JACKMAN: You dropped badly on that. In the previous year it was \$400,000 and something.

Mr. VAUGHAN: The previous year it was \$405,744; but the cost of living bonus and the extra cost of food with the stabilized rates did not help us very much.

Hon. Mr. HANSON: It robbed you of something. You see, if you interfere with the economic laws of the country, a deficit has got to be made up somewhere. You lost so much money last year on the Chateau and it comes out of your consolidated income account.

Mr. VAUGHAN: We did not lose money on the Chateau.

Hon. Mr. HANSON: They earned less in comparison with the previous year.

Mr. VAUGHAN: Oh, yes.

Mr. JACKMAN: Depreciation comes into it.

Hon. Mr. HANSON: No. This is just operations. I think the country is entitled to keep the Chateau going, because this is the capital of the country and there has to be proper hotel accommodation for the public. Whether the C.N. should have to bear that burden or the country is a different thing. I think the country is entitled to keep it going, and I have never taken exception to it.

Mr. JACKMAN: Perhaps Mr. Hanson will help you with a subsidy, if you apply for it.

Hon. Mr. HANSON: No, I will not.

Mr. VAUGHAN: Are there any questions in connection with any of the other items on that page that the members would like to ask about?

Hon. Mr. HANSON: I see you have income from sinking and other reserve funds. How much is the sinking fund? What are those sinking funds?

Mr. VAUGHAN: We can give that to you.

Mr. COOPER: The sinking funds shown on the balance sheet amount at the end of 1942 to \$756,000. There are really only two of them. One is in connection with the St. John and Quebec railway. Under the trust deeds securing the debenture stock of that railway we have to pay into a sinking fund.

Hon. Mr. HANSON: To keep up the terms of the trust deeds?

Mr. COOPER: Yes. Then there is another issue with a somewhat similar condition.

Hon. Mr. HANSON: That is to conform to that legal position?

Mr. COOPER: Yes.

Hon. Mr. HANSON: Otherwise we would not have them.

Mr. VAUGHAN: Can we go to page 14?

Hon. Mr. HANSON: Yes.

Mr. VAUGHAN: Very well.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31st December, 1942

Credit balance transferred from income	\$27,282,498.32
Loss from retired road and equipment—debit.	2,356,466.06
Miscellaneous—credit	137,236.06
	<hr/>
Cash surplus	\$25,063,268.32
Capital gain on repatriated securities.	11,072,592.96
Capital loss on line abandonments (Details on page 20)	4,575,998.43
	<hr/>
Net gain credited to proprietor's equity.	\$31,559,862.85

Hon. Mr. HANSON: On the item of capital gain on repatriated securities, that means that you bought them in at a figure substantially less than you were carrying them at?

Mr. VAUGHAN: It means that the vesting price was less than the par value.

Hon. Mr. HANSON: That was on account of the value of sterling, largely, was it not?

Mr. COOPER: No. It was dependent on the market price of the stocks on the date of the vesting order.

Mr. JACKMAN: Sterling had a good deal to do with it, did it not?

Hon. Mr. HANSON: Did you make any profit on the exchange?

Mr. COOPER: In buying sterling to retire them, at the vested price, there would be some gain as compared with the standard, the par of exchange at which the liabilities were set up.

Hon. Mr. HANSON: How much? Would it be 10 per cent?

Mr. COOPER: The par of exchange is \$4.86 $\frac{2}{3}$, and this sterling was charged to us at the rate of \$4.45.

Hon. Mr. HANSON: And that meant a saving to you of 41 cents on the pound sterling?

Mr. COOPER: Yes.

Hon. Mr. HANSON: That will be a substantial part of this whole \$31,000,000?

Mr. COOPER: Yes.

Hon. Mr. HANSON: Then, the greater part of that saving would be on account of exchange?

Mr. COOPER: Yes.

Hon. Mr. HANSON: So the market value and the investment value were approximately the same.

Mr. COOPER: I would have to figure that out.

Mr. JACKMAN: They were vested at the market value in the old country.

Mr. COOPER: Vested at the market value on the date on which the vesting order was issued.

Mr. COOPER: Yes.

Mr. SHAW: On that capital loss on line abandonments; is that less the salvage value of the abandoned line?

Mr. COOPER: Yes.

Mr. SHAW: Could we have the figure with respect to the salvage value?

Mr. COOPER: The amount of the salvage is the second item on the capital expenditures sheet, page 20, salvage from line abandonment \$201,000.

Hon. Mr. HANSON: What lines have you abandoned during the year?

Mr. VAUGHAN: The line abandonments are shown on page 20 of the report.

Mr. HANSON (*Skeena*): Are you through with page 14?

The CHAIRMAN: There is an item at the bottom of that page, Dominion of Canada—Proprietor's Equity; now do you want to discuss that?

Mr. JACKMAN: Just before you leave this other item: I see there, loss from retired road and equipment—debit \$2,356,000; what does that represent?

Mr. COOPER: That represents the loss when property is retired and not replaced. When the property is replaced the cost of replacing it in kind is operating expense, when property is retired and not replaced, the loss is considered a charge to profit and loss.

Hon. Mr. HANSON: Yes. We had that out the other day.

Mr. JACKMAN: Is that a similar item to the one we had on T.C.A. where you realized from the sale of these old engines the amount of the book value less depreciation?

Mr. COOPER: No, I do not think so. I think, Mr. Jackman, there was no element of capital profit in that transaction. With respect to the sale of the engines, the profit there arose by reason of the fact that the depreciation accruals had reduced the ledger value of the engines to less than the amount we recovered when they were sold; and the credit was really an adjustment back to the operating expense account which had been charged with the depreciation accruals as they were made.

Mr. VAUGHAN:

DOMINION OF CANADA—PROPRIETOR'S EQUITY

	Balance at 31st Dec., 1941	Change during year	Balance at 31st Dec., 1942
Canadian National Railway Company, Capital Stock	\$ 18,000,000.00		\$ 18,000,000.00
The Canadian National Railways Securities Trust, Capital Stock	267,283,019.32	\$31,559,862.85	298,842,882.17
Capital Expenditures on Canadian Government Railways	377,893,343.58	8,211.63	377,885,131.95
	<u>\$663,176,362.90</u>	<u>\$31,551,651.22</u>	<u>\$694,728,014.12</u>

We have a separate report later on about that.

The CHAIRMAN: Do the committee wish to go into this matter?

Hon. Mr. HANSON: Just one question: I notice there is a change there of \$31,550,000 in Canadian National Railways position; would you explain that?

Mr. COOPER: That is an increase, sir.

Hon. Mr. HANSON: Oh yes, pardon me.

Mr. COOPER: The increased amount is shown up above; it is the net gain on the year's operations—\$31,000,000 odd; and is added to proprietor's equity.

Hon. Mr. HANSON: Oh yes, that is right. I get it now.

The CHAIRMAN: Then we come to operating revenue—page 16.

Mr. VAUGHAN:

OPERATING REVENUES

	1942	1941
Freight	\$284,427,334 25	\$236,519,309 12
Maritime Rates Reduction.....	4,034,861 04	3,072,978 27
Passenger	48,297,257 89	31,893,884 07
Baggage	117,175 53	101,808 06
Sleeping Car	2,952,807 96	1,952,632 39
Parlour and Chair Car.....	285,926 35	189,417 11
Mail	3,967,352 40	3,822,499 58
Railway Express Agency	492,511 29	334,084 04
Express	13,010,214 49	11,391,137 28
Other Passenger-Train	15,947 45	15,749 17
Milk	327,131 84	306,386 71
Switching	2,884,872 48	2,901,404 95
Water Transfers	133,677 23	156,087 81
Dining and Buffet	3,133,256 51	2,146,514 73
Restaurants	22,612 05	20,910 50
Station, Train and Boat Privileges.....	298,421 28	180,287 26
Parcel Room	89,558 56	56,810 44
Storage—Freight	123,437 22	164,632 67
Storage—Baggage	48,872 07	25,106 27
Demurrage	1,772,752 18	965,294 04
Telegraph and Telephone.....	12,162 10	11,449 17
Telegraph—Commercial	5,910,065 10	5,147,064 97
Grain Elevator	528,267 38	494,572 15
Rents of Buildings and Other Property.....	566,689 71	496,128 28
Miscellaneous	1,753,320 73	1,641,698 42
Joint Facility—Credit	570,939 88	466,851 53
Joint Facility—Debit	122,881 57	97,920 87
	<hr/>	<hr/>
	\$375,654,543 40	\$304,376,778 12

That is the breakdown of the total operating revenue of \$375,000,000. If there are any questions there that anyone would like to ask in connection with these items—

Hon. Mr. HANSON: Generally speaking there is an increase in almost every item; as to dining-car and buffet service, does that pay you?

Mr. VAUGHAN: No, sir. It does not.

Hon. Mr. HANSON: It is just a convenience to the public?

Mr. VAUGHAN: It is for the convenience of the public, yes.

Hon. Mr. HANSON: It never has paid you?

Mr. VAUGHAN: It never has paid.

Mr. JACKMAN: How did it come up so much as compared with the totals for the whole operating revenues, you are up about \$25,000?

Mr. WALTON: Heavy troop movement contributed to the revenue part of this picture, of course; as well as extra travel.

Mr. SISSONS: Does the revenue received from the Alberta-Northern railways come into this table?

Mr. COOPER: No, that is taken as a credit on the income statement and is shown on page 15. That is a separate company. It is not a part of Canadian National Railways system. It appears in the fourth item in the second half of the statement—Separately Operated Properties, \$629,000.

Mr. SISSONS: What revenue did you receive in 1942 from it?

Mr. COOPER: We received \$687,000—that is a one-half proportion of the net result.

Mr. SISSONS: How does that compare with 1941?

Mr. COOPER: In 1941 they had a loss of \$404,000; so there was an improvement of \$1,100,000—that is a 50 per cent portion of the improvement.

The CHAIRMAN: Does the passenger service pay now? My understanding is that it never did in the past.

Mr. VAUGHAN: On some of the trains it pays.

Hon. Mr. HANSON: Would it be possible to obtain from you how much of an increase in freight is due to war movements? You could not tell us the other day. Could you tell us how much of that is paid by the dominion government and its wholly owned companies?

Mr. COOPER: You mean, by bills rendered directly to the government?

Hon. Mr. HANSON: Yes.

Mr. COOPER: We could dig that out but it would take some time.

Hon. Mr. HANSON: Would it be in the nature of \$100,000,000 say?

Mr. COOPER: I could not say.

Hon. Mr. HANSON: Well then, in the same way with respect to passenger traffic, there is a big increase there of \$16,500,000; there is no doubt a great increase in the civilian passenger traffic, but the troop traffic has been a very important item.

Mr. VAUGHAN: Troop traffic has been very heavy, and civilians have had more money to spend. They are apparently doing more travelling.

Hon. Mr. HANSON: You are still carrying week-end excursions?

Mr. VAUGHAN: Yes, the low week-end rates are still in effect.

Hon. Mr. HANSON: If they were eliminated would that not cut down the civilian traffic?

Mr. VAUGHAN: They are in the process of being eliminated. Perhaps the Minister (Hon. Mr. Michaud) could say something about that. It comes under the Transit Controller and the Wartime Prices and Trade Board.

Hon. Mr. MICHAUD: For the benefit of the committee I might say that we were trying to eliminate these rates for a four-month period from the 15th of April to the 15th of August to see whether or not it will help the traffic situation. There will be no week-end excursion rates for the four-month period from April 15th next.

Hon. Mr. HANSON: It would have been a grand thing if it had been eliminated long ago.

Mr. VAUGHAN: The Wartime Prices and Trade Board refused to do it, and it has taken a long time to persuade them.

Hon. Mr. HANSON: Why?

Mr. VAUGHAN: They claimed it might increase the cost of living.

Mr. JACKMAN: Do troops enjoy an advantage in respect to week-end rates?

Mr. WALTON: There is no change in respect to the cost of transportation to them.

Hon. Mr. MICHAUD: That is right, there is no change in respect to troops.

Mr. VAUGHAN: They get special rates.

Mr. JACKMAN: Yes, and it does apply to the week-end ticket. You could be doing better if you took away these week-end tickets.

Mr. WALTON: That is what the minister says; it is proposed to withdraw them for a period of four months.

Hon. Mr. MICHAUD: All special rates for civilians will be withdrawn for a period of four months from the 15th of April; so that the only persons getting a special rate will be troops.

Mr. JACKMAN: I suppose you discussed with the Wartime Prices and Trade Board the desirability of cutting out these rates long ago?

Mr. VAUGHAN: We have been making representations to them for several months.

Hon. Mr. HANSON: What did they have to offer in that regard?

Hon. Mr. MICHAUD: They claimed that a lot of business people were taking advantage of these special low rates at week-ends to transact business, and that to deprive them of that privilege would increase the cost of doing business and that in turn would affect the cost of living. That is the argument that was put up.

Hon. Mr. HANSON: That is just another illustration; they take a certain position and then they hold on at all costs.

Mr. WALTON: I think it was their view that they would not permit us to charge a higher rate for the week-end than was in effect in the test period which they had set. That was their position in reply to us, and apparently that has been altered, from what the Minister says.

Hon. Mr. HANSON: That just shows the inflexibility of this scheme which is so rigid that it often defeats itself; and here it is being eliminated now after months of trouble.

Mr. JACKMAN: This elimination which the Minister mentioned, and about which you are speaking, takes effect from the middle of April?

Hon. Mr. MICHAUD: Yes, from the middle of April, for a period of four months.

SUMMARY OF OPERATING EXPENSES

Maintenance of Way Structures	\$ 57,656,537.63	\$ 47,072,687.81
Maintenance of Equipment	71,540,489.55	55,148,687.84
Traffic	5,392,336.65	5,306,329.32
Transportation	139,607,558.82	118,081,059.98
Miscellaneous Operations	4,002,852.61	2,706,792.26
General	10,798,899.46	9,859,802.21
Transportation for Investment—Credit		406,922.29
	<u>\$288,998,674.72</u>	<u>\$237,768,437.13</u>

MAINTENANCE OF WAY AND STRUCTURES EXPENSES

	1942	1941
Superintendence	\$ 3,347,753.82	\$ 3,133,583.29
Roadway Maintenance	6,304,724.89	5,689,751.33
Tunnels and Subways	101,281.33	169,863.42
Bridges, Trestles, and Culverts	2,386,493.81	1,878,062.78
Ties	5,214,706.04	4,813,150.98
Rails	2,944,779.24	2,749,468.36
Other Track Material	2,365,972.61	2,321,715.90
Ballast	1,204,389.97	995,211.33
Track Laying and Surfacing	14,117,355.58	12,326,465.99
Fences, Snowsheds and Signs	496,884.09	524,558.77
Station and Office Buildings	2,133,215.05	2,472,627.47
Roadway Buildings	259,663.68	214,790.03
Water Stations	593,114.87	497,285.22
Fuel Stations	276,061.74	251,986.19
Shops and Enginehouses	2,873,778.68	1,683,645.30
Grain Elevators	350,094.03	39,368.80
Wharves and Docks	214,376.03	169,264.50
Coal and Ore Wharves	8,081.38	3,265.42
Telegraph and Telephone Lines	912,553.50	874,563.28
Telegraph—Commercial	871,689.15	890,137.14
Signals and Interlockers	838,901.73	794,063.03
Power Plants	7,859.51	10,447.46
Power Transmission Systems	92,022.70	119,214.78
Miscellaneous Structures	1,667.78	2,242.06
Road Property—Depreciation—U.S. Lines	22,817.37	27,537.24
Deferred Maintenance	4,350,000.00	.....
Roadway Machines	422,025.55	410,168.02
Road—Amortization of Defence Projects	1,002,696.17	500,000.00

MAINTENANCE OF WAYS AND STRUCTURES EXPENSES—*Con.*

	1942	1941
Small Tools and Supplies	727,166.58	668,056.19
Removing Snow, Ice and Sand	2,220,020.47	1,884,642.87
Public Improvements—Maintenance	270,057.48	285,200.57
Injuries to Persons	448,736.51	388,428.58
Insurance	21,794.90	21,208.10
Stationery and Printing	62,537.71	65,002.72
Other Expenses	47,634.22	24,703.66
Maintaining Joint Tracks, Yards, etc.—Debit	656,193.83	792,881.62
Maintaining Joint Tracks, Yards, etc.—Credit	1,242,433.63	1,212,378.08
Right of Way Expenses	46,746.79	39,506.75
Protective Services	683,122.47	552,996.74
	<u>\$ 57,656,537.63</u>	<u>\$ 47,072,687.81</u>

Mr. JACKMAN: Is there any comment to make on the item "Station, train and boat privileges"? What do you do, rent space in the station for storage of goods?

The CHAIRMAN: Station, train and boat privileges.

Mr. COOPER: These are station privileges and train privileges, which are operated by the Canada Railway News Company. They pay us a percentage of their gross. Their gross has increased relatively to the increased transportation and we benefit in that way.

Mr. JACKMAN: Not all news vending?

Mr. COOPER: Restaurants, news services on the trains.

Mr. EMMERSON: You have two items here. What is this, "Roadway buildings" as opposed to "Station and office buildings, roadway buildings and station buildings"? There has been an increase in one and a decrease in the other.

Mr. COOPER: We are back on operating expenses for the minute.

Mr. JACKMAN: Are you surprised your commercial telegraph is not up relatively more during the year? I was wondering if one reason for that was not the increased use of air mail.

Mr. VAUGHAN: Undoubtedly air mail has affected telegraphs to some extent. Our gross revenue has increased, but our expenses also increased very substantially.

Hon. Mr. HANSON: Your main competitor is the telephone?

Mr. VAUGHAN: Telephone and the Canadian Pacific telegraphs.

Hon. Mr. HANSON: Your competitor?

Mr. VAUGHAN: Yes.

Hon. Mr. HANSON: Now, with regard to maintenance of way and structures, is that up normally with expenditures?

Mr. WALTON: It is normal except for these deferred items that we have had to provide for.

Mr. VAUGHAN: That deferred item is included in there, Mr. Hanson.

Hon. Mr. HANSON: Now \$57 million.

Mr. WALTON: Yes.

Mr. VAUGHAN: And also included in the maintenance of equipment.

Hon. Mr. HANSON: The money was not actually spent, then?

Mr. EMMERSON: My interrogation was in regard to "Maintenance of way and structures expenses." I mentioned you have there "Station and office buildings" and "Roadway buildings." What is meant by "Roadway buildings," and I see there is an increase?

Mr. WALTON: Roadway buildings refer to buildings used by the track forces, such as tool houses and so on.

Mr. EMMERSON: Other than station buildings?

Mr. WALTON: Other than station buildings proper.

Mr. JACKMAN: In this item under "Summary of operating expenses" I notice "Miscellaneous operations, \$4,002,852.61" for 1942 and \$2,706,792.26 for 1941. That is up relatively higher than the total. Is there anything in that particularly that you should call attention to?

Mr. VAUGHAN: That is shown on page 19, Mr. Jackman. The principal increase is in the dining car revenue.

Mr. JACKMAN: Expenses.

Mr. VAUGHAN: This is a summary. Perhaps you would rather wait and discuss the details. The details are further on. On page 17 you will find the details of both "Maintenance of way and structures" and "Maintenance of equipment expenses."

The CHAIRMAN: Is there any further discussion on page 17, if not we shall proceed to page 18?

Mr. JACKMAN: We are on page 17. Take the increase in "Shops and enginehouses." That is because of the greater increased use of the engines?

Mr. VAUGHAN: That is true.

Mr. JACKMAN: Grain elevators show an increase in expenses from \$39,368.80 to \$350,094.03.

Mr. VAUGHAN: The loss on the Portland elevator is charged in there.

Mr. JACKMAN: Loss in the disposal of it?

Mr. VAUGHAN: Yes.

Mr. HANSON (*Skeena*): There is a big increase in the elevator expenses, from \$39,368.80 to \$350,094.03.

Hon. Mr. HANSON: They are filled to capacity now, formerly they were empty. That is the idea. You get the same rental from the Wheat Board as the line companies do.

Mr. VAUGHAN: We get the same charges for elevation and storage as others do.

Hon. Mr. HANSON: You are filled up to your capacity now for the most part?

Mr. VAUGHAN: Yes.

Hon. Mr. HANSON: Instead of being a transient operation you have full storage the year round.

Mr. VAUGHAN: The elevators have been filled up.

Mr. JACKMAN: May I ask, Mr. Cooper, a question about the amortization of defence projects, \$1,002,696.17 as against \$500,000? What is the capital item that you reduced by the one million dollars? Do I find that separately at all?

Mr. COOPER: I will give you that, Mr. Jackman. If you will refer back to page 8 of the report you will see we show there under the heading "Amortization of war projects" the following:—

A charge of one million dollars was included in operating expenses as a further provision against the retirement loss anticipated at the termination of the war in respect of facilities provided solely for war-time traffic and which are not expected to have any usefulness for ordinary commercial operations.

Mr. JACKMAN: I understand the reason, but I was wondering if you show any other capital assets earmarked under defence projects.

Mr. COOPER: Yes; we have made a survey of all the capital projects.

Mr. JACKMAN: Most of these are branch lines and spurs; is that what they are?

Mr. COOPER: Yes, I would think so.

Mr. WALTON: They also include some expansion of our own facilities necessary directly for the handling of war traffic, not otherwise required.

Hon. Mr. HANSON: Lengthening of sidings?

Mr. WALTON: Yes, extension of some of our terminal yards only necessary because of the present volume of business.

Hon. Mr. HANSON: That would be true of Moncton.

Mr. WALTON: Yes, that is quite true.

Mr. EMMERSON: That extension of the siding from Pacific junction to Truro would not be included in connection with that service?

Mr. WALTON: No, not that. Some of these yard extensions like Napadogan are also in there.

The CHAIRMAN: It is almost 1 o'clock. If we could get another meeting or two of this committee we would be through with this matter, I should say, within a short time. Shall we meet this afternoon?

Mr. JACKMAN: We want to help as much as we can. We have got the West Indies Steamships Company yet, which will not take long, and the officers' report. Do you expect we will be able to release these officials today or do they have to come back?

Mr. VAUGHAN: We are at the disposal of the committee, but we would certainly like to get through so we will not have to come back if at all possible. I do not know whether the members sit on Saturday morning or not.

Hon. Mr. HANSON: No.

The CHAIRMAN: We might sit tonight.

Mr. VAUGHAN: A great many of the matters to follow have already been discussed. I should think if we sat this afternoon and this evening we might make pretty good progress towards that end.

Hon. Mr. HANSON: You will agree that our questions have been very brief so far.

Mr. VAUGHAN: I think all members have been very helpful.

The CHAIRMAN: We shall meet this afternoon at 3.30 o'clock.

The Committee adjourned at 1 p.m. to meet again at 3.30 p.m. this day.

AFTERNOON SESSION

The CHAIRMAN: Order; gentlemen, we have had a pretty good discussion about this matter. Let us get down to these tables and see if we cannot make a little headway. Page 13 is where we stopped, or did you finish it?

Mr. VAUGHAN: I think, Mr. Chairman, Mr. Cooper has a statement he would like to file in response to Mr. Hanson's request.

Mr. COOPER: Mr. Hanson asked for a statement showing the securities which had been repatriated. I will put this on the record. The total par value in 1940, 1941 and 1942 is \$400,766,651.51. Of that total \$7,991,000 was acquired from holders of Canadian registry who were given the privilege of surrendering their securities at the vesting price

REPATRIATION OF SECURITIES UNDER THE ARRANGEMENTS OUTLINED
ON PAGE 10 OF THE ANNUAL REPORT

Issuing Company	Name of Security	Par Value Redeemed
G.T.R.	5% Perpetual Debenture Stock.....	\$ 19,090,307 87
G.T.R.	5% G.W. Perp. Debr. Stock and Bonds.....	12,124,326 67
G.T.R.	4% Perpetual Debenture Stock.....	565,594 27
G.T.R.	4% Nor. Rly. Perpetual Debr. Stock.....	1,449,999 00
G.T.R.	4% Perpetual Guaranteed Stock	60,832,846 66
G.T.P.	3% 1st Mortgage Bonds.....	8,526,870 00
G.T.P.	4% Sterling Bonds	441,774 00
Can. Nor.	3% 1st Mortgage Debenture Stock.....	8,019,050 00
Can. Nor.	3½% 1st Mortgage Debenture Stock.....	2,243,549 93
Can. Nor.	6½% Sinking Fund Debenture Bonds.....	143,000 00
C.N.A.	3½% 1st Mortgage Debenture Stock.....	2,575,989 93
C.N.O.	3½% 1st Mortgage Debenture Stock.....	30,013,974 33
Can. Nat.	2% 1927 Guaranteed Debenture Stock.....	18,350,744 87
Can. Nat.	4½% 30 Year Guaranteed Gold Bonds.....	864,000 00
Can. Nat.	5% 40 Year Guaranteed Gold Bonds.....	3,296,000 00
Can. Nat.	5% 40 Year Guaranteed Gold Bonds.....	2,270,500 00
Can. Nat.	5% 40 Year Guaranteed Gold Bonds.....	662,000 00
Can. Nat.	4½% 25 Year Guaranteed Gold Bonds.....	1,482,000 00
Can. Nat.	4½% 25 Year Guaranteed Gold Bonds.....	2,632,000 00
Can. Nat.	4½% 20 Year Guaranteed Gold Bonds.....	1,978,000 00
St. J. & Q.	4% 1st Mortgage Debenture Stock.....	2,069,058 47
C.N.W.	4½% 1st Mortgage Debenture Stock.....	1,059,702 06
C.N.W.	4½% 1st Mortgage Debenture Bonds.....	7,000 00
C.N.P.	4% 1st Mortgage Debenture Stock.....	15,290,351 27
C.N.P.	4½% Terminal Debenture Stock.....	7,409,042 53
G.T.R.	4% Canada Atlantic 1st Mortgage Bonds.....	6,025,914 00
G.T.R.	7% Wellington Grey & Bruce Bonds.....	29,686 67
G.T.R.	6% Northern Railway 3rd Pref. Bonds.....	68,133 33
G.T.P.	4% 2nd Mortgage Bonds, Prairie "A".....	6,618,348 00
G.T.P.	4% 2nd Mortgage Bonds, Mountain "B".....	6,785,046 00
G.T.P.	4% 1st Mortgage Bonds "Lake Superior".....	5,375,160 00
Can. Nor.	4% Perpetual Cons. Debenture Stock.....	40,247,566 93
C.N.O.	4% Perpetual Cons. Debenture Stock.....	7,691,158 33
C.N.Q.	4% Perpetual Cons. Debenture Stock.....	4,752,382 73
Q. & L. St. J.	4% 1st Mortgage Perp. Debenture Stock.....	3,920,270 33
G.T.W.	4% 1st Mortgage Bonds.....	3,125,672 00
G.T.W.	4% 1st Mortgage Bonds.....	1,283,500 00
Total, 1942		\$289,320,520 18

Additional G.T.R. 4% Perpetual Debenture Stock redeemed in 1940 and 1941 under the 1940 Vesting Order.....	\$111,446,131 33
	\$400,766,651 51

Mr. VAUGHAN: I think we had finished maintenance of way and structures on page 17. Are there any questions any of the members would like to ask in regard to maintenance of equipment expenses?

MAINTENANCE OF EQUIPMENT EXPENSES

Superintendence	\$ 1,443,653 13	\$ 1,416,631 31
Shop Machinery	1,974,094 97	1,479,727 38
Power Plant Machinery.....	172,242 68	200,477 75
Steam Locomotives—Repairs	19,021,873 12	17,195,264 23
Other Locomotives—Repairs	157,163 82	83,508 30
Freight-Train Cars—Repairs	13,964,564 74	12,854,974 92
Passenger-Train Cars—Repairs	6,732,699 30	6,082,296 16
Floating Equipment—Repairs	262,588 03	126,725 88
Work Equipment—Repairs.....	1,659,361 17	1,377,955 76
Miscellaneous Equipment—Repairs and Retirements.....	257,022 53	277,277 14
Equipment Retirements (Demolition Cost).....	56,075 67	87,321 25
Equipment—Depreciation	16,974,945 14	13,591,187 71
Injuries to Persons.....	325,834 64	284,635 05
Insurance	20,143 79	17,846 77
Stationery and Printing.....	49,239 06	53,613 50
Other Expenses	14,690 68	2,029 68
Maintaining Joint Equipment—Debit.....	162,569 35	180,779 82
Maintaining Joint Equipment—Credit.....	208,272 27	163,564 77
Deferred Maintenance—Equipment	8,500,000 00	.....
	\$ 71,540,489 55	\$ 55,148,687 84

Mr. JACKMAN: Equipment depreciation there is \$16,974,000 against \$13,591,000. Is the increase mathematically compiled on the basis of miles run or some other method?

Mr. VAUGHAN: We charged something over the ordinary amounts we accrue for depreciation. Mr. Cooper has some figures on that.

Mr. COOPER: We did step up our depreciation because of the greatly increased use of equipment during the year, the increase generally is related to the increase in gross revenue. In 1940, which was the year in which we commenced accruing depreciation on equipment in Canada, the percentage which depreciation charges bear to gross revenues was 4.55. In 1941 it was 4.47 and in 1942 it was 4.52.

Mr. JACKMAN: All right.

Mr. DONNELLY: May I refer back to the section above, maintenance of way and structures expenses? Are all your grain elevators rented?

Mr. VAUGHAN: Yes, they are.

Mr. DONNELLY: You do not run any of them yourselves?

Mr. VAUGHAN:—I think there is one at Tiffin on the Georgian bay we operate ourselves; also one at Portland.

Mr. WALTON: And St. John, N.B.

Mr. DONNELLY: Why are your expenses \$350,094.03 this year when they were only \$39,368.80 last year.

Mr. VAUGHAN: That was because there was charged into expenses the retirement of one of the elevators at Portland.

The CHAIRMAN: Page 18.

Mr. SHAW: Mr. Chairman, may I just make an observation? At a time like this when the government has indicated that certain conservation is essential with respect to paper, and so forth, I wonder each time as I take up these documents why they should be so elaborate. Why should you use such a quality of paper? It seems to me a government enterprise should set an example to the general public.

Mr. VAUGHAN: As a matter of fact, this report does not cost very much more than the other. We went into that matter before we changed the style of it but the additional cost was so small that we thought we would like to present it to the members and to the people of Canada in a little more presentable shape than it was presented before.

Mr. SHAW: My only reason for mentioning that is I have heard the remark passed quite a number of times since these reports became available, and I merely mention it in passing.

Mr. JACKMAN: As a matter of permanent record I think, Mr. Vauhan, it is well it should be on good stiff paper so we can keep it from year to year, and those who get it will be able to have something they can hold in their hands. There are a great many ways in which we could economize in paper around here, but I think this is one place where the money is reasonably well spent.

Mr. McCULLOCH: I think so, too.

The CHAIRMAN: Page 18, transportation expenses and traffic expenses.

TRAFFIC EXPENSES

	1942	1941
Superintendence	\$ 1,890,285 07	\$ 1,760,810 53
Outside Agencies	2,470,681 25	2,341,010 02
Advertising	361,231 53	555,327 47
Traffic Associations	107,300 71	101,419 10
Stationery and Printing	292,186 41	292,139 84
Other Expenses	615 69	964 40
Industrial Bureau	87,558 02	83,830 06
Colonization, Agriculture and Natural Resources.....	182,477 97	172,756 70
	<u>\$ 5,392,336 65</u>	<u>\$ 5,306,329 32</u>

TRANSPORTATION EXPENSES

Superintendence	\$ 3,517,511	59	\$ 3,191,034	94
Dispatching Trains	1,887,968	29	1,511,893	05
Station Employees	19,057,298	39	16,846,813	50
Weighing, Inspection and Demurrage Bureaus.....	90,211	44	80,923	25
Station Supplies and Expenses.....	1,488,617	01	1,291,513	61
Yardmasters and Yard Clerks.....	3,519,878	51	2,915,588	97
Yard Conductors and Brakemen.....	7,084,554	33	6,180,904	23
Yard Switch and Signal Tenders.....	689,892	34	572,516	38
Yard Enginemen	4,660,449	24	4,312,579	58
Yard Motormen	352,325	02	90,644	53
Yard Switching Fuel.....	5,164,506	94	4,219,156	05
Yard Switching Power Produced.....	9,628	33	9,941	00
Yard Switching Power Purchased.....	72,949	02	70,109	73
Water for Yard Locomotives.....	183,882	53	190,280	12
Lubricants for Yard Locomotives.....	75,723	31	56,871	80
Other Supplies for Yard Locomotives.....	42,122	12	39,446	72
Enginehouse Expenses—Yard	1,470,367	98	1,269,319	52
Yard Supplies and Expenses.....	156,618	84	142,379	55
Operating Joint Yards and Terminals—Debit.....	1,354,427	58	1,098,949	95
Operating Joint Yards and Terminals—Credit.....	1,873,925	67	1,515,609	54
Train Enginemen	13,456,416	11	11,672,320	18
Train Motormen	112,922	87	107,367	27
Train Fuel	27,712,029	98	21,618,816	11
Train Power Produced.....	12,360	89	11,667	11
Train Power Purchased.....	38,202	57	36,374	39
Water for Train Locomotives.....	1,183,171	34	1,091,892	42
Lubricants for Train Locomotives.....	483,470	42	416,321	37
Other Supplies for Train Locomotives.....	235,993	03	209,736	58
Enginehouse Expenses—Train	4,394,091	64	3,705,103	92
Trainmen	14,941,560	21	12,922,247	57
Train Supplies and Expenses.....	8,063,339	47	6,738,507	21
Operating Sleeping Cars.....	1,495,983	62	1,123,946	48
Signal and Interlocker Operation.....	471,830	46	424,623	11
Crossing Protection	711,091	44	636,082	15
Drawbridge Operation	119,177	70	105,818	96
Telegraph and Telephone Operation.....	357,470	56	307,926	56
Telegraph—Commercial	4,442,485	42	3,983,495	16
Operating Floating Equipment.....	1,025,644	50	790,564	10
Express	6,498,139	59	5,818,426	24
Stationery and Printing.....	597,244	11	570,832	15
Other Expenses	1,000,282	34	911,016	42
Operating Joint Tracks and Facilities—Debit.....	719,103	42	683,697	36
Operating Joint Tracks and Facilities—Credit.....	478,661	78	423,642	77
Insurance	11,656	56	11,209	52
Clearing Wrecks	384,231	96	285,103	85
Damage to Property.....	80,822	68	35,204	05
Damage to Live Stock on Right-of-Way.....	56,388	15	41,474	68
Loss and Damage—Freight.....	1,001,152	72	745,929	02
Loss and Damage—Baggage	7,987	02	2,928	01
Injuries to Persons.....	1,466,962	68	920,814	58
	<u>\$139,607,558</u>	<u>82</u>	<u>\$118,081,059</u>	<u>98</u>

Just run your eye down that list and see if there is any debate on it.

Mr. JACKMAN: It was mentioned the other day that advertising was down from the previous year. Could I ask the amount for the budget for the present year?

Mr. VAUGHAN: The budget for the present year is in line with the 1942 budget.

The CHAIRMAN: Any further discussion on page 18?

Mr. EMMERSON: There was one item there as to despatching trains. There is quite a little increase.

Mr. WALTON: That is natural because with the increase in traffic we have had to put on additional despatchers. In some cases where one man previously handled probably 250 miles that may have had to be cut in two and two men put on. It is directly related to the volume of traffic.

Mr. EMMERSON: The point in asking the question is that the change you have made in the method of despatching trains in certain sections of the system has meant an additional cost, and that would come in under this?

Mr. WALTON: It meant some additional cost which was partly offset by some savings in other directions. Trains have been speeded up and a generally accelerated movement which means less expense.

Mr. EMMERSON: But your despatching costs are up to a certain extent?

Mr. WALTON: Yes.

Mr. EMMERSON: You get benefits that cover it.

Mr. WALTON: You get the return in a different shape.

Mr. NICHOLSON: Mr. Chairman, chair cars have been cut off different trains. Is that to prevail for the duration of the war?

Mr. VAUGHAN: That will depend upon the Transport Controller. So far as I know we have no advice as to chair cars being restored on the trains in question.

Mr. NICHOLSON: How many more passengers can you carry in the regular day coach as compared with the chair car?

Mr. WALTON: Chair car occupancy is around 25 to 26 and the coaches run from about 66 up to 80 in some cases.

Mr. NICHOLSON: It would be better business for the railways to carry passengers in your coaches.

Mr. WALTON: It was done to reduce the number of trains, if possible.

Mr. NICHOLSON: How difficult would it be to change those chair cars to day coaches?

Mr. WALTON: They could be converted.

Mr. GRAY: That raises a question. You are still selling single sections from Toronto to Ottawa?

Mr. VAUGHAN: We had that matter up this morning and Mr. Walton got some details over night. There is an item in the record this morning about it.

Mr. GRAY: What is the item? I was not here.

Mr. WALTON: The situation is that in conjunction with the other lines we are now applying for authority to cancel that rate whereby a person with one ticket can secure a whole section.

Mr. GRAY: I am glad to hear that because they are not doing that on the United States lines.

Mr. WALTON: They cancelled it some time ago, and we have an application coming up now.

Mr. DONNELLY: I would like to know whether the Canadian National find that the T.C.A. has interfered very much with the telegraph line income?

Mr. VAUGHAN: Under existing conditions it has not interfered as much as it would in normal times because a great many more telegrams are being sent than would be dispatched in ordinary times, but when conditions become normal and air service increases there is no question but that airplane services will interfere to some extent with telegraph business.

Mr. DONNELLY: Your telegraph income has not expanded in the same way as some other things probably have expanded?

Mr. VAUGHAN: No, I do not think it has.

The CHAIRMAN: Page 19, miscellaneous operating expenses.

Mr. JACKMAN: Before we leave that other page, Mr. Chairman, may I ask a question with respect to the item of train enginemen and train motormen. I suppose the motormen are the ones who operate the single-car trains, the Diesel cars. Is that what the motorman of a train is? That is the tenth item down in the section on transportation expenses.

Mr. WALTON: Yes. That is what that is to cover, and also electric locomotives.

Mr. JACKMAN: Do you have a figure readily available as to how many train enginemen you had in 1942, and also train motormen?

Mr. VAUGHAN: They are lumped together here, I think.

Mr. JACKMAN: Both together would do.

Mr. WALTON: It is lumped as one figure in respect to train and enginemen, including conductors, engineers, firemen, brakemen, yard foremen and yard helpers—15,101 employees.

Mr. JACKMAN: That is not just train enginemen?

Mr. WALTON: No, it is not. We have not broken it down here other than that.

Mr. JACKMAN: What I am trying to do is to divide the number of men into \$13,456,000. But the figure which you gave me is not suitable for that purpose.

Mr. WALTON: No.

Mr. COOPER: You have the wages of the 15,000 employees.

Mr. JACKMAN: I have that as \$2,795 each. But if you have not got that information available, it is all right.

Mr. SHAW: With respect to crossing protection, Mr. Chairman, I notice a substantial increase in expense there. The thought that comes to my mind is that, with the greatly increased number of trains operating, and probably so many operating off schedule, it would appear—and I may be wrong in this—that there are more crossing accidents than heretofore. Have additional precautions been taken with respect to crossings during the last couple or three years?

Mr. VAUGHAN: Precautions are taken everywhere where we think there is any danger that might be attributable to the railway. I have no information as to the number of accidents. I thought we had less accidents last year than we had the year before. I think I saw a statement to that effect.

Mr. WALTON: Yes. There is a drop in the highway crossing accidents.

Mr. SHAW: It is only of the C. N. R. you are speaking?

Mr. VAUGHAN: Yes. I think people have got very careless in connection with approaching railway crossings. You would be surprised at the number of cases we have where a motor car has run right into the side of a train that is half way over a crossing.

Mr. SHAW: The liquor restrictions should help that.

The CHAIRMAN: I remember seeing a man killed out in the west one day. The train came through and blew the whistle. There was a long string of cars that ran down almost to the crossing, and he was running along the string of cars and went around the end of it in front of the engine. He was going fast. I do not know that anything could have been done there, except that the cars might have been left further back from the crossing.

Mr. SHAW: Would this increase of approximately \$80,000 merely be for replacing existing equipment at crossings, or signals?

Mr. VAUGHAN: Not altogether. I think there have been additional flashlights put in. Those are going from time to time here and there, some of them by order of the board and some by agreement with the municipalities.

Mr. WALTON: The item you are looking at is chiefly wage expense contributed to, in part, of course, by the cost-of-living bonus. But in this column that item is largely wages.

The CHAIRMAN: I might say that it occurred to me at that time, Mr. Walton, that if that crossing had been left a little more clear, it might have been better. You understand what I mean. Those idle cars were right up to the edge of the corner.

Mr. WALTON: I think you are right.

The CHAIRMAN: Page 19.

MISCELLANEOUS OPERATING EXPENSES

	1942	1941
Dining and Buffet Service	\$ 3,746,868 66	\$ 2,499,013 24
Restaurants	21,924 36	20,045 54
Grain Elevators	196,159 47	148,252 84
Other Miscellaneous Operations	37,900 12	39,480 64
	<hr/>	<hr/>
	\$ 4,002,852 61	\$ 2,706,792 26

GENERAL EXPENSES

Salaries and Expenses of General Officers..	\$ 464,452 27	\$ 432,387 95
Salaries and Expenses of Clerks and Attendants	4,419,955 96	3,651,359 32
General Office Supplies and Expenses	263,866 64	225,828 74
Law Expenses	344,478 99	345,948 67
Relief Department Expenses	27,500 00	27,500 00
Pensions	4,859,896 18	4,731,910 67
Stationery and Printing	162,232 43	164,584 22
Valuation Expenses	12,251 56	11,310 38
Other Expenses	222,381 03	288,168 13
General Joint Facilities—Debit	36,946 59	38,996 02
General Joint Facilities—Credit	15,062 19	58,191 89
	<hr/>	<hr/>
	\$10,798,899 46	\$ 9,859,802 21

Mr. NICHOLSON: Dealing with the item of general office supplies and expenses, last year it was reported in connection with your accounting system that some of the smaller accounting branches had closed and the accounting was being done in large centres like Winnipeg and Moncton. How far have you proceeded in those changes that were proposed?

Mr. VAUGHAN: Centralized accounting has been pretty well adopted all over the system. Mr. Cooper can give you the details of that.

Mr. COOPER: We have completed the centralization of accounting in Canada.

Mr. EMMERSON: It has just been completed, though, has it not?

Mr. COOPER: Yes; at Moncton it was only completed in February of this year.

Mr. NICHOLSON: How many employees have been left out of work as a result of this centralization?

Mr. COOPER: About 176 positions were saved.

Mr. EMMERSON: On the system?

Mr. COOPER: On the system, yes.

Mr. NICHOLSON: What has happened to the men who held those jobs? Have they found employment?

Mr. COOPER: Mostly they were employees with very short service, and they have either moved into other departments of the railway which were looking for clerical help or they have left the service and gone into other industry which certainly is in a condition to absorb all they can get.

Mr. NICHOLSON: Did those with ten years' seniority or more have any difficulty in finding employment?

Mr. COOPER: I do not think anybody with more than three or four years' service has been let out of the service.

Mr. JACKMAN: This might be an opportune place, under salaries and expenses of general officers, to ask how many meetings of the board of directors were held last year. Would you table the attendance records?

Mr. VAUGHAN: I could have that done if necessary. I can say in a general way that there is a meeting held at least once a month; and I can say that the record of attendance of our directors has been very, very good. But if you want the attendance records, we can give them to you.

Mr. JACKMAN: If you say it is very good, that is all right.

Mr. VAUGHAN: It is very rarely that one of our directors misses a meeting.

Mr. JACKMAN: That is good enough for this year, I think Mr. Vaughan.

Mr. VAUGHAN: All right.

The CHAIRMAN: Then we come to page 20, property investment account.

PROPERTY INVESTMENT ACCOUNT

Balance at 1st January, 1942 \$1,944,287,482 72
Expenditures, Year 1942:

Road:

Montreal Terminal Development, Chapter 12-1929 ..	\$ 1,823,248 09
Salvage from Line Abandonments, etc.....	201,878 33
Rails and Fastenings	282,374 19
Tie Plates and Rail Anchors.....	678,303 63
Ties—Cost of Treating.....	1,263,000 25
Ballast	212,627 16
Rip Rap, Retaining Walls and Cribwork	42,250 44
Ditching, Drainage and Sewers	36,438 47
Large Freight Terminals	27,222 65
Large Passenger Terminals	31,358 68
Yard Tracks and Sidings	494,925 38
Roadway Machines	139,758 75
Bridges, Trestles and Culverts.....	323,713 36
Crossing Protection including Subways.....	79,243 58
Stations and Station Facilities	279,110 12
Fuel Stations	90,558 68
Shops, Enginehouses and Machinery	166,920 18
Grain Elevators	326,880 66
Signals and Interlockers	847,647 08
Telegraphs—Railway	45,579 58
Telegraphs—Commercial	408,042 58
Assessments for Public Improvements	44,477 52
Land	594,780 49
General Additions and Betterments	132,314 82
Total	\$ 5,991,735 35

Equipment:

Equipment Purchased or Built	\$18,662,312 37
Equipment Retired	979,740 50
General Betterments to Equipment.....	145,542 05
Equipment Conversions and Transfers.....	1,409,813 48
Express and Miscellaneous Equipment.....	75,147 78
Total	\$16,493,448 22

Hotels \$ 63,943 06

Separately Operated Properties \$ 1,312,175 36

Net Additions and Betterments 21,109,065 15

Transfer of Canadian Government Railway Properties to
Government Departments \$ 8,211 63

Line Abandonments, listed below 4,575,998 43

Balance at 31st December, 1942..... \$1,960,812,337 81

Mr. JACKMAN: I have a question with respect to the Montreal terminal development. Is this the end of the cost of the Montreal terminal or the end of the initial building cost, as you would call it?

Mr. VAUGHAN: Well, that is a problem, Mr. Jackman.

Mr. JACKMAN: Is it all built now?

Mr. EMMERSON: No. It is not in use.

Mr. VAUGHAN: We have a small estimate for the Montreal terminal for 1943 of \$370,000. We expect that will finish the terminal, according to our present plans. I should not like to say that in the future we might not do something more; but that finishes our program for the time being.

Mr. EMMERSON: When will it be in use?

Mr. VAUGHAN: I think it will be in use not later than the 1st of July.

Mr. JACKMAN: Has it been used for any purpose so far?

Mr. VAUGHAN: No. It is not finished yet.

Mr. JACKMAN: What will be the total cost by the time it is completed?

Mr. VAUGHAN: The capital expenditures prior to 1939 were \$16,651,346; and from 1939 to 1942 we have spent \$10,608,694, a total of \$27,260,000. When I said it was not in use, I was in error, because there are certain trains using it that go out through the tunnel to suburban points such as Cartierville, St. Eustache, St. Andrew's East, etc.

Mr. EMMERSON: They have been doing that for years.

Mr. VAUGHAN: Yes. They used the old station there, but they are now using the new station.

Mr. JACKMAN: What the government spent by way of unemployment relief assistance on the station would be in addition to the \$27,000,000, would it, Mr. Vaughan?

Mr. VAUGHAN: Yes.

The CHAIRMAN: Page 21.

Mr. JACKMAN: No, there is a question, Mr. Chairman.

Mr. VAUGHAN: The amount paid by the government to relieve unemployment was \$1,530,450, and it is not included in the total I gave you.

Mr. JACKMAN: Thank you.

The CHAIRMAN: Is there anything further with regard to page 20? If not, we shall proceed to page 21.

FUNDED DEBT—PRINCIPAL AND INTEREST

NAME OF SECURITY	Issuing Company	Date of Issue	Date of Maturity	Principal Outstanding at Dec. 31, 1942	Interest Accrued 1942
GUARANTEED BY DOMINION OF CANADA:					
5% Perpetual Debenture Stock	G.T.R.	1875 to 1883	Perpetual	\$ 1,692,183.00	\$ 205,027.07
5% G.W. Perp. Debr. Stock and Bonds	G.T.R.	1858 to 1876	Perpetual	1,127,996.00	156,872.20
4% Perpetual Debenture Stock	G.T.R.	1883 to 1918	Perpetual	7,827,288.73	302,886.97
4% Nor. Rly. Perpetual Debenture Stock	G.T.R.	July 31, 1884	Perpetual	49,980.67	11,569.07
4% Perpetual Guaranteed Stock	G.T.R.	1884 to 1909	Perpetual	486.67	548,676.13
3% 1st Mortgage Bonds	G.T.P.	July 1, 1905	Jan. 1, 1962	26,465,130.00	991,940.83
4% Sterling Bonds	G.T.P.	July 1, 1914	Jan. 1, 1962	7,999,074.00	333,639.80
3% 1st Mortgage Debenture Stock	Can. Nor.	July 29, 1903	July 10, 1953	1,340,946.72	88,462.20
3 1/2% 1st Mortgage Debenture Stock	Can. Nor.	Mar. 1, 1910	July 20, 1958	5,652,987.36	218,019.66
6 1/2% Sinking Fund Debenture Bonds	Can. Nor.	July 1, 1921	July 1, 1946	23,754,000.00	1,545,448.74
3 1/2% 1st Mortgage Debenture Stock	C.N.A.	Mar. 22, 1911	May 4, 1960	574,008.73	37,939.00
3 1/2% 1st Mortgage Debenture Stock	C.N.O.	Dec. 8, 1911	May 19, 1961	4,216,022.54	351,885.49
5% 30 Year Guaranteed Bonds	Can. Nat.	Feb. 1, 1924	Feb. 1, 1954	50,000,000.00	2,500,000.00
2% 1927 Guaranteed Debenture Stock	Can. Nat.	July 1, 1926	By Drawings	380,831.26	108,660.18
4 1/2% 30 Year Guaranteed Gold Bonds	Can. Nat.	July 1, 1927	July 1, 1957	64,136,000.00	2,916,212.06
5% 40 Year Guaranteed Gold Bonds	Can. Nat.	July 1, 1929	July 1, 1969	56,704,000.00	2,863,674.30
5% 40 Year Guaranteed Gold Bonds	Can. Nat.	Oct. 1, 1929	Oct. 1, 1969	57,729,500.00	2,905,921.16
5% 40 Year Guaranteed Gold Bonds	Can. Nat.	Feb. 1, 1930	Feb. 1, 1970	17,338,000.00	872,569.84
4 1/2% 25 Year Guaranteed Gold Bonds	Can. Nat.	June 15, 1930	June 15, 1955	48,518,000.00	2,316,877.77
4 1/2% 25 Year Guaranteed Gold Bonds	Can. Nat.	Feb. 1, 1931	Feb. 1, 1956	67,368,000.00	3,123,040.03
4 1/2% 20 Year Guaranteed Gold Bonds	Can. Nat.	Sept. 1, 1931	Sept. 1, 1951	48,022,000.00	2,229,596.79
3% 16 Year Guaranteed Bonds	Can. Nat.	Dec. 15, 1934	Dec. 15, 1950	20,500,000.00	615,000.00
3% 9 Year Guaranteed Bonds	Can. Nat.	May 1, 1935	May 1, 1944	35,000,000.00	1,050,000.00
2% 7 Year Guaranteed Bonds	Can. Nat.	Feb. 15, 1936	Feb. 15, 1943	55,000,000.00	1,100,000.00
3% 17 Year Guaranteed Bonds	Can. Nat.	Feb. 15, 1936	Feb. 15, 1953	25,000,000.00	750,000.00
2 1/2% 7 Year Guaranteed Bonds	Can. Nat.	Feb. 1, 1937	Feb. 1, 1944	15,500,000.00	348,750.00
3% 15 Year Guaranteed Bonds	Can. Nat.	Feb. 1, 1937	Feb. 1, 1952	20,000,000.00	600,000.00
3% 13 Year Guaranteed Bonds	Can. Nat.	Dec. 15, 1937	Dec. 15, 1950	30,000,000.00	900,000.00
2% 4 Year Guaranteed Bonds	Can. Nat.	Jan. 15, 1938	Jan. 15, 1942	16,666.67	16,666.67
2 1/2% 7 Year Guaranteed Bonds	Can. Nat.	Jan. 15, 1939	Jan. 15, 1946	15,000,000.00	337,500.00
3% 20 Year Guaranteed Bonds	Can. Nat.	Jan. 15, 1939	Jan. 15, 1959	35,000,000.00	1,050,000.00
Total Issues Guaranteed by Dominion of Canada				\$ 741,896,436.48	\$ 31,397,805.96
GUARANTEED BY PROVINCE OF NEW BRUNSWICK:					
4% 1st Mortgage Debenture Stock	St. J. & Q.	May 14, 1912	June 1, 1962	\$ 658,918.93	\$ 39,707.25
GUARANTEED BY PROVINCE OF ALBERTA:					
4% 1st Mortgage Bonds	G.T.P.B.L.	May 1, 1912	Feb. 15, 1942		5,835.14
4 1/2% 1st Mtge. Debenture Stock	C.N.W.	Mar. 1914	Oct. 22, 1943	349,295.67	87,944.80
4 1/2% 1st Mtge. Debenture Bonds	C.N.W.	Mar. 1914	Oct. 22, 1943	1,384,000.00	
4 1/2% 1st Mtge. Debenture Stock and Bonds	C.N.W.	Feb. 1914	Feb. 16, 1942		36,900.85
GUARANTEED BY PROVINCE OF BRITISH COLUMBIA:					
4% 1st Mortgage Debenture Stock	C.N.P.	Nov. 16, 1911	Apr. 2, 1950	1,121,649.86	171,930.80
4 1/2% Terminal Debenture Stock	C.N.P.	1913 and 1914	Apr. 2, 1950	1,204,957.47	148,554.91
Total Issues Guaranteed by Provincial Governments				\$ 4,718,821.93	\$ 490,873.75
Carried forward				\$ 746,615,258.41	\$ 31,888,679.71

Mr. JACKMAN: Are you thinking of calling any bonds this year that can reasonably be called? What is the general financial program with regard to the company?

Mr. VAUGHAN: We have no program; except to take up any maturities that may come due.

Mr. JACKMAN: And you have retired \$55,000,000 already?

Mr. COOPER: Yes.

Mr. JACKMAN: How did you do that?

Mr. COOPER: We borrowed \$55,000,000 from the government at $3\frac{1}{2}$ per cent.

Mr. JACKMAN: And you retired an issue of 2 per cent bonds with it; could you not get any short term notes?

Mr. VAUGHAN: We tried our best to get that rate down. The government, of course, did not want us to go out in competition with them to borrow money.

Mr. JACKMAN: This is probably the first time that your affiliation with the government has cost more to finance you than it would cost you as a private company, is it not?

Mr. COOPER: The additional interest was \$825,000 on that one item.

Mr. JACKMAN: Yes, it is quite substantial.

The CHAIRMAN: Page 22:

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FUNDED DEBT—PRINCIPAL AND INTEREST (Continued)

NAME OF SECURITY	Issuing Company	Date of Issue	Date of Maturity	Principal Outstanding at Dec. 31, 1942	Interest Accrued 1942
Brought Forward.....				\$746,615,258.41	\$31,888,679.71
EQUIPMENT TRUST ISSUES:					
4 1/2% Series "J".....	Can. Nat.	May 1, 1927	Ser. 1, 5, '42		15,000.00
5% " " "K".....	Can. Nat.	May 1, 1929	Ser. 1, 5, '44	2,400,000.00	140,000.00
5% " " "G.T.W.".....	G.T.W.	Dec. 14, 1929	Ser. 14, 12, '44	559,000.00	41,431.80
5% " " "C.V.R.".....	G.T.W.	Dec. 14, 1929	Ser. 14, 12, '44	87,000.00	6,541.39
5% " " "C.V.R.".....	C.V.R.	Dec. 14, 1929	Ser. 14, 12, '44	150,000.00	11,226.67
4 1/2% " " "L".....	Can. Nat.	June 1, 1930	Ser. 1, 6, '45	3,150,000.00	161,437.50
2 1/2% " " "O".....	Can. Nat.	Aug. 1, 1937	Ser. 1, 8, '47	7,150,000.00	199,604.17
2 1/2% " " "P".....	Can. Nat.	Sept. 15, 1938	Ser. 15, 9, '53	5,600,000.00	163,739.58
2 1/2% " " "Q".....	Can. Nat.	July 1, 1939	Ser. 1, 7, '49	4,550,000.00	121,875.00
2 1/2% " " "G.T.W.".....	G.T.W.	June 1, 1941	Ser. 1, 6, '51	4,837,000.00	114,817.51
Total Equipment Trusts Issues.....				\$ 28,483,000.00	\$ 975,673.62
OTHER ISSUES:					
4% Canada Atlantic 1st Mtge. Bonds.....	G.T.R.	Jan. 1, 1905	Jan. 1, 1955	\$ 9,974,178.00	\$ 442,125.25
6% Northern Railway 3rd Pref. Bonds.....	G.T.R.	1868	Perpetual	2,433.33	727.43
4% 1st Mortgage Bonds.....	Pem. Sou.	Sept. 1, 1906	Sept. 1, 1956	150,000.00	6,000.00
4% 2nd Mtge. Bonds, Prairie "A".....	G.T.P.	Apr. 1, 1905	Apr. 1, 1955	3,587,652.00	189,349.39
4% 2nd Mtge. Bonds, Mountain "B".....	G.T.P.	Apr. 1, 1905	Apr. 1, 1955	3,177,954.00	174,030.14
4% 1st Mtge. Bonds "Lake Superior".....	G.T.P.	Apr. 1, 1905	Apr. 1, 1955	2,157,840.00	123,384.54
4% Perpetual Cons. Debenture Stock.....	Can. Nor.	1903	to 1912 Perpetual	4,695,452.47	457,888.30
4% Perpetual Cons. Debenture Stock.....	C.N.O.	June 21, 1909	Perpetual	1,032,954.87	93,533.25
4% Perpetual Cons. Debenture Stock.....	C.N.Q.	Oct. 1, 1906	Perpetual	497,986.53	51,533.30
4% 1st Mtge. Perp. Debenture Stock.....	Q. & L. St. J.	June 1, 1912	Perpetual	332,232.73	42,904.03
4% 1st Mortgage Bonds.....	G.T.W.	Nov. 30, 1900	July 1, 1950	6,555,224.00	294,859.46
4 1/2% 1st Mortgage Series "A" Bonds.....	G.T.W.	Jan. 1, 1930	Jan. 1, 1980	400,000.00	18,000.00
4% Indebtedness of S.S. & C. Co.....	C.V.R.	Aug. 27, 1858	Optional	155,865.25	6,234.61
4% 1st Mortgage Gold Bonds.....	M. & P. L.	Oct. 1, 1900	Oct. 1, 1950	200,000.00	8,000.00
3 1/2% 1st Mortgage Guar. Debenture Bonds.....	H. & S. W.	Oct. 1, 1912	Sept. 30, 1942		116,733.75
5% Indebtedness to Province of N.B.....	Can. Nat.	Sept. 3, 1929	Various	1,198,022.60	59,901.13
Total Other Issues.....				\$ 34,117,815.78	\$ 2,085,204.59
Total Debt held by Public (including therein \$13,442,142.05 par value held in Special Funds and Accounts) as per Balance Sheet.....				\$ 809,216,074.19	\$34,949,557.92

These obligations are stated in Canadian currency, Sterling and United States currencies being converted at the par of exchange.

This schedule does not include securities in the Railway treasury or those held by The Canadian National Railways Securities Trust, or by the Dominion Government as collateral.

DOMINION OF CANADA—LOANS
(Treated as Assets in Public Accounts of Canada)

	Principal Outstanding at Dec. 31, 1942	Accrued Interest 1942
3½% Advances, Financing and Guarantee Acts, 1939 to 1942.....	\$ 26,062,418.83	\$ 1,137,164.57
3½% Advances, Trans-Canada Air Lines Act, 1937.....	850,000.00	4,200.00
3½% Advances, Refunding Act, 1938.....	27,135,668.40	890,322.50
2% Advances, Refunding Act, 1938.....	24,689,392.53	493,787.86
3½% Temporary Loan for Working Capital.....	13,906,999.71	470,947.03
3½% Advances, G.T.R. Debenture Stock (1940-1942).....	106,380,182.61	3,713,682.97
3½% Advances, Repatriation of Securities (1942).....	277,485,593.08	6,611,341.08
3% Purchase of Railway Equipment, 1936 (Repayable 1938-1950).....	4,137,384.66	128,646.81
3½% Purchase of Railway Equipment, 1940 (Repayable 1941-1955).....	12,895,588.14	461,618.58
3½% Purchase of Railway Equipment, 1941 (Repayable 1943-1957).....	9,313,232.92	103,979.95
Interest on Loans repaid in 1942.....		16,943.24
	<u>\$ 502,856,460.88</u>	<u>\$14,032,634.59</u>

Mr. GRAY: Why don't you wipe off these 4 per cent, 5 per cent, and 6 per cent, issues that you have instead of paying those high rates; is it because they are definitely perpetual?

Mr. VAUGHAN: Some of them are not perpetual, no.

Mr. COOPER: To the extent that they were capable of being repatriated, they have been repatriated.

Mr. DONNELLY: These perpetual issues have been repatriated?

Mr. COOPER: The ones you are looking at are the ones which have not been repatriated for the reason that they are owned by people who are not subject to the vesting order issued by the government of the United Kingdom.

Mr. GRAY: Is there any way in which we can pay them off?

Mr. JACKMAN: Not under the terms of your contract.

Mr. COOPER: I do not see how; unless the Canadian government passes some order more or less confiscating these securities.

Mr. VAUGHAN: It means that the Canadian government are respecting the foreign owners of these securities as to their rights.

Mr. GRAY: They are all owned outside of Canada?

Mr. VAUGHAN: I think so.

Mr. COOPER: Substantially; all of the debenture stock is sterling stock held in Europe.

Mr. GRAY: How about Great Britain?

Mr. COOPER: To the extent that it has been held in Great Britain it has been repatriated.

Mr. DONNELLY: These are private individuals who own this?

Mr. COOPER: Yes.

Mr. GRAY: I recommend very definitely that we cancel.

Mr. JACKMAN: You mean the perpetual debentures?

Mr. GRAY: Absolutely.

Mr. JACKMAN: My dear fellow the credit of this country would go right down to the bottom of the abyss, you could not possibly cancel them.

Mr. VAUGHAN: It is a matter of government policy as what is to be done in this connection.

Mr. JACKMAN: How could you cancel them?

Mr. GRAY: With all due deference to Mr. Jackman, I say again I would cancel these perpetual issues.

The CHAIRMAN: You mean, you would buy them out?

Mr. GRAY: Oh yes, buy them out.

Mr. JACKMAN: You would give them something for them?

Mr. GRAY: Yes.

Mr. JACKMAN: Even that is a breach of the contract.

The CHAIRMAN: Perhaps if they would give them a little bit of a bonus, they would be willing to sell.

Mr. GRAY: Go on down the list—5 per cent, 5 per cent, 4 per cent,

Mr. JACKMAN: They had no alternative investment to make at that time.

Mr. McCULLOCH: There is one issue there of 6½ per cent due in 1946; would that not be bought up by paying the premium?

Mr. COOPER: It is not callable under the terms of the issue.

Mr. VAUGHAN: You would need to pay a big premium to get in these 5 per cent bonds. It would probably be cheaper to let them expire.

Mr. DONNELLY: As to these gold bonds, do you have to pay in gold?

Mr. COOPER: No, sir.

Mr. NICHOLSON: Going back to this issue of \$28,000,000 where would these bonds be held?

Mr. COOPER: I think they are held very substantially in the United States.

Mr. JACKMAN: I think it should be pointed out that if the railway company wanted to buy these bonds the holders might be willing to dispose of them if they get a fair market rate as compared with the 3½ per cent offerings available; that is, if the they were comparable in value to what is now offering in the market; such as government bonds.

Mr. VAUGHAN: Our treasury department have these matters up constantly with the Department of Finance, almost every week.

Mr. JACKMAN: It must be understood that when these were purchased no alternative investments with comparable returns were generally available and these particular ones were chosen because they were suitable for the investment portfolio. You cannot discriminate between different classes of securities. A person might have bought something else at that time.

Mr. SHAW: Were perpetuals generally available at that time?

Mr. JACKMAN: Oh, yes.

Mr. GRAY: I am not content, Mr. Chairman; what are you doing, Mr. Vaughan, about trying to cancel or buy up?

Mr. VAUGHAN: I think we have gone quite a way, Mr. Gray. We are trying to buy in everything we can. We bought in in the last three years \$400,000,000 of these; and our financial department have up, as I said, almost every week with the Department of Finance ways and means of dealing with all these securities and getting rid of all the high yielding securities as promptly as possible. I cannot say at the moment just the stage in which these various matters are; but I do know this that the matter is up constantly between our financial department and the Department of Finance.

Mr. GRAY: Well then, that is satisfactory if you are watching it every minute.

Mr. VAUGHAN: We are watching it.

The CHAIRMAN: We now turn to page 23 dealing with investments in affiliated companies and major contingent liabilities:—

INVESTMENTS IN AFFILIATED COMPANIES

Company	Amount Outstanding	Amount Owned by Can. Nat. System	Book Value
<i>Stocks:—</i>			
Atlantic and St. Lawrence Railroad Company	\$ 5,480,700 00	\$ 46,384 33	\$ 33,172 44
The Belt Railway Company of Chicago.....	3,120,000 00	240,000 00	240,000 00
Canadian Government Merchant Marine, Limited	800 00	800 00	800 00
Central Vermont Transportation Company..	200,000 00	50,000 00	20,000 00
Chicago & Western Indiana Railroad Company	5,000,000 00	1,000,000 00	1,000,000 00
The Detroit & Toledo Shore Line Railroad Company	3,000,000 00	1,500,000 00	1,767,000 00
Detroit Terminal Railroad Company.....	2,000,000 00	1,000,000 00	1,000,000 00
Northern Alberta Railways Company.....	625,000 00	312,500 00	312,500 00
The Ontario Car Ferry Company (Limited)..	500,000 00	250,000 00	179,007 53
The Public Markets, Limited.....	1,150,000 00	575,000 00	575,000 00
Railway Express Agency, Incorporated (no par value)	1,000 shares	6 shares	600 00
The Toronto Terminals Railway Company...	500,000 00	250,000 00	250,000 00
The Toledo Terminal Railroad Company....	4,000,000 00	387,200 00	387,200 00
Trans-Canada Air Lines.....	4,600,000 00	4,600,000 00	4,600,000 00
Vancouver Hotel Company Limited	150,000 00	75,000 00	75,000 00
			\$ 10,440,279 97

INVESTMENTS IN AFFILIATED COMPANIES—*Contc**Bonds:—*

Atlantic and St. Lawrence Railroad Company	\$ 3,000,000 00	\$ 3,000,000 00	\$ 3,012,040 00
Northern Alberta Railways Co. 1st Mortgage Bonds	26,730,000 00	13,365,000 00	13,365,000 00
The Toronto Terminals Railway Co. 1st Mortgage Bonds	25,610,000 00	12,805,000 00	12,805,000 00
			<u>\$ 29,182,040 00</u>

Advances:—

Chicago & Western Indiana Railroad Company			\$ 1,873,881 59
The Railroad Credit Corporation			139,406 20
Railway Express Agency, Incorporated			116,636 42
Northern Alberta Railways Company			250,000 00
Vancouver Hotel Company Limited			18,858 39
			<u>\$ 2,398,782 60</u>
			<u>\$ 42,021,102 57</u>

Mr. JACKMAN: On these other shares, those that are not guaranteed—the bonds on parts of the lines which you use—you have never had to assume any guarantee, or to guarantee them—the lines that are represented by these bonds; is that the picture of this?

Mr. COOPER: That means that they are not guaranteed by the dominion, or by any of the provinces.

Mr. JACKMAN: But you are using the property on which these are a mortgage?

Mr. VAUGHAN: Some of them are just as good as guaranteed, because they form a very important part of our railways.

Mr. JACKMAN: I will not ask you to pick those out, Mr. Vaughan.

The CHAIRMAN: Is there any further discussion on page 23? If not we will turn to page 24:

COMPANIES COMPRISING THE CANADIAN NATIONAL RAILWAY SYSTEM

CAPITAL STOCKS OWNED BY DOMINION OF CANADA

Co. No.

1	Canadian National Railway Company	\$ 18,000,000 00
2	The Canadian National Railways Securities Trust	298,842,882 17
		<u>\$316,842,882 17</u>

CAPITAL STOCKS OWNED BY SYSTEM OR PUBLIC

	Name of Issuing Company	Owned by Co. No.	Capital Stock Issued	Owned by Public
3	The Bay of Quinté Railway Company	23	\$ 1,395,000 00	\$
4	The Bessemer and Barry's Bay Railway Co.	23	125,000 00	
5	*Brooksey Realty Company	29	2,000 00	
6	*Canada Atlantic Transit Company	1	219,000 00	
7	*Canada Atlantic Transit Company of U.S.	1	250,000 00	
8	The Canadian Express Company	1	1,768,800 00	
9	*Canadian National Electric Railways	23	1,750,000 00	
10	Canadian National Express Company	24	1,000,000 00	
11	Canadian National Land Settlement Association	1	—	
12	*Canadian National Railways (France)	1	2,007,400 00	
13	*Canadian National Realities, Limited	23	40,000 00	
14	Canadian National Rolling Stock Limited	1	50,000 00	
15	*Canadian National Steamship Company, Limited	49	15,000 00	
16	Canadian National Telegraph Company	23	500,000 00	
17	*Canadian National Transportation, Limited	1	500 00	
18	The Canadian Northern Alberta Railway Company	23	3,000,000 00	
19	Canadian Northern Manitoba Railway Company	23	250,000 00	
20	The Canadian Northern Ontario Railway Company	23	10,000,000 00	
21	Canadian Northern Pacific Railway Company	23	25,000,000 00	
22	The Canadian Northern Quebec Railway Company	23	9,550,000 00	3,849,200 00

COMPANIES COMPRISING THE CANADIAN NATIONAL RAILWAY SYSTEM—*Cont.*

	Name of Issuing Company	Owned by Co.		Owned by Public
		No.	Capital Stock Issued	
23	The Canadian Northern Railway Company.....	1	18,000,000 00	
24	The Canadian Northern Railway Express Co., Ltd..	23	1,000,000 00	
25	Canadian Northern Steamships, Limited.....	23	2,000,000 00	
26	Canadian Northern System Terminals (Limited)....	23	2,000,000 00	
27	Canadian Northern Western Railway Company.....	23	2,000,000 00	
28	Cannar Oils Limited.....	1	100 00	
29	*The Centmont Corporation	32	176,400 00	
30	The Central Ontario Railway.....	23	3,331,000 00	
31	Central Vermont Airways, Inc.....	29	5,000 00	
32	Central Vermont Railway, Inc.....	1	10,000,000 00	
33	Central Vermont Terminal, Inc.....	32	5,000 00	
34	*Central Vermont Transit Corporation.....	29	5,000 00	
35	*Central Vermont Warehouse, Inc.....	29	5,000 00	
36	The Champlain and St. Lawrence Railroad Co.....	1	50,000 00	
37	Cincinnati, Saginaw and Mackinaw Rail Road Co....	1	1,500,000 00	
38	*Consolidated Land Corporation.....	52	64,000 00	
39	*Continental Realty & Holding Company.....	13	90,000 00	
40	*The Dalhousie Navigation Company, Limited.....	23	50,000 00	
41	*Duluth and Virginia Realty Company.....	39	45,000 00	
42	Duluth, Rainy Lake & Winnipeg Railway Company..	44	2,000,000 00	
43	Duluth, Winnipeg and Pacific Railroad Company...	44	100,000 00	
44	Duluth, Winnipeg and Pacific Railway Company...	23	3,100,000 00	
45	*Grand Trunk-Milwaukee Car Ferry Company.....	52	200,000 00	
46	The Grand Trunk Pacific Branch Lines Company...	49	200,000 00	
47	*The Grand Trunk Pacific Development Company, Ltd.	49	3,000,000 00	
48	*Grand Trunk Pacific Dock Company, of Seattle....	49	150,000 00	
49	The Grand Trunk Pacific Railway Company.....	1	24,940,200 00	
50	The Grand Trunk Pacific Saskatchewan Railway Co.	49	20,000 00	
51	*Grand Trunk Pacific Terminal Elevator Co. (Ltd.)..	49	501,000 00	
52	{Grand Trunk Western Railroad Co. (Common)}....	1	20,000,000 00	
	{Grand Trunk Western Railroad Co. (Preferred)}....	1	25,000,000 00	
53	The Great North Western Telegraph Company of Canada (including \$331,500.00 held in escrow)....	16	373,625 00	6,925 00
54	The Halifax and South Western Railway Company..	23	1,000,000 00	
55	*Industrial Land Company	52	1,000 00	
56	International Bridge Company	1	1,500,000 00	
57	The Irondale, Bancroft and Ottawa Railway Co....	23	53,500 00	500 00
58	The James Bay and Eastern Railway Company.....	23	125,000 00	
	Carried Forward		<u>\$179,513,525 00</u>	<u>\$3,856,625 00</u>

Mr. JACKMAN: In connection with the Central Vermont railway I see you have a book value of \$10,000,000 in these stocks. How much income do you get from them? I suppose all the stocks represent ownership of companies which are an integral part of your whole system.

Mr. COOPER: I can tell you that. On the Atlantic and St. Lawrence shares the dividends we received last year were at the rate of 3.6 per cent. On the Belt Railway Company of Chicago stock we received a dividend of 18 per cent. The Canadian Government Merchant Marine, of course, is just for purposes of control. From the Central Vermont Transportation Company we received a dividend of 2.4 per cent. On the Chicago & Western Indiana Railroad stock we received a dividend of 6 per cent. On the Detroit & Toledo Shore Line Railroad stock we received a dividend of 16 per cent. With respect to the Detroit Terminal Railroad we received a dividend of 4 per cent. With respect to the Northern Alberta Railways—while we didn't receive a dividend on the stock we did receive our share of the operating income of that railway, our share being \$687,000. On the Ontario Car Ferry Company we did not receive a dividend, but the Company made a profit in 1942 of \$18,888.00. On the Public Markets Limited, Winnipeg, we received a dividend of 4 per cent. The Railway Express Agency—we did not receive a dividend on that—the amount is only \$600. The Toronto Terminals Railway Company—we did not receive a dividend on that stock because if we had we would have had to pay it ourselves; we are both part owners and part users. On the Toledo Terminal

Railway Company stock we received a dividend of 2.5 per cent. On the Trans-Canada Air Lines shares we had a return of 5 per cent. On the Vancouver Hotel Company we received our share of the rent which was \$107,000. Atlantic and St. Lawrence bonds, they are 6 per cent bonds, we received the interest but we also paid it because we are the lessee of the railway; Northern Alberta Railways bonds are 5 per cent bonds; interest was earned and paid; Toronto Terminal Railway bonds are 5 per cent bonds, interest was earned and paid; so that as a group of security investments I think the returns in 1942 were very satisfactory.

Mr. JACKMAN: We just heard in the house this afternoon that Trans-Canada Air Lines may be expected to increase somewhat in size. What is the procedure in the way of increasing your investment in the Trans-Canada Air Lines? Does the application of Trans-Canada come before your board of directors and do you decide whether or not to subscribe to more stock?

Mr. VAUGHAN: That is what happens, Mr. Jackman.

Mr. JACKMAN: Do you really decide as a board of directors whether or not you want to advance or invest more money in the Trans-Canada Air Lines? Are you their agents or are you first of all told what the government policy is and you have to find the money and in turn if you need any money you go back to the government?

Mr. VAUGHAN: No, we are free agents. Trans-Canada Air Lines make the application and the money is advanced to them and the stock is given in exchange.

Mr. JACKMAN: You are already at times drawing on the dominion government for working capital and in so far as this program is concerned are you anything more than a sieve without independent judgment in regard to whether or not you will advance capital?

Mr. COOPER: Trans-Canada financing is governed by an Act of parliament, the Trans-Canada Act, which authorized a capital stock issue of \$5 million and provided that the stock should be owned by the Canadian National Railway Company.

Mr. JACKMAN: You subscribed to it, to the whole issue?

Mr. COOPER: Not at once; the stock is only being subscribed and paid for as required by Trans-Canada.

Mr. JACKMAN: You have not an open subscription?

Mr. COOPER: No; I think at the end of 1942 there was \$400,000 or \$450,000 which had not been called. We expect—that is, Trans-Canada expects—to use that money in 1943 and to that extent the Canadian National will, if approved by the board of directors, subscribe to that amount. Beyond the \$5 million there is no statutory authority.

Mr. JACKMAN: Would it be a fair assumption to say that the reason Trans-Canada became associated with the Canadian National system or was put under it was that Trans-Canada was a form of transportation?

Mr. VAUGHAN: I think that is a correct statement. The other railway had the opportunity at the same time to come into the Trans-Canada picture, but I understand they did not want to do so.

Mr. JACKMAN: Was that opportunity of equal partnership with the Canadian National in ownership?

Mr. VAUGHAN: I think it was but I have no positive information on the point.

Mr. JACKMAN: That was about 1930 what?

Mr. VAUGHAN: 1937, I think.

Mr. JACKMAN: Should the T.C.A. extend so that it has a European business—you as the Canadian National Railways never had any steamships plying the Atlantic except the "Lady" boats and other ships down to the West Indies.

Mr. VAUGHAN: We have had boats plying the Atlantic all during the war, in fact, we had five trips to the far east last year.

Mr. JACKMAN: I am talking of regular commercial groups of steamship lines either to the old country or France, so that you are not equipped to service air lines as far as office service is concerned. You have no ticket offices over there to the same extent as your competitor.

Mr. VAUGHAN: We have substantial offices in the old country, in London, Southampton, Glasgow, Cardiff and Manchester and various other places.

Mr. JACKMAN: Selling railway tickets?

Mr. VAUGHAN: Selling railway tickets and gathering up freight for the railway. We have fine offices in all these places.

Mr. JACKMAN: Such as the public patronize, not just commercial people?

Mr. VAUGHAN: Yes, just the same offices as our competitors have and these offices take the same class of business.

Mr. JACKMAN: Where is your London office?

Mr. VAUGHAN: On Cockspur street, a very fine office there.

Mr. DONNELLY: I should like to refer to the Toronto Terminals Railway Company's first mortgage bonds. Is that \$25,610,000 the total cost of the Toronto Terminals?

Mr. VAUGHAN: I do not think so, but Mr. Cooper can answer that question.

Mr. COOPER: It would be approximately one-half; the Canadian Pacific has a similar investment to ours.

Mr. EMMERSON: That would make a cost of roughly about \$50 million?

Mr. COOPER: Yes, that is it.

The CHAIRMAN: Page 24.

Mr. JACKMAN: May I ask one more question about these offices you have in Britain and Europe? Are they chiefly for the purpose of obtaining freight or do you get any substantial amount of passenger business out of it?

Mr. VAUGHAN: We sell tickets via various ship lines. We have very close working connections with nearly all steamship lines. Our offices there sell through tickets in connection with steamship companies and in connection with the railway. For instance, our office would sell a ticket, say, from Manchester or London to Vancouver, or say from London to the orient via Vancouver.

Mr. COOPER: I should like to correct my answer on the Toronto Terminals. The cost to the Toronto Terminals Railway Company would be approximately \$25 million, not \$50 million.

Mr. JACKMAN: The amount of passenger business you get from your offices abroad would not in itself justify the keeping of those offices there if it were not for the very considerable item of freight that you have built up?

Mr. VAUGHAN: There is a substantial amount of freight booked. These offices carry themselves.

Mr. JACKMAN: Would their business not be 95 per cent freight?

Mr. VAUGHAN: I could not say offhand how the freight and passenger would be divided; I would think freight would be the greater proportion of it.

Mr. JACKMAN: Am I very far off if I say 95 per cent?

Mr. VAUGHAN: I think that is too high; it would not be 95 per cent anyway.

Mr. HANSON (*Skeena*): The important thing is they are self-sustaining.

Mr. JACKMAN: That depends on how much imagination you have.

The CHAIRMAN: Page 23:

MAJOR CONTINGENT LIABILITIES

Trans-Canada Air Lines:

The Canadian National Railway Company owns \$5,000,000 of the Capital Stock of the Air Lines on which total call to 31st. December, 1942, has been \$4,600,000.

Northern Alberta Railways Company:

The Canadian National Railway Company owns \$3,125,000 of the Capital Stock of the Railways Company on which total call to date has been 10%.

Under agreement of purchase dated 6th February, 1929, Canadian National Railway Company became liable for one-half of the purchase consideration for the property. This obligation was later assumed by Northern Alberta Railways Company which took title to the property. As of 31st December, 1942, the commitment of the Canadian National Railway Company was \$1,210,000. The Canadian National Railway Company takes up currently in its income account one-half of the annual surplus or deficit of Northern Alberta Railways Company.

The Detroit and Toledo Shore Line Railroad Company:

Assumed by Grand Trunk Western Railroad Company as joint and several guarantor by indorsement of principal and interest of \$3,000,000 First Mortgage 4%—50 Year Gold Bonds due 1953.

The Toledo Terminal Railroad Company:

Assumed by Grand Trunk Western Railroad Company in respect of \$5,800,000 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%.

Chicago and Western Indiana Railroad Company:

Assumed by Grand Trunk Western Railroad Company, pursuant to joint supplement lease dated 1st July, 1902, between Grand Trunk Western Railway Company and four other proprietary companies. Obligation is for repayment of principal of bonds at their maturity, and of interest as it falls due by way of annual rentals. The Grand Trunk Western's obligation is for one-fifth of the bonds issued for "common" property and the entire amount of bonds issued for its "exclusive" property. The bonds are Consolidated Mortgage 50 Year 4% bonds due 1952 and the amounts outstanding at 31st December, 1942, are:—

Issued for "common" property.....	\$39,973,019 39
Issued for "exclusive" property.....	252,535 36

Assumed by Grand Trunk Western Railroad Company pursuant to joint supplemental lease dated 1st March, 1936, between Grand Trunk Western Railroad Company and 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 four other tenant companies. The bonds are First and Refunding Mortgage 4½% Series "D" Sinking Fund Bonds due 1962 and the amount outstanding at 31st December, 1942, is \$19,776,000.

C.N.R. Pension Plans:

Reserves are not set up against pensions presently being paid or conditionally accruing under the 1935 contractual plan and prior non-contractual plans. Actual pension payments made at the expense of the Railway are charged currently to operating expenses.

Pension contracts in force under the 1935 contractual plan number 4,905, the average annual pension is \$489, the total annual pensions being \$2,396,755 representing a capital sum of approximately \$20,000,000. The portion of this sum contributed by retired employees is carried in the accounts as a deferred liability against which funds have been separately invested.

Mr. JACKMAN: May I ask a question based on the following paragraph on page 23:

Reserves are not set up against pensions presently being paid or conditionally accruing under the 1935 contractual plan and prior non-contractual plans. Actual pension payments made at the expense of the railway are charged currently to operating expenses.

The thought just occurred to me when I read that that just as the population of Canada now has a larger percentage in the older bracket because there was a period here when we were developing and brought in great crowds of immigrants so that for a while our average age level in this country was quite young and today it is getting much older; so I was just wondering with regard to the railways, whether you perhaps have the same thing to contend with. When you were growing you took in young men twenty and twenty-five years old who had a long useful life ahead of them. Now the railways have become settled and to-day you have a much larger proportion of older men than you had twenty-five years ago. Twenty-five years ago would be a fair time? Therefore, your pension bill must be getting heavier each year?

Mr. VAUGHAN: We have figured that our maximum would be reached some time in the future, years hence.

Mr. JACKMAN: You have had actuaries work on the age limit of your employees and actually ascertain the ages?

Mr. VAUGHAN: Yes.

Mr. JACKMAN: And as a result your experience is that you know within reasonable bounds what your pension bill will be, and I take it you expect it to be larger for some years?

Mr. VAUGHAN: It will be larger; As an indication of the way it has gone up, in 1941 the amount was \$4,901,000; in 1942 it was \$5,021,039, about \$120,000 more in 1942 than in 1941.

Mr. JACKMAN: That is a payment charged to operating?

Mr. VAUGHAN: Yes; and it is gradually going up. For instance, in 1938 it was \$4,400,000; in 1939 it was \$4,600,000. I have the figures on my desk; I do not recall what they were.

Mr. JACKMAN: After a few years you expect the curve line out?

Mr. VAUGHAN: Yes. I went into that not very long ago with a view to satisfying myself as to what amount we were going to have to pay for pensions in the next few years.

The CHAIRMAN: Is there any discussion on page 25, "Companies Comprising the Canadian National Railway system"? If not we will pass that.

(Carried)

The CHAIRMAN: Let us go to page 26, the statement of railway equipment. Is there any discussion?

Mr. NICHOLSON: With respect to coach cars, I see the additions were ninety-nine. Where did you get them?

Mr. VAUGHAN: I do not think we can expect to get any more passenger equipment. We have been told we will be unable to get any more passenger equipment during the war.

Mr. NICHOLSON: Where did you get those ninety-nine?

Mr. VAUGHAN: We were fortunate in being able to purchase a large number of second-hand steel cars from the Pullman company. Those cars were purchased at a very low price and were remodelled to suit our purposes.

(Carried)

The CHAIRMAN: Page 27, "Statistics of Rail-Line Operation, Transportation Service". Is there any discussion?

(Carried)

The CHAIRMAN: Page 28: "Statistics of Rail-Line Operation".

"Employees and their Compensation".

"Distribution of the Dollar".

(Carried)

The CHAIRMAN: Page 29. Any discussion? "Operated Mileage"?

Mr. NICHOLSON: Have you a break-down showing which sections are the most profitable?

Mr. VAUGHAN: The central region is, undoubtedly, the most profitable we have; the western region comes next. The central region serves a very highly industrialized territory. It is very difficult to apportion earnings and expenses between regions because they carry over from one region to the other, and a great deal of the traffic is continuous traffic.

Mr. NICHOLSON: Where are the most unprofitable lines?

Mr. VAUGHAN: As I said before, we have a number of unprofitable lines in the maritime provinces—the St. John valley line and the Gaspé line, for instance. In fact, in every province we have unprofitable lines. In the central region we have a large territory in northern Quebec and Northern Ontario upon which there is very little travel. In the west we have a number of lines that are not profitable; some of them are doing better now. Take the line from Redpath junction to Prince Rupert, 700 odd miles. Before the war we lost a very substantial sum of money in the operation of that line with just a skeleton service. It is doing better now. There are substantial quantities of material moving on that line via Prince Rupert to Alaska, but when that traffic disappears that will not be a profitable line. Our colonization departments, before the war, were putting in some very good settlers in that country, Dutch settlers and Swiss settlers, and they have done very well.

The CHAIRMAN: Page 29. Shall that carry?

(Carried)

The CHAIRMAN: Will somebody move the adoption of the report?

Mr. DONNELLY: I move the adoption of the report.

Mr. McCULLOCH: I second the motion.

Mr. JACKMAN: Before you pass that, have you both a research and development department and also an investigation department similar in function?

Mr. VAUGHAN: No, these are entirely different departments. Our research and development department is a department that such as the name signifies; our investigation department is our police department, you might say.

Mr. JACKMAN: The research department endeavours to locate factories does it?

Mr. VAUGHAN: Yes, that is a branch. The industrial department is a branch of the research and development department.

Mr. JACKMAN: Do you issue a publication from that department? Your competitor used to. I do not know whether they do it now. There used to be a pamphlet or magazine of about ten or fifteen pages issued from time to time, but I am thinking of about twenty years back. I do not recall whether they do it now or not. Do you issue anything like that to industrialists?

Mr. VAUGHAN: No, sir, we do not. We do not issue anything of that kind at all. I do not think either company is giving any more information to the other company than it has to these days.

The CHAIRMAN: If it meets with the approval of the committee we will proceed with the Canadian National Railways budget for the year 1943 and I will ask Mr. Vaughan to read it.

Mr. VAUGHAN: Operating budget, cash surplus: 1942 budget, \$5,000,000; 1942 actual, \$25,063,268; 1943 budget, \$25,000,000.

Mr. JACKMAN: That is because you cannot spend the money; you cannot get the stuff?

Mr. VAUGHAN: That is the principal reason why the money has not been spent.

CANADIAN NATIONAL RAILWAYS

SUMMARY OF FINANCIAL REQUIREMENTS
for the year 1942 compared with amounts budgeted, also proposed Budget for the year 1943

	Page No.	1942 Budget	1942 Actual	1943 Budget
<i>Operating Budget—</i>				
Cash Surplus.....	2	\$5,000,000	25,063,268	25,000,000
<i>Capital Budget—</i>				
Additions and Betterments.....	3	17,362,000	7,031,193	12,200,000
Acquisition of Securities.....	3	3,403,000	3,258,546	1,294,300
Retirement of Maturing Capital Obligations, including Sinking Fund and Equipment Principal Payments.....	4	9,795,000	9,490,775	9,552,000
Less—available from Reserves for Depreciation and Debt Discount Amortization.....		8,200,000	14,025,600	17,000,000
		\$22,360,000	5,754,914	6,046,300
New Equipment—Hire-purchase agreement with Dominion Government.....	5	47,418,000	9,313,233	43,916,394
“ “ —Grand Trunk Western 1941 Equipment Trust.....			4,764,639	
Total Capital Budget.....		\$69,778,000	19,832,786	49,962,694
<i>Statutory Authorization—</i>				
Trans-Canada Air Lines Capital Stock.....		\$ 1,250,000	850,000	400,000

CANADIAN NATIONAL RAILWAYS

COMPARATIVE STATEMENT OF NET INCOME RESULTS FOR YEARS 1942-1943

	1942 Budget	1942 Actual	1943 Budget
<i>Net Income Results—</i>			
Operating Revenues, excluding 20% Contribution, M.F.R. Act.....	\$348,090,000	\$371,028,587	\$395,025,000
Contribution from Government under Maritime Freight Rates Act (20%).....	3,510,000	4,034,861	4,500,000
Government Share of Operating Account, P.E.I. Car Ferry and Terminals.....	400,000	591,095	475,000
Total Railway Operating Revenues.....	\$352,000,000	\$375,654,543	\$400,000,000
Railway Operating Expenses.....	281,000,000	288,998,675	311,500,000
Net Revenue from Railway Operation.....	\$71,000,000	\$86,655,868	\$88,500,000
Operating Ratio.....	79.83%	76.93%	77.88%
Other Income and Profit and Loss Accounts.....	14,108,000	\$12,610,407	\$12,932,000
Net Available for Interest.....	\$56,892,000	\$74,045,461	\$75,568,000
<i>Interest Charges—</i>			
Interest due Public on Long Term Debt.....	\$43,855,000	\$34,949,558	\$31,268,000
Interest on Dominion Government Loans for Capital and Refunding.....	8,037,000	14,032,635	19,300,000
Total Interest Charges.....	\$51,892,000	\$48,982,193	\$50,568,000
Cash Surplus.....	\$5,000,000	\$25,063,268	\$25,000,000

NOTE: The 1943 Budget includes \$1,674,500 for Contribution to Deficit of I.C.R. & P.E.I. Provident Fund and \$100,000 for Contribution to Grand Trunk Railway of Canada Superannuation and Provident Fund Association.

CANADIAN NATIONAL RAILWAYS

COMPARATIVE STATEMENT OF CAPITAL EXPENDITURES
YEARS 1942-1943

	1942 Budget	1942 Actual	1943 Budget
<i>Additions and Betterments—</i>			
Atlantic Region.....	\$1,605,887	\$1,048,228	\$1,369,263
Central Region.....	4,716,179	173,388	5,050,567
Western Region.....	2,509,062	1,262,756	2,548,526
Grand Trunk Western Railroad Company.....	812,924	Cr. 553,404	363,279
Central Vermont Railway, Inc.....	110,867	Cr. 8,050	124,909
Hotels.....	83,652	Cr. 63,943	.....
Montreal Terminal Construction.....	1,900,000	1,823,248	363,568
P.E.I. Car Ferry and Terminals.....	160,500	110,174	35,700
Subsidiary Companies.....	75,410	Cr. 1,312,175	146,814
General, including Additions and Betterments to equipment.....	4,235,519	946,270	2,715,268
	\$16,210,000	\$3,426,492	\$12,717,894
Equipment Purchases.....	3,208,000	4,584,441	425,968
Equipment Retirements.....	Cr. 2,056,000	Cr. 979,740	Cr. 943,862
Total Additions and Betterments less Retirements..	\$17,362,000	\$7,031,193	\$12,200,000
<i>Acquisition of Securities—</i>			
<i>Toronto Terminals Railway—</i>			
Joint with Canadian Pacific Railway Co. general Additions and Betterments—C.N.R. proportion 50%.....	\$ 100,000	.....	\$ 100,000
<i>Northern Alberta Railways—</i>			
Joint with Canadian Pacific Railway Co. general Additions and Betterments—C.N.R. proportion 50%.....	200,000	.....	1,050,000
Debt redemption—C.N.R. proportion 50%.....	3,215,000	3,215,000	.....
<i>Chicago and Western Indiana Railroad—</i>			
Advances under agreement of March 1/36.....	138,000	139,542	144,300
<i>Detroit & Toledo Shore Line Railroad—</i>			
Reduction in ledger value of Capital Stock, by application of amounts of special dividends received.	Cr. 250,000	Cr. 120,000	.....
<i>Atlantic and St. Lawrence Railroad—</i>			
Purchase of Capital Stock.....	.....	24,004	.....
	\$3,403,000	\$3,258,564	\$1,294,300

CANADIAN NATIONAL RAILWAYS

COMPARATIVE STATEMENT OF MATURING OBLIGATIONS, SINKING FUND AND EQUIPMENT PRINCIPAL PAYMENTS—YEARS 1942-1943

	1942 Budget	1942 Actual	1943 Budget
	\$	\$	\$
<i>Retirement of Maturing Capital Obligations—</i>			
7% Wellington, Grey & Bruce Rly. Bonds.....	13,627	5,840	
Indebtedness to State of Michigan re Wider Woodward Avenue, Detroit.....	430,000	429,414	430,000
	443,627	435,254	430,000
<i>Sinking Fund Payments—</i>			
2% Canadian National Rys. Guar. Deb. Stock (1927).....	1,008,210	712,100	397,792
4% St. John & Quebec Rly. 1st Mtge. Deb. Stock.....	27,280	27,280	6,735
	1,035,490	739,380	404,527
<i>Equipment Principal Payments—</i>			
4½% Can. National Rly. Equip. Trust Series "J".....	1,000,000	1,000,000	
5% Can. National Rly. Equip. Trust Series "K".....	1,200,000	1,200,000	1,200,000
4½% Can. National Rly. Equip. Trust Series "L".....	1,050,000	1,050,000	1,050,000
2½% Can. National Rly. Equip. Trust Series "O".....	1,430,000	1,430,000	1,430,000
2½% Can. National Rly. Equip. Trust Series "P".....	500,000	500,000	500,000
2½% Can. National Rly. Equip. Trust Series "Q".....	650,000	650,000	650,000
3% Purchase of Rly. Equip. 1936 (Dom. Gov't).....	517,173	517,173	517,173
3½% Purchase of Rly. Equip. 1940 (Dom. Gov't).....	991,968	991,968	991,968
3½% Purchase of Rly. Equip. 1941 (Dom. Gov't).....			1,401,141
5% Cent. Vermont Rly. Inc., Equip. Trust 1929.....	124,000	124,000	124,000
5% Grand Trunk Western RR. Equip. Trust 1929.....	283,000	283,000	283,000
2½% Grand Trunk Western RR. Equip. Trust 1941.....	570,000	570,000	570,000
	8,316,141	8,316,141	8,717,282
	9,795,000	9,490,775	9,552,000

Note: No provision has been made in the 1943 Budget for semi-annual Sinking Fund payments of \$250,000 each July 1, 1943 and January 1, 1944 for Canadian Northern Railway Company 6½% Sinking Fund Bonds, as these amounts, in the judgment of the Management, will not be required.

CANADIAN NATIONAL RAILWAYS

NEW EQUIPMENT UNDER DOMINION GOVERNMENT HIRE-PURCHASE AGREEMENTS

	1942 Budget	1942 Actual	1943 Budget
	\$	\$	\$
1941 Programme—Order in Council P.C. 3433 May 14, 1941..	22,250,000	9,313,233	11,703,894
1942 Programme—Order in Council P.C. 2849 April 10, 1942..	25,168,000	—	—
Proposed 1943 Programme—(which includes the 1942 Programme).....	—	—	32,212,500
Total Equipment Purchases under Hire-Purchase Agreements.....	47,418,000	9,313,233	43,916,394

DETAILS OF ABOVE FOR 1942 AND 1943

	UNITS			
	1942	1943		
<i>1941 Programme—</i>				
Northern Type Locomotives.....	30	5		
Box Cars—40 Ton.....		1,950		
Box Baggage—40 Ton.....		50		
Gondola—70 Ton.....	463	237		
Flat Cars—50 Ton.....	300			
Hopper Cars—70 Ton.....	250			
Coaches.....	25			
Baggage—Express Cars.....	15			
	<u>1,083</u>	<u>2,242</u>	9,313,233	11,703,894
<i>1943 Programme—Proposed—</i>				
Northern Type Locomotives.....		30		
Freight Refrigerator Cars.....		300		
70-Ton Triple Hopper bottom Cars.....		750		
50-Ton Flat Cars.....		200		
40-Ton Box Cars.....		4,000		
		<u>5,280</u>		32,212,500

CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS, LIMITED

COMPARATIVE STATEMENT OF NET INCOME RESULTS
YEARS 1942-1943

	1942 Budget	1942 Actual	1943 Budget
	\$	\$	\$
<i>Estimated Net Income from Operation—</i>			
Operating Revenues.....	7,515,000	5,407,976	3,317,000
Subsidies to be received from the West Indies Colonies in conformity with Trade Agreement entered into with the Government of the Dominion of Canada.....	150,000	192,520	100,000
Total Revenues.....	7,665,000	5,600,496	3,417,000
Operating Expenses.....	6,385,000	4,220,219	2,320,000
Net Operating Income.....	1,280,000	1,380,277	1,097,000
Interest Requirements on 5%—25-Year Bonds issued in 1930; Principal Amount \$9,400,000.....	470,000	470,000	470,000
Exchange Premium on Bond Interest.....	52,000	51,700	52,000
Amortization of Discount on Bonds.....		77,362	
Net Income available towards payment of Interest on Advances by Government of Canada.....	780,000	781,215	575,000

Mr. JACKMAN: There is just one item there in the middle of the first page, the amount available from reserves for depreciation of reserve and debt discount amortization. You expect to have available from that source \$17,000,000 in cash from your operating revenue to finance your capital requirements. That is quite a jump up from last year. It is a jump up of \$3,000,000. You base that on increased business?

Mr. VAUGHAN: Yes.

Mr. JACKMAN: Is it not strange you should expect to get \$3,000,000 additional depreciation from increased business and still not have a higher cash surplus for the year than you had last year?

Mr. COOPER: There are two reasons. One is additional business. We expect to set aside more for depreciation. We are budgeting in 1943 for gross revenues of \$400,000,000 as compared with \$375,000,000 in 1942. Therefore we expect to set aside additional depreciation in 1943.

Mr. JACKMAN: You do not expect to make anything out of the \$25,000,000 to carry to net? You are not budgeting for it in the cash surplus, are you, or is the cash surplus budget not to be taken seriously?

Mr. COOPER: I would put it this way. Last year we made \$25,000,000. What we may make in 1943 is very much of a guess.

Mr. DONNELLY: \$125,000,000.

Mr. COOPER: I think we are trying to be conservative. We thought we could bring down a budget for approximately the same amount, \$25,000,000, but it may be more. You notice in 1942 we estimated it would be \$5,000,000 and we made \$25,000,000. This year we estimate it will be \$25,000,000 and we may make more.

Mr. JACKMAN: It would be impossible to stay in some businesses if you could not guess more shrewdly than that. I do not think you are trying very hard.

Mr. COOPER: If you can tell me what the gross or net revenues of the Canadian National Railways will be in 1943 I think you should take my position.

Mr. VAUGHAN: We try to be on the conservative side.

Mr. JACKMAN: I think you are, Mr. Chairman.

Mr. VAUGHAN: Our expenses are increasing as you have noticed through the cost-of-living bonus and cost of materials, and it is very difficult to estimate what our increased expenses will be, but if we get the \$400,000,000 revenue we have budgeted for we believe we can produce \$25,000,000 net revenue. If we get more than \$400,000,000 I think we will do better than \$25,000,000 net.

Mr. GRAY: I do not like that word "conservative".

The CHAIRMAN: Net income results.

Mr. VAUGHAN: The following statements are merely in support of the first statement. If you wish to go through them we will be glad to do it.

Mr. JACKMAN: What are we asking parliament for? What are we going to recommend to parliament on the basis of this first statement?

Mr. VAUGHAN: We are really asking parliament for \$6,046,300.

Mr. JACKMAN: To look after all the capital requirements for the year.

Mr. VAUGHAN: It will be handled by two different methods. The \$6,000,000 will be handled under the C. N. R. financing bill and the \$43,000,000 will be handled under the War Measures Act.

The CHAIRMAN: Next page, additions and betterments.

Mr. JACKMAN: This is the most important part of our whole report. I think we must spend a minute on it. You are asking parliament for \$6,000,000 to look after your own capital requirements?

Mr. VAUGHAN: Yes.

Mr. JACKMAN: And in doing that you will retire \$1,294,000 in securities through acquisition and also retire maturing capital obligations and make sinking fund payments of \$9,500,000. You are reducing your debt by close to \$11,000,000 there; is that right? The two items are \$1,294,000 and \$9,552,000.

Mr. COOPER: \$9,552,000 is a refunding operation pure and simple. We retire that amount of debt held by the public and we increase the amount due to the government.

Mr. JACKMAN: There is no net retirement necessarily.

Mr. COOPER: No change in the debt.

Mr. JACKMAN: Then you are asking for \$6,000,000 additional to put into the system?

Mr. COOPER: New capital, yes.

The CHAIRMAN: Are you through with this page?

Mr. JACKMAN: While these figures have been read to us I really think, Mr. President, that you should tell us exactly what happened. The company is going to require for its capital budget these items under \$12,000,000, \$1,000,000, \$9,000,000, \$17,000,000. That is going to be spent; is that right?

Mr. COOPER: Not quite.

Mr. JACKMAN: Not the \$17,000,000.

Mr. COOPER: We are going to spend \$12,200,000 and \$1,200,000. We shall have available \$17,000,000 (which we shall charge to operating expenses) making a net decrease in the capital debt for the year of \$3,000,000. We are also going to exchange debts to the amount of \$9,500,000 making our cash requirements for the year \$6,000,000.

Mr. JACKMAN: After absorbing \$25,000,000 cash surplus?

Mr. COOPER: No, independently of that. In 1943 on the basis of the budget, and for the minute not speaking of new equipment, there would be a reduction in our capital debt of something like \$28,000,000. If I may, I would like to amplify this matter a little because I have always felt there was a certain amount of confusion in the minds of the members of the committee with respect to the increase in the capital debt of the Canadian National Railways. You see in our capital budget year after year substantial sums of money for capital purposes. You see on page 8 that we spent \$21,000,000 on capital expenditure account. You see we retired \$32,000,000 of maturing obligations, that we retired equipment trust obligations to the extent of \$9,490,000, and that we repatriated securities having a par value of \$289,000,000. That sort of thing goes on year after year. I suspect there may be some misunderstanding in the minds of the committee as to the aggregate increase in the capital debt of the Canadian National Railways System so I took out the figures for a ten year period, and I think it will surprise members of the committee to know that the increase in the capital debt of the Canadian National Railways over a ten year period amounts to \$24,000,000. That is to say, that our capital debt over that period has increased at a rate of less than \$2,500,000 a year, and because of the opportunity to retire debt at lower rates of interest we have been able to reduce our fixed charges. In this ten year period not only have we paid interest on the additional capital of \$24,000,000, but having done that we have reduced our fixed charges to the extent of \$8,000,000 a year. So taking the picture over a ten-year period and summarizing capital expenditure, debt redemption, amounts available from surplus and reserves and all those things, we find an increase in debt of \$24,000,000, which averages, as I said, less than \$2,500,000 a year; and over all we have saved or reduced our fixed charges by \$8,000,000 a year. We

made issues to the public of \$325,000,000. We borrowed \$479,000,000 from the dominion. We paid off securities held by the public to the extent of \$780,000,000. But the net change at the end of the period is \$24,000,000. In the ten-year period we spent \$114,000,000 for capital.

Mr. JACKMAN: Yes. That sounds very fine. But I still do not understand this budget and I do not think the members of the committee do. First of all, you want to spend how much money next year? Give the items. I will mark the ones you want to spend with blue pencil and I will mark the others with red pencil.

Mr. COOPER: Apart from new equipment we have a capital budget of \$6,000,000, and there will be a bill presented to the House authorizing the Canadian National to spend that much. If we reach our objective, we shall have \$25,000,000 available from operations, and we shall take that and apply it in reduction of our capital debts. We do not mix them up. We try to keep the operating side separate from the capital side. In any event, it is necessary to get authority to spend the \$12,200,000 and to spend the \$1,294,000.

Mr. JACKMAN: This cash surplus cannot be used as if it were a revolving fund. You have to turn it over to the government at the end of the year. For any new capital you need, you have got to draw on the government for that. That is why it differs from a commercial set-up.

Mr. COOPER: Yes. That is the reason.

Mr. JACKMAN: Let me see if I can get this. If you cannot give it to me, I will try to give it to you, and you can correct me if I am wrong. On additions and betterments, you want to spend \$12,200,000?

Mr. COOPER: Yes.

Mr. JACKMAN: And you want to acquire securities worth \$1,294,300?

Mr. COOPER: Correct.

Mr. JACKMAN: You have an item, retiring of maturing capital obligations; you want to retire some more capital obligations and to keep up your sinking fund payments?

Mr. COOPER: That is right.

Mr. JACKMAN: That is \$9,552,000. Those are the out-go items. Are there any more expenditures that you want to make, before we see where we are getting the money from?

Mr. COOPER: No, except with respect to this new equipment which we will deal with later.

Mr. JACKMAN: All right. Those are the three items. I can take this to be the situation. You want to spend \$13,000,000 and \$9,000,000 or about \$23,000,000.

Mr. COOPER: We want to spend \$23,046,000.

Mr. JACKMAN: And you are going to get \$17,000,000 from operating revenue to apply against depreciation, and that money you are going to use to help pay off the \$23,000,000, which leaves you a net of \$6,000,000 which you have to get from some place else?

Mr. COOPER: Yes.

Mr. JACKMAN: Where are you going to get that? Are you going to get it from the government in the bill?

Mr. COOPER: Yes.

Mr. JACKMAN: What bill do you call it?

Mr. COOPER: The Canadian National financing bill of 1943-44.

Mr. JACKMAN: The other items, the new equipment, hire-purchase agreement with dominion government, \$43,916,000 will be a separate act, will it?

Mr. COOPER: I understand that the authority to build this equipment is under the War Appropriation Act.

Mr. VAUGHAN: That is really a carry-over from previous years. As you will see, we only spent \$9,000,000 last year and we only now or just recently got delivery of some equipment we ordered in 1941.

Mr. JACKMAN: Yes. It expired and you did not use it, and you have to apply for it again?

Mr. VAUGHAN: Yes.

Mr. JACKMAN: The only other item on that budget is \$25,000,000 cash surplus which automatically, if you realize it at the end of 1943, is just turned over to the government.

Mr. VAUGHAN: Yes.

Mr. JACKMAN: And that then goes to reduce the proprietor's equity.

Mr. COOPER: No. It goes to increase the proprietor's equity.

Mr. JACKMAN: I mean to reduce the proprietor's deficit. It is an increased proprietor's equity. The name of the account is proprietor's equity. It is increased by \$25,000,000 if you make that and turn it over.

Mr. COOPER: If we make \$25,000,000, the Dominion's equity in the Canadian National railways will be increased by \$25,000,000.

Mr. JACKMAN: Yes. It is not applied against any deficit account. You have not got any deficit account to apply it against. Are there any other items that come in? There is \$400,000, statutory authorization on the T.C.A. capital stock.

Mr. VAUGHAN: Yes.

Mr. JACKMAN: Where does that money come from?

Mr. VAUGHAN: It comes from the dominion.

Mr. JACKMAN: Do we have to pass another act for that?

Mr. VAUGHAN: No.

Mr. JACKMAN: It is under the statute now?

Mr. VAUGHAN: The Trans-Canada Act authorizes \$5,000,000 and it is part of the balance of that authorization.

Mr. JACKMAN: How do they give it to you? T.C.A. ask you to take up another \$400,000 of stock and you then notify what—the treasury department or whom?

Mr. COOPER: We make a requisition on the government—T.C.A. makes a call on the shareholders, the shareholders being Canadian National railways. The Canadian National Railway Company makes a requisition on the Department of Finance and they advance the money to us under the authority of the Trans-Canada Act.

Mr. JACKMAN: So that we have this year in our budget estimates \$400,000 for T.C.A.?

Mr. COOPER: I could not tell you—

Mr. JACKMAN: It has got to come from some place.

Mr. COOPER: —how the government estimates are made up.

Mr. JACKMAN: All right. Thank you very much.

The CHAIRMAN: I do not think we need to delay very long with these others. Page 2 is a comparative statement of the net income results for 1942-43.

Mr. GRAY: Mr. Chairman, dealing with that budget or report, I think it might be in order to ask what has been done about the report of the committee of the year before last in which your committee recommends that steps be taken to assure a division of the government-controlled business more in accord with the relative responsibility of the two roads; that is, between the C.P.R. and the C.N.R.

Mr. VAUGHAN: We followed that up vigorously after the recommendation of your committee last year, and we have been successful in persuading the Department of National Defence and the other departments concerned, where that order was applicable, to withdraw the order and it has been withdrawn.

Mr. EMMERSON: What effect is it having?

Mr. VAUGHAN: It is difficult to say. Our business is increasing all the time and the C.P.R. business is also increasing. But we believe that it is working to our advantage. We have got to go out on our own and get business on our merits, and we are able to do it. We could not do it before as freely because these departments had instructions in effect that the business was to be divided fifty-fifty, but those instructions have been lifted and they are no longer in effect.

Mr. SHAW: It is on a straight competitive basis now?

Mr. VAUGHAN: Yes; it is on a straight competitive basis. I think I have that circular which was issued here. This, for instance, is the circular issued by the Department of National Defence:—

1. With reference to the instructions contained in Q.M.G. Circular Letter H.Q.C. 3376 dated 24th June, 1933, which directed that the transportation of personnel and freight in Canada would be divided equally, as far as possible, between the Canadian National and the Canadian Pacific Railways.
2. It is understood that these instructions have not been regarded as applicable under war conditions, and that in practice business is allotted on the basis of what is considered to be in the best interests of the Service having regard to economy, quality of service and convenience. These principles will continue to govern.
3. In view of the foregoing, the above mentioned Q.M.G. Circular Letter is hereby cancelled.

Mr. GRAY: Are you satisfied with the terms of the order?

Mr. JACKMAN: They said so last year.

Mr. VAUGHAN: Yes. I do not think we have anything to complain of at the present time.

Mr. DONNELLY: Everybody is happy.

Mr. VAUGHAN: I believe the various departments are treating us fairly now in the division of the business.

Mr. HANSON (*Skeena*): Is there a similar order from all the departments?

Mr. VAUGHAN: Yes.

Mr. NICHOLSON: From the naval affairs department?

Mr. VAUGHAN: Mr. Macdonald of the navy and Major Power of the air force have issued similar orders.

Mr. NICHOLSON: How about public works?

Mr. HANSON (*Skeena*): What about munitions and supply?

Mr. VAUGHAN: The Department of Munitions and Supply are giving us a fair share of the business, of which they control the routing. But a large amount of the business placed by munitions and supply is purchased at a delivered price, and the shipper controls the routing. It is up to us to go to the shipper to see that we get our share of the business, and I believe we are getting it.

Mr. NICHOLSON: Mr. Chairman, as I recall it last year, navy personnel travelling from Halifax to Vancouver, for example, travelled C.N. from Halifax to Montreal and C.P. from Montreal to Vancouver.

Mr. VAUGHAN: Yes.

Mr. NICHOLSON: Are you getting the business right through now?

Mr. VAUGHAN: Those matters have been straightened out with the department, and we believe that we are getting now our share of the business from the three services.

Mr. McCULLOCH: Carried.

Mr. EMMERSON: It was a matter of the convenience of the passenger. The routing of the soldier being moved was done in that way as a matter of convenience.

Mr. VAUGHAN: The larger passenger movements, of course, are controlled by the Quartermaster-General at Ottawa. All of these special troop trains move under his direction. And we are getting almost every week some special trains. We have no reason to complain at the present time about the division of the business. And we are grateful to the members of the committee for the action they took last year.

The CHAIRMAN: Shall we proceed?

Mr. JACKMAN: Is this Canadian (West Indies) Steamships Limited?

Mr. VAUGHAN: We have a report submitted in connection with that.

The CHAIRMAN: I have four items here in connection with the railways from the estimates of the house. Shall we proceed to a consideration of them?

Mr. JACKMAN: You are going into this budget item in connection with the Canadian National (West Indies) Steamships, are you not, Mr. Chairman?

The CHAIRMAN: That is up to the committee.

Mr. VAUGHAN: We have it here. I do not think it will take very long to go through it.

Mr. JACKMAN: I am speaking for the vote for the Canadian National (West Indies) Steamships Lines, not the Canadian National Railways.

Mr. VAUGHAN: There is no vote for the Canadian National Steamships Lines, because they have a surplus.

The CHAIRMAN: We will now proceed to a consideration of the items in the estimates. They will be found at page 46.

Mr. HANSON (*Skeena*): These are the items that we have been passing continually year after year. I do not think there need be any discussion about them. They are practically statutory.

The CHAIRMAN: Yes, these are the statutory items.

Mr. HANSON (*Skeena*): I move their adoption.

The CHAIRMAN: On item 385: item 385 agreed to.

On Item 386: item 386 agreed to.

The CHAIRMAN: I now call on item 405, that also is statutory: item 405 agreed to.

Item 406: item 406 agreed to.

Mr. GRAY: What about item 384; is there any discussion on that at this stage?

The CHAIRMAN: That has not been referred to us and we do not have anything to do with it.

Next we have is the Annual Report of the Canadian National (West Indies) Steamships, Limited.

Mr. GRAY: Carried.

The CHAIRMAN: Not quite so fast.

Mr. VAUGHAN: We have not put in any narrative in connection with the Canadian National (West Indies) Steamships because of the basis on which our ships now operate. Our vessels trade on routes specified by the shipping board and their movements are under the direction of the navy. But we have given you the official figures in this report.

The CHAIRMAN: We will ask Mr. Vaughan to read his report.

THE HONOURABLE J. E. MICHAUD, K.C., M.P.,
Minister of Transport,
Ottawa.

Sir,

On behalf of the Directors, I beg to submit the Annual Report of Canadian National (West Indies) Steamships, Limited, for the calendar year 1942.

The comparative operating results are as follows:—

	1942	1941	Decrease	
Operating Revenues	\$5,600,496 25	\$6,756,463 57	\$1,155,967 32	17.11%
Operating Expenses	4,220,219 37	5,029,106 60	808,887 23	16.08%
Operating Profit	<u>\$1,380,276 88</u>	<u>\$1,727,356 97</u>	<u>\$ 347,080 09</u>	

Details of the operating revenues and operating expenses are given in the accounting statements accompanying this report.

The cash surplus for the year, *i.e.*, the amount by which operating revenues exceeded operating expenses and funded debt charges, was \$781,214.88, which will be paid to the Government as interest on advances (current and arrears). The corresponding figure in 1941 was \$1,205,656.97.

The operations of the Company were again affected in marked degree by wartime conditions. The Directors record their warm appreciation of the loyal and efficient services of the Company's officers and employees during these very difficult times.

For the Directors,

A. C. VAUGHAN,
President.

CONSOLIDATED BALANCE SHEET

AT 31st DECEMBER, 1942.

ASSETS		
INVESTMENTS:		
Vessels	\$5,805,632 17	
Plant and Equipment.....	8,273 78	
Office Furniture and Fixtures.....	18,062 45	
	<hr/>	\$ 5,831,968 40
CURRENT ASSETS		
Cash in Banks.....	\$592,071 09	
Special Deposits	7,150 00	
	<hr/>	\$ 599,221 09
Accounts Receivable	523,492 47	
Agents	327,607 57	
Inventories of Stores and Supplies....	17,583 63	
Advances to Captains, Crews and Agents.	35,323 67	
Amount due from Underwriters.....	698,342 75	
Amount due from Canadian National Railways Joint Insurance and Replacement Fund	605,349 33	
	<hr/>	\$ 2,806,920 51
INSURANCE AND REPLACEMENT FUND.....	5,738,646 31	
DISCOUNT ON CAPITAL STOCK.....	40,000 00	
	<hr/>	\$ 14,417,535 22
	<hr/>	<hr/>

LIABILITIES

CAPITAL STOCK:		
Authorized and issued 400 Shares of \$100.00 each....	\$	40,000 00
FUNDED DEBT:		
25 Year 5% Dominion of Canada Guaranteed Gold Bonds due in 1955.....		9,400,000 00
DOMINION OF CANADA ACCOUNT:		
Notes Payable Secured by Mortgages on Vessels	\$	933,071 83
Advances:		
Capital	\$	713,619 23
Working Capital.....		450,000 00
Deficits		5,059,960 94
	<hr/>	6,223,580 17
Interest Accrued Unpaid.....		577,257 11
	<hr/>	7,733,909 11
CURRENT LIABILITIES:		
Dominion of Canada.....	\$	781,214 88
Accounts Payable		900,989 36
Interest Matured Unpaid.....		7,150 00
Unmatured Interest Accrued.....		156,666 67
Passage Money Paid in Advance.....		30,143 76
Insured Loss Unpaid.....		385,290 57
	<hr/>	2,261,455 24
UNADJUSTED CREDITS		77,233 34
UNCOMPLETED VOYAGES—SUSPENSE.....		44,568 16
ACCRUED DEPRECIATION		2,231,914 54
INSURANCE AND REPLACEMENT RESERVE.....		2,408,740 37
PROFIT AND LOSS— <i>Deficit</i>		9,780,285 54
	<hr/>	2,261,455 24
	<hr/>	77,233 34
	<hr/>	44,568 16
	<hr/>	2,231,914 54
	<hr/>	2,408,740 37
	<hr/>	9,780,285 54
	<hr/>	\$ 14,417,535 22
	<hr/>	<hr/>

Contingent Liability.—No contingent reserve is accrued for pensions. Pension payments are charged currently to operating expenses.

T. H. COOPER,
Comptroller.

CERTIFICATE OF AUDITORS

We have examined the books and records of the Canadian National (West Indies) Steamships, Limited and Subsidiary Companies for the year ended the 31st December, 1942, and subject to our report to the Minister of Transport, we certify that, in our opinion, the above Consolidated Balance Sheet is properly drawn up so as to exhibit a true and correct view of the affairs of the Steamships as at the 31st December, 1942, and that the relative Income and Profit and Loss Accounts for the year ended the 31st December, 1942, are correctly stated.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

23rd March, 1943.

The CHAIRMAN: I am asked to inform the committee that there is strict censorship with respect to ship movements and matters relating thereto and any discussion relating to that particular matter will not appear in our records.

Now for page 6: page 6 carried.

CONSOLIDATED PROFIT AND LOSS ACCOUNT
AT 31st DECEMBER, 1942

Balance at 31st December, 1941—Deficit	\$10,090,783 04
Surplus at per Income Account, year 1942.....	273,879 93
	<hr/>
Adjustment of Bond Discount Amortized in prior years—Credit.....	\$ 9,816,903 11
	36,617 57
	<hr/>
Balance at 31st December, 1942—Deficit.....	\$ 9,780,285 54

CONSOLIDATED INCOME ACCOUNT

	1942	1941
Operating Revenue—		
Freight	\$4,561,640 65	\$5,358,734 12
Passenger	299,799 47	937,156 16
Baggage, Express and Miscellaneous.....	136,086 63	169,280 00
Subsidies	192,520 40	201,564 96
Charter	410,449 10	89,728 33
	<hr/>	<hr/>
Total	\$5,600,496 25	\$6,756,463 57
Operating Expenses—		
Closed Voyages	\$4,075,597 83	\$4,891,699 67
Management and Office Salaries.....	103,654 17	101,093 93
Rent and Taxes	18,860 78	9,466 80
Office Supplies and Expenses.....	22,248 22	26,460 99
Advertising	2,509 86	3,807 57
Interest and Exchange.....	2,651 49	3,422 36
	<hr/>	<hr/>
Total	\$4,220,219 37	\$5,029,106 60
Operating Ratio	75.35%	74.43%
Operating Profit	\$1,380,276 88	\$1,727,356 97
Interest on Bonds held by Public.....	470,000 00	470,000 00
Exchange on U.S. Funds.....	51,700 00	51,700 00
Amortization of Discount on Bonds.....	77,362 00	—
	<hr/>	<hr/>
	\$ 781,214 88	\$1,205,656 97
Other Charges—		
Interest due Government	\$ 346,701 38	\$ 346,701 38
Depreciation on Vessels	160,633 57	262,645 32
Amortization of Discount	—	3,094 44
	<hr/>	<hr/>
Surplus	\$ 273,879 93	\$ 593,215 83

Mr. COOPER: Mr. May tells me we paid \$10,000 to the province of Quebec in settlement of an old claim which they had against us.

Mr. JACKMAN: Then, the item of amortization of discount on bonds—it was \$77,000, as against nothing in previous years.

Mr. COOPER: We are taking advantage, Mr. Jackman, of the surplus for the year to draw down that amount of money. We had been treating amortization charges on debt discount as if it were a non-cash requirement. We realize in 1955 when the bonds come due the amount of discount should have been provided in the interval out of operating revenue; we have not been treating it as a cash charge up to this date.

Mr. JACKMAN: Is that the whole issue or one year?

Mr. COOPER: That is the complete discount.

Mr. JACKMAN: You made how much money, \$223,000. All right, carried.

The CHAIRMAN: Shall the report carry?

Carried.

The CHAIRMAN: Now, we have the Canadian National Railways Securities Trust. Mr. MacLennan will read this.

Mr. F. M. MACLENNAN: This is a report to the Minister of Transport.

THE CANADIAN NATIONAL RAILWAYS
SECURITIES TRUST

Ottawa, March 22nd, 1943

The Honourable J. E. Michaud, K.C., M.P.,
Minister of Transport,
OTTAWA.

SIR,—In conformity with Section 23 of the Canadian National Railways Capital Revision Act, 1937, the Trustees submit the following report of the transactions of The Canadian National Railways Securities Trust for the calendar year 1942.

The book value of the capital stock of the Securities Trust has been increased during the year by \$31,559,862.85, this being the amount by which the surplus earnings and the capital gain of the Canadian National Railway System for the year 1942 exceeded the capital losses during the year.

The cash surplus of the Railway System together with the capital gain on the repatriation of securities, and capital losses in respect of which His Majesty has not made cash reimbursement to the Railway, are shown hereunder:—

SURPLUS EARNINGS of the Canadian National Railway System for the year 1942		\$25,063,268 32
CAPITAL GAIN on repatriation of securities.....		11,072,592 96
LINE ABANDONMENTS:		
Sunny Brae-Guysborough Branch.....53.84 miles	\$2,690,285 08	
Bay City Terminal Facilities (adjustment of 1941).....	103,063 48	
West Duluth Lumber Dock.....	125,583 53	
Acadia Valley Branch.....18.30 "	181,443 30	
Vancouver Island Line.....40.20 "	1,681,750 00	4,575,998 43
Net gain credited to Proprietor's Equity.....		<u>\$31,559,862 85</u>

With regard to the item of capital gain amounting to \$11,072,592.96, the arrangements made between the Governments of Canada and the United Kingdom, under which Canada has given financial assistance to the Government of the United Kingdom to enable it to purchase war supplies in Canada provided, among other things, for the repatriation of Dominion direct and guaranteed securities and Canadian National Railway securities.

On 26th January, 1942, the Treasury of the United Kingdom issued a vesting order naming as the price to be paid for the securities the market price at the close of business on that date. Under Order in Council P.C. 2484 dated 28th March, 1942, the Railway Company was authorized to re-purchase from the Dominion, at the vesting price, the railway securities purchased by the Dominion from the Treasury of the United Kingdom. Under Order in Council P.C. 8858, dated 3rd September, 1942, the Railway Company also has purchased from the Dominion other Canadian National Railway securities which had been acquired by the Treasury of the United Kingdom prior to the vesting order of 26th January, referred to. Under Order in Council P.C. 2886 dated 11th April, 1942, and P.C. 7197 dated 14th August, 1942, provision was made whereby holders not subject to the vesting order of Canadian National Railway securities listed in the vesting order might surrender their holdings for redemption at the vesting price. Under Order in Council P.C. 2484 dated 28th March, and P.C. 9773 dated 27th October, 1942, all of the 4% Guaranteed Stock issued by the former Grand Trunk Railway Company of Canada outstanding and not vested in the Treasury of the United Kingdom was called for redemption at par on 1st November, 1942. Additional 4% Perpetual Debenture Stock issued by the said Grand Trunk Railway Company was redeemed under the arrangements referred to in the 1940 Annual Report.

Loans for the purchase of these securities have been made to the Railway by the Government, bearing interest at $3\frac{1}{2}\%$ per annum, repayable on demand and secured by promissory notes and by the securities so purchased.

In all, these transactions have dealt with railway securities having a par value of \$289,320,520.18. The cost of redemption was \$278,045,685.22, resulting in a reduction in the capital debt of the railway of \$11,274,834.96. This amount less \$202,242.00 discount not amortized prior to the date of redemption, has been accounted for as a capital gain through the Proprietor's Equity account. As a matter of interest, it might be stated that these transactions have resulted also in an annual income saving to the Railway Company of \$1,049,000.00.

There were no transactions during the year affecting the collateral securities held by the Securities Trust.

The Trustees present herewith the Balance Sheet of the Securities Trust as at 31st December, 1942.

For the Trustees,

W. C. CLARK,
Chairman.

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

BALANCE SHEET AT 31ST DECEMBER, 1942.

ASSETS	LIABILITIES
<i>Claims for Principal of Loans—</i>	<i>Capital Stock owned by His Majesty—</i>
Canadian Northern Railway.....\$ 312,334,805 10	5,000,000 shares of no par value capital
Grand Trunk Railway.....118,582,182 33	stock:—Initial stated value.....\$270,037,437 88
Grand Trunk Pacific Railway.....116,006,599 08	Cash Surplus of Canadian National
Canadian National Railway Company....96,936,971 75	Railway System:—
\$ 643,860,558 26	Year 1941.....\$ 4,016,326 74
	“ 1942.....25,063,268 32
	29,079,595 06
<i>Claims for Interest on Loans—</i>	\$299,117,032 94
Canadian Northern Railway.....\$ 309,702,897 65	Capital loss (net) of Canadian National
Grand Trunk Railway.....103,250,802 95	Railway System subsequent to
Grand Trunk Pacific Railway.....107,326,622 84	1st January, 1937, not reimbursed
Canadian National Railway Company.....54,501,313 57	by His Majesty:—
574,781,637 01	1937-1941.....\$ 6,770,745 30
	Year 1942 (<i>gain</i>).....6,496,594,53
	274,150 77
	\$ 298,842,882 17
<i>Collateral Securities—</i>	Amount by which the book value of claims
As per Schedule A.1.....	and interest thereon—per contra—exceeds
\$ 1,218,642,195 27	the book value of the capital stock as
	shown above.....919,799,313 10
	\$ 1,218,642,195 27

T. H. COOPER,
Comptroller.

CERTIFICATE OF AUDITORS

We have examined the books and records of The Canadian National Railways Securities Trust for the year ended the 31st December, 1942. There have been produced for our inspection the Notes and Other Evidences of Indebtedness, the Collateral Securities and the Certificate of the Special Depository, as set out in Schedule A.1 attached hereto.

We certify that, in our opinion, the above Balance Sheet is properly drawn up so as to exhibit a true and correct view of the accounts of the Trust as at the 31st December, 1942, in accordance with the provisions of The Canadian National Railways Capital Revision Act, 1937.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

16th MARCH, 1943.

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST
SUMMARY OF INDEBTEDNESS TRANSFERRED FROM THE GOVERNMENT TO THE SECURITIES TRUST

SCHEDULE A.1

Loans Outstanding

**Notes and Collateral Held*

CANADIAN NORTHERN RAILWAY:	
3½% Loan, Chapter 6, 1911.....	\$ 2,396,099 68
4% Loan, Chapter 20, 1914.....	5,294,000 02
5% Loan, Chapter 4, 1915.....	10,000,000 00
6% Loan, Chapter 29, 1916.....	15,000,000 00
Temporary Loan, 1918, repaid.....	
†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
Indebtedness refunded by Government under Chapter 24, 1917 and Chapter 11, 1918.....	
†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
Temporary Loans, repaid through subsequent issues of guaranteed securities and loans.....	
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 Dominion.....	8,704,662 65
Interest Guaranteed by Provinces of Alberta and Saskat- chewan.....	2,898,536 98
Agreement with Government under Chapter 71, 1903.....	
Total Grand Trunk Pacific.....	\$ 116,006,599 08

None. Charge is on premises mortgaged October 4, 1911....	
None.	
None.	
Mortgages dated June 23, 1916.	
6% Demand Notes.....	\$ 497,566 80
6% Demand Notes.....	33,012,414 32
6% Demand Notes.....	27,203,003 65
6% Demand Notes.....	40,031,122 27
6% Demand Notes.....	53,008,779 65
6% Demand Notes.....	50,259,312 47
6% Demand Notes.....	46,691,634 60
6% Demand Note.....	5,700,000 00
4% Debenture Stock.....	1,975,866 00
3½% and 4½% Debenture Stocks.....	7,139,399 00
6% Demand Notes.....	56,858,496 44
Miscellaneous Bonds and Debentures.....	24,573,539 90
Miscellaneous Bonds and Debentures.....	668,000 00
Miscellaneous Bonds and Debentures.....	20,721,191 12
Mortgage dated November 16, 1917.....	
6% Demand Notes.....	\$ 25,479,226 97
†6% Demand Notes.....	56,646,816 12
4% G.T. Pacific Mortgage Bonds.....	10,000,000 00
6% Demand Note.....	23,288,747 15
4% Demand Note.....	15,000,000 00
4% G.T.P. Debentures.....	15,000,000 00
4% Debenture Stock.....	60,801,700 00
6% 2nd Mortgage Equipment Bonds.....	1,693,113 33
3% 1st Mortgage Bonds.....	\$ 33,048,000 00
4% Sterling Bonds.....	7,499,952 00
Mortgage, June 28, 1916.....	
Mortgage, 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
Grand Trunk Pacific Development Company Capital Stock <i>forward</i>	2,999,000 00

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

SUMMARY OF INDEBTEDNESS TRANSFERRED FROM THE GOVERNMENT TO THE SECURITIES TRUST

<i>Loans Outstanding</i>		<i>*Notes and Collateral Held</i>	
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.....	1,925,706 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.....	1,925,706 96
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.....	1,925,706 96
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.....	1,925,706 96
5% Loan, Vote 336, 1929.....	2,932,652 91	5% Canadian National Railway Company Demand Note....	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
Temporary Loan 1930, repaid.....		166,877-6376 shares of Capital Stock of Grand Trunk Western Railroad.....	4,171,940 94
Temporary Loan 1930, repaid.....		5% 1st and Central Mortgage Temporary Gold Bonds of Central Vermont Railway, Inc.....	8,609,000 00
<i>Less: adjustment authorized by the Capital Revision Act, 1937.....</i>	<i>1,666,897 57</i>		
Total Canadian National Railway Company.....	\$ 96,936,971 75		
Total Loans.....	\$ 643,860,558 26		

*The Notes and Other Evidences of Indebtedness and the Collateral Securities are all held for safekeeping in the Vaults of the Department of Finance, Ottawa, excepting Grand Trunk Pacific Railway 3% 1st Mortgage Bonds in the amount of £5,307,000 (\$25,792,020) which are held for safekeeping by the Bank of Montreal, London, England, as evidenced by the certificate of that depository.

Mr. JACKMAN: I should like to ask a question in connection with line abandonments. There was a loss there of \$4,575,000. That inevitably happens if you abandon a certain line unless you are selling for salvage at a greater price than the line was on your books. Unless that happens you must have a capital loss?

Mr. COOPER: That is right.

Mr. VAUGHAN: Salvage is comparatively small in comparison with the cost of the line.

Mr. McCULLOCH: What lines were abandoned?

Mr. COOPER: They are set out there.

Mr. McCULLOCH: Whereabouts are the lines abandoned?

Mr. JACKMAN: You will find it on page 4.

Mr. McCULLOCH: Does that mean the Sunny Brae railway from Sunny Brae to Country Harbour is going to be abandoned?

Mr. VAUGHAN: There is, as you know, a certain mileage of Sunny Brae line which is in operation. Beyond that there is a portion of it on which some money has been spent, but it has never been finished. The idea is to abandon the part not finished and not to touch the part in operation.

Mr. McCULLOCH: That is from Sunny Brae to Country Harbour.

Mr. VAUGHAN: Yes.

Mr. McCULLOCH: Has there been any thought given to that line from Sunny Brae to Country Harbour?

Mr. VAUGHAN: That matter has been before us on different occasions, but we have done nothing about it. I think we have had it up with departments of government, but it was considered that there would not be much object in developing the port of Country Harbour at the present time.

Mr. McCULLOCH: This line from Sunny Brae and Country Harbour has a roadbed that is all ready, the bridges are all in. Stellarton is on this line from Sunny Brae to Country Harbour. The roadbed is all ready within about seven or eight miles of Country Harbour, and if anything happened to Halifax that is the only harbour that you could ship from. The harbour is free from ice all the year round and is one of the best harbours in the world.

Mr. VAUGHAN: We will still own the right-of-way and have everything that is there.

Mr. HANSON (*Skeena*): With regard to abandonments there is the Vancouver island line. What about that?

Mr. VAUGHAN: There was a line graded beyond Cowichan lake.

(Carried.)

It was moved by Mr. Emmerson, seconded by Mr. McCulloch that the report be adopted.

The CHAIRMAN: We now have the Canadian National Railways system audit report, and I will call Mr. Matthews to read it.

Mr. O. A. MATTHEWS (George-A. Touche & Co.):

THE HONOURABLE THE MINISTER OF TRANSPORT,
Ottawa, Canada.

Sir:—

In conformity with the Canadian National-Canadian Pacific Act, 1936, and Chapter 12, 1942, "An Act respecting the appointment of Auditors for National Railways," we have audited the accounts of the Canadian National Railway System for the year ended the 31st December, 1942, and now submit, through you, our report to Parliament.

The general scope of the test audit which we have made for the year 1942 may be outlined briefly as follows:—

- (a) Examination of major expenditure authorities which were based principally upon recorded Resolutions of the Directors. These major expenditure authorities in turn have been established mainly by Corporate By-Laws of the Canadian National Railway Company, Acts of Parliament and Orders in Council;
- (b) Audit tests in the offices of Regions, Separately Operated Properties and System Headquarters, covering a cross-section of the major expenditures so authorized;
- (c) Examination into the adequacy of the internal audit control in general as exercised by the accounting staff of the System. In this connection we work in collaboration with the executive accounting and treasury 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, Accounts Receivable etc., and
- (d) Audit and certification of the Consolidated Balance Sheet, Income and Profit and Loss Accounts for presentation to Parliament, which body is thus placed in possession of facts upon which conclusions can be reached as to the stewardship of the duly appointed administrators of the System.

The audit covered the various Balance Sheet accounting units in Canada, the United States and Great Britain with Income and Profit and Loss Accounts originating in the Revenue Offices, Regions, Separately Operated Properties and System Headquarters applicable to some 95 companies comprising the National System as an operating entity.

We attach hereto the following financial statements of the National System:—

- Exhibit I —Consolidated Balance Sheet at the 31st December, 1942—
together with Audit Certificate
- Exhibit II —Dominion of Canada—Proprietor's Equity at the 31st
December, 1942
- Exhibit III —Consolidated Profit and Loss Account—Year 1942
- Exhibit IV —Consolidated Income Account—Year 1942
- Exhibit V —Investments in Affiliated Companies at the 31st December,
1942
- Exhibit VI —Major Contingent Liabilities, including Pension Plans, at
the 31st December, 1942.

Consolidated Balance Sheet

Investments in Properties and Equipment appearing in the books of the companies as at the 1st January, 1923, were accepted by us. As against the corporate property investments brought into the National System accounts in 1923, there have been applied the reductions as authorized by The Canadian National Railways Capital Revision Act, 1937. Since the 1st January, 1923, the property additions and betterments less retirements have been shown at cost.

Investments in Affiliated Companies, as set out in Exhibit V, are represented in the main, apart from the Trans-Canada Air Lines, by a 50 per cent or less capital stock ownership. The basis of the Balance Sheet figure is cost, or in certain instances special valuations approved by the Interstate Commerce Commission. There are two principal factors for consideration in this type of investment by the railroad industry generally, viz:—

- (1) The extent of traffic benefits derived by parent companies as a direct result of their investments, and

- (2) The fact that the affiliates have utilized the proceeds from the sale of their securities largely for investment in transportation properties and equipment. It is obvious therefore, that the future valuation trend affecting Investments in Affiliated Companies will be dependent, basically, upon the future economic value of the properties and equipment of the railroad industry generally.

Material and Supplies are shown on the basis of ledger balances. Owing to war-time demands upon the Stores personnel the customary physical inventory was not taken in 1942.

The Dominion of Canada, in connection with loans made for the repatriation of securities from the United Kingdom and certain other redemption undertakings, holds as collateral the securities so redeemed from the Public.

The Insurance Reserve, mainly covering fire risks, is invested principally in the securities of Dominion, Provincial and Municipal Governments, and in the securities of Companies within the National System.

In respect of Accrued Depreciation it should be noted that from the 1st January, 1940, Depreciation Accounting has been applied to rolling stock owned by all Lines of the System and Retirement Accounting to fixed properties. Prior to that date Depreciation Accounting was applied to rolling stock owned by United States Lines and Retirement Accounting, on the basis of original cost, to other units of property on the System.

The accounts of the System are stated in Canadian currency—Sterling and United States currencies being converted at the par of exchange.

A summary of Dominion of Canada—Proprietor's Equity at the 31st December, 1942, is set forth on the Balance Sheet and the transactions during the year 1942 affecting Proprietor's Equity are detailed in Exhibit II.

Major Contingent Liabilities, including Pension Plans, are dealt with in Exhibit VI. With reference to Pension Plans, we would point out that reserves are not set up in the Balance Sheet against the Railway's portion of the pensions presently being paid or conditionally accruing under the 1935 Contractual Plan and prior Non-Contractual Plans. Actual pension payments made at the expense of the Railway are charged currently to Operating Expenses. In respect of the Pension Contracts already issued and in force under the 1935 Contractual Plan the Railway has made a tentative estimate, which has been accepted by us, showing a capital amount approximating \$20,000,000. The portion of this sum contributed by retired employees is carried in the accounts as a deferred liability against which funds have been separately invested. The contributions under the 1935 Contractual Plan by employees presently in service are invested through the Pension Fund, the accounts of which are not included with those of the Railway.

Consolidated Profit and Loss Account

The Cash Surplus for the year 1942, as shown in Exhibits III and IV, is after making provision for the following:—

- (a) Deferred Repairs and Renewals—covering Fixed Properties and Equipment;
- (b) Excess over pre-war cost of Material and Supplies inventories—based on normal quantities;
- (c) Depreciation of Rolling Stock—including special provision for abnormal war-time use;
- (d) Fixed Property Retirements—apart from capital losses charged to Proprietor's Equity;
- (e) Amortization of Defence Projects;
- (f) Amortization of Discount on Funded Debt;
- (g) Interest on Funded Debt held by the Public, and
- (h) Interest on Loans from the Government.

Apart from the investment in Dominion of Canada securities of a portion of the cash made available through the provision for Deferred Repairs and Renewals, the surplus funds made available in the aggregate through the aforementioned provisions (a) to (f) are being applied in reduction of the cash requirements from the Government for the year 1942 in respect of Capital Expenditures and Current Working Capital.

In the matter of current maintenance policy we have received certificates from the responsible officers to the effect that, subject to the conditions which necessitated the provision for Deferred Repairs and Renewals, the Properties and Equipment of the National System have been maintained in a proper state of repair and in an efficient operating condition during the year 1942.

It should be noted that under a recent order of the Interstate Commerce Commission effective 1st January, 1943, Depreciation Accounting is prescribed for United States Railways covering depreciable fixed properties including buildings, stations, shops, bridges, etc., but excluding the track structure, *i.e.* rails, fastenings, ties and ballast which will continue on the Retirement basis. In so far as the Canadian Lines of the National System are concerned it would not appear practicable to take similar action in respect of Depreciation Accounting for fixed properties until after the termination of hostilities, because of the substantial cost involved and the need of all the technical personnel of the railway to meet the transportation requirements arising out of the present national emergency. In any event, we recommend that the post-war adoption by the National System of Depreciation Accounting for fixed properties in Canada be made contingent upon the establishment of uniform accounting regulations, of a mandatory character, applicable to Canadian railways.

Canadian National Railways Securities Trust

The Canadian National Railways Securities Trust, under authority of Section 22 of the Capital Revision Act, has been treated as a constituent unit of the National System. There is, however, a provision in Section 23 of the Act requiring presentation to Parliament of a Trustees' Report and a separate Balance Sheet for the Securities Trust. The Trustees' Report sets forth in a summary manner the transactions of the Securities Trust during the year, 1942. Our audit certificate is appended to the separate Balance Sheet.

A copy of our Memorandum to the Board of Directors dealing with internal matters will be despatched to the Minister of Transport in due course (that has since been despatched).

We report to Parliament that the National System accounts have been maintained, during the year, 1942, in an efficient manner and generally in accordance with the Accounting Classifications in use by the Class I Railroads of the United States.

TRANS-CANADA AIR LINES

The Trans-Canada Air Lines have not been included as a constituent unit of the National System although 100 per cent stock ownership of the Air Lines is vested in the Canadian National Railway Company. A separate Balance Sheet and Income Account have been certified by us at the 31st December, 1942.

The Insurance Reserve, covering the aircraft against flying risks together with employers' liability, is not specifically invested, the relative funds being included in the general working capital of the Air Lines.

The Surplus for the year 1942, as shown by the Income Account of the Air Lines, is after making provision for:—

- (a) Estimated amount of retroactive contributions to be made by the company under the 1943 pension plan;

- (b) Interest at 5 per cent on the capital investment in accordance with the Trans-Canada Contract, and
- (c) Depreciation on capital assets at rates similar to those used by other major air line companies in North America, in accordance with the Trans-Canada Contract.

In the matter of current maintenance policy we have received certificates from the responsible officers to the effect that the properties and equipment have been maintained in a proper state of repair and in an efficient operating condition during the year 1942.

The test audit which we have made for the year 1942 is similar in scope to that of the National System and may be outlined briefly as follows:—

- (a) Examination of major expenditure authorities, embracing mainly the recorded resolutions of the directors, corporate by-laws, Acts of Parliament and orders in council;
- (b) Audit tests covering a cross-section of the major expenditures so authorized;
- (c) Examination into the adequacy of the internal audit control in general as exercised by the accounting staff of the company covering cash receipts and expenditures, material stores, accounts receivable, etc., and
- (d) Audit and certification of the balance sheet and income account for presentation to Parliament.

We report that the accounts of the Air Lines have been efficiently maintained during the year 1942.

CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS, LIMITED

The accounts of the Canadian National (West Indies) Steamships, Limited, and subsidiary companies are not consolidated with those of the National System, the 100 per cent stock ownership of the parent steamship company being vested in the Dominion. Our report on the separate consolidated balance sheet and consolidated income and profit and loss accounts at the 31st December, 1942, will be despatched to the Minister of Transport in due course.

Yours faithfully,

GEORGE A. TOUCHE & CO.

The CHAIRMAN: Page 5, consolidated balance sheet.

Mr. MATTHEWS: That is a duplicate of what has been already considered.

Mr. JACKMAN: May I ask the witness something with reference to Trans-Canada Air Lines? The report reads:—

The insurance reserve, covering the aircraft against flying risks together with employers' liability, is not specifically invested, the relative funds being included in the general working capital of the air lines.

Is there any inference to be drawn from that paragraph?

Mr. MATTHEWS: No, it is simply a statement of fact. In the case of the Canadian National Railways, of course, the money is specifically invested. There is no inference.

Mr. JACKMAN: If it was a private air transportation company would you suggest that it would be the part of wisdom to set up a fund specifically?

Mr. MATTHEWS: I think that is a matter of policy to be determined by the board.

Mr. JACKMAN: You would have no objection to a private company carrying on as T.C.A. handles this fund?

Mr. MATTHEWS: I think in the case of the T.C.A. we have to regard it in the light of its ownership by the Canadian National Railways Company and in turn by the Dominion.

Mr. GRAY: Do you not think we should include it in the Canadian National system?

Mr. MATTHEWS: You mean the insurance?

Mr. GRAY: No, the whole setup.

Mr. MATTHEWS: Include it in the Canadian National Railways?

Mr. GRAY: Yes.

Mr. MATTHEWS: I think that you have to consider the separate act of parliament covering the Trans-Canada Air Lines.

Mr. GRAY: What is your opinion?

Mr. MATTHEWS: I cannot see any objection to the complete separation of the Trans-Canada Air Lines. I think again that is a matter of government policy.

Mr. GRAY: Would you establish a new setup of Trans-Canada?

Mr. MATTHEWS: I do not understand.

Mr. GRAY: Would you establish a new setup of Trans-Canada Air Lines?

Mr. MATTHEWS: You mean if you brought it into the system?

Mr. GRAY: Yes.

Mr. MATTHEWS: It would be just consolidated with the figures of the Canadian National Railways and its operations would be lost. Their identity would be completely lost as are any of the other companies within the system. I think that there would be some objection to that.

Mr. JACKMAN: Mr. Chairman, I would like to refer to this paragraph:—

A copy of our memorandum to the board of directors dealing with internal matters will be despatched to the Minister of Transport in due course.

Is that memorandum available to the members of this committee?

Mr. EDWARDS: That will be a matter for the Minister to deal with. It has never been brought here as far as I recall.

Mr. MATTHEWS: I do not think it has ever been presented to the committee at large. I believe on one or two occasions when a request has been made for it the Minister has given it to an individual member, but I may say there is nothing of importance to parliament in that report so far as we are concerned.

Mr. HANSON (*Skeena*): I know it was called for before. I have seen it on two occasions and there is nothing in it.

Mr. MATTHEWS: In previous years there were one or two items which in our judgment it would not have been in the best interests of the Canadian National Railways to disclose, but those conditions, having to do with certain securities, have disappeared.

Mr. JACKMAN: Mr. Chairman, is an inspection of that memorandum within the terms of our reference or is it within the discretion of the Minister only as to whether we see the memorandum to the board of directors dealing with internal matters which is sent to the Minister? The management of the company must be responsible to somebody other than themselves, and it is to this committee and we in turn report to parliament. There is a separate report which may or may not contain anything of interest but it goes to the Minister and the Minister only at the moment. What I am asking is do the terms of our reference entitle us to have that confidential memorandum?

The CHAIRMAN: The fact it has been produced before would seem to indicate we can have it if it is asked for.

Mr. ROSS: Was a physical inventory taken in 1941?

Mr. MATTHEWS: Yes; 1942 was the first year since the incorporation of the system that a physical inventory was not taken that I recall, but it was purely a question of the man-power problem. I may say this, that we do not regard that as serious because in previous years the difference between the

physical inventories and the book figures were not found to have amounted to any serious proportion, but nevertheless we do have to call it to your attention that this is not represented by a physical inventory.

Mr. ROSS: It will be the practice?

Mr. MATTHEWS: It has been the practice on the railways to take physical inventories.

Mr. ROSS: It will be continued, I suppose.

Mr. MATTHEWS: Your auditors would have to tell you from year to year if that condition were not continued.

Mr. ROSS: Is that left in the hands of the auditors or the railways?

Mr. MATTHEWS: Which?

Mr. ROSS: The physical inventory.

Mr. MATTHEWS: That is in the hands of the management, of course.

Mr. ROSS: As to whether it should be taken or not.

Mr. MATTHEWS: And your auditors can do no more than tell you the facts.

Mr. VAUGHAN: I think it is fair to say that the auditors have examined our accounts, as far as that goes, in respect to our stocks on hand.

Mr. MATTHEWS: Oh, yes. We say that this is based on the ledger or book balances; but in other years the physical inventories have been taken.

Mr. ROSS: I think it is always a splendid idea to have a physical inventory. It is a good thing for the personnel of the railway.

Mr. MATTHEWS: We are simply reporting to you the facts.

Mr. JACKMAN: In connection with the Canadian National (West Indies) Steamships Limited, there is an item, "Subsidies to be received from the West Indies colonies in conformity with trade agreement entered into with the government of the Dominion of Canada." I am not familiar with the terms of that agreement. But in 1942 you budgeted for \$150,000 and got \$192,520. This year you budget for \$100,000. What is the general basis of payment, Mr. Vaughan?

Mr. VAUGHAN: There are certain islands which, under the Canada-West Indies trade agreement—such as Jamaica, Trinidad, Barbadoes, British Guinea, Bermuda, etc.—have contributed small subsidies in consideration of having these vessels make calls at their islands. During 1942 we were unable to make those calls, and in 1943 we will probably make still fewer calls. Some of those islands which were contributing those subsidies felt they should withdraw them, and others felt that they should reduce them because we were not making the calls as indicated in the Canada-West Indies agreement.

Mr. JACKMAN: That was why I asked the question. If you are not able to make the calls as frequently as formerly, are the West Indies bound by a hide-bound agreement, or is it one which the Canadian National (West Indies) Steamships Limited can alter itself? Are you treating the little islands fairly? That is what I am getting at.

Mr. VAUGHAN: We treat them as fairly as we can. The agreement, of course, was between the Canadian Government and the West Indies islands.

Mr. JACKMAN: Is it a hide-bound agreement which requires the Department of External Affairs to amend it?

Mr. HANSON (*Skeena*): Hitler looked after that last year.

Mr. VAUGHAN: Yes. It was passed by parliament.

Mr. JACKMAN: Is it bearing hard on the West Indies islands?

Mr. VAUGHAN: I have no doubt the West Indies islands are suffering to some extent by not having the frequency of services which they previously had.

Mr. JACKMAN: What I am getting at is this. If the West Indies islands are not getting the service which we hoped to give them, and which was perhaps the basis of the contract, without stating exactly how many calls would be made, are they paying for something they are not now getting?

Mr. VAUGHAN: I think not. I feel that those islands getting that service are very fortunate to get as many calls made as they are getting now.

Mr. JACKMAN: Are some islands paying and not getting value?

Mr. VAUGHAN: No. I do not think there is any island paying us to-day that is not getting some service.

Mr. JACKMAN: Would you say there is any island paying that is not getting good value to-day?

Mr. VAUGHAN: I think the islands are all getting good value, extraordinary value for what they are paying.

Mr. McCULLOCH: They are lucky to get a boat at all.

The CHAIRMAN: Shall we carry this report?

Mr. HANSON (*Skeena*): Carried.

The CHAIRMAN: There is the balance sheet. Is that carried?

Some HON. MEMBERS: Carried.

The CHAIRMAN: Then pages 7 and 8.

Mr. McCULLOCH: Carried.

The CHAIRMAN: Pages 9 and 10.

Mr. McCULLOCH: Carried.

The CHAIRMAN: Page 11.

Some HON. MEMBERS: Carried.

The CHAIRMAN: Would some one move the adoption of the report?

Mr. HANSON (*Skeena*): I move the adoption of the report.

Mr. NICHOLSON: I will second it.

The CHAIRMAN: Then we are finished. I think on behalf of the committee I can express our very great appreciation of the patience and kindness of the officers of the Canadian National railway system in connection with this investigation.

Mr. VAUGHAN: I should like to say, on behalf of the Canadian National railways and our officials, that we appreciate very much your forbearance and consideration.

Mr. SHAW: Mr. Chairman, may I ask Mr. Vaughan if he will see to it that the two matters I advanced will be taken up, and that I will get some word with respect to them later.

Mr. VAUGHAN: Yes.

Mr. GRAY: The answer is "no."

Mr. SHAW: He has already said "yes."

The CHAIRMAN: There is still a matter to be settled. I do not suppose we need to call another meeting. We have to submit a report to the House of Commons in connection with this matter. What is your wish in connection with it?

Mr. ROSS: You draft the report, Mr. Chairman.

The CHAIRMAN: Well, that is up to you. I think I want a little bit of help.

Mr. GRAY: I would move that the chairman, Mr. McCulloch, Mr. Shaw and Mr. Jackman be a committee to draw up the report.

Mr. ROSS: I second that.

The CHAIRMAN: You have heard the motion. What is your pleasure?

Motion agreed to.

The CHAIRMAN: Then a motion to adjourn is in order.

Mr. HANSON (*Skeena*): I move that we adjourn.

The committee adjourned at 5.40 p.m.

SESSION 1943
HOUSE OF COMMONS

STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS
INCLUDING THIRD AND FINAL REPORT

No. 5

TUESDAY, APRIL 13, 1943
THURSDAY, JULY 22, 1943

OTTAWA
EDMOND CLOUTIER
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1943

REPORT TO THE HOUSE

THIRD AND FINAL REPORT

FRIDAY, July 23, 1943.

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

THIRD AND FINAL REPORT

Your Committee notes with satisfaction the continued and substantial progress of the Trans-Canada Air Lines and the Canadian National Railways. From study of the reports these enterprises appear to be in a strong, healthy and satisfactory position.

Your Committee noted with approval that in arriving at the surplus earnings for the year, the Railway, by charges to operating expenses, established reserves as under:—

Reserve for deferred repairs and renewals....	\$12,850,000
Inventory reserve	3,839,000
Reserve for amortization of war projects.....	1,000,000

Most of these monies will be available for post-war reconstruction.

Your Committee is pleased to learn of the retirement of a large share of the Perpetual Debenture Stock of the Grand Trunk Pacific Railway and would recommend that efforts be made along the line of further reductions in these perpetual issues of bonded indebtedness.

Your Committee also considered and approved the depreciation accounting policy of the Railway as indicated in the report as well as the further explanations given by the officers of the Railway before the Committee.

A copy of the evidence taken is tabled herewith.

All of which is respectfully submitted.

J. P. HOWDEN,
Chairman.

MINUTES OF PROCEEDINGS

TUESDAY, April 13, 1943.

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

Members present: Messrs. Donnelly, Dubuc, Emmerson, Ferland, Hanson (*York-Sunbury*), Jackman, Lockhart, McCulloch, Michaud, Sanderson, Sissons.

The Clerk informed the Committee that the Chairman, Mr. Howden, had notified him of his inability to attend.

On motion of Hon. Mr. Michaud,

Resolved,—That Mr. Donnelly take the Chair.

The acting Chairman submitted for consideration a draft of the Committee's Third Report to the House.

After a brief discussion, Mr. Hanson (*York-Sunbury*) moved that further consideration of the proposed report be deferred to a later date and that the Committee adjourn to the call of the Chair.

Motion carried.

R. ARSENAULT,
Clerk of the Committee.

THURSDAY, July 22, 1943.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government, met at 11.30 o'clock a.m., the Chairman, Mr. Howden, presiding.

Members present: Messrs. Donnelly, Hanson (*Skeena*), Howden, Jackman, McCulloch, Michaud, Nicholson, Ross (*Middlesex East*), Sanderson, Sissons.

The Committee gave further consideration to a draft of its Third and Final Report as submitted to the Committee on April 13, 1943.

The said draft report having been amended, Mr. Donnelly moved that it be adopted as amended and that the Chairman present same to the House.

Motion carried.

The Committee adjourned *sine die*.

R. ARSENAULT,
Clerk of the Committee.



