

Par. 10-A.
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Canada. Parliament. House of
Commons. Standing Comm.on
Railways and Shipping Owned,
Operated and Controlled by the
Government, 1937.
Minutes of proceedings and
evidence.

DATE

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RAILWAYS AND CANALS

THEIR HISTORY AND DEVELOPMENT

BY THE REV. J. H. COOPER

IN TWO VOLUMES

VOLUME I

THE HISTORY OF THE RAILWAYS

AND CANALS

SESSION 1937

HOUSE OF COMMONS

STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

TUESDAY, FEBRUARY 16, 1937

THURSDAY, FEBRUARY 18, 1937

OTTAWA
J. O. PATENAUDE, I.S.O.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1937

MEMBERS OF THE COMMITTEE

SIR EUGÈNE FISET, *Chairman*

and

MESSIEURS

Barber,
Beaubien,
Beaubier,
Bothwell,
Deachman,
Elliott (*Kindersley*),
Ferland,
Fraser,
Hanson,
Heaps,
Howden,

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

R. ARSENAULT,
Clerk of the Committee.

ORDERS OF REFERENCE

HOUSE OF COMMONS,

FRIDAY, January 29, 1937.

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

Attest.

(Signed) ARTHUR BEAUCHESNE,
Clerk of the House.

THURSDAY, January 21, 1937.

Ordered,—That the Standing Committee on Railways and Shipping 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.

FRIDAY, February 5, 1937.

Ordered,—That the following Bill be referred to the said Committee:—
Bill No. 12, An Act to provide for revision of the accounting set-up of the Canadian National Railway System.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

TUESDAY, February 16, 1937.

Ordered,—That the said Committee be empowered to print, from day to day, 600 copies in English and 200 copies in French of its minutes of proceedings and evidence, and that Standing Order 64 be suspended in relation thereto.

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

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

WEDNESDAY, February 17, 1937.

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

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

REPORT TO THE HOUSE

FIRST REPORT

TUESDAY, February 16, 1937.

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

FIRST REPORT

Your Committee recommends:—

1. That it be empowered to print, from day to day, 600 copies in English and 200 copies in French of its minutes of proceedings and evidence, and that Standing Order 64 be suspended in relation thereto.

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

All of which is respectfully submitted,

EUGENE Fiset

Chairman.

MINUTES OF PROCEEDINGS

TUESDAY, February 16, 1937.

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

Members present: Messrs. Deachman, Elliott (*Kindersley*), Ferland, Fiset, Hanson, Heaps, Kinley, McKinnon (*Kenora-Rainey River*), McLarty, Parent (*Quebec West and South*), Ryan, Stewart, Vien, Walsh and Young.

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

Sir Eugene Fiset took the Chair and expressed his appreciation of the honour conferred upon him. He suggested that the agenda of this day's sitting be limited to organization, subsequent meetings to be devoted to the consideration of Bill No. 12, An Act to provide for revision of the accounting set-up of the Canadian National Railway System, referred to this Committee on February 5.

The Chairman also stated that the President of the Canadian National Railways and the President of the Canadian Pacific Railway had been informed that Bill No. 12 would be considered by the Committee on a date to be determined at this meeting.

The Clerk laid before the Committee a telegram received from W. McL. Clarke, Secretary, Canadian Chamber of Commerce, Montreal, asking permission to appear before the Committee and express their views on the subject matter of Bill No. 12.

Mr. Heaps moved, seconded by Mr. Walsh, that the request of the Canadian Chamber of Commerce be granted and that the same privilege be given to other applicants for a hearing before the Committee on matters related to the Bill under consideration.

After discussion the motion was adopted with the provision that any such requests addressed to the Chairman or the Clerk would be submitted to the Committee for approval.

On motion of Mr. Vien,

Resolved,—That the Committee request permission to print, from day to day, 600 copies in English and 200 copies in French of its minutes of proceedings and evidence.

On motion of Mr. Kinley,

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

It was agreed unanimously that the President of the Canadian National Railways be invited to attend the next meeting of the Committee with the Auditors and other Officials whose attendance he may require.

The Committee adjourned until Thursday, February 18, at 11 o'clock.

THURSDAY, February 18, 1937.

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

Members present: Messrs. Barber, Beaubien, Beaubier, Bothwell, Elliott (*Kindersley*), Ferland, Fiset (*Sir Eugene*), Hanson, Heaps, Howe, Kinley, McLarty, Maybank, Parent (*Quebec W. and S.*), Ryan, Stewart, Walsh, Young.

In attendance: Mr. V. I. Smart, Deputy Minister of the Department of Transport, and officials of the Canadian National Railways, including Mr. S. J. Hungerford, President, Mr. J. B. McLaren, Comptroller, Mr. D. C. Grant, Vice-President of Finance, and Mr. T. H. Cooper, Auditor of General Accounts.

Preparatory to the consideration of Bill No. 12, "An Act to provide for revision of the accounting set-up of the Canadian National Railway System", Mr. Howe, the Minister of Transport, read a statement outlining the purposes and provisions of that bill.

Acting on the suggestion of Mr. Walsh, the Committee decided that time should be allowed to consider Mr. Howe's statement with a view to commenting thereon at a future meeting.

The Chairman reminded the Committee of the desire expressed by the Montreal Canadian Chamber of Commerce to be heard respecting Bill No. 12.

The Committee adjourned until Thursday, February 25, at 11 a.m.

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 277.

February 18, 1937.

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

The CHAIRMAN: Order, gentlemen. I see a quorum. Before starting to examine Bill No. 12, in accordance with the promise made in the House of Commons, the minister desires to read a statement to the committee. Mr. Howe, will you proceed?

Hon. Mr. HOWE: While the statement is being distributed, I might say that in discussing the Bill in parliament I gave only a brief outline of it. I did not attempt a prepared statement. I simply gave the thing from memory. I think it is rather important before we consider it in detail, that I should give a statement on the Bill, or at least give the views of the government on the Bill.

For the information of the Committee I submit a brief outline of the provisions of Bill Number 12.

This is a measure to authorize, along constructive lines, reasonable adjustment of the present unbalanced and excessive capitalization of Canadian National Railways. The adjustment confines itself to the relationship between the Government and the Railway and does not deal, in any way, with the funded debt of the Railway in the hands of the public.

As between the Government and the Railway, the plan preserves in full all capital sums invested by the Dominion in the Railway; any amounts to be eliminated relate to losses in operation and interest charges. Worthless capital stocks are to be written off on the basis of arbitration awards.

At various times the proposal for C. N. R. capital adjustment has been attacked, particularly on the ground of its being some sort of an attempted deception of the people of Canada and as doing violence to the principles of sound finance. Such criticism is without foundation and obscures from the people of Canada the true purposes of the plan with its ultimate advantages to the Dominion and the Railway. It ignores the expressed views of competent and impartial tribunals as well as the terms of the financing legislation since 1932. It runs counter to the usual financial and accounting practices of corporations under similar conditions. Further, this criticism refuses to recognize the effect of the events of the last twenty years on present day realities, in that the position of the Dominion has come to be essentially that of shareholder and proprietor in the Canadian National Railways—not of creditor in the ordinary sense.

At a later point in my remarks I shall deal more specifically with these matters.

Summary of Adjustments: The main purposes of the capital adjustment plan are—

First: to eliminate duplication of liabilities and losses of some One Billion, Five Hundred Million Dollars between the published accounts of the National Railway System and those of the Dominion as shown by Public Accounts.

Second: to centralize the corporate stock control by the Dominion of all companies now comprising the National Railway System through one company, i.e., the Canadian National Railway Company. This preliminary step is co-related to

- (i) the legal amalgamation of certain constituent companies of the system with a view to effecting ultimate savings in accounting and other costs, and
- (ii) the unification of certain funded debt issues of the National Railways through refunding issues in the name of the parent corporation, Canadian National Railway Company, for the purpose of bringing about savings in interest and other costs.

Third: the elimination from the corporate books of those capital stocks determined by arbitration tribunals to be without value;

Fourth: the preservation through the Securities Trust of the priority rights of the Dominion in respect of certain unguaranteed securities and subsidiary company capital stocks held by the public.

The proposed revision of the railway balance sheet does not in any way increase the Net Debt of Canada as shown by Public Accounts. This is because the relative capital stocks (as written down) were acquired without cash payment by the Dominion and because the old debentures, the loans applied for both capital and deficits, the accrued interest on loans and the appropriations for Canadian Government Railways capital investment have already been embodied in the Net Debt of Canada.

A condensed summary of the consolidated balance sheet revision, on the basis of the 1935 accounts, is as follows:—

Write-down of capital stocks and old debentures by concurrent reduction of property accounts.....		\$ 262,770,972 03
Elimination of loans applied for deficits by concurrent reduction of deficit account.....	\$361,244,349 91	
Elimination of accrued interest on loans by concurrent reduction of deficit account.....	495,030,137 29	856,274,487 20
Total reduction in capital and liabilities.....		\$1,119,045,459 23

In addition to the above, the adjustment plan includes the transfer from "Liabilities" to "Dominion Government—Proprietor's Equity" of the following:

Loans applied for capital purposes—represented in the 5 million shares of capital stock of the Securities Trust.....	\$284,283,105 92
Appropriations for Canadian Government Railways capital investment.....	388,290,294 40
	\$672,573,400 32
Transfer of residual value of Canadian Northern capital stock to the Canadian National company and the issuance by the latter of its capital stock.....	18,000,000 00
Total of "Dominion Government—Proprietor's Equity" preserved on the Consolidated Balance Sheet.....	\$690,573,400 32

The detail of these adjustments is shown as Appendices 4 and 5 to the Bill.

The figures used are those of December 31, 1935, which will be revised as of December 31, 1936, when the final figures as of that date are available. The Canadian Northern Railway Company, are the same, the capital stock control of the Canadian Northern group of some 40 companies has not been vested in the Canadian National company but directly in the Government. This creates an unsatisfactory situation in that, since amalgamation in 1923, the financing and refunding operations of the Canadian Northern group has been effected through the Canadian National company without its having proper stock control. The bill provides for the correction of this situation by having the Canadian National company directly control the Canadian Northern group and by having the Government control all the presently existing corporate units of the National System through one corporation, i.e., the Canadian National company.

Write-off Capital Stocks and Debentures

The bill further provides for the writing out of the Canadian National (old Grand Trunk) and Canadian Northern capital stocks and the old Grand Trunk debentures, a summary of which in round figures is as follows:—

Canadian National Co.—Capital Stock (Gross amount 180 million dollars).....	165 million dollars
Old Grand Trunk—Debentures.....	15 million dollars
Canadian Northern Co.—Capital Stock.....	82 million dollars
By reduction of Property Accounts.....	262 million dollars

Canadian National (old Grand Trunk) Capital Stock

The proposal to eliminate the Canadian National stock, as successor issue to the old Grand Trunk 1st, 2nd and 3rd preference and common stocks, from the balance sheet of the National System is based upon the difference between the 1935 and 1936 figures will be the accrual of Government interest and the non-cash deficit items during the year 1936.

It is important to note that any capital investments by the Dominion are continued, at the face value, on the balance sheet without diminution; the amounts eliminated in connection with loans having to do only with the sums lost in operation and accruals of interest.

Centralization of Capital Stock Control

The Bill provides for the centralization of the capital stock control of the companies now comprising the National Railway System through one company, i.e., the Canadian National Railway Company. This preliminary step is correlated to the unification of certain funded debt issues of the National Railways through refunding securities in the name of the parent corporation, Canadian National Railway Company, for the purpose of bringing about savings in interest and related costs of financing. It will also facilitate the legal amalgamation in due course of certain constituent companies of the system with a view to effecting ultimate savings in accounting and other costs.

The National System is comprised of some 100 companies falling under two main groups, i.e., the Canadian National group (including the old Grand Trunk, the Grand Trunk Pacific, the Grand Trunk Western and the Central Vermont) comprised of some 60 companies and the Canadian Northern group comprised of some 40 companies.

Whilst the board of directors for the two parent companies, the Canadian National Railway Company and the 1921 findings of the Grand Trunk Board of Arbitration constituted under the 1919 Act. This tribunal ruled that the capital stocks in question had no value.

Following upon this arbitration award, an appeal was taken to the Privy Council based largely upon the question whether the arbitrators in excluding evidence as to the physical assets of the Company were wrong in law. The Privy Council dismissed the appeal in a judgment delivered on November 10th, 1922.

The recent Lovibond appeal was cited in the early part of 1936 as a reason for the continuance of a negative attitude towards capital adjustment. Since that time the decision of the Privy Council has been announced. It wholly stays the action as against the Attorney General of Canada, and as against the Grand Trunk and Canadian National in so far as it seeks to have the stock register of the Grand Trunk rectified or to have Grand Trunk stock registered in the name of the Plaintiff. The Privy Council states that the Plaintiff has failed in regard to the main object of his action which can now only proceed for the purpose, for whatever it may be worth, of seeking to recover damages against the Grand Trunk and the Canadian National.

This capital stock adjustment is important to the Dominion because the Grand Trunk shareholders, apart from the claim that the acquisition statute was ultra vires, presumably have been influenced to some extent by the fact that their stocks were adjudged to be without value when they were the owners but as soon as the Dominion of Canada became owners the successor stock of the Canadian National was issued at par, thereby perpetuating the relative asset accounts at the original book figure. It is believed that if the capital stock is eliminated from the published balance sheet of the National System in accordance with the arbitration award of 1921, some of the misunderstandings would be removed.

Old Grand Trunk Debentures

This adjustment deals with a liability to the Dominion for aid granted to the old Grand Trunk Railway Company of Canada by the Province of Canada prior to Confederation. The Act of 1862, 25 Victoria, Chapter 56, an Act for the reorganization of the Grand Trunk Railway Company of Canada and for other purposes, reorganized the Company's finances and placed the payment of interest on these debentures after, or junior to, the payment of dividends on the preference and common stocks of the company. As the Grand Trunk Arbitration Board of 1921 declared that the Grand Trunk preference and common stocks had no value, and as this item ranks junior to such stocks, it is apparent that this asset account is worthless to the Dominion.

Canadian Northern Capital Stock

The total capital stock of the Canadian Northern, now \$100,000,600, was acquired by the Dominion as under —

- \$ 7,000,000 (70,000 shares) as consideration for subsidies granted to the Canadian Northern Ontario Railway Company and the Canadian Northern Alberta Railway Company as authorized in Act, Chapter 10, of the Statutes of 1913. The total subsidies received under that Act were \$15,364,803.20.
- \$33,000,000 (330,000 shares) in consideration of the guarantee by the Dominion of the principal and interest of the bonds, debentures, etc., amounting to \$45,000,000 as authorized by Act, Chapter 20, 1914.
- \$60,000,000 (600,000 shares) under award of the Board of Arbitration hereinafter referred to, as authorized by Act, Chapter 24, of the Statutes of 1917.
- \$ 600 (6 shares) covering conversion of debenture stock.

The arbitrators in their award of May 1918 gave the value of the 600,000 shares of stock as being \$10,800,000. The award was made as of the date of taking over by the Dominion of complete control of the Canadian Northern Railway System, which was the 30th September 1917. This gave a prorata value of \$18,000,000 to the total issued stock.

The Board of Arbitrators, therefore, found approximately \$82,000,600 of Canadian Northern stock to be without value.

Summary of Duplication

The bill goes on to provide for the elimination of duplication of liabilities and losses aggregating some One Billion Five Hundred Million Dollars in the combined debt structure of the Dominion, i.e., the combination of the published accounts of the National System with those of the Dominion as shown by the Public Accounts. The duplication arises out of the assumption in the net debt of Canada of loans, interest thereon, and capital cost of the Canadian Government Railways concurrently with the inclusion of the same liabilities in the accounts of the National System.

A summary of the major duplications in the combined debt structure of the Dominion, in round figures at the end of 1935, was as follows:—

Loans applied for capital purposes.....	\$ 284,000,000
Loans applied for deficits.....	361,000,000
Accrued interest on above loans.....	495,000,000
	<hr/>
	\$1,140,000,000
Appropriations for Canadian Government Rail- ways Capital Investment	388,000,000
	<hr/>
	\$1,528,000,000

This duplication is to be eliminated by the following revisions on the Consolidated Balance Sheet:

Transfer of loans applied for capital purposes from "Liabilities" to "Dominion Govern- ment—Proprietor's Equity" represented by 5 million shares of capital stock of the Securities Trust.....	\$ 284,000,000
Elimination of loans applied for deficits together with accrued interest by concurrent reduc- tion of deficit account.....	856,000,000
	<hr/>
	\$1,140,000,000
Transfer of appropriations for Canadian Gov- ernment Railways Capital Investment from "Liabilities" to "Dominion Govern- ment—Proprietor's Equity".....	388,000,000
	<hr/>
	\$1,528,000,000

It has been contended that this duplication is but a straightforward book-keeping representation of transactions between two separate borrowers, i.e., the Public Treasury in the first instance and the Railways in the second instance. Unfortunately this is but a partial statement of the full facts because the relative assets in the Public Accounts of Canada were transferred from assets to net debt in 1920 and since that time all advances (dealt with in the adjustment plan) have been charged directly to the net debt without any adjustment of the relative liabilities in the Railway accounts. This does not conform to usual commercial and financial accounting practice where any question of consolidation is involved. It has the effect of producing a very real duplication of proportions and of a character such as would not be tolerated by shareholders of parent corporations having financial transactions with controlled subsidiaries whose balance sheets are made public. The published consolidated balance sheet of any corporate group under such conditions would indeed present a sorry picture.

Canada's financial structure as a whole is of first importance to the people of Canada. Nothing should be allowed to continue that would in any way weaken the position that Canada at present holds in the financial world. The people of Canada are rightly entitled to know what is their true financial position at all times and to have access to information that will enable them to understand the situation and to judge therefrom what their real responsibilities are. This being so, the elimination of duplication is of vital importance.

Transfer of capital items from "Liabilities" to "Proprietor's Equity"

The transfer on the balance sheet of the 284 Million Dollars and the 388 Million Dollars from "Liabilities" to "Dominion Government—Proprietor's Equity" represents the amount of loans and appropriations utilized for capital investment and preserved at face value on the balance sheet.

When the lines now comprising the Canadian National Railways were under private ownership, the Government granted loans to the Companies in the form of loan capital rather than share capital. The Government was not then the shareholder and, therefore, required that its investment should have seniority over the share capital. There were certain securities held by the public which were entitled to interest payments if net earnings were available and the assessment of interest charges on the Government loans had the effect of deferring interest on such securities. The Dominion loans and the interest thereon were also factors to be given weight in assessing the value of the Canadian Northern and Grand Trunk capital stocks, the value of which was a matter for arbitration. Out of these conditions there grew up the practice of treating the Dominion's investment as loan capital, and the legislation authorizing the loans generally called for interest at a rate named or to be determined by the Governor in Council. The basic situation was completely changed, however, when the private control disappeared and the securities referred to were later retired—the Dominion coming into possession as the sole shareholder in the parent companies of the National System.

The Canadian Northern, the Grand Trunk Pacific and the Canadian National (including the old Grand Trunk) are today a component part of the proprietorship of the Dominion as in the case of the Canadian Government Railways. The proprietorship in the Canadian Government Railways is complete, whereas the proprietorship in the corporate group is represented by the book equity remaining after the claims of the funded debt in the hands of the public. The fact that Government moneys have been voted as loans does not in any way alter the present reality that the Dominion is loaning money to itself. The National Railways has in the course of events become an integral part of the financial structure of Canada. It cannot now be properly considered as something independent and apart. In view of the funded debt in the hands of the public, the position of the Dominion is, in the final analysis, essentially that of equity ownership regardless of how the problem is approached and this fact might well be made clear to the people of Canada in the published accounts of their railway. The Securities Trust, to which we later refer, will fully preserve in perpetuity any claim priorities which may be deemed to exist.

It has been said that the conversion of any interest bearing Government loans for capital purposes to proprietor's equity represented by capital stock would be unfair to the Canadian Pacific, which company has to raise its capital requirements at interest. In this connection it is of importance to point out that even with the adoption of the adjustment proposals the National System interest bearing burden would still reach 65% in relation to the total capital, as against approximately 50% for the privately owned railway company—or nearly one-third higher. The disparity is even greater in the C. N. R. interest burden in relation to road mileage and gross revenues.

Elimination of Capitalized Deficits

The elimination from the Consolidated Balance Sheet of 856 Million Dollars covering the loans applied for deficits, together with accrued interest, against the Deficit Account is based on the fact that there are no relative assets of any kind and that it represents losses in operation and unearned interest charges. The moneys supplied by the Dominion in respect of the total deficits have only restored its impaired equity as proprietor of the National System and nothing more.

The surplus of any enterprise is the property of the shareholders. It may be paid over to the shareholders or it may be retained in the enterprise. If distributed in its entirety to the shareholders the Profit and Loss Account would be wiped out; if utilized in the business of a company the shareholders' original investment is increased to that extent. Corporate surplus may be either a plus or minus quantity. The position in relation to the shareholders is the same, that is, a deficit diminishes the shareholders' equity just as a surplus adds thereto. If the shareholders put back into the business the amount of the deficiency their capital investment is unimpaired; if not, their equity in the enterprise is reduced by the extent of the deficiency. When the Dominion provides the funds to meet the deficits it is in reality replacing capital as shareholder, not adding to capital as creditor in the ordinary sense. The capital account cannot properly be increased by such payments. The fact that it has been increased in the past, because of the terms of legislation, calls now for an adjustment if 'sound practices are to be adopted and if present day realities are to be reflected in the Railway accounts. If the loans were reduced on the consolidated balance sheet by the amount of deficit advances there would be no reduction in the Dominion's actual capital investment. The capital investment would be shown for what it is, and the balance sheet would display the real facts so that the railways' present position would be more accurately set forth.

I have heard objection taken to the proposal to eliminate from the liabilities on the Consolidated Balance Sheet the 856 Millions Dollars of capitalized deficits. This objection has been advanced on the grounds that the accumulated costs of the National System must be reflected in perpetuity in the published balance sheet of the Railways and that failure to do so constitutes a deception of the Canadian people. Such an objection is apparently predicated on the theory that "liabilities" and "costs" are inherently the same, and that cash contributions are "investments." Recognized authorities and usual corporate practice not only do not accept this theory but definitely sanction the writing down of capital liabilities under conditions such as presently prevail in the National System accounts.

Further objection to the proposed adjustment has been taken on the ground that freight rate and wage scale negotiations of the future might be influenced by capital adjustment. The theoretical argument that the capital structure of the National System is in some way related to transportation rates and wages is not borne out by practical experience of the past. It is a matter of record, so far as I know, that this inflated capital structure has never been the basis of rate-making and wage scale negotiations by the National System. If it had been the basis the trade of the primary producers and manufacturers of Canada would now be smothered under prohibitive freight rates or, as the alternative, the railway employees would be suffering under the lowest rail wage scales in the universe. As to the future, it is all too evident that rail transportation rates in Canada will be directly influenced by —

- (a) Competitive service of trucks, buses, airlines and inland water carriers.
- (b) Encroachment of obsolescence forcing the development of new types of rail equipment and facilities of much greater economic value than now exist.
- (c) Numerous classes of rate competition with United States Railroads and water carriers.
- (d) Geographical and sectional problems of the country.
- (e) Density of traffic factor as may be affected in the future by immigration trends, world wheat and agricultural requirements, industrial development and general economic conditions.

- (f) Changes in domestic or international monetary policies resulting in inflationary or deflationary trends of a more or less permanent character; and
- (g) Many other conditions beyond the control of the National System and, in my judgment, without any relationship whatsoever to its capital structure of the present or future.

Certainly any fears that the scope of the capital adjustment plan would affect freight rates are groundless.

It is essential that we now examine the views of outside authorities and precedent supporting, in principle, the removal from the consolidated balance sheet of capitalized deficits aggregating 856 million Dollars.

(1) The report of the Drayton-Acworth Commission of 1917, under the chairmanship of Sir Henry Drayton, (page 67) in the consideration of the Inter-colonial Railway includes the following statement on the principle of capitalizing interest deficits: —

It has indeed recently been ingeniously argued that it (the Inter-colonial Railway) ought to have earned interest at a commercial rate from its first inception, and that all the interest that it has not earned during its whole existence ought to be capitalized and compounded to ascertain the real cost of the railway to the people of Canada. We cannot accept this somewhat fantastic argument. If this theory were accepted, it is manifest that a similar course ought to be followed in the case of ordinary railway companies. Interest which, of course, has never been paid, ought to be calculated in the same way, on all the cash subsidies which private lines have received and on the value of all land grants which they have obtained, and all this ought to be carried into an imaginary account on which imaginary earnings ought to be obtained. Further, the capital account of every railway company ought to be recast in the same way, so as to carry forward into the accounts the money that ought to have been paid for dividends on the share capital, in years when either no dividends or only insufficient dividends were in fact paid.

It is significant to note that the Drayton-Acworth Commission regarded the argument for capitalizing interest deficits on Government owned railway as "somewhat fantastic."

(2) The 1925 report of two firms of chartered accountants (Page 5, subsection 4 of Section "A") as made to the Board of Audit, under the Board of Audit Act of 1925, includes a statement on the capitalizing of operating deficits of the National Railways as follows: —

Advances made by the Government to the Canadian National Railway Company are shown on the books of the Dominion as loans. This is not, however, a proper statement of the investment from the standpoint of the Government, as the portion of these advances made to cover operating losses does not represent added value to the investment. It also pointed out that if operating deficits of the railway be paid from the proceeds of bonds issued to the Public, the Government's investment will be further impaired to that extent. Should it be desired to adjust Public Accounts to a figure which will more clearly show the value of the Government's investment, it is essential that the practice of capitalizing operative deficits be discontinued.

The estimates should provide that advances made to the railways on account of operating deficits be made entirely from the Public Treasury and not from the proceeds of guaranteed bond issues and further that such advances be not added to the investment account but be absorbed in the Consolidated Revenue Fund of Canada.

(3) The Duff Royal Commission of 1931-2, under the chairmanship of the Right Honourable Sir Lyman P. Duff, P.C., made two significant statements on the writing down of the capital liabilities of the National Railways. It will, no doubt, be recalled that this Royal Commission was composed of distinguished Canadians and outstanding railway executives of Great Britain and the United States who it is unthinkable would have made any recommendation for the writing down of the liabilities of the National Railways if such procedure would, in any way, constitute a deception of the Canadian people. In considering the earning power of the railway the Commission (on page 30) said:

It is obvious that on this basis of earnings the Capital Liabilities would require a very drastic writing down.

In recommending the early attention of the Board of Trustees to the whole matter of the capital structure (Page 30) the Commission further emphasized the need of liability adjustment as follows:—

. . . . this Commission is of the opinion that it must be frankly recognized that a very substantial part of the money invested in the railways comprised within the Canadian National System must be regarded as lost and that its Capital Liabilities should be heavily written down.

The Committee will, no doubt, weigh the relative merits of the claim advanced against the capital adjustment on the ground of its being a deception of the people in contrast to the definite recommendations of this impartial tribunal who took a very different view of the situation.

(4) The Canadian National-Canadian Pacific Act of 1933 (Section 12) implementing the Duff Royal Commission recommendations provides that:—

5. Income deficits shall not be funded.

It has been intimated that this provision deals only with the issuing of railway securities to the public, but the concluding recommendations of the Duff Commission and the legislation implementing the Canadian National-Canadian Pacific Act do not appear to support such a contention. The Duff Commission in recommending that the then existing capital liabilities "should be heavily *written down*" obviously could not have intended that the capital liabilities of the railways be further *increased* by the capitalizing of future deficits voted by parliament in the form of appropriations. Further, the financing legislation subsequent to the passing of the Canadian National-Canadian Pacific Act of 1933 specifically limits the borrowing powers of the railway to capital expenditures and debt refunding and the appropriation acts specifically declare that deficit appropriations should be applied against the accountable advances. The Minister of Finance (Mr. Rhodes) in his budget speech, March 21, 1933, stated:—

One of the recommendations of the Royal Commission on Railways and Transportation, to which effect is being given in the legislation now before parliament, is that sums which are required to meet deficits should be voted by parliament annually. To implement this recommendation, the government has submitted an estimate of \$53,422,661 in respect of the income deficit of the system in 1932, (excluding the loss on eastern lines already provided for by vote). *This amount will be credited against the loans of \$61,500,000, above referred to, leaving a balance owing the government of \$8,077,339, which will remain standing as an interest-bearing loan, representing as it does outlay for capital account and debt reduction.*

All of these facts make very clear that to set up the deficit appropriations since 1932 as liabilities of the railways would not only be improper accounting procedure but would be definitely contrary to the relative legislation.

Again we hear that to write down the loans and accrued interest would do violence to the principles of sound finance. How can this be when the legislation since 1932 is designed to prohibit the capitalization of operating deficits and interest thereon? On the basis of such legislation there is certainly no violence to the principles of sound finance by making the relative legislative provisions retroactive to the period prior to 1932. On the contrary it would only follow the principle of consistency in the treatment of railway accounts.

(5) In point of supporting precedent the capital adjustment plan of the Victorian Railways (Australia) is of importance. Arising out of recommendations made to the Minister of Railways at Melbourne, in 1933, by a special committee appointed to investigate the capital indebtedness of the Victorian Railways, the Government, according to the Commissioners' report dated 29th August, 1936, "has decided to introduce legislation for the purpose of transferring approximately 30 millions (pounds sterling) of railway loan liability to the State's General Account, and that it is proposed to effect the transfer as from the 1st July next." This involves the writing down on the Victorian Balance Sheet of an amount approximating 40 per cent of the liabilities to the Government in respect of accumulated Capital appropriations.

Notice that capital is contrasted with our writing down of deficit appropriations.

Such extraordinary items as Government advances for deficits, accrued interest on deficits, etc., find no place on the balance sheet of the Victorian Railways.

I might say that word has recently been received that the Act has passed the Parliament of Australia and is now the law of the land.

Another important precedent is the Queensland Railways (Australia). The 1936 report of the Commissioner for Railways, made to the Minister for Transport, shows that the Government loans were written down by 28 million pounds sterling, in accordance with "The Railway (Capital Indebtedness) Reduction Act of 1931." On the basis of the 1936 accounts this capital write-down exceeds 40 per cent of the original capital liabilities to the Government. As in the case of the Victorian Railways, no capitalization of deficits, accrued interest on deficits, etc., appear on the balance sheet of the Queensland Railways.

Turning to the South African Railways, it should be noted that the adjustment of capital is a live subject there also. In the report of 1935 the Board of Management suggested that the Government materially reduce the capitalization of the properties.

I would again refer to the matter of usual corporate accounting practice. It certainly supports, in principle, the elimination from the capital liabilities of the National System of the advances for interest and operating deficits which have been excluded from the assets and written into the Net Debt of the Dominion. Usual corporate accounting practice, paralleling the present relationship of the Dominion and the National System, is to write down the published liabilities of subsidiaries on deficit account when the corresponding asset accounts on the published balance sheet of the parent company are written off. This is obviously necessary to avoid loss duplication where the accounts are made public.

It is apparent, without the need of further elaboration, that these authorities and precedents fully sanction, in principle, the elimination of capitalized deficits from the consolidated balance sheet of the National System and particularly so under the existing conditions of duplication in the combined debt structure of the Dominion. It is important also to remember that the adjustment plan contemplates an historical record of accumulated costs since Confederation (for all Canadian railways) in Public Accounts. I will refer to this later.

Apart from these authorities and precedents, it is relevant at this time to make reference to the fact that the so-called "publicly owned" portion of the National System was constituted in the first instance only by the Canadian Government Railways. The corporate portion of the present National System represented by the old Grand Trunk, the Grand Trunk Pacific and the Canadian Northern became "publicly owned" when as private corporations they had reached the stage of financial embarrassment, if not complete bankruptcy. In view of the fact that these corporations did not pass through bankruptcy proceedings the present National System accounts reflect the accumulated errors of the past without the advantages that would have accrued to the National System as now constituted had the privately owned roads been subjected to the usual processes of capital adjustments arising out of bankruptcy proceedings. The Canadian National System was born in insolvency. This fact, I think, calls for consideration by those unfavourable to the capital adjustment because of the fear that the record of the relative merits of so-called "public ownership" and "private" railway operation would be disturbed if the C.N.R. balance sheet were adjusted to a basis of present day realities.

Historical Record of Accumulated Costs

Let us now give consideration to the contention that the National System must show *in perpetuity* on its balance sheet the accumulation of financial assistance from the Dominion Treasury with accrued interest. If the National System is to be required to perpetuate on its balance sheet the accumulation of Government assistance then, as a matter of equitable treatment it would follow that similar requirements should be imposed on other railways in Canada who have received financial aid from the Dominion since Confederation. Would those who oppose the adjustment of the balance sheet of the National System be prepared to subscribe to such a course for other railways in Canada?

Another matter for consideration in connection with this insistence upon the National Railways balance sheet showing "accumulated costs" as liabilities is the fact that there is but one alternative to bring about correction of the present mounting debt duplication, and that is by including the amount of the Government liabilities, as shown on the railway balance sheet, in the assets of the Dominion before the determination of the published Net Debt. Would those who are unfavourable to adjusting the National System capital structure advocate that such a step be taken? It will be remembered that Sir Henry Drayton, as Minister of Finance in 1920, removed the then existing loans and advances from the "assets" shown by Public Accounts to the Net Debt of the Dominion, which action time, in a considerable measure, has justified. No steps, however, were taken in 1920 to provide for adjustment of the capital liabilities on the National Railways balance sheet and from that time debt duplication has been on the increase, now reaching approximately 1,500 Million Dollars.

It is of the utmost importance to point out that the balance sheet and financial accounts of the National System constitute the starting point of all C.N.R. financing, even though the securities bear the Dominion guarantee. The ultimate influence of this debt duplication upon Dominion financing costs of the future is one that surely needs no elaboration. It should also be remembered that the railway accounts are used by publications (read by investors in Canada, Great Britain and the United States) and, at times, apparently, without knowledge of the factual relationship of the railway liabilities to the combined debt position of Canada. The National System accounts are also the source of financial reference by the railroads and security owners associations in the United States. It is, therefore, in the interests of Canada to see that the balance sheet and financial accounts of its own railway do not improperly enlarge upon the

already heavy burden the credit of the country is called upon to bear in respect of its railway enterprise. The aim to have maintained an historical record of Government assistance to the Canadian National does not appear to be a good enough reason to justify the continuance of setting up the System balance sheet in its present form.

From the inception of the proposed capital adjustment plan it has always been considered that the "accumulated costs" of the National System to the Dominion since Confederation should be embodied, in some form, in Public Accounts as a perpetual record for all future parliaments as representing the people of Canada. The form and the extent of detail in such a proposed cost record (which incidentally should cover the total financial aid to all railways in Canada) is a matter that it is assumed will be determined upon the course of the present legislation. In this connection reference is suggested to the annual report of the Department of Railways and Canals, as a component part of Public Accounts, for the fiscal year ended March 31st, 1936, on pages 7 and 14, which has already established a record of "accumulated costs" (apart from interest) of the National System to the Dominion since Confederation. Any statement, therefore, that the adjustment of the C.N.R. balance sheet, as now proposed, would in any way remove from the knowledge or constitute some sort of deception of the Canadian people runs counter to the purposes of the proposed plan and is without any foundation in fact.

Securities Trust

The bill finally provides for the incorporation of "The Canadian National Railways Securities Trust" with a capitalization of 5 million no par value shares to be issued to the Dominion in consideration of the transfer to the Securities Trust of claims for loans and relative collateral together with claims for accrued interest. The Board of the Securities Trust will consist of five trustees, i.e., three Deputy Ministers of the Crown and the President and Financial Vice-President of the Canadian National Railways. The Securities Trust is created solely for the purpose of taking over and perpetuating such priority claims as may be deemed to exist and the underlying collateral against the original debtor corporations in the same way and to the same extent that they are presently held by the Dominion, subject only to the provision for release with the approval of the Governor in Council. Additional details in respect of the Securities Trust will be found in Schedule "A" and in the proposed Balance Sheet as Appendix 6 to the Bill.

CONCLUSION

In conclusion—the government is convinced of the need in the public interest to eliminate from the combined debt structure of the Dominion the existing duplication which must be regarded as being of serious proportions. The burden of the National Railways upon the Dominion is sufficiently heavy without adding, to no constructive purpose, the problem of debt duplication. As we view the present position in this respect the primary consideration is its potential effect upon the future interest and financing costs of National Railways securities under Dominion guarantee, as well as future issues by the Dominion itself, if the pyramiding process is permitted indefinitely to perpetuate itself. In the long range view of future financing the effect and extent of any accretion to the interest costs arising out of debt duplication would not be observed by the people of Canada, nor would it be subject to definite computation by the government itself.

The bill now before the committee provides an effective means of dealing with this situation and the several others to which I have referred in this statement.

The CHAIRMAN: Gentlemen, as this statement has been read into the record, I take it for granted that it is the desire of the committee that it should appear in the printed evidence of the committee itself.

Some Hon. MEMBERS: Yes.

The CHAIRMAN: In accordance with the instructions of the committee, I notified the Canadian Chamber of Commerce of Montreal that we were going to hold a meeting this morning. I do not know if they have any representative here. I suppose that we shall notify them of future meetings. In the meantime, is it the desire of the committee that we should discuss the statement of the minister or that we should go on with the consideration of the Bill?

Mr. WALSH: Mr. Chairman, the committee have only been supplied with this statement this morning. We have heard it read in a very interesting manner by the Minister of Transport. It is rather an illuminating document, and many of the statements contained in that document are not only subject to very careful scrutiny, but they contain many references to past commissions which no doubt many members of this committee would like to carefully investigate and look up, not only for the sake of verifying the detail as given here but to get the context as well as the actual quotation; and in that way we would be in a better position to discuss this statement that has been given.

I was going to ask the chairman if it would be possible from time to time during the course of the discussion of this Bill to have reference to this statement as made by the minister, so that probably the discussion of the statement itself would become part of the regular proceedings from meeting to meeting, in connection with the discussion of items of the Bill.

The CHAIRMAN: That is the very reason why I asked if this statement was to be included in the printed evidence of the committee; so that you will be able to refer it when you wish to do so.

Mr. WALSH: We will not be held up by this suggestion, "Well, that does not pertain to this particular section of the Bill that is under discussion."

The CHAIRMAN: Of course, that is not in accordance with the rules of the house. We are limited in committee as well as in the House of Commons to each item of the Bill which we are considering. It would be preferable, I think, to have a general discussion of the report itself, if the committee desires to do it; then refer to the different items when you are considering the different clauses of the Bill. Of course, I am in the hands of the committee. Whatever you say, I am satisfied to do.

Mr. WALSH: Could we delay the discussion of the report then until the beginning of the next meeting?

The CHAIRMAN: Certainly.

Mr. WALSH: Because there are many points that I have noted here with which I personally cannot place myself in accord; and I would like more time or more opportunity to study them.

The CHAIRMAN: Do I understand it is the desire of the committee that we should adjourn until some time next week, to give the members of the committee time to study that statement of the minister?

Mr. BOTHWELL: Just before that is decided, Mr. Chairman, in answer to Mr. Walsh I would like to suggest that it seems to me that every member of the committee should have the privilege at all times of referring to this statement of the minister when we are dealing with the Bill. That seemed to be the question that arose in Mr. Walsh's mind.

The CHAIRMAN: No, not quite. He says he would like the privilege of referring to the statement itself when we are considering clauses of the Bill, even if it does not refer to the clause under discussion, which is not exactly in accordance with the rules. I am in the hands of the committee. Whatever they decide is satisfactory to me.

Hon. Mr. HOWE: Mr. Chairman, I have tried to follow the clauses fairly logically in this statement. I think you can refer to the report bearing on the clause in question. I do not think there will be any difficulty there.

The CHAIRMAN: As a matter of fact, personally speaking, I think we should give the members of the committee all the latitude they want to discuss the Bill in any way they like.

Mr. BOTHWELL: There is one other matter that I would like to refer to now before adjourning. There are several references here, which I should like to call attention to; for instance on page 22: Would those who oppose the adjustment of the balance sheet of the National System be prepared to subscribe to such a course for other railways in Canada"? and again on page 23: "The form and extent of detail in such a proposed cost record (which incidentally should cover the total financial aid to all railways in Canada) is a matter that it is assumed will be determined upon in the course of the present legislation." I was wondering if the committee would be able to get information as to what that cost sheet might look like if it were prepared in connection with other railways in Canada, because it would be a matter that I think would be of very great interest to the members of the committee; and if it is the intention to set it up in any event, we might be able to get the information at the present time.

Mr. MAYBANK: Is that sentence to be taken as meaning that the picture of that sheet that Mr. Bothwell has referred to will probably be worked out in the course of this committee hearing?

The CHAIRMAN: Well, I was exactly under that impression, that the balance sheet that would be submitted to the committee when the report of the Canadian National Railway is brought down will be made in accordance with the present act.

Mr. MAYBANK: I referred to the expression of the minister.

Hon. Mr. HOWE: There was some discussion on the historical record, and no objection has been taken in the house to it, provided it does not lead to a confused balance sheet. I think the committee might perhaps consider how they want that set up; and I think we can have at the next meeting a statement as regards the Canadian National. In fact, that is published in the report of the Department of Railways and Canals. I think we can perhaps have that.

Mr. MAYBANK: I was just wondering about the inclusion of the other railway.

Hon. Mr. HOWE: I think we can get that. It is all in the public accounts. It is just a matter of segregating it.

Mr. DEACHMAN: It is in the report of the Department of Railways and Canals.

Hon. Mr. HOWE: I think it is.

Mr. HEAPS: I think the request of Mr. Walsh that we postpone consideration of this is fairly well justified. We have just heard it this morning, and have not seen it previously. One other matter occurred to me this morning, and I do not know whether the minister or anybody else present could give the information or not. But after the recapitalization has been made, and after the amount stated of about \$850,000,000 has been wiped out from the Canadian National balance sheet, what would be the actual amount showing against the Canadian National System?

Hon. Mr. HOWE: It is shown in the Bill. It is shown on page 13 of the Bill—\$2,062,387,864.21.

Mr. HEAPS: One other question and then I am through.

The CHAIRMAN: You will find that in appendix 5 and 6.

Mr. HEAPS: Yes. Could the railway give to this committee the information as to what the physical value or replacement value of the system is to-day?

Hon. Mr. HOWE: I can tell you quite definitely that they cannot. It is a matter of opinion. You could put as many experts as you like on it, and I am sure they would all bring back a different report.

Mr. HEAPS: I just wondered what the physical value would be as compared with the prospective book value.

Hon. Mr. HOWE: I do not think there is anyone who can determine that.

Mr. BOTHWELL: A few years ago, I think it was, Touche & Company made a report on the writing down of the capitalization of the Canadian National Railway. I do not know whether that report was ever printed, or whether it was just distributed among the members of the committee. I looked for my copy of it, but apparently I left it at home. I was wondering if anybody knew whether that was printed.

The CHAIRMAN: It was only distributed among the members. It was not printed.

Mr. BOTHWELL: Then there are no copies now available?

The CHAIRMAN: I do not know.

Hon. Mr. HOWE: I think there are.

Mr. MAYBANK: It was distributed about two years ago among the different members.

The CHAIRMAN: Yes.

Mr. MAYBANK: 1934-35.

The CHAIRMAN: 1934, I think. Is it the consensus of opinion that we should adjourn until say Thursday of next week in order to give a chance to the members of the committee to consider the statement?

Mr. WALSH: May I ask one question while the minister is here in connection with the old Intercolonial railway? Just exactly what would be the position of the Intercolonial railway under this new scheme of capitalization? Would this new scheme further smudge the real picture of the construction and operation of that railway as it has reference to the Maritime provinces and confederation, or would it still be maintained as an integral part of the picture of Confederation?

Hon. Mr. HOWE: I think perhaps the hon. member might elaborate on his remark "further smudge" and I will give an answer.

Hon. Mr. STEWART: That is not right.

Mr. WALSH: Of course we all know the history of the construction of the Intercolonial railway and the operation of that railway in the early days. It just occurs to me that the more we deal with the Canadian National system, the less clear is the picture of the construction and early operation of the old Intercolonial railway and the purposes for which that railway was built. We are getting farther and farther away from the real cause of the construction of that railway in the amalgamation of the railways under the C.N.R. and under various events that have taken place even since that day; and now with the recapitalization I am afraid that the promises made by the Dominion of Canada to induce the Maritime provinces to enter Confederation, which led to the construction of the Intercolonial railway and the operation of that railway in the old days, are becoming more and more obscure. That is my reference to "smudge." That is, the delineation is not quite as clear at it was 25 or 30 years ago; and I was wondering if this move is going to further lessen the delineation, the proper delineation, of that picture as it should be in the minds of those who are interested in the development of the Dominion of Canada in the federal arena.

Mr. DEACHMAN: The Maritimes will still be there.

Mr. BOTHWELL: The historical record is there, and we might as well face the situation as it exists.

Hon. Mr. HOWE: It does not change the amount; it is a change from funded debt to common stock. That is the only change that is being made on the balance sheet.

Mr. HEAPS: The railway will still be there.

Hon. Mr. HOWE: Yes.

Mr. WALSH: I know the railway will still be there, but my point is that it is going to further enable us to forget our obligations to the Maritime provinces.

Hon. Mr. HOWE: I do not see that.

Mr. WALSH: I am not a Maritime man myself, but I am a very strong believer in holding to any agreement that has been made. I spent some time in the Maritime provinces this past summer, not enjoying very good health but still with an active mind; and I was very much impressed with my discussions while there, particularly in reference to the Intercolonial railway. I was just wondering if the minister would keep that point in mind, because I want to have reference to it during the discussion of this Bill. I know the Maritime provinces are very able represented on this committee. They are probably better represented than I could hope to represent them. But just from my recent discussions I feel that we as a committee should do something to prevent anything that would lessen or obscure our obligations as undertaken when we built that old Intercolonial railway, even if it is going to cost the taxpayers of the rest of Canada a certain amount of money in taxation. We obligated ourselves in those early days in order to invite them into Confederation; and I feel that we should provide some ways and means of meeting our obligations in that respect.

Mr. HEAPS: I would like to point out to the gentleman who has just sat down that those gentlemen on this committee in previous years who represented the Maritime provinces have been very anxious to obscure the situation as far as they possibly could, have been anxious that it should be merged with the whole of the railway situation in Canada. They did not want the picture to be shown too much, or at least not too vividly, as to the actual conditions in the Maritimes, because the deficits were so huge; they thought that it should become part of the whole Canadian National System. Secondly, I think Mr. Walsh ought to bear in mind that they have a 20 per cent freight rate reduction there which costs the National Treasury quite a large amount each year.

Mr. WALSH: I do not want them to get any more than they are entitled to. But at the same time I want to feel that we are living up to our obligations.

Hon. Mr. HOWE: We changed it from the position of bonded debt to a simple equity, non-interest bearing equity. I think that is of some little assistance, don't you?

Mr. RYAN: Mr. Chairman, I am sure I cannot follow the remarks of Mr. Heaps in this committee. I am somewhat in accord with what has been said by Mr. Walsh. I do not know what has taken place in the past in this committee, or that there was a disposition on the part of the Maritime members to have the picture of the Intercolonial railway submerged as part of the large funded debt. I think, if we have an opportunity of going into the record, we will find out that that is not exactly the case. If you go back through the years you will find out that the Intercolonial railway has, to some extent, paid its way, and we were not in that position. He mentioned the Maritime Freight Rates Act; while that has been of assistance, it is not in any way any contribution on the part of the Dominion government. It was given to us because of the recommendations of the Duncan Commission, which showed the position which the Maritime provinces were placed in because of the way in which the Intercolonial railway was built and the territory through which it had to run. There is an historical aspect in connection with it. I must say that I appreciate Mr. Walsh's bringing that matter before the committee. I think there was some light in this report, though, Mr. Chairman. I am satisfied, or at least I am pleased to note

that the disposition is not to base freight rates on the cost of capital structure. That is some light to the Maritime provinces; because I am satisfied if we were to attempt to base our freight rates on the cost of our capital structure, it would be very detrimental not only to the Maritime railways but all the railways. I say there is some light in the report in that respect. But I am in accord with Mr. Walsh's view that there is a disposition in the Maritime provinces not to have the history of the old Intercolonial Railway lost sight of, and the reason why it was built. We are in a different position than any other railway in the Dominion of Canada. I am not going to take up the time of the committee going into that matter, but the historical picture is there. That railroad was built for defensive purposes and otherwise; and if it had been built along the line of a strictly commercial undertaking, this line probably would have taken a little different construction and had greater earning capacity. But it was built, Mr. Chairman, at that time, with a view to defensive purposes, along other lines; and therefore we were entitled to some consideration. The Duncan Commission recommended that.

I do not think Mr. Walsh, when he used the word "smudge," used it in any offensive way. I think it was simply that he tried to bring before the committee that the railway is gradually being lost sight of. I must say this, that I want to thank him for bringing this matter before the committee, because as a Maritimer I certainly intend to look after the history of the Intercolonial railway in any report that may take place, so far as this committee is concerned.

Hon. Mr. HOWE: I may say in further explanation of the history of the Intercolonial railway, that it was built and paid for out of government revenues—paid for in full. The debt was not funded in any way, and this Bill recognizes that fact. Where it was previously carried on the balance sheet of the Canadian National Railway as a funded debt, it is now changed to a simple equity, proprietor's equity. It is no longer carried as a funded debt. That is the only change that has effect on the Intercolonial railway. I think there can be no objection to that.

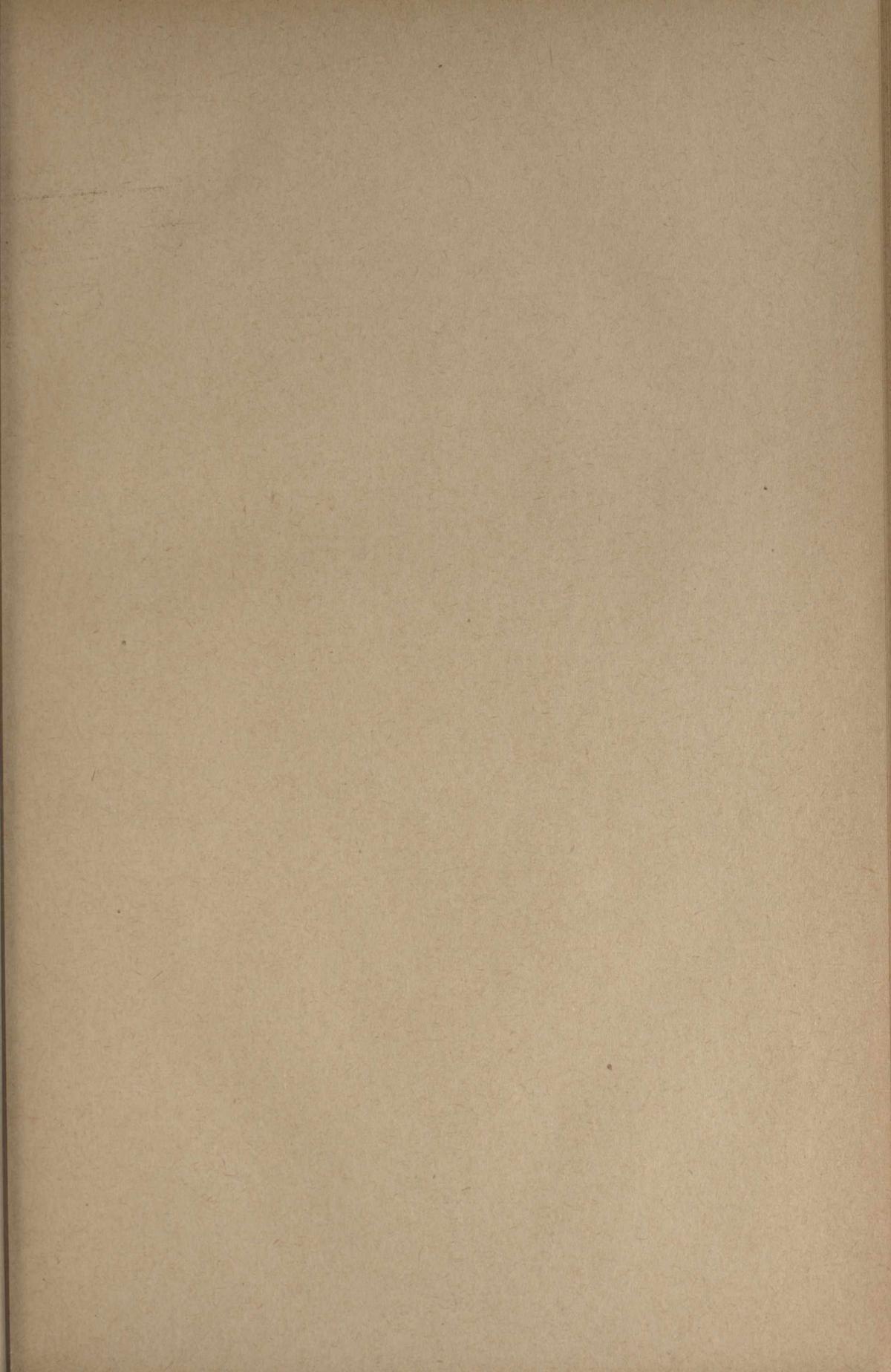
Mr. BOTHWELL: I move that we adjourn.

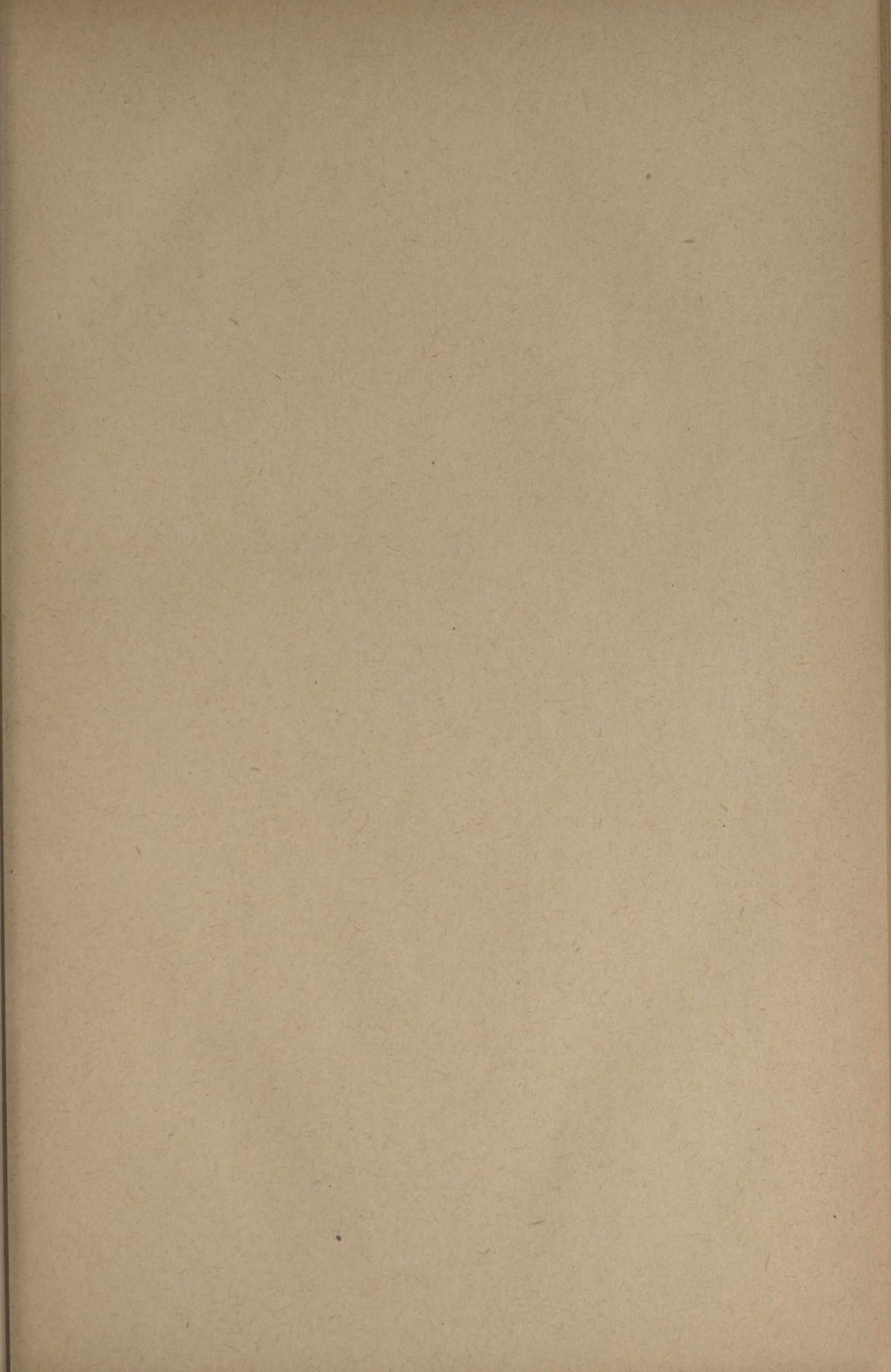
Mr. MAYBANK: I second that.

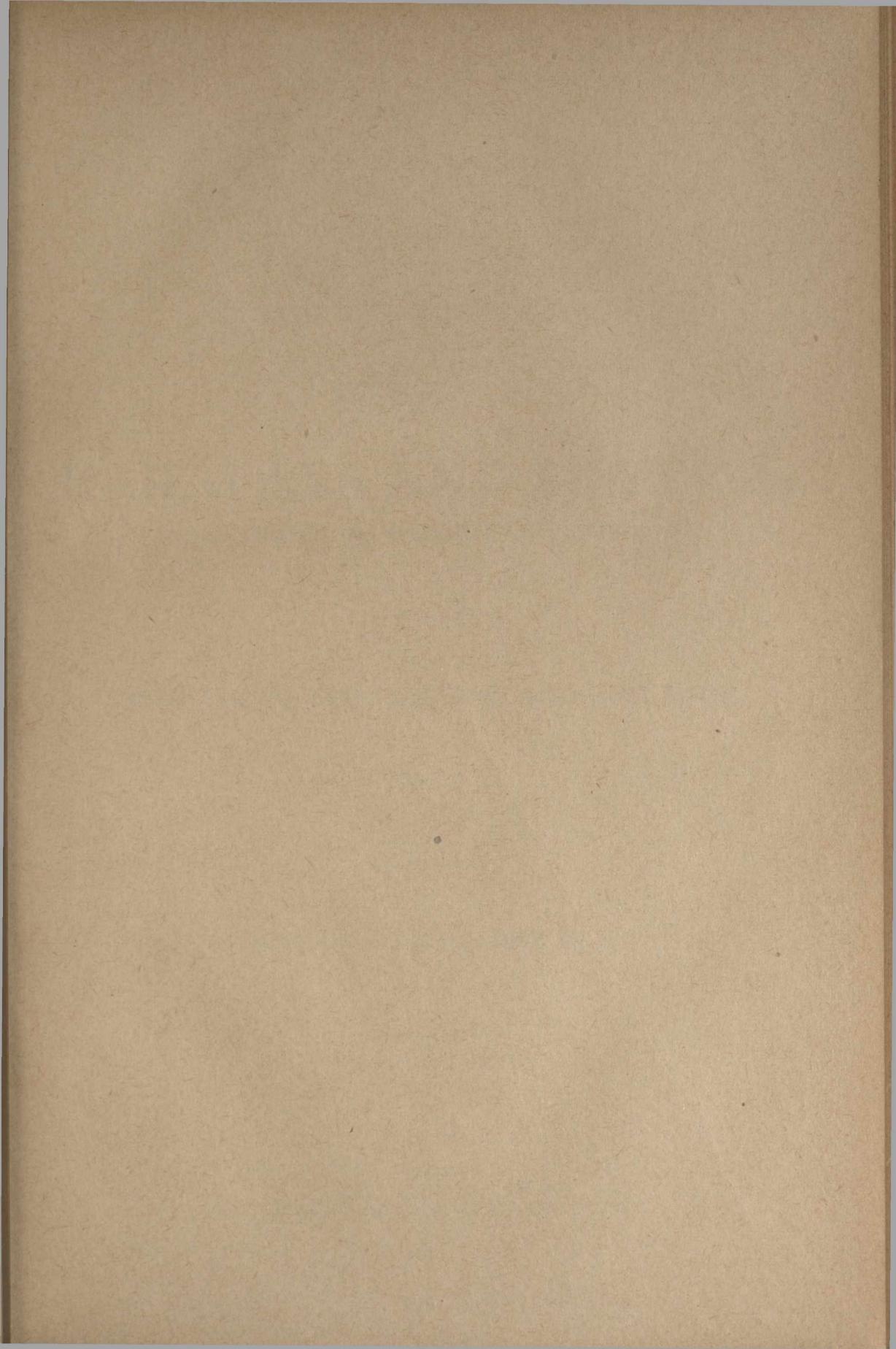
The CHAIRMAN: Shall we adjourn until Thursday next in order to give a chance to the members of the committee to consider this report?

Some Hon. MEMBERS: Yes.

The committee adjourned at 12.25 p.m. to meet again on Thursday, February 25, at 11 a.m.







SESSION 1937

HOUSE OF COMMONS

STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

THURSDAY, FEBRUARY 25, 1937

OTTAWA
J. O. PATENAUDE, I.S.O.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1937

MINUTES OF PROCEEDINGS

THURSDAY, February 25, 1937.

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

Members present: Messrs. Barber, Beaubien, Beaubier, Bothwell, Deachman, Ferland, Heaps, Howden, Howe, Kinley, McKinnon (*Kenora-Rainy River*), Maybank, Parent (*Quebec West and South*), Ryan, Stewart, Vien, Walsh, and Young.

In attendance: Mr. V. I. Smart, Deputy Minister of Transport, and officials of the Canadian National Railways, including Mr. S. J. Hungerford, President; Mr. D. C. Grant, Vice-president of Finance; Mr. J. B. McLaren, Comptroller; and Mr. T. H. Cooper, Assistant Comptroller; also Mr. O. A. Matthews, of George Touche & Company, auditors of Canadian National Railways accounts.

The Chairman submitted a communication addressed to the Chairman of Parliamentary Railways Committee by Mr. R. C. Hawkin, Chairman of the Grand Trunk Senior Stocks Company, Ltd., London, England, enclosing copy of a petition presented in the House of Commons in April, 1930.

On motion of Mr. Heaps,

Ordered,—That Mr. Hawkin's letter and petition annexed thereto be filed.

The Chairman also read a communication from Mr. W. McL. Clarke, Secretary of the Canadian Chamber of Commerce, Montreal, asking to be advised as to the date of the Committee's sittings during the coming week.

The Clerk was instructed to inform Mr. Clarke that the Committee would hear representations to be made on behalf of the Canadian Chamber of Commerce on Tuesday next.

The Committee gave further consideration to the statement read by the Minister of Transport at the previous sitting.

It was agreed to have an official of the Finance Department attend the next sitting of the Committee to explain certain items of the public accounts and their relation to the bill under discussion.

The Committee adjourned until Tuesday, March 2, at 10.30 a.m.

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

February 25, 1937.

Room 277.

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

The CHAIRMAN: Order, gentlemen. I want to inform the committee that I have received a letter from the minister asking me to place before the committee a letter that was addressed to the chairman of the parliamentary railways committee from the Grand Trunk Senior Stocks Company, Ltd., signed by Mr. Hawkin. The letter reads as follows:

Dear Sir:

Will you please ask your committee to consider the petition presented to the House of Commons in April, 1930.

I would like you to note that. He goes on to describe the procedure that has been taken by the Grand Trunk Senior Stocks Company in order to obtain from the government a kind of settlement; and at the conclusion of the letter he says:

We have sent more precise details of our claim to the Hon. the Minister of Justice.

Attached is a copy of the petition that was placed on the table of the house in 1930. I really do not see the object of bringing this before the committee. It has nothing whatever to do with this committee. The matter is at present in the hands of the Department of Justice. A fiat was applied for in 1930 and was refused by the government. It was appealed from and the decision of the Privy Council was given on the subject matter. I understand that now certain claims are before the Ontario court and are really *sub judice*. I do not see how we can ask this committee to place on the table of the house not a petition but a copy of a petition that has already been tabled in 1930. It is not usual to place on the table of the house a copy of a petition. We usually place the original there, and the original was placed on the table of the house in 1930. So therefore, instead of placing this petition on the table of the house, I propose to refer the whole thing to the Department of Justice, as we are informed that they are already in possession of further details in connection with the matter.

Mr. RYAN: To whom is the letter addressed?

The CHAIRMAN: The letter is addressed to the chairman of the parliamentary railways committee. It was sent to me by Mr. Howe; and I think it was handed to Mr. Howe by Mr. Vien, if I am not mistaken.

Hon. Mr. HOWE: Yes.

The CHAIRMAN: We can do nothing. We are not in a position to consider this claim. The matter is in the hands of the Department of Justice. It seems to me that the simplest way would be to send all the documents to the Department of Justice for consideration.

Mr. BOTHWELL: In accordance with your suggestion, Mr. Chairman, I move accordingly, that the matter be referred to the Department of Justice.

The CHAIRMAN: It is moved by Mr. Bothwell, seconded by Mr. Howe, that the correspondence I have received be submitted to the Department of Justice for consideration.

Mr. WALSH: Might I ask who handed that letter to Mr. Howe?

Hon. Mr. HOWE: Mr. Vien.

Mr. WALSH: Is that Colonel Thomas Vien, M.P.?

Hon. Mr. HOWE: Yes.

Mr. WALSH: Colonel Vien is not here at the present time. Would it be well to delay putting the motion to the committee until Colonel Vien has an opportunity to explain the reasons why he gave that letter to the minister?

The CHAIRMAN: I saw Mr. Vien himself, and he explained to me that he simply received the letter. He used the *modus vivendi*. He says he is not interested in the matter, except he wanted me to place this on the table of the house—a thing which cannot be done. So, therefore, I propose to short-circuit it and hand the matter to the Department of Justice for their consideration.

Mr. YOUNG: Is Mr. Vien's name mentioned on that?

Hon. Mr. HOWE: No. It is addressed to the chairman of the parliamentary railways committee.

Mr. YOUNG: That is why I thought it came to him. The only thing I was going to suggest is that, inasmuch as it is a railway matter, that it be sent to the Minister of Transport. We will appear to be making some disposition of this matter by sending it to the Department of Justice and asking them to do something with it. I suggest that we send it to the Minister of Transport and let him do whatever he likes.

Mr. HEAPS: Would it not be better if we just simply tabled that, Mr. Chairman?

The CHAIRMAN: Place it on the table of the house?

Mr. HEAPS: No, table it in this committee.

The CHAIRMAN: I have no objection. But Mr. Vien was of the opinion that this letter should be placed on the table of the house by the chairman of the committee. After perusing the correspondence I note that the last paragraph in this letter states that further details of this claim have been sent to and are in the hands of the Department of Justice at the present time. The petition is not a petition. It is a copy of a petition which has already been tabled, and was placed on the table of the house in 1930. We are not in a position to file a copy of a petition; so I propose simply to send the whole of the documents to the Department of Justice for further action.

Mr. HEAPS: No, Mr. Chairman. It might be a mistake to do anything of that character. If we send a communication from here to the Department of Justice, we are going to ask them to give it full consideration; and, personally, I am not in favour of any other department taking action in this matter, particularly if it is before the courts. I think if we simply table the matter here, that is about as far as we can go. If there is any action to be taken, I presume those who sent this communication to Mr. Vien in the first place will know where to send the correspondence to.

Mr. BOTHWELL: Speaking to the motion again, it does seem to me that since the members of this committee know that the matter has been referred to the Department of Justice and the file is in their hands, we might as well dispose of it, instead of cluttering up the records of this committee, by having all the papers together. We are not committing ourselves in any way by simply stating to the Minister of Justice that we have received this correspondence, that we believe the matter is in his hands, and we are sending it to him.

The CHAIRMAN: That is what I thought.

Mr. RYAN: I would move as an amendment to the motion, that this correspondence be returned to the authors, informing them that we have no jurisdiction to deal with it.

The CHAIRMAN: Mr. Vien is here now.

Mr. VIEN: I should like to bring to the attention of the chairman the fact in the first place a petition is addressed to the House of Commons.

The CHAIRMAN: A copy of the petition is addressed to the House of Commons, which was already tabled—placed on the table of the House of Commons in 1930.

Mr. VIEN: Secondly, that this petition was sent to me by mistake and I drew the attention of the minister to it. I discussed the matter with the clerk of the house, and Dr. Beauchesne tells me that the petition is out of order because it is not properly signed.

The CHAIRMAN: That is exactly what I said.

Mr. VIEN: Therefore you can advise those who have written to you that the petition has already been tabled in the house in 1930; and that a document cannot be filed in the form in which this is submitted because it is not signed by the proper parties.

The CHAIRMAN: I would like to call your attention to the fact that the original copy of this, duly signed, was placed on the table of the house in 1930, and this is simply a copy. Now, is it the desire of this committee to table the copy of the document that has already been tabled? I cannot see any object in doing so.

Mr. KINLEY: I second Mr. Ryan's motion.

Mr. VIEN: I think the parties who have addressed a letter to you should be answered.

Hon. Mr. STEWART: It seems to me that the suggestion made by Mr. Heaps is a regular and proper one: place it on the table of this committee and let it lie there. We are taking no action whatever in connection with it at this stage, but later in the discussion there may be something in it to which we may desire to refer. Apart from that, it is the courteous thing for this committee to do. If we have to deal with it we shall be in a position to do so.

Mr. KINLEY: I seconded Mr. Ryan's motion and I did so for this reason: it is a matter we can do nothing about, and the best thing we can do is to tell them so. Mr. Ryan's motion is to return the document to these people and say we have no authority to do anything about it.

Mr. HEAPS: If we table it we will be following the action in the house in 1930.

The CHAIRMAN: All right. The document will be placed on file.

Now, in accordance with the instructions of the committee we notified the secretary of the Canadian Chamber of Commerce that we would be sitting to-day. The secretary has written to Mr. Clark and Mr. Clark has written to the clerk of this committee asking whether we could possibly notify these people when we would meet next week. Now, I intend, with the consent of the committee, to meet to-morrow morning. Would it be possible to notify them that we will be sitting to-morrow?

Hon. Mr. STEWART: If they are not ready and cannot come I do not presume that would get us very far. Does he ask for time?

The CHAIRMAN: Yes. He says, "Perhaps you will be good enough to advise me when the committee is sitting next week so we can shape our plans accordingly."

Hon. Mr. HOWE: Shall we say next Tuesday?

Mr. YOUNG: It might be a good plan if they shaped their plans to suit this committee. I do not think we are running this committee to suit that Chamber of Commerce or any other Chamber of Commerce. I suggest notifying them to come to-morrow and tell them that they will be heard.

The CHAIRMAN: That is what I had in mind.

Hon. Mr. STEWART: Is not that rather an arbitrary position for this committee to take when a recognized institution like the Canadian Chamber of Commerce, undoubtedly interested in this important question, asks for an opportunity to be heard—to say that we will arbitrarily fix a date and if you do not come you cannot get in.

Mr. KINLEY: Tell them the date when we meet.

The CHAIRMAN: No. I think these people will be absolutely satisfied if we wire them to-day that we are sitting to-morrow; and if they tell us that they cannot be here to-morrow we will hear them next week.

Mr. HEAPS: We are not going to have a special session for them?

The CHAIRMAN: No, no.

The discussion is on the memorandum submitted by the minister.

Mr. KINLEY: Mr. Chairman, we have read with interest this illuminating explanation, but I would ask for some further information with regard to the duplication you speak of. For instance, there is, "Elimination of loans applied for deficits by concurrent reduction of deficit account, \$361,244,349.91" and "Elimination of accrued interest on loans by concurrent reduction of deficit account"

The CHAIRMAN: From what page are you reading?

Mr. KINLEY: From page 3—" . . . \$495,030,137.29." Now, Mr. Chairman, this is real money, of course, and I presume that the money was borrowed on debentures of the Canadian National Railways created by the federal government.

Hon. Mr. HOWE: No.

Mr. KINLEY: It was real money. What I would like to ask is how is this obligation met?

Hon. Mr. HOWE: That is paid from the consolidated fund, loaned from the government.

Mr. KINLEY: It was paid from the consolidated fund of Canada each year. Therefore, it appears in the railway account as a liability to the railroad and the people of Canada.

Hon. Mr. HOWE: Yes.

Mr. KINLEY: It appears in the consolidated account as a contribution to the railway?

Hon. Mr. HOWE: That is right, yes.

Mr. KINLEY: Does it appear in the consolidated account as a liability of the people of Canada?

Hon. Mr. HOWE: It is charged off in the net debt. It is taken into the net debt of Canada which is covered by bonds of the Dominion of Canada.

Mr. KINLEY: Covered by bonds of the Dominion of Canada. Therefore, there is existing for this amount bonds of the federal government.

Hon. Mr. HOWE: They are not earmarked as such.

Mr. KINLEY: They exist.

Hon. Mr. HOWE: There are certain bonds—there is certain money, I suppose.

Mr. KINLEY: And those bonds already exist as a liability in the borrowing of the Dominion Government, do they?

Hon. Mr. HOWE: Right.

Mr. KINLEY: And, therefore, if you take that out of the railway account it does not increase the debt of Canada.

Hon. Mr. HOWE: That is correct, yes.

Mr. KINLEY: But you have a duplication.

Hon. Mr. HOWE: Yes.

Mr. KINLEY: And you carry this liability you are going to write off.

Hon. Mr. HOWE: That is right.

Mr. VIEN: On that point, are not these liabilities of the Canadian National Railway system shown as an account receivable on the public accounts of the Government?

Hon. Mr. HOWE: Not as an active account, no.

Mr. VIEN: Not active, but inactive.

Mr. SMART: It is a net debt.

Mr. VIEN: Is not the Canadian National Railway system indebted to the Government of Canada in that account?

Hon. Mr. HOWE: Loans inactive—non-active.

Mr. VIEN: Yes. Non-active assets. Colonel Smart says no, and it may be so, but I would like to ascertain how on the books of the Canadian Government is shown the amount owing the Canadian Treasury by the Canadian National Railways.

Mr. SMART: It is included in the net debt. In the list of the net debt are included these two items \$442,000,000 and \$655,000,000 as being in the net debt of Canada in the the public accounts.

Mr. KINLEY: That would increase the net debt.

Hon. Mr. HOWE: No. There is no increase in the net debt; they are already in.

Mr. VIEN: It is shown in the net debt as a liability of the Government. I appreciate that. But is not the Canadian National Railway system owing the Government a certain amount of money for the advances which from time to time were made to it?

Hon. Mr. HOWE: They owe the money, yes; but the Dominion has written it off as an asset.

Mr. BEAUBIEN: When was that?

Hon. Mr. HOWE: 1920.

Hon. Mr. STEWART: Is there some reference to it in the annual report of the railway, 1935?

Hon. Mr. HOWE: Yes, it is still in the railway account.

Mr. MAYBANK: The debtor still carries it in his books, but the creditor ceases to regard it as of any value and has written it off.

Hon. Mr. HOWE: That is the situation.

Mr. VIEN: That is the point. I am not criticizing it at all. I am only trying to find what the entry is in the books.

Hon. Mr. HOWE: I can give you the history of that. In 1920 Sir Henry Drayton took this money or these debts owing by the Canadian National Railways and included them in his net debt.

Mr. VIEN: How was it shown in the budget of 1920? Was it shown as a debt owing the Canadian Government as well as a liability by the Canadian Government for the guarantees given in that respect?

Hon. Mr. HOWE: It is shown as money owing by the railway to the Government; and he simply took that money and put it in his budget. The people of Canada appropriated money to wipe that debt off.

Mr. VIEN: Was it done that way?

Hon. Mr. HOWE: Yes. It was done that way.

Mr. VIEN: That is that all the money that was owing the Canadian Treasury by the Canadian National Railway system was written off by an appropriation of funds by Parliament; is that correct?

Hon. Mr. HOWE: Yes, that is correct.

Mr. VIEN: Would you kindly—

Hon. Mr. HOWE: I looked it up carefully. I went back to the public accounts of that year.

Mr. VIEN: I am like a man from Missouri; I would like to be shown how it was done.

Hon. Mr. HOWE: I have not the report of Sir Henry Drayton for the year 1920-21 here, but you will find it set out specifically.

Mr. MAYBANK: Are you referring to his budget speech?

Hon. Mr. HOWE: No. It is in the report of the treasury for that year.

Mr. DEACHMAN: It still remains, does it not, as an asset non-active? It was transferred to non-active assets.

Hon. Mr. HOWE: Yes. Non-active assets.

Mr. DEACHMAN: Just as if I owe you a million dollars and you do not consider it to be any good, so it is non-active.

Hon. Mr. HOWE: Correct.

Mr. DEACHMAN: Then, therefore, it is still shown as an asset of the Canadian government which is unproductive.

Mr. SMART: No. They take that off if the net debt is determined. It is included in the net debt.

Hon. Mr. HOWE: It is a remote possibility. It is one of those things you write off your books and where you say: if they pay it it is all right with me; but if they do not pay it, I am not out anything.

Mr. BEAUBIEN: The treasury absorbed that and you increased the national debt by that amount.

Mr. MAYBANK: You increased the net debt by that amount.

Hon. Mr. HOWE: Don't get confused by net debt. There is no other debt that I know of.

Hon. Mr. STEWART: Is there any reference to that item on page 17 of the annual report of the Canadian National Railways system for the year ending December 31, 1935?

The CHAIRMAN: What page?

Hon. Mr. STEWART: Page 17.

Hon. Mr. HOWE: Loans from the Dominion of Canada.

Hon. Mr. STEWART: Loans from the Dominion of Canada?

Hon. Mr. HOWE: \$679,000,000 odd. That item includes it.

Hon. Mr. STEWART: Does it include it?

Hon. Mr. HOWE: Yes. It is included in that.

Hon. Mr. STEWART: The railway company's own statement on page 17 has a liability of the railway to the Dominion, and it is put down there as a loan.

Hon. Mr. HOWE: That is right.

Mr. KINLEY: Take the first item on page 3: "Write-down of capital stocks and old debentures by concurrent reduction of property accounts." You write down the capital stock; what about the old debentures? What do you mean by that?

Hon. Mr. HOWE: The old debentures were debentures issued before confederation to cover a loan of \$15,000,000 to the Grand Trunk Railway. There was a reorganization of the Grand Trunk Railway subsequently and the government arranged in connection with that reorganization that the loan would be junior to the common stock which was issued as part of the reorganization. Since then the common stock has been found by an arbitration commission to be valueless, and anything junior to it must also be valueless.

Mr. KINLEY: Those old debentures do not exist now, do they?

Hon. Mr. HOWE: Oh, yes. They exist in the railway account.

Mr. KINLEY: Now, coming down to the other end we get the Canadian Northern picture. It appears that you value your interest in the Canadian Northern only at \$18,000,000. That is on page 3.

Hon. Mr. HOWE: The common stock. That is all it cost us.

Mr. KINLEY: That is all the Canadian Northern cost the people of this country?

Hon. Mr. HOWE: Yes. That is all the stock cost us. Of course, there were all sorts of bonds to be perpetuated.

Mr. KINLEY: That is the trouble with the Canadian National Railways; the whole cost is in bonds.

Hon. Mr. HOWE: Quite. There is no reason why we should carry the stock in a fictitious way.

Mr. KINLEY: What was the loss to this country in the Canadian Northern? What do you figure that at?

Hon. Mr. HOWE: It did not represent money. It was only pieces of paper. We acquired that paper and it cost us \$10,800,000 to acquire 60 per cent of it and, therefore, we feel that we can properly value all of the stock at \$18,000,000. But it did not cost the people of Canada anything; they had no investment in it.

Mr. KINLEY: In your bill in regard to Canadian Northern stock you have it written down to \$18,000,000. Do you mean to say you are not writing off a loss?

Hon. Mr. HOWE: No. The Canadian Northern stock was issued by the Canadian Northern Railway Company. The government had no interest in it until they bought the stock in 1917 or 1918, when they took over the liabilities in addition to that.

Mr. KINLEY: How much of the liabilities did you take over when you took over the Canadian Northern?

Hon. Mr. HOWE: I hesitate to say. That is all shown in the balance sheet there.

Mr. KINLEY: With regard to the Intercolonial Railway; I think we should clear up that picture a little; of course, it was built under statute, and the statute provided for a sinking fund; that an amount over the cost be paid by the government of Canada and that a sinking fund be provided of so much a year. It is fair to assume then that the railway had no debts when it entered the Canadian National Railways system, except the deficit?

Hon. Mr. HOWE: Well, of course, the cost of the railway is shown in the government books. It had no debt to carry in its books. Its debt to-day is a non-interest bearing debt. That is the picture in the balance sheet we were talking about.

Mr. KINLEY: A sinking fund was provided in the legislation?

Hon. Mr. HOWE: What good is a sinking fund if there are no profits?

Mr. KINLEY: That sinking fund was to be set up out of public revenues and not by the railway. It was to be paid by the government under that act.

Hon. Mr. HOWE: We are doing about as much as we can for the Intercolonial when we are taking it out of the debt class. It is simply a proprietor's equity; in other words, the government spent some three hundred million dollars odd in building it and therefore it has an equity as a proprietor to that extent; but equity means nothing unless it earns a return.

Mr. KINLEY: Now, we are not Social Crediters, these figures you know are rather large.

Hon. Mr. HOWE: They are rather large figures.

Mr. MAYBANK: As far as that goes, the Intercolonial is something of a social heritage.

Mr. KINLEY: Here is the point I want to make with regard to the Intercolonial Railway entering into the picture you present for the readjustment of railway finances; it is in better company—

Hon. Mr. HOWE: Quite.

Mr. KINLEY:—and it has been operated as a part of the Canadian National Railway system for some years.

Hon. Mr. HOWE: Yes.

Mr. KINLEY: Therefore, anything you can say about the Intercolonial Railway in so far as this readjustment is concerned is to its benefit.

Hon. Mr. HOWE: Quite.

Mr. HEAPS: Might I ask if it is not a matter of information that the minister or any of those with us to-day might give to the committee an idea of the operations of the Intercolonial Railway since say the coming into effect of the Maritime freight rates structure, showing the actual operations of the road since it became a part of the Canadian National Railway system.

Hon. Mr. HOWE: That has no bearing whatever on this bill.

Mr. HEAPS: This has some little bearing, and I think that is shown by the questions which were raised at our last meeting and which have been raised here again to-day; and I think if the picture which has just been presented with respect to it were to go out it would be giving a wrong impression.

Mr. BEAUBIEN: Is there any such thing as the Intercolonial Railway to-day?

Hon. Mr. HOWE: Oh, yes.

Mr. HEAPS: I think the figures must be here somewhere this morning, and I would like to know what the operating profits were.

Hon. Mr. HOWE: The profits are consolidated. It is operated as a part of the Canadian National system. I do not think you could segregate that. I do not see how you could show that even in the calculations showing the total earnings. What about the freight originating elsewhere which travels only in part over the Canadian National system?

Mr. HEAPS: We do know it. We had that figure submitted to the committee; and we also had the amount which the government gives by way of subsidy to that part of the system, that 20 per cent freight rate reduction.

Mr. BEAUBIEN: Has that any bearing on this bill? I don't see why we should go into that.

Mr. RYAN: I do not think it would be a fair proposition to go into it from the time it was taken over by the Canadian National Railways.

Hon. Mr. HOWE: I think Mr. Ryan is right in that. I don't see any sense in that.

Mr. MAYBANK: I would like to get the information that has been asked, but we are governed to a certain extent by time; and in any event if we tried to get the complete picture of the Intercolonial we would have to go away back of 1867.

The CHAIRMAN: It seems to me that the proper time to consider that would be when we have the report of the railways before us.

Mr. HEAPS: What I wanted really was just from the time the Maritime Freight Rates Act came into effect with its 20 per cent reduction in rates.

The CHAIRMAN: All these figures will be available when the report of the railways is before us.

Mr. WALSH: Might I ask the minister a few questions, and just make some comments on the substance of the document which was read at our last meeting. I would like to ask the minister if this bill will have the effect in any way of increasing the revenue of the Canadian National Railways?

Hon. Mr. HOWE: That is rather a hard question to answer, you cover a large amount of territory there. My impression is that it will at least have the effect of reducing the cost of financing, which is one of the very large operating items.

Mr. WALSH: That is not revenue is it?

Hon. Mr. HOWE: It is in effect; a penny saved is a penny earned, isn't it?

Mr. WALSH: Not always, no. Could you suggest that it is going to increase the earning power of the Canadian National Railways in any way?

Hon. Mr. HOWE: I would not say that it has no effect on the operating statement.

Mr. WALSH: You would suggest by your last statement that there will be a certain decrease in the cost of operation, it would not decrease the cost of operation in any way.

Hon. Mr. HOWE: No. I think it will tend to decrease the cost of financing. How much, no one can say.

Mr. WALSH: I have a suggestion to make with respect to some of the recommendations contained in this bill, and the elaborations thereon which have been given by the Minister of Transport. I think neither of these meets with the unanimous approval of the committee, some of the recommendations do not. This is one of the biggest financial transactions with which the people of Canada have been faced since we became a Dominion and a nation, involving as it does liabilities in excess of \$1,800,000,000. I doubt if any of us can have any adequate conception of the meaning of that figure. I doubt, and I say this with all due respect to the committee, and every member of it including myself, I doubt whether any of us are in a position satisfactorily to pass judgment on the merits of this bill in our present state of enlightenment. The sums involved are tremendous. The changes are of tremendous consequence, both to the railway and to the Dominion of Canada. I feel, Mr. Chairman, that this committee should have the benefit of expert advice, other than what we have already had. The recommendations of the minister as contained in the bill are based upon the approval, the sanction, the recommendation if you like, of one firm of auditors, Touche and Company, no doubt, aided and abetted by the accounting officials of the Canadian National Railways.

Hon. Mr. HOWE: Let us examine that.

Mr. MAYBANK: I think that word "abetted" is little strong, we haven't got any criminal charge against them anyway.

Mr. WALSH: I mean, acting with their advice; I did not mean to imply anything derogatory to them by my use of that word.

Hon. Mr. HOWE: This transaction is a very simple one. We have one set of books showing the debt of the National Railways at so much, and we have another set of books showing the national debt at so much; we are simply reconciling the two, and where these debts appear in both sets of books we are eliminating them.

Mr. WALSH: That may be the opinion of the minister, but with all due respect to the minister it is not mine. This is the recommendation of Touche and Company.

Hon. Mr. HOWE: If you read the recommendation of Touche and Company you will find that it is hardly parallel.

Mr. WALSH: There is very little difference up to the point where you appoint a body to be known as a securities trust. Up to that point don't they parallel? And then there is a diversion; and I understand of course that the accounting officials of the Canadian National Railways are indeed in agreement with the suggestions made by the minister. In fact, I could read in the minister's statement of last week, with all due respect to the minister, I could read in that statement the expert hand of the statistician and economist.

Hon. Mr. HOWE: Don't cover too much territory.

Mr. WALSH: I feel that as a business executive or engineer, having read this report and giving us his opinion of it and the statement which went with it, the minister would use language of a somewhat different nature. But as a receiver—

Mr. KINLEY: He was a receiver of wrecks.

Mr. WALSH: I wish rather to press the point that we are not, in a position satisfactorily to deal with this matter. We have been given an onerous duty by parliament. Parliament expects us to discharge that duty in the best possible manner and to bring in a report to them which they can feel has been developed through the best possible means placed at our disposal; the people of Canada expect likewise from this committee, and from parliament. I want to assure the committee that I have spent long hours in the study of this report. I am not offering these observations as the result of just a brief survey of the material involved. I have made a thorough study of all the minister has said, and also of the Touche report, and other reports which preceded it. I have studied them very carefully and I feel after all that close study that I am not in a position satisfactorily to pass judgment on some of the items in this bill. I for one, and I feel there are other members of this committee here who share my view, would like to hear the expert advice of some firm of auditors other than Touche and Company as to what they think of the proposals involved in this bill.

Mr. HEAPS: Who do you suggest, Mr. Walsh?

Mr. WALSH: I do not think there is much need of a suggestion from me. Who does it for us is relatively unimportant. As you know, there are such firms as Price, Waterhouse & Co., P. S. Ross & Sons, the Hon. Gordon Scott—well known to the minister; also Macdonald & Geary—George Geary I think is well known to the members of this committee. There are a good many others whom I could name who are competent to take this report and this bill and the minister's notes and give us the benefit of their advice as experts as to whether they consider the steps that are being proposed are in the best interests of the railways and in the best interests of the people of Canada.

Hon. Mr. HOWE: Since when has an auditor been called on to deal with matters of policy. A firm of auditors can merely tell you whether or not certain figures are correct.

Mr. WALSH: It is not a matter of policy, Mr. Minister.

Hon. Mr. HOWE: It is entirely a matter of policy.

Mr. WALSH: This is a matter dealing with \$1,800,000,000 of money which is at the present time presumed to be invested in the Canadian National Railways.

Hon. Mr. HOWE: Are you suggesting that the figures are not as we represent them?

Mr. WALSH: The figures are as you represent them, as you can get at these figures; but when it comes to dealing with these figures, I do not know whether the way in which you have dealt with them is satisfactory to this committee, and to the people of Canada; and I can't know that on the recommendation of one firm of auditors only, namely Touche & Co.; or even on the recommendation of the statisticians and economists of the Canadian National Railway. Now, I would like to urge that point. I could go further in elaborating my reasons for raising it. I am not in agreement, I am in total disagreement, with this scheme which brings into being through section 12 a new organization known as a securities trust. Now, I want to point out to the members of this committee that the minister is creating through this bill something which would not be allowed or tolerated in private practice. Here is a parent company going into private practice with a subsidiary. The subsidiary gets into financial difficulty. The parent company advances money and charges interest. The subsidiary gets into such a position that it cannot be responsible for the money loaned nor for the interest. The parent company then says to the subsidiary company: "Forget all about it, we will create another company, a third company, and we will take the stock of the other company and transfer those loans and the interest on loans to this third company."

Mr. KINLEY: Who proposes that?

Mr. WALSH: The analogy here is the same. The government is the parent company; the Canadian National is the subsidiary company; the Securities Trust is the third company that is to be created, and it has no connection with the debts of the Canadian National, but it has a direct connection with the parent company, the government of Canada.

Mr. MAYBANK: What about this—

Mr. WALSH: Just a second until I complete this statement.

Mr. MAYBANK: I thought you would clear up this one point.

Mr. WALSH: I will in one second, but I want to complete the analogy. If a private company came here with a bill to do such a thing we would laugh them to scorn. If they did such a thing we would bring them before the courts and charge them with fraud or attempted fraud. That is my position.

Hon. Mr. HOWE: Who are they defrauding?

Mr. WALSH: Defrauding the public, in that they would be presenting a balance sheet for this subsidiary company that does not represent the true and complete picture of that subsidiary company; and that is exactly what this bill is doing through the Securities Trust. It is taking away from the Canadian National Railways certain sums of money that the people of Canada have invested in the railway, and on which they are entitled to see some returns sometime. They are taking them away, not taking them to themselves, but investing them in a new corporation, and that new corporation, if I may use the term, Mr. Chairman, to my mind, and without any political significance, I would suggest is going to become a regular sink hole for all the deficits that have been created and will be created in connection with the Canadian National Railway. I am going to be most vehement in my protest in this committee and in parliament against the establishing of such a precedent, a precedent we would not allow to exist in private practice, setting a bad example to business in this country and simply blurring the balance sheet of the Canadian National Railways so that we shall not in any way in the future be able to tell exactly how much money the people of Canada have invested in the railway, and what that railway was actually costing them.

Mr. MAYBANK: There is this important distinction between your subsidiary and the parent company and the situation which we have before us, namely, that in the case of a subsidiary and the parent, the analogy that you

have drawn, you may have different bodies of shareholders; but in this case, the parent and child, you have only one body of shareholders, the Canadian people. Is not there that important distinction, or is that any distinction?

Mr. WALSH: It is no distinction, because in the analogy I was making, the parent company would still be the controlling factor in both these companies. In other words, it would be the commencement of a triangle, the base of the triangle connecting the Canadian National Railways to the Securities Trust would not be completed. There is no possibility of consolidating accounts in connection with the Securities Trust and the Canadian National Railways in the scheme that the minister proposes to set up.

Hon. Mr. HOWE: Your remarks are entirely untrue, and your statement that this would not be tolerated in private finance is entirely untrue, because it is done every day. I could show you fifty balance sheets—

Mr. WALSH: Do you mean to tell me that a private company having a subsidiary company which owed the parent company money could create a third company and take away from that subsidiary company all the debts and obligations that it owed to the parent company and transfer them to a third company without any reference being made in the books of a subsidiary company or in the financial statement or analyses of the subsidiary company? It would not be allowed in practice.

Hon. Mr. HOWE: It would not be allowed if the parent company and the subsidiary company had a duplication of debt. The income tax department would not allow it.

Mr. WALSH: Mr. Chairman, if the company came here and asked parliament to give it the power to create such a third party, parliament would not allow it. You would not allow it. It is not in conformity with law as it stands at the present time, or with practical accountancy. I do not think that the—

Mr. PARENT: What is the difference? It is the same guarantee; the government guarantees it.

Hon. Mr. HOWE: This company is simply devised to preserve the equity wholly owned by the Dominion government, and that equity is being put at a reasonable value instead of a fictitious value.

Mr. HEAPS: Would you consider the government in the same position as a private corporation?

Mr. WALSH: I was drawing an analogy between the two. I do not think we should allow the government to start a practice that we would not tolerate in private practice.

Mr. HEAPS: I wonder if Mr. Walsh would be good enough—

The CHAIRMAN: Order, gentlemen. Mr. Walsh has the floor.

Mr. PARENT: Mr. Walsh ought to get in touch with an accountant himself, invite him to lunch and discuss it privately with him.

Mr. WALSH: I am glad that remark was made, because that is the point I am trying to emphasize. I want another firm of chartered accountants to go over these statements, to go over the statement of the minister, to go over the bill as it is presented, and to appear before this committee and give us their opinion as to whether they consider this method of procedure valid or not.

Mr. BEAUBIEN: Would they be any better than the auditors we have?

Mr. WALSH: It would be better than Touche & Company. Touche & Company, I would say, are prejudiced witnesses. I want an unprejudiced witness to come before this committee to pass judgment on this suggestion and to give me further and additional light so that I can see where I am right and where I am wrong.

Mr. YOUNG: I should like to ask Mr. Walsh why he says this particular firm of auditors is prejudiced? That is a very serious charge to make against any auditing firm.

Mr. WALSH: It is not a serious charge against them at all. Touche & Company were the previous auditors. They got a report from the accountants or the comptrollers or financial advisors of the Canadian National Railways. On that they based the report a few years ago. They were replaced as accountants by another firm last year. This year they are again back, and based on their report and their previous study they no doubt second the minister's proposal. Now, I consider that is only one firm's opinion—

Mr. HEAPS: That is not fair.

Hon. Mr. HOWE: This is purely a matter of eliminating duplication; that is all. There is a matter of policy involved. We consulted Touche & Company in regard to the matter of eliminating duplication. We asked them to check our figures.

Mr. WALSH: Your report and your action is based altogether on the report that Touche & Company made two years ago.

Hon. Mr. HOWE: You read it. I read it about a year and a half ago, but I have not read it in the last year and a half.

Mr. WALSH: I have read it in the last three weeks.

Mr. PARENT: What is there to prevent you from getting your own accountant?

Mr. WALSH: I cannot afford it. This committee ought to have the benefit of that advice. I know when we come before any other committee in parliament that that committee is given leave to obtain counsel and expert advice. Probably the objection is I am not proposing to bring a number of lawyers here to give expert advice. I want to bring accountants here who understand railway accounting, so that they can give us the benefit of their judgment.

Mr. RYAN: Would you accept the advice of an independent auditor?

Mr. WALSH: It would help me to form an opinion. I want to suggest to the minister that we have a problem here. I am fully cognizant of the fact that it is a tremendous problem; I am not minimizing the problem, but I feel that we are not meeting that problem in a courageous way. They have similar problems in other parts of the world. If we go to the Commonwealth of Australia at the present time we find that they are dealing with exactly the same problem; but they are not dealing with it in the way that we are dealing with it—

Hon. Mr. HOWE: Much more drastically.

Mr. WALSH: They are facing it in a courageous way, and they are leaving the railways with a balance sheet each year that will show the public exactly how much money has been spent on the investment in those railways.

Hon. Mr. HOWE: That is not correct at all. They have written off the advances and a considerable part of the capital cost.

Mr. WALSH: They have taken due note of that in the balance sheet that is to be published in connection with those railways. There is another point of difference—

Mr. HEAPS: Is it not a question how they came into ownership of those railways?

Mr. WALSH: They came into ownership very much in the same way that we came into ownership of ours.

Mr. DEACHMAN: Would you explain one detail, and that is how this may be a means of depriving the government of a return from the C.N.R. What do you mean by that?

Mr. WALSH: We have made certain investments in the C.N.R. We do not know what the future has for us. It has been the hope and expectation in the various reports, the Drayton report and the Duff report, that the road would eventually pay returns to the government; at least that has been the anticipation. Now, far be it from me not to anticipate some kind of a return on our investment in the distant future.

Mr. MAYBANK: That is just the point in this question. How would they get away from the government?

Mr. DEACHMAN: Who is going to get the return if we do not when we own the stock and have control of it?

Mr. WALSH: You are getting away from the Canadian National altogether; you are going into a new corporation, the Securities Trust.

Mr. DEACHMAN: Who owns the new corporation?

Mr. WALSH: We own it, but we have it, as we own the capital stock of the Securities Trust.

Mr. DEACHMAN: Tell me how the government, who owns the railroads, is going to be deprived of the future earnings?

Mr. WALSH: It is not going to deprive—

Mr. DEACHMAN: Suppose there is a surplus of ten million dollars in the Canadian National Railways next year, who will get it?

Mr. WALSH: It is not going to deprive the railway directly of future earnings, but it is going to do this—I was not going to mention this point, but seeing that you insist on it I will do it—it is going to show a picture in the balance sheet that is not a real picture of the Canadian National Railways from year to year. It is going to show an enhanced picture of the railway and the conditions of the railway from the financial point of view. The result will be a suggestion to lower freight rates, a suggestion for increased expenditure. It may even lead to an era of extravagant expenditure such as we had during the 1920's, if we do not keep before the public and ourselves the real picture of the cost of the Canadian National Railways to this country.

Mr. DEACHMAN: We are not doing that now, if in the accounts of the railway and the government we show a duplication of \$1,800,000,000. Is it courageous to retain a duplication of figures that is not true?

Mr. WALSH: It is not good policy to introduce into this country unsound accounting practices.

Mr. DEACHMAN: Let us have what you would do.

Hon. Mr. HOWE: It may be interesting, if you will excuse me, to go back some years. I take it you will take Sir Joseph Flavelle as a fairly sound financier?

Mr. WALSH: He is one.

Hon. Mr. HOWE: He is the president of the Bank of Commerce.

Mr. WALSH: He has been a success.

Mr. MAYBANK: I do not think it is right to ask for an admission of that kind. I take it Mr. Walsh will not admit that, until he knows what is behind it.

Mr. WALSH: I want the committee to agree to my suggestion that we should get expert advice over and above what we have at the present time in order to facilitate the discussion and aid us in reaching a reasonable and satisfactory conclusion. That is the main point in my argument this morning.

Mr. PARENT: Then you have to get another referee.

Mr. HEAPS: I should like to know what an expert is.

Hon. Mr. HOWE: An expert accountant is one who will tell you whether your figures are correct or not. An expert on policy is a man who by the exercise of his judgment is able to decide whether that policy is sound or unsound.

Mr. DEACHMAN: I thought that an expert was a mediocre man away from home.

The CHAIRMAN: We have before us a request from the Canadian Chamber of Commerce to appear before this committee. Do you not think we should wait until those people have appeared before us and have given us their views? They may have studied this matter and be able to give their views, which might provide some enlightenment for us.

Mr. WALSH: I am looking for light.

Mr. KINLEY: Mr. Chairman, I think we lose sight of the fact that, after all, this is cleaning up a bankruptcy situation. There is no difference that I can see between this and what you do in a private business, except that we are doing by an act of parliament what a private business man would have to do through the courts and negotiation. I do not see a bit of difference. What is the good, in a sound balance sheet, of keeping on setting out as assets things that are worth nothing? That is the worst kind of deception. In private business that would not be allowed at all; and if you did it, you would be apt to find yourself in trouble. I think we should present the true picture. There is this feature about it, that the Canadian National Railways' first obligation is to pay interest on the money that they have borrowed; and that is the amount of their worth, as it were. A private company has capital stock, and if they do not make money they pay no dividends. Is it fair to pyramid deficits every year on this railroad and to add that to the burden? It seems to me that is an impossible and unwise thing to do. It seems to me that this is the courageous way to deal with the situation, and that it is not a bit different from what would be done in a private business. That is my humble opinion.

Mr. YOUNG: Hear, hear.

Mr. DEACHMAN: Have we a definition of courage?

Mr. KINLEY: Courage is in Bill 12 and this committee. I think when you take the two together, you get courage.

The CHAIRMAN: I understand that Mr. Walsh proposes to make a formal motion on this matter.

Mr. WALSH: I would make a motion, Mr. Chairman—and I have not asked anyone to second it, not even anyone sitting on the Conservative side of the house; but if I can find a seconder I would make a motion that this committee secure the services of some expert accountant versed in railway accounting, to give this committee advice on the bill, and also on the report presented by the minister in support of that bill.

The CHAIRMAN: Then you will not wait to make your motion until you have heard these people from the Chamber of Commerce?

Mr. WALSH: Would you suggest that I make it now, if I can find a seconder? Then I am quite willing to let it stand as notice of motion, shall we say, until after we have heard from the interested bodies. After that it might be convenient to withdraw it. Could I give it as notice of motion?

The CHAIRMAN: I would much prefer that you do not make the motion now, but wait until we have heard these people who have asked to be heard by the committee—make your motion afterwards.

Mr. WALSH: It would be quite satisfactory to me, if it is understood that way.

The CHAIRMAN: All right. Now, gentlemen, is there any further comment on the statement of the minister?

Mr. VIEN: Mr. Chairman, I would like to point out to the committee that in studying this matter we have got to consider the situation as it is presented to us by the minister, and try to analyse it with a view to bringing down a

report to the House of Commons as to whether the recommendations that are embodied in the bill are, in the opinion of the committee, sound and reasonable. If it is not our duty to go into the details of the matters that are submitted to us, it might have been just as well for this bill not to have been referred to the committee, but to have been studied in committee of the whole house. The house in committee of the whole was hardly capable of dealing with it in a minute manner, and that was, I suggest, the intention of the house when it referred it to us.

I confess I am not critical of this proposal. As a matter of fact, last year I suggested that we should consider recapitalization when we were in this committee. The recapitalization which I had then in my mind as being advisable would have been a merger of all the bonds outstanding in the hands of the public, which might be issued under one trust deed, perhaps, with the guarantee of the government, and a conversion made of this indebtedness in some way or another with a view to eliminating the very complicated accounting that so many trust deeds and so many issues of bonds involve, the additional expense in the way of fees to trustees, and the expenses to accountants to keep up the books. I know that the officials of the Canadian National Railways and the department have had that matter under study for a number of years. There were difficulties in the way that were insurmountable at the time; and we are gradually leading up to a recapitalization along the lines that I have just mentioned.

I believe, in answer to what Mr. Kinley has said, that there is, however, a difference between a company like this submitting a recapitalization plan of this nature and a bankrupt company going to the bankruptcy court. In the bankruptcy court the creditors take hold of the affairs of the company, and they compose their claims against the company or they wind it up. Here the creditors are the Canadian people, and the Canadian people should be at all times in a position to know how much that system costs them. Although it is necessary to simplify the accounting of the capitalization, I am afraid that, in the interest of the railway system itself, it is not wise to bring down the capitalization too much. If they showed on this new capitalization a very huge profit there would, as has been mentioned sometime this morning, be a tendency to claim for lower freight rates, lower than what would be reasonable on the basis of the cost of the service to the company. There would also be, probably, a demand for additional expenditures out of these net earnings on the new basis. Then will the new balance sheet of the new financial statement of the company show a true picture to the people of Canada, of how much it has spent for this railway system? These are points about which I confess my inability to express a considered opinion. Through a more careful study than I have been able to give so far to the figures submitted, and through greater enlightenment gained from the minister, the officers of the department and of the railway system, I, as a member of this committee, hope to be able to come to a conclusion. But if we are precluded from going into these figures and questioning the soundness of this change in the accounting with some care, I do not believe that the committee can be very useful.

Mr. RYAN: May I ask a question, Mr. Vien?

Mr. VIEN: Yes.

Mr. RYAN: You say that on the capital structure of the company, if it is placed in a proper picture, if they show large earnings, that might be taken as a justification for asking for a decrease in freight rates. Suppose the opposite picture is given, and on the capital structure they show a tremendous loss. Do you think that ought to be the basis for an application for an increase in freight rates?

Mr. VIEN: No, I do not believe so; because at present there has never been application for increased freight rates on that basis.

Mr. RYAN: Why should there be the opposite?

Mr. VIEN: Oh, well, it might be. There has been no application, but there has been a considerable resistance. I speak with personal knowledge of the facts. There has been, so far, a considerable resistance to lower freight rates on the basis of the costs of the services to the company, both to this system and to the other system, the Canadian Pacific Railway. When I was on the Board of Railway Commissioners I have heard officers of the Canadian National System suggesting that the rates were not too low, but that they were not high enough; and they resisted the application for lower freight rates on the basis of the costs of the services. If you wipe out the amount of capitalization—I am not suggesting that it should be done; I am in an inquisitive state of mind. I have always urged a recapitalization. The recapitalization in my mind was to take the form of a consolidation of all the bond issues and debenture stock issues in one trust deed, and the bonds guaranteed by the government, so as to simplify the accounting, and simplify the expense of carrying these bonds.

Mr. MAYBANK: Keep the load as it is now?

Mr. VIEN: No, not necessarily. There might be some writing off, by way of writing off from the capital structure. But that writing off cannot be intelligently made without a rather comprehensive inventory. I remember, during the course of the investigation into the Bell Telephone Company's rates, before they were granted an increase of rates we compelled the company to make a complete inventory, to determine the cost; and if a re-capitalization by writing off a considerable part of the capital structure of the company were suggested—I am subject to being corrected on this point—I would be inclined to believe that a careful inventory would be in order. Therefore, Mr. Chairman, what I had in mind to suggest is that I do not believe that we can go very fast in the study of these figures, unless we are called upon to consider them in an off-hand manner and pass judgment in that way in the report to the house. This matter is of great importance to the country, and I for one, hesitate to put my name down before I receive some more information.

The CHAIRMAN: Mr. Vien, as you very well understand, the bill will be considered clause by clause. The officials of the department are here to give all the information that you can possibly desire or that they possess, on each clause as we consider the bill. I do not see what purpose can possibly be served at the present time of discussion, especially of that general character, all through the bill, in advance of each paragraph. I think you are losing time.

Mr. VIEN: I think the minister tried sincerely to clear that up by the very comprehensive statement on the finances of the company that he gave. We are now on the report of the minister.

Hon. Mr. HOWE: That is right.

Mr. VIEN: We are on the statement of the minister; and I think that once the financial statement of the minister has been dealt with, there will be very little else to be done when we take the bill clause by clause. That is my impression as to the procedure. I will give you an example of what I have in mind. I was asking a minute ago how this duplication appears in the public accounts, and Colonel Smart was kind enough to point out that at page 2 of the public accounts the net debt is represented by expenditures of some \$88,000,000 in one item and \$655,000,000 on another account of the railway accounts, the schedules of which appear on page 13. These railway accounts are loans on the authority of certain statutes to the Grand Trunk Railway and to other component parts as shown on 13 and 14. I cannot very well understand how a loan to a company which is still carried out as a loss for railway purposes cannot be an asset, but is a liability. I would like to understand that if possible. It seems to me that the loans to the company are shown there as an asset, because if it is a

loan it is an account receivable. I know full well that when somebody makes a loan to me he carries it as an account receivable in his books, and here are the public accounts which show the loans in the column of net debt. There is something there that I cannot understand. We might, perhaps, Mr. Chairman, have the benefit of the Department of Finance—of some officers of the Department of Finance or those in charge of public accounts in the Department of Finance who might give us a very satisfactory explanation about this matter. I confess my inability to express a considered opinion along these lines. I do not want my remarks to be considered as an opposition to the bill; I am not opposing the bill at all; but I feel it my duty to try to understand what is proposed to us before we can pass a considered opinion.

The CHAIRMAN: The matter is very simple. You have at the present time before you the statement of the minister which follows practically in its entirety each section of the bill. You have before you the bill that can be considered clause by clause. If the committee desires to have officials of the Department of Finance present when we are considering each clause of the bill there is no objection whatever. We can go on examining the minister's statement clause by clause.

Mr. KINLEY: May I ask the minister a question. I think it is rather a pertinent question, and it is an aspect which we have to consider. Is there any probability, or is there any possibility of this reorganization of the Canadian National Railways being unfair to private competitive industry in this country?

Hon. Mr. HOWE: Well, I think not. By bringing down the government books, we must not overlook the fact that the Canadian National Railways have the public trust behind them, and that is rather difficult competition. If we were writing down to a point where the capital structure of the Canadian National Railways would be more favourable than the account of its competitor, I would say we were unfair, but we are not doing that. As a matter of fact, the competitor account amounts to about 50 per cent fixed charges and 50 per cent common stock—that is non-interest bearing charges. If we undertake this write-down, the account of the Canadian National Railways will be about 65 per cent funded debt and 35 per cent common stock equity.

Mr. KINLEY: With the same physical assets?

Hon. Mr. HOWE: The physical assets, I think, are valued higher on the government owned road than they are on the privately owned road. I believe the balance sheet will still show a more inflated picture of real property values after we get this done—I am not sure at all—for the Canadian National than for its competitor.

Mr. KINLEY: The immediate question seems to be whether we should have a firm of auditors verify the situation. I think an auditor is a man who determines correctness and accuracy of your accounts, and he does not formulate a policy unless he is sent there by someone who is interested and has a reason to send him. Now, I think the best criticism should come from the people who are hurt, and if anybody is hurt in this country in this connection they are the people who should say so. If a private railroad in Canada is interested, they are the people best qualified to come here and explain their position because they are experts on this very matter; and it might be well for this committee to know whether there is any privately owned road in this country that wishes an opportunity to say that this causes an injustice.

Mr. BEAUBIEN: Do you not think that if they wished to be heard they would be here?

The CHAIRMAN: I have taken the trouble, in accordance with the minister's instructions, to notify the C.P.R. that this committee was sitting.

Mr. KINLEY: I do not think the public is interested in this question at all.

Mr. WALSH: Do you think, or does this committee think for one moment that the Canadian Pacific Railway would appear here, as an organization who are competing and in competition with the Canadian National Railways? Does anyone think they would appear here to give evidence or their conclusions for or against this bill?

The CHAIRMAN: I was not discussing it. I was answering the question.

Mr. WALSH: Replying to that question, it would be perfectly absurd to even anticipate the presence of the C.P.R. here. They could not do that.

Mr. KINLEY: Why not?

Mr. WALSH: In view of their position as a competing road, the public would misunderstand their presence here. It is quite inconceivable for the Canadian Pacific to do that. It is just as inconceivable as it would be, if there were some investigation in connection with the Canadian Pacific, to ask some of the officials of the Canadian National Railways to go there and assist at that investigation on invitation.

Mr. BEAUBIEN: It has been done often in this house since I have been a member.

Mr. WALSH: It is not done in usual practice, and I do not think we can anticipate the presence of the Canadian Pacific Railway, either through their officials or through anybody appointed by them to represent them, at an inquiry into the recapitalization, you might say, of the Canadian National Railways—a competing and competitive firm.

The CHAIRMAN: You will admit, however, that it was only common courtesy that we should invite them.

Mr. WALSH: Absolutely. I think the chairman acted in good faith and also acted as he should have acted in giving them an opportunity, as a matter of courtesy.

Mr. KINLEY: Over in the committee considering Bill B, I think practically every man who thought he had an interest appeared. It is perfectly proper for a man or a business that thinks they are suffering an injustice to appear before a public tribunal and say so. I do not think the public of Canada are so unfair that they would hold it against the company that would come here to protect its own interest. For them to say that they are interested would be to their own benefit, and the people should know the situation. They would be doing a public service by coming here and explaining their position.

Mr. DEACHMAN: Mr. Kinley has raised the question whether any private interest would be prejudiced by this bill. I venture to suggest the idea that we ought to consider if the private railroads in this country will not be benefited by this bill. Consider the main competitor, the C.P.R. It goes into the money market to borrow money. Will it not be to its advantage if the general opinion of the public throughout the world is that railways in Canada are reasonably prosperous, and that the C.N.R. has been reorganized and put upon a sane basis in which it is working out its destiny, and that both railroads are achieving a measure of success in the Dominion of Canada? Mr. Beatty, from time to time, has made the statement that they suffer greatly from the losses of the C.N.R. because they are compelled to pay taxes which arise out of those losses. If this brings prosperity to the C.N.R., at least that argument of Mr. Beatty has gone; and he should rejoice in the fact that he no longer has to meet these bills. In addition to that, if the railroad is put upon a better footing the country benefits, and the increased prosperity and wealth of this country must redound in additional profits to the C.P.R. I would be very much surprised indeed, if the C.P.R. is going to look at this thing from the broad national interest, in the interest of the Canadian people and in the interest of the C.P.R. that we should not have the C.P.R. here voicing their approval of the attitude we are taking

and complimenting the committee and the government on their attempt to readjust the affairs of the C.N.R. in a way whereby they will be able to present a more favourable statement and have a better record in operation and in every other way in the railroad.

Hon. Mr. STEWART: Mr. Chairman, this bill has been the subject of anticipation for a long while and I think it is well that we should consider the effect of it. Now, I regret to think that this proposal will not add one dollar to the revenues of the Canadian National Railways; it will not by one dollar decrease the operating expenses of the railway; it will not by one dollar decrease the deficit upon the Canadian National Railways; it will not give one additional day's work to a man employed upon that system. It is calculated to rearrange the financial structure, and that is all.

Now, whether that is a matter of advantage or not is a question for discussion. It seems to me that this bill either goes too far or does not go far enough. It proposes to take out of the statement of liabilities certain liabilities of the company and to place them in a trust, thereby preserving them as a liability of the company. That, it seems to me, is almost blowing hot and cold at the same time. It does not, as I have said, improve the financial standing of the railway to the extent of one dollar. Now, as to financing, the making of loans, the credit of the railway and the credit of the country in respect of this indebtedness, I am sure that those who buy the securities of the Canadian National Railways are thoroughly competent to analyze any statement either of the Canadian National Railways or of the Dominion of Canada; and it is doubtful whether you will gain anything from that standpoint. It would seem to me, Mr. Chairman, that we are not going to get very much further with this bill in going into it clause by clause until we have heard, as I think we probably propose to hear, those who desire to make representations. When those representations are completed then we can sit down and take up this bill in the light of those representations, in the light of all we know about the subject, and deal with this matter clause by clause.

There are some features of this bill that are not controversial at all. I do not think there is going to be any conflict about certain of these old stocks. There is no question, they can be written off. But I do regret that this bill, even if given effect to, is not in my opinion going to improve the status of the Canadian National Railways, either in its operations or in its public credit.

Mr. RYAN: Have you any notice of any persons other than the Chamber of Commerce desiring to appear here?

The CHAIRMAN: The only people who have expressed a desire to appear here are the Canadian Chamber of Commerce; and I suppose it is the wish of the Committee that we should hear them on Tuesday next, that we should wait until then in order to give them a chance to get ready for their appearance before this committee.

Mr. WALSH: Earlier in this session some reference was made to the appearance here of the Canadian Chamber of Commerce. I think the Committee should be assured that this is the Canadian Chamber of Commerce, which has its head office in Montreal, and not the *Chambre du Commerce de Montreal*.

Mr. KINLEY: Has this proposition been submitted to the several branches of the Chamber of Commerce throughout Canada of which the Canadian Chamber of Commerce is made up, or are these people just speaking as the executive of the Canadian Chamber of Commerce?

The CHAIRMAN: I do not know. All I know is that we have a letter here signed by Mr. Clark as Secretary of the Canadian Chamber of Commerce asking leave to appear before this Committee.

Mr. KINLEY: Yes, but if they are the Chamber of Commerce this should be submitted to their boards all throughout Canada. Until they assure us they have done that they are not in a position to speak for the Canadian Chambers of Commerce.

The CHAIRMAN: We can ask them about that when they come here.

Hon. Mr. HOWE: There was one point raised by Mr. Stewart in his remarks in respect to which I would like to make just a brief observation. He said it is even stated that everyone who buys Canadian National bonds or Canadian government bonds is fully appraised and advised of the situation.

Hon. Mr. STEWART: I did not say everyone who buys them. I referred more particularly to the larger dealers.

Hon. Mr. HOWE: Let me give you just a little experience of my own, as I think it will be illuminating. It was to me. The Canadian government had occasion a short time ago to market some \$80,000,000 of bonds in New York. It was marketed through the firm of Morgan Stanley & Co.—the successors to J. P. Morgan & Co.—international financiers, who should know something about the situation. Under the Securities Act it was necessary for them to prepare a statement for the American government, and one of their experts brought the statement up here so that it could be verified. In that statement they had shown just the duplication of debt that we are discussing here; at least, they had added the public debt of Canada to the debt of the Canadian National Railways and said that the obligations of the Dominion of Canada were so much. Well, Mr. Dunning tried to explain that point, and then turned them over to officials of his department where they spent a whole day and even then had failed to convince them to the contrary. They then sent them over to the Department of Transport and we worked with them for practically a full day to convince them of it. We asked them the question if they thought the duplication should be eliminated; the reply we got was, certainly, they could not see how we could have treated it in that way in the first place, that we should show those debts for just what they were worth.

Mr. WALSH: I think that is the point on which every member of this committee is agreed. I do not think there is any disagreement in respect to the opinion that an adjustment should be made, the disagreement is in respect to the method by which the amount should be taken care of.

Hon. Mr. HOWE: I think that is very proper. I think the matter of policy is very simple. I have stated it as the elimination of duplication. In other words, if the item is in the public accounts we are taking it out of the railway accounts, and if it is not in the public accounts we are keeping it in the railway account. There are several items here which I think we have to include in our public debt and show in our public accounts, but in cases where there is a direct duplication I think that duplication should be eliminated.

Hon. Mr. STEWART: They are not pure duplications because there is an asset value.

Hon. Mr. HOWE: We are not eliminating assets. We show in our public accounts that this Dominion of Canada owes some \$3,600,000,000; at least, we set that up as the public debt of the Dominion of Canada. We state the debt of the railways at something less, and these two duplicate at the present time to the extent of \$1,500,000,000, just on the bare face value. They are duplications to the extent that the debt has value, but you are not admitting any asset value outside of the debt itself. In other words, if you put it in the net debt of Canada you are not admitting to the public or anybody else any asset value.

Hon. Mr. VIEN: I cannot understand how this operation was made in book-keeping, and that is a thing on which I would like to be enlightened. I have noted that the facts are as the minister stated, but if it would be possible, Mr. Chairman, I would like to have the director of public accounts from the Finance department present at our next sitting.

Hon. Mr. HOWE: I would be very glad to have them here, I will endeavour to arrange to have the deputy minister present.

The CHAIRMAN: You will perhaps remember that last year we had Mr. Roberts of the Finance Department before us and he showed the extent of the difference in the two totals. I can't see why we should have another official again this year go over the same ground, unless you particularly desire that?

Hon. Mr. VIEN: I would like to have that. Is it agreed that he will be here at our next sitting?

Hon. Mr. HOWE: Quite.

The CHAIRMAN: Whom do you want?

Hon. Mr. VIEN: I do not care, somebody who can speak with authority as to how the public accounts were kept with regard to the loans made to the railways under the liabilities as well as the assets side of the public accounts, and as to how this proposed recapitalization will have the beneficial effect which the minister points out.

Now, Mr. Chairman, do I understand correctly that at the present time the capital structure of the Canadian National Railways represents a liability side of \$2,325,149,836, and that after recapitalization the capital structure will show in the liability a balance of \$1,371,805,463.

Hon. Mr. HOWE: That will be the funded debt, yes.

Hon. Mr. VIEN: Therefore, the capital structure is reduced from \$2,325,000,000 to \$1,371,000,000.

Hon. Mr. HOWE: No, that is not correct; because, in the total liabilities you include the stocks, you see; you include \$270,000,000 of capital stocks owned by the Dominion government.

Hon. Mr. VIEN: \$690,000,000, if I mistake not; but if you will look at page 13-A you will see that I find this \$690,000,000 is shown as a proprietor's equity.

Hon. Mr. HOWE: That is right, yes.

Hon. Mr. VIEN: And, therefore, it should not be shown as a liability.

Hon. Mr. HOWE: Excuse me, you read liabilities of \$2,325,000,000; I just wanted to point out to you that that is not all of the bonded indebtedness at the moment, \$270,000,000 is common stock.

Hon. Mr. VIEN: No. In the balance the capital structure together with other liabilities shows a total on the liabilities side of \$2,325,000,000.

Hon. Mr. HOWE: That is correct, yes.

Hon. Mr. VIEN: And after this scheme has gone through the liabilities side will show \$1,371,000,000.

Hon. Mr. HOWE: No. Will you look at the figure below. It will show \$2,062,000,000—

Hon. Mr. VIEN: Except that I read this, Mr. Minister; total liability \$1,371,000,000.

The CHAIRMAN: That has the stock in it.

Hon. Mr. VIEN: No, stocks excluded.

Hon. Mr. HOWE: It shows total liabilities; this other is not total liabilities, it is simply liabilities.

Hon. Mr. VIEN: But it consists of the total liabilities there.

Hon. Mr. HOWE: In your balance sheet the first figure read did not include the stock. The comparable figure to that is \$2,062,000,000.

Hon. Mr. VIEN: I am reading from page 13-A of the appendix No. 5, and if I read correctly I see "total liabilities."

Hon. Mr. HOWE: It is total funded liabilities; it is total interest bearing liabilities, if you like to call it that; everything on the liabilities side of the balance sheet are liabilities.

Hon. Mr. VIEN: Yes, but I would like to know how this is going to work out with respect to the capital structure of the company, with respect to their operating expense, fixed charges and annual financial statement. We write off by a stroke of the pen \$262,770,000. That is forgotten altogether. I am reading from page 12-A. Total eliminations—we forget it altogether—we sent it to the limbo. These are to be destroyed altogether. We are treating it is a bad debt, just as it would be treated in an ordinary business financial statement by writing off for bad debts so much. I take it that we write that off as a bad debt. If I am mistaken I invite correction.

Hon. Mr. HOWE: That is right.

Hon. Mr. VIEN: I am trying to understand whether we write off by elimination \$262,770,972.

Hon. Mr. HOWE: That is right, and we get there after we do that, \$2,062,387,000.

Hon. Mr. VIEN: And that is the total on the liabilities side of the balance sheet after that elimination?

Hon. Mr. HOWE: That is right.

Hon. Mr. VIEN: Right. Then we come to the financial statement of the company from year to year. Hereafter you say the net earnings of the company are going to be shown—are they going to be shown on the \$1,371,000,000, or as regards the capital structure of \$2,062,000,000?

Hon. Mr. HOWE: They will be shown in a different way. Take all the earnings of the railway and deduct your fixed charges; that is, all the bonded indebtedness and so on; and your earnings apply to the proprietor's equity. Your proprietor's equity will be represented by a certain number of shares of stock owned by the government, and the earnings will be so much per share on that stock—if and when we get earnings.

Hon. Mr. VIEN: Is the Canadian National Railway system going to be considered as having a capital structure of \$1,371,000,000?

Hon. Mr. HOWE: No, sir.

Hon. Mr. VIEN: Or a capital structure of \$2,062,000,000?

Hon. Mr. HOWE: That is correct, yes.

Hon. Mr. VIEN: The latter statement is correct?

Hon. Mr. HOWE: Yes.

Hon. Mr. VIEN: Then, the Canadian National Railway system will be considered to have a capital structure of \$2,062,000,000.

Hon. Mr. HOWE: Quite.

Hon. Mr. VIEN: And all we eliminate is the amount of \$262,000,000.

Hon. Mr. HOWE: Quite. We have changed the character of some of it, but that is all we eliminate.

Hon. Mr. VIEN: I shall be very pleased if we can have further information as to the duplication in the funded debt.

Mr. WALSH: The minister suggested that the profits in future, if any, would be shown as share dividends, is that correct?

Hon. Mr. HOWE: That is correct.

Mr. WALSH: What do you propose to do with deficits that might possibly be created even under the reorganization.

Hon. Mr. HOWE: The great party of which you are a very able member took care of that three years ago and arranged that they would be paid for out of the consolidated revenue fund of Canada and become a part of the public debt.

Mr. WALSH: Do you propose following that?

Hon. Mr. HOWE: We must. It is the law.

Hon. Mr. VIEN: It will be cash advances from year to year.

Hon. Mr. HOWE: Right.

Mr. WALSH: And the cash advances made each year will be shown in the balance sheet?

Hon. Mr. HOWE: No, they will be shown where they are now. Your great party eliminated this from the balance sheet in 1932.

Mr. WALSH: In that case I am not in agreement with what the great party did.

Hon. Mr. VIEN: I do not know whether in stating this I am absolutely correct or not, I do know however that you made the statement in good faith, and I may be wrong, but the advances which have been made from time to time have been shown in the profit and loss account of the system, and they are shown in 1935 with the consolidated balance sheet.

Hon. Mr. HOWE: We have no profits and no losses, we are starting all even here.

Hon. Mr. VIEN: I notice varied surpluses and deficits, and that the profit and loss balance shows accumulated deficits of \$856,000,000.

Mr. RYAN: Does that include the last four years?

Hon. Mr. VIEN: That was up to December 1, 1935.

Hon. Mr. HOWE: It does not include anything since 1932.

Mr. RYAN: I do not think so, no.

Mr. VIEN: I may be all wrong.

Hon. Mr. STEWART: It was done on the recommendation of the committee.

Hon. Mr. HOWE: Yes.

Mr. RYAN: It is just a carry-over. It is not carried over in the profit and loss statement of 1935.

Hon. Mr. HOWE: The losses since 1932 have been paid from the consolidated fund.

Mr. DEACHMAN: Mr. Howe, the additional capital expenditures are represented in further aid to the railway.

Hon. Mr. HOWE: No; everything is capital. We finance directly through the railway. Parliament simply authorizes the railway to borrow on the government guarantees.

The CHAIRMAN: Under the new practice one bill is brought to the house instead of providing for it in the form of estimates as in the past.

Mr. VIEN: Mr. Howe, I hope I am not taking up too much of the time of the committee on this point, but I read from the report of December 31, 1935, page 18, profit and loss statement, the following:—

“System net loss, \$115,281,689.79.” From that is to be deducted the amount voted by parliament, \$47,421,464.80, and Eastern Lines' interest on government loans, \$626,413.21.

Hon. Mr. HOWE: Yes.

Mr. VIEN: Therefore the change during the year in profit and loss account amounted to \$67,233,811.78, which accumulated with the previous balance of \$789,040,675.42, made a total on December 31, 1935, of \$856,274,487.20.

Hon. Mr. HOWE: The accumulation of interest is largely responsible for that.

Mr. VIEN: When I go to the consolidated balance sheet as shown on pages 16 and 17 I find the amount of \$856,274,487.20 is shown also on the liability side. That gives a total of \$2,325,149,836.24 on the liability side. Comparing that with appendix No. 4, page 12a of the bill, I find the same figures, \$2,325,149,836.24. We now propose to write off the eliminations which are enumerated there amounting to \$262,770,972.03. The question which was just put is this: once you have recapitalized on the basis shown in appendix No. 5, pages 13 and 13a of the bill, are you going to add from year to year the deficits that may accrue if there are any deficits?

Hon. Mr. HOWE: We have no cash deficits. Parliament votes the money out of the consolidated revenue fund to make up whatever the railway loses.

Mr. VIEN: There will be an appropriation of public funds under the appropriation act each year to cover deficits, if any.

Hon. Mr. HOWE: Correct.

Mr. VIEN: It is proposed to keep the capital structure at the figures indicated—

Hon. Mr. HOWE: Yes.

Mr. VIEN: —irrespective of surpluses or deficits.

Hon. Mr. HOWE: No, no. If there are any surpluses we will apply them to a reduction of capital or pay them to the government. Surpluses will either be paid out as dividends to the government or applied against reduction of capital.

Hon. Mr. STEWART: I do not know whether the minister can answer this or not, but I should like to clear it up. With respect to the deficits that have been paid since the Duff Commission report by appropriation of parliament, in the books of the Dominion of Canada they are a debit against the Canadian National Railways from year to year.

Hon. Mr. HOWE: No. They are paid from the consolidated revenue fund exactly as the act says.

Hon. Mr. STEWART: They are not charged up against Canadian National Railways?

Hon. Mr. HOWE: No.

The CHAIRMAN: You used the wrong word. They are not paid out of an appropriation voted by parliament, they are paid out of the consolidated revenue fund.

Hon. Mr. STEWART: Paid by appropriation through the amounts appropriated. That is the authority for payment. They are paid out of the consolidated revenue fund. Then, there is no debit in the books of the dominion against the Canadian National Railways of the amounts so paid since the Duff Commission report?

Mr. VIEN: They appear in the appropriation act.

Hon. Mr. HOWE: They are included in the estimates of the Department of Transport.

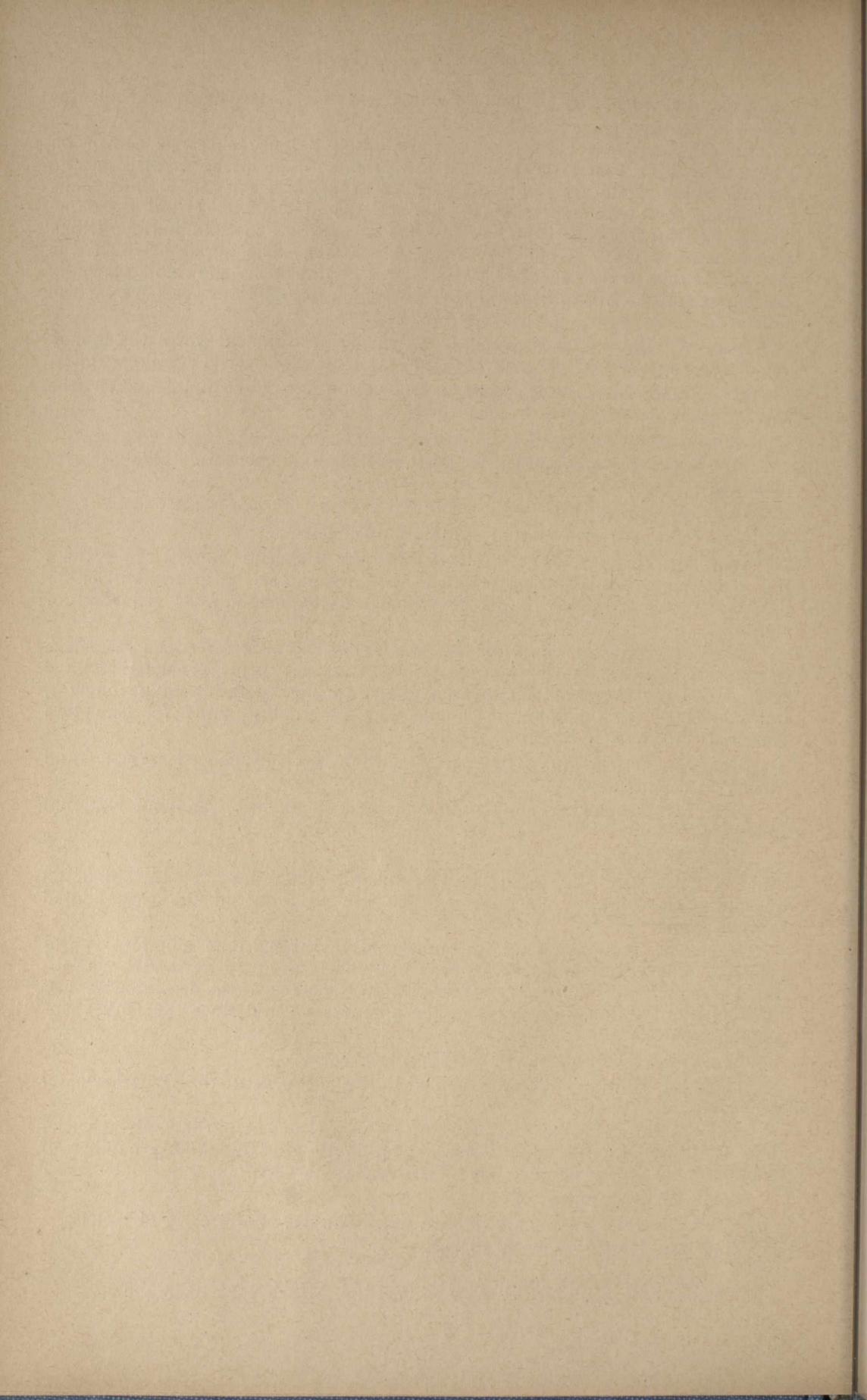
The CHAIRMAN: They are paid out by special act of parliament. Gentlemen, shall we adjourn until Tuesday and invite the Canadian Chamber of Commerce to appear on that day? Is that satisfactory?

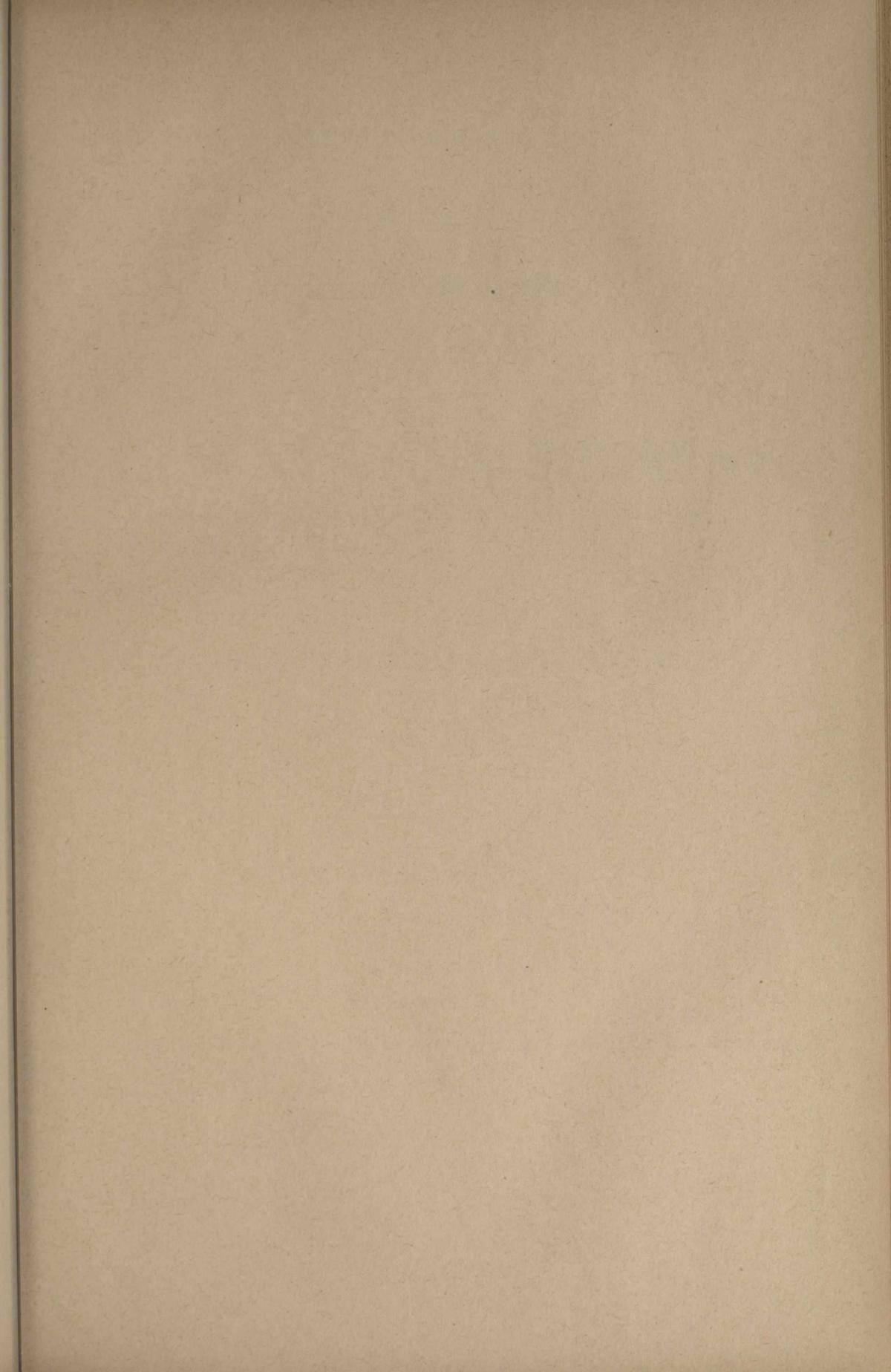
Some Hon. MEMBERS: Yes.

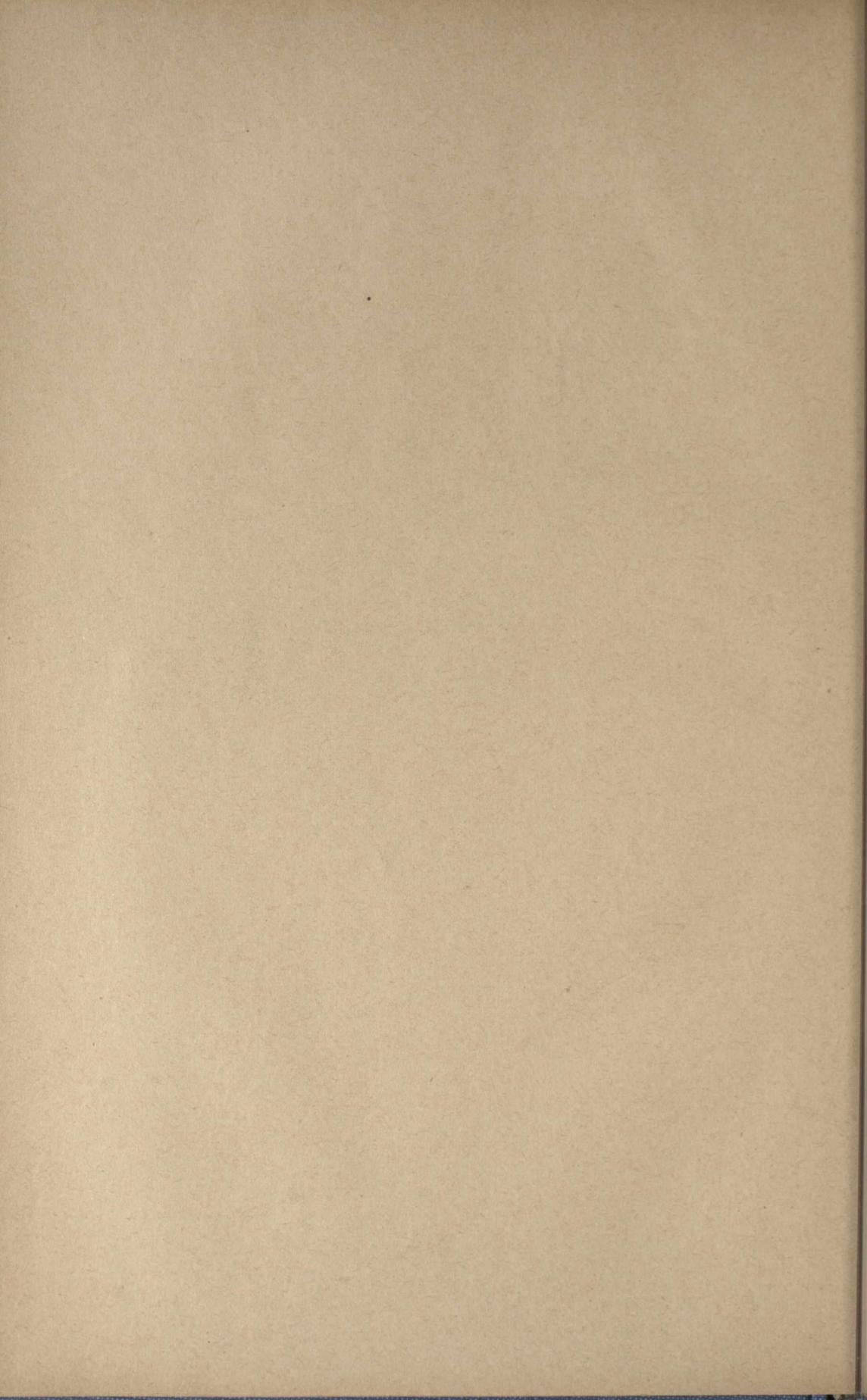
The CHAIRMAN: We shall adjourn until Tuesday morning at 11 o'clock.

Hon. Mr. HOWE: Make it 10.30.

The committee adjourned to meet Tuesday, March 2, at 10.30 a.m.







SESSION 1937

HOUSE OF COMMONS

STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 3

TUESDAY, MARCH 2, 1937

WITNESSES:

Mr. Henry W. Morgan, Chairman of the Executive, Canadian Chamber
of Commerce, Montreal.

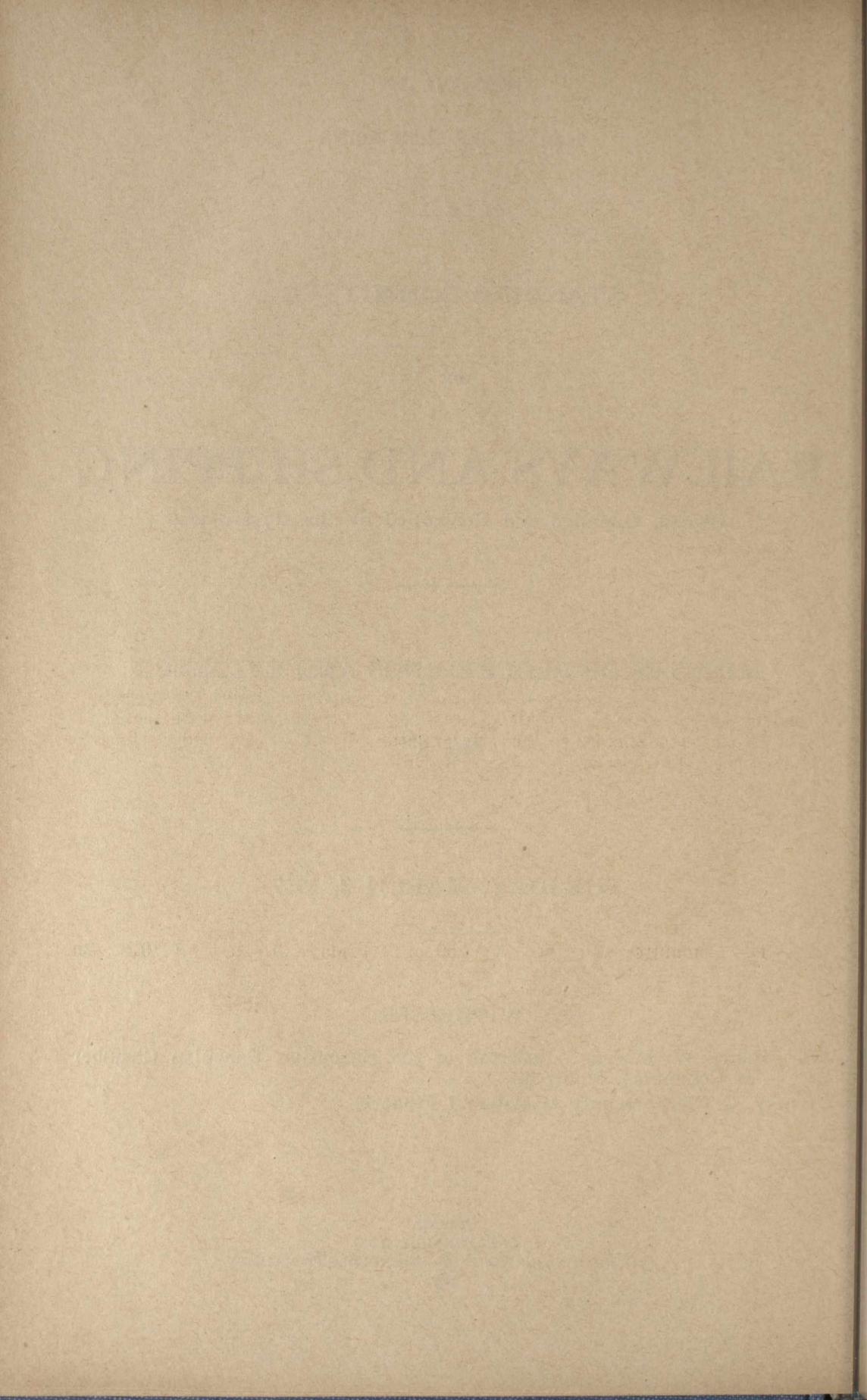
Dr. W. C. Clark, Deputy Minister of Finance.

OTTAWA

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

PRINTER TO THE KING'S MOST EXCELLENT MAJESTY

1937



MINUTES OF PROCEEDINGS

TUESDAY, March 2, 1937.

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

Members present: Messrs. Barber, Beaubien, Beaubier, Bothwell, Deachman, Elliott (*Kindersley*), Ferland, Hanson, Heaps, Howden, Howe, Kinley, McKinnon (*Kenora-Rainy River*), McLarty, Maybank, Stewart, Vien, Walsh and Young.

In attendance: Mr. V. I. Smart, Deputy Minister of Transport and officials of the Canadian National Railways, including Mr. S. J. Hungerford, President, Mr. D. C. Grant, Vice-President of Finance, Mr. J. B. MacLaren, Comptroller and Mr. T. H. Cooper, Assistant Comptroller; Dr. W. C. Clark, Deputy Minister of Finance, Mr. O. A. Matthews of George A. Touche and Company, Auditors of C.N.R. Accounts, and Mr. Henry W. Morgan, Chairman of the Executive, Canadian Chamber of Commerce, Montreal.

The Committee resumed consideration of Bill No. 12, an Act to provide for revision of the accounting set-up of the Canadian National Railways System.

Mr. Henry W. Morgan was called. He submitted a brief, the original copy of which he filed with the Committee and was examined thereon. He also filed a memorandum entitled "Information shown in published accounts of State-owned Railways of Australia and South Africa."

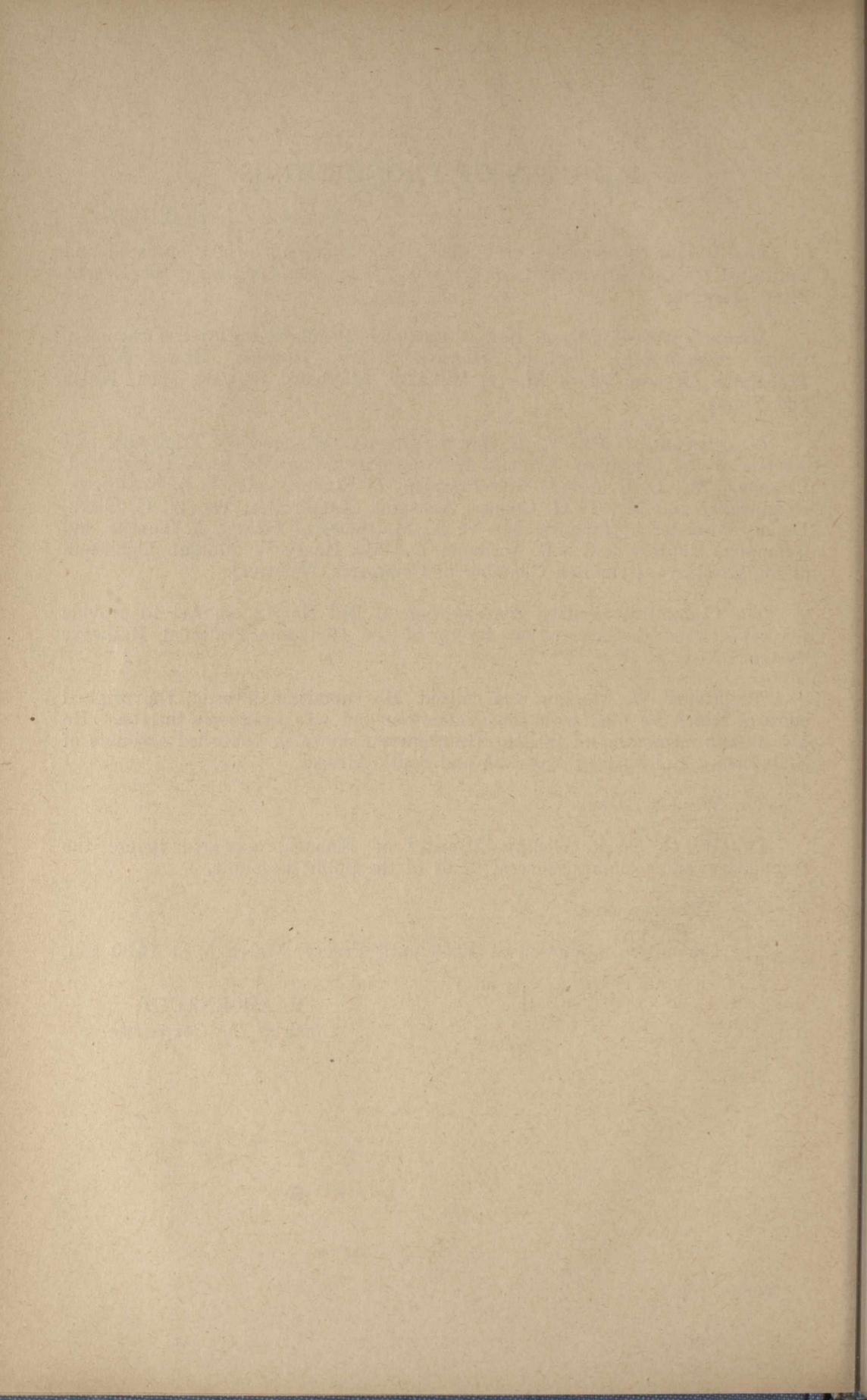
The Witness retired.

Dr. W. C. Clark, Deputy Minister of Finance, appeared before the Committee, and explained several items of the public accounts.

The Witness retired.

The Committee adjourned at 12.50 until Friday, March 5, at 10.30 a.m.

R. ARSENAULT,
Clerk of the Committee.



MINUTES OF EVIDENCE

HOUSE OF COMMONS, March 2, 1937,

Room 277.

The Select Standing Committee on Railways and Shipping met at 10.30 o'clock. Sir Eugene Fiset, the chairman, presided.

The CHAIRMAN: Order, gentlemen. I have a letter signed by the clerk of the committee stating that Mr. Henry W. Morgan, chairman of the executive committee, the Canadian Chamber of Commerce, will be present this morning. I see Mr. Morgan is here. Will you kindly step up now, Mr. Morgan.

HENRY W. MORGAN, called:

The CHAIRMAN: Will you kindly give us your full name and title?

The WITNESS: Henry W. Morgan, chairman of the executive committee of the Canadian Chamber of Commerce.

By the Chairman:

Q. One of the members asked when your name was called at the last meeting if you represented all branches of the Canadian Chamber of Commerce, or the Montreal branch only?—A. All the branches, sir, in this way: the executive committee is elected by all the branches at their annual meeting, and have power to carry on the business of the Canadian Chamber of Commerce in the interim—the executive committee have that power and do act.

Q. You did communicate with all branches of the Canadian Chamber of Commerce before appearing before this committee?—A. Not on this particular item.

By Mr. Beaubien:

Q. Have you the power to formulate national policies without consulting the Board of Trade that have elected you as an executive?—A. No; policies of national importance are always referred to all the boards of trade, but within the policies laid down by the national convention the executive committee have power to act.

Q. Is it your intention this morning to make representations to this committee in regard to this bill that is before the house, based on the opinions of the executive of the boards of trade of the Chamber of Commerce?—A. No, sir, it is the intention—I think now perhaps if I read my remarks it would make it clear. But it is quite within the power of the executive committee as given to us at the annual convention to act. Our policy in relation to sound public finance comes under that heading and it is quite within our jurisdiction to act.

The CHAIRMAN: Gentlemen, shall we hear Mr. Morgan? Sit down, Mr. Morgan.

The WITNESS: I want to express my appreciation and that of my confreres of the opportunity given to us to address you this morning. My remarks will be short, I hope they will be clear, and I shall be glad to file copies of them with the committee so that they can have a chance of reading them.

By the Chairman:

Q. Have you copies?—A. I have copies for everyone.

Q. Have you copies now for the members?—A. Yes, sir. I shall ask the secretaries if they will be good enough to distribute copies of the remarks to the committee and to the press. With your permission I shall stand as it will be easier for the committee to hear what I have to say.

To the Chairman and Members of
The Standing Committee on Railway and Shipping
of the House of Commons,
Ottawa, Canada.

Honourable Sirs,

Bill No. 12

The Executive of the Canadian Chamber of Commerce observes that Bill No. 12, now before the Railway and Shipping Committee of the House of Commons, is an act to provide for revision of the accounting set-up of the Canadian National Railway System. With that portion of this bill providing for the adjustment of the Capital stock liability of the Canadian National Railways, there should be general agreement.

In view of the recorded statements of the Honourable, the Minister of Transport, and the Honourable, the Minister of Finance, there should apparently be no apprehension on the part of business, lest the amount of all moneys received by the Canadian National system, will not be clearly set out on the yearly balance sheet of the Canadian National Railways.

The Hon. Mr. Howe, for instance, assured the Railway Committee on February 18 that:—

“From the inception of the proposed capital adjustment plan, it has always been considered that the accumulated costs of the National system to the Dominion since Confederation should be embodied in some form in Public Accounts, as a perpetual record for all future parliaments as representing the people of Canada.”

Moreover, on February 5, the Hon. Mr. Dunning stated in the House of Commons:—

“The Minister (of Transport) has indicated that when the bill is referred to the Special Committee, the most searching examination will not only be permitted but invited, to the end that we may, if possible, evolve a set-up, which will be realistic in so far as it relates to the property as it now stands and at the same time will not disguise from the Canadian people the amount of money which all down through the years they have invested in this great railway undertaking.”

The Executive of the Canadian Chamber of Commerce welcomes these authoritative assurances. First, because we believe with the Ministers that the proposed adjustment of the capitalization of the Canadian National Railways should not remove from the knowledge of the Canadian people the accumulated costs of the National system. Rather there should be carried forward on the balance sheet itself, a complete and continuous record of such accumulated costs from year to year. Secondly, because the clauses of the bill, as now drafted, do not make provision for that intended clarity, which both the Ministers and we emphasize.

To carry out the expressed intentions of the government, therefore, it will be necessary to amend the bill, so that no doubt will be left in the mind of the layman that such provision has been made. The Executive of the Chamber makes this submission in accordance with the principles of sound public finance as approved by the Chamber's general membership.

Moreover, in the second place, the Minister of Transport added in the House of Commons on February 5:—

“I think in fairness to its private competitor that record should be kept, and I believe a way will be found by the committee to set up a record in a manner that will meet the suggestions which have been made along that line.”

The Minister of Transport has intimated that the proper way of presenting annually this complete financial picture rests with the Railway Committee. We feel confident, therefore, that the committee will wish to see to it that an adequate clause is inserted in the bill and the desire of the government thus fulfilled.

The foregoing is respectfully submitted.

May I add one remark before sitting down. I should like to give you some information as published in the accounts of the state-owned railways of Australia and South Africa. I do not intend to elaborate upon this; it is simply filed for your information and study, but with your permission I shall read the first page of it only. It is the financial statement of state-owned railways of Australia and South Africa:

This booklet includes the latest published returns of the following state-owned railways:

Australia

South Australian Railways,
New South Wales, Department of Railways,
Victorian Railways Commissioners,
Queensland Railways.

South Africa

South African Railway and Harbours.

These railways are conducted as monopolies directly by the governments concerned. Examination of the statement shows:

1. That in all cases *interest is assessed on the capital invested by the government in the railways* in computing the annual deficits. Rates assessed vary from 3·8 per cent to 4·5 per cent.

2. That in all cases except one the *accumulated surplus or deficit from operation is clearly shown on the balance sheet*. The Victorian Railways, which is the exception, shows the complete deficit (this includes interest on government capital) for the year only on the balance sheet.

In its further consideration of the proposed bill the committee will wish to take into consideration the fact that the Canadian National Railways is a separate corporation and that there is no monopoly of railways in Canada. The Executive of the Canadian Chamber of Commerce trusts that this information which has been developed through its interim study of the question will assist the committee in working out the necessary amendments to the bill to ensure adherence to the principles of sound public finance.

That, sir, comprises our statement. I shall just file the statement of the railways for consideration of the committee at a later date.

Q. You did not prepare any specific amendments?—A. No, sir; I feel that the committee are in a better position to deal with that than the Canadian Chamber of Commerce. We simply want to draw attention to that clarity which seemed to be lacking in the bill as drawn.

By Mr. Deachman:

Q. I should like to ask Mr. Morgan if he would recommend the same principles in regard to other business corporations. Perhaps I can give you an indication of what I mean. Some of our paper companies have recently gone

through the wringer, to use a familiar slang phrase. I should like to ask if you would recommend that in their statement of their future balance sheet they should show all the losses up to the date prior to the reorganization?—A. Well, Mr. Chairman, in answer to that I want to make quite clear first one thing, and that is that I am not an accountant and I do not feel that I am competent to discuss the way a balance sheet should be drawn up. But as a business man and as a taxpayer of Canada I feel that the deficits and a clear statement of how the railways are operating, the results of their operation for the year, the results of their operations prior to that year and the accumulated deficits should be shown so that I can understand it. I agree entirely with the remarks made in regard to recording all previous mistakes to the people, but may I not suggest that the same should apply to business corporations in general. For instance, I may want to buy stock in a paper company to-morrow, and I ought to know something of the history of that paper company. It seems to me if you accept the idea in regard to public finance that it should contain a record of all mistakes which the public has made in a case such as this, we ought also to have precisely the same in regard to private corporations; otherwise you have this position, which is an impossible one. You are asking that the Dominion shall be honest and state the history of all its past mistakes but you are permitting private business to smother all their mistakes. I think so far as the Chamber of Commerce is concerned I am submitting a suggestion here which should receive very careful consideration.

Mr. VIEN: But, Mr. Chairman, is that not exactly what takes place in accounting in ordinary corporations? The cumulative profit and loss statement comprises the accumulation of profits or losses during the history of the company, and unless a company is wound up its balance sheet contains—I am not an accountant myself and I speak subject to correction—but until the company comes to grief and goes into the hands of a receiver the balance sheet will contain the net results of its profit and loss account. If there have been accumulated profits or accumulated deficits they will be reflected in the balance sheet of the company.

Mr. BEAUBIEN: They do not carry them indefinitely.

Mr. VIEN: They do.

Mr. DEACHMAN: If there is a recapitalization?

Mr. VIEN: If there is a recapitalization on a new basis after a compromise with the shareholders or the bondholders the company has gone into the hands of a receiver or unless there has been an agreement between the creditors and the company, which is equivalent to a voluntary assignment in bankruptcy. But if the company does not come to grief I should like to be shown that it can write off any of its accumulated profits or deficits. In my opinion—and I speak subject to correction, I am not an authority on such matters, and I seek light rather than try to impose my view—it has always been my understanding that the company's profits or losses are accumulated in its profit and loss statement and then reflected in the balance sheet.

Mr. DEACHMAN: Mr. Chairman, in effect what we are doing now is very similar to going through a receivership. We have recognized the existence of certain facts, the impossibility of the Canadian National Railways to meet its obligation. Now, when Mr. Drayton made the changes which he made in the budget of 1920, he stated his case quite clearly. He said:—

Beyond all question it is a matter of importance that the exact position of the country's debt should be clear. While the books are correctly kept and the entries properly made, in my opinion some of the investments cannot be characterized as active investments.

Later on he proceeds to suggest that these should be transferred into the inactive column and this was done. It was a suspense account.

Mr. VIEN: Inactive column of what, of assets?

Mr. DEACHMAN: They were transferred to the statement as inactive assets.

Mr. BOTHWELL: Of the Dominion of Canada.

Mr. DEACHMAN: Yes.

Hon. Mr. STEWART: Not the railway?

Mr. DEACHMAN: When they were transferred there they were regarded as impossible of payment, and he states that in his budget speech. He regards it as practically impossible for them to meet the obligation. That was in 1920. At that time the obligations due to the Dominion government from the Canadian National Railways were somewhere in the neighbourhood of \$500,000,000. The amount due to-day under the compound—and I was almost going to say the confounded—method of keeping these accounts totals up to the stupendous sum of \$1,536,000,000; that is 1934, according to the Canada Year Book. Now, in the circumstances we have to recognize these things are without value and they ought to be written down. I agree with that; Mr. Morgan agrees with it, but the only question is this: I should like to have a record in the annual statement of what has been done, or a reference in each annual statement of the act which we are now bringing before the house so that any man may look at it at any time and see what has been done. But I submit, gentlemen, that there is no double standard in regard to Dominion government accounting and the accounting of a paper company; and when a reorganization has taken place I submit in the new statement which is issued after the reorganization there ought to be also an appendix stating what has been done. The difference is this; You all agree—I think I am safe in saying that—in regard to the Canadian National Railways that it is a proper form of accounting and the honest way in which accounts should be made. All I am asking is that we introduce also and put into the form of legislation an act which states that when a company has reorganized there shall be a record of what has happened, or a reference made to the time at which it happened, and that a record of that shall be available to anybody who wants to see it. It is only fair, if I am going to buy stock in a paper company, that I should have a record of their past history.

Mr. BEAUBIEN: You may not buy much stock.

Mr. DEACHMAN: The fact that there has been a reorganization does not mean they are not sound now; it means they are sound, but in the matter of honest business I suggest that to the Chamber of Commerce as being very worthy of consideration.

Hon. Mr. STEWART: Mr. Chairman, may I ask the gentleman who has just spoken to give to the committee the items referred to in the address on the budget of Sir Henry Drayton, and what was done with them.

Mr. DEACHMAN: He wrote down a number of items. Here is one item, Canadian Northern Railway Company, \$140,223,373.89. Is that, by the way, still in the accounts of the Canadian National Railways?

The CHAIRMAN: Yes.

Mr. DEACHMAN: Certainly. Then there is Grand Trunk Pacific Railway Company, \$95,345,469.19, still in the accounts, recognized by Mr. Drayton at that time, and transferred to inactive assets, considered as an item which would never be paid. Then there is another one, Grand Trunk Railway Company—

Mr. BOTHWELL: Is interest paid on these two?

Mr. DEACHMAN: Interest is undoubtedly paid on these to-day.

Mr. SMART: No.

Mr. WALSH: That is not an accurate statement. Interest was only paid on the advances made by the government.

Mr. DEACHMAN: All right; we shall leave that. Then there is the item of the Grand Trunk Railway Company, \$1,148,533.33.

He further says:—

Assets which are not readily convertible, as the specie reserve is, or are not interest producing, are not such assets as ought to be deducted from the gross debt. They are inactive, they are items of such a character as might well be placed in a suspense account.

How much suspense is there in regard to these items here? They must be written off.

The WITNESS: There is a very great difference between a private company and a government in the matter of writing off the assets. In the case of a private company which goes into liquidation, as we know, the shareholders lose their money and any equity in that company, and the company is reorganized and starts afresh with fresh capital and a new start for its operations. Now, in the case of a government, the people of Canada, no matter what they do with the Canadian National balance sheet, still have to pay the amount that has been guaranteed by the government on the railway situation and on the advance the government has made to the railways; and, therefore, whereas it is quite appreciated that a new set-up for the Canadian National may be quite correct, all I am trying to submit is that we show in a footnote, or in some manner which you are better able to judge and work out than we are—I do not propose to make a suggestion—but the footnote should show the yearly deficit and the accumulated deficit so that I as a taxpayer or as a business man in checking up the balance sheet of the Canadian National Railways will be able to see exactly the situation for that year and previous to that year.

By Mr. Bothwell:

Q. What particular benefit is to be derived from having these accumulated deficits set out in the annual report of the Canadian National Railways so long as they are in the public accounts of the Dominion of Canada?—A. I would say that in taking up the railway situation you see the public record of the Canadian National Railways for that year, but it does not show what has happened previous to that, and I think it is very likely that we will see—shippers and other business people will see that the Canadian National has made, perhaps, a profit, or has no deficit, or it has made a good showing on the year's operation, and you will forget the other years. Then you will have applications, probably, for lower freight rates. You will not have a true picture of what the Canadian National Railways have cost the taxpayer. I believe it is necessary that the Canadian taxpayer have before him the amount of money that he has put into these railways.

Q. If you as representing the Chamber of Commerce have come to the conclusion that the accounts of the Canadian National Railways should be written down and readjusted in some manner, and a record is going to be kept of that in the public accounts, do you believe it is in the interest of the general public of Canada that the losses which have been sustained on the Canadian National Railways should be flaunted before the people of Canada forever, without having to go to the infinitesimal trouble of looking up the public accounts of Canada?—A. I do emphatically, because we want to know exactly what the Canadian National Railways has done and what it has cost.

By Mr. Young:

Q. Does Mr. Morgan intend this brief to be a criticism of the action taken with respect to deficits of the Canadian National Railways by the government of Canada and the parliament of Canada in 1932?

Mr. WALSH: Before that question is answered—

Mr. MAYBANK: I rise to a point of order—

Mr. WALSH: I will ask the gentleman to keep his seat until I am through.

Mr. MAYBANK: Let me state my point of order. I would like the witness to answer the question, rather than his counsel.

Mr. WALSH: I am no counsel. The suggestion is that the government of Canada in 1932 did something whereas it was the trustees of the railway company that did something.

Hon. Mr. HOWE: You are quite mistaken.

The WITNESS: Dr. Young, I find it a little difficult. I am afraid I cannot answer your question. You are referring to a previous statement. I am not here to discuss the financial set-up or what did take place in 1932. I am here as an ordinary layman to ask that clarity be given to this bill, and that is my whole point. I am not here in the spirit of criticism, but rather in the spirit of constructive suggestion. The bill has many points of merit which we do not object to in the slightest.

Hon. Mr. HOWE: Do you take the view that if the government loses money that that should not be considered as a loss? For instance, if the railway loses money every year do you say that should not be treated as a loss, but as a funded debt? You would not usually destroy the bonds. Is that the position that big business would take?

The WITNESS: No, it is not.

Mr. YOUNG: I take it that there was no criticism of the action taken by the government and the parliament of Canada in 1932 with respect to the deficits of the railway?

The WITNESS: If I said that, I simply say I am not in a position to answer that question at the moment.

By Mr. Deachman:

Q. Your suggestion was that since the government was handling this situation, if money was lost there ought to be some statement revealing to future generations what has happened. What is wrong with my suggestion that if in a private corporation money has been lost by the investor it has really been lost by the people of Canada, and that in the interests of intelligent judgment future purchasers should have the record made available to them. Should there not be some indication in the annual statement? It would favour sound investment in the future and ought to receive the support of the Chamber of Commerce. So that in the future I am able to go to that balance sheet of 1935 of, we will say, the Fraser Paper Corporation, or whatever its name happens to be, and find that a reorganization had taken place and the capital written down. Surely that is something I can receive support for from such a body as the Chamber of Commerce. It would be support of an honest statement giving the history of past business?—A. I say that you as an investor and I as an investor in a private corporation doing business in Canada would naturally for our own protection investigate the history of a company we were going to invest in. That history would show when the corporation had gone into liquidation, that its liabilities were such and such and when its reorganization took place. In this case we cannot do that because the government has not gone into liquidation.

Mr. BEAUBIEN: Suppose I go into the bond market to buy a bond of a paper company as an ordinary man, I do not take the time to go into the history of that company, when it was reorganized, and I believe 90 per cent of the public do not.

Mr. DEACHMAN: That is absolutely true.

The WITNESS: The investor will for his own protection know what he is investing in.

Mr. DEACHMAN: Why not give him a hint as to where he could find the information?

The WITNESS: I have no objection.

By Mr. Young:

Q. There is another side to this. Bound up with this whole railway problem which has been accumulating over a quarter of a century there is a great public policy. The Canadian National Railways to-day is as it was taken over by the government—I was not in the house at the time, and I have no criticism of the action that was taken—but they took over a situation which actually existed. Private railways were doing certain things and they were receiving government support, and the thing which they were doing was opening up this great country. We must recognize that while there is a deficit shown here there is a great public asset represented in the opening up of this great country. Now, would you suggest that to offset some of this deficit there should be placed in the same balance sheet that great public asset which has been set up and served by the opening up of this great country, and when you are putting on one side the difficulties which have arisen you must not forget that they arose in the doing of something which was undoubtedly and is, I think, admitted by all in the interest of the country as a whole. So while you are suggesting that we keep up this horrible example, as I might call it, on the one side, perhaps you will be prepared to consider the question of public policy?—A. I quite agree with you. There is no question of doubt in any of our minds as to the benefit which the railways have been in opening up this great dominion, but that is a difficult thing to put down on a balance sheet. If we keep before us what the cost has been, ordinary common sense is going to lead the ordinary taxpayer to appreciate that against that cost he has got certain indefinite and intangible assets.

Mr. KINLEY: I think there is a great difference between public and private business. Public business is business for service while private business is business for profit. In this situation which we have before us the people of Canada are in a dual position. If a private industry fails the stockholders lose out and the bondholders will take the position of creditors. If we were a private company the president would try to find out how they could make profits enough to make the company pay. The Canadian National Railways are not doing that. They are giving a service to the people of Canada. If they could raise their freight rates and charge the people more they could make a better position for themselves, but they are giving the people of this country a chance which they would not have if this were a private company, because as a private company they would be entitled to make profits. For that reason I think we should make a clean sweep, bury the past, and if we need preserve it, put it in the archives so that future generations may see what we have done.

Hon. Mr. HOWE: The only discrepancy between the views of the committee and the views expressed by Mr. Morgan is that there should be carried forward in the balance sheet itself a complete and continuous record of such accumulated costs from year to year. Now, the purpose of this legislation is to wipe out duplication between the balance sheet of the railway and the balance sheet of the owning corporation, the public accounts of Canada. Now, do you think it is good business to fog this balance sheet—to attempt to do it—because your statement would not mean a writing out of the balance sheet; it would mean writing into it? All we are doing is taking the legislation of 1932 and making it retroactive. It is not our legislation at all; it is another government's legislation.

Hon. Mr. STEWART: Now, you have started a big question. You are going a lot further than was proposed.

Hon. Mr. HOWE: No. I do not think so.

Hon. Mr. STEWART: You are going a lot further than was proposed by the legislation or whatever was enacted in the legislation of 1932 which simply takes the annual deficit and puts it into the consolidated—it is paid into the consolidated revenue fund, that is all.

Hon. Mr. HOWE: We are going back of the history and doing it all the way back.

Mr. McLARTY: We are doing what I understand the Duff Commission recommended to be done but stated that was not the appropriate time.

Hon. Mr. STEWART: The Duff Commission recommended a lot more than that.

Mr. WALSH: I want to apologize to my friend Dr. Young. I was confusing the method of meeting the annual deficits by having them voted by parliament as initiated in 1932, with the elimination of the interest charges for these advances from the balance sheet in 1935. The former was done, I understand, on the recommendation of the Duff Commission acted on by the government that was then in power, an action with which I am in complete disagreement although, I think, probably, other members of the committee find themselves in the same position. I feel very happy to find myself in almost complete agreement with my friend Mr. Deachman in relation to private and public companies. Although the commission has nothing whatsoever to do with the private companies and their way of dealing with losses, yet I feel with Mr. Deachman that we should do something in connection with railway accounts so that the profit and loss statement and consolidated balance sheet should always show the true picture to the public of Canada. As Mr. Morgan has pointed out this could be done by a footnote or otherwise showing the complete investment of the public of Canada in the railway. Now, that is the main point for which I am contending. My main opposition to the present bill is based on the premises that this bill more than ever ceases to make the consolidated balance sheet of the Canadian National Railways a true picture of the actual conditions of that railway, and those are the two points for which I contended at our last meeting and for which I contend at the present time.

Some member of the committee paid me a very graceful tribute in suggesting that I was counsel for the witness or the Canadian Chamber of Commerce. I think the president of the Canadian Chamber of Commerce will agree with me when I say that outside of an exchange of Christmas greetings last year we have not seen one another nor have I been in collaboration with any member of the executive or with any other person connected with the Canadian Chamber of Commerce. But I am very happy to find myself in complete agreement with their suggestion, and their suggestion which has been very carefully put before us by their chairman bears out the statements I endeavoured to make at the last meeting. I am hoping that this committee in the end will see its way clear to adopt some amendment relative to the consolidated balance sheet of the Canadian National Railways so as to show a true picture. I do not care whether you create a securities trust corporation and I do not care what you put into that corporation so long as we maintain that complete picture in the consolidated balance sheet of the Canadian National Railways.

Mr. BEAUBIEN: Would you be in favour of all railway companies in Canada putting in their balance sheets what they have received from the Dominion government in the way of loans, subsidies and so on? I understand the railway companies have received great tracts of land in this country and have made a great deal of profit out of them.

Mr. WALSH: I understand, of course, that those lands and other grants were given to all railways in their initial stages, and some of those grants are represented in the railways that the Canadian government has taken over—the Canadian Northern in particular.

Mr. BEAUBIEN: Would you be in favour of having them placed in the assets every year?

Mr. WALSH: You are referring, I presume, particularly to a privately-owned railway company that has received some assistance. Of course, we are not concerned very much with how they make out their balance sheet except—

Mr. BEAUBIEN: Certainly we are.

Mr. WALSH: Except in so far as they must comply with the law. The law compels them to show, as it does any other corporation, their real condition, and they cannot do otherwise than show their real condition.

Mr. DEACHMAN: They should show their real condition after this reconstruction has taken place. That represents the real condition of the Canadian National Railways.

Mr. WALSH: I do not know whether I have the support of other members of my party in this respect, but I do not believe that the present bill even goes far enough in breaking down the capital structure of the Canadian National Railways. I would have no objection to breaking down the capital structure of the Canadian National Railways to reasonable proportions, providing always that we have the consolidated balance sheet of the Canadian National Railways giving us the exact condition of that railway from the beginning of time. Now, I can say that we have made tremendous progress this morning.

The CHAIRMAN: I think we might make more progress if we considered the bill clause by clause.

Mr. MAYBANK: As I understand it, what the witness is after is to get some sort of statement into the balance sheet which will show that that is not the true picture. Consider the paper company to which Mr. Deachman referred. He said, supposing that such and such a company becomes reorganized should there not be upon the balance sheet of that company something to intimate to me that a reorganization has taken place and something about the reorganization so that I can get a pretty fair picture from the published reports of the reorganized company showing the amount of money, perhaps, which because of the bankruptcy was formerly taken away from the various members of the investing public? Now, as I understand the witness, that is not quite what is desired, but simply an intimation to the public that this new balance sheet that we are propounding is not the full story of the Canadian National Railways—in fact, that there should be an intimation between 1867 and the present time that there has been quite a bit of history written around the Canadian National Railways which is not to be found in that balance sheet. As a matter of literature that might be all right. From the viewpoint of the writing of balance sheets it might be a good idea that all balance sheets should tell the story about the past history of companies. It would seem, from what has been said, that it would be quite sufficient if on this balance sheet—this new balance sheet—we were to record, “the above is not the full story because there was a reorganization of this company in 1937; there likewise were other steps taken with relation to the finances of this company in 1932 and in other years.” That would seem to answer the purpose with a further note, “And the facts relative thereto can be found in the public accounts of the Dominion of Canada.” We might then go further and say that in act number so and so—whatever bill No. 12 will become—will be found various schedules of debt liabilities which used to be written into this balance sheet but which in 1937 we found to be ridiculous and, therefore, we discontinued them. That statement might appear at the end of the balance sheet. In fact, there might be a

very long story of that nature. When the witness is advocating telling some of the story, surely he would be willing, to be consistent, to advocate telling the whole story in connection with the Canadian National Railways. Weave into it the aspect of the railways introduced a little while ago by Dr. Young including the story of the Intercolonial and its aid to confederation. That might also be put into the balance sheet. Surely the Canadian Chamber of Commerce, if it wants the whole story would not be advocating that. If it is, I would like to hear it, but if it is not advocating that it is advocating putting into the balance sheet something very considerably less than the truth.

To me this whole argument this morning has an air of unreality. The fact of the matter is that we want to get a lot of dead weight out of this balance sheet; because some people—say unscrupulous people—are deliberately making use of it. The fact that this story of the balance sheet as it has hitherto existed does not really give a proper picture of the railway is a fact upon which people are seizing from time to time in all sections of this country to damn this road. Now, we want to get this railroad into such a position that people can see, not the whole history of this railway, but rather what this parliament considered was a fair capitalization of it and one upon which it could be expected to show a measure of success year after year. Probably this is not the final reorganization of this railway. These accounts may still be too high. For to-day at any rate it would seem to be clear that these items in the schedule should not any longer be charged. That seems to be the purpose. My idea in wanting to see these accounts written down to reasonable proportions is to prevent the unscrupulous use of the accounts of the Canadian National Railways by persons who have particular ends to serve and who are not connected with the good of the Canadian National Railways. Of course, it goes without saying that in these remarks I am not including the witness.

Mr. VIEN: It might be interesting to know to whom the hon. gentleman is addressing his remarks.

Mr. MAYBANK: I have no doubt it would be interesting to know that and were there time I might proceed to tell the committee, but I do not think it is necessary. Not only that, but I believe that most people about these houses of parliament know already without my telling them. Consequently there will be no need to go further into that. I think the sooner we arrive at a point where it will be a little less easy to do as I have suggested some people in this country are doing the better it will be for this railway and for Canada.

Hon. Mr. STEWART: As one lawyer to another, may I say to my friend who has just spoken that the parallel which he seeks to draw between the private company and the Canadian National Railways, I think does not exist.

Mr. MAYBANK: I did not seek to draw any parallel.

Hon. Mr. STEWART: You were comparing what might be done by a private company as to history. You see, we regulate that by provincial legislation, and when a company proposes to sell stock, under the laws of most of the provinces, it must issue a prospectus and the prospectus must contain exactly what the law of the province states must be sent out. Now, this is an entirely different matter. The Dominion of Canada is dealing with one of its own assets, the Canadian National Railways, and the last part of my hon. friends argument as to writing down this capital to have some relation to value is what the Duff Commission recommended; but it cannot be suggested by the wildest stretch of imagination that that is what we are doing. We are not doing that to bring it into relation with the earning value of this company, with the value of its assets.

Mr. BOTHWELL: We are taking a step in that direction.

Hon. Mr. STEWART: I do not know about that. You are not doing what the commission recommended; you are not putting it on the basis that the gentleman who has just spoken says it should be put on. That may be very desirable,

but that means going very much farther than this. That gentleman speaks about the enemies of the Canadian National Railways. I do not know whether he desires to suggest that any person who criticizes this bill is an enemy of the Canadian National Railways.

Mr. MAYBANK: No.

Hon. Mr. STEWART: Then, I do not see the relevancy of his remark. I am just as good a friend of the Canadian National Railways as the hon. gentleman who has just spoken, and anything that can be done to put that railroad on a better basis will have my hearty support. I come from a railway town, I know the railway men and I know their problems and their difficulties. I am interested in the Canadian National Railways. But again I want to point out that this bill, if enacted into legislation, will not add one dollar to the revenue of the railway, will not decrease its operating expense by one dollar.

Mr. DEACHMAN: Are you opposing the recapitalization?

Hon. Mr. STEWART: My position will be perfectly clear when I get through.

Mr. DEACHMAN: Thank you.

Hon. Mr. STEWART: As I have said, it does not add anything to the revenue; it does not decrease the deficits, and it does not affect the rate structure. It does not reduce it, and it does not really seem to help the situation from the standpoint of those who are anxious to help the railway. There are certain features of this bill about which there is no controversy and to which we have no objection at all.

By Mr. McLarty:

Q. May I ask Mr. Morgan one question to clear the matter up in my mind? The suggestion made in the brief is that if these items which are being written off as liabilities from the balance sheet were carried in the balance sheet in that way the effect would be largely to nullify any benefit that would be derived from this bill. I think in your later suggestion you stated that some notation might be needed as a footnote, simply referring to this bill when it became an act, and a brief statement that the capitalization was modified by reason of act so-and-so of 1937. Is that your position in connection with it?—A. It is partially what I want to say.

Q. May I ask this question? A statement of the deficits since 1932 has been carried in the consolidated revenue—A. Yes.

Q.—footnote, showing what the accumulated deficit has been and what the deficit is for that year.—A. Not the specific figures with reference to the capitalization.

Q. The specific figures of what the accumulated deficit has been and what it is for that year. I feel it is going unnecessarily far, if we have reference to the specific legislation by which recapitalization was effected. Anyone who was sufficiently interested can easily obtain that information because it is available in the public accounts.—A. On the other hand—

Q. I think you will admit such a thing is never done in the case of a private corporation.—A. No; but a private corporation would go into liquidation; whereas the public of Canada still own that railway that still owes the money.

By Mr. Maybank:

Q. Does not your proposition come down to this: recast your capital structure and at the same time on the same page or near it leave it cast precisely as it was before?—A. No; it does not. Recast your capital structure, if you want to use that; but don't fool yourself or fool the public.

Q. It won't be fooling ourselves.—A. You fool nobody, but let us show what the total deficit is to be, and what the deficit is for that year. It is not very much, but it is clear to everybody—

By Mr. Deachman:

Q. What is the object of that?—A. So that when you are looking at the balance sheet of the Canadian National Railways we will see what it has cost us.

Q. Why not apply the same thing to my friend the paper company so that when we look at the balance sheet we will see what it has cost the people of Canada? I cannot distinguish between the people of Canada and the government. We are not indissoluble; we are not the same thing.

Mr. MAYBANK: Not indissoluble, no.

By Mr. Kinley:

Q. Mr. Morgan, after all, in a private business costs do not count; it is values that count, is it not?—A. Yes.

Q. We are dealing with values. The intent of this bill is to eliminate these things from the statement that have no value. Now, why not make a clean job of it instead of doing it with one hand and spoiling it with the other. The bill is clear to anybody who wants to see it and read the statement in the future. Do not forget, it seems to me that the bill is clear.—A. In reply to that, Mr. Chairman, let me say that I do not agree with the fact that the bill is clear. If anybody can make out what the balance sheet of the Canadian National Railways is, unless he is a chartered accountant, by reading this bill as drawn, he is more than an ordinary business man or more than an ordinary taxpayer; because it may be very clever and probably is very clever accountancy, but I am sure I could not understand the result of the thing and I doubt if very many people could.

By Hon. Mr. Howe:

Q. What is it you cannot understand?—(No audible answer.)

Mr. HEAPS: The business people of this country very often have suggested to us in parliament that we should run our business in a businesslike way. I quite agree with a good deal of that, Mr. Chairman, but I feel in regard to the Canadian National Railways they are asking something different. Now we are being asked to make a special entity out of the railways and not run them in accordance with what we might call ordinary business ethics. For instance, the Canadian National Railways in the first place are not in the same position as a private concern. We all readily admit that. When they were taken over by the government it was a question of whether they should go into bankruptcy or whether the government should take them over. I think if people at that time could have seen what has happened since then probably the government would not have taken the railways over but would have allowed them to go into liquidation. The government took over the railways and took over the huge liabilities. The government cannot do what a private business concern can do for the simple reason that to-day the bonds are guaranteed by the government. In the case of a private corporation during a time of depression the private corporation or a great many private corporations do not have to pay interest on their bonds or on their shares. The government because of the guarantee by them were compelled to pay interest on all these bonds. If the government to-day were in the position of a private concern and did not have to meet its interest obligations its balance sheet would be probably no different from a great many balance sheets of other business concerns during the past few years. According to the railway report that we have the interest charges alone on the bonds guaranteed by the public of Canada, apart altogether from the other interest charges, amount to over \$50,000,000 per year.

Mr. VIEN: They are not shown.

Mr. HEAPS: Shown in the report of the C.N.R.

Mr. VIEN: I do not believe so.

Mr. HEAPS: On page 19 of the annual report of the Canadian National Railways is shown the following: "Interest due public on long-term debt, \$53,468,792.22."

Mr. VIEN: To the public.

Mr. HEAPS: Interest to the government is also shown, I think, in another part.

Mr. WALSH: It was eliminated last year.

Mr. HEAPS: Interest to the public which is on guaranteed government bonds. If we were in the position of a private corporation we probably would not need to pay that interest charge on those bonds and a good deal of the deficit which we are compelled to show year after year would probably not be shown in the balance sheet.

Mr. VIEN: Why not?

Mr. HEAPS: For the simple reason that we would not pay interest on the sounds like a private company.

Mr. BEAUBIEN: The company would not earn them to pay them.

Mr. HEAPS: Yes.

Hon. Mr. STEWART: It would be a liability.

Mr. HEAPS: In any case, private companies do not pay past dividends.

Mr. VIEN: Dividends and interest on bonds is a very different thing. If it is the guaranteed interest on preferred stock it might not be shown; if it is not cumulative it could not be shown as a debt, but the unpaid interest on bonds outstanding must be carried as an unpaid liability.

Mr. HEAPS: Yes, but a large number of shares have been issued which are almost equivalent to capital on which there has been no interest paid.

Hon. Mr. STEWART: It is a dividend. That depends on profit.

Mr. HEAPS: Well, if there are no profits the private company does not pay.

Hon. Mr. STEWART: No liability on stock—

Mr. HEAPS: We are creating a very fine dividing line. All we can say from a dividend standpoint is that these interest charges are not met, and because it is the government we are compelled to meet them. In that situation we are in a completely different position from that of a private company, and consequently we have carried for years back in our balance sheet accumulated deficits which a private company probably would not have shown. In that respect I say we are in a completely different position from a private company. Now, as I understand it, what this bill attempts to do—and I think we are losing sight of that fact—is to prevent duplication as between the government accounts and the railway accounts. In that respect I think everybody ought to be agreed.

Mr. VIEN: We do agree.

Mr. HEAPS: If we are agreed I do not see what all the discussion in this committee is about. I think the bill ought to be approved so that the railway can get down to a sound basis so far as its capital structure is concerned. So far as the past deficits are concerned I believe everybody knows what they really are. I agree with some of the statements made by my hon. friend, Mr. Stewart, that it is not going to affect the railway to any great extent in regard to its operating deficits or operating costs. I do not think it is going to have any great effect in that regard. I think from the standpoint of clarity as between, shall I say the double debt of the railways and the double debt of the government, there has been such a conglomeration of accounts it has been almost impossible in the past to understand what they are. If this bill improves that situation, and I understand it does improve it by clarification, then I think the bill is well worthy of our support.

Mr. VIEN: Mr. Chairman, I hope when we speak to this bill in this committee we shall not be subject to insinuations that we are either opposing the bill or fighting the interests of the Canadian National Railways on anybody else's behalf. We are here in this committee trying to do exactly what the Minister of Finance and the Minister of Transport said in the house. The Minister of Finance in the house said this:

When the bill is referred to the special committee the most searching examination will not only be permitted but invited, to the end that we may, if possible, evolve a set-up, which will be realistic in so far as it relates to the property as it now stands and at the same time will not disguise from the Canadian people the amount of money which all down through the years they have invested in this great railway undertaking.

The only purpose of this committee is to try to study the draft that is being submitted to it to see whether this will have the effect of helping the management properly to carry on, and at the same time help the Canadian people at all times to have before their eyes a true picture of the situation. Some people say, "why don't you scrap everything that you cannot carry and forget about it?" Well, that is exactly what we do not want to do. We want those who will come after us to know what we have done with their railway property. We are only trustees, and we should not act in such a manner as to cloud the true facts. It may be a good thing to revamp the book-keeping and the accounting system of the Canadian National Railways so as to eliminate from the balance sheet certain items that should be transferred somewhere else. If there is duplication I want to state that I for one want to change it. If there is any duplication as between government accounts and the railway company's accounts which appear to encumber the railway and the government with the same indebtedness twice, I do not believe that any one reasonable man can stand up and suggest that it should continue. But it is exactly how the last sitting of the committee concluded. We came to that very point. As Mr. Morgan has mentioned, it is not easy for a layman in reading the public accounts or in reading the financial statement of the railway itself to find the true story. It was with that end in view that we asked Dr. Clark to come here this morning; and I should like, Mr. Chairman, if I am in order, to ask that Dr. Clark be—

The CHAIRMAN: If there are no more questions to ask Mr. Morgan—

Mr. KINLEY: May I ask one more question.

Mr. VIEN: I should like to finish my phrase, at least. —asked to tell us the history of the financing of the Canadian National Railways and its component parts as reflected in the public accounts and as reflected in the present statement of the Canadian National Railways with the view of finding out to what extent we can agree with the present bill.

By Mr. Kinley:

Q. Mr. Morgan, your remarks were along the line that the people of Canada should know. I think there is another aspect to this case and a very important one. May I ask you this: do you think that this bill as drafted is unfair to competing private interests in Canada?—A. Mr. Chairman, in answering that I think first there is one point that we ought to bear in mind and that is, I have heard it stated—it is very generally stated in this committee and throughout the country as a whole—that we have a private corporation and the Canadian National Railways. I do not think there is such a thing as a private corporation.

Q. I agree with you. One is just as much public as the other.—A. Yes. After all any company that has its stock on the market you and I can go and buy and we can go and sell—and there are thousands and thousands of shareholders in this country and other countries—is not a private corporation in my opinion.

Q. If the other railroad got into trouble to-morrow we would have to save it.—A. That is just a point we ought to bear in mind.

Q. My question is do you think that this bill imperils or is unfair to the competing private industry—I will say, to the other railroad?—A. I do not think that I should like to answer that.

Q. You find it a little difficult to answer?—A. May I put it this way; we are dealing with bill No. 12, which is in respect of the Canadian National Railways. As long as we bear in mind that we are keeping our own public informed of exactly what the true situation is in regard to that railway, then I think that we have accomplished our purpose.

Q. You would not regard it as taking advantage of the other system?—A. I do not know that one has any relationship to the other at the moment.

Q. Oh.—A. In this bill—naturally the other system is the most important factor in the railway situation of Canada. I agree with you that bill No. 12 is not directly affecting the other railway in respect to its operation.

By Mr. Deachman:

Q. There is another question that I should like to ask you. Has not the C.P.R., speaking of private corporations, written down its investment in the Sault line? Is not there somewhere a parallel between the dominion government writing down its investment and the Canadian Pacific writing down its investment?—A. Again I am going to fall back on my opening remarks that I am not a chartered accountant, not even a good accountant.

Q. I was quoting—A. I do not want to get into an argument along those lines.

Q. I was quoting from a statement I have, which is the annual report of the C.P.R. for the year ended December 31, 1935, in which the following appears:

“A further appropriation of \$4,000,000 was made to provide for possible writing down in the future of your companys investment in controlled railways in United States. The reserve for this purpose is now \$16,000,000.”

I suppose you might say they were transferring a certain amount of the inactive assets, because the statement is, “the reserve for this purpose is now \$16,000,000.” There has been some writing down there.

By Mr. Bothwell:

Q. I should like to ask Mr. Morgan another question. I presume your executive have gone through this bill carefully and considered the various items that are to be readjusted. Have you any complaints to make on any of those items that it is proposed to write out?—A. In answer to that question, Mr. Chairman, I may say that we are not taking exception to the bill as a whole; it is just that we want a clarification in the bill.

Q. I am to understand that so far as you are concerned you are taking no objection to the readjustment as set up in the bill except—A. That is it.

Q. The only thing then is that you want the balance sheet of the Canadian National Railways each year to set out the accumulated deficits and the picture of the railway.—A. That is it exactly.

Mr. BOTHWELL: Mr. Chairman, it seems to me that the whole situation has narrowed down to a very small one. It seems that the minister in introducing this bill is of the opinion that the adjustment should be made and that accounts should be kept in the public accounts of Canada. The other question then seems to be, in order to apprise the public, whether at the bottom of the

annual statement of the Canadian National Railways we shall insert an item that the record of the Canadian National Railways can be found in the public accounts of Canada or shall we put in there: the following is a statement of the accumulated deficits.

The WITNESS: That is it.

Mr. BOTHWELL: It seems to me there is only one question, and that is whether you are going to have that set out exactly in the balance sheet or simply have a note that you can find the actual facts some place else. I can scarcely conceive of the Chamber of Commerce going to the expense of gathering information that is compiled in this literature placed before us this morning in order to bring to our attention that one little fact, that one little difference of opinion.

Mr. VIEN: I would suggest that it should be more than a footnote. I would suggest that it be an appendix, carrying the figures. With respect to Mr. Deachman's questioning of Mr. Morgan I should like for the purpose of completing the record to ask Mr. Morgan this question: do you find a difference between a company writing down its assets or inventory, value of its assets or inventory and a company writing off its indebtedness?

The WITNESS: Yes, of course. In the case of the Canadian Pacific writing down the value of the Sault lines it is simply reducing the inventory, its assets.

Mr. VIEN: Yes.

The WITNESS: In the case of this recapitalization it is writing off the indebtedness of the Canadian National Railway Company.

Hon. Mr. HOWE: It is an exactly parallel case. The present company in one case is the Canadian Pacific Railway and in the other it is the Dominion government. The Dominion government found it necessary in one case to advance a certain amount of money for deficits and other money to replace capital that was lost. In each case they are writing it off. It is a proper thing in both cases.

Mr. VIEN: I agree with respect to public accounts. If we were dealing with public accounts of the country, writing down the amount of the assets with respect to loans made to the Canadian National Railways, it would be so. It would be a parallel case with the Canadian Pacific reducing the value of the Sault line on the assets side of its balance sheet; but we are dealing with the Canadian National Railway Company and its annual financial statement. I see a certain difference, and I speak subject to correction on this point. I think there is a fundamental difference between writing off the indebtedness of the Canadian National Railways and writing down either in the public accounts the value of the loans made to the Canadian National Railways shown as accounts receivable, or the value of your inventory on the assets side of the balance sheet.

Mr. DEACHMAN: I suggest we form the Dominion government into a private corporation; then we could do what we liked.

Mr. VIEN: I do not believe it would lead us very far. I now go back to Dr. Clark.

By Mr. Walsh:

Q. I want to ask Mr. Morgan a question. Mr. Morgan, as president of the Chamber of Commerce of Canada— —A. Chairman.

Q.—you recognize that the amount of money involved is roughly \$1,800,000,000, and of that amount \$690,573,400 is represented in actual cash. Now, your organization has no objections to clearing off the books of Canada and the railway the balance of that \$1,800,000,000 that is not represented in cash; is that right?

The CHAIRMAN: He said so, in writing.

By Mr. Walsh:

Q. What you are concerned with is what we are doing with the \$690,000,000 of cash advanced by the government.—A. Well, I have not got the statement in front of me, Mr. Walsh, but I do not want to get into any discussion and I do not feel competent to get into discussion on the actual way the balance sheet should be drawn. I am speaking again as a layman, and let me just refer back and stick to that point. I do not feel competent to discuss the balance sheet in any other way.

Q. I am very much more of a layman than yourself. There is this point I want to get perfectly clear. Your organization has no objection to wiping off or writing off, shall we say, which is a better term, anything that does not represent actual cash?—A. I think that is so.

Q. Now, may I ask you this question: has your organization in preparing this memo. that you have submitted this morning, had the benefit of the advice of an expert accountant or statistician or economist?—A. Well, Mr. Walsh, we have a number of them; but the executive of the Canadian Chamber is composed of business men. This has been their idea. To try to put before you a very simple point of view and say that we simply want clarity in the statement of the Canadian National balance sheet which I do not think is there now, and which would not be difficult to get.

Q. You make this statement in your memo. submitted to the committee: "first, because we believe with the ministers that the proposed adjustment of the capitalization of the Canadian National Railways should not remove from the knowledge of the Canadian people the accumulated costs of the National system. Rather there should be carried forward on the balance sheet itself, a complete and continuous record of such accumulated costs from year to year." That is the unanimous opinion of your executive and you feel it is the opinion that would be borne out if you submitted that question to the various boards of trade that you represent here this morning?—A. As far as I can—

Q. In other words that is the accumulated opinion of all the boards of trade from one end of Canada to the other?—A. I would say we represent, and I can only deal with our representation—it has not been submitted to the various boards of trade, because after all we did not feel it was a thing we were justified in submitting. The ministers' statements themselves are quite clear in regard to what they want to do. It is exactly what we want to do, and it would be more or less *infra dig* in my opinion to go ahead and make a point of getting an opinion in regard to what the minister has said quite clearly he wanted to do. It is what we are asking; we do not think the bill as drawn is clear on that one point.

Q. Now, it is perfectly clear that Mr. Howe in his statement and Mr. Dunning in his statement indicated what they had in mind. They made that perfectly clear. Your interpretation of their remarks is that your suggestion meets with their express suggestion?—A. Yes.

Q. I should like to point out to the committee that in April, 1935, when this committee was in session one of the witnesses who appeared before the committee was Mr. Roberts, who at that time was connected with the Department of Finance, I understand. He was asked a question with regard to the balance of the \$1,800,000,000. This is the question: "With regard to the balance of the \$1,800,000,000 you have no particular concern?"

"Mr. ROBERTS: Yes; there is one thing I should like to say. In dealing with these accounts Mr. Matthews stated that the position of the dominion accounts with the railway accounts exhibited a condition that you would not find in a business where there was a corporate company as parent and then a subsidiary organization, because he implied that we had written out of our books those loans to the railways. As a matter of

fact they have not been written out. They stand there on the assets side to-day, the assets side of the books representing expenditures, but for the purpose of exhibiting our net debt position to the country and to the world at large, we do not take them into account as assets because they have not any realizable value."

Then Mr. Hanbury asked this question:—

"You keep them in the records?—A. Yes. So far as book-keeping is concerned there is no inconsistency between our system and that of a commercial organization."

In other words I read into Mr. Roberts' remarks that he is urging what the Chamber of Commerce is urging, what the minister of transport is urging, what the minister of finance is urging, but which, Mr. Chairman, I fail to find in the bill as presented to us; and I hope when we go through it clause by clause that that condition will be removed, with the full consent of the minister most concerned, so that we can present a unanimous report from this committee.

Hon. Mr. HOWE: I have an amendment prepared which I will offer at the proper time.

Mr. YOUNG: I would like to draw a little parallel to know if I have the exact principle Mr. Morgan would like to present to this committee. Let us suppose that we have a young man who up to the time he is thirty years of age has led a rather irregular life, has had difficulties, troubles, trials and tribulations; and at the age of thirty he decides to reform. From there on he leads a very respectable life. You would not want to have his past written up in some form and constantly kept before the public—this horrible past—so that it could not be forgotten, would you? In other words, you would not want to remind the apostle Paul that he once was Saul of Tarsus.

Mr. MAYBANK: I think the gentleman's position is that you cannot reform after thirty.

Mr. YOUNG: Is that what you want done?

Witness retired.

Dr. W. C. CLARK, called.

Mr. VIEN: Dr. Clark, I think you understand the point I am stressing.

Dr. CLARK: I believe I have your general point. I think, probably, a good deal of my testimony has already been covered by some of the statements made this morning but, perhaps, I can go over some of the general points, and if I do not cover all that is in your mind you can ask me questions afterwards.

First, if we go to the public accounts for the year ended March 31, 1936, we find the gross liabilities of the Dominion of Canada represented at \$3,431,000,000 odd. On the other side offsetting these in part are certain assets, certain "active" assets which we regard as realizable assets. Some of them are good, some of them are cash, gold bullion, and so on. Perhaps, some of them are not quite so good. But on the whole they are what a banker would regard as reasonably sound assets that could be offset against the gross liabilities of the Dominion. They amount to some \$425,000,000. Deducting this amount from the total liabilities—

Mr. VIEN: Where are they shown?

Dr. CLARK: The first items on page 2 of the public accounts under assets. Deducting that \$425,000,000 odd from the gross liabilities of \$3,431,000,000 odd gives you what we regard as our net debt figure, \$3,006,000,000, at March 31 last. The net debt figure is, I think, the important figure. It is what the banker looks at when he comes to do a piece of public financing.

The CHAIRMAN: Would you repeat the figures?

Dr. CLARK: Gross liabilities \$3,431,000,000 odd, active assets \$425,000,000 odd, leaving a net debt of \$3,006,000,000 odd, which I say is the crucial figure. Now, there have been in the past certain other items carried for a time in this group of active assets at the top of page 2 which have been transferred for reasons which were considered good and sufficient, down into the net debt figure.

The action that was taken by Sir Henry Drayton in 1920 when he was finance minister was referred to this morning. At that time there was a gross liability of \$3,014,000,000 and the net debt was then shown as \$1,964,000,000. Sir Henry Drayton felt that there were included in the active assets certain items that were not really good assets and should not be there, so he decided, and so stated in his budget speech, that certain of these items would be transferred down to the net debt items.

Mr. VIEN: What year was that in?

Dr. CLARK: 1920. May 18, 1920, was the date of his budget speech. Some of the more important items in the class he desired to transfer were advances to the Canadian Northern Railway Company \$140,000,000, the Grand Trunk Pacific Railway \$95,000,000 and the Grand Trunk Railway \$1,000,000 odd. At the same time he gave his reasons for making that transfer as follows:—

“It is obvious that the advances to the Canadian Northern, the Grand Trunk Pacific and the Grand Trunk Railway companies cannot be treated as active assets. They are not at the moment realizable; further, no interest is being paid, and in some cases, the principal as well as the interest is overdue.”

Mr. MAYBANK: Just as a matter of record, are you reading from the budget speech of that year?

Dr. CLARK: Yes.

Mr. MAYBANK: What is the page?

Mr. DEACHMAN: Page 2478.

Dr. CLARK:

“As is well known Canada is now the owner of the Canadian Northern, receiver for the Grand Trunk Pacific, and steps have been taken for the acquisition of the Grand Trunk. While the railways have potential value, at the present time the fact is that the country itself owns the Canadian Northern and is responsible for the operation of the Grand Trunk Pacific, with resultant heavy cost to the taxpayer.

Assets which are not readily convertible, as the specie reserve is convertible, or are not interest producing, are not such assets as ought to be deducted from the gross debt. They are inactive, they are items of such a character as might well be placed in a suspense account. At any rate, whatever may be their future value, however great it may be, they are not assets of such a character as to directly reduce the gross debt any more than the other capital accounts of the country ought to be deducted from it.

I would therefore reduce the deductions made from the gross debt by the railway items already referred to. . . .”

And then he goes on with certain other items.

Mr. BEAUBIEN: When those amounts you have mentioned were absorbed in the public debt of Canada they still continued to be shown on the annual report of the Canadian National Railways, did they?

Dr. CLARK: Yes.

Mr. VIEN: As an asset.

Dr. CLARK: As a liability of the Canadian National Railways.

Mr. VIEN: Oh, yes; but that was writing down the value of the assets on the public accounts.

Dr. CLARK: It was not writing down their value; it was transferring them from the category of active assets down into the net debt figure. I will come to that later on.

Now, in the public accounts for that year, the introduction to the public accounts written by the then Deputy Minister of Finance states that in compliance with the instructions of the minister given in his budget speech he had transferred those assets from the active category down into the national debt figure.

Now, that was the start of that procedure. I think I am bound to say that the reasons which Sir Henry Drayton gave at that time for taking the action described are reasons which would appeal to the Finance Department at any time. They represent the attitude which we take to the treatment of assets in the public accounts which are not realizable, and are not paying any interest. We try to get them down into that lower category. We can do that on instructions from the Minister of Finance. We cannot actually write them off unless parliamentary authority is given for such writing off.

Now, coming back to the public accounts for last year. In the active assets the only railway items you will find are included in the fourth head "Railway Accounts, per Schedule B," \$46,087,000 odd. If you look at Schedule B you will find that it includes the loans made under the railway financing acts, that is to say, loans for capital expenditures, debt retirement and acquisition of securities since 1932, certain loans for betterment or retirement of railway equipment, and then the purchase of equipment leased to the railway. Under Miscellaneous Current Accounts, Schedule E, you will also find \$15,748,000, representing Canadian Government Railways Open and Stores Accounts. Those are the only railway items which we regard as active assets in our accounts. They would not involve, if we consolidated the balance sheet of the National railways and the Dominion government, any duplications because what would appear in the Canadian National Railways statement as a liability would be offset by an asset in the Dominion government's books. So there would be no duplication there.

Now going down to the lower half of the balance sheet of the dominion, on page 2, you will find the caption "Net Debt represented by (A) Expenditure," with a group of important items totalling \$1,811,000,000; and then there is the consolidated fund below that. I think Colonel Vien is interested primarily in the nature of this (A) category included in the net debt.

Mr. VIEN: Yes.

Dr. CLARK: I think he is interested in what is actually in that group of items. I think you can fairly say that it consists of two types of items, first, capital expenditure, or expenditures that were originally regarded as capital expenditures,—and if you trace back the history of capital versus income expenditures in the dominion accounts, it is not always easy to find a dividing line. But these in part are expenditures that were originally treated as capital expenditures—"Public Works, Canals"; "Public Works, Miscellaneous"; and so on under "Territorial Accounts," if you look at schedule J, you will find part of the cost incurred in connection with the northwest rebellion. That did not create a capital asset in the ordinary sense of the term, but it was regarded as a capital expenditure in those days.

Now, that is the first class of items included in the net debt. The second class is what we call "non-active assets"; usually items which were originally up at the top of the page in the active assets section of the balance sheet but

which have been transferred in accordance with the procedure followed by Sir Henry Drayton in 1920. They have been transferred from active assets down into the net debt section of the balance sheet.

Mr. HEAPS: Could you give us one or two items as an illustration?

Dr. CLARK: Yes, I am going to mention certain items there. You will find "Public works, Railways, per schedule G, \$442,910,000," and if you look at schedule G you will find that the main item there is \$388,000,000 odd of government expenditure on the Canadian government railways which appears as a liability in the balance sheet of the Canadian National Railway system. It appears as a liability in the Canadian National Railways balance sheet; it appears as a liability in our books or rather as part of our net debt. Secondly, there are a few other things in that particular schedule, chiefly the Hudson Bay Railway, \$52,000,000 odd. We come down a little further and find "Railway Accounts (old), per schedule K," \$88,000,000, and here are included \$62,000,000 subsidies to and other costs incurred in connection with the Canadian Pacific Railway, as well as the Grand Trunk Railway debenture account \$15,142,000 and interest on that account. That Grand Trunk Railway debenture account of \$15,142,000 is one of the items you find referred to in this bill. It appears on the liability side of the Canadian National Railways balance sheet. It appears also in our net debt.

Then come down to the next item: "Railway Accounts (loans non-active), per schedule L," \$655,000,000 odd, and if you look at schedule L you will find that the schedule consists of the loans made to the Canadian National Railway system or its subsidiaries for capital purposes in the first place amounting, as I recall, to \$284,000,000. You will find there also the loans made for deficit purposes amounting to \$361,000,000. The whole totalling up to \$645,000,000. That \$645,000,000 total representing loans for capital purposes and loans for deficit purposes appears, of course, in the balance sheet as a liability of the Canadian National Railways system, and it appears also in our net debt. In this schedule you will also find \$10,000,000 representing the cost of Canadian Northern stock.

Now, as I understand the bill it is designed to eliminate the duplication that exists between the Canadian National Railways balance sheet and the balance sheet of the Dominion of Canada, and I think the practical importance of it, from my point of view, for instance, would be its relation to the financing of the Dominion and to the financing of the Canadian National Railways. It is true that periodicals and newspapers, in the London market and in the New York market, and to some extent in Canada analyze the liabilities of the Canadian National Railways and the net debt of the Dominion government without realizing that the duplication that has been spoken of here exists. This confusion affects the minds of the investing public. That, I think, is an important factor which affects the cost of our financing.

Mr. BEAUBIEN: In other words, they do not realize that it has already been absorbed?

Dr. CLARK: They do not realize that it has already been absorbed in the net debt of the Dominion.

Mr. YOUNG: It gives the wrong impression.

Dr. CLARK: It gives the wrong impression. It probably gives you the wrong price on your bonds too. In the last New York issue which we floated in January we had this point raised. The underwriters were naturally interested not only in our own picture but also in the picture of the Canadian National Railways, and we had to take them through the accounts of both the railways and the government in very great detail to explain just what the exact situation was.

I think, Mr. Chairman, I have covered the main points.

Mr. HEAPS: May I ask if you have with you the amount of duplication of the railway and the government?

Dr. CLARK: I think the figure given you already of \$1,528,000,000 is the correct figure.

Mr. McLARTY: Does this bill cover all the duplications as far as the Canadian National Railways are concerned?

Dr. CLARK: Yes, I think so. I think it covers substantially everything, yes.

Mr. VIEN: There are still in the new balance sheet to be proposed as appearing on page 13 of the bill certain capital stock and different government grants and long term debt and temporary loans which are still carried there.

Dr. CLARK: Long term debt to the public?

Mr. VIEN: No, the other one: Dominion of Canada temporary loans. Then you have capital stocks, subsidiary companies owned by the public.

Dr. CLARK: The temporary loans for capital purposes are included in our active assets, as I pointed out. They are merely in the process of being refunded to the public.

Mr. VIEN: I see. What I had in mind there to elucidate is this: when after the transfer of 1920 the non-active assets of the Dominion government which are now shown on page 2 of the public accounts of this year were transferred to the net debt side of the public accounts, it was an operation similar to that of a company which has invested in various debentures and seeing that there was no appreciable value in its investment writes them down to a dollar or so on its asset side; is that correct?

Dr. CLARK: Well, we did not quite do that. There was no writing down of the values of the figures. We cannot do that. We cannot write off assets except with the authority of parliament.

Mr. VIEN: I appreciate that. You always show these assets at their face value?

Dr. CLARK: We show the items, whether they are assets or capital expenditures, at their face value, at the cost to us.

Mr. VIEN: Yes, but when appreciating your liability to the public you deducted the active assets and you deduct nothing for these particular investments. Therefore, you had something similar—you have just explained it—but you had something similar to an ordinary company writing down its assets to one dollar.

Dr. CLARK: Yes. It is something similar.

Mr. VIEN: Therefore, any competent financier—and when you finance in the financial markets of the world you deal with competent financiers—may put up a smoke screen and try to buy your bonds at a cheaper price or cause you to pay more interest. They may draw a red herring across the trail. They know what they are doing. When they look at the public accounts of Canada no reasonably well informed financier can be misinformed by the form of our public accounts.

Dr. CLARK: May I say a word on that. I think that is true. I think we deal with the best financial men. I think we had the ablest of them dealing with this particular issue of ours on the last occasion. But they are apt to come to our situation with a misunderstanding. It takes days of work to explain to them just what the situation is to get them to a correct understanding.

Mr. VIEN: But the picture is there.

Dr. CLARK: I know that but we have to go through a great amount of detail in connection with railway accounts. And even though it were true that the underwriting group, the banker, the banking houses—three or four of them who bought the issue—fully understood the matter, you have to remember that

they are selling bonds to people all over the United States in that particular case, and the investors do not understand it. If they pick up the Canadian National Railways balance sheet without having it analysed in connection with the dominion's statement they do not understand it.

Mr. VIEN: Yes, but in your balance sheet presently shown in the public accounts of 1936 these various items are not shown as a liability against the public; they are shown on your assets side of the balance sheet.

Dr. CLARK: The money that we owe to the public appears over on the right hand page in the gross liabilities.

Mr. VIEN: I am asking a very different question. In the public accounts of 1936 these amounts of \$1,811,000,000 and \$1,194,000,000 are not shown as a liability.

Dr. CLARK: No; but they are included in the gross liability over on the other page. I repeat the statement I made before.

Mr. VIEN: I would like to be shown, for instance, where the \$1,800,000,000 shown on page 2 is reflected in the liability side on page 3?

Dr. CLARK: You might put it this way, Colonel Vien. The \$1,811,000,000 worth of funds we had to raise to make the payments shown in these expenditures items on the left hand page are part of the debt, the liabilities, the funded debt on the other side of the statement.

Mr. VIEN: Yes. On your liability side showing the total public debt of Canada you show \$3,431,000,000 as being the total which Canada owes.

Dr. CLARK: Yes.

The CHAIRMAN: Which includes the \$1,800,000,000.

Mr. VIEN: No. It does not include that. It simply shows the total liabilities of the country incurred so far for all purposes.

Dr. CLARK: Yes, that is right.

Mr. VIEN: Then on the asset side you deducted from this amount of total liabilities such assets which have an appreciable value?

Dr. CLARK: Yes, correct.

Mr. VIEN: And they are earning something?

Dr. CLARK: Yes.

Mr. VIEN: And you failed to deduct from the total liabilities on the assets side such assets which have no appreciable value. It is similar to the operation of a corporation writing down its inventory, or writing down, for instance, an amortization fund or a depreciation value from various assets shown on the assets side of its balance sheet.

Dr. CLARK: Yes.

Mr. BOTHWELL: Might I interrupt you a moment? I wanted to ask you something with regard to that \$1,800,000,000 that you are speaking of. Is that not included in the net debt figure?

Dr. CLARK: It is included in the net debt.

Mr. VIEN: It is included in the net debt in this way: it is shown on the asset side of your balance sheet, but there is no particular amount deducted on the assets side on that account.

Dr. CLARK: The only thing we regard as active assets are the group of items at the top of the left hand page.

Mr. VIEN: I am addressing myself to a very different point. I am saying that you do not show that as an active asset. Therefore, you do not include it in the figure of assets to be shown on your balance sheet as the real assets of the country.

Dr. CLARK: Well, that is true, because we do not regard them as active assets.

Mr. VIEN: Exactly. You do not regard them as active assets. But it is not shown in so many words on your balance sheet as an indebtedness to the public.

Dr. CLARK: No. The indebtedness to the public is included over here on the right hand page.

Mr. VIEN: On page 3.

Dr. CLARK: Yes. In the total funded debt.

Mr. VIEN: It is not there; therefore, so far as the net debt or the gross debt of the country is concerned this will not change the picture at all.

Dr. CLARK: I am not sure. What do you mean by "this"?

Mr. VIEN: I mean to say that after this conversion with respect to the public accounts our net debt will still be \$3,006,000,000.

Dr. CLARK: Yes. It will only change the picture in so far as consolidation of the national railways balance sheet and the dominion's balance sheet is concerned.

Mr. VIEN: There is no real duplication. As an accountant, would you say there is a real duplication?

Dr. CLARK: Oh, yes, I would say so.

Mr. VIEN: I should like to be shown.

Dr. CLARK: Well, if these assets that we are speaking of, these advances to the railway for capital and deficit purposes and so on, had not been in this group of items on the lower half of page 2, but had been included up in the active assets, then the net debt figure would have been reduced by a corresponding amount.

Mr. MAYBANK: It becomes subtractible?

Dr. CLARK: Yes; the net debt showing now at \$3,006,000,000 would show at something over \$1,000,000,000.

Mr. VIEN: I understand that point. You did that in 1920. You consider that these assets had no value.

Dr. CLARK: Yes.

Mr. VIEN: The investing public thought they should not be shown to the public as an asset, an active asset of the company, so you wrote them off from the active assets of the company. You wrote them off?

Dr. CLARK: Transferred them out.

Mr. VIEN: You transferred them to the inactive assets side, but they are not shown as an obligation of the country; and to be a duplication there should be a liability shown in the books of the Canadian National Railways and a liability shown in your public accounts for the very same items.

Dr. CLARK: Not necessarily for the same items. The point is the net debt here is higher than it would otherwise be by the amount of these items that are entered down there.

Mr. VIEN: I understand that.

Dr. CLARK: That is our net debt.

Mr. VIEN: Oh, no. I understand that; I think it is simple, but it is more complicated when we come to duplication of obligations encumbering our balance sheet, the consolidated balance sheet of the country and of the railway system which is the property of the country.

Dr. CLARK: Would it not be true that if they are in the net debt figure of the country and also on the liabilities side of the National Railways sheet there is duplication?

Mr. VIEN: No; because they have been written down, so to speak; they have been transferred to the non-active assets side.

Dr. CLARK: Therefore included in the net debt.

Mr. VIEN: In the net debt?

Dr. CLARK: Yes.

Mr. VIEN: Therefore I do not see that it would produce any result with respect to the public accounts of the country when you go to a prospective borrower. It does not change either our financial situation or the financial situation of the railway company.

Dr. CLARK: If the prospective borrower were content to look solely at the balance sheet of the Dominion that might be true; but he does not. He says you have a government owned railway here; I want to see the balance sheet of the railway, and he adds the liabilities that appear on the railway balance sheet to the net debt figures. He is apt to do that first. You have to explain it to him, if you are going to avoid that particular error.

Mr. BEAUBIEN: When were these items bringing up the \$1,800,000,000 transferred? When was the total amount transferred to the net debt of Canada?

Dr. CLARK: When were they transferred?

Mr. BEAUBIEN: Was it 1920?

Dr. CLARK: All through the years, you see—

Mr. BEAUBIEN: When was the last transfer?

Dr. CLARK: The last?

Mr. BEAUBIEN: 1932?

Dr. CLARK: I would have to check into almost every item to tell you. There are lump sums here.

Mr. BEAUBIEN: It is some time since that has been transferred.

Dr. CLARK: It is some time since these active assets were transferred down to the non-active category.

Mr. BEAUBIEN: And it is transferred to the net debt of Canada?

Dr. CLARK: Yes.

Mr. BEAUBIEN: In the month of January this year you floated a loan on the New York market.

Dr. CLARK: Yes.

Mr. BEAUBIEN: And it was underwritten.

Dr. CLARK: Yes.

Mr. BEAUBIEN: And these people came up here to find out about the net debt and they added the national debt of the Canadian National to the balance sheet.

Dr. CLARK: They did not add the national debt; they came to find out what the situation was, and you have to be very careful—

Mr. BEAUBIEN: They must have had the impression the net debt of \$3,006,000,000 of the Canadian government and the net debt of the Canadian National Railways from their balance sheet was really the net debt of Canada, on account of Canada owning the railway. They must have been under that impression to come up here to get the information.

Dr. CLARK: I would not say what their definite impressions were; I would not like to put that in their minds, but it certainly is true that they had to sit down with us and consider both our balance sheet and the balance sheet of the railways to find out what the true picture was, and in the prospectus we had to indicate the degree of duplication that did exist.

Mr. BEAUBIEN: If this bill goes through it eliminates that degree of duplication.

Dr. CLARK: Yes, it will simplify the difficulty very materially.

Mr. YOUNG: I should like to ask Dr. Clark this question: is bill No. 12 not doing in principle exactly what Sir Henry Drayton was after in 1920?

Dr. CLARK: Yes, I think so.

Mr. YOUNG: In principle?

Dr. CLARK: Well, the principle of the thing is the same. Of course, Sir Henry Drayton was making a change in our books; what the present bill proposes is to make changes in the railway books.

Mr. YOUNG: In order to conform with ours.

Dr. CLARK: In order to conform with ours. Really, this action follows from, in part, what Sir Henry Drayton did in 1920.

The CHAIRMAN: Are there any other questions?

Mr. VIEN: There is a great difference between the operation of 1920 and the operation which we are doing to-day.

Dr. CLARK: There is a difference.

Mr. BOTHWELL: One is complementary to the other.

Dr. CLARK: In the present bill we are dealing with railway accounts, then we were dealing with dominion accounts. What we are doing now in connection with railway accounts follows from and results very largely, if you like, from the other.

Mr. VIEN: The railways will not be richer, nor will the country be richer. The figures are set out in a different manner which may be a more gracefully painted picture to the prospective investor.

Mr. YOUNG: A truer appreciation of the facts.

Dr. CLARK: Yes, a truer picture.

Mr. VIEN: In what particular is it truer?

Dr. CLARK: Because, if the present situation leads to confusion in the investor's mind as to what the consolidated debt of the dominion and its subsidiary is, then anything that you can do to avoid that confusion gives him a truer picture.

Mr. VIEN: Now, if appendix No. 5 on page 13 A is adopted what will be the impression of the prospective investor?

Mr. MAYBANK: What will be the impression?

Mr. VIEN: Yes.

Hon. Mr. STEWART: On the same basis.

Mr. YOUNG: That is reading some man's mind.

Dr. CLARK: Well, I think he will see that—

Mr. VIEN: I do not know what there is laughable about it. I am sorry. I have not got the opportunity of so many hon. members of the committee, nor the technical knowledge of an expert accountant, but I do not know that it is laughable.

Mr. HOWDEN: The matter is so simple, I could not help but laugh. That is the real truth.

Mr. VIEN: My hon. friend is a greater expert and a greater accountant than I am.

Mr. DEACHMAN: I was responsible for the laugh. I said to the doctor, "ask the investor."

Mr. VIEN: I am saying, in your opinion, if I am right in my interpretation of your remarks, if the present accounting gives a wrong impression and a complicated picture to the prospective investor, then the new set-up will be more alluring in your opinion, to the prospective investor. Is that correct?

Dr. CLARK: I would say, more true, more realistic, Colonel Vien. I do not know whether more alluring or not. I would not pass an opinion on that. But I think he will recognize that what is being done here is essentially in large part to consider the dominion government as an owner, as a proprietor of the Canadian National Railways and the advances that have been made in the past to that railway system for capital purposes, construction purposes and so on, will be equity of the owner in the property, which owner is the dominion.

Mr. VIEN: Now, to accomplish what the hon. minister of finance said in the house, namely to give a set-up that will be realistic and which will not disguise from the Canadian people the amount of money which all down through the years they have invested in this great railway undertaking, would it not be advisable that the annual statement of the Canadian National Railways should have an appendix representing the financial history of the investments of the Canadian people in the undertaking.

Dr. CLARK: Well, Col. Vien, I would say as to that, that there is no question about it; the public accounts should contain a complete and true historical record of the aid that we have given in every form to the Canadian National Railway system. You should have everything, a complete chronological story of what the government has done for the railway, so that the tax payer, who is primarily interested, I think, in the public accounts, will be able to find out what this railway has cost us in the past and what it is actually costing us to-day. I do not think there can be any question about that. As I understand it it was part of the general scheme, the general plan here, to include such a comprehensive story in the public accounts.

Mr. BEAUBIEN: Is it not included to-day in your non-active assets?

Dr. CLARK: It is not included in the way that I would like to see it. I should like to put in the public accounts a much more adequate statement all in one place; one appendix, if you like, or in part of the introduction to the public accounts—the complete story so that the tax-payer who after all perhaps may not be very familiar with the reading of public accounts may find everything in the one place, and may see what has been done in the past, what the railway has cost the country and what it is costing us to-day.

Mr. VIEN: Should it not be repeated in the financial statement of the Canadian National Railways, because the Canadian National Railways come every year to parliament, as they must do, with their annual financial statement. Is not the proper place to have the appendix the annual financial statement of the railways? I think that statement should include the investments of the people in the undertaking.

The CHAIRMAN: Then you would have another duplication.

Mr. VIEN: It is not duplication because it does not enter into the financial structure as revamped; but it is a true picture of the situation, because it gives the country the detailed information of what parliament has done so far as the railways are concerned.

Dr. CLARK: I see no objection to that; but I do not think it should be a part of the balance sheet of the railways. I would think that if parliament had before it the full story in the public accounts it would be fully familiar with the facts; but I see no objection to including it as well as a memorandum or appendix in the railway's annual report.

Mr. BEAUBIEN: When Mr. Vien read this statement of Mr. Dunning's: "—if possible evolve a set-up which will be realistic in so far as it relates to the property as it now stands and at the same time will not disguise from the Canadian people the amount of money which all down through the years they have invested in this great railway undertaking," he was referring to the minister of transport and here is the statement of the minister of transport:—

From the inception of the proposed capital adjustment plan, it has always been considered that the accumulated costs of the National system to the dominion since confederation should be embodied in some form in public accounts as a perpetual record for all future parliaments as representing the people of Canada.

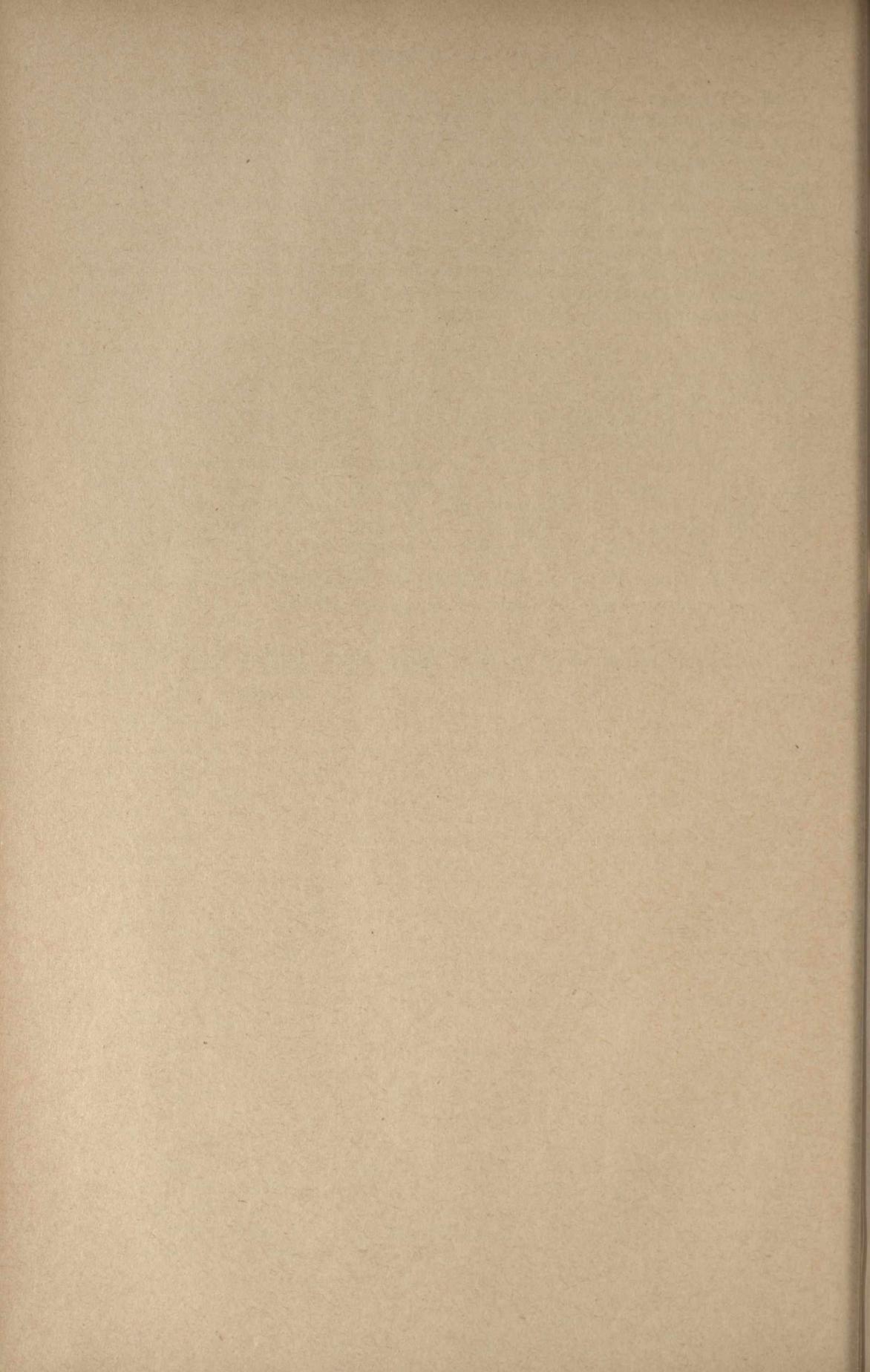
The CHAIRMAN: Gentlemen, as the minister has stated, there is a proposed amendment that is to be submitted to the minister of finance for his approval of the wording. I propose to give that amendment to Dr. Clark; I do not propose to read it to the committee before it has reached its complete form, but I think it will meet the wishes of the members of the committee.

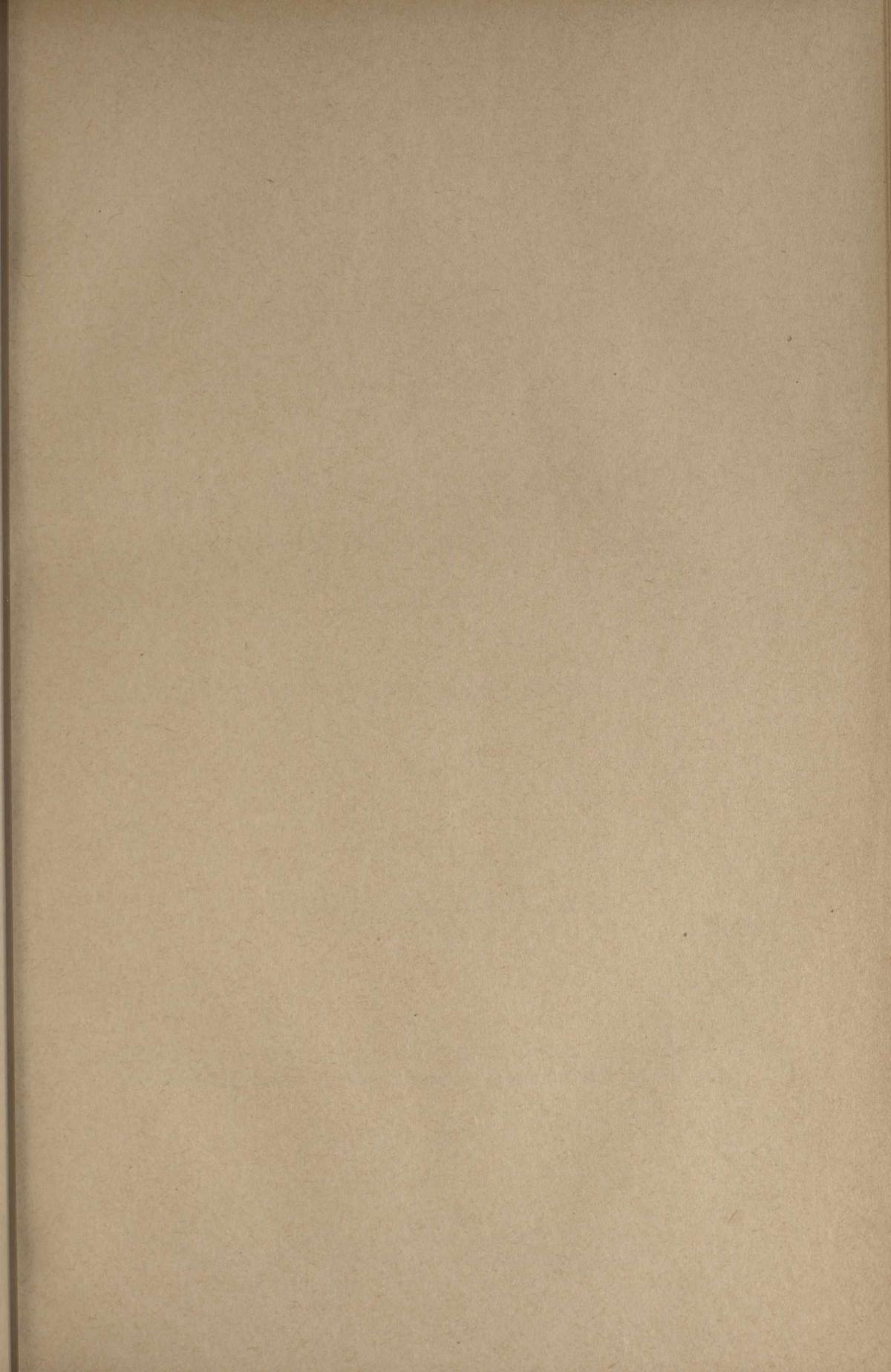
Hon. Mr. STEWART: It seems to me that at this stage, and in view of the drafting of the amendment, we have accomplished all we can do. The amendment, when drafted and considered, may remove many of the objections and misunderstandings, and I think we would make more progress if we now adjourned, unless there is some additional information to be secured.

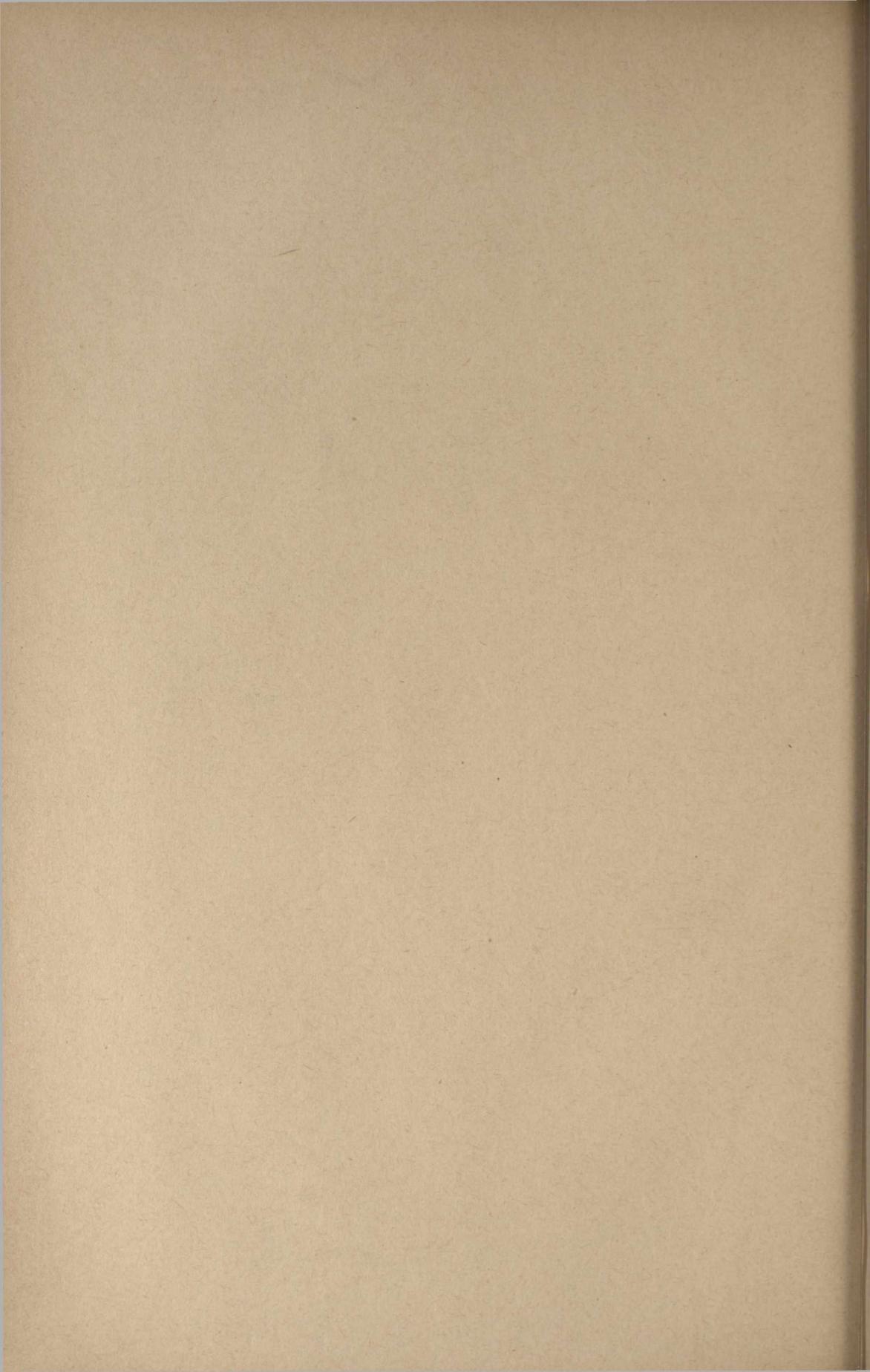
Mr. BEAUBIEN: Have you any requests from other bodies?

The CHAIRMAN: No. We are through in that respect.

The committee adjourned to meet Friday, March 5th, at 10.30 a.m.







SESSION 1937

HOUSE OF COMMONS

STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 4

FRIDAY, MARCH 5, 1937

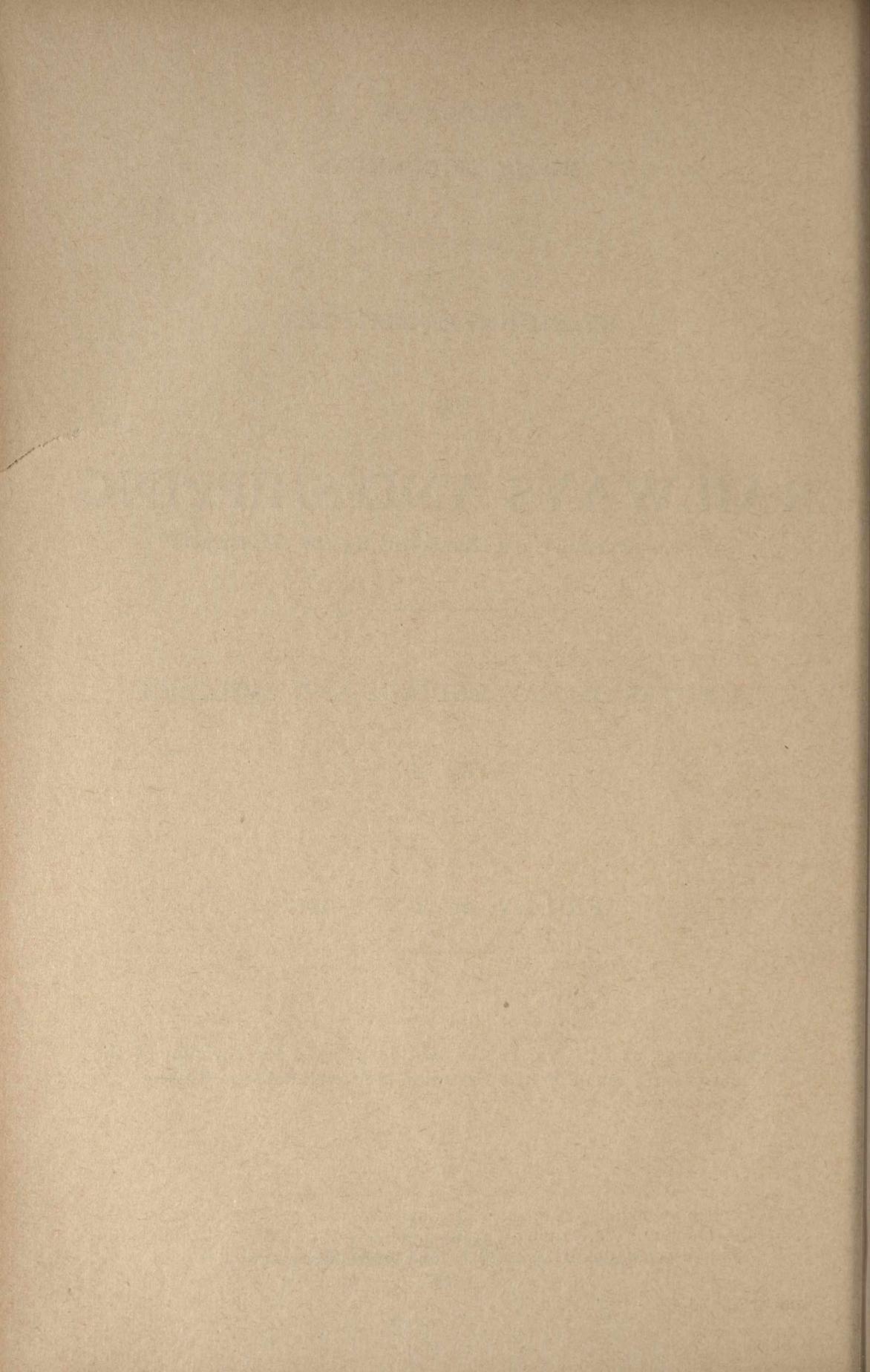
Consideration of Bill No. 12, An Act to provide for revision of the
accounting set-up of the Canadian National Railway System

OTTAWA

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

PRINTER TO THE KING'S MOST EXCELLENT MAJESTY

1937



MINUTES OF PROCEEDINGS

FRIDAY, March 5, 1937.

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

Members present: Messrs. Barber, Beaubien, Beaubier, Bothwell, Deachman, Ferland, Fiset (Sir Eugène), Hanson, Heaps, Howden, Howe, Kinley, McKinnon (*Kenora-Rainy River*), Ryan, Stewart, Vien, Young.

In attendance: Mr. V. I. Smart, Deputy Minister of Transport; Dr. W. C. Clark, Deputy Minister of Finance; officials of the Canadian National Railways including Mr. D. C. Grant, Vice-President of Finance, Mr. J. B. MacLaren, Comptroller, and Mr. T. R. Cooper, Assistant Comptroller; Mr. O. A. Matthews of George A. Touche & Co., Auditors of C.N.R. Accounts.

The Committee resumed consideration of Bill No. 12, an Act to provide for revision of the accounting set-up of the Canadian National Railway System.

The Honourable the Minister of Transport made a statement with respect to the historical record of accumulated costs of the National System and the Securities Trust provided for in the Bill, and submitted an amendment to Section 8 and Schedule B and a proposed new clause (No. 24).

In order to specifically meet the situation in respect of the Securities Trust, the Minister also suggested a further clause providing that "the trustees of the securities trust shall present to Parliament annually, concurrently with the annual report of the Canadian National Railways, through the Minister of Transport, a balance sheet, together with the report, setting forth in a summary manner, the transactions of the securities trust during each calendar year."

(Proposed amendments printed in this day's Minutes of Evidence and to be considered by the Committee at its next sitting.)

On motion of Mr. Bothwell,

Resolved,—That the statement provided for in new Section 24 of the Bill be not included in the annual statement of the Canadian National Railways.

On behalf of Mr. Walsh, Hon. Mr. Stewart asked that the following information be made available to the Committee:—

- (a) Condensed balance sheets of the Canadian National Railways and of the Dominion Government, as at December 31, 1935, and March 31, 1936, respectively, showing clearly on each balance sheet all items owing by the Railway to the Government, corresponding items to be in identical amounts (any differences because of differences in dates to be treated as suspense items) duly identified on the respective balance sheets.
- (b) A consolidated balance sheet of the Dominion Government, as at March 31, 1936, including the Canadian National Railways.
- (c) Condensed balance sheets of the Canadian National Railways and of the Dominion Government, as at December 31, 1935, and March 31, 1936, respectively, giving effect to the proposals set out in Bill 12.

(d) A consolidated balance sheet of the Dominion Government as at March 31, 1936, including the Canadian National Railways, after giving effect to the proposals set out in Bill 12.

Ordered,—That Mr. Walsh's request be submitted to the Deputy Minister of Finance.

The Committee then proceeded to the consideration of the Bill by sections, the following being adopted: 1, 2, 3, 4, 5, 6, 7, 9, 10, 12, 14, 15, 16, 17, 18, 19, 20, 21. Sections 8, 11, 13, 22 and 23 to stand for further consideration at the Committee's next sitting.

The Committee having, with unanimous consent, reverted to section 2, it was agreed to have said section re-drafted for clarification purposes only.

The Committee adjourned until Tuesday, March 9, at 10.30 a.m.

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 277,

March 5, 1937.

The Standing Committee on Railways and Shipping met in Room 277, at 10.30 o'clock a.m., Sir Eugene Fiset, chairman, presiding.

The CHAIRMAN: Order, gentlemen. We are through with all the witnesses who are going to appear before this committee, and I suppose we will now consider the Bill section by section.

Bill 12, An Act to provide for revision of the accounting set-up of the Canadian National Railway System.

On section 1, short title: Shall the section carry?

Hon. Mr. STEWART: I am just as anxious to make progress as you are.

The CHAIRMAN: All right.

Hon. Mr. STEWART: I understood that the minister had prepared or was preparing an amendment which would be placed before the committee to-day, and it just occurred to me that if we had that amendment and knew the substance of it, and approved of it, it might facilitate the passage of the other sections of the Bill; because, I assume that possibly it relates to more than one section.

The CHAIRMAN: I think there are four amendments to be placed on the record, arising out of the statement which you have in mind.

Hon. Mr. STEWART: Whatever amendments they are, they would probably assist us if we had them before we start in clause by clause on the bill. Then, either at this meeting or a subsequent one there is certain information which we would like to have. My friend Mr. Walsh is absent to-day but he has left a memorandum here of certain information which he desires, and which I am going to ask the Chairman if the committee may have. If we may have the amendment first I think it might facilitate matters.

The CHAIRMAN: Of course, the amendments relate to more than one clause of the bill; one of them deals with clause 8, which changes entirely; and then there are two other amendments which relate to clauses 22, 23 and 24 of the bill. If it is the desire of this committee that the amendment should be read immediately, I have no objections.

Hon. Mr. STEWART: What I had in mind, Mr. Chairman, was that they might possibly have some relationship to the other sections as we go along.

Mr. BEAUBIEN: I do not think that is the usual procedure.

The CHAIRMAN: The usual procedure is to consider the bill clause by clause. I think the only contentious clauses are those mentioned in these amendments.

Mr. BOTHWELL: I think at our last meeting we wound up with the suggestion being made that there was some amendment that had been approved, and I believe the minister at that time handed it over to Mr. Clarke; and that is possibly what Mr. Stewart is referring to this morning. It might clear the air if that particular amendment was read at this time.

The CHAIRMAN: I have no objection if we take clause 8 at this time.

Hon. Mr. HOWE: The Minister of Finance has requested that we make specific provision in the bill for the detailed entries required to be made in public accounts. For this purpose I suggest that the following amendment be made in respect to clause 8 of the bill and in schedule B; proposed amendment attached hereto:

The heading above clause 8 reading:

Adjustment of certain accounts affecting government railways be deleted and the following substituted therefor:

Adjustment of public accounts and that clause 8 and schedule B be deleted and the following be substituted therefor:

8. Notwithstanding any provision of the Consolidated Revenue and Audit Act 1931 or any other act, the minister may, in order to adjust certain differences between the public accounts of Canada and the accounts of the National railway system relative to the government railways and the Hudson Bay railway, and in order to give effect to the surrender, exchange or abandonment of securities or claims authorized by this act, make the adjustments in the public accounts of Canada which are set out in schedule "B" of this act.

Now, schedule B. It will be difficult to follow as I read it, but perhaps it would be better to have it printed in the minutes of evidence—I shall read it, anyway.

The CHAIRMAN: The first five items that the minister will read are the same.

Mr. RYAN: You do not need to read them over again, then.

Hon. Mr. HOWE: It is the same down to "Elimination of the present schedule 'railway accounts, non-active' and the substitution of the following accounts." This refers to the public accounts, of course.

Mr. RYAN: Is it substitution or addition?

Hon. Mr. HOWE: Addition.

Mr. BOTHWELL: To which clause?

The CHAIRMAN: It comes after 5 in the schedule.

Mr. BOTHWELL: Right.

HON. MR. HOWE:

SCHEDULE B

ADJUSTMENT OF CERTAIN ACCOUNTS AFFECTING CANADIAN GOVERNMENT RAILWAYS AND HUDSON BAY RAILWAY

- | | |
|---|-----------------|
| 1. Capital Expenditures by Canadian National Railways from funds provided through loans by the Dominion on wharves now transferred to Public Works..... | \$ 1,006,527 61 |
|---|-----------------|

ADJUSTMENT IN PUBLIC ACCOUNTS:—

- | | |
|---|-----------------|
| <i>Credit.</i> Loans (non-active) to Canadian National Railways..... | \$ 1,006,527 61 |
| <i>Charge.</i> Investment in Canadian Government Railways..... | 1,006,527 61 |
| 2. Expenditures by Canadian National Railways from funds provided through loans by the Dominion on account of Hudson Bay Railway, now transferred to Department of Transport..... | 660,369 96 |

ADJUSTMENT IN PUBLIC ACCOUNTS:—

- | | |
|---|---------------|
| <i>Credit.</i> Loans (non-active) to Canadian National Railways..... | \$ 660,369 96 |
| <i>Charge.</i> Investment in Hudson Bay Railway..... | 457,526 76 |
| Consolidated Fund of Canada..... | 202,843 20 |
| 3. Adjustment to Investment Account of Canadian Government Railways by the Canadian National Railways during period of entrustment..... | 1,596,235 99 |
| <i>Net Reduction</i> | |

ADJUSTMENT IN PUBLIC ACCOUNTS:—

<i>Credit.</i> Investment in Canadian Government Railways..\$	1,596,235 99
<i>Charge.</i> C.G.R. Working Capital (active assets)	1,169,636 76
Consolidated Fund of Canada..	426,599 23

4. Adjustment to Canadian Government Railways' Stores and open Accounts by the Canadian National Railways during period of entrustment—		
	<i>Net Reduction</i>	146,577 82

ADJUSTMENT IN PUBLIC ACCOUNTS:—

<i>Credit.</i> C.G.R. Working Capital (active assets)	\$ 146,577 82
<i>Charge.</i> Consolidated Fund of Canada..	146,577 82

5. Adjustment to Schedule of Miscellaneous Current Assets of Public Accounts as follows:—	
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PRESENT SCHEDULE INCLUDES:—

Canadian Government Railways, Open Accounts.. . . .	\$ 6,042,932 52
Canadian Government Railways, Stores Accounts.. . . .	9,757,420 40
St. John and Quebec Railway—Stores Accounts.. . . .	2,590 94

	\$ 15,802,943 86
<i>Less</i> —St. John and Quebec Railway, Open Accounts.. . . .	54,022 26
	\$ 15,748,921 60

TO BE REVISED AS FOLLOWS:—

Canadian Government Railways Working Capital.. . . .	\$ 15,748,921 60
--	------------------

ELIMINATION OF THE PRESENT SCHEDULE "RAILWAY ACCOUNTS, NON-ACTIVE," AND THE SUBSTITUTION OF THE FOLLOWING ACCOUNTS

Equity value of loans to Canadian National Railways, amount \$643,860,558.26, transferred to Securities Trust in exchange for 5,000,000 shares of no-par value capital stock..	\$282,616,208 35
Equity value of 1,000,000 shares of Canadian National Railway Company no-par value stock received in exchange for Canadian Northern Railway Company stock..	18,000,000 00
Total..	\$300,616,208 35

ADJUSTMENT IN PUBLIC ACCOUNTS:—

<i>Credit.</i> Railway Accounts (non-active)..	\$653,860,558 26
<i>Charge.</i> Securities Trust Stock Account..	282,616,208 35
Canadian National Stock Account..	18,000,000 00
Consolidated Fund of Canada..	353,244,349 91

(NOTE:—The figures used are taken from the 1935 Canadian National Accounts and are subject to revision at December 31, 1936.)

REDUCTION OF SCHEDULE "RAILWAY ACCOUNTS" (OLD) AS FOLLOWS

Grand Trunk Railway Debenture Account..	\$ 15,142,633 34
Grand Trunk Railway Interest Account..	10,457,458 01
Grand Trunk Railway Special Interest Account..	7,302 18
Total Reduction..	\$ 25,607,393 53

ADJUSTMENT IN PUBLIC ACCOUNTS:—

<i>Credit.</i> Railway Accounts (old)..	\$ 25,607,393 53
<i>Charge.</i> Consolidated Fund of Canada..	25,607,393 53

RECAPITULATION OF CHANGES IN PUBLIC ACCOUNTS:—

<i>Credit.</i> Railway Accounts (old)..	\$ 25,607,393 53
Railway Accounts (loans, non-active)	655,527,455 83
Investment in Canadian Government Railways	589,708 38
C.G.R. Stores and Open Accounts..	15,748,921 60
	\$697,473,479 34

<i>Debit.</i> Securities Trust Stock Account..	\$282,616,208 35
Canadian National Stock Account..	18,000,000 00
Investment in Hudson Bay Railway..	457,526 76
Canadian Government Railways Working Capital	16,771,980 54
Consolidated Fund of Canada..	379,627,763 69
	\$697,473,479 34

Mr. BEAUBIEN: Is this new?

Hon. Mr. HOWE: Yes, all new.

Mr. BEAUBIEN: At this point I should like to say that after these amendments are read we shall be in a worse position than we were before unless we have them before us.

The CHAIRMAN: It is with a view to placing them before the committee that the minister has read them.

Mr. BEAUBIEN: If they are put in the records and discussed at the next meeting it will be perfectly all right as far as the members are concerned.

Hon. Mr. STEWART: After the minister has read them we shall have a general grasp of the meaning of them. I quite agree with what the hon. member has said, that in order to study them we shall have to have them printed, but in this way we shall get the general idea.

Hon. Mr. HOWE: This does not change the bill in any way as we see it; but it does set out specifically what changes will be made in the public accounts of Canada.

Mr. RYAN: Do I understand that this is set out in the public accounts?

Hon. Mr. HOWE: It is an adjustment of public accounts to take account of this legislation. The legislation itself authorized certain adjustments in the railway accounts and public accounts.

Mr. BEAUBIEN: Do I understand that this bill when it is passed in the form in which you wish it amended will give instructions to the Department of Finance to adjust public accounts according to the amendment. Is that the idea?

Hon. Mr. HOWE: Correct.

Mr. BEAUBIEN: Have we power?

Hon. Mr. HOWE: Yes, parliament has that power. We are doing this, as a matter of fact, at the request of the Department of Finance.

Mr. RYAN: The C.N.R. fiscal year ends on December 31?

Hon. Mr. HOWE: That is right; they work on a calendar year.

The CHAIRMAN: Shall this amendment be printed in the evidence for the use of the committee at the next meeting?

Hon. Mr. STEWART: That is the only way, Mr. Chairman.

Mr. BEAUBIEN: I think it should be indicated in the proceedings to that effect.

The CHAIRMAN: Oh, yes. The reporter is taking a note.

Hon. Mr. HOWE: We now come to the historical record of accumulated costs. In view of the apparent misunderstandings which have been expressed, both in this committee and in the public press concerning certain features of the C.N.R. capital adjustment measure, I think it most necessary that I lay stress on the fact that a complete historical record of accumulated costs of the National System (and other railways in Canada) to the Dominion Treasury since Confederation is as much a definite part of the plan as the proposed balance sheet adjustments themselves. In my first statement to the committee on the 18th February last, I endeavoured to make this fact clear, as shown at the bottom of page 10, and in the second paragraph of page 12 of the Minutes of Proceedings and Evidence of that date. However, in order to further clarify the situation and to remove any possible misunderstandings in the matter I would suggest that an additional provision be made to the bill to specifically cover this whole matter as follows:—

That the following new clause be inserted as clause 24.

Appendix to Public Accounts showing total assistance to all railways

24. The Minister shall include annually as an appendix to the Public Accounts of Canada a statement showing the total assistance, whether

by way of cash outlay, land grant, loan, advance, guarantee or otherwise, given by the Dominion to all railways. Such statement shall also show the manner in which such assistance has been dealt with in the Public Accounts of Canada.

Hon. Mr. STEWART: That, Mr. Chairman, I assume means all railways that are incorporated in the Canadian National system.

Hon. Mr. HOWE: No, it means all railways that have received Dominion government assistance.

Hon. Mr. STEWART: Is that to be an appendix to the statement of the Canadian National Railways?

Hon. Mr. HOWE: An appendix to the public accounts.

Hon. Mr. STEWART: Of Canada?

Hon. Mr. HOWE: Yes.

Hon. Mr. STEWART: Well, with respect—

Hon. Mr. HOWE: We have considered very carefully the idea of further befogging the balance sheet of the Canadian National Railways, and I do not think it is good business to do it.

Hon. Mr. STEWART: It is a point whether there should be included in the Canadian National Railways annual statement a schedule showing just what the public accounts show with respect to that system. I think it is desirable.

Hon. Mr. HOWE: It is for the committee to decide.

Mr. RYAN: It is only going to show the amounts of money advanced; that is all?

Hon. Mr. HOWE: That is correct; it shows all advances by the Dominion Government for railway purposes.

Mr. BOTHWELL: The annual statement of the National Railways will show any moneys advanced in that particular year, but so far as these accumulated deficits that are taken care of in this bill are concerned, they will be taken care of in the public accounts.

Hon. Mr. HOWE: That is the proposal.

Mr. BOTHWELL: It does seem to me, Mr. Chairman, that the amendment that the minister has suggested this morning will clarify the whole matter to every member of the committee. I never could see any object in having this adjustment carried into the annual statement of the Canadian National Railways from year to year. Just as the minister says, it is befogging the whole statement.

Mr. BEAUBIEN: Is it intended to have the grants of land and other grants included in the statement of public accounts?

Hon. Mr. HOWE: Every form of assistance.

Mr. BEAUBIEN: Every form of assistance?

Hon. Mr. HOWE: Yes. We think the place for that is an appendix to the public accounts.

Mr. RYAN: Surely, there must be some way of setting out just how these public railways operated so far as returns to the government are concerned? I mean by that, some of these roads have carried themselves. Simply to show the amount of money advanced to each railroad is hardly a fair picture.

Hon. Mr. HOWE: What is intended is to show the cost to the government. That is what everyone has been asking for, so far as I know, the cost of Canada's railways to the government. That is what I understand the witness from Montreal was asking, and that is what we are giving.

Mr. RYAN: If it showed a true picture of the deficits that have been paid since Confederation it will be all right.

Mr. BEAUBIEN: It will show that the Canadian government in giving aid to the railways have disbursed so much money. That will show in the public accounts whether in the form of deficits or not.

Hon. Mr. HOWE: It will show how the money was disbursed.

The CHAIRMAN: It seems to me the question to decide now is whether these statements should appear in the public accounts and whether they should be included in the annual statement of the Canadian National Railways.

Mr. BEAUBIEN: We have a bill before us here to eliminate duplication. Surely we are not going to continue the duplication when we have a bill before us to eliminate duplication. You might just as well throw the bill out.

Mr. BOTHWELL: In order to bring the matter to a head I would move that the statement that we have been discussing be included in the public accounts, and not in the annual statement of the Canadian National Railways.

Mr. BEAUBIEN: I will second the motion.

Mr. RYAN: Would it not be well to defer that motion until such time as we have the printed matter before us?

Mr. BEAUBIEN: There is just this to it; if we pass this motion now, we can go on with the bill, and the matter as to whether we are going to have it in both statements is settled in one way or another if Mr. Bothwell's motion passes.

Hon. Mr. STEWART: Mr. Chairman, I think you have accurately stated the kernel of the proposition that now must receive the consideration of the committee, and that is whether the statement that has been outlined is to appear in the public accounts and also to appear in the annual report as a schedule or annex of the Canadian National Railways. It appears to me that, to meet the statement that the minister made in the house when the bill was introduced, such annex or statement should appear each year in the statement of the Canadian National Railways. I think it is very desirable, as the minister stated, that at all times there should be accessible to those interested, to those who are charged with studying this statement, a complete statement in every way. It seems to me that we will be really giving something less than we are giving now unless we do include in the annual statement of the Canadian National Railways an annex or schedule such as that now suggested to the public accounts.

The CHAIRMAN: I would like to direct your attention to the fact that this amendment does not cover the Canadian National Railways only. It covers all railways; and, therefore, the place where it should appear—in my opinion, at least—is in the public accounts.

Hon. Mr. STEWART: That is all right in the public accounts—all railways—if they wish. I am not suggesting that all railways should appear in the Canadian National Railways statement. But I do submit strongly that that portion of the statement which relates to the Canadian National Railways should appear in the Canadian National Railways statement.

Hon. Mr. HOWE: Of course, that statement is not there to-day. If it were the statement of the railways would be much larger than that.

Hon. Mr. STEWART: It is there in some form.

Hon. Mr. HOWE: No. The statement to-day has not included the deficits since 1932; and there are, also, certain other eliminations. There are probably eliminations there of about \$280,000,000 in the present balance sheet.

Hon. Mr. STEWART: Yes; which, I think, ought to appear.

Mr. YOUNG: It seems to me that the minister has found a solution which will reasonably meet the desire of all those who come before us, in proposing to give in the public accounts the picture such as desired by those who came here saying

that this should not be buried for all time, but it should be available in some record. It will be available in the public accounts of Canada, and surely that is a public record. I think if we pass this motion, we will get along with the bill and save a lot of time.

Hon. Mr. STEWART: I am going to support the suggestion made by the member of the committee just next to me, Mr. Ryan, that this be left over until we have had time to study the amendments proposed by the minister when they are published in the reports of this committee. It does seem to me that we are touching something of importance and something that is really vital, as raised in the debates upon this question in the house and elsewhere, namely, that at all times the statement of the Canadian National Railways, the annual report, should show everything in the way of indebtedness to the government—advances and any other items that should appear in that connection. It seems to me that we are doing a little less than that if we adopt the suggestion outlined here to-day. It may be that after a study of the amendment I may conclude that that is not the case. But it does seem to me that we might well leave it over until next meeting, and not dispose of it quite so summarily as we are doing.

Hon. Mr. HOWE: My thought on the matter is that the whole purpose of this bill is to set our house in order for the public; that is, for people who are investing in Dominion Government securities. After giving the matter a good deal of thought, I do not see how we can present the thing in the annual report of the railways in a way that would make it clear to the public that this has all been taken care of in one way or another and is not a liability of the railways. That is my thought in the thing, and I see some difficulty in doing that.

Hon. Mr. STEWART: Is it not a liability of the railways?

Hon. Mr. HOWE: No.

Hon. Mr. STEWART: Is it not?

Hon. Mr. HOWE: No.

Hon. Mr. STEWART: At present it certainly is.

Hon. Mr. HOWE: Some is and some is not.

Hon. Mr. STEWART: I do not know what it will be after you get through with it.

Mr. BEAUBIEN: Some has been wiped out.

Hon. Mr. HOWE: Some has been wiped out by statute in 1932 and some left.

Hon. Mr. STEWART: I do not see how it is written out by statute at all. It is just taken care of out of the consolidated revenue fund. That does not alter the fact that morally and really it is an indebtedness of the Canadian National Railways to the public.

Hon. Mr. HOWE: It is not so shown in any of the books.

Hon. Mr. STEWART: That is another matter.

Mr. DEACHMAN: Mr. Chairman, this is not a partisan committee. This is a committee of the House of Commons, and the object of the committee must be not only to render justice to the Canadian National Railways but to render justice to every railway. I submit, therefore, that when we have included this in the public accounts we have placed there a statement alike of all railways so that it may be referred to at any time. When we have made the changes which we have suggested, we have acted precisely as the leaders in business do at any time on a reorganization. But we have gone further and shown, as far as the stockholders are concerned, the past record. But to put into the balance sheet of the annual statement another record, telling them that in fact although this has been cleaned up and adjusted, there is really something else back of it, and that there is another statement that they ought to consider, is surely going beyond

reason and beyond anything that any private company might do. I do not think that even if the most distinguished opponent of this move—I refer to Mr. Beatty—were to come here and give evidence, he could suggest that we do anything more than accept what has been the accepted custom in private business for generations.

Mr. RYAN: Mr. Chairman, I have no objection to the principle of setting these out exclusively in the public accounts of Canada. But what worries me a little bit is how we are going to give a complete picture when we do set that out in the public accounts of Canada. We at one time had a Department of Railways and Canals, I know. But I do not know—I was not here—what happened to the canals, the cost of canals and so on, or where that was relegated. Perhaps Mr. Roberts could tell us something about that.

Hon. Mr. HOWE: Yes. In this account now appearing in the accounts of the Department of Railways and Canals for the last year, it would continue to appear as it is in the accounts of the Department of Transport—a complete record of all expenditures on railways.

Mr. RYAN: Also of canals? I am speaking about canals.

Hon. Mr. HOWE: Everything.

Mr. BEAUBIEN: From the inception?

Mr. SMART: Right from the start.

Hon. Mr. HOWE: Right from the start when the first work was done. I might say that it has been suggested that it would be possible to write another amendment into this, an amendment to the effect that we make it compulsory for all railways to include all government assistance in their annual report. That would be an alternative.

Mr. RYAN: This is only the position I take. Why have an amendment and have another amendment on top of that? I have no objection to having it exclusively in the public accounts. But would there be any harm done? I have given the matter a lot of thought as to what should be put in the public accounts as showing a complete picture.

Mr. VIEN: At first sight, Mr. Chairman, I think the public would be satisfied with the last suggestion. I am talking exclusively with respect to the public interest. I resent a little the insinuation that either Sir Edward Beatty or any member of the committee should, when they are trying to find their basic facts; to use my hon. friend's own parlance, that there should be any particular interest other than serving the public interest. I would at first sight think that the last suggestion would be an excellent one, that as an appendix to all railway companies' financial statements there be a supplement showing the true picture. That would at first sight appear to be all right. The only difficulty with respect to the amendment presented would be that that could hardly come as part of the bill now referred to the committee. That should be an amendment to the Railway Act, for instance, or something of that kind. Of course, we could always do it by amendment to this bill, because parliament can do what it seems advisable. But it might not be logical to have it as an amendment to this bill.

The CHAIRMAN: I would like to direct your attention, gentlemen, to the fact that this question is not before us at the present time. It has been mentioned casually by the minister. What is before us at the present time is: Shall the statement in the amendment proposed by the minister be included only in the public accounts or also in the accounts of the Canadian National Railways? That is what we have to decide.

Mr. VIEN: I am sorry to have been a bit late. I would like to know if it has been covered. I shall read it—if there is any serious reason why it should not appear as an appendix to the annual financial statement. If there is any objection, I am quite willing not to insist on it. If there is any reason why these grants of money or these loans should not, as an appendix, be added to the financial statement, I am quite willing not to insist on it.

Mr. BEAUBIEN: There is a motion before us to that effect.

Mr. VIEN: Well, I do not want to delay the committee.

Hon. Mr. HOWE: I think the answer to that is that it is difficult to set it out in a way that will appeal to anyone as a reason. I mean, you can put an appendix in there, and business men reading the thing such as we will say British investors or American investors, or anyone you like who buys this type of security, will wonder why it is there as an additional liability. We want to get away from the idea that there is any undisclosed liability of the railway. That is my thought in the thing. I may be wrong.

Mr. VIEN: I think that may be reasonable.

Some Hon. MEMBERS: Question.

The CHAIRMAN: Gentlemen, the motion before us is: Shall this amendment appear as proposed here; shall it be only in the public accounts or also in the Canadian National Railways balance sheet?

Mr. VIEN: Would you kindly read the amendment?

The CHAIRMAN: I have not got it in written form.

Hon. Mr. STEWART: With a view to getting along, is there any serious objection to allowing this to stand over until the next meeting of the committee, and having it appear in our minutes so that we may study it and then speak to it more intelligently? It may be accepted.

The CHAIRMAN: Well, gentlemen, it is for you to decide. Do you want the motion to be proposed?

Some Hon. MEMBERS: Question.

The CHAIRMAN: I will have it in written form in a moment.

Mr. BEAUBIEN: I think if we get an opinion of the committee, then that phase of it will be settled.

The CHAIRMAN: Without a vote?

Mr. BEAUBIEN: No.

Mr. MCKINNON: On the motion.

Mr. BEAUBIEN: I mean, by this motion we will get the opinion of the committee. That will settle the question. Then if there are any amendments in reference to what is going to be put in the public accounts, we can deal with that afterwards.

Mr. BOTHWELL: That would be schedule B, would it not?

The CHAIRMAN: No. It is paragraph 24 of the bill.

Hon. Mr. HOWE: Now paragraph 24.

Mr. BOTHWELL: And schedule B?

The CHAIRMAN: No, schedule B is another amendment that will be considered when clause 8 is under discussion.

Mr. BOTHWELL: Section 24 of the bill; you mean the statement provided for in section 24 of the bill be not included in the Canadian National Railways annual statement?

Hon. Mr. HOWE: That is right.

The CHAIRMAN: That is it exactly.

Mr. BEAUBIEN: Mr. Chairman, in reference to the statement of the amendment which the minister has moved, in reading a speech by Sir Edward Beatty on April 9, 1935, I find this is what he said:—

As a taxpayer, and as an officer of a competing railway, I care for one thing and one thing only—that the people of this country shall not be fooled into continuance of the unwise extravagance which has produced the situation which now confronts us. As has recently been said, you

may write the capital of the National Railways down to one dollar, provided that every statement affecting the finances of the system carried in bold type the announcement that nothing should make us forget that Canadian railway policy has already added over three billion dollars to the financial obligations of the nation.

If we put it into the public accounts everybody concerned will see exactly what the railway undertakings of the Canadian people have cost the Canadian people. We cannot have it in both places.

The CHAIRMAN: As a matter of fact, I think everybody is of the opinion that we could get a truer picture of the situation in the public accounts than we can possibly get in the annual statement of the Canadian National Railways.

Mr. BOTHWELL: We will certainly get a better statement than we do now, because we can find only a part of it in the Canadian National annual statement and a part of it in the public accounts.

The CHAIRMAN: Moved by Mr. Bothwell, seconded by Mr. Beaubien, that the statement we have been discussing be included in the public accounts and not in the annual statement of the Canadian National Railways.

Mr. RYAN: Would it not be well to make that section 23 instead of section 24?

The CHAIRMAN: I think there is another section 23 proposed. The minister seems to have gone backward rather than forward. Shall the motion carry?

(Motion agreed to.)

Hon. Mr. HOWE: It was contended in the committee meeting of the 25th February that the securities trust was to be used for some improper purpose and as some sort of subterfuge for hiding the complete scope of the proposed elimination of advances and accrued interest. A reference to my statement made to this committee on the 18th February will show that on page 2 of the minutes of proceedings and evidence I gave a condensed summary of the proposed consolidated balance sheet revision. In this summary I think I made it abundantly clear what the proposed elimination is in the following terms:—

Elimination of loans applied for deficits by concurrent reduction of deficit account.....	\$361,244,349 91
Elimination of accrued interest on loans by concurrent reduction of deficit account.....	495,030,137 29
	<hr/> \$856,274,487 20

Then on page 6 of the minutes of proceedings and evidence under the heading "Elimination of Capitalized Deficits" and continuing up to page 11 my statement dealt in considerable detail with the principles involved and the authorities and precedents supporting the proposed balance sheet write-off.

Up to this point the securities trust is not a factor. It only becomes a factor when the elimination of these duplicated liabilities and deficits is sanctioned in principle by parliament. When the elimination of debt duplication is sanctioned then the securities trust, as dealt with in my statement on page 12 of the minutes of proceedings and evidence of February 18th, is to be created "solely for the purpose of taking over and perpetuating such priority claims as may be deemed to exist and the underlying collateral against the original debtor corporations in the same way and to the same extent that they are presently held by the Dominion subject only to the provision for release with the approval of the Governor in Council."

There is another important side to this matter. If the capital adjustment plan had provided for the elimination of claims for loans and accrued interest without concurrently making adequate provision for the preservation of the priority rights of the Dominion in respect of unguaranteed securities and subsidiary company capital stocks held by the public, there would have been an

indefensible weakness in any such a plan. The elimination of the debt duplication other than by way of the securities trust could only have been accomplished by the direct cancellation by the Dominion of the relative claims against the original debtor corporations. Such outright cancellation would have indirectly altered the status of the existing priorities to the disadvantage of the Dominion. This fact was given the most careful consideration before deciding upon the proposal for the establishment of a securities trust to protect the Dominion against any future contingencies in this respect.

I think the committee will agree that in view of these facts any statement which attributes improper motives in the creation of this securities trust is entirely without foundation. However, in order to fully clarify the situation and to meet any objection to the placing of the securities trust under the authority of the Governor in Council or to meet any other point relative thereto, then by all means I would suggest that the bill specifically provide that the balance sheet and annual report of the securities trust be submitted to parliament annually as a separate document. With this thought in mind I favour an additional provision being made in the bill to specifically meet the situation in respect of the securities trust as follows: Under that clause, the trustees of the securities trust shall present to parliament annually through the Minister of Transport a balance sheet together with the report setting forth in a summary manner the transactions of the securities trust during each calendar year.

MR. BEAUBIEN: "Trustees" there means the Governor in Council.

HON. MR. HOWE: It means the five men set up; Deputy Minister of Finance, Deputy Minister of Transport, Deputy Minister of Justice—

MR. BEAUBIEN: You are going to set up trustees to take care of this securities trust.

HON. MR. HOWE: Yes. The other two trustees are the president and treasurer of the Canadian National Railways. It is a trust wholly owned by the government, and this provides that statements of any transactions made in that trust shall be reported to parliament in a separate report.

MR. VIEN: These transactions will be limited, will they, to what we are now transferring to them. Or is there any operation from year to year with respect to deficits or other things that might further be transferred to them, or shall they be entrusted only with the management of such securities which are now being embodied in the trust?

HON. MR. HOWE: These securities could be released by council as against some claim. There might be transactions of the securities account but they will arise out of old transactions.

MR. VIEN: Therefore, they will be limited to managing such securities as we are now entrusting to them?

HON. MR. HOWE: Yes; in the interest of the government and the railway.

MR. VIEN: Exactly. But in future the management of the railway will not have power to shift to them any other securities or any other deficits or any other financial statements except with regard to the management of such securities as we are now passing on to them?

HON. MR. HOWE: That is my understanding, yes.

THE CHAIRMAN: Gentlemen, I think we will have to come back to all these matters as we are considering the bill clause by clause. I think we should deal with the bill as it stands.

HON. MR. STEWART: In connection with the minister's statement, I would assume that that would be presented within the first few days—fifteen days or thirty days of the opening of parliament and would be available and could be considered in connection with the report of the Canadian National Railways.

HON. MR. HOWE: We could have it presented concurrently with the annual report of the Canadian National Railways.

Hon. Mr. STEWART: It seems to me it ought to be available to this committee for consideration at the same time that this committee is considering the annual report of the Canadian National Railways, or it might be an annex to the report of the Canadian National Railways.

Hon. Mr. HOWE: It would be an annex to the report. This provides for a special report to parliament with a statement.

Hon. Mr. STEWART: Exactly.

Mr. YOUNG: Could that report be referred to any committee?

Hon. Mr. HOWE: It will be referred to this committee. It will be presented to parliament annually, concurrently—

Mr. VIEN: —concurrently with the annual report of the Canadian National system.

Hon. Mr. STEWART: That is the idea.

The CHAIRMAN: This has limited to some extent the object of the amendment.

Hon. Mr. HOWE: No. It puts a time limit.

The CHAIRMAN: You are sending it only to one committee; it may be desirable to send it to another committee, because the Finance Department is concerned.

Mr. VIEN: The amendment as proposed by Mr. Stewart does not determine to what committee parliament will refer it; it simply is limited to determining that the minister will file the report of the trustees at the same time as he files the report of the Canadian National Railways. Now, parliament may refer it to any committee.

Mr. YOUNG: I take it that this will be reported to parliament in the ordinary way and a motion may be made in parliament to refer it.

Mr. VIEN: Exactly. We are not determining the manner; we are determining the time.

Hon. Mr. HOWE: The time. That is all: the trustees of the securities trust shall present to parliament annually concurrently with the annual report of the Canadian National Railways through the Minister of Transport a balance sheet together with the report setting forth in a summary manner the transactions of the securities trust during each calendar year.

Mr. YOUNG: Mr. Chairman, that seems to me to imply that this securities trust shall present the report of the Canadian National Railways, and I do not think that is intended.

Hon. Mr. HOWE: At the same time, yes.

Mr. YOUNG: By the way you have it worded, it seems to me to indicate that they themselves shall do it.

The CHAIRMAN: It says "through the Minister of Transport."

Mr. YOUNG: All we are purporting to do here is to have this report come to parliament, and then parliament itself determines that it shall go before whatever committee it wishes.

Mr. VIEN: We agree.

Hon. Mr. HOWE: It is customary to have a time limit.

Mr. BOTHWELL: I think the amendment infers that—that it shall be presented to parliament through the Minister of Transport.

The CHAIRMAN: It is the same thing with the auditor's report. The auditor's report does not specify a time limit, but it is referred to us at the same time as the annual report of the Canadian National Railways. The wording is very broad as far as the reference of the auditor's report to parliament is concerned.

Mr. VIEN: I think we are at one on the principle. When you say referred—

The CHAIRMAN: We will consider that later on when we come to that clause.

Hon. Mr. STEWART: Might I present this statement on behalf of a member of the committee, Mr. Walsh, who is not present. I have three or four copies of it. It is something that would receive the attention of the officials of the railway.

The CHAIRMAN: You do not want that to be included in the evidence, do you? We will simply hand it to the clerk and secure the information from the officials of the Canadian National Railways.

Hon. Mr. STEWART: This is a request. I would like to put it on the record:—

(a) Condensed balance sheets of the Canadian National Railways and of the Dominion government, as at December 31, 1935, and March 31, 1936, respectively, showing clearly on each balance sheet all items owing by the railway to the government, corresponding items to be in identical amounts (any differences because of differences in dates to be treated as suspense items) duly identified on the respective balance sheets.

(b) A consolidated balance sheet of the Dominion government, as at March 31, 1936, including the Canadian National Railways.

(c) Condensed balance sheets of the Canadian National Railways and of the Dominion government, as at December 31, 1935, and March 31, 1936, respectively, giving effect to the proposals set out in bill 12.

(d) A consolidated balance sheet of the Dominion government as at March 31, 1936, including the Canadian National Railways, after giving effect to the proposals set out in bill 12.

I shall not ask that this be disposed of now. It can be tabled, but I wanted to get it in the record.

The CHAIRMAN: We will go further. We will hand this over to Dr. Clark, Deputy Minister of Finance, for any statement that may be needed.

Hon. Mr. VIEN: And we shall have these questions on the record.

The CHAIRMAN: We shall do better than that, we will undertake to have the answers to them at our next meeting.

Hon. Mr. VIEN: We shall know what it is all about when we read the record?

Hon. Mr. HOWE: That is all in the report of the Department of Railways and Canals.

Hon. Mr. STEWART: I assume that it is, I do not know.

Hon. Mr. HOWE: The reconciliation—everything else, is there.

Hon. Mr. STEWART: Mr. Walsh was very sorry that he could not be here this morning.

The CHAIRMAN: We are on clause 2; shall clause 2 carry? I am just going to read the marginal notes. Clause, interpretation: Definitions; "Government Railways"; R.S., c. 172; "Minister"; "Indebtedness to His Majesty"; "National Railways"; R.S., 1932-33, c. 33; "National Railway System"; R.S., 1932-33, c. 33; "proprietor's equity."

Hon. Mr. STEWART: Mr. Chairman, proprietor's equity means?

The CHAIRMAN: I am going to read that whole clause:—

(f) "Proprietor's equity" means

(i) the initial stated value of the capital stocks of the Canadian National Railway Company and the Securities Trust as determined pursuant to sections five and fifteen of this Act as of January first, nineteen hundred and thirty-seven, plus any subsequent surplus

earnings of the National Railway System not paid over to His Majesty, less subsequent capital losses and other charges of the National Railway System in respect of which His Majesty has not made any contribution, and (11) the capital investment of His Majesty in the Government Railways.

I would like to call the attention of the committee to the fact that clause 11 further deals with proprietor's equity, and it is defined in schedules 4, 5 and 6 of the appendices. So we might discuss proprietor's equity when we come to clause 11 Mr. Stewart, don't you think?

Hon. Mr. STEWART: Proprietor's equity seems to be a new expression. Is it a suggestion of the auditor? We would like to get it, it is a new phrase.

Hon. Mr. HOWE: Who can tell where these bright ideas originate?

Hon. Mr. STEWART: I thought possibly the idea came from the minister.

Hon. Mr. HOWE: I would not like to take the credit myself, or give it to anyone else. It is one of these evolutions.

Hon. Mr. VIEN: What strikes me at first sight in that definition is that in the proprietor's equity—and that is related to the question I was putting earlier—in the proprietor's equity will be at least reflected the surplus or deficit of the system. I may be wrong.

Hon. Mr. HOWE: No. The proprietor's equity simply gives the value of the securities in the securities trust.

Hon. Mr. VIEN: Financially stated the value of the capital stocks of the proprietor's equity means the value of the capital stocks that we are now transferring—to-day, as of January 1, 1937—plus any such subsequent surplus earnings less any subsequent capital losses and other charges of the system in respect of which His Majesty has not made any contribution, and the capital investment of His Majesty in government railways. I have no objection to that at all, I think it is a proper thing; providing this would not relieve the Canadian National Railways from year to year from showing in their balance sheet and in their profit and loss statement the continued results of their operations either by accumulated surpluses or accumulated deficits or the condensed results of both.

Hon. Mr. HOWE: The officials will correct me if I am wrong, but I think that clause simply is made flexible enough—you see, we are working here on the accounts of 1935 because we have not the accounts of 1936; well, this act provides all the way through that all the figures used can be adjusted to the accounts of 1936; and I think the flexibility of the thing is simply to provide for that adjustment. I think that once we have an adjustment of these books on the basis of 1936 accounts there would be no additions or deductions, as stated in the paragraph.

Hon. Mr. VIEN: I would like to have Colonel Clarke tell me if these surpluses and deficits, or losses, or charges, or all such deficits and charges, occur until the 1st of January, 1937, only; or if they are to occur in future.

Hon. Mr. HOWE: Could you answer that Mr. McLaren?

Mr. McLAREN: To occur in future, at the end of 1936? Well, that is to be disposed of by the provisions of the bill.

Hon. Mr. VIEN: Therefore, in future any profit or any loss sustained by the railway will be added to or deducted from this capital trust.

Mr. McLAREN: Any contribution not made by the government.

Hon. Mr. VIEN: I have no objection to that, I think it is a proper thing that it should be because we are now defining the proprietor's equity; and, of course, that proprietor's equity will consist of what is there as of the 1st of January, and would be added to or deducted from as profits or losses are occurring from year to year.

Mr. McLAREN: Not paid for by the government.

Hon. Mr. VIEN: Not paid for by the government, as a result of the system's operation.

Mr. McLAREN: Yes.

Hon. Mr. VIEN: That of course is quite all right so far as a definition is concerned, and so far as the construction of the proprietor's equity is concerned; provided it does not relieve the railway company from carrying in its profit and loss statement, and from reflecting in its balance sheet from year to year the results of its operations from this day on.

Mr. McLAREN: Under this bill there will not be a profit and loss account. The profit and loss account will be reflected in the proprietor's equity. That will be either increased or reduced as the case may be.

Hon. Mr. VIEN: How are you going to show the net results of your annual operations from year to year?

Mr. McLAREN: The profit and loss will show just as it is now. The balance not contributed by the government is being transferred to the government equity account.

Hon. Mr. VIEN: That is all right as a definition. We are now on the definition, and I have no great objection; but it may be well to foresee what possible objections I have to this. It seems to me that it is quite all right to eliminate or write off from the Canadian financial statement any accumulated deficits or any losses by the government which are non-active assets and which are being written off so to speak and transferred to that equity trust fund.

Mr. McLAREN: May I put it this way so it will make it simple; supposing at the end of 1937 we had a deficit of say \$50,000,000, and \$40,000,000 of that was paid for by the government, that leaves \$10,000,000 say representing a capital loss; that would be transferred to the government's equity account and would reduce the government's equity by \$10,000,000. Is that clear?

Hon. Mr. VIEN: That is clear; but there is something that is not clear, and what is not clear in my mind is this: that we recapitalize the company, we write off this equity and we recapitalize the company; you have a new financial structure; you carry on with your operations at the end of this year let us say making a loss of \$20,000,000, it seems to me that your annual financial statement should have a statement of this that will be carried along with the other results of your operations so that next year if you have a profit of \$30,000,000 then you should have in your accumulated profit and loss a statement to show the net results of your operations from this recapitalization.

Mr. McLAREN: Well, Mr. Vien, the profit and loss account you speak of will be substituted by the proprietor's equity account, that will be increased or reduced as the results are known.

Hon. Mr. VIEN: To speak in plain language and in ordinary parlance, it seems to me, speaking for the ordinary average taxpayer of this country, and speaking for the 28,700 electors of my riding, that when they read the financial statement of the Canadian National Railway system, or the Canadian Pacific, or the Canadian government, they want to try to understand what it is all about. If you transfer your profits or losses from year to year to this proprietor's equity which will be carried in a separate set of accounts you do not give the Canadian people—and I speak subject to correction—you do not give to the Canadian people a true picture of the results of the operation of your system.

Hon. Mr. HOWE: You do that way.

Mr. McLAREN: Just a moment please.

Hon. Mr. HOWE: All right.

Mr. McLAREN: I do not think that was a correct statement.

Hon. Mr. VIEN: I would be glad to be corrected.

Mr. McLAREN: I will try. Take our profit and loss account on page 18 of the annual report for the year ending 1935.

Hon. Mr. VIEN: Yes.

Mr. McLAREN: It will be shown in the same manner as it is now shown, and where you see at the bottom the change during the year in the profit and loss account—now, that is after the government has paid its cash proportion of contribution—that would be transferred by the new bill to the proprietor's equity instead of profit and loss. I myself can see no difference between the name profit and loss account and proprietor's equity. They are the same thing.

Hon. Mr. VIEN: Except that this statement disappears from your annual financial statement?

Mr. McLAREN: No, begging your pardon, on the face of our balance sheet you have there in the profit and loss account under the new bill— —

Hon. Mr. VIEN: I am sorry, would you show me on what page of the report I will see that.

Mr. McLAREN: That appears on page 17. The profit and loss account is shown there. Now it will be substituted by the proprietor's equity account showing the change just the same as at present.

The CHAIRMAN: It is a change in name only.

Mr. McLAREN: That is all.

Mr. RYAN: In other words, the amounts would appear there just as well.

The CHAIRMAN: Absolutely.

Hon. Mr. VIEN: The statement on page 18 of the auditor's report disappears from your future report. You will have in your balance sheet figures showing your profit or loss for the year and this will be transferred to the proprietor's equity account; but the profit and loss statement which you now carry on page 18 will disappear from your annual statement. Is that correct?

Mr. McLAREN: That can be overcome by just doing what we do now. We show there the change during the year in the profit and loss account, and underneath that is the balance on January 1st of so much; then the total, and the balance. You can carry that out just the same and the total always agrees with what appears in the account on page 17, in just the same manner as when you had a profit and loss account.

Hon. Mr. VIEN: We will go into that when we discuss the bill.

Hon. Mr. STEWART: With regard to these deficits that have been paid out of the consolidated revenue funds; will they appear in this proprietor's equity?

Mr. McLAREN: No, they will not.

Hon. Mr. STEWART: These are as it were forgotten.

Mr. McLAREN: They would appear in the public accounts.

Hon. Mr. STEWART: They will not appear in the accounts of the railway at all.

Mr. McLAREN: Only in the public accounts, in the schedule that is being prepared by the Department of Finance.

Hon. Mr. STEWART: And they will not be reflected in the proprietor's equity statement.

Mr. McLAREN: No. What will appear in the proprietor's equity will be represented by assets; in other words, the investments in the Canadian National Railways as they are known now.

Mr. BEAUBIEN: As they will be known after this bill has passed.

Mr. McLAREN: There will be no deficit in there. That amount will be just the value that is represented by assets. The public debt will show how much money has been invested in the railway. I am speaking about cost, the residue of investment will be shown in the equity account.

Hon. Mr. STEWART: The amount that is paid out of the consolidated revenue every year; isn't that in there in that investment?

Mr. McLAREN: Paid for?

Hon. Mr. STEWART: For your deficit.

Mr. McLAREN: Well, that is the shareholders' loss, that is not an investment.

Hon. Mr. STEWART: Exactly.

Mr. McLAREN: That is something to appear in the shareholders' accounts, not on the railway account.

The CHAIRMAN: Shall section 1 carry?

Section 1 carried.

On section 3, adjustment of corporate books—shall I read the marginal notes or shall I read the clause?

Hon. Mr. VIEN: The clause, if you please.

Minister to surrender to C.N.R. Coy. its capital stock.

3. The Minister is hereby authorized to surrender to the Canadian National Railway Company, for cancellation, the outstanding capital stock of that company, having the par value of one hundred and eighty million four hundred and twenty-four thousand three hundred and twenty-seven dollars and seventy cents.

The CHAIRMAN:

ADJUSTMENT OF CORPORATE BOOKS

Minister to surrender to C.N.R. Coy. its capital stock.

3. The Minister is hereby authorized to surrender to the Canadian National Railway Company, for cancellation, the outstanding capital stock of that company, having the par value of one hundred and eighty million four hundred and twenty-four thousand three hundred and twenty-seven dollars and seventy cents.

Shall section 3 carry?

Carried.

Mr. BOTHWELL: There is one question I should like to ask. In the statement that was given by the minister on the opening date of this committee he refers to the Canadian National capital stock, gross amount of \$180,000,000. I suppose this clause deals with that.

Hon. Mr. HOWE: Yes.

Mr. BOTHWELL: Then you carry it forward at \$165,000,000.

Hon. Mr. HOWE: The total issue was \$180,000,000, but \$165,000,000 was all that was ever put in circulation. The amount of stock authorized was \$180,000,000; the amount issued was \$165,000,000.

Mr. VIEN: What has become of the balance?

Hon. Mr. HOWE: I suppose it is still in the treasury.

The CHAIRMAN:

Minister to surrender to Can. Northern certain of its capital shares.

4. The Minister is hereby authorized to surrender to The Canadian Northern Railway Company, for cancellation, eight hundred and twenty thousand and six shares of the outstanding capital stock of that company, having the par value of eighty-two million six hundred dollars.

Shall section 4 carry?

Carried.

Section 5.

Mr. VIEN: Just a minute, Mr. Chairman. Is there a statement somewhere showing the details of this amount?

Hon. Mr. HOWE: The information in relation to \$100,000,600 is shown in appendix 2 of the bill.

Mr. VIEN: There is no reference to appendix 2.

The CHAIRMAN: The appendices do not form part of the bill; the schedules only form part of the bill. The appendices are attached to the bill for the purposes of enlightenment.

Mr. SMART: There is an explanatory note on the opposite page.

The CHAIRMAN: We are now on clause 5. If you look at the note you will see that this section is to establish control of the Canadian Northern Railway Company by the Canadian National Railway Company. Shall the section carry?

Mr. VIEN: Is there a statement somewhere giving the details of this Canadian Northern stock?

Mr. SMART: It is now held by the Crown, and this section transfers it to the Canadian National Railway Company.

Mr. VIEN: Yes.

Mr. McLAREN: On page 11 you will find the information you are seeking. It is contained in appendix No. 2.

The CHAIRMAN: Yes. When we come to page 11 we shall have to go through the appendices.

Mr. VIEN: I am much denser than the other members, I have to take a little time.

The CHAIRMAN: Quite right, take all the time you like.

Mr. VIEN: Appendix 2 covers sections 4 and 5, is that correct?

Mr. McLAREN: Yes. It contains information in regard to the stock.

The CHAIRMAN: Shall the section carry?

Some Hon. MEMBERS: Will you read the section.

The CHAIRMAN:

C.N.R. and Can. Northern exchange of stock.

5. The Minister is hereby authorized to transfer to the Canadian National Railway Company one hundred and eighty thousand shares of the outstanding capital stock of The Canadian Northern Railway Company having the par value of eighteen million dollars, being the residue of the stock of the said company outstanding after the cancellation provided for in the next preceding section, in exchange for one million no par value shares of capital stock of the Canadian National Railway Company with the initial stated value of eighteen million dollars, the issue of which shares is hereby authorized to be made with the approval of the Governor in Council.

Carried.

We are now on section 6.

C.N.R. not to dispose of Can. Northern stock without approval of Parliament.

6. The Canadian National Railway Company shall not sell, pledge, release or otherwise dispose of any of the capital stock of The Canadian Northern Railway Company without the approval of Parliament.

Hon. Mr. STEWART: Carried.

Carried.

The CHAIRMAN: Section 7.

Minister to abandon certain claims against C.N.R.

7. The Minister is hereby authorized to abandon certain claims against the Canadian National Railway Company in respect of the Grand Trunk Railway Debenture Account amounting to fifteen million one hundred and forty-two thousand six hundred and thirty-three dollars and thirty-three cents, together with any claim for interest thereon, representing aid granted to The Grand Trunk Railway Company of Canada by the Province of Canada prior to Confederation.

Mr. VIEN: Where shall I find the information in regard to this section?

Mr. SMART: Appendix 3.

Mr. VIEN: What does that mean? Does that mean that the minister is obliged to surrender certain claims? Why is it necessary for the minister to surrender certain claims?

Hon. Mr. HOWE: These debentures rank junior to the ordinary stock of the Grand Trunk Railway. The ordinary stock was declared valueless in the arbitration; it therefore follows that this stock must be valueless.

Mr. VIEN: This debenture stock is held by the Crown now?

Hon. Mr. HOWE: Yes, but it will be cancelled in this bill.

Mr. VIEN: Has this anything to do with the protest that we have received with respect to the debenture stock?

Hon. Mr. HOWE: Nothing at all.

Mr. VIEN: It has nothing to do with it?

Hon. Mr. HOWE: No; these are different debentures.

Carried.

The CHAIRMAN: Section 8 stands in accordance with the wishes of the committee so that the amendments offered by the minister shall appear in the minutes and be considered by the committee at the next meeting. We are now on section 9.

R.S., c. 172. Surpluses and deficits

9. Notwithstanding the provision of section fifteen of the *Canadian National Railways Act*, the surpluses or deficits of the Government Railways subsequent to December thirty-first, nineteen hundred and twenty-two, shall be included in, and deemed to be part of, the surpluses or deficits, as the case may be, of the National Railways.

Shall section 9 carry?

Mr. VIEN: Give me a moment, Mr. Chairman, to read the note.

Mr. BEAUBIEN: That means the Intercolonial, etc.?

Mr. VIEN: All right.

Carried.

The CHAIRMAN: Section 10.

Surplus earnings to go into C.R. Fund

10. Whenever the accounts of the National Railway System as certified by the auditors appointed by Parliament show surplus earnings after the payment of all charges including interest on securities held by the public, the directors of the Canadian National Railway Company may cause to be paid over to the Minister for the Consolidated Revenue Fund all or any part of any such surplus earnings.

Mr. VIEN: Why should the surplus not be kept by the company, Mr. Chairman, and administered and treated as surplus of the company?

The CHAIRMAN: The section says "may".

Hon. Mr. HOWE: This section is permissible. It permits the directors to pay dividends to the shareholders, that is all. They can do it or not as they think wise.

Mr. VIEN: I should like in this recapitalization to see the Canadian National Railways treated the same as an independent company if possible. I am not speaking of being independent in the sense of lack of control by parliament or the minister but in the sense of the operation of its annual financial statement. An ordinary company which has profits either distributes them or accumulates them in a surplus or reserve account. The Canadian National Railways need a reserve account for emergency purposes. For instance, if this year they have a surplus of \$10,000,000, and next year, instead of having a crop of 500,000,000 bushels we have a crop of 200,000,000 bushels the earnings of the company will be less through causes beyond their control. If the company were allowed to carry out its operations as an ordinary company would there would be a surplus account to protect them against such eventuality, and in three or four years the annual statement of the Canadian National Railways would be a true picture of the situation. If, when you have a surplus of \$5,000,000 or \$10,000,000 you shift that to the consolidated revenue fund and next year you have a deficit of \$10,000,000 you ask parliament to vote you \$10,000,000 to make up the deficit. If that occurs at the end of five or ten years we shall be exactly in the position to which we now find ourselves.

Mr. BEAUBIEN: The Canadian National Railways have a surplus this year on their operating account; but when the interest is paid to the bondholders they had a deficit.

Mr. VIEN: I agree.

Mr. BEAUBIEN: How could you put anything in the surplus account this year, when the Canadian government is voting somewhere around \$40,000,000 to make up the deficit?

Mr. VIEN: I understand, and I agree with my hon. friend that it is not possible to show a surplus when there is a deficit. I am not suggesting that. I was addressing myself to a very different point. The point to which I was addressing myself was that after this recapitalization was effected would it not be possible for the company to carry its annual financial statement as an ordinary company would? If they have \$5,000,000 of a surplus, let them show it and keep it, and then if they have a deficit next year and they borrow from that surplus account to that extent, and if they have to borrow from the government, let it be a loan to the company which will be shown as a loan from the government, as an ordinary company would borrow from the public. It should be treated as is done in an ordinary company that borrows from the bank.

Mr. BEAUBIEN: Suppose the Canadian National Railways have \$10,000,000 on their operating expenses. Would you want them to put that \$10,000,000 in their reserve fund and let the Canadian people who are really the shareholders pay the \$50,000,000 odd that is due to the bondholders?

Mr. VIEN: I am not suggesting that at all. I am talking about the net result of the operation of the railway as reflected in their annual statement, just as an ordinary company would do. If after the operating results are known there is a surplus it goes to offset the fixed charges and overhead expenses, and if there is a deficit or a surplus it should be reflected in the annual financial statement and carried from year to year so that at the end of two or three, four or five years, we shall have a true picture of the result of the operations on the basis of his new recapitalization.

Hon. Mr. HOWE: This is only permissive. It permits them to pay a dividend if they so desire. I think it would be hard to persuade the directors that they ought to pay money over to the government. I think they will contend they ought to make surpluses before they pay them over to the government.

Mr. VIEN: The surplus, if any, is transferred.

Hon. Mr. HOWE: Not necessarily; may be.

Carried.

The CHAIRMAN: Section 11.

Accounts of National Railway System how to be shown.

11. The accounts of the National Railway System shall be stated as of January first, nineteen hundred and thirty-seven, and thereafter, so as to show the proprietor's equity as defined by this Act.

If you look at the marginal note you will see the following:—

Proprietor's Equity is defined in Section 2 (f) of this Act and the application is evidenced in appendices 4, 5 and 6.

Is it the desire of the committee that we should peruse in detail the appendices on page 11, page 12 and 12a, 4, 5 and 6?

Mr. HANSON: No.

Mr. VIEN: Will you give me just a second. These are details of the transfer.

Mr. YOUNG: The only thing that struck me about that paragraph was January 1 instead of December 31, 1936.

The CHAIRMAN: I think that is the railway calendar year.

Mr. SMART: From the 1st January.

Mr. VIEN: Could this section stand, Mr. Chairman. There might be no objection but I should like to ponder over it.

The CHAIRMAN: Is it the desire of the committee that the section should stand?

Section stands.

We are now on section 12.

Corporation Securities Trust Constitution.—No trustee remuneration.

12. There shall be a corporation to be known as "The Canadian National Railways Securities Trust," hereinafter referred to as the "Securities Trust," consisting of five trustees being the Deputy Minister of Finance, the Deputy Minister of Transport, the Deputy Minister of Justice, the Chairman of the Board of Directors of the National Railways and the Vice-President of Finance of the National Railways. The trustees shall serve without remuneration.

Shall section 12 carry?

Carried.

The CHAIRMAN:

Objects of corporation.

13. The object of the corporation shall be to take over and hold as authorized by this Act the indebtedness to His Majesty, together with the collateral securities held by the Minister in respect thereof as set out in Schedule A of this Act.

Shall section 13 carry?

Mr. VIEN: Just a minute, please.

Hon. Mr. STEWART: These figures, of course, will be revised on the basis of the new statement?

Hon. Mr. HOWE: Yes.

Mr. VIEN: Where is schedule A?

The CHAIRMAN: Schedule A is on page 6 and 7. They are simply the details.

Mr. VIEN: Schedule A—loans.

Hon. Mr. STEWART: That is the detail of it.

Mr. BOTHWELL: What is the \$41,554,000 in suspense?

Hon. Mr. HOWE: That is advances by the Dominion Government for capital purposes that have not yet been refunded by the railway; that is, repayable advances to the railway.

Mr. BOTHWELL: When was that?

Hon. Mr. HOWE: Over a period of several years.

Mr. VIEN: Is it shown in detail, this \$41,000,000?

Hon. Mr. HOWE: Have you that, Mr. McLaren?

Mr. McLAREN: The details of the \$41,000,000—yes, we have the details of that.

Mr. VIEN: It is not shown in the appendices of the bill.

Mr. McLAREN: No. But we can file a statement giving the details of it.

Mr. VIEN: Could you do that?

Hon. Mr. STEWART: On page 9 it is shown.

Hon. Mr. HOWE: I was mistaken about that. It is an old dispute as to interest on the old Grand Trunk Pacific Railway.

Hon. Mr. STEWART: It is shown on page 9.

Hon. Mr. HOWE: You could explain that.

Hon. Mr. STEWART: "Amount not taken to account by C.N.R."

The CHAIRMAN: On page 9, schedule A.2 concluded, you will find the details.

Mr. FRANKLIN: It is principally in connection with the old Grand Trunk Pacific. There was a guarantee in the old days for several years, and when the Grand Trunk abandoned the Grand Trunk Pacific, it was what we considered a breach of contract. Therefore the interest guaranteed by the government on those bonds of the Grand Trunk Pacific was still assessed to the railway, and the railway has not taken up those assessments, and they amount almost to a great deal of the \$41,000,000.

Mr. VIEN: They speak of the Canadian National Railways here. They do not speak of the Grand Trunk.

Mr. FRANKLIN: It is part of the Canadian National System, that particular part.

Mr. VIEN: But you are aware what it refers to?

Mr. FRANKLIN: Yes.

Mr. VIEN: Could this clause 13 stand, Mr. Chairman? I will tell you why I ask; it is because it defines what is going to be transferred to the securities trust.

The CHAIRMAN: There is no question about that. Schedule A forms part of the bill.

Mr. VIEN: Yes.

The CHAIRMAN: Stands?

Some Hon. MEMBERS: Yes.

The CHAIRMAN: Shall clause 13 stand?

Some Hon. MEMBERS: Yes.

The CHAIRMAN:

Securities Trust capital stock. To be held by Minister.

14. The capital stock of the Securities Trust shall consist of five million shares of no par value, which capital stock shall be issued to the Minister to be held on behalf of His Majesty as consideration for the transfer to the Securities Trust of the indebtedness to His Majesty and of the collateral securities held by the Minister in respect thereof.

Shall section 14 carry?

Carried.

The CHAIRMAN:

Initial stated value of Securities Trust capital stock.

15. The capital stock shall be shown on the books of the Securities Trust as having an initial stated value equal to the total of the loans made by His Majesty to, and expended by, the National Railway System for capital purposes prior to January first, nineteen hundred and thirty-seven, which loans are set out in Schedule A of this Act, being loans which have not been and are not to be funded by the National Railways.

Shall clause 15 carry?

Hon. Mr. STEWART: Wait until we see that Schedule A. Is that grand total of \$645,527,455.83 correct?

The CHAIRMAN: Where do you see that?

Mr. VIEN: What page is that detail?

The CHAIRMAN: Schedule A, page 6?

Hon. Mr. STEWART: Page 8, which follows right after A-1.

The CHAIRMAN: As this schedule stands in connection with section 13, we might as well pass this clause and hold the schedule in abeyance for discussion later on.

Hon. Mr. STEWART: There is a principle involved in this, I think.

The CHAIRMAN: I do not think there is much in it, Mr. Stewart.

Hon. Mr. STEWART: Is the amount that is mentioned, the total in the schedule of \$645,527,455.83 correct?

The CHAIRMAN: Can you answer that, Mr. McLaren?

Mr. McLAREN: I do not know what the question is.

The CHAIRMAN: On page 8, at the bottom of the page there is an amount given of \$645,527,455.83. Is that amount correct?

Mr. McLAREN: That is the total loans.

Hon. Mr. STEWART: Is that the item referred to in section 15?

Mr. McLAREN: No. This item of \$284,000,000 for capital purposes referred to on page 6, schedule A—

Mr. VIEN: It is not the total indebtedness to His Majesty and of the collateral securities held by the minister in respect thereof.

Mr. McLAREN: Paragraph 15 provides for capital purposes. The capital amount is the first item shown on schedule A on page 6.

Mr. VIEN: Yes, but you say that the capital stock of the Securities Trust, which you have mentioned, shall consist of five million shares, which will be shown in the books as having a value equal to the total indebtedness to His Majesty and of the collateral securities held by the minister in respect thereof. I think it would be advisable that this clause should stand in connection with 13. I see no great difficulty except in analysing the figures.

The CHAIRMAN: What I mean, Mr. Vien, is that schedule A is in both 13 and 14; and we are allowing clause 13 to stand. We could pass clause 14 and you will be able to discuss the whole details of it when the schedule is under consideration.

Mr. BOTHWELL: We have passed 14 already. Fifteen is not carried.

Mr. VIEN: We are on 14 now.

The CHAIRMAN: No, we are on 15.

Mr. VIEN: I am talking to 15. I am not talking to 14.

The CHAIRMAN: Yes.

Mr. VIEN: I am talking to 15. I am sorry.

The CHAIRMAN: That is all right.

Mr. McLAREN: My answer was in connection with section 15.

The CHAIRMAN: You see, Mr. Vien, schedule A is the crux of the whole thing, and we are letting schedule A stand until when we consider clause 13.

Mr. VIEN: I have no objection to clause 15 carrying with the limitation that the value mentioned there will be discussed when we are taking the schedule.

The CHAIRMAN: It is bound to be discussed, because schedule A is not passed yet.

Mr. VIEN: Provided you do not drop the schedule.

The CHAIRMAN: I will not. Shall the section carry?

Carried.

The CHAIRMAN:

Trustees' powers—By-laws.

16. The trustees shall be charged with the management of the Securities Trust and, with the approval of the Governor in Council, may make all necessary by-laws for carrying out the objects of the Securities Trust.

(2) Such by-laws shall provide for meetings of the trustees to take place at least once in every year.

(3) The by-laws shall also provide for the custody of the corporate seal and for the execution of instruments by two or more of the trustees.

(4) The by-laws shall make provision for a presiding officer to be appointed at each meeting of the trustees and for the giving of notices of meetings.

(5) The by-laws shall provide what number of trustees shall constitute a quorum for the purposes of meetings.

Shall section 16 carry?

Mr. VIEN: Just a minute.

The CHAIRMAN: It is only the regulation.

Mr. VIEN: I think so.

Hon. Mr. STEWART: The details.

The CHAIRMAN: Shall it carry?

Carried.

The CHAIRMAN:

Head office

17. The head office of the Securities Trust shall be at Ottawa.

Shall it carry?

Carried.

The CHAIRMAN:

First meeting

18. The first meeting of the trustees shall be held at such time and place as is determined by the Deputy Minister of Finance.

Shall it carry?

Carried.

The CHAIRMAN:

Secretary

19. The Securities Trust shall have a Secretary to be appointed by the trustees, to hold office during pleasure, who shall perform such duties as are assigned to him by the trustees without remuneration.

Shall it carry?

Carried.

The CHAIRMAN:

Exchange of indebtedness for stock

20. The Minister may transfer to the Securities Trust the Indebtedness to His Majesty together with the collateral securities held by the Minister in respect thereof, in exchange for the capital stock of the Securities Trust, as a result of which transfer every company included in the National Railways shall become obligated to the Securities Trust in respect of the Indebtedness to His Majesty transferred and of the collateral securities held by the Minister in respect thereof, subject to the provisions of the next succeeding section, in the same way and to the same extent as such company was obligated to His Majesty at the time of the passing of this Act.

Shall it carry?

Mr. BOTHWELL: Just a minute.

Mr. VIEN: No. Shall we take it in French so that I will understand it more readily? I have got to let it sink in a little, and my own density does not allow me to go as fast as some hon. members.

The CHAIRMAN: Go on, Mr. Vien.

Mr. BEAUBIEN: I do not think there should be any time limit here.

Mr. RYAN: No, take your time, Mr. Vien.

Mr. VIEN: I do not want to be disagreeable to hon. members nor to delay the committee; but if we are carrying on a serious piece of business, we should have sufficient time to consider it.

The CHAIRMAN: Go on, Mr. Vien. Nobody objects.

Mr. RYAN: We are here for a specific purpose. There is no use of rushing.

Mr. BEAUBIEN: There is nobody objecting, Mr. Vien. It is only imagination on your part.

Mr. VIEN: Mr. Chairman, the effect of that seems to be to preserve the status quo as it is now of all the securities. That is all I find in the section.

The CHAIRMAN: Exactly.

Hon. Mr. HOWE: Exactly.

Mr. BOTHWELL: Both that one and 21—20 and 21.

Mr. VIEN: I think so.

The CHAIRMAN: Shall section 20 carry?

Carried.

The CHAIRMAN:

Securities Trust not to dispose of indebtedness except with approval of Governor in Council

21. The Securities Trust shall not sell, pledge, release or otherwise dispose of any of the Indebtedness to His Majesty transferred to the Securities Trust or the collateral securities held in respect thereof, except with the approval of the Governor in Council.

Shall that section carry?

Hon. Mr. STEWART: Why not parliament? It is just a question whether that should be parliament or the governor-in-council with respect to the transfer. There is one other section which said that something was not to be done without the consent of parliament.

Mr. HEAPS: Clause 6.

Mr. VIEN: I think it should be parliament here.

Hon. Mr. STEWART: Clause 6 reads:—

The Canadian National Railway Company shall not sell, pledge, release or otherwise dispose of any of the capital stock of the Canadian Northern Railway Company without the approval of parliament.

Then section 21 says:—

The Securities Trust shall not sell, pledge, release or otherwise dispose of any of the indebtedness to His Majesty transferred to the Securities Trust or the collateral securities held in respect thereof, except with the approval of the Governor-in-Council.

The CHAIRMAN: Mr. Stewart, we have not the Cabinet Minister here now. I would like to have the opinion of Dr. Clarke on the matter. Shall we let the question stand until next meeting, and will you kindly report on it?

Mr. CLARKE: I take it that the real question would relate to the facility of making certain arrangements in regard to the financing of some of these unguaranteed securities of some of these people. If you had to wait until you passed an act approving of it, it might interfere with going ahead with a financial operation at an appropriate time.

Hon. Mr. STEWART: I see they transfer them to the Securities Trust.

Mr. HEAPS: I was wondering, if you wanted to do a little refinancing or refunding, and if we should put into this clause here "parliament" instead of the "Governor in Council," whether we would have to wait until parliament meets.

The CHAIRMAN: Exactly.

Mr. HEAPS: Would it not be in conflict with clause 6?

The CHAIRMAN: Clause 6 deals only with "the capital stock of the Canadian Northern Railway, without the approval of parliament." That is another thing altogether.

Mr. BOTHWELL: Exactly.

The CHAIRMAN: The other is something that has got to be carried on when parliament is not sitting.

Hon. Mr. STEWART: What securities would the Trust be holding which they might want to sell?

The CHAIRMAN: I do not know.

Hon. Mr. STEWART: If there is any other reference to that point—

Mr. SMART: There are certain collateral securities held by the Crown which may, for instance, fall due—become matured—and some action will have to be taken with regard to this; or there may be some clearance necessary of those certificates held as collateral.

Hon. Mr. STEWART: Securities that the Securities Trust has?

Mr. SMART: Yes, held as collateral, that have been turned over by the government. You see, the government has got certain collateral securities.

Hon. Mr. STEWART: Let us look at the schedule; can you point out any of the ones which are transferred that might be that way?

Mr. McLAREN: Page 7A, schedule A.1 lists the loans; the collateral is all specified there.

Mr. SMART: The notes and collateral held, Mr. Stewart?

Hon. Mr. STEWART: Yes.

Mr. BEAUBIEN: I did not hear that last remark, Colonel Smart.

Mr. SMART: The collateral held by the Crown in connection with certain of these loans is shown in the second column.

Mr. VIEN: This might stand until the next sitting. It is not an important section, but perhaps, we might have further information. It is only a question of whether direct authority should be granted in each case, or whether it should be left to parliament. It might well be, as Colonel Smart has just mentioned, to have the authority by order in council.

Mr. SMART: You cannot borrow otherwise.

Hon. Mr. STEWART: It seems to me that possibly there is something to be said for the statement made by the deputy minister when you come to these loans on equipment, second mortgage equipment bonds.

Mr. SMART: All sorts of things happen.

The CHAIRMAN: I do not think there is anything in it.

Mr. VIEN: It is all right.

The CHAIRMAN: Shall section 21 carry?

Carried.

The CHAIRMAN:

Securities Trust declared a company in National Rys.

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

Mr. BOTHWELL: I wonder what that word means.

Hon. Mr. STEWART: I was wondering from a lawyer's standpoint what it meant. Is it not a separate entity?

Mr. BOTHWELL: "Comprised in the National Railways"—I do not understand the term myself.

Mr. VIEN: I like the term.

Mr. SMART: You have to go back to the Canadian National Railway Act.

Mr. BOTHWELL: "Comprised in the National Railways." I cannot understand the terms myself.

Mr. SMART: You have to go back to the Canadian National Railway Act. The Canadian National Railway company, as it stands now, is a corporation; but there are a lot of other railways in it, and we call it the Canadian National Railways. It is not a corporate situation at all. The balance sheet is a consolidation of all those different companies into one under the Canadian National Railways system, which is not a corporate body in itself. And that is what that means—that the securities trust is one of the subsidiaries which will go into the consolidated balance sheet.

Mr. BOTHWELL: Do I understand the Canadian National Railways is a holding company of the stock of other railways?

Mr. SMART: It is a trade name.

Mr. CLARK: Not a holding company.

Mr. McLAREN: The Canadian National Railway is a corporate company; the Canadian National Railways is just a trade name.

The CHAIRMAN: It is a sub-company you are organizing now entitled a securities trust.

Mr. BOTHWELL: All that says is that we can consider the securities trust as a part of the Canadian National Railways.

Mr. VIEN: The question is how does it clarify the matter?

Mr. McLAREN: It becomes a company "comprised in the National Railway."

Mr. VIEN: I can understand the language quite easily, but it is more difficult at first sight to find out why it is necessary that it should be so. Here is a bill that has created a trust, and then you say that the securities trust shall be part of the Canadian National Railways.

Mr. SMART: And it goes into the consolidated balance sheet.

The CHAIRMAN: Exactly.

Mr. McLAREN: Look on page 2. Sections D and E define what the Canadian National Railways are. Now, in order that the consolidated balance sheet may be made to include the securities trust it is necessary, in my opinion, to have such a clause in there to show it will be comprised in the Canadian National Railway.

Mr. VIEN: You make of the securities trust a distinct and separate company.

Mr. McLAREN: So it is.

Mr. VIEN: You comprise it in the Canadian National Railways, which is a trade name, but you separate and segregate it from the Canadian National Railway company; is that correct?

Mr. SMART: The Canadian Northern Railway company is a separate one too.

Mr. VIEN: I am not particular about the Canadian Northern, but I am particular about the securities trust. You make of that securities trust a separate and distinct company. It will be carried under the generic trade name of Canadian National Railways, but it will not form part of the Canadian National Railway company. Is that correct or is it not correct?

Mr. SMART: It will form part of the Canadian National Railway system if you want to go into the balance sheet, which is a consolidation of all the separate companies.

Mr. VIEN: It will no longer be there.

Mr. SMART: Yes. It goes into the consolidated balance sheet.

Mr. VIEN: Again speaking subject to correction and with deference to the hon. gentleman to whom I am addressing my remarks, if I am wrong I want to be shown.

Mr. McLAREN: On page 31 of our annual report there is given the names of the companies comprising the Canadian National Railway system. There are about one hundred companies there all of which have balance sheets. They are consolidated, and make up the balance sheet as produced on pages 16 and 17 of the annual report. This section 22 of the act provides that the securities trust shall be comprised in the national system.

Mr. SMART: And be listed therein.

Mr. VIEN: Could we allow that to stand? It will not take long, very likely, but I would like to ponder over that.

Mr. RYAN: How are those railways made part of the railway system? What page of your annual report did you refer to?

Mr. McLAREN: 31 and 32. The act is defined on page 2, sections D and E.

The CHAIRMAN: The section stands. Section 23 is a new section. Section 24 is a new section. And section 25 will be a new section, and I suppose it will have to wait.

Mr. VIEN: Have we the final draft of these new sections?

The CHAIRMAN: Yes.

Mr. VIEN: Will they appear in the record?

The CHAIRMAN: Yes. Section 25 is that the present clause 23 be numbered to read 25. I suppose you have no objection to that.

Mr. YOUNG: The only objection to that would be that in the event of our not finishing the bill and some other clause having to go in, it might not be 23.

Mr. VIEN: This should stand.

The CHAIRMAN: Yes. It will not take very long.

Mr. VIEN: Now, I would like to make a recommendation—if I may defer for a moment—and it is connected with the last section that we allowed to stand, section 21, and the definitions in section 2. In referring to the definitions that are contained in various other acts, it is a bit cumbersome. You have to hunt up all these acts and read them. I would suggest that section 2 be redrafted; and that instead of making reference to the definitions to be found in another act we should repeat the definition. It does not change it one iota, but it facilitates reference so much more. You understand, Mr. Chairman, what I have in mind.

The CHAIRMAN: I know what you mean.

Mr. VIEN: It does not alter it; but instead of having to look to the Canadian Government Railways or to look to the Canadian National Railways or the Railways Act, I would suggest that it be repealed. It will be helpful all around.

The CHAIRMAN: I have no objection.

Mr. BEAUBIEN: Section 2 was passed.

Mr. VIEN: What I am suggesting does not change the principle of the concurrence of the committee in section 2. Section 2 is passed, and we agreed to it.

The CHAIRMAN: It means that the full definitions will be included in the bill.

Mr. SMART: I take it that all you want is to transfer the definition that is found in the Canadian National-Canadian Pacific Act so that the Canadian National-Canadian Pacific Act of 1933 shall have these references?

Mr. VIEN: Exactly. But I would suggest also paragraph A of "Government Railways" and paragraph D. I think those are the only ones.

The CHAIRMAN: Gentlemen, we shall adjourn until Tuesday.

Hon. Mr. STEWART: Before we adjourn, Mr. Chairman, there is one matter I would like to bring up, and in doing so I hope you will not find me too troublesome.

The CHAIRMAN: You have done extremely well.

Hon. Mr. STEWART: Thank you. The same to you. I think that the officials of the Canadian National Railways can help to clear up a difficulty that exists in the minds of a great many people. There is a difference of opinion as to the loss on the Canadian National Railways. Now, on page 18 we have three items: net, profit and loss:

Mr. YOUNG: You are referring to last year's report are you?

Hon. Mr. STEWART: Yes, of course. One item is \$30,453,831.42. That is net profit and loss items debit. Then there is net income deficit \$48,878,000 odd. Then there is interest on Dominion government loans \$35,000,000 odd, making the total loss to the system \$115,000,000 odd. Now, if we could have some clear statement which would place each of those items in its proper relation it would, I think, help to clear up the misunderstanding in the minds of the public, because a lot of people insist that the annual loss is \$115,000,000 whereas a lot of others contend that it is only \$48,000,000. Could we get any statement now, or at the next meeting of the committee, that would place these consecutively one in relation with the other, apart from just a bare statement of the figures—explain them, as it were, in relation of the one to the other, and the total?

Mr. McLAREN: Well, Mr. Stewart, the report specifies that interest on Dominion government loans is \$35,000,000 odd. That is clear. You are trying to get clear in your mind the difference between book deficit and the contribution of the government, I presume?

Hon. Mr. STEWART: That is one thing. The total loss is spoken of as \$115,000,000 odd. That is right, I presume, otherwise it would not appear in the statement.

Mr. McLAREN: It is stated there.

Hon. Mr. STEWART: On ordinary business principles that is the total annually.

Mr. McLAREN: I do not say it is correct, because while that interest is shown as \$35,000,000 there is a question whether that is the correct interest or not. Therefore I do not know whether it is correct. But I am pointing out to you that it specifies interest on Dominion government loans \$35,949,676.70. Now the difference between the \$115,000,000 odd less the \$35,000,000 I have spoken of and the \$47,421,464.80 which is the contribution by the government represents chiefly capital loss.

Mr. RYAN: In other words, that does not represent an annual loss; it includes interest charges.

Mr. McLAREN: Not only, because you have \$25,000,000 loss on equipment, obsolete equipment that has occurred, possibly, over twenty-five years. You could not say that is a correct assignment for that year. It would have no relation to the \$25,000,000, because it was used up in the last quarter of a century.

Mr. DEACHMAN: Why should it not be charged off for the years in which it was used?

Mr. McLAREN: That comes to the question of depreciation accounting which is not permissible under the government regulations on railroads in Canada.

Hon. Mr. VIEN: I think we went into that very fully last year. I think that when the Canadian National Railway officials filed with this committee the regulations that had been referred to by Mr. Fairweather; and I recall that we could not find and he could not find in those regulations anything which would estoppe the Canadian National Railway or any Canadian railway system from deducting a proper depreciation year by year. We had that investigated last year and I recollect that Mr. Fairweather found himself unable to refer to the rule, he had the book in his hand and he was unable to refer to the rule. I sometimes overlook a few articles of the civil code, from the code of civil procedure, and I would not at all blame him for not having found the rule if it is there. But, as I said previously I am from Missouri in such matters and I would like to be shown. I do not believe that you can show us any rule of the Department of Railways and Canals—and Colonel Smart will correct me if I am wrong in that respect—any rule of the department or of the governor in council preventing the railway from establishing a proper depreciation fund and a proper depreciation ratio in respect to its operating figures every year. I agree that the Canadian Pacific Railway does not, as was shown to the committee last year, keep its books in such a way as to depreciate its equipment from year to year; yet I think it would be inaccurate to state that this figure of \$29,000,000 is not a proper figure to appear in the annual statement of the company. The year previous you had an item for retirement of equipment, and periodically, every four, or five or six years you retire a much greater volume of equipment. And then, you show in your profit and loss statement a considerable figure to cover up the lack of adequate depreciation from year to year. That does not give to the average reader of the financial statement a true picture of the situation. For instance, in a poor year you might forget about depreciation altogether, but in a more profitable year you might borrow more abundantly from the depreciation fund or from your operating earnings to make up for the shortness of depreciation in other years. I believe that you would find it quite possible to create a depreciation fund and charge your operating expenses a certain ratio from year to year to take care of that.

Hon. Mr. VIEN: Then I, for one, would move that such regulations be immediately altered.

The CHAIRMAN: Would that meet your wishes, Mr. Stewart?

Hon. Mr. STEWART: Yes. There is just one other question on that; assuming that this proposed legislation had been in effect say two years ago would it have had any effect on these figures appearing on page 18?

Mr. McLAREN: Not at all, Mr. Stewart. The effect would have been that if this 1935 accounting was under the new regulations the equity of the government would have been reduced by that \$25,000,000 for obsolete equipment.

Hon. Mr. STEWART: I am not referring to that. I am referring to these three figures which go to make up the \$115,281,000 odd that I have mentioned. Would it have had any effect upon those figures at all.

Mr. SMART: The interest would have.

Mr. BOTHWELL: That interest would have disappeared.

Mr. McLAREN: That interest would not be there.

Hon. Mr. STEWART: If it is not too much trouble I would like to know, based on that statement, the figure that would have appeared in this statement, or will appear in your next statement.

Mr. McLAREN: In other words, you would like 1935 recasted to show what it would be under the new proposed legislation?

Hon. Mr. STEWART: Exactly; so that we will then have before us the net effect upon the annual statement of these figures.

Mr. McLAREN: Right.

The CHAIRMAN: Will you have that ready for Tuesday?

Mr. McLAREN: Yes, we will try.

The CHAIRMAN: We will adjourn until Tuesday at 10.30.

The committee adjourned at 12.35 o'clock p.m., to meet again on Tuesday next, March 9, 1937, at 10.30 o'clock a.m.

SESSION 1937

HOUSE OF COMMONS

STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 5

TUESDAY, MARCH 9, 1937

Consideration of Bill No. 12, An Act to provide for revision of the
accounting set-up of the Canadian National Railway System.

OTTAWA

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

PRINTER TO THE KING'S MOST EXCELLENT MAJESTY

1937

REPORT TO THE HOUSE

SECOND REPORT

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

SECOND REPORT.

Your Committee has had under consideration Bill No. 12, An Act to provide for revision of the accounting set-up of the Canadian National Railway System, and has agreed to report the Bill with amendments.

Your Committee has ordered a reprint of said Bill as amended.

All of which is respectfully submitted.

EUGENE Fiset,
Chairman.

MINUTES OF PROCEEDINGS

TUESDAY, March 9, 1937.

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

Members present: Messrs. Barber, Beaubien, Beaubier, Bothwell, Deachman, Ferland, Fiset (Sir Eugene), Heaps, Howden, Kinley, McKinnon (*Kenora*), Maybank, Stewart, Walsh, Young.

In attendance: Mr. V. I. Smart, Deputy Minister of Transport, Dr. W. C. Clark, Deputy Minister of Finance, and officials of the Canadian National Railways, including Mr. D. C. Grant, Vice-President of Finance, Mr. J. B. MacLaren, Comptroller, Mr. J. H. Cooper, Assistant Comptroller and Mr. A. V. Franklin, Railway Auditor, Department of Finance.

On motion of Mr. Walsh,

Resolved,—That the Chairman be authorized to have necessary corrections made to the statement of the Honourable, the Minister of Transport, as reported on pages 2 and 3 of the printed proceedings. (See Appendix B).

On motion of Mr. Kinley,

Ordered,—That the following correction be made in the Minutes of Evidence viz:—

Page 33, line 28, the words "Bill B" to be substituted for the words "Bill 12".

Dr. W. C. Clark, Deputy Minister of Finance, submitted six statements requested by Mr. Walsh at the previous sitting of the Committee.

On motion of Mr. Bothwell,

Ordered,—That these statements be printed in this day's Minutes of Proceedings. (See Appendix C.)

The Committee resumed consideration of Bill No. 12, An Act to provide for revision of the accounting set-up of the Canadian National Railway System.

A redraft of Section 2 was submitted and the section adopted as so amended. Section 8 amended to read as follows:—

Notwithstanding any provision of the Consolidated Revenue and Audit Act 1931 or any other act, the Minister may, in order to adjust certain differences between the public accounts of Canada and the accounts of the National railway system relative to the government railways and the Hudson Bay railway, and in order to give effect to the surrender, exchange or abandonment of securities or claims authorized by this act, make the adjustments in the public accounts of Canada which are set out in schedule "B" of this act.

Sections 11, 13 and 22 adopted.

New Section 23 adopted as follows:—

The trustees of the securities trust shall present to Parliament annually concurrently with the annual report of the Canadian National Railways through the Minister of Transport, a balance sheet together with the report setting forth in a summary manner the transactions of the securities trust during each calendar year.

New Section 24 adopted as follows:—

Appendix to Public Accounts showing total assistance to all Railways—

The Minister shall include annually as an appendix to the Public Accounts of Canada, a statement showing the total assistance, whether by way of cash outlay, land grant, loan, advance, guarantee or otherwise, given by the Dominion to all railways. Such statement shall also show the manner in which such assistance has been dealt with in the Public Accounts of Canada.

Section 23 (to become section 25 in amended Bill) adopted.

Schedule A adopted with the provision that the figures of the 1936 calendar year be substituted for those of 1935.

Schedule B as amended and shown on pages 76 and 77 of the printed record, adopted with the provision that the figures of the 1936 calendar year be substituted for those of 1935.

Title carried.—

Bill to be reported.

By unanimous consent it was agreed to have the Bill reprinted and appendices revised to show the figures of the 1936 calendar year instead of the 1935 figures shown in the original copy.

At the request of Mr. Walsh, the Deputy Minister of Finance was asked to prepare a statement indicating how and during what years was compiled the Item of \$353,244,349.91 appearing in Schedule "B" under the heading "Adjustment in Public Accounts". Above statement to be incorporated in this day's proceedings as Appendix "D".

The Committee adjourned to meet at the call of the Chair.

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 277,

March 9, 1937.

The Select Standing Committee on Railway and Shipping met at 10.30 o'clock. Sir Eugène Fiset, the chairman, presided.

The CHAIRMAN: Order, gentlemen. I am sorry that Mr. Vien is not here. He asked at the last meeting that the clause of the petition should be changed to embody the full sections of the act as they are referred to.

In looking the matter over, although the amendment proposed has been prepared, it appears to be extremely bulky and long to be embodied in, practically speaking, the preamble of the act, and to recite everywhere the part of the law mentioned in the interpretation clause. I do not know if it is advisable to do it. I am in the hands of the committee. We were rather inclined at the last meeting to put it in, but it is changing the procedure altogether.

Hon. Mr. STEWART: Mr. Chairman, it is not a matter of vital importance. It does not affect the provisions of the bill or the effect of it in any way. But it is always well to bring up to date your references, so that you will have them right before you. I cannot see any objection to it, because it is in the interpretation clause.

The CHAIRMAN: Quite right. I quite admit that, but it is new procedure. You will admit that yourself. I have never seen it, and I have been in the house many years.

Hon. Mr. STEWART: It is not altogether new. In one or two cases some member of the house pointed out that it was desirable, and it was done.

The CHAIRMAN: Of course, it is a special act. I have no objection whatever to doing it if you gentlemen wish it.

Mr. SMART: How would it be if that was in as one of the explanatory notes?

Hon. Mr. STEWART: I do not know whether that would help or not.

Mr. SMART: What he wanted was the definitions.

Hon. Mr. STEWART: I have not seen the length of it.

Mr. SMART: There are three definitions.

Hon. Mr. STEWART: Yes.

The CHAIRMAN: The full text of the law as it stands. Would you distribute that to the members of the committee, Mr. Arsenault, so that they will see exactly what he wants. Mr. Stewart, will you look at it? You will see how bulky it makes it. Do you think it should be done? It is a copy of all acts that exist and in which reference to the title was made in clause 2 of the bill. You have the whole thing before you. It is a complete picture of the bill.

Mr. KINLEY: What is the advantage of it?

The CHAIRMAN: Well, Mr. Vien thinks that at a glance you can see, when you are dealing with your interpretation of the bill, the whole picture before you. That is all.

Mr. YOUNG: It is not a great matter.

The CHAIRMAN: Is it the consensus of opinion that this should be embodied in the bill?

Hon. Mr. STEWART: I think so.

Carried. (See Appendix A.)

Mr. WALSH: Mr. Chairman, at Friday's meeting, through Mr. Stewart I asked for certain information to be brought down. Might I ask if that information has been brought down?

Mr. YOUNG: Have you got a copy for every member of the committee?

The CHAIRMAN: Do you want this to be included in the minutes?

Mr. WALSH: No. I want this particularly so that I could have reference to it when the bill is referred back to the house for the purpose of debate.

Mr. SMART: You want it included in the minutes?

Mr. WALSH: I think it would be advisable to have it included in the minutes, so that we could have ready reference to it.

The CHAIRMAN: As we have not a copy for each member, is it your desire that the full statement should be included in the minutes?

Mr. YOUNG: What statement?

The CHAIRMAN: In answer to the question asked by Mr. Walsh, there was filed by the deputy-minister of finance a full statement. The full answer is here, and I think it should be included in the minutes so that every member of the committee will be aware of it.

Mr. YOUNG: What question was that?

Mr. CLARKE: Consolidation of the accounts of the dominion and the Canadian National Railways.

Mr. BOTHWELL: That would be that schedule that is published from year to year in the public accounts?

Mr. CLARKE: No, it would not be that. Mr. Walsh asked for—

Mr. WALSH: A balance sheet before and after.

Mr. CLARKE: Yes, a balance sheet before and after; and a consolidated balance sheet before and after.

Mr. WALSH: Yes, in condensed form.

Mr. BEAUBIEN: I do not see why it should not be put in.

Mr. KINLEY: Is that not in the first reference?

The CHAIRMAN: I think we might as well have it in the minutes of proceedings so that every member will have it before him.

Hon. Mr. STEWART: Surely.

Mr. KINLEY: Is that not in the first statement that Mr. Howe made?

Mr. WALSH: No.

Mr. KINLEY: It is not in that?

The CHAIRMAN: No.

Mr. BOTHWELL: It is contained in the first page of last day's proceedings, (a) Condensed balance sheets of the Canadian National Railways and of the Dominion Government, as at December 31, 1935, and March 31, 1936; (b) A consolidated balance sheet of the Dominion Government, as at March 31, 1936, including the Canadian National Railways.

Mr. KINLEY: Would it not be better for the members to read it and see what there is in it, and get a copy for the next meeting?

The CHAIRMAN: I will ask you to read it, Mr. Clarke.

Mr. CLARKE: It is pretty hard to read.

Mr. WALSH: It would be a waste of time to read it. If the members get copies, each member can read it for himself. It is the annual condensed balance sheet before and after.

The CHAIRMAN: I do not see why it should not go into the minutes of proceedings.

Mr. CLARKE: It is hard to read and make anything out of it.

Hon. Mr. STEWART: No, you could not make anything out of it at all.

Mr. BOTHWELL: I move that it be included in the minutes.

Mr. WALSH: I second that.

Carried.

(See appendix C)

Mr. KINLEY: Before we leave the minutes, I should like to make a correction in number 2. On page 33 I am reported as referring to Bill No. 12. I referred to Bill B.

The CHAIRMAN: I have already given instructions for the clerk to change that. Gentlemen, the first minutes of proceedings were badly printed, and I want the authority of the committee to empower me to make the necessary changes. Some paragraphs have been put in the wrong place—there is not any sense to it; and there is a part of the statement of the minister which has been eliminated from the last proceedings. I want your authority to make the necessary changes.

Mr. WALSH: I would move that the chairman be given the privilege of re-editing the first issue.

The CHAIRMAN: The first and fourth.

Mr. WALSH: The first and fourth issue.

The CHAIRMAN: Yes, and the second, too. I have an amendment there.
Carried.

Hon. Mr. STEWART: Might I ask if any of the officials have prepared the statement referred to on page 105 of the minutes of our last meeting? You will recall that I asked that a statement be prepared which would indicate the effect upon the figures in the existing balance sheet of this legislation had it been in effect.

Mr. McLAREN: We have had that statement prepared.

The CHAIRMAN: Have you a sufficient number of copies for members of the committee?

Mr. McLAREN: Yes, there is a sufficient number of copies.

The CHAIRMAN: Do you wish it read, or shall it just be placed in the record?

Hon. Mr. STEWART: I think perhaps it had better be read and then it will appear in our record also.

The CHAIRMAN: I will ask Mr. McLaren to read it then.

Mr. McLAREN: This is the statement:—

PROFIT AND LOSS STATEMENT

Re-stated on the Basis of Proposed Legislation—Bill 12

Credits:	Year—1935
Credits from retired Road and Equipment	\$ 24,631 40
Unrefundable Overcharges	3,301 90
Donations	30,328 73
Miscellaneous Credits	583,533 19
Total Credits	\$ 641,795 22
Debits:	
Surplus appropriated for Investment in Physical Property	\$ 2,064 34
Debt Discount extinguished through surplus	22,579 91
Miscellaneous appropriations of surplus	27,681 07
Debits for retired Road and Equipment	29,111,717 21
Delayed Income Debits	48,295 61
Miscellaneous Debits	1,938,650 64
Total Debits	\$31,095,626 64
Net Debit	\$30,453,831 42
Net Income <i>Deficit</i> brought forward	48,878,181 67
System Net <i>Loss</i>	\$79,332,013 09
Deduct: Contributions for Deficits from the Government—	
Canadian National Railways	\$41,795,757 24
Eastern Lines	5,265,373 20
P.E.I. Car Ferry & Terminals	360,334 36
	47,421,464 80
Change in Proprietor's Equity, representing Capital losses and other charges not contributed by the Dominion Government in cash	\$31,910,548 29
 <i>Dominion Government-Proprietor's Equity</i> 	
Balance at the beginning of the year
Change during the year, as above	31,910,548 00

Balance at end of year, carried to Balance Sheet

Hon. Mr. STEWART: We follow this in conjunction with page 18 of the statement of last year, do we not?

The CHAIRMAN: It is complete by itself.

Hon. Mr. STEWART: Yes, but it is taken from page 18 of last year's report.

Mr. SMART: That is right, page 18 of the annual report.

The CHAIRMAN: Go ahead, Mr. McLaren.

Mr. McLAREN: On page 18 of last year's report there is a profit and loss statement brought down as under the accounting in effect in 1935. I was asked to have that statement recast to bring it into accord with the proposed legislation, and the changes that are made in the statement shown on page 18 are: First, the elimination of interest on Dominion government loans of \$35,949,676.70; the total \$115,281,689.79 has been corrected to \$79,332,013.09; the item \$47,421,464.80, representing contributions for deficits by the government remains. The Eastern Lines interest on government loans \$626,413.21 has been eliminated; there has also been eliminated the wording, "Change during year in profit and loss account" with the amount of \$67,233,811.78; there has been added, "Change in proprietor's equity representing capital losses and other charges not contributed by the Dominion government in cash" \$31,910,548.29; there has been deleted the words, "balance at January 1st," and total of \$789,040,675.42; there has also been deleted from the report, "Balance at December 31st" \$856,274,487.20; there has been added to this statement, "Dominion government-proprietor's equity," "Balance at the beginning of the year," "Change during the year, as above" \$31,910,548; "Balance at end of year, carried to balance sheet."

HON. MR. STEWART: That is very complete, except those two items at the bottom there.

MR. McLAREN: "Balance at the beginning of the year," you mean?

HON. MR. STEWART: I quite understand, if it were just starting that probably would not be there.

MR. SMART: Yes, it will be there; that will be the value of the Dominion government equity—\$688,000,000 odd.

HON. MR. STEWART: I was wondering why we should not have these figures in there where they are located at the present time.

MR. McLAREN: The figures in the bill are as of January 1, 1936, and we did not put them in there. But, just to give you an illustration, there will be a balance, and at the commencement of 1936 that balance would be as shown on appendix 5, page 13 of the bill, \$690,573,400.32; that has been corrected to \$688,000,000 odd.

HON. MR. STEWART: Yes. That clears up that item. Then, with respect to the balance at the end of the year carried to the balance sheet; what would that be?

MR. McLAREN: That would be carried to your balance sheet under the heading of proprietor's equity.

HON. MR. STEWART: And what would the figures be?

MR. McLAREN: If you were using that figure of \$688,000,000 odd it would be reduced by \$31,000,000; that would make it \$657,000,000.

HON. MR. STEWART: Yes. I think that completes the statement.

MR. McLAREN: It operates just as though the profit and loss account were still there.

MR. KINLEY: Is the proprietor's equity represented by the Intercolonial?

MR. McLAREN: Yes, there is \$388,290,294.40 in that for Dominion government capital expenditures for Canadian government railways.

MR. KINLEY: But you include that in proprietor's equity?

MR. McLAREN: Yes.

MR. SMART: You will find a statement of that on page 13-A of the bill.

THE CHAIRMAN: When we left off the other day we were on clause 8 of the bill, and it was proposed to substitute a new clause for that, reading as follows:—

ADJUSTMENT OF CERTAIN ACCOUNTS AFFECTING GOVERNMENT RAILWAYS

8. Notwithstanding any provision of the Consolidated Revenue and Audit Act 1931 or any other act, the minister may, in order to adjust certain differences between the public accounts of Canada and the accounts of the National railway system relative to the government railways and the Hudson Bay railway, and in order to give effect to the surrender, exchange or abandonment of securities or claims authorized by this act, make the adjustments in the public accounts of Canada which are set out in schedule "B" of this act.

That is the proposed change.

MR. WALSH: I regret, of course, that I was unable to be present at the meeting on Friday when this amendment was first introduced. I want to thank the Chairman and the committee for the privilege accorded me of submitting these four questions, and for the answers to them which were received this morning, and which I hope may be of some value in a further study of the various clauses of the bill, with particular reference to the effect that it might have on the balance sheet of the Canadian National System. In connection with

this amendment I would like to raise three points, and my first point is this: Has this committee as such the power to deal with this amendment? I have in my hand report No. 4 of the minutes of proceedings and evidence before this committee on Friday, March 5, 1937. Mr. Beaubien asked this question:—

Do I understand that this bill when it is passed in the form in which you wish it amended will give instructions to the Department of Finance to adjust the public accounts according to the amendment. Is that the idea?

Hon. Mr. HOWE: Correct.

Mr. BEAUBIEN: Have we power?

Mr. HOWE: Yes, parliament has that power.

My contention is that Mr. Howe was correct, parliament has that power. And, we are not parliament, we are merely a committee of parliament charged with the necessity of reviewing the various clauses of this bill and studying the principles underlying this bill and reporting back to parliament. I want to raise that point, and I raise it seriously; and I think Mr. Beaubien raised it with serious doubt in his own mind as to whether this committee really had the power to do what it is proposed to do in that amendment. Now, that amendment as we all know transfers from the non-active assets of the Dominion of Canada \$353,244,349 and places that in the consolidated account. As the members of this committee know, since 1932 it has been the principle of the railway to have any deficit placed in the supplementary estimates and voted by parliament. The \$353,000,000 odd represents in large measure the accumulated deficits previous to 1932. If it is necessary for the Minister of Finance to put in the supplementary estimates each year the amount of the deficit of the Canadian National Railways and have that voted by parliament surely there is all the more reason to expect the Minister of Finance to put in the supplementary estimates this year an amount equivalent to the \$353,000,000 odd that we propose taking out of the non-active assets of the Dominion of Canada and placing in the consolidated fund. It is for that reason, Mr. Chairman, that I contend that this committee has not the power to place an amendment in that bill that makes possible such a fundamental change in the structure of the public accounts of Canada as represented in their financial statements.

The CHAIRMAN: On that very point I would like to remind you of this; that insofar as this Committee is concerned the bill was referred to this committee for examination and report; and that is all we can possibly do, report back to the house what action we advise and what advice we are giving; then it is up to the house and to parliament to decide for themselves what the final action should be. To that extent I do not think that we are exceeding our powers in examining the bill, or even in accepting this amendment, which will be reported to the house if it carries. It will be a matter for the house to decide what disposition will be made of the amendment.

Mr. HEAPS: As far as I understand the matter of bills in committee I believe that we are entitled to make any changes that may to use seem desirable, and so report to the house.

The CHAIRMAN: Surely.

Mr. WALSH: We are entitled to make any changes; but this is what I consider a fundamental change, and it is a change that can be made only through a specific vote of parliament as represented in supplementary estimates of the Minister of Finance. As members of the committee know, this year we are voting a sum of \$35,000,000 representing the deficit of the Canadian National Railway system. That is being voted this year in the supplementary estimates. This amount of \$353,000,000 odd represents similar amounts previous to the year

1932. If it is logical to vote \$35,000,000 this year in the supplementary estimates as presented by the Minister of Finance is it not equally logical to have the sum of \$353,000,000 odd voted in the same way this year showing that it represents almost identically—not altogether, but almost identically—the same sort of funds that are being voted in the \$35,000,000?

The CHAIRMAN: But, Mr. Walsh, might I remind you that these amounts to which you refer have already been voted by parliament in each of the different years, and under the same procedure as will be followed this year.

Mr. WALSH: No, the \$35,000,000 has not been voted annually; it has been placed—not voted—placed in the non-active assets of the Dominion of Canada; and you are proposing to take it out of there where it was placed by parliament and put it into the consolidated fund.

The CHAIRMAN: I am not proposing.

Mr. WALSH: The minister is proposing it.

The CHAIRMAN: No, he is not.

Mr. WALSH: This bill is proposing it, then.

Mr. KINLEY: Is not that the intent of the bill?

Mr. WALSH: We are doing what parliament should do.

The CHAIRMAN: We are simply reporting to parliament that it should be done; we are not doing it.

Mr. KINLEY: No, it is in the bill.

Mr. YOUNG: This committee has no power to do anything except to examine this bill, to amend it if it chooses and to recommend to parliament; parliament has the power, the absolute authority. That is all we can do.

The CHAIRMAN: That is all.

Mr. MAYBANK: What Mr. Walsh is attempting to say is that there is another \$353,000,000 odd—whatever the figure is—which corresponds to the annual deficits which are voted annually; and I think he is entirely mistaken on that, because year after year parliament has voted on these matters.

Mr. WALSH: I take exception to that.

Mr. YOUNG: You can take all the exception you like, I am going to make my statement.

Mr. WALSH: We have not been voting it; what we did do was to vote to place those amounts in the non-active assets of the Dominion of Canada.

Mr. YOUNG: What we are doing now is to change the bookkeeping arrangement; no more and no less, in order to give a better picture of the situation to the country at large.

Mr. WALSH: Now, Mr. Chairman, apparently the consensus of opinion in this committee is that we have the power to recommend. Personally I take exception to that, just as Mr. Beaubien did at our first meeting.

Mr. BEAUBIEN: I doubted myself that this committee had the power to instruct the Department of Finance to do anything in regard to the financial statement. While I still have some doubt, in the light of additional information which has been made available I am inclined to accept the minister's statement that we have the power to consider this amendment; and I am informed that parliament has delegated its power to this committee to examine into and report upon all phases of this bill.

The CHAIRMAN: Certainly.

Mr. BEAUBIEN: And that we are required to make a report back to parliament, and then when we get back into the house parliament has the absolute right to do anything it chooses to in the matter.

Mr. WALSH: But parliament did not delegate to us the power to take out of the assets of the Dominion of Canada a large sum of money and put it in the consolidated debt of Canada?

Mr. BEAUBIEN: But it has given us the power to do what we like with this bill and report back to the house; if they do not want to accept it they can throw it out.

Mr. WALSH: If that is the opinion of the committee it is not my opinion, and I would like to make this further comment: in my estimation this bill was referred to this committee, and in referring this bill to this committee the title of the bill was, "An Act to provide for revision of the accounting set-up of the Canadian National Railway system;" and if you go further into the bill, section 8 itself—the section which we are particularly discussing this morning and which is to be amended—is headed, "Adjustment of certain accounts affecting government railways." Can any member of this committee suggest to me that any power has been delegated to this committee to adjust the accounts of the Dominion of Canada under the heading of, "an accounting set-up of the Canadian National Railway system." Now, my contention is still that we have not got power to do that. The bill is quite clear and distinct; and I should like to read in that connection from page 64 of issue No. 3 of the minutes of proceedings and evidence of this committee, where reference is made to the very point I am raising; that in this amendment we are going outside of the original purposes of this bill and of the underlying principle of this bill, and we are changing in toto the very principle on which this bill was built up, and the principle that received first and second reading in the house before this bill was referred to this committee.

The CHAIRMAN: Mr. Walsh, in order that we may be sure that you are not making any mistake, if you will refer to schedule B of the bill which schedule forms a part of the bill—not the appendices—you will find there indicated an adjustment in the public accounts of \$660,000,000 and some odd, being part of the \$1,596,000,000 odd, which is all included in the public debt; therefore, it forms a part of the reference to this committee.

Mr. HEAPS: When parliament passed the resolution referring this bill to this committee it was passed to us to consider and report.

The CHAIRMAN: Exactly.

Mr. HEAPS: And we have the right to delete from, add to, change and so on and if we wish to adopt something definite we have the right to do so. I think Mr. Walsh is rather confusing the issue, as a matter of fact.

Mr. WALSH: I am not confusing the issue. What I contend, Mr. Chairman, is that we have no power in this committee to change the principle of a bill. We have the power to amend, but not to change the principle on which this bill was built up and on which it was discussed in parliament and on which it received first and second reading.

The CHAIRMAN: We are all agreed with you, we have not the power to change the principle; parliament has that power, but we have the power to consider the bill and report back our findings.

Mr. WALSH: I claim that through this amendment you are changing the principle of the bill; and in support of my contention I would read the following evidence which appears on page 64 of the report of our proceedings where Mr. Beaubien asks:—

Mr. BEAUBIEN: When those amounts you have mentioned were absorbed in the public debt of Canada they still continued to be shown on the annual report of the Canadian National Railways, did they?

Dr. CLARKE: Yes.

Mr. VIEN: As an asset.

Dr. CLARKE: As a liability of the Canadian National Railways.

Now, I want you to notice this in particular:—

Dr. CLARKE: It was not writing down their value, it was transferring them—

He is referring to what was done by a former Finance Minister, I think Sir Henry Drayton:—

It was not writing down their value; it was transferring them from the category of active assets down into the net debt figure.

Then, further on he says:—

Now, that was the start of the procedure.

Mr. BEAUBIEN: That is all we are doing to-day.

Mr. WALSH: Then it continues:—

I think I am bound to say that the reasons which Sir Henry Drayton gave at that time for taking the action described are reasons which would appeal to the finance department at any time. They represent the attitude which we take to the treatment of assets in the public accounts which are not realizable, and are not paying any interest. We try to get them down into that lower category. We can do that on instructions from the Minister of Finance. We cannot—

I want you to notice this:—

We cannot actually write them off unless parliamentary authority is given for such writing off.

Mr. MAYBANK: May I ask you a question just at that point: What does that word "we" mean; does that mean the departmental officials, or this committee? It is important to determine just what that pronoun means.

Mr. WALSH: You would have to ask Dr. Clarke that.

Mr. MAYBANK: I think we should pursue that a little further at this stage; I think we should know what that word "we" as it is used there applies to.

Mr. CLARKE: It refers to the department.

The CHAIRMAN: Dr. Clarke says that in that instance the word "we" refers to his department.

Mr. WALSH: He says, "We cannot actually write them off unless parliamentary authority is given for such writing off."

The CHAIRMAN: He is speaking for the Department of Finance.

Mr. WALSH: Then, further down on the next page I read:—

Now, that is the first class of items included in the net debt. The second class is what we call "non-active assets"; usually items which were originally up at the top of this page in the active assets sections of the balance sheet but which have been transferred in accordance with the procedure followed by Sir Henry Drayton in 1920.

And I want you to notice this:—

They have been transferred from active assets down into the net debt section of the balance sheet.

He does not mention transferring any items on the authority of any other body except parliament from assets to the consolidated debt; and that is exactly what we are doing in connection with this bill, we are transferring them from the asset section to the consolidated debt section; and I claim that this amendment goes outside of the power delegated to this committee by parliament, and

I feel that we should go back to parliament and ask them for instruction, to see if we are within our rights in handling an important matter of this nature in which we are writing off assets of the Dominion of Canada to the extent of over three hundred million dollars and placing those assets into the consolidated fund of Canada. In doing that we are doing something of a very serious nature.

Mr. BEAUBIEN: We are not doing it. We are merely reporting back to parliament.

Mr. WALSH: We are recommending to parliament that it should be done. I think that parliament and parliament alone has the power to ask this committee to consider the bill with that feature embodied, and that feature was not embodied in the original bill.

Mr. MAYBANK: By that do you mean that we should go back to parliament for special instruction?

The CHAIRMAN: That is all included in schedule B of the bill. I do not think you could have taken the time to read that schedule.

Mr. WALSH: Do you suggest that I have not taken the trouble? I do not think any member of this committee can suggest that for one moment—that I have not taken the trouble to study this matter.

The CHAIRMAN: If that is the case then all I can suggest is that you must have over-looked this schedule.

Mr. WALSH: I started from scratch, or back of scratch, and any information I have has been secured through hard blind plugging, and it was not all done by daylight; so, you cannot suggest that I have not read very minutely every part of the bill and the appendices at the back. I have given careful consideration to it all.

The CHAIRMAN: Schedule B forms a part of the bill itself.

Mr. WALSH: I cannot conceive of schedule B as being within the original intention of this bill, in accordance with the amendment that is brought forward.

Mr. MAYBANK: I think he ought to reconsture that sentence with "we" in it.

The CHAIRMAN: "We" means the Department of Finance in this committee, so far as Dr. Clarke and this statement are concerned.

Mr. WALSH: That was the second point I wanted to make on this amendment; that in reality it is not an amendment to the bill, but rather it is an entirely new and distinct clause that we have here. I would like to go on further to say that these losses have not been voted by parliament; that is, the losses that are included in the \$353,000,000 and which are now being made a charge on the consolidated fund. I am not sure whether the minister should not provide in his estimates for the amount in the amount in the same way as votes are being made currently for similar deficits; in other words, we are here voting an amount almost equal to the total ordinary expenditure of the Dominion of Canada, which this year was over \$372,000,000; we are voting from the assets into the consolidated fund an amount that is equal to ten times the estimated Canadian National cash deficits for 1937. So far as I can see we have no justification for this. The justification for the bill has been predicated on the idea that it was necessary to bring the railway accounts into relation with the public accounts; but there is now inserted into the bill a provision for altering the public accounts in line with the railway accounts. That is the point I would like to emphasize; that our original instructions were, and the

original intention of this bill was, to bring railway accounts into conformity with the accounts of the Dominion of Canada and we have reversed the process, instead of doing that we are bringing the accounts of the Dominion of Canada into conformity with the accounts of the railway, which we were not instructed to do, and which speaking for myself I feel is not good practice insofar as accountancy is concerned.

Mr. HEAPS: To what extent does this change anything in the bill itself?

Mr. WALSH: The amendment to section 8 of the bill would not appear to be an amendment in a clause of the bill but rather the insertion of an additional item of a new idea. I would not want to think that the minister had purposely amended this very important section of the bill with the intention of inserting anything new by way of principle. I am sorry that the minister is not here this morning. I do not want the minister to think that I am imputing to him any wrong motive when I am criticizing the insertion of this amendment. I do not want him for one moment to think that I am suggesting that he has deliberately left this section out of the bill and then has introduced it while in committee in the form of an amendment in order to accomplish some desired end.

Mr. BEAUBIEN: Right at that point might I remind you that the minister brought that amendment in for the sole purpose of satisfying certain views held by members of this committee.

Mr. WALSH: The views expressed by members of this committee as the bill was originally introduced was for the purpose of emphasizing the fact that the balance sheet of the Canadian National Railways would not show a complete picture of the Canadian National Railway system as it should be shown on any logical balance sheet.

Mr. BEAUBIEN: The view of the committee was that it should be shown somewhere.

Mr. WALSH: I think the witnesses we had here representing the Canadian Chambers of Commerce were contending for the same thing. I think they contended fairly that this information should be shown in the balance sheet of the Canadian National Railways instead of being hidden away in the balance sheet of the Dominion of Canada.

The CHAIRMAN: My understanding as chairman of the committee was this, that the witnesses wanted to have a true picture of the situation and that it was immaterial to them where it appeared, in the public accounts or in the accounts of the Canadian National Railway. I would like to have an understanding on that.

Mr. BEAUBIEN: Mr. Chairman, I rise to a point of order: The question as to whether that statement should be shown in the report of the Canadian National Railways or in the public accounts was settled by a motion which was passed by this committee on motion by Mr. Bothwell, seconded by myself, to the effect that the amount in future should not be included in the Canadian National Railways annual report.

Mr. WALSH: That it should not be?

Mr. BEAUBIEN: Yes.

Mr. WALSH: And you say that motion was moved by Mr. Bothwell and seconded by—?

Mr. BEAUBIEN: Seconded by myself.

Mr. WALSH: Both Liberal members, your contention is—

The CHAIRMAN: That is unfair.

Mr. WALSH: I consider it is fair—

The CHAIRMAN: This committee has not been dabbling in politics so far. Why begin now?

Mr. BEAUBIEN: My point of order—and I still insist on it—is that the question of whether that should be included in the Canadian National Railways annual report was settled by that motion being adopted by a majority of this committee. In fact, it was unanimous, as you will remember, Mr. Chairman.

The CHAIRMAN: Yes.

Mr. HEAPS: I think it is most unfair—and I am not a liberal member—for any member of this house to start bringing in “liberal member” or “conservative member” to this committee.

The CHAIRMAN: I think that statement should be withdrawn.

Mr. HEAPS: He does not need to withdraw it. It is a fact, anyhow. It is not good order for the work of this committee, if, across the table of the committee room, we will say two liberal members move a certain resolution or motion and two conservative members oppose them, on some point. I think if you start bringing in politics to the Canadian National Railways, it is not going to be good for the railways.

Mr. WALSH: I am not bringing it before the Canadian National Railways. I am bringing it before the members of this committee. I feel that this committee has committed a grave error, in my judgment, in allowing the Canadian National balance sheet to be made out in the form which they propose, which will not show to the public of Canada who are particularly interested, the true picture of that railway, but which they will have to search for in the balance sheet of the Dominion of Canada or somewhere else where it might possibly be shown in piece-meal style.

Mr. BEAUBIEN: I still insist that Mr. Walsh is out of order, that question having been settled by motion of this committee.

Mr. WALSH: I will pass on to another point, then, if I am out of order. I do not want to be out of order as far as the committee is concerned. Another point I would like to make is this. The minister has seen fit to introduce into this committee an amendment involving over 353 million dollars. Apparently that item was not looked after in the original bill. It was overlooked; and the minister makes up for that oversight on the part of those who framed the bill by introducing this amendment which looks after 353 million dollars. Now, Mr. Chairman, if that important item has been overlooked in the framing of this bill, how much more might have been overlooked if we more carefully diagnosed, studied, and considered this bill? I am coming now to the point which I raised at the beginning of this committee.

The CHAIRMAN: Is that absolutely fair, Mr. Walsh? You must remember that at the discussion which took place in this committee here, we had the chairman of the Canadian Chamber of Commerce who came here as a witness. While he was talking, it suddenly struck the minister that the only question involved was: Should those accounts appear in the public accounts or in the balance sheet of the Canadian National Railways? He drafted a proposed amendment. This draft was handed to me. I refused to consider it as it stood there, and asked that Dr. Clarke who is deputy minister of finance, should have time to consult the minister, and the legal officers of his department, and bring us the proper wording for this amendment. That is all the minister has done; it is after Dr. Clarke had gone over this amendment and brought it back to council in proper form. Then it was submitted to this committee for consideration. Those are the true facts.

Mr. WALSH: Dr. Clarke then, I presume, contends that there never was in the original drafting of this bill a clause somewhat similar in character to the clause that has been brought in as an amendment to section 8?

Mr. CLARKE: The original clause 8, as it stands, is somewhat similar. It provides for certain adjustments—the adjustment of certain differences between the public accounts of Canada and the accounts of the Canadian National Railways; and schedule B refers to the bill in the original form, refers to the adjustments that are to be made in the public accounts of Canada as well as in the railways accounts. The amendment amplifies section 8. It expands it to cover the adjustments that should take place—all the adjustments that should take place in the public accounts as well as the Canadian National Railways accounts. That follows the fact that you are putting into the public accounts, in accordance with the other amendment, a complete statement as an appendix, showing the total cost of the Canadian National Railways to the government—to the people of Canada.

Mr. WALSH: The point I was trying to make is this: I know when a bill is being framed and drawn, it is drawn and considered many times before it reaches its final form. Now do I understand correctly that there was a proposal at one time to insert a similar clause in the original bill and it had been withdrawn?

Mr. CLARKE: No.

Mr. WALSH: Never. I want to lead up then to this final point. I have always contended, as the chairman knows, that we have not had the expert advice to which I felt this committee was entitled.

Mr. HEAPS: That is a reflection on the officers who have given us advice, Mr. Chairman. I do not think it is fair for Mr. Walsh to make that statement here.

The CHAIRMAN: I do not think Mr. Walsh means it in that way.

Mr. HEAPS: What he should say, and what he probably means, is that he has not had the advice that he would like to have.

The CHAIRMAN: Yes.

Mr. WALSH: I want the advice of an expert accountant who is not in any way biased before he comes to the committee.

The CHAIRMAN: That is not fair.

Mr. WALSH: I have every respect for Dr. Clarke.

Mr. YOUNG: I rise to a point of order. There is more than one member of the committee here. Mr. Walsh is deliberately—and I say deliberately—time and time again inferring that some people who have sought to do this thing are biased, prejudiced and want to get something into this bill which should not exist. I claim, Mr. Chairman, that there is no man biased or prejudiced, but every man here is trying to do the thing that should be reasonably done with respect to the Canadian National Railways and the public accounts of Canada. In order that there should be no misapprehension on the part of any one, it was agreed—

Mr. WALSH: He is making a speech. He is not stating a point of order, Mr. Chairman.

Mr. YOUNG: I think I have the right to make a speech. You have been making a speech all morning.

Mr. WALSH: I want to complete my speech. You can speak for the rest of the day.

Mr. YOUNG: In order to have the whole picture before us, it was agreed that a complete picture be put in the public accounts, so that any one with an inquiring mind might have some place to go where they would have that before them. It is an attempt to place all this information in proper form in the public accounts so that a clear picture will be there of the railways for all time and for all people.

Mr. MAYBANK: Mr. Walsh has said when he finishes there will still be the rest of the day. He suggests there will be some time left. I suggest that he be allowed to continue.

Mr. WALSH: And finish within reasonable time. I suggest that myself, because I am anxious to get through, and I am on my last point now. When I raise this point of having this expert advice, I cast no reflection on any member of the civil service nor any member of the accounting staff of the Canadian National Railways. When I suggest that they are biased, what I mean by that is that they are and have been interested in the developments that have taken place leading to the introduction of this bill into parliament and the amendment that has been advanced by the Minister of Transport. That is the only extent to which I feel they are biased. What I want is to get someone here who has had nothing to do with the bill in its original form, so that he can tell me that he is satisfied that this is a proper method of accounting. When I made this suggestion before, the minister suggested that it was a matter of government policy. Now, I feel that technical accounting matters such as proprietor's equity, securities trust, and so-called duplication of debt, conversion of stock liability from stated values to no par values and other questions of this kind, are not matters of government policy, but are matters of accountancy; and on that I would like to have some expert advice from someone who has had absolutely nothing to do with the original draft nor the draft of the amendment in connection with the bill that we are now considering, in order that we, as a committee, can ask him just a half dozen very direct questions that would lead to very direct answers, so that we would all feel satisfied that the accounting set-up proposed through this bill and this amendment is in conformity with accepted practices among railway accountants. That is all I am asking for.

I just wanted to say in conclusion that the points that I have tried to make are: Firstly, that this committee has not power to deal with the amendment—and apparently you have settled that matter; secondly, that the amendment is in reality not an amendment, but is a new section introduced into the bill and changing completely the original intent and purpose of this bill; and thirdly, that this committee, or at least some members of this committee, are not in a position at the present time to pass judgment on the accounting changes involved without the assistance of an outside accountant, preferably one who has had practical experience in railway accounting, and one who would be acceptable to the Canadian Chamber of Commerce and to the Minister of Transport himself. I am not asking for any biased opinion to be given to this committee. I am not asking for someone named or suggested by myself to come to this committee; I am asking for someone to come to this committee who is competent to pass judgment, someone who has the confidence of the Canadian Chamber of Commerce and at the same time the confidence of the Minister of Transport. Surely, I am not asking for too much. I am just asking for that opinion. It will only involve a half hour of the time of this committee in order to get that advice; and then we would be able to proceed, acting on what we believed was the best advice, the advice of the accountants of the Canadian National Railways, the advice of those directly in charge in the Department of Finance, and the advice of a person who has had no previous connection with this bill. That is the point on which I am contending; and I am asking the chairman if he would agree, and

this committee if they would agree to allowing the Minister of Transport to bring such a person before this committee in order to get the benefit of his advice and judgment.

The CHAIRMAN: Well, gentlemen, you have heard Mr. Walsh. I think the main part of your objections have already been answered. In your absence at the last meeting of this committee, certain questions there appear as coming from you, which have been answered this morning. I am in the hands of the committee.

Mr. MAYBANK: There is not any motion yet before the committee.

Hon. Mr. STEWART: There is nothing before it up to this point. Mr. Chairman, apparently there is a substantial change in the provisions of section 8 of the bill as introduced. The bill, as Mr. Walsh has properly said—Bill No. 12—is entitled “An Act to provide for revision of the accounting set-up of the Canadian National Railway System.” Then “Minister” is defined, in the interpretation clause, to mean the Minister of Finance. Section 8, the one which stood over and with which we are dealing, and in connection with which an amendment has been proposed, reads as follows:—

Notwithstanding any provision of The Consolidated Revenue and Audit Act, 1931, or any other Act, the minister may adjust the certain current differences between the Public Accounts of Canada and the accounts of the National Railway System relative to the Government Railways and the Hudson Bay Railway, in accordance with the terms of Schedule B of this Act.

One would think that was pretty wide, giving the Minister of Finance that power.

Mr. BEAUBIEN: Does “Minister” mean Minister of Finance there in clause 8?

Hon. Mr. STEWART: Yes. The interpretation clause will show you that “Minister” means “Minister of Finance”.

The CHAIRMAN: Quite right.

Hon. Mr. STEWART: In section 2 of the bill.

Mr. BEAUBIEN: So that, as I understand it, in this clause 8 we are instructing the Minister of Finance to do certain things.

Mr. MAYBANK: Empowering him to do certain things.

Hon. Mr. STEWART: What I am pointing out is that this is a very wide provision, and it would seem to give the minister in itself power to do almost anything that is necessary in connection with an adjustment of these accounts between Canada and the Canadian National Railways System.

Mr. BEAUBIEN: I do not want to interrupt, but may I ask a question?

Hon. Mr. STEWART: It is all right.

Mr. BEAUBIEN: The amendment that the minister has proposed and which the chairman read this morning to clause 8 of the bill, does not really change the principle of the bill. It simply gives further instruction or empowers the Minister of Finance to do more than clause 8 instructs him to do or gives him power to do in its present form, does it not?

Hon. Mr. STEWART: It gives the minister power in accordance with the terms of schedule B of this act. Now we turn to schedule B, and I would like to ask, Mr. Chairman; if this amendment is carried, what changes would take place in schedule B—because that was determined by the house.

The CHAIRMAN: Schedule B is printed in the minutes itself.

Hon. Mr. STEWART: Exactly. Schedule B is in the bill. But I want to know what changes, if any, would be made in schedule B if this amendment is carried, or how much farther it authorizes the Minister of Finance to go than is set out in the present schedule.

The CHAIRMAN: If you look at the schedule,—on page 76, the new schedule is there printed in full, which makes the changes contemplated by this amendment.

Hon. Mr. STEWART: What page?

The CHAIRMAN: Pages 76 and 77 of the printed evidence, the minutes of proceedings.

Hon. Mr. STEWART: I have not got that.

The CHAIRMAN: Oh, yes.

Mr. MAYBANK: I have it here. Take it from my place.

Hon. Mr. STEWART: I think possibly I have it. I spoke too quickly. You are right, Mr. Chairman; it appears on pages 76 and 77. I will not take the time now to look at it and see the changes. Apparently, there are some substantial changes. The only other observation I have to make is that the usual way of dealing with a matter of this kind is in the Department of Finance and then reference is made to it in the budget speech of the Minister of Finance. I think there is some reference this year to a transfer from active assets to non-active assets. That is the way it is usually dealt with, in the review of the annual statement of the dominion, and any action of that kind is reported by the minister and dealt with in his budget speech. I must say that I do not quite understand the effect of the amendment.

The CHAIRMAN: Mr. Stewart, all the changes in the schedule which forms part of the bill are contained on page 77, starting from "Elimination of the present schedule 'railway accounts'" down to the bottom of the page.

Hon. Mr. STEWART: I would like to know just in what respect, apart from the detailed figures, it changes the principle of the section. It apparently is the same down to the item of \$300,616,208.35. From there down it is changed. It seems to depart from the schedule set forth in the bill, and to produce a different result.

Mr. MAYBANK: Have you a copy there of the changed number 8?

The CHAIRMAN: You have it in your evidence, schedule B.

Hon. Mr. STEWART: Page 77.

Mr. MAYBANK: Well, it is only designed to put certain safeguards around the manner in which the minister will act.

Hon. Mr. STEWART: I do not quite understand the effect of it, or why it was necessary to change the section at all. It would seem to be very wide, and to authorize almost any change that the minister might choose to make.

Mr. MAYBANK: This sort of narrows it down.

Hon. Mr. STEWART: Well, I am not sure about that.

Mr. FRANKLIN: In the original draft as it is provided in the first bill, clause 20 gave the minister power to transfer all the claims of the government over to the National Railways, all the claims as set out in schedule B.

The CHAIRMAN: Yes.

Mr. FRANKLIN: We thought the implication of that clause, although it was not definitely stated, gave the Minister of Finance the authority to write those loans out of his books, because he had no claim. If you turn over all your claims and collateral to somebody, you have no future claims, have you?

Therefore, we thought that the authority implied in the bill for turning over those claims existing in the public accounts, would be sufficient. Mr. Clarke thought we had better be definite about it, so paragraph 8 was changed to make that definite statement.

Hon. Mr. STEWART: What is the objection to leaving it as it was and taking them in the public accounts?

Mr. FRANKLIN: Well, you could not.

Hon. Mr. STEWART: When you transferred the claims you could not still have a claim on the trust.

Mr. FRANKLIN: You would not have a claim as set up in the public accounts in this schedule B. What would you claim on, if you have not got your notes and collateral?

Hon. Mr. STEWART: You have got it against some person.

Mr. FRANKLIN: The claim is against the Securities Trust.

Hon. Mr. STEWART: Instead of against the Canadian National Railways. Is not the effect of this just to make this transfer and make the claims appear to be existing as against the Securities Trust instead of the Canadian National Railways?

Mr. FRANKLIN: From the old private corporations. The old claims originally held by the government are now held by the Securities Trust. In that way you perpetuate the claims of the government in case of any action of the old corporations. But we in turn in the Department of Finance, or in the government, hold in one case the stock of the National Railways, and on the other side the stock of the Securities Trust.

Hon. Mr. STEWART: In the public accounts will there appear, if this amendment carried, a claim as against this Securities Trust?

Mr. FRANKLIN: Exactly.

Hon. Mr. STEWART: For this amount?

Mr. FRANKLIN: For those figures.

Hon. Mr. STEWART: And it will be against the Trust instead of against the Canadian National Railways?

Mr. FRANKLIN: Exactly.

Hon. Mr. STEWART: It is all set out—

Mr. FRANKLIN: It is all set out in the appendix.

Mr. BEAUBIEN: Are we on clause 8?

The CHAIRMAN: Clause 8.

Mr. BEAUBIEN: And the amendment thereto?

The CHAIRMAN: And the amendment thereto.

Mr. BEAUBIEN: I find the amendment on page 76 of the proceedings of March 5. I asked the minister a question, and I understood from the minister that the history of all railways in Canada was going to be included in the public accounts—not only the Canadian National Railways or the railways which form part of the Canadian National Railways, but all railways—to show the public the exact picture of the donation or contribution of the Canadian people to our railway systems in Canada. I was given to understand, or at least I gathered from the remarks of the minister, that the whole picture would be put there, not only of the grants in aid but land grants and so on and so on forth.

The CHAIRMAN: There are three amendments.

Mr. BEAUBIEN: I cannot find anything in the minutes which the minister has proposed.

The CHAIRMAN: There are three amendments that are embodied in the minutes of proceedings. But the amendment itself, which is paragraph 24, is:—

The minister shall include annually as an appendix to the public accounts of Canada a statement showing the total assistance, whether by way of cash outlay, land grant, loan, advance, guarantee, or otherwise, given by the dominion to all railways.

Mr. BEAUBIEN: Where do you see that?

The CHAIRMAN: I am reading from the amendment itself. I cannot place my hand on it at the moment.

Mr. BEAUBIEN: I cannot see it in this. Is it in the schedule?

The CHAIRMAN: No, it appears in the minutes of proceedings.

Mr. BEAUBIEN: If it is there, it is all right.

Mr. FRANKLIN: It is an amendment to be added, number 24.

Mr. BEAUBIEN: It is an amendment added to section 24?

The CHAIRMAN: Yes.

Mr. BEAUBIEN: Is it added?

Mr. WALSH: It is what is going to be added, in section 24.

Mr. YOUNG: We are on section 8, Mr. Chairman. Let us not confuse matters.

The CHAIRMAN: We are dealing with section 8 at the present time.

Mr. WALSH: All right.

The CHAIRMAN: Mr. Walsh, do you want to make a formal motion?

Mr. HEAPS: Is there any motion?

Mr. WALSH: I just want to make a request. I do not want to put it in the form of a motion because I do not want to have it voted on. I put it in as a formal request to the chairman and the Minister of Transport to provide this committee with that type of expert which I have outlined.

Mr. HEAPS: How can you do such a thing, Mr. Chairman, without a formal motion, even if you wanted to? The Chairman has no power to do a thing of that kind. Mr. Walsh all morning has been complaining about the power we are supposed to be usurping. Now he is asking the chairman and the Minister of Railways to usurp the powers of this committee. I did not think Mr. Walsh would be as illogical as all that.

Mr. WALSH: Mr. Walsh is not illogical in his own mind.

The CHAIRMAN: Do I take it for granted that the opinion of the committee is that an expert should not appear before us?

Mr. HEAPS: There has got to be a formal motion.

Mr. YOUNG: I would put it, Mr. Chairman, that he is not required.

Mr. BEAUBIEN: The Canadian Government has a firm of auditors.

The CHAIRMAN: Yes.

Mr. BEAUBIEN: They are competent. We have the deputy minister of finance. I do not see why we should have this expert. I would like to help Mr. Walsh out but—

Mr. WALSH: Yes, I would like Mr. Beaubien to help me out. I would like to help the minister out. Here is what the minister says on page 79: "What is intended is to show the cost to the government; that is what everyone has been asking for, so far as I know, the cost of Canada's railways to the government. That is what I understand the witness from Montreal was asking, and that is what we are giving." I do not think he is. Then he goes on to say in the House of Commons on February 5, 1937, at page 653 of Hansard: "I believe a schedule can be set up that will preserve the historical record, and

this schedule can be made part of the annual report of the Canadian National Railways. That, perhaps, will satisfy the purpose as to a record." My contention is that that is exactly what this bill is not doing.

Mr. BEAUBIEN: Of course,—right there—the Minister of Transport is only one member of this committee. If you want that included—that was settled the other day by motion in this committee.

Mr. HEAPS: Mr. Chairman, it is quite evident what Mr. Walsh has in mind is for another set of auditors to take control of the accounts.

Mr. WALSH: No. One man to give an expert opinion.

Mr. HEAPS: No. You cannot have a man give a correct opinion unless he goes over the whole accounting system of the Canadian National Railways, goes over it carefully and then makes a report on the whole bill that is now before this committee, with all the appendices and everything that is attached to it. It cannot be done. What would be the result if the committee took an action of that kind? It would mean that it would be impossible for us to proceed one iota with the present bill. It would mean that this bill would have to go over until next year. Is that the intention of Mr. Walsh?

Mr. WALSH: No.

Mr. HEAPS: No. If it is not the intention, then he cannot have anyone go over these accounts. I know what it means for any public body to get a firm of accountants to come in and go over books. You cannot get rid of them. That would happen here, where they have got such a magnificent set of books, or where there would be such a magnificent opportunity to go through such a set of accounts as they would have in the Canadian National Railway accounts; I do not think you would get rid of any set of auditors until some time next year.

Mr. BEAUBIER: It would take them over two years.

Mr. HEAPS: Mr. Beaubier says it would take over two years.

Mr. KINLEY: And they would have to find something to justify themselves.

Mr. HEAPS: And they would charge something for the work they would do. I know what accountants charge. It would cost the government, I would think, to the extent of \$400 or \$500 a day to have those books gone into and have a report made along the lines that Mr. Walsh suggests. I think if he goes into this thing a little more carefully than he seems to have done up until now—although he has given a good deal of time to it—I think he will not perhaps be so insistent on having another firm of auditors go over the books of the Canadian National Railways. We had the firm of Clarkson and Dilworth go over the books last year. We have had the firm of Touche and Company go over them this year. They are pretty well-known accountants with a national and even international reputation. Then we have had our own Department of Finance go over this bill—I have no doubt together with the accountants and the Canadian National accountants themselves. Why should we have another one to clutter up things when that has been done? If you get so many experts going over the accounts, I think it will only make confusion worse confounded. I confess that a good many of these figures that have been thrown at me, millions and hundreds of millions of dollars, are a little hard for me to digest, and I think they are perhaps just as hard for other members of the committee as for myself, although there may be some who understand a little better than some of the rest of us. But, personally, I am quite content to allow the experts of the government and the Department of Finance, and the experts of the Canadian National Railways, to go over these things, and to accept their views in a matter of this kind; for, after all, what it does mean in the final analysis, is a new set-up in book-keeping for the Canadian National Railways. It is not going to affect the running of the railways. It

will give, I hope, a truer picture of the Canadian railways situation. If I thought for one moment that Mr. Walsh's suggestion would help in any way this committee or help the Canadian National Railway System or give to the people of this country a truer picture of what is taking place, I would be the first one to support it. It is because I do not think it would have that effect that I feel compelled to oppose this suggestion.

Mr. WALSH: I think Mr. Heaps has misunderstood me. I do not want an accountant to go over the books of the Canadian National Railways; all I want is his judgment of the procedure as an accounting method. I do not believe it is the correct accounting method to give us the picture that we want. I was reading in the *Gazette* this morning a letter in connection with the Canadian National bill. I will not read the letter, but its writer suggests exactly what I have in mind in respect to this bill.

Mr. HEAPS: Whose letter was it?

Mr. WALSH: He says, referring to the \$1,500,000,000 of liability now appearing on the railway balance sheet, it is informative to look at these accounts and to see what is the precise position; and then he provides a table which compares the Dominion balance sheet asset side with the railway balance sheet liability side; he shows loans and advances to Canadian government railways on both sides of this statement—the two items are \$645,527,456, and \$388,880,003—and then he shows unpaid interest on the railway balance sheet liability side at \$495,030,137.

Mr. HEAPS: Who writes that?

Mr. WALSH: This is written by Mr. A. L. A. Richardson—I do not know the writer from a load of hay. He is presuming to be an authority, and that is all I have been contending for in this committee; that what is being done with the consolidated fund of Canada and the balance sheet of the Dominion of Canada should be done with the balance sheet of the Canadian National Railways, not the balance sheet of the Dominion of Canada. That is all I am asking for, and this expert that I want is a man who can pass judgment on the principle of the thing. It should not take him more than half an hour to study the situation and form an opinion.

Mr. HEAPS: How long did you say?

Mr. WALSH: Half an hour—to tell us whether this is correct in principle or not.

Mr. HEAPS: If you have any expert who can pass judgment on matters of this kind in half an hour, I would like to see him.

Mr. YOUNG: Mr. Walsh seems rather insistent that that point should be settled. I think we as a committee have the right to settle it, so why not do it now?

Mr. WALSH: I think the chairman has already put it to the committee.

The CHAIRMAN: I will decide that point now. It is the consensus of opinion of members of this committee that no expert should appear before them; that they are satisfied with the information they have received from the officials who have appeared before them up to the present time.

Mr. WALSH: I will accept your ruling.

The CHAIRMAN: Shall we consider clause 8? Shall clause 8 carry?
Clause 8 agreed to.

Mr. WALSH: You have carried schedule B that goes with clause 8?

The CHAIRMAN: Yes, as amended.

Mr. WALSH: That deals with the \$353,000,000 odd?

The CHAIRMAN: Yes.

Mr. WALSH: Is it possible to get that item broken down into the various years showing when and how it was compiled; that is, so much in 1921, so much in 1922 and so on until we find out what the \$353,000,000 odd was made up of, and just how much of it was piled up each year—I imagine they piled up largely between 1921 and 1932?

The CHAIRMAN: Do you want that for your own information?

Mr. WALSH: I would like to have it for my own information, and I think members of the committee would also like to have it.

The CHAIRMAN: It will be supplied to each member of the committee as soon as it is prepared. It will be included in the minutes.

Mr. MAYBANK: That will be filed with the committee?

The CHAIRMAN: With the permission of the committee I will have it included in the minutes.

Mr. MAYBANK: That was what I was thinking.

The CHAIRMAN: With the unanimous consent of the committee, of course.

Mr. BEAUBIEN: We can decide that when we get the statement.

The CHAIRMAN: Shall clause 11 carry? — Carried.

The CHAIRMAN: We are now on section 13 of the bill. My recollection is that section 13 stood over at the request of Mr. Vien—"objects of corporation."

Shall the section carry? I am not just sure as to why Mr. Vien wanted this section to stand. I don't see any reason why it should not go through.

Section agreed to.

The CHAIRMAN: We now come to section 21.

Mr. BEAUBIEN: Section 21 was passed, but I think you have an amendment to section 22.

The CHAIRMAN: Yes, section 22 stood.

Mr. MAYBANK: I think section 22 was to become section 23.

The CHAIRMAN: Section 22 was held over because we had two amendments to be numbered 23 and 24. Section 22 should pass and then I will bring up section 23. Shall section 22 carry?

Section agreed to.

The CHAIRMAN: Section 23 dealt with a new clause to be inserted as section 23:—

The trustees of the securities trust shall present to parliament annually concurrently with the annual report of the Canadian National Railways through the Minister of Transport a balance sheet together with the report setting forth in a summary manner the transactions of the securities trust during each calendar year.

That was in compliance with a request by you, Mr. Walsh.

Hon. Mr. STEWART: I think that was to be made concurrently with the annual statement.

Mr. SMART: Yes, to be concurrent with the annual statement.

The CHAIRMAN: I did not have the proper copy before me. Shall the section carry?

Section agreed to.

The CHAIRMAN: Another section, section 24 was to be added. It reads:—

That the following new clause be inserted as clause 24.

Appendix to Public Accounts showing total assistance to all railways.

24. The minister shall include annually as an appendix to the public accounts of Canada a statement showing the total assistance, whether by way of cash outlay, land grant, loan, advance, guarantee

or otherwise, given by the Dominion to all railways. Such statement shall also show the manner in which such assistance has been dealt with in the public accounts of Canada.

Shall the section carry?

Mr. WALSH: Just how does the minister propose to do that? Can you give us a rough idea as to how it is going to look?

Mr. CLARKE: I think it will be a reasonably easy matter to go back over the records of the public accounts and summarize the assistance granted to the various railways in the form of cash subsidies.

Mr. WALSH: As to the amounts to the various railways, do you refer to the two railways?

Mr. CLARKE: To all the railways.

Mr. WALSH: Or do you refer to the original railways, the Canadian Northern, The Grand Trunk, the Intercolonial and so on?

Mr. CLARKE: I presume you would include the constituent items in the present system; there would be the two main railways, the Hudson Bay railway and some smaller parts of the system; you take all the various forms of assistance—cash grants, land grants, loans, subsidies and what not—and prepare a statement showing the various amounts given to each railway from time to time and your total. In the annual report of the Department of Railways and Canals you will find for each year a summary of the assistance given to the Canadian National Railways in a convenient form, and that may be extended when we put it in the public accounts.

Mr. WALSH: Is that not the three types of grants that might be made; one, in aid of construction; two, to meet deficits; and three, grants in aid of unemployment; does it define them in that way?

Mr. SMART: It includes everything.

Mr. WALSH: Can we see that from that report. I have not had time to look it up yet, but I just wanted to know if it can be found in that report.

Mr. SMART: Yes.

Hon. Mr. STEWART: Would not the Minister of Finance have the authority to do that now, to set up a statement of that kind?

Mr. CLARKE: Yes; and you remember when the bill was brought into the house and into committee the Minister of Transport indicated that that was part of the plan, that it should be done; but as a result of discussion in the committee it was desired to put a specific obligation upon the Minister of Finance to have it in the public accounts. We would have done it anyway, probably; it was part of the original plan.

Mr. MAYBANK: Just at that point, I did not get the reading of the amendment; what I want to know is, does that include all railways?

The CHAIRMAN: It included all railways and is to show cash outlays, land grants, loans, advances, guarantees or otherwise, given by the Dominion to all railways.

Mr. MAYBANK: To all railways?

The CHAIRMAN: Yes.

Mr. HEAPS: Are there any grants or guarantees being given the railways by provincial governments? Would they be shown in there?

Mr. CLARKE: No.

Mr. KINLEY: Does that say, all railways; I think the intention was all railways receiving government assistance.

Mr. MAYBANK: I asked that, as a matter of fact, to make sure that moneys that were given to the Canadian Pacific railway many years ago should be included in that statement.

Mr. BEAUBIEN: So that it will give to the Canadian people a true picture of their adventures in railway operation.

The CHAIRMAN: Exactly.

Mr. WALSH: Might I ask this question; you are giving one side of the picture there, the grants made to these railways. Sometimes these grants were made and in return the government asked a quid pro quo. For instance, I think a grant was made of a sum of around \$25,000,000 in connection with the construction of the Crow's Nest Pass Railway through the Rockies, and in return for that grant a freight rate reduction was given by the Canadian Pacific railway.

Mr. MAYBANK: And they had certain monopolistic rights at the same time.

Mr. WALSH: Is that going to be shown or are we only going to show the actual grant of \$25,000,000. Are we not going to show something to offset that? And the same thing applies to the Canadian National, we made grants of sums of money to the Canadian National for certain purposes and in return we got something that at the time was of potential value. Is that going to be shown? Is it fair to these railways to show only the actual amounts that have been granted from time to time without showing on the other side what we got in return for those grants?

Mr. HEAPS: The same thing would apply to practically every railway facility in Canada going back for quite a number of years, even since Confederation. The same thing would apply to the Intercolonial, and to every railway system which has been built in Canada. If we were to put in in each case the quid pro quo which we got I think we would have to write a book, not a report. If it can be done I have no objection; but I think just the plain statement of the facts as suggested would suffice.

Mr. MAYBANK: You would have to include in that a good deal of the material from the Duncan report in order to satisfy all the people.

Mr. WALSH: As I see it in many cases we got something for these grants. For instance, just last year we made a substantial grant to the railway companies in connection with unemployment—providing work on the right of way and so on. Now, are we going to show that grant as a charge against the Canadian Pacific, and as a charge against the Canadian National? Is it fair to these railway systems to have the people of Canada entertaining that view, that we have been giving hand-outs to the railways and getting nothing in return?

Mr. BEAUBIEN: We are not concerned with being fair to the railways; we are concerned with giving the people of Canada a true picture of railway operations.

The CHAIRMAN: Surely we can trust the officials of the Finance department to present a true picture in their public accounts. They have always done that in the past. All we are doing here is compelling the minister to do it yearly instead of doing it in the manner in which it has been done in the past. Under this arrangement it will be a little more complete in detail. That is all it amounts to.

Mr. WALSH: I just make that point, because it is of interest to the Canadian National as well as to the Canadian Pacific to show the quid pro quo, in my estimation.

Mr. MAYBANK: We could not possibly put that in there.

Mr. WALSH: I just make the point.

The CHAIRMAN: Shall the clause carry?

Clause 24 carried.

The CHAIRMAN: Shall clause 25 carry—that is the date of coming into force of the act. It was clause 23 and it has become clause 25.

Hon. Mr. STEWART: I understood that this bill was to be based on the figures of the report for the calendar year 1936. If that report is available I suppose the amounts included in it would have to be substituted for those which now appear in the schedule.

The CHAIRMAN: That was stated earlier in our proceedings.

Mr. MAYBANK: In what form will the report of the railways be presented to this committee, I suppose it will be in the same form as that which has been used in other years?

Mr. McLAREN: It will be in the same form as in previous years.

Mr. MAYBANK: And the next report will take on the new form?

Mr. McLAREN: Right.

The CHAIRMAN: Shall the section carry?

Section agreed to.

The CHAIRMAN: Shall the title carry?

Title agreed to.

The CHAIRMAN: Shall I report the bill?

Hon. Mr. STEWART: Should we not have the figures now suggested before you report the bill?

The CHAIRMAN: As I said to Mr. Walsh, the figures are to be given to me and they will be included in the evidence; so, by unanimous consent, we could report the bill.

Mr. WALSH: I think somebody at the other end of the table took exception to that being done.

Mr. MAYBANK: I think it was I who spoke, and I just wanted to make clear that it would be the proper mode of procedure.

Mr. WALSH: When you are asking us to report this bill does that mean that this committee are unanimously in favour of it as it now stands?

The CHAIRMAN: Well, we hope so.

Mr. WALSH: You see, I am not. I want to speak to this bill when it goes into the house; and I shall speak probably in no uncertain terms.

The CHAIRMAN: I am going to indicate a unanimous report. There is no dissenting report to be submitted. I am simply reporting the bill to the house. When it goes into committee there I think you will have an ample opportunity to discuss it.

Mr. HEAPS: This bill is before a committee of the house now.

The CHAIRMAN: The resolution was introduced by the minister, then the bill was given first reading and second reading and sent to this committee to report to the house and I understand that they would then consider it in committee of the whole.

Mr. HEAPS: Let me get this clear; I want to protect Mr. Walsh in all his rights, I understood that the bill was given first reading and second reading and referred to this committee. It does not go back to a committee of the house after this.

The CHAIRMAN: It was given second reading.

Hon. Mr. STEWART: We present the report of this committee and that brings opportunity for discussion; if the house adopts the report of the committee the bill stands for third reading.

The CHAIRMAN: I am sure that Mr. Walsh will have ample opportunity for discussion when the bill comes up for third reading.

Mr. HEAPS: It was stated here that he would have a chance for discussion in the committee of the house.

The CHAIRMAN: That was my mistake.

Mr. HEAPS: He has no chance for discussion in committee of the house, but he will have a chance to make a formal statement on third reading.

The CHAIRMAN: He loves that.

Mr. KINLEY: The assumption is that the committee reports the bill. If anybody wants to vote against the bill they must vote against it here.

The CHAIRMAN: I do not think Mr. Walsh has any desire to go to that extent. I think what he wants is assurance that he will have an opportunity of speaking on the bill again in the house.

Mr. WALSH: Well, when we present a unanimous report on the bill that does not mean that we are all in favour of all that is in it.

Mr. HEAPS: I think it should be clearly understood that on third reading will be the only opportunity members will have of speaking on this bill — when the report is presented to the house, and subsequently on third reading of the bill.

The CHAIRMAN: Right.

Mr. WALSH: Might I make a statement before the committee adjourns. I want to make this statement in fairness to a remark which I made at the beginning of the session, Mr. Chairman. I understood when I came in here this morning that Mr. Howe was going to be present and I did not like to bring up the points which I brought up in his absence, and I asked permission from the chairman to proceed, and he thought it would be quite in order for me to proceed in his absence. I would not like Mr. Howe or anybody else to think that I was taking advantage of his absence.

The CHAIRMAN: I will explain to him.

Hon. Mr. STEWART: Will this bill be reprinted as amended?

The CHAIRMAN: I think so, yes.

Hon. Mr. STEWART: With the figures based on the report of 1936. It seems to me that that would save time in the house.

The CHAIRMAN: Yes, Mr. Stewart.

Gentlemen, this committee stands adjourned at the call of the chair.

The committee adjourned at 12.20 p.m., this day to meet again at the call of the chair.

APPENDIX "A"

AMENDMENTS TO CLAUSE 2 OF BILL NO. 12

- 2 (a). "Government Railways" means and includes all such railways or parts thereof, and all such properties, works, powers, rights and privileges or interests or any of them as may be designated whether generally or in detail, in any Order in Council from time to time subsisting, entrusting the management and operation thereof to the Canadian National Railway Company under the provisions of Section nineteen of the Canadian National Railways Act, Chapter one hundred and seventy-two, Revised Statutes of Canada, 1927, and includes, unless expressly excepted, all properties, works, powers, rights and privileges incidental to those designated and commonly used, operated and enjoyed in connection therewith.
- 2 (d). "National Railways" means the Canadian National Railway Company, as owner, operator, manager and otherwise, and its transportation, communication and hotel system, which system shall be deemed to comprise all companies which are elements of the Canadian National Railways as defined in the Canadian National Railways Act, Chapter one hundred and seventy-two, Revised Statutes of Canada, 1927, as amended by Chapter ten of the Statutes of Canada, 1929, the respective undertakings of such companies, the Canadian National Railway Company in its capacity as owner, manager or operator, in whole or in part, of any railways, excepting Canadian Government railways, or of any land, water or air transportation or communication services or hotel services, and the said railways and services, their works and property, and all such works and property as are ancillary.
- 2 (e). "National Railway System" means the Canadian National Railway Company as owner, operator, manager and otherwise, and its transportation, communication and hotel system, which system shall be deemed to comprise all companies which are elements of the Canadian National Railways as defined in the Canadian National Railways Act, Chapter one hundred and seventy-two, Revised Statutes of Canada, 1927, as amended by Chapter ten of the Statutes of Canada, 1929, the respective undertakings of such companies, the Canadian National Railway Company in its capacity as owner, manager or operator in whole or in part of any railways, including Canadian Government railways, or of any land, water or air transportation or communication services or hotel services, and the said railways and services, their works and property, and all such works and property as are ancillary.

APPENDIX "B"

REPRINT OF PAGES 2 AND 3 OF MINUTES OF EVIDENCE

(See *Minutes of Proceedings*)

- Second: to centralize the corporate stock control by the Dominion of all companies now comprising the National Railway System through one company, i.e., the Canadian National Railway Company. This preliminary step is co-related to
- (i) the legal amalgamation of certain constituent companies of the system with a view to effecting ultimate savings in accounting and other costs, and

(ii) the unification of certain funded debt issues of the National Railways through refunding issues in the name of the parent corporation, Canadian National Railway Company, for the purpose of bringing about savings in interest and other costs.

Third: the elimination from the corporate books of those capital stocks determined by arbitration tribunals to be without value;

Fourth: the preservation through the Securities Trust of the priority rights of the Dominion in respect of certain unguaranteed securities and subsidiary company capital stocks held by the public.

The proposed revision of the railway balance sheet does not in any way increase the Net Debt of Canada as shown by Public Accounts. This is because the relative capital stocks (as written down) were acquired without cash payment by the Dominion and because the old debentures, the loans applied for both capital and deficits, the accrued interest on loans and the appropriations for Canadian Government Railways capital investment have already been embodied in the Net Debt of Canada.

A condensed summary of the consolidated balance sheet revision, on the basis of the 1935 accounts, is as follows:—

Write-down of capital stocks and old debentures by concurrent reduction of property accounts.....		\$ 262,770,972 03
Elimination of loans applied for deficits by concurrent reduction of deficit account.....	\$361,244,349 91	
Elimination of accrued interest on loans by concurrent reduction of deficit account.....	495,030,137 29	856,274,487 20
Total reduction in capital and liabilities.....		\$1,119,045,459 23

In addition to the above, the adjustment plan includes the transfer from "Liabilities" to "Dominion Government—Proprietor's Equity" of the following:—

Loans applied for capital purposes—represented in the 5 million shares of capital stock of the Securities Trust.....	\$284,283,105 92
Appropriations for Canadian Government Railways capital investment.....	388,290,294 40
	\$672,573,400 32
Transfer of residual value of Canadian Northern capital stock to the Canadian National Company and the issuance by the latter of its capital stock.....	18,000,000 00
Total of "Dominion Government—Proprietor's Equity" preserved on the Consolidated Balance Sheet.....	\$690,573,400 32

The detail of these adjustments is shown as Appendices 4 and 5 to the Bill.

The figures used are those of December 31, 1935, which will be revised as of December 31, 1936, when the final figures as of that date are available. The difference between the 1935 and 1936 figures will be the accrual of Government interest and the non-cash deficit items during the year 1936.

It is important to note that any capital investments by the Dominion are continued, at the face value, on the balance sheet without diminution; the amounts eliminated in connection with loans having to do only with the sums lost in operation and accruals of interest.

Centralization of Capital Stock Control

The Bill provides for the centralization of the capital stock control of the companies now comprising the National Railway System through one company, i.e., the Canadian National Railway Company. This preliminary step is co-related to the unification of certain funded debt issues of the National Railways through refunding securities in the name of the parent corporation, Canadian National Railway Company, for the purpose of bringing about savings in interest and related costs of financing. It will also facilitate the legal amalgamation in due course of certain constituent companies of the system with a view to effecting ultimate savings in accounting and other costs.

The National System is comprised of some 100 companies falling under two main groups, i.e., the Canadian National group (including the old Grand Trunk, the Grand Trunk Pacific, the Grand Trunk Western and the Central Vermont) comprised of some 60 companies and the Canadian Northern group comprised of some 40 companies.

Whilst the board of directors for the two parent companies, the Canadian National Railway Company and the Canadian Northern Railway Company, are the same, the capital stock control of the Canadian Northern group of some 40 companies has not been vested in the Canadian National Company but directly in the Government. This creates an unsatisfactory situation in that, since amalgamation in 1923, the financing and refunding operations of the Canadian Northern group has been effected through the Canadian National Company without its having proper stock control. The Bill provides for the correction of this situation by having the Canadian National Company directly control the Canadian Northern group and by having the Government control all the presently existing corporate units of the National System through one corporation, i.e., the Canadian National Company.

Canadian Government Railways

In addition to the two major corporate groups, the National System includes the Crown Properties, i.e., the Canadian Government Railways, the operation and management of which have been entrusted to the Canadian National Company. Under the 1919 Act the surpluses or deficits of the Canadian Government Railways were to be disposed of through the Consolidated Revenue Fund of Canada. The intent of the 1919 Act has, however, been nullified by the consolidation of the operations of the Canadian Government Railways with those of the National Railways since 1922 together with the provisions of the various appropriation acts since 1922. The present bill seeks to remedy the situation and, at the same time, to open the way for some economies in accounting costs by eliminating the necessity of submitting separate Income Statements for the Government Railways.

Write-off Capital Stocks and Debentures

The Bill further provides for the writing out of the Canadian National (old Grand Trunk) and Canadian Northern capital stocks and the old Grand Trunk debentures, a summary of which in round figures is as follows:—

Canadian National Co.—Capital Stock (Gross amount 180 million dollars).....	165 million dollars
Old Grand Trunk—Debentures.....	15 million dollars
Canadian Northern Co.—Capital Stock.....	82 million dollars
By reduction of Property Accounts.....	<u>262 million dollars</u>

Canadian National (old Grand Trunk) Capital Stock

The proposal to eliminate the Canadian National stock, as successor issue to the old Grand Trunk 1st, 2nd and 3rd preference and common stocks, from the balance sheet of the National System is based upon the 1921 findings of the Grand Trunk Board of Arbitration constituted under the 1919 Act. This tribunal ruled that the capital stocks in question had no value.

Following upon this arbitration award, an appeal was taken to the Privy Council based largely upon the question whether the arbitrators in excluding evidence as to the physical assets of the Company were wrong in law. The Privy Council dismissed the appeal in a judgment delivered on November 10, 1922.

The recent Lovibond appeal was cited in the early part of 1936 as a reason for the continuance of a negative attitude towards capital adjustment. Since that time the decision of the Privy Council has been announced. It wholly stays

the action as against the Attorney General of Canada, and as against the Grand Trunk and Canadian National in so far as it seeks to have the stock register of the Grand Trunk rectified or to have Grand Trunk stock registered in the name of the Plaintiff. The Privy Council states that the Plaintiff has failed in regard to the main object of his action which can now only proceed for the purpose, for whatever it may be worth, of seeking to recover damages against the Grand Trunk and the Canadian National.

On page 105 of the Minutes of and Evidence, the following to appear, after line 32:—

Mr. MACLAREN: I made the statement that the regulation issued by the Department of Railways and Canals, the classification provided there, or the distribution of operating expenses, does not permit depreciation to be charged up as an operating expense. I just want to make that clear. That is what they provide, and I am sorry that I have not a copy of the classification here. But I have no doubt that if they applied to the proper authority, they might be granted that privilege. I am not denying that.

Mr. VIEN: Would you be kind enough on Tuesday to point out to the committee the regulations which prevent you from doing so. It will be very illuminating to us.

Mr. MACLAREN: Yes.

APPENDIX "C"

BALANCE SHEETS REQUESTED BY W. A. WALSH, ESQ., M.P.

SCHEDULE NUMBER

- 1 C. N. R.—Condensed Balance Sheet at December 31, 1935.
- 2 Public Accounts—Balance Sheet at March 31, 1936.
- 3 Public Accounts and Canadian National Railways—Consolidation of Balance Sheets.
- 4 C. N. R.—Revision of Consolidated Balance Sheet at December 31, 1935, as per Bill 12.
- 5 Public Accounts—Revision of Public Accounts at March 31, 1936, as per Bill 12.
- 6 Public Accounts and Canadian National Railways—Consolidation of Balance Sheets after giving effect to provisions of Bill 12.

CANADIAN NATIONAL RAILWAYS
CONDENSED BALANCE SHEET AT DECEMBER 31, 1935
(Showing Tie-in to Public Accounts, March 31, 1936)

SCHEDULE 1.

136

ASSETS		LIABILITIES		Relative No. on Public Accounts Balance Sheet
INVESTMENTS—		STOCKS—		
Investment in Road.....	\$ 2,094,178,080 98	Owned by Government—		
Improvements on Leased Railway Property.....	3,879,078 18	Canadian Northern Stock; in Public Accounts...	10,000,000 00	7
Miscellaneous Physical Property.....	60,227,654 28	Balance, Canadian Northern and Grand Trunk Stocks; not in Public Accounts.....	255,628,338 70	
SINKING FUNDS.....	11,921,666 97		265,628 338 70	
DEPOSITS IN LIEU OF MORTGAGED PROPERTY SOLD.....	5,224,995 66	Owned by Public.....	4,584,225 00	
INVESTMENTS IN AFFILIATED COMPANIES.....	31,584,107 59		<hr/> 270,212,563 70	
OTHER INVESTMENTS.....	778,157 52	GOVERNMENT GRANTS—		
CURRENT ASSETS.....	74,787,953 24	G. T. Debenture Account.....	15,142,633 33	5
DEFERRED ASSETS.....	18,837,219 76	All other.....	2,570,904 78	
UNADJUSTED DEBITS.....	23,730,922 06	LONG TERM DEBT—PUBLIC.....	1,154,779,000 78	
		LOANS FROM DOMINION OF CANADA—		
		Road and Equipment, per Public Accounts.....	2,043,725 00	2
		Less, adjustment not taken into Public Accounts	72,683,250 00	
		Temporary Loans (outstanding March 31, 1936)..	645,527,455 83	6
		Temporary Loans (repaid by March 31, 1936)....	34,346,479 25	1
		Loans (prior to 1932).....	495,030,137 29	8
		Capital Loans from 1932.....		
		Interest on Government Loans.....		
		DOMINION OF CANADA EXPENDITURES FOR C.G.R.—		
		Road and Equipment, per Public Accounts.....	388,880 002 78	4
		Less, adjustment not taken into Public Accounts	589,708 38	
		C.G.R. Stores and Open Accounts, per Public Accounts.....	15,748,921 60	3
		Plus, adjustments not taken into Public Accounts	1,023,058 94	
		CURRENT LIABILITIES.....	45,330,201 96	
		DEFERRED LIABILITIES.....	3,423,088 12	
		UNADJUSTED CREDITS AND RESERVES.....	35,272,608 46	
		TOTAL LIABILITIES.....	3,181,424,323 44	
		PROFIT AND LOSS BALANCE.....	856,274,487 20	
	<hr/> \$ 2,325,149,836 24 <hr/>		<hr/> \$ 2,325,149,836 24 <hr/>	

* Total, \$2,207,793,741.18.

STANDING COMMITTEE

PUBLIC ACCOUNTS OF CANADA

BALANCE SHEET AT MARCH 31, 1936

SCHEDULE 2.

(Showing Tie-in to Canadian National Railways Balance Sheet, December 31, 1935)

ASSETS		Relative Number on C.N.R. Balance Sheet	LIABILITIES	
	\$ cts.			\$ cts.
Cash.....	20,243,808 20		Bank Circulation Redemption Fund.....	6,857,941 84
Gold Bullion Account.....	2,236,628 91		Post Office Account.....	2,726,925 05
Advances to Provinces, etc.....	223,788,091 49		Post Office Savings' Bank.....	22,047,287 14
Railway Accounts—			Insurance and Superannuation Funds.....	150,614,097 08
Capital Loans to C.N.R.....	34,346,479 25	1	Trust Funds.....	20,943,718 36
Temporary Loans to C.N.R.....	2,043,725 00	2	Contingent and Special Funds.....	6,044,064 70
Loans—January—March 1936.....	1,183,592 65		Province Debt Accounts.....	9,623,816 77
All Other.....	8,513,700 84		Interest due and outstanding.....	1,739,167 37
Advances to Foreign Governments.....	30,494,720 00		Funded Debt, less Sinking Funds.....	3,211,347 008 32
Soldier and Land Settlement Loans.....	43,594,539 00			
Miscellaneous Current Accounts—				
Canadian Government Railways.....	15,748,921 60	3		
All Other.....	43,649,302 06			
	425,843,509 60			
*Balance Net Debt.....	3,006,100,517 03			
	3,431,944,026 63			3,431,944,026 63
*DETAIL OF NET DEBT—				
	\$ cts.			
Public Works, Canals.....	242,855,235 35			
Public Works, Railways—				
Canadian Government Railways.....	388,880,002 78	4		
All Other.....	54,030,906 46			
Public Works, Miscellaneous.....	265,165,018 23			
Military and Stores.....	12,035,420 50			
Territorial Accounts.....	9,895,947 68			
Railway Accounts (old)—				
G.T.R. Debenture Account, Principal...	15,142,633 34	5		
G.T.R. Debenture Account, Interest....	10,464,760 19			
All Other.....	62,791,435 25			
Railway Accounts (Loans, non-active)—				
Loans to C.N.R.....	645,527,455 83	6		
Purchase Canadian Northern Stock.....	10,000,000 00			
Canadian National Steamships.....	15,507,970 19			
Miscellaneous Investments.....	79,621,229 71			
Consolidated Fund.....	1,194,182,501 52	8		
	3,006,100,517 03			

RAILWAYS AND SHIPPING

CONSOLIDATION OF BALANCE SHEETS

CANADIAN NATIONAL RAILWAYS DECEMBER 31, 1935

Dominion of Canada March 31, 1936

	Canadian National Railways, December 31, 1935		Dominion of Canada, March 31, 1936		Total		Elimination		Total		
	\$	cts.	\$	cts.	\$	cts.	\$	cts.	\$	cts.	
ASSETS											
(1) Investments.....	2,207,793,741	18			2,207,793,741	18	255,628,338 70 (A)		1,952,165,402	48	
(2) Other Assets.....	117,356,095	06	425,843,509	60	543,199,604	66	52,139,125 85 (B)		491,060,478	81	
(3) Balance of Net Debt of Canada, March 31, 1936.....			3,006,100,517	03	3,006,100,517	03	1,059,550,091 94 (C)		1,946,550,425	09	
(4) Canadian National Railways Profit and Loss Account.....	856,274,487	20			856,274,487	20	495,030,137 29 (D)		361,244,349	91	
	3,181,424,323	44	3,431,944,026	63	6,613,368,350	07	1,862,347,693 78		4,751,020,656	29	
LIABILITIES											
(4) Capital Stocks.....	270,212,563	70			270,212,563	70	265,628,338 70 (A)		4,584,225	00	
(5) Government Loans since 1931 plus advances for Working Capital.....	125,845,434	79			125,845,434	79	52,139,125 85 (B)		73,706,308	94 (F)	
(6) Other Liabilities.....	2,785,366,324	95	3,431,944,026	63	6,217,310,351	58	1,544,580,229 23 (E)		4,672,730,122	35	
	3,181,424,323	44	3,431,944,026	63	6,613,368,350	07	1,862,347,693 78		4,751,020,656	29	

(A) Par Value of Capital Stocks owned by Dominion \$265,628,338.70 of which \$10,000,000 has been eliminated in item C.

(B) See Items 1, 2 and 3 on Balance Sheets attached.

(C) See Items 4, 5, 6 and 7 on Balance Sheets attached.

(D) Accrued Interest on Government Loans. (Item 8 on Balance Sheets attached).

(E) See Items 4, 5, 6 and 8 on Balance Sheets attached.

(F) Repaid between January and March, 1936, an amount of \$72,683,250. Balance covered by Schedule B to Bill No. 12.

CANADIAN NATIONAL RAILWAY SYSTEM
 REVISION OF CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 1935—AS PER BILL 12

SCHEDULE 4.

ASSETS	LIABILITIES	C. N. R. Consolidated Balance Sheet AFTER ADJUSTMENT	Relative Number on Public Accounts Revised Balance Sheet
INVESTMENTS—	STOCKS—		
Investment on Road and Equipment... \$ 1,831,407,108 95	Capital Stock of Subsidiary Companies owned by Public..... \$	4,584,225 00	
Improvements on Leased Railway Property..... 3,879,078 18	GOVERNMENTAL GRANTS.....	2,570,904 78	
Miscellaneous Physical Property..... 60,227,654 28	LONG-TERM DEBT—PUBLIC.....	1,154,779,000 79	
\$ 1,895,513,841 41	DOMINION OF CANADA—		
Sinking Funds..... 11,921,666 97	Temporary Loans:		
Deposits in lieu of Mortgaged Property Sold..... 5,224,995 66	Outstanding March 31, 1936.....	2,043,725 00	
Investment in Affiliated Companies.... 31,584,107 59	Repaid by March 31, 1936.....	72,683,250 00	2
Other Investments..... 778,157 52	Capital Loans from 1932.....	34,346,479 25	1
\$ 1,945,022,769 15	C.G.R. WORKING CAPITAL.....	16,771,980 54	3
CURRENT ASSETS..... 74,787,953 24	CURRENT LIABILITIES.....	45,330,201 96	
DEFERRED ASSETS..... 18,837,219 76	DEFERRED LIABILITIES.....	3,423,088 12	
UNADJUSTED DEBITS..... 22,064,024 49	UNADJUSTED CREDITS AND RESERVES.....	35,272,608 46	
	TOTAL LIABILITIES.....	\$ 1,371,805,463 89	
	DOMINION GOVERNMENT—PROPRIETOR'S EQUITY (Represented by)—		
	1,000,000 shares of no par value stock of the Canadian National Railway Company issued in exchange for the residual value of Canadian Northern Stock..... \$	18,000,000 00	6
	5,000,000 shares of no par value capital stock issued by Securities Trust to the Government in consideration for the securities, advances, claims for unpaid interest and collateral security now held by Government.....	282,616,208 35	5
	Dominion Government Capital Expenditures for Canadian Government Railways.....	388,290,294 40	
		688,906,502 75	4
	\$ 2,060,711,966 64	\$ 2,060,711,966 64	

RAILWAYS AND SHIPPING

REVISION OF PUBLIC ACCOUNTS OF CANADA AT MARCH 31, 1936

SCHEDULE 5.

AS PER BILL 22

ASSETS	\$	cts.	Relative Number on Revised C.N.R. Balance Sheet		\$	cts.
Cash.....	20,243,808	20		Bank Circulation Redemption Fund.....	6,857,941	84
Gold Bullion.....	2,236,628	91		Post Office Account—Money Orders, Postal Notes, etc.....	2,726,925	05
Advances to Provinces, etc.....	223,788,091	49		Post Office Savings Bank Deposits.....	22,047,287	14
Railway Accounts—				Insurance and Superannuation Funds.....	150,614,097	08
Capital Loans to C.N.R.....	34,346,479	25	1	Trust Funds, per Schedule P.....	20,943,718	36
Temporary Loans to C.N.R.....	2,043,725	00	2	Contingent and Special Funds.....	6,044,064	70
Loans C.N.R., January-March, 1936.....	1,183,592	65		Province Debt Accounts.....	9,623,816	77
All other.....	8,513,700	84		Interest Due and Outstanding.....	1,739,167	37
Advances to Foreign Governments.....	30,494,720	00		Funded Debt, Less Sinking Funds.....	3,211,347,008	32
Soldier and Land Settlement Loans.....	43,594,539	60				
Miscellaneous Current Accounts—						
Canadian Government Railways.....	16,771,980	54	3			
All other.....	43,649,302	06				
	426,866,568	54				
*Balance Net Debt.....	3,005,077,458	09				
	3,431,944,026	63				
*DETAIL OF NET DEBT—						
Public Works—Canals.....	242,855,235	35				
Public Works—Railways—						
Canadian Government Railways.....	388,290,294	40	4			
All Other.....	54,488,433	22				
Public Works—Miscellaneous.....	265,165,018	23				
Military and Stores.....	12,035,420	50				
Territorial Accounts.....	9,895,947	68				
Railway Accounts—old (C.P.R.).....	62,791,435	25				
Canadian National Securities Trust Stock Account.....	282,616,208	35	5			
Canadian National Railway Company Stock Account.....	18,000,000	00	6			
Canadian National Steamships.....	15,507,970	19				
Miscellaneous Investments.....	79,621,229	71				
Consolidated Fund.....	1,573,810,265	21				
	3,005,077,458	09				

CONSOLIDATION OF BALANCE SHEETS
 CANADIAN NATIONAL RAILWAYS, DECEMBER 31, 1935
 PUBLIC ACCOUNTS OF CANADA, MARCH 31, 1936
 After giving effect to Provisions of Bill 12

	C. N. R. December 31, 1935	Public Accounts, March 31, 1936	A. Elimination of Proprietor's equity for purpose of Consolidation. B. Elimination of Temporary Loans	Total
	\$ cts.	\$ cts.	\$ cts.	\$ cts.
ASSETS				
Investments.....	1,945,022,769 15			1,945,022,769 15
Temporary Loans to C.N.R.....		53,162,184 79	53,162,184 79 (B)	
Other Assets.....	115,689,197 49	373,704,383 75		489,393,581 24
Balance Net Debt of Dominion of Canada.....		3,005,077,458 09	688,906,502 75 (A)	2,316,170,955 34
	2,060,711,966 64	3,431,944,026 63	742,068,687 54	4,750,587,305 73
LIABILITIES				
Capital Stocks.....	4,584,225 00			4,584,225 00
Government Temporary Loans at March 31, 1936.....	53,162,184 79		53,162,184 79 (B)	
Government Temporary Loans repaid January-March, 1936.....	72,683,250 00			72,683,250 00
Other Liabilities.....	1,241,375,804 10	3,431,944,026 63		4,673,319,830 73
Total Liabilities.....	1,371,805,463 89	3,431,944,026 63	53,162,184 79	4,750,587,305 73
Dominion Government—Proprietor's Equity in Canadian National Railways.....	688,906,502 75		688,906,502 75 (A)	
	2,060,711,966 64	3,431,944,026 63	742,068,687 54	4,750,587,305 73

AA
AA

APPENDIX "D"

DETAILS OF AMOUNT OF \$353,244,349.91 9* 25 TRANSFERRED TO CONSOLIDATED FUND PER SCHEDULE B, BILL NO. 12

DEFICIT OF PREDECESSOR CORPORATIONS PRIOR TO JAN. 1, 1923, \$165,623,098.20

Loss (Ex. Interest on Government Loans as shown by Railway Accounts):—

1923	\$24,476,378 85
1924	23,203,503 95
1925	10,200,887 58
1926	8,891,013 02
1927	5,021,666 57
1928	807,491 46
1929	13,919,772 03
1930	41,039,816 39
1931	66,632,055 99
1932	65,809,533 91
1933	61,617,815 69
1934	53,667,774 93
1935	79,332,013 09

\$436,837,697 42

Elimination of credit included in above figures for sundry interest charges against the Government.....

488,527 45

\$602,949,323 07

Less: Amount contributed by Government for Workmen's Compensation and Pensions payments to Canadian Government Railways' employees, years 1927-1930 charged by Railway to Operating Expenses but paid through Railways and Canals departmental appropriations

591,773 80

Less: Cash deficits contributed by Government and charged to Consolidated Fund

241,113,199 36

\$361,244,349 91

Adjustments of Public Accounts for the difference between amount paid by Government to acquire capital stock of the Canadian Northern Railway, \$10,000,000, and the amount of \$18,000,000, at which it is proposed to carry the capital stock of the Canadian National Railway taken in exchange

8,000,000 00

\$353,244,349 91

SESSION 1937

HOUSE OF COMMONS

STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 6

THURSDAY, MARCH 18, 1937

WITNESSES

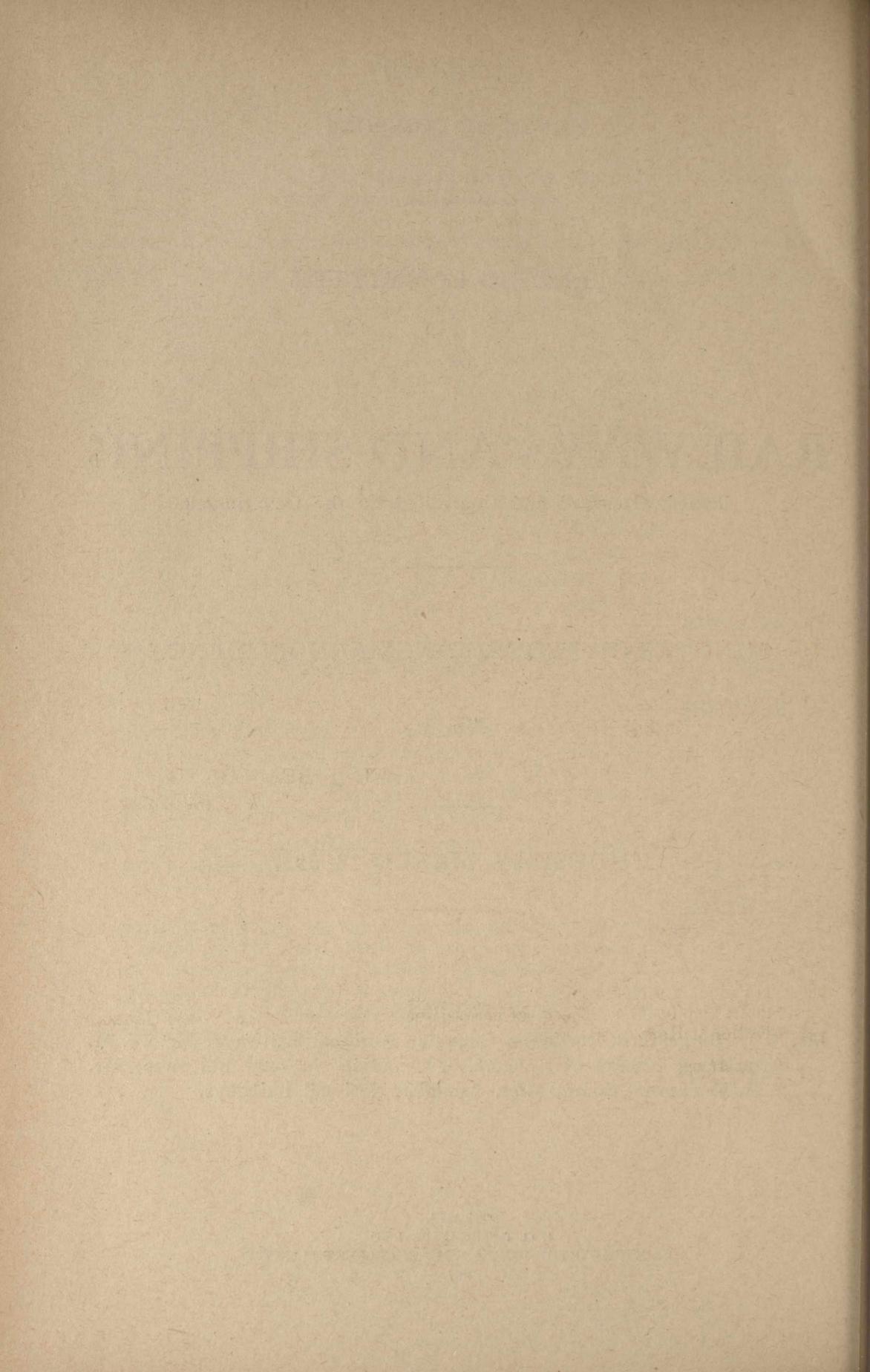
Mr. S. J. Hungerford, President, Canadian National Railways; Mr. W. M. Armstrong, Bureau of Economics, Canadian National Railways; Mr. J. B. MacLaren, Comptroller, Canadian National Railways.

OTTAWA

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

PRINTER TO THE KING'S MOST EXCELLENT MAJESTY

1937



ORDERS OF REFERENCE

MONDAY, March 15, 1937.

Ordered,—That the Resolution passed by this House on the 18th January, 1937, referring the following Estimates to the Committee of Supply be rescinded, and that the said Estimates be now referred to the Standing Committee on Railways and Shipping, viz:—

Vote 96	M.F.R.A. Canadian National Railways Eastern Lines, 20% reduction in tolls.....	\$ 1,800,000
Vote 97	M.F.R.A. Railways other than C.N.R., 20% reduction in tolls.....	700,000
Vote 293	Canadian National (W.I.) S.S. Capital.....	48,500
Vote 361	Canadian National Railways, Deficit 1937.....	35,000,000
Vote 362	Canadian National (W.I.) S.S. Working Capital....	500,000

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

TUESDAY, March 16, 1937.

Ordered,—That the Financial Statements of the Canadian National Railways and the Canadian National Steamships for the current year, laid on the Table of the House this day, be referred to the Standing Committee on Railways and Shipping owned, operated and controlled by the Government.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

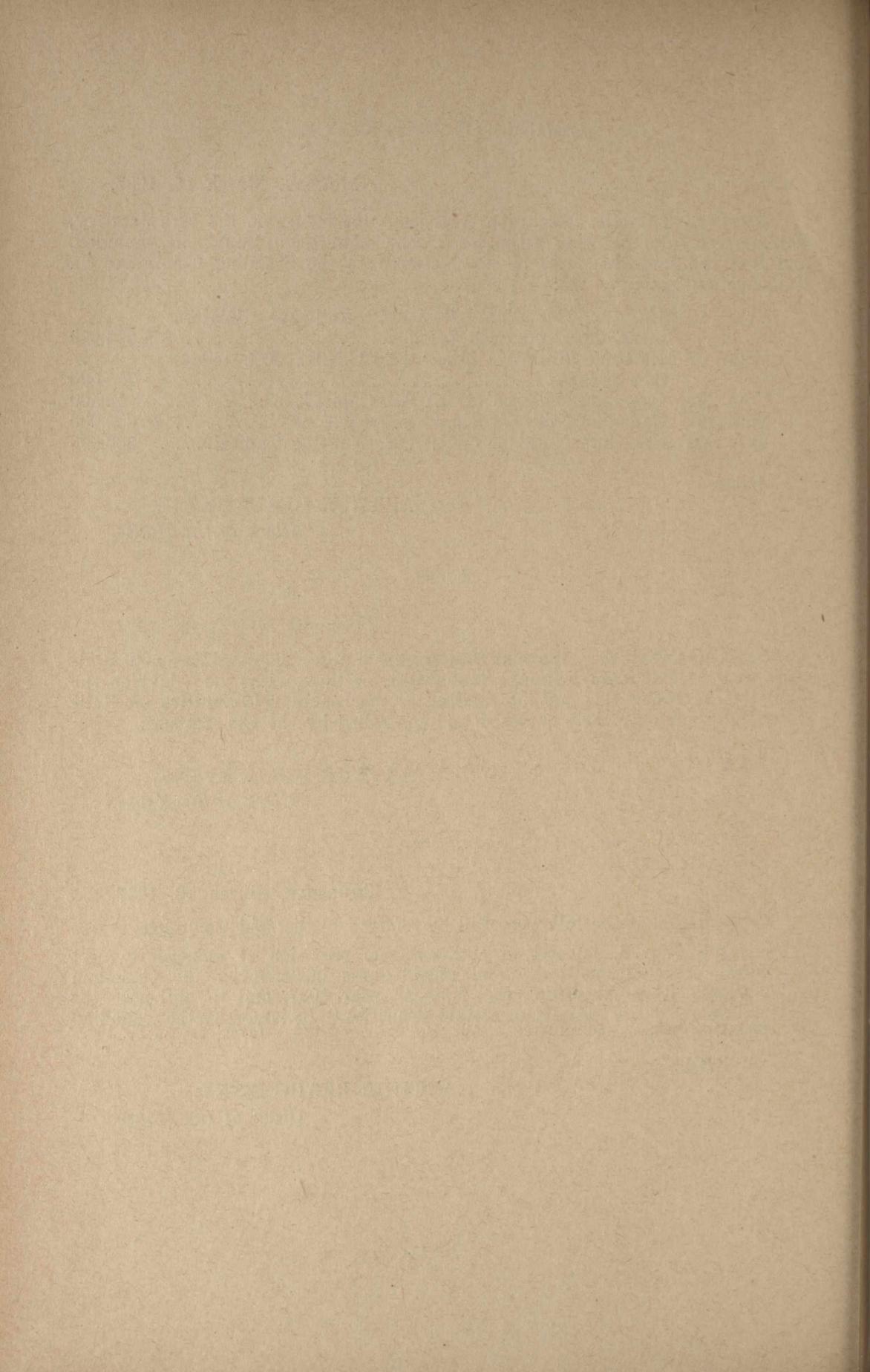
THURSDAY, March 18, 1937.

Ordered,—That the following Bill be referred to the said Committee:—

Bill No. 73, An Act to authorize the provision of moneys to meet certain expenditures made and indebtedness incurred by the Canadian National Railways during the calendar year 1937, and to authorize the guarantee by His Majesty of certain securities to be issued by the Canadian National Railways.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.



MINUTES OF PROCEEDINGS

THURSDAY, March 18, 1937.

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

Members present: Messrs. Barber, Beaubier, Bothwell, Deachman, Elliott (*Kindersley*), Ferland, Hanson, Heaps, Howden, Howe, Kinley, McKinnon (*Kenora-Rainy River*), Ryan, Stewart, Walsh and Young.

In attendance: Mr. V. I. Smart, Deputy Minister of Transports; Mr. A. V. Franklin, Railway Auditor, Department of Finance, and officials of the Canadian National Railways including Mr. S. J. Hungerford, President; Mr. W. M. Armstrong, Bureau of Economics; Mr. J. B. MacLaren, Comptroller, and Mr. T. H. Cooper, Assistant Comptroller.

Due to the unavoidable absence of the Chairman, Sir Eugene Fiset, on motion of Mr. Ryan, Dr. Young was selected as Acting Chairman.

Dr. Young took the Chair.

The committee proceeded to the consideration of the Annual Report of the Canadian National Railway System for the year ended December 31, 1936, Messrs. Hungerford, Armstrong and MacLaren being questioned on several items of the report.

In the course of the committee's proceedings, leave was granted Mr. J. F. Pouliot, M.P., to address the committee.

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

AFTERNOON SITTING

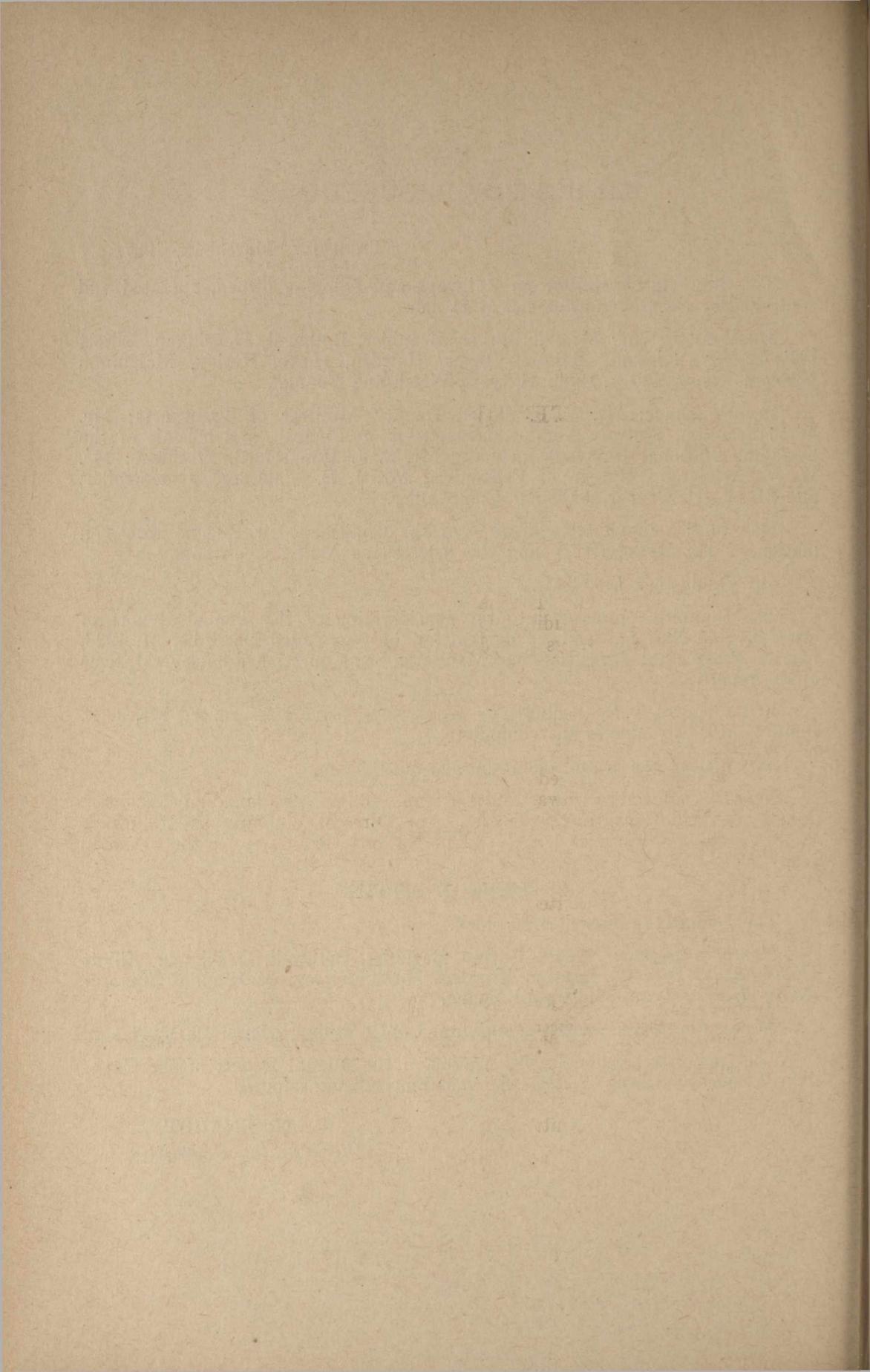
The committee resumed at 4 o'clock.

Members present: Messrs. Barber, Beaubier, Bothwell, Deachman, Elliott (*Kindersley*), Ferland, Hanson, Howden, Howe, Kinley, McKinnon (*Kenora-Rainy River*), Ryan, Walsh and Young.

At six o'clock the committee adjourned until Friday, March 19, at 11 a.m.

The committee resumed consideration of the Annual Report of the Canadian National Railway System, the said report being adopted.

R. ARSENAULT,
Clerk of the Committee.



MINUTES OF EVIDENCE

HOUSE OF COMMONS, Room 268,

March 18, 1937.

The Select Standing Committee on Railways and Shipping met at 11 o'clock.

Hon. Mr. HOWE: Gentlemen, unfortunately our chairman Sir Eugene Fiset is ill to-day and we must have a temporary chairman. I understand that Dr. Young is the senior member of this committee, and I would suggest that he act as our chairman.

Mr. RYAN: I move that Dr. Young take the chair.

Mr. A. M. YOUNG, took the chair.

The Acting CHAIRMAN: Gentlemen, I was not aware until this moment that Sir Eugene Fiset was not here. We will have to proceed in his absence as best we can. I think the first matter we have to consider is the Canadian National report, and in that regard I think the best way to proceed is to begin at the beginning and go through the report. Mr. Armstrong, I understand, will read the report.

W. M. ARMSTRONG (Bureau of Economics C.N.R.) reads:

Montreal, Que., March 10, 1937.

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

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

RESULT OF OPERATIONS

	1936	1935	Increase or Decrease
Operating revenues..	\$186,610,489 38	\$173,184,501 82	\$13,425,987 56
Operating expenses..	171,477,690 07	158,926,248 66	12,551,441 41
Net operating revenue..	\$ 15,132,799 31	\$ 14,258,253 16	\$ 874,546 15
Operating ratio..	91·89%	91·77%	
Net of taxes, rentals and other cash requirements..	8,723,888 05	7,427,254 27	1,296,633 78
Net available for interest..	\$ 6,408,911 26	\$ 6,830,998 89	\$ 422,087 63*
Interest on funded debt held by public	49,184,622 87	53,468,792 22	4,284,169 35*
Interest on government loans for re-funding..	527,682 21	783,671 47	255,989 26*
Cash deficit..	\$ 43,303,393 82	\$ 47,421,464 80	\$ 4,118,070 98*

* December.

Operating Revenues

Gross operating revenues increased over those of the preceding year by \$13,425,987 or 7·75 per cent. From the low point of \$148,519,742 in 1933, revenues increased progressively reaching \$164,902,502 in 1934, \$173,184,502 in 1935 and \$186,610,489 in 1936. These figures indicate that the severity of the depression is gradually easing. The effect of the economic disturbance on rail-

way earnings may be judged from the fact that for the seven-year period 1923-1929 inclusive, the gross revenues of the System averaged \$278,024,509 per annum, while for the seven-year period 1930-1936 inclusive, the average was \$183,684,870 per annum.

The increase in freight revenues amounted to \$11,680,595 or 8.73 per cent. All regions reported increases in tonnage in practically all of the principal commodities. A statement of revenue tonnage by commodities appears on page 25. The increase in agricultural products carried amounted to 719,786 tons; in animal products 143,138 tons; in mine products 1,850,442 tons; in forest products 303,632 tons; while the increase in manufactures and miscellaneous tonnage amounted to 1,626,336 tons.

Passenger revenues increased \$367,917 or 2.21 per cent. There was a reduction of approximately 13 per cent in basic passenger fares, effective June 1, 1936, and sleeping and parlour car surcharges were cancelled. The number of passengers carried increased by 377,705 and the average length of journey increased from 79.21 miles to 82.31 miles. There was again a small increase in coach excursion revenues.

There were increases in mail revenues of \$95,023, express of \$191,283, and in telegraph of \$407,390.

The revenues from hotel operations continued to improve and as a whole produced an operating profit in 1936, after taxes, of \$160,017.

Operating Expenses

Operating expenses for the year totalled \$171,477,690 as compared with \$158,926,249 for 1935, an increase of \$12,551,441 or 7.9 per cent, the principal increases being as follows:—

Increased transportation expenses necessitated by additional business.	\$4,400,000
Increased expense incurred on account of snow, ice and floods.	1,181,000
Expenditures on unemployment relief maintenance of way program.	1,015,000
Repayment to Dominion government of money advanced under Supplementary Public Works Construction Act, 1935, to increase the employment of railway shop men on rolling stock repairs—first of three equal annual instalments.	364,000
The policy of restriction of general maintenance of way was of necessity, in view of expected traffic, relaxed and larger expenditures were made for this purpose during the year, to the extent of.	1,756,000
Increased expenditures on maintenance of rolling stock to bring a larger number of units to a state of efficiency on account of increased traffic and in anticipation of continued improvement.	2,500,000
Equipment retirements chargeable to operating expenses increased.	911,000
Increased pension costs chargeable to general expenses.	424,000

The improvement in freight service operation noted in the 1935 report continued through 1936, as indicated by the following averages.

	1936	1935*
Gross tons per freight train.	1,399	1,368
Net tons per freight train.	578	564
Gross ton miles per freight train hour.	22,351	21,748
Miles per freight train hour.	16.0	15.9
Fuel consumption per 1,000 gross ton miles (pounds).	124	126

*Revised to conform to classification prescribed January 1, 1936.

Taxes, Rentals, etc.

Total taxes charged in 1936 for rail lines, express, telegraphs, hotels, lands and separately operated properties amounted to \$6,743,147, compared with \$6,044,176 in 1935, an increase of \$698,971. This is exclusive of sales tax added to the cost of material. Sales taxes in 1936 cost the railway approximately \$3,000,000. The cost of exchange in 1936 was \$943,342, against \$1,250,166 in 1935.

Interest on Funded Debt Held by the Public

The total requirements in 1936 were \$49,184,623 compared with \$53,468,792 in 1935, a decrease of \$4,284,169 brought about to a large extent by refunding operations at lower rates of interest.

[Mr. W. M. Armstrong.]

CAPITAL EXPENDITURE ACCOUNT

The net change in Capital Account "Additions and Betterments—less Retirements"—amounted to \$892,799 made up as follows:—

Equipment purchased under Dominion Government Supplementary Public Works Construction Act, 1935	\$6,747,644
Senneterre-Rouyn branch line, authorized by Chap. 26, 1936	117,328
Vancouver hotel	198,628
London grade separation and station	169,849
Air-conditioning passenger cars	382,617
General additions and betterments, less retirements (net)	393,042
Equipment retirements	6,330,225
	\$ 892,799

The new station at London, Ontario, was officially opened on September 1 by the Right Honourable Sir Percy Vincent, Bt., the Lord Mayor of London, England.

Construction has been commenced of the Senneterre-Rouyn Branch Line authorized by Chapter 26, 1936. The length of the projected line is 100.6 miles. The location surveys were commenced in June and completed in September. The contract for clearing, grading, culverts, trestles, and substructures of bridges was awarded in October. By February 15 of this year the contractor had completed 94.5 miles of clearing and some of the culvert and rock work. Five hundred and fifty men are employed on the project. This line will be of great assistance to the new mining development now taking place in north-western Quebec. The Canadian National Railways generally are well located to serve the mining industry which is assuming an increasingly important position in the Canadian business structure.

FINANCE

Retirement of Obligations

The expenditures provided through the 1936 budget for the retirement of capital obligations, including sinking fund and equipment trust principal payments, were \$7,052,494.98.

Refunding of Maturing and Callable Obligations

The following securities matured or were called during 1936:—

\$ 5,418,000 00	2 %	Canadian National Temporary Guaranteed Bonds matured January 30, 1936.
5,020,748 98	4 %	Qu'Appelle, Long Lake & Sask. Debenture Stock matured July 1, 1936.
1,134,512 46	3½ %	Canadian Northern Ontario Debenture Stock matured July 10, 1936.
24,220,000 00	6 %	Grand Trunk Sinking Fund Gold Debenture Bonds matured September 1, 1936.
2,359,000 00	4½ %	National Transcontinental Rly. Branch Lines 1st Mortgage Sinking Fund Bonds called for redemption October 1, 1936, at par.
760,173 33	5 %	Mount Royal Tunnel & Terminal 1st Mortgage Rent Charge Bonds called for redemption October 15, 1936, at 105%.

\$38,912,434 77

The Dominion government advanced \$38,450,970.20 to retire these obligations, which amount has since been repaid from the proceeds of bond issues. The remainder was provided by sinking fund balances, etc.

New Issues

Under authority of the Refunding Act of 1935 an issue of Canadian National Railway Company Dominion Guaranteed Bonds was made, dated February 15, 1936, comprising:—

\$55,000,000 2 % seven-year bonds, sold at 98·025% at an annual cost of 2·31%.

25,000,000 3% seventeen-year bonds sold at 96·75% at an annual cost of 3·25%.

The proceeds of the issue, \$78,101,250, were utilized to retire temporary refunding loans made by the government during 1935 and 1936.

CO-OPERATIVE MEASURES

During the year co-operative economies were effected by the abandonment of 27 miles of Canadian Pacific line between Cyr Junction and Edmundston, and of 11 miles of Canadian National line between Farnham and Iberville. In each case the abandoned line was parallel to another line which is now jointly used. The estimated joint economy from these measures is \$42,000 per annum.

Your directors since their appointment have been and are giving earnest consideration to the subject of further co-operative measures with the Canadian Pacific Railway.

Agreements have been completed with the Pennsylvania Railroad Company for the joint use of the Grand Trunk car ferries operating across Lake Michigan between Muskegon, Mich., and Milwaukee, Wis., together with the joint use of the dock and terminal facilities at those two points. Joint operation under the agreements commenced January 15, 1937. It is expected there will be substantial savings in operating and interest costs as the result of the arrangements made.

Studies of various projects involving co-operation with other companies are in progress.

GENERAL

Employees, Wages, etc.

The average number of employees in service during the year 1936 was 78,836 as compared with 75,053 in 1935, an increase of 3,783, or 5·04 per cent. The total payroll expense for 1936 was \$111,221,129 as compared with \$104,861,521 in 1935. These increases do not include employees and their compensation engaged under the special unemployment relief arrangement with the Dominion government.

The 10 per cent wage deduction effective since May 1, 1935, by agreement with employees on Canadian lines was continued through the year 1936. In October certain groups of employees of the Canadian National Railways and Canadian Pacific Railway Company, acting collectively, applied to the Minister of Labour for a Conciliation Board to consider their request for the removal of the 10 per cent wage deduction. The application was on behalf of the majority of railway employees in Canada and over 100,000 employees are involved. The Board was duly established and held sittings in both Montreal and Ottawa. The report containing the recommendations of the Board in the matter was issued January 30, 1937. The railways, on February 4, 1937, informed the Department of Labour that they accepted the recommendations of the Board as forming the basis of an agreement and jointly put into effect the first of the Board's recommendations, namely, that the deduction be reduced from 10 to 9 per cent on February 1, 1937. The employees' nominee on the Board made a minority report. The representatives of the men informed the Minister of Labour that they would not accept the recommendations of the Board.

In October Canadian National employees covered by schedule for "clerks and other classes of employees," numbering approximately 9,000 also applied for a Board in connection with their request for the removal of the 10 per cent

wage deduction. The Board was established towards the end of December and the dispute heard during the early part of February 1937. The Board's report has not been made at the time of writing.

Although the management and men do not always agree in the matter of wage adjustments, nevertheless there exists generally a very good feeling.

Beginning January 1, 1937, the main shops of the system have been placed on an increased schedule of five days per week.

Unemployment Relief Expenditures.

In co-operation with the Dominion government arrangements were made to provide employment for about 5,000 men from relief camps during the summer months. In addition the railway employed upwards of 1,000 men in the operation of steam shovels, work train service, etc., in connection with the relief program. The work undertaken consisted of maintenance and betterment work usually performed by extra gangs but did not reduce the normal seasonal program of such work which was somewhat in excess of that in 1935. The government assumed the charges for wages and transportation of the relief workers amounting to \$1,324,344, and the railway assumed the charges for supervision, timekeeping, train service and the conversion of equipment units into boarding and sleeping cars amounting to \$1,136,000. Of this, \$1,015,000 was maintenance expense, the balance capital. The plan was beneficial to the railway and assisted the government in dealing with the difficult problem of unemployment.

Reference was made in the last annual report to the Supplementary Public Works Construction Act, 1935. Delivery of new equipment purchased under this Act was completed during 1936 at a cost of \$6,747,644, and the increased employment of railway shop forces to the extent of two additional working days per month, under this Act, effective July 1, 1935, was concluded March 1, 1936, at a total cost of \$1,183,592.

Canadian National Pension Plans.

Under the various pension plans in effect on the Canadian National Railway System, 834 employees were retired during the year; pensioners deceased during the year numbered 410; and the number on pension at December 31, 1936, totalled 6,292.

United States Railroad Retirement Act.

Pending settlement of the situation regarding pensions for railroad employees in the United States, $3\frac{1}{2}$ per cent was withheld from United States employees' wages and an equal amount was set aside by the railway but payments to the United States Treasury have been withheld. The arrangement for temporary allowances to retired United States employees, referred to in last year's report, is being continued.

United States Social Security Act.

All the States except one in which Canadian National Railways operate have passed unemployment compensation laws effective during 1936. Some States require contributions by the employees but all the States together with the Federal government tax the employer, the tax in 1936 representing approximately 1 per cent of the payroll, increasing to 2 per cent in 1937. The cost to the Canadian National System during 1936 was \$195,000.

An event of historic significance was celebrated July 21, 1936, on the occasion of the one hundredth anniversary of the opening of the first railway in Canada, the Champlain & St. Lawrence Railway, now part of the National System. Although the development of Railway transportation in Canada, which then had its inception has brought about with the passing of the years difficult financial problems it is unquestionable that the railways have played an all-important part in the development of the Dominion.

Progress is being made with the program of air-conditioning passenger cars with a view to increasing the attractiveness of railway travel. Considerable research has been carried on, in co-operation with other railroads, including studies of investment expenditure and cost of maintenance and operation. The program for 1937 provides for the air-conditioning of 128 cars. Together with the 70 units in the 1936 program the railway will have 198 air-conditioned cars by the end of 1937. In addition fifty coaches being purchased in 1937 will also be air-conditioned. The Pullman Company operates 53 air-conditioned cars over Canadian National lines.

This Board of Directors, which replaced the Trustees in the direction and control of the Canadian National Railways, took office on October 1, 1936.

A survey of business conditions in Canada leads to the conviction that progress will continue to be made during 1937, probably with accelerating momentum, and every effort will be made to secure for Canadian National Railways a full share of the additional traffic thereby created. The Directors hope that such increased activity will be adequately reflected in increased net earnings.

Acknowledgment is made of the loyal and efficient service rendered by officers and employees, and of the patronage given to Canadian National Railways by the public, throughout the year 1936.

For the Board of Directors.

(Sgd.) S. J. HUNGERFORD,
Chairman.

The ACTING CHAIRMAN: Gentlemen, you have just heard the report of the chairman of the Board of Directors which gives a general résumé of the whole business of the year. Is it the desire of the committee to discuss that report as a whole, or would you desire to go on to details which appear in the following pages?

Mr. HEAPS: Let us consider the details on the following pages.

The ACTING CHAIRMAN: If that meets with the approval of the committee we will pass on to the consolidated balance sheet, December 31, 1936.

Mr. KINLEY: Are we going to pass the president's report?

Mr. WALSH: I would like to ask one or two questions in connection with the report because I do not know whether I can find what I want in the balance sheet. On page 5, under the heading Taxes, Rentals, Etc., the total taxes charged in 1936 for rail lines, etc., and separately operated properties, is \$6,743,147. I suppose that includes lines in Canada and in the United States. Is it possible to know how much of these taxes was payable in Canada and how much in the United States?

Mr. McLAREN: Yes. We can supply that information.

Mr. HUNGERFORD: We will make a note of it.

Mr. WALSH: And will it go in the record?

The ACTING CHAIRMAN: It will come before the committee.

Mr. WALSH: And then there is the item of \$3,000,000 sales tax for 1936. Could we have the same information relative to the sales tax: the amount paid in Canada and the amount paid in the United States?

Mr. RYAN: Have they a sales tax in the United States?

Mr. WALSH: I do not know. There might be in some parts. All I want is a break-down. If there is none, so much the better.

Mr. HUNGERFORD: We will give you all the information we have. I think it will be complete.

Mr. WALSH: On the same page I see the words, "The expenditures providing through the 1936 budget for the retirement of capital obligations, includ-
[Mr. W. M. Armstrong.]

ing sinking fund and equipment trust principal payments, were \$7,052,494.98." What is the policy followed with regard to the issue of railway certificates?

Mr. RYAN: Is it the intention of the committee to go into these matters now, because, if it is, there are other questions to be asked. I thought the idea of the committee was to go on with the balance sheet first and take up these items.

Mr. WALSH: I did not know whether these items were included.

The ACTING CHAIRMAN: I think they will all come up under the separate schedules.

Mr. HEAPS: We had better proceed with the subsequent pages, because if we start discussing the report, we are apt to discuss it indefinitely.

Mr. WALSH: And if I miss finding what I want, I suppose I can come back to this?

The ACTING CHAIRMAN: Yes. The balance sheet as at December 31, 1936, will be read by Mr. Armstrong.

Mr. ARMSTRONG: (Reads)

CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 1936

ASSETS

INVESTMENTS:

Investment in Road and Equipment..	\$2,095,114,003	88	
Improvement on Leased Railway Property..	4,248,964	14	
Sinking Funds:			
System Securities at par..	\$ 245,854	23	
Other Assets at Cost..	258,199	55	504,053 78
Deposits in lieu of Mortgaged Property Sold:			
System Securities at par..	\$ 736,000	00	
Other Assets at Cost..	4,751,731	45	5,487,731 45
Miscellaneous Physical Property..	59,814,644	23	
Investments in Affiliated Companies..	31,642,437	30	
Other Investments..	741,397	31	\$2,197,553,232 09

CURRENT ASSETS:

Cash..	6,643,889	73	
Special Deposits..	7,329,892	97	
Traffic and Car-Service Balances Receivable..	1,625,702	87	
Net Balances Receivable from Agents and Conductors	4,671,503	84	
Miscellaneous Accounts Receivable..	\$ 4,116,325	38	
Dominion Government-Balance due on Deficit			
Contributions..	15,814,624	57	19,930,949 95
Material and Supplies..	25,958,347	51	
Interest and Dividends Receivable..	507,346	90	
Rents Receivable..	56,424,	07	
Other Current Assets..	641,672	66	67,365,730 50

DEFERRED ASSETS:

Working Fund Advances..	201,015	54	
C.N.R. Insurance Fund:			
System Securities at par..	\$4,848,613	70	
Other Assets at Cost..	6,910,537	93	11,759,151 63
Other Funds..	18,256	25	
Other Deferred Assets..	6,655,458	15	18,633,881 57

UNADJUSTED DEBITS:

Rents and Insurance Premiums paid in Advance..	223,565	88	
Discount on Capital Stock..	189,500	00	
Discount on Funded Debt..	11,882,787	47	
Other Unadjusted Debits..	4,520,180	24	16,816,124 59
			\$2,300,368,968 75

The accounts of the System are stated in Canadian Currency-Sterling and United States currencies being converted at the par of exchange.

Depreciation Accounting is applied to rolling stock owned by United States Lines and to certain fixed property, and Retirement Accounting is applied on the basis of original cost to other units of property on the System.

No reserve is accrued for pensions under the Canadian National Railways Pension Fund 1935. Actual pension payments are charged currently to operating expenses account "Pensions."

For contingent liabilities see page 22.

[Mr. W. M. Armstrong.]

LIABILITIES

STOCKS:		
Capital Stocks owned by Dominion Government.. . . .	\$265,628,338 70	
Capital Stocks owned by Public.. . . .	4,584,100 00	\$270,212,438 70
GOVERNMENTAL GRANTS:		
Grants in Aid of Construction:		
By Province of Canada prior to Confederation..	15,142,633 33	
Other.. . . .	3,013,748 90	18,156,382 23
LONG TERM DEBT:		
Funded Debt Unmatured.. . . .		1,184,612,248 59
LOANS FROM DOMINION OF CANADA:		
Temporary Loans obtained for redemption of funded debt, pending refunding—interest paid.. . . .	35,076,695 20	
Other Loans from Dominion of Canada.. \$686,007,330 03		
Interest on above accrued but unpaid.. 530,832,597 67	1,216,839,927 70	1,251,916,622 90
DOMINION OF CANADA EXPENDITURES FOR CANADIAN GOVERNMENT RAILWAYS:		
Road and Equipment included in System Investment Account.. . . .	388,290,263 52	
Working Capital.. . . .	16,771,980 54	405,062,244 06
CURRENT LIABILITIES:		
Traffic and Car-Service Balances Payable.. . . .	4,243,428 89	
Audited Accounts and Wages Payable.. . . .	6,861,561 28	
Miscellaneous Accounts Payable.. . . .	3,794,140 39	
Interest Matured Unpaid.. . . .	8,332,966 50	
Funded Debt Matured Unpaid.. . . .	878,649 24	
Unmatured Interest Accrued.. . . .	9,208,833 21	
Unmatured Rents Accrued.. . . .	393,760 98	
Other Current Liabilities.. . . .	1,638,518 77	35,351,859 26
DEFERRED LIABILITIES:		
Other Deferred Liabilities.. . . .		3,331,771 52
UNADJUSTED CREDITS AND RESERVES:		
Tax Liability.. . . .	2,135,878 78	
C.N.R. Insurance Reserve.. . . .	11,759,151 63	
Accrued Depreciation—Road.. . . . U.S. Lines	2,487,819 55	
Accrued Depreciation—Equipment.. . . . U.S. Lines	13,157,059 46	
Accrued Depreciation—Miscellaneous Physical Property.. . . . U.S. Lines	1,636,969 44	
Other Unadjusted Credits and Reserves.. . . .	5,204,240 68	36,381,119 54
		904,655,718 05
		\$2,300,368,968 75

J. B. McLAREN,
Comptroller.

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, 1936.

The investments in properties and equipment appearing in the books of the companies as at the 1st January, 1923, were accepted by us.

The liabilities to the Dominion of Canada are stated in accordance with the certified reconciliation received from the Dominion Government.

Subject to the foregoing and 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, 1936, and that the relative Income and Profit and Loss Accounts for the year ended the 31st December, 1936, are correctly stated.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

Dated at Montreal, 10th March, 1937.

The ACTING CHAIRMAN: Do you wish to discuss this statement?

Mr. BOTHWELL: In connection with the statement dealing with the assets, at the bottom of page 8, I see the statement, "No reserve is accrued for pensions under the Canadian National Railways Pension Fund 1935." Has there ever been a reserve set up for pension?

Mr. HUNGERFORD: No. You are referring to the pension fund of 1935?

Mr. BOTHWELL: When was that pension fund established?

Mr. ARMSTRONG: This new fund was established on Jan. 1, 1935; the C.N.R. general pension scheme in effect prior to 1935 was changed to one of contribution.

Mr. BOTHWELL: And has the old plan been continued?

Mr. ARMSTRONG: The old plan—there were two old plans—that of the Inter-colonial and the Grand Trunk superannuation fund which are still in existence; but for the general scheme of pensions the principle was changed in 1935 to one of contribution.

Mr. BOTHWELL: Was there a fund set up for the old pension scheme?

Mr. ARMSTRONG: No. There is no fund set up.

Mr. BOTHWELL: The pensions are paid out of revenues, the same as under the new pension fund?

Mr. ARMSTRONG: Exactly.

Mr. HUNGERFORD: Excepting that in connection with the Dominion Government Railways Provident Fund there is no reserve, but in connection with the Grand Trunk Superannuation Fund there are certain assets that have been accumulated since 1874. They are not quite able to carry on under the conditions of depression that have existed the last few years because of the disturbed condition of real estate and mortgages. However, they have a reserve of their own, but there is no other reserve in connection with the system.

Mr. HEAPS: I suppose, among the assets mentioned, would be the millions spent on the new terminals at Montreal. I was just wondering if there is anything that the railways have in mind in regard to ordering the completion of a new terminal in the city of Montreal.

Mr. HUNGERFORD: I think that would come up naturally under the discussion of the budget for 1937.

Mr. HEAPS: Is any provision made in the budget for this purpose?

Mr. HUNGERFORD: Not yet.

Mr. HEAPS: I would suggest to the minister that he might take up with the officers of the railway the fact that it might be a good idea to undertake the erection of a new station in Montreal as a part of the unemployment project.

Hon. Mr. HOWE: We considered the matter carefully, and we decided that revenues for 1936 did not justify us in proceeding with the project.

Mr. HEAPS: I believe the work could be completed for a comparatively reasonable amount at the present time, and as \$13,000,000 has been spent up to date in that regard in the city of Montreal, I think we are allowing a huge hole to remain idle in the centre of the city which, in my opinion, is not right. I believe that a year or two ago Mr. Hungerford mentioned a sum of about \$6,000,000 as the amount for which the station could be finished.

Mr. HUNGERFORD: It could not be completed according to the original plan.

Mr. HEAPS: I am not speaking of the original plan.

Mr. HUNGERFORD: But it could be put into use for about \$6,000,000.

Mr. KINLEY: Now, with regard to pensions, there seems to be considerable dissatisfaction as to what is termed continuous service for pension. During the depression railwaymen had to work part time—for instance, a man would go three days or four days a week; he would be on call but he would not get a run—he would not be employed. Many of them find that they are reaching the age

[Mr. W. M. Armstrong.]

for retirement and they have not the amount of time service to entitle them to pension by reason of the fact that continuous service was interpreted to mean actual employment and not the time while waiting or on call. Now, these men were unemployed because it was advantageous for the railway not to employ them, and they could not take a job because they must remain on call. I am told that this is a matter of agreement between the men and the company, but it is causing a great deal of dissatisfaction and, I think, a great deal of injury to deserving men. This matter came up and was discussed before the enquiry presided over by Mr. Justice Maclean in regard to railway wages; and if it is considered that this policy must be carried on—that is, that these men must actually be operating at the time on what is called continuous time—

Mr. HUNGERFORD: If I might interrupt, I think the pension provisions at present are fairly liberal. It would be a very difficult thing—in fact it would be rather a dangerous thing, I think, to embark upon a policy of allowing for continuous time whether men are working or not. The principle is laid down in Provident Fund Act in as far as Canadian government railways are concerned and stipulates where the Provident Fund Act applies; and the new contributory pension plan was adopted at the beginning of 1935 and makes provision for anything but actual accumulative service, when a man is furloughed or laid off.

Mr. KINLEY: That is under the contributory pension?

Mr. HUNGERFORD: Yes.

Mr. KINLEY: Of course, that is based on what he earns—on a fixed percentage?

Mr. HUNGERFORD: Yes; and that plan is the result of an agreement with the organizations representing the men.

Mr. RYAN: You say that before April 1935 the I.C.R. had their own fund; is that correct?

Mr. HUNGERFORD: They still have; but the Provident Fund was closed to new members some years ago, so that new employees or employees coming in since the cut-off date, come under the provision of the general contributory pension fund. However, those who were members of the Provident Fund before that cut-off date continued under the same rules that were in effect then.

Mr. HEAPS: Is that fund solvent on an actuarial basis?

Mr. HUNGERFORD: Quite.

Mr. KINLEY: Did this matter come up as a claim of railwaymen before the enquiry presided over by Mr. Justice Maclean?

Mr. HUNGERFORD: I really do not know. I am not sure whether it did or not.

Mr. KINLEY: The pension is not very large, is it—the pension before 1935?

Mr. HUNGERFORD: During this period of depression we have had employees laid off for, perhaps, five or six years. It would require pretty generous treatment to provide a pension for the time they have been laid off. Obviously, most of them are doing something else. This is a pretty difficult matter to deal with. As a matter of fact, when a man is laid off we do not know whether he will ever return to the service. Quite frequently he gets another position and does not respond to call.

Mr. RYAN: Is his seniority maintained?

Mr. HUNGERFORD: We do maintain seniority up to a point.

Mr. RYAN: Up to what point?

Mr. HUNGERFORD: Well, perhaps that varies more or less with the different groups. There is nothing definite about it.

Mr. RYAN: Is that covered by the Brotherhood of Railway Employees? Do they have something to say about that matter?

Mr. HUNGERFORD: Yes, they have a very considerable amount to say about it. The final decision, of course, rests largely on the joint decision of the organization and the members.

Mr. KINLEY: This is just a regulation of your board regarding continuous time, is it?

Mr. HUNGERFORD: There are the pension rules.

Mr. KINLEY: It is a pension rule; but who innovates that rule?

Mr. HUNGERFORD: The rules in connection with the new contributory pension plan are the result of an agreement between the organizations and the management of the railway.

Mr. KINLEY: That is with regard to this new contributing scheme, but these men I am speaking of were not contributing; they were there before that kind of pension came in.

Mr. HUNGERFORD: So far as the general pension plan, as apart from the Provident Fund or the Grand Trunk Superannuation Fund is concerned, these rules were established by the management of the railway.

Mr. HANSON: Those rules are established by the railway management in co-operation with the men.

Mr. HUNGERFORD: The new ones, yes; the old rules were established by the management, because the management of the railway contributed all of the money. However, under the new scheme the men contribute an equal amount.

Mr. KINLEY: It seems to me a lot of injury has been done; there are a lot of deserving cases being overlooked.

Mr. BOTHWELL: Is there any provision whereby beneficiaries—we may call them that—under the old scheme may come in under the new scheme?

Mr. HUNGERFORD: Yes.

Mr. BOTHWELL: Can they have their rights under the old scheme converted to this new scheme?

Mr. HUNGERFORD: Their pension rights are preserved up to the date of cut-off, December 31, 1934, and from that date on they come under the contributory pension scheme, and when a man is retired he is given the pension he has earned under the provision of the old rule up to the cut-off date, and whatever he has earned by his contributions, if he has made contributions, under the new scheme, from that date forward.

The ACTING CHAIRMAN: Shall we carry the consolidated balance sheet statement?

Mr. WALSH: I see the item "Discount on Funded Debt," \$11,882,000 odd, and I notice that in 1935 that amount was \$16,486,000, a reduction of \$4,700,000 approximately. Could we know what the items are that brought about this reduction?

Mr. McLAREN: Yes, we can give the items involved. Unextinguished discount on the bonds callable last year amounts to \$5,509,000. That is the principle difference.

The ACTING CHAIRMAN: Are there any further questions? Shall we pass this consolidated balance sheet?

Mr. HEAPS: There is a question about the fire insurance fund. What does that figure stand at the present time?

Mr. ARMSTRONG: \$11,759,151.

Mr. HEAPS: What per cent do you pay each year into that fund?

Mr. ARMSTRONG: There is nothing being accrued at the present time.

Mr. HEAPS: Nothing at all?

[Mr. W. M. Armstrong.]

Mr. ARMSTRONG: The earnings on the investment are usually more than sufficient to cover all loss during the year.

Mr. HEAPS: Have you found that satisfactory during the last few years?

Mr. ARMSTRONG: Yes.

Mr. MCKINNON: What is that fund supposed to cover in the insurance field?

Mr. ARMSTRONG: Railway property.

Mr. MCKINNON: Fires and wrecks?

Mr. ARMSTRONG: No, not wrecks; just fire.

Mr. HUNGERFORD: And certain losses in connection with the company's own ships on inland waters.

Mr. MCKINNON: Is it a fund that you maintain?

Mr. ARMSTRONG: It is the company's own fund.

Mr. McLAREN: It is the reserve in the fire insurance fund.

Mr. HUNGERFORD: It was started many years ago. For a great many years we charged operating expenses with the ordinary premiums that would have accrued if placed in insurance, and we paid that amount into this fund.

Mr. RYAN: Is any insurance held by outside people at all?

Mr. HUNGERFORD: There are certain isolated cases where we have insured outside, but very few.

Mr. RYAN: Do you know the amount of outside insurance?

Mr. HUNGERFORD: We can get it for you.

Mr. RYAN: How is that given out to the different companies? Is there any system at all?

Mr. HUNGERFORD: We invite tenders.

The ACTING CHAIRMAN: Shall we carry this statement?

Hon. Mr. STEWART: Suppose we leave them all open for consideration before adopting them.

Mr. HEAPS: I do not think there will be any objection to adopting them. If anybody wishes to refer back he could do so. Why not carry them?

Hon. Mr. STEWART: All right.

The ACTING CHAIRMAN: We will ask Mr. Armstrong to read the profit and loss statement.

Mr. ARMSTRONG (Reads): Profit and Loss Statement.

Credits:	Year 1936	Year 1935
Credits from retired road and equipment	\$ 22,351 25	\$ 24,631 40
Donations	47,491 01	30,328 73

Mr. HOWDEN: What does that mean?

Mr. COOPER: Amounts contributed by industrial firms, municipalities and provincial governments.

Mr. HANSON: Donations?

Mr. COOPER: Yes.

Miscellaneous Credits	\$291,047 91	\$586,835 09
Total Credits	<u>\$360,890 17</u>	<u>\$641,795 22</u>

	Year 1936	Year 1935
Debits:		
Surplus appropriated for Investment in Physical Property	\$ 707 34	\$ 2,064 34
Miscellaneous appropriations of surplus	21,831 81	27,681 07
Debits for retired Road and Equipment	5,952,442 36	29,111,717 21
Delayed Income Debits		48,295 61
Miscellaneous Debits	7,114,390 53	1,961,230 55
Total Debits	\$13,045,708 42	\$31,095,626 64
Net Profit and Loss Items (Debit)	12,684,818 25	30,453,831 42
Net Income (Deficit) transferred	43,197,346 04	48,878,181 67
Interest on Dominion Government Loans	36,428,873 59	35,949,676 70
System Net Loss	92,311,037 88	115,281,689 79
Deduct: Contributions for deficits from the Government		
	1936	1935
C.N. Railways	\$37,449,321 57	\$41,795,757 24
Eastern Lines	5,550,632 36	5,265,373 20
P.E.I. Car Ferry and Terminals	303,439 89	360,334 36
Eastern Lines' interest on Government Loans		626,413 21
Change during year in Profit and Loss Account	48,381,230 85	67,233,811 78
Balance at January 1	856,274,487 20	789,040,675 42
Balance at December 31	904,655,718 05	856,274,487 20

Mr. HEAPS: I notice there is quite a large amount for retiring of equipment. May I ask the amount of new equipment you expect to have in operation this year?

Mr. HUNGERFORD: Do you mean the new equipment we intend to purchase?

Mr. HEAPS: Yes, how much?

Mr. HUNGERFORD: We expect to purchase about \$19,000,000 worth.

Mr. HEAPS: How much of that is being made in the C.N. railway shops?

Mr. HUNGERFORD: There are 125 refrigerator cars being constructed at Transcona.

Mr. HEAPS: Is it not possible for more of that equipment to be produced in the government shops?

Mr. HUNGERFORD: No, not this year.

Mr. BEAUBIER: That means that they would be working to capacity to do that work, does it?

Mr. HUNGERFORD: Substantially so, yes.

Mr. WALSH: That \$29,000,000 for 1935 includes that extraordinary amount we discussed so keenly last year.

Mr. BOTHWELL: The \$29,000,000 item?

Mr. WALSH: That is included.

Mr. McLAREN: \$24,000,000 of obsolete equipment.

Mr. WALSH: What per cent does the \$5,952,000 represent? Is that a proper percentage of the value of the equipment to set aside annually? Is that recognized as the proper amount?

Mr. McLAREN: This \$5,952,000 is represented by loss written off \$2,727,000; incompleated projects written off \$1,547,000; land values written down \$484,000; normal roadway retirement for year \$1,193,000; total, \$5,952,000.

Mr. WALSH: I think, under these circumstances, you are getting back to a condition that existed previous to 1935. In 1934 you wrote off an amount of \$1,290,000, and then last year you had an amount of \$26,000,000 or \$27,000,000 that you wrote off, and the reason for that special amount last year was that it represented an accumulation over a period of years because you had not previously written off a sufficient amount. Now, apparently you are getting back to that practice of writing off only a very small amount, and the result will be that in about five or six years we will have another very large item to cover what should be written off annually. I thought there was some practice among rail-

[Mr. S. J. Hungerford.]

roads to write 3 or 4 or 5 per cent, whatever the amount was. There is a certain fixed amount that is recognized among railways and other business institutions that should be written off—so much for depreciation—and that is more or less a fixed amount. Now, have you got any fixed amount, and are you following the practice?

Mr. HUNGERFORD: The practice you speak of is a recognized one in the United States for some railroads controlled by the Interstate Commerce Commission which sets the amount or rate of depreciation, which steam railroads must accrue each year.

Mr. WALSH: And what is the amount that they set?

Mr. McLAREN: Well, on an average, I think it was about 3 per cent.

Mr. WALSH: And does this amount you are setting aside, \$1,000,000—does that represent that practice?

Hon. Mr. HOWE: We set aside a little over \$6,000,000—\$6,600,000.

Mr. WALSH: In the statement which has been given me, the break-down of the \$5,952,000 included the amount of over \$1,000,000 for retired equipment and so on.

Mr. McLAREN: I want to complete my statement, Mr. Walsh, and say that as far as Canadian lines are concerned the instructions issued by the government department do not permit of accrued depreciation. It is known as the retirement account on a retirement basis. As far as actual retirements are concerned they amount to about—in 1936—somewhere about \$6,500,000.

Mr. WALSH: Does that appear here?

Mr. McLAREN: It does not appear in the P. & L. but it appears in the operating expenses on page 14 of the report in the different classes of equipment. For instance, on Canadian lines there is chargeable here \$5,549,000. Now, that would be written out of investment account plus whatever amount the salvage value may be of the retired equipment.

Mr. HOWDEN: I would like to follow up Mr. Heaps' interrogation with regard to the manufacture of new equipment, and I would like to ask if it is the policy of the railway to make this equipment in their own shops, as far as is feasible.

Mr. HUNGERFORD: As far as we are reasonably justified, yes; but the company's plants are designed and equipped to repair rolling stock and not to build it.

Mr. McLAREN: I would like to finish my answer to Mr. Walsh so that he will have the matter clear. There was written out of investment account for the year 1932, \$4,112,000; 1933, \$4,463,000; 1934, \$5,272,000; 1935, \$5,739,000; 1936, \$6,278,000; proposed to be written off for 1937, \$7,389,000 for equipment retirements.

Hon. Mr. HOWE: That is provided out of the operating statement.

Mr. HEAPS: May I revert to the question of equipment?

The ACTING CHAIRMAN: I want to know if we are through with this statement?

Mr. HEAPS: Yes.

The ACTING CHAIRMAN: I think what Mr. Walsh wants to ask is this: does this retirement correspond to the depreciation account in the United States, and is there sufficient in it to represent what is usually done under that other system.

Mr. WALSH: Yes. I am sorry I have not got my papers with me. Last year we had a very lengthy discussion on a very large item of \$20,000,000 odd. That, I understood, was for the scrapping of equipment that had not been scrapped over a period of years.

Mr. HUNGERFORD: We had two programs of retirements last year: one was the normal retirement which amounted to about \$6,000,000 and which represented

equipment that was worn out in service and properly chargeable to operating expenses. The large program of retirement was in connection with equipment that still had service life but was no longer usable on account of changed conditions. The principal change in that regard was the establishment of a rule all over North America which prohibited, after a certain date, the interchange of wooden cars. Then with the general shrinkage of building of branch lines where light equipment is used, we found ourselves with a surplus of cars and engines of a certain type, still having additional service value and which we could have repaired and maintained in the ordinary way, but we had no further use for them. Now, there were two separate programs in 1935. There was only one in 1936; that is, the normal retirement of equipment which is worn out.

Mr. WALSH: And this normal amount will not lead us into a similar position in another year of having to meet a very much larger amount such as we met last year?

Mr. HUNGERFORD: I do not think it will. Everybody was misled in connection with the retirement of equipment in the United States. They had depreciation accounting and had accumulated a reserve for the purpose; but as the result of depreciation on account of equipment being laid aside and not used, the American roads, to a great extent, found their depreciation reserves were inadequate, and the Interstate Commerce Commission authorized them to write off large amounts and charge them to profit and loss. And that is what was done in 1934 and 1935.

Mr. WALSH: It is the usual practice among railroads to write off a certain amount of this against profit and loss and a certain amount against operating expenses, is it not?

Mr. HUNGERFORD: I would make this distinction: it is the prevailing practice and the proper practice to charge to operating expense the retirement of equipment that is worn out—that has been used up in actual service—but where there is a change of conditions and these units are still usable but obsolete, the situation is not the same.

Mr. WALSH: The worn out materials are charged against the operating cost, whereas the obsolete materials which are not worn out are charged against profit and loss?

Mr. HUNGERFORD: Yes.

Mr. RYAN: This amount includes projects which were abandoned. Were there any projects contemplated in the province of New Brunswick which have been abandoned?

Mr. McLAREN: We will get the details of that in a moment or two. That is the amount written off that you are speaking of?

Mr. RYAN: Yes. They were contemplated, I presume.

Mr. McLAREN: I will give you the details in that regard in a moment or two.

The ACTING CHAIRMAN: Now, Dr. Howden wants to proceed and ask some questions with regard to construction in the government shops.

Mr. HOWDEN: No. I received an answer to my question.

Mr. HEAPS: I was referring to that. I have received several communications from men involved in the shops as well as in the organizations to which they belong claiming that a great deal more of the equipment could be produced in the shops; and, secondly, they were protesting against the difference between the wages paid by private contracting firms and those paid by the government. In the government shops the wage rate is considerably higher than that paid by the private contracting firms. The employees felt that a great deal more of the equipment could be produced in the railway shops than has been allotted to them by the Canadian National Railway system. Mr. Hungerford claims that the shops are working to capacity, and that might alter the factor. How-

[Mr. S. J. Hungerford.]

ever, I would like to ask further in reference to the character of the equipment which the railway has ordered. Is it the same heavy equipment that is now in use on the railways?

Mr. HUNGERFORD: The units are of the improved type, of course.

Mr. HEAPS: Perhaps I should state that last year or the year before you stated you had under contemplation the question as to whether or not you should use lighter rolling stock than you do now on the railways.

Mr. HUNGERFORD: We are giving consideration to that matter constantly; but the major portion of the traffic on our railway requires heavy equipment still, and as far as I can see, it will continue to do so.

Mr. HEAPS: Are not the American railroads now utilizing much lighter rolling stock than we are in Canada, and has it not proved popular there?

Mr. HUNGERFORD: After all, there is only a comparatively small proportion of the total traffic on the railways that is of a character that could be carried in exceptionally light equipment. By far the major portion of the traffic will have to be heavy equipment.

Mr. HEAPS: Do you feel, as far as this country is concerned, that we will have to maintain the same heavy equipment we are using at the present time?

Mr. HUNGERFORD: To a large extent.

Hon. Mr. STEWART: Would it pay to scrap good useful existing equipment although it is a little heavy just for the sake of replacing it with lighter equipment?

Mr. HUNGERFORD: Not in my judgment.

Mr. HEAPS: I am not suggesting that; but there may be a gradual replacement of the heavy equipment with the lighter equipment which is much easier and cheaper to operate.

Mr. HUNGERFORD: The only valid argument in connection with light equipment is in connection with less than carload package freight which, after all, represents a comparatively small proportion of the total freight traffic handled. It is much more economical to handle bulk commodities which, as I said before, represent the greater proportion of the total traffic, in large units. It is cheaper, and we have a constantly increasing demand for larger units to satisfy the requirements of shipping.

Mr. HEAPS: Would the same apply to passenger equipment?

Mr. HUNGERFORD: Yes and no. It depends upon the character of the service you have under consideration. For local passenger train service and branch line service there might be some advantage in having lighter equipment, but for main line use in Canada I doubt very much if there would be justification for it.

Mr. HEAPS: Have they not got the lighter equipment on the main lines in the United States now?

Mr. HUNGERFORD: They have. A good many of their roads have purchased and put into service a lot of so-called stream lined light equipment. Usually in big trains which are assembled in such a way that the units cannot be separated; they have to be operated as a whole. Only in that way is that class of equipment suitable. Where you have a multiplicity of trains with a variation of the volume of traffic you have to be able to add or subtract a car depending on the amount of the traffic.

Mr. HOWDEN: Mr. Hungerford has indicated that the shops have been built largely for the purpose of repairing equipment. I represent a constituency in Manitoba in which are the Transeona shops, and the claim is frequently made by men appealing to me that their shops are quite able to assemble engines of any type and to manufacture coaches and refrigerator cars. In that case, I assume, if their claim is correct, they would be able actually to produce a good

deal of the equipment that the company is building at the present time. Would that be so?

Mr. HUNGERFORD: They are building some there now.

Mr. HOWDEN: Yes, I understand that.

Mr. HUNGERFORD: They have built some in the past.

Mr. HOWDEN: They say they can build heavy engines there and refrigerator cars and coaches.

Mr. HUNGERFORD: They can; but it would not be advantageous to do it. We have built some locomotives at Transcona in the past, but we are not buying any locomotives this year.

Mr. DEACHMAN: I would like to ask if the original cost and maintenance of equipment is higher in Canada or in the United States?

Mr. HUNGERFORD: The original cost and maintenance?

Mr. DEACHMAN: Let us first take the initial question—the purchase of new equipment. If you are buying new cars and engines would you pay more for them than an American road would pay?

Mr. HUNGERFORD: Yes, I think that is true to an extent.

Mr. DEACHMAN: And the same would probably apply to equipment—repairs and maintenance.

Mr. HUNGERFORD: Yes.

Mr. KINLEY: It is natural that you would pay a little more. In the United States there are one hundred and twenty millions of people buying equipment, in Canada there are ten millions.

Mr. BOTHWELL: If I understood Mr. Heaps aright, he states that the complaint is made that higher wages are paid in the Canadian National shops than are paid in other shops.

Mr. HUNGERFORD: We have no definite knowledge as to the wages paid in the locomotive building plants.

Mr. HEAPS: But when you let contracts you put a fair wage clause in them, do you not?

Mr. HUNGERFORD: Yes.

Mr. HEAPS: My information is that the wage rates in these private shops are not, I would say, any more than two-thirds of those paid in the Canadian National Railway shops for the same class of work.

Mr. HUNGERFORD: I could not say. Nearly all of the new work is done on a piece work basis, as I understand it. That rather nullifies the value of the hourly rate.

Mr. HEAPS: Even considering it on a piece work basis, the men earn only, say, two-thirds—approximately two-thirds of what the men would earn in the railway shops on an hourly basis. The comparison might even be worse on the other basis.

The ACTING CHAIRMAN: Is it your suggestion that the railways treat their employees better than these other companies do?

Mr. HEAPS: It certainly is.

Mr. DEACHMAN: You mean that they charge more to the public.

Mr. HEAPS: No, I think the other employers are taking it out of the employees, and I think it is most unfair to the railway shops.

Mr. DEACHMAN: The basic fact is from the standpoint of the consumer—which can give the better service, the government shops or the others.

Mr. HEAPS: For the benefit of Mr. Deachman I think I might refer to the figures supplied to this committee last year or the year before when it was

[Mr. S. J. Hungerford.]

claimed that the cars turned out in the railway shops had cost no more as far as the railway shops were concerned than those purchased from private contractors.

Mr. KINLEY: I would be surprised at that.

Mr. HEAPS: It is true. Mr. Hungerford, for the benefit of the committee this year would it be too much to ask if you could give that information as to the cars produced at Transcona shops two years ago?

Mr. HUNGERFORD: They were delivered last year, 1936.

Mr. HEAPS: Could we have those figures for the benefit of the members of this committee—what you paid for the same class of equipment from the private contractors?

Mr. DEACHMAN: That may be dangerous.

Mr. HEAPS: I will take a chance.

Mr. HUNGERFORD: You get into the argument with regard to the proportion of overhead charged by the railway and by the private companies.

Mr. MCKINNON: You were asked a question with regard to the fair wage clause in respect of contracts let out to the other shops. What basis did you use to set the wage?

Mr. HUNGERFORD: The prevailing rate in the community.

Mr. MCKINNON: It would not be a question of the rate you people have to pay yourself, or do pay?

Mr. HUNGERFORD: No.

Mr. POULIOT: I would like to ask the permission of the committee to ask a few questions. I would like to know from Mr. Hungerford when freight cars and locomotives are repaired, if the cost of the hauling is taken into consideration in the amount of repairs?

Mr. HUNGERFORD: Do you refer to hauling them back and forth?

Mr. POULIOT: Yes. Suppose a car is broken or some repairs have to be made on it at a certain distance from the shop, is that car repaired at the nearest shop, or is it sent further away?

Mr. HUNGERFORD: It all depends on the circumstances. I do not think there is any general rule in regard to it. The local officers send the equipment to the point that appears economical to them, having regard to all the circumstances.

Mr. POULIOT: Yes, Mr. Hungerford, but I would like you to define what you mean by circumstances. It seems to me that hauling is quite expensive—for instance, hauling a car for two or three or four hundred miles is much more expensive than hauling a car for one hundred miles?

Mr. HUNGERFORD: Quite so, but that might be offset by being able to get the work done cheaper or with more facility than at other points.

Mr. POULIOT: Yes, but does the railway take into consideration the cost of hauling and add it to the cost of repairs? It seems to me that there is a chance for economy there because the hauling of a locomotive is an expensive operation. Therefore, to have a better idea of the cost of repairs it seems to me that the railway should take the cost of hauling into consideration. What Mr. Hungerford has said confirms what I had already heard on the matter—that that is not taken into consideration. No private company would act on those lines.

Mr. HUNGERFORD: I did not say that. At least, if I did, I did not intend to say that. What I said was that the cost of handling is not added in the accounts to the charges for the repair of the equipment, although it is naturally taken into account when arriving at a decision regarding where equipment should be repaired.

Mr. **POULIOT**: Therefore, the railway does not know the correct amount of the repairs when they do not take into consideration the cost of hauling. If the work can be done properly in a small shop at a short distance, I do not see what the railway gains by sending those cars to be repaired at a great distance. It seems to me that the committee should weigh the importance of this matter and make a recommendation to the minister and to the railway in this regard. This is one thing which has been overlooked. I cannot agree with what has been done in the past, because there is a strong tendency towards centralization which takes the work away from able men who work in the small shops and who can perform the work perfectly well, and very often the work is given to the larger shops and they have to be told their trade by the men who work in the smaller shops. I have a further word to say in which I would refer Mr. Hungerford to Mr. Appleton who knows these men well and always speaks very highly of them—the men at the Riviere du Loup shops. On Monday I had the pleasure of meeting Mr. Appleton who represented to me his high appreciation of the work being done by these men. If the railway can save some few thousand dollars each year by having these cars repaired in small shops, it seems to me it would be of benefit to the railway. This is one suggestion I offer to the committee. I hope that the members of the committee will weigh it carefully, and if they think this should be done they should make a recommendation to whom may be concerned in this regard. I have another question to ask, if you will permit me—

Mr. **WALSH**: Could we settle that question which has been raised by Mr. Pouliot before going on to another? Would that be satisfactory? With certain of the statements made by Mr. Pouliot I am in agreement. I do think that some of the work could be done very satisfactorily in the smaller shops; but I do feel—and I have always taken this stand—that this committee should not, under any circumstances, make recommendations in connection with the operating of the Canadian National Railways.

Mr. **FERLAND**: Why not?

Mr. **WALSH**: They have a management. We can make suggestions but to actually make a recommendation is another matter. Personally, I feel that we have in the president of the Canadian National Railways—and I am not suggesting this because it is the day after the 17th of March—one of the best railway operators in the country, and I think the Canadian National Railway is being well operated from the point of view of efficient management. I feel perfectly confident that the management is getting the work done in the cheapest possible way. It is in their interest to do that. I also feel that they are making use of the small shops whenever it is possible for them to do so. I would not like to agree to a recommendation from this committee to anyone that we advise the management to do this or that. The suggestion has been made by Mr. Pouliot, it is in the record, and I think that ought to be quite sufficient as far as this committee is concerned without actually committing ourselves to a definite recommendation to the management for fear it might be interpreted as interference by this committee in the actual operating of the Canadian National Railway system.

The **ACTING CHAIRMAN**: Apropos of Mr. Pouliot's remarks, I think Mr. Hungerford will agree with me when I say that I have on many occasions asked the Canadian National Railways to do as much work in the shops with which I am very familiar as can reasonably and profitably be done at that particular point. I take it that that is the policy of the railway.

Mr. **HUNGERFORD**: Certainly it is.

Mr. **KINLEY**: I do not see why Mr. Walsh should speak ex cathedra to this committee. He seems to have his opinion of the set-up anyway which Mr. Hungerford was trying to put on for the Canadian National Railways.

[Mr. S. J. Hungerford.]

Mr. WALSH: I have never tried to interfere with the management of the Canadian National Railway. I would not do it. I would not be a party to it.

Mr. KINLEY: This matter of repairs, of course, has always been a matter of dispute between the small community and the large community. I realize that equipment costs money, and to do repairs well we must have equipment. You load yourself up with a lot of equipment that costs money, and that is one point in regard to the centralization of repairs. It seems to me, however, that the railways serve the public and they expect to get their business from the public. They are asking for traffic legislation from the public to preserve them and perhaps to salvage them from the position they are in. They want trucks to be curtailed. The truck driver gets his business down in the local community and he gets his repairs done there and the grocer says, "You can carry my groceries from Halifax to some place else." I am not criticizing; I am pointing out to the president of the railway that you must have the stream running both ways, and it is a good thing to have the little fellow in the back country with you. The railroad may think it is saving some money by getting all the repairs done at the central point, but when they maintain the small community it helps to give a balance to them which is good for our economic system. One of the things we are complaining about to-day is that the east and the west have certain problems and industry is centralized in central Canada. If we had more balanced industry in the other parts of Canada it would make for greater satisfaction. I think the railway can do considerable toward distributing their work in parts of Canada where their trade originates. The grain trade originates in the west; and the fish trade originates in the east and in British Columbia also, and we like to see a little of the money coming back. The nearer you spend it at home the more chance you have to get it back.

Mr. HUNGERFORD: May I say that the most economical means of making repairs to equipment is the daily concern of experienced and qualified railway officers. They are giving that matter deep consideration every day.

Mr. WALSH: I do not think we should interfere with them here.

Mr. KINLEY: It is quite a principle, but don't forget that our economy and everything else is changing, and decentralization of industry is becoming one of the big questions of the world to-day.

Mr. POULIOT: I appear here only by tolerance, and therefore I cannot express my views very fully.

Mr. WALSH: I think we ought to consider Mr. Pouliot as quite within his rights to express his views fully.

Mr. POULIOT: Thank you. I wish to thank Mr. Kinley for what he said. In answer to the remarks of Mr. Walsh may I say that I do not mistrust anybody, and although disagreeing with him on certain points it is a great mistake to say that anyone in business is infallible, and the gentleman in charge of the management of the railway cannot pretend to be infallible and might very well receive suggestions even from laymen and take them or leave them. But they have to consider what is suggested to them to see whether they can benefit from those suggestions. I do not wish to add anything to what has already been said about repairs to cars or the cost of hauling, but there is unemployment in the small centres just as there is in the large ones, and by centralizing the work the railway or any other organization gives the public the impression that it is only in the large cities they can find work and, therefore, the number of unemployed is always larger in the big cities.

There is another question I wish to deal with. I heard from a reliable source that the seniority lists of the men working on the Quebec Oriental railway had been padded at the time of the amalgamation of that small railway, and that men who had been working there on part time as day labourers were shown on the list as having seniority as mechanics and that that seniority was shown as existing for twenty or twenty-five years and that these men from New

Carlisle and other points who had no particular training as mechanics were indicated as such and took the place of real mechanics who had earned their seniority but were set back. It seems to me there is a real grievance here, and I place the matter before you, Mr. Chairman, and before the Deputy Minister of Railways and before Mr. Hungerford. I would like the management to make an investigation of this matter in order to verify whether or not such information is true. If it is true, in all fairness to those who have suffered an injustice, those men whose seniority is false should be sent back where they come from, and their places should be given to the skilled men who have suffered a very cruel injustice.

Mr. HUNGERFORD: May I answer at this point? There are more or less recognized rules in regard to the amalgamation of the staff into the organization. The staff on this line and other lines were taken over and given seniority in accordance with these general principles. This subject has been debated a great deal, and it has been investigated, and the status of the men, when the line was taken over, was determined by agreement after investigation by both the representatives of the organization and the management.

Mr. POULIOT: I thank you, Mr. Hungerford, but may I tell you something more: It is that very often the men are betrayed by the leaders of the brotherhood and that is the case when the leader of one brotherhood belongs to a secret society, a society of Odd Fellows—it is very serious when a preference is given to the detriment of others. There is one case in particular of a man who had been sent from New Carlisle or some other point to report as a skilled mechanic, and he had to be taught his trade by the men at Rivière du Loup. He knew absolutely nothing. A complaint was made to the Brotherhood and to the general chairman and nothing was done. That man was protected. This is unfair. If it had been done by the Knights of Columbus I would complain just the same. I do not belong to any secret society. I want fairness extended to all. It is a shame. There are some leaders of brotherhoods who think of themselves only. They wear a big gold chain and they smoke big cigars. They are very bold; they put their feet up on the desk. We have some samples in the Employment Commission. They have done nothing in their life. We have many examples of that. When we write to these people we receive absurd answers, when we get any; and most of the leaders—especially the Trade and Labour Congress and Mr. Mosher—are absolutely no good, and I denounce them bitterly on behalf of the men who work for the railway. The management should not forget that the men who are working for the railway are an important asset; that the lives of all passengers are in the hands of the engineers and firemen. These men should be competent, and those who make repairs and build the cars should be skilled men—men of highest efficiency—so that we may know that when a piece of work is O.K.'d by them it is well done.

Mr. HANSON: Surely you do not mean the leaders of the different railway organizations; the labour organizations elect their own leaders.

Mr. POULIOT: Yes, but they are organized in such a way that those men remain there; they pull the strings and work for their jobs at the expense of the men. The men pay for protection. It is a kind of insurance, but they get no benefit in return. Now, sir there is another point—

Mr. WALSH: Let us finish with the railwaymen and the Odd Fellows.

Mr. HUNGERFORD: During the past few years we have investigated scores, perhaps hundreds of these cases, and I think it will serve the purpose of this committee if Mr. Pouliot will be good enough to give me one single case and I will have it investigated.

Mr. POULIOT: I will send one to you.

Mr. KINLEY: With regard to operating revenue, I have a little matter to bring up. It is a matter of co-operation.

[Mr. S. J. Hungerford.]

Mr. WALSH: We interrupted Mr. Pouliot.

Mr. POULIOT: I have had dealings with the previous government and this one about the salary paid to Mr. Laforce of the Colonization branch. I wonder what that branch is doing. I find it most absurd that there should be one head for colonization, and that man Laforce was in the Immigration department for some time. And he cannot speak French decently. I do not know how he speaks English because I am no judge, but he speaks bad French. He is ignorant. I cannot understand how he has been elected twice as the president of St. Baptiste Society of Montreal. It shows there are many prejudiced people in the metropolis of Canada. I have asked for his salary, but I have received no information. Here is the point that we were discussing—I wish to leave the railway free—it seems to me that this colonization business is just a matter of soft jobs. Mr. Laforce was there and he gave extensive lectures over the radio. They were copied by stencil—lectures about agriculture three thousand years ago—and they were sent to every member. He has done things like that at the cost of the country. And now he is Deputy Minister of Colonization in Quebec, and I understand he has been loaned by the Canadian National Railways to the Quebec government where he is responsible for the starvation and misery and distress of many settlers in my constituency. For instance, some settlers have been placed there,—and he is responsible for that because he accompanied the minister—they have been placed there on rocks, and there are cases where four families have one animal in common, and it is an ox. They have no horses or cows, and they are suffering. This man had a fat job with the Canadian National Railway in charge of colonization and he has been succeeded by Mr. Lanctôt. Mr. Lanctôt, in turn, says that Mr. Laforce is a genius, in order to show he is his successor and he should occupy the same warm bed. It seems to me there should be one head for colonization, and the head must be each provincial minister. This colonization branch is like a corn on the toe—it is responsible for the misery of those settlers. I am carrying on an investigation into those cases, and I am receiving returns daily. I will send a copy of those returns to Mr. Hungerford. It will be practical economy to cut that short.

Mr. HUNGERFORD: I do not think the Canadian National Railway has any direct responsibility in connection with colonization schemes which are carried on by provincial or other governments.

Mr. POULIOT: What is the use of having a colonization bureau?

Mr. HUNGERFORD: The provincial government asked for the loan of this man, and the matter was given consideration, and we loaned him.

Mr. WALSH: Will he return to the Canadian National in due course? Is he just on loan?

Mr. HUNGERFORD: I do not know whether he will return or not.

Mr. WALSH: Has he retired from the Canadian National?

Mr. HUNGERFORD: No.

Mr. WALSH: He must be an exceptionnally good man or the new government of the province of Quebec would not have sent for him.

Mr. HUNGERFORD: We thought it was a compliment.

Mr. POULIOT: As Mr. Hungerford has said the Colonization bureau has nothing to do with the provincial government business. What are they doing?

Mr. HUNGERFORD: They co-operate with all the provincial government and with the Dominion government as well.

Mr. POULIOT: Therefore, they have something to do with it.

Mr. HUNGERFORD: The policies are determined by the various governments and we co-operate.

Mr. POULIOT: Yes, I know; but if they co-operate they have something to do with them; if they have nothing to do with them they do not co-operate. Would you be good enough to explain to me why, if they co-operate and have something to do with it or if they do not co-operate and have nothing to do with it, why they should not be dropped?

Hon. Mr. STEWART: I think he meant determining the policies of the different provinces.

Mr. HANSON: We are out of order. The Colonization department of the C.N.R. in British Columbia has done more for the settlers and given them more information than we could get from the provincial or Dominion agriculturalists or the Soldier Settlement Board; and the Canadian National Railway colonization department has done more for the settling of that country than any other source we have. If there is something wrong in some other part of the country, I do not know about it, but I can speak for what has been done in central and northern British Columbia.

Mr. POULIOT: I suggest that all these men establish themselves in the county of Skeena and leave us alone.

Mr. KINLEY: The federal government last year voted \$200,000 to the advertising of fish, and one would think that we should have the co-operation of all government agencies to bring some results. Going home some time ago on one of the trains of the Halifax & Southwestern Railway the steward asked me if I wanted breakfast, and I told him I did. I said, "Let me see your menu". He gave me a menu which had as a specialty grapefruit and a club breakfast of five or six different kinds at different prices—a general buffet menu. I suppose they are standard menus that are printed somewhere in Montreal and sent down to the coast. I said, "Have you no fish this morning?" And he said, "Yes". I said, "There is none on the menu." I said I would like to have some fried haddock. He went into his little kitchen and he gave me a nice piece of fried haddock, but it was not on the menu, and this was a train travelling from Halifax to Yarmouth. The train was passing through a fishing district but there was no fish on the menu for the reason that the meals are standardized and there is no initiative among the lower officials. If this man had been instructed he could have put specials on the menu including fish. Now, the carrying of fish from the Maritime provinces represents a big item to the railways, and we in the Maritime provinces regard the railways as a splendid medium of advertising our fish. It is good fish. It does not make you go to sleep after dinner, and we think it is a suitable food, and we expect the railways to co-operate. Now, on the main line—

Mr. HOWDEN: You ought to try our restaurant and get a little good fish up there.

Mr. KINLEY: I have often thought of putting on a demonstration in Ottawa to show the proper way to serve fish and in that way to get some advertising all over the country.

Now, on the main lines it is a little better. In the hotels it is awful. I wish some of the management would go down to the Parker House in Boston and see how they cook fish. Any Nova Scotian goes there; he likes to see fish cooked in the best possible way. I do not think the Canadian National hotel in Nova Scotia rises to the occasion. I think it would do well to get some tips from the hotels in Boston, because I regard Boston as the best fish town in the world. If we could get an increase of 10 per cent in fish consumption in Canada it would mean a great deal to Nova Scotia. The best fish I have eaten in this country was on the C.P.R. boat between Digby and Saint John—the Empress boat is well served. I do not know very much about the fish served on the C.P.R. trains, because I do not often travel on the C.P.R. I think we should ask the management of the C.N.R. to see to it this year that their trains serve

[Mr. S. J. Hungerford.]

the foods for which we should excel and that those specials should be well served in the province of Nova Scotia. The railway is a great medium of advertising because they can make the food to order, but one should not have to wait for fish. I am speaking to the management in their own interests. There should be more co-operation in regard to the serving of fish on the railroads and there should be more initiative allowed to the stewards on the train so that they can put such things as fish on the menu, at least, in Nova Scotia, and we can thereby derive some advertising from it.

Mr. RYAN: We have all been digressing, but Mr. Kinley has paid a compliment to the Canadian Pacific as against the C.N.R. and I wish to say I travelled home overnight on the C.P.R. and dined in the buffet car going to Saint John on a Friday—on a day I can eat fish only—and it was impossible to get a bit of fish on the C.P.R. except canned sardines. If any publicity is given, I would like the C.P.R. to adopt the same attitude.

The ACTING CHAIRMAN: This is not exactly the fisheries committee. Perhaps Mr. Kinley can do a service by suggesting to the management of the road that they have the best kind of fish on their menu cards.

Hon. Mr. STEWART: The Canadian National Railway did attempt to establish a special service for fish delivery in the city of Ottawa. They put on specially equipped cars and landed their fish here in excellent condition, and you could go to the cars and get your fish fresh and in proper condition. I understand that the city of Ottawa passed a by-law to the effect that fish could not be sold out of the cars—that they had to be sold over the retail counter.

Mr. DEACHMAN: That is protection.

Hon. Mr. STEWART: That is not protection; that is provincialism.

Mr. DEACHMAN: So is protection.

Hon. Mr. STEWART: It is provincialism.

Mr. DEACHMAN: No, so is protection.

Hon. Mr. STEWART: My hon. friend cannot say it in any other way. It seems to me, if that is so, co-operation might be secured in some other direction. I know that the railways are anxious to get good fish, but when we have to go to the retail shops we do not get the fish strictly fresh.

Mr. KINLEY: Half of our fish in Nova Scotia is going to the United States, and a lot of it goes all the way by rail to Detroit.

Mr. HUNGERFORD: I am rather surprised at Mr. Kinley's stand because I was under the impression that we had gone a long way to advertise fish on our trains and in our hotels in the Maritime Provinces. Certainly, it is our purpose to do that. Now, with regard to these menus, in the east we have lately made a change and referred that matter to those in closest touch with it in order to take care of circumstances such as have been described by Mr. Kinley. I think they will correct the situation. We will do all we can.

Mr. WALSH: Miscellaneous debits—\$7,114,000. What are the principal items making up this amount?

Mr. RYAN: Before we go into that, I asked about debits for retired road equipment. I was told what projects were contemplated in the province of New Brunswick. Were there any projects contemplated that were discarded?

Mr. KINLEY: May I ask that at the next meeting I be provided with a list of men or firms in my riding who were provided with timber contracts last year. I might say also that there was some agitation and complaint of paying 5 cents less in my constituency for ties than in some other parts of the country. I wrote back that I was not very much concerned about that at the moment. I was wondering how much more business we got because we are supplying them 5 cents cheaper.

The committee adjourned to meet at 4 p.m. o'clock.

The committee resumed at four o'clock.

The Acting CHAIRMAN: We were discussing the profit and loss statement. I do not know whether there are any further questions to be asked?

Mr. RYAN: I asked for some information before we adjourned. I do not know whether it is available or not.

The Acting CHAIRMAN: Mr. Ryan asked a question in connection with some retirements or abandonments.

Mr. McLAREN: Mr. Ryan asked whether the \$1,547,000 written off for uncompleted projects included any of the C.G.R. property? The answer is that it does not include any write-off of the C.G.R. property.

Mr. RYAN: And I asked what are the principal items making up the miscellaneous debits of \$7,114,000?

Mr. McLAREN: I have here a statement of miscellaneous debits for the year 1936:

Principal Items:

Writing down non-operating land value.....	\$1,190,152
Unamortized discount and premium on called issues, written off... ..	5,673,000
Adjusting U.S. Lines depreciation reserves per Interstate Commerce Commission instructions..	76,554
Miscellaneous items..	174,684
	\$7,114,390

Mr. McLAREN: I have another question to answer as regards the taxes divided between the United States and Canada. The answer is:

TAXES

	1936	1935
United States..	\$1,906,614 41	\$1,369,752 21
Canada	4,797,674 35	4,630,707 91
Other countries (Great Britain, etc.)	38,858 38	43,715 80
	\$6,743,147 14	\$6,044,175 92

The amount of \$3,000,000 referred to in the report is the estimated sales tax, payable in Canada only.

Mr. McLAREN: Some member asked a question as to the issuance on property covered by outside underwriters. The answer is:—

Michigan car ferries..	\$1,700,000
Prince boats..	4,200,000
Ontario car ferries..	1,100,000
Canada Atlantic company..	1,000,000
Prince Edward car ferries..	1,200,000
	\$9,200,000

The premium paid was \$205,568.

Mr. RYAN: I think the chairman said it was all called for by tender.

Mr. HUNGERFORD: Yes.

Mr. WALSH: Did that miscellaneous amount of \$7,000,000 in the break-down involve any premium on what might be referred to as called bonds?

Mr. McLAREN: Yes, a certain amount is premium.

Mr. RYAN: Are those tenders for insurance advertised across Canada in the leading papers?

Mr. McLAREN: I could not answer that question.

Mr. RYAN: Would it be possible to find that out subsequently?

Mr. McLAREN: Yes.

[Mr. J. B. MacLaren.]

Mr. WALSH: Has this item been handled in exactly the same way this year as in 1935?

Mr. McLAREN: Which item?

Mr. WALSH: The \$7,000,000, under the breakdown?

Mr. McLAREN: Do you mean the writing off of discount and premium?

Mr. WALSH: Yes, is that the same?

Mr. McLAREN: It is in accordance with the practice we have been carrying out for a number of years.

Mr. WALSH: Is it the same as last year?

Mr. McLAREN: Some of it should have been written out last year. It was all adjusted this year to clear it up.

Mr. WALSH: On page 11 there is another item I desire to connect up with this item. It is the last item of \$881,100.87 for amortization of discount on funded debt. This question has to do with what we are on. Is there any connection between that item and the items you have mentioned under the \$7,000,000?

Mr. McLAREN: Which item?

Mr. WALSH: Amortization of discount on funded debt, \$881,100.87. Has it any relation to the items you read under the \$7,000,000?

Mr. McLAREN: No; because the items under the \$7,000,000 were, you might say, the unextinguished discount or unamortized discount when the bonds were called. If the bonds had been allowed to run to the maturity date the annual discount would have been taken up with the item of \$881,000 in the income account.

Mr. WALSH: There is no new policy introduced in that respect?

Mr. McLAREN: No; I would not say there was.

The ACTING CHAIRMAN: Shall we pass to page 11: Consolidated system—income statement?

Mr. Armstrong reads:—

CONSOLIDATED SYSTEM—INCOME STATEMENT

	Year 1936	Year 1935
Railway Operating Revenues.. . . .	\$186,610,489 38	\$173,184,501 82
Railway Operating Expenses.. . . .	171,477,690 07	158,926,248 66
Net Revenue from Railway Operations.. . . .	15,132,799 31	14,258,253 16
Railway Tax Accruals.. . . .	5,859,062 59	5,209,133 04
Uncollectible Railway Revenues..	94,037 61
Railway Operating Income.. . . .	9,273,736 72	8,955,082 51
Rent from Locomotives.. . . .	100,842 88	106,062 42
Rent from Passenger-Train Cars.. . . .	217,843 77	220,595 99
Rent from Floating Equipment.. . . .	315 00	4,557 50
Rent from Work Equipment.. . . .	119,715 82	116,961 19
Joint Facility Rent Income.. . . .	1,527,715 54	1,547,892 43
Hire of Freight Cars—Debit Balance.. . . .	1,441,522 85	1,019,933 12
Rent for Locomotives.. . . .	33,731 43	29,290 60
Rent for Passenger-Train Cars.. . . .	282,723 17	199,272 16
Rent for Floating Equipment.. . . .	1,464 14	1,283 49
Rent for Work Equipment.. . . .	26,488 93	7,834 31
Joint Facility Rents—Debit.. . . .	2,248,097 15	2,269,417 11
Net Railway Operating Income.. . . .	7,206,142 06	7,424,121 25
Revenue from Hotel Operations.. . . .	2,859,306 08	2,389,894 82
Expenses of Hotel Operations.. . . .	2,565,972 91	2,163,040 77
Taxes on Hotel Property.. . . .	133,316 13	125,083 29
Net Hotel Operating Income.. . . .	160,017 04	101,770 76

	Year 1936	Year 1935
Income from Lease of Road	51,290 09	51,474 25
Miscellaneous Rent Income	1,051,523 62	1,027,910 24
Miscellaneous Non-Transportation Property—Credit	83,578 74	42,091 36
Dividend Income	845,927 15	549,703 80
Income from Funded Securities	1,392,717 28	1,422,568 02
Income from Unfunded Securities and Accounts	58,253 90	75,110 51
Income from Sinking and Other Reserve Funds	228,388 37	538,997 38
Miscellaneous Income	417,707 85	222,447 16
Miscellaneous Rents—Debit	482,263 29	508,201 79
Miscellaneous Tax Accruals	142,483 78	144,407 08
Separately Operated Properties—Loss	905,837 02	1,373,060 49
Miscellaneous Income Charges	989,870 82	1,328,253 44
Miscellaneous appropriations of Income	87,636 11
Income Available for Fixed Charges	8,975,091 19	8,014,635 82
Rent for Leased Roads	1,372,228 69	1,372,712 38
Interest due Public on Long Term Debt	49,184,622 87	53,468,792 22
Interest on Unfunded Debt	206,802 59	182,125 15
Interest on Government Loans for refunding	527,682 21	783,671 47
Amortization of Discount on Funded Debt	881,100 87	1,085,516 27
Total Fixed Charges	52,172,437 23	56,892,817 49
Net Income <i>Deficit</i> before Interest on Dominion Government Loans, transferred to Profit and Loss	\$ 43,197,346 04	\$ 48,878,181 67

The ACTING CHAIRMAN: Is there any discussion on page 11?

Mr. HANSON: Why the increase in taxes on hotel properties?

Mr. McLAREN: An increase of \$8,000, \$4,000 for the Chateau Laurier.

Mr. HANSON: City or provincial?

Mr. McLAREN: City.

Mr. RYAN: I thought government property was exempt from taxation?

Hon. Mr. HOWE: Not Canadian National Railway Company property.

Mr. KINLEY: Does this operating income take into consideration the Vancouver hotel?

Mr. McLAREN: No; that is a non-operating property.

Mr. KINLEY: You deal with some expenses in connection with it.

Mr. McLAREN: The revenues and expenses for hotels refer only to the operating hotels. The Vancouver hotel had not yet been opened, nor is it completed.

Mr. KINLEY: Do you intend to open it?

Mr. HUNGERFORD: Some time.

Mr. RYAN: Do I understand that the railways pay municipal taxes?

Hon. Mr. HOWE: We make arrangements with the provinces of Nova Scotia, New Brunswick and Prince Edward Island with regard to the taxes paid to each province for road properties. For the hotels we pay the usual municipal taxes.

Mr. RYAN: The hotels come under the different category?

Hon. Mr. HOWE: Yes.

Mr. RYAN: Is there any possibility of building an hotel in Saint John?

Mr. KINLEY: What are the taxes paid on the Vancouver hotel?

Mr. McLAREN: About \$50,000 per year.

Mr. KINLEY: What do you pay on the Nova Scotian hotel?

Mr. McLAREN: \$3,000 increase.

Mr. RYAN: The tax is higher.

Mr. McLAREN: It is \$13,000 on the Nova Scotian.

Mr. KINLEY: How do you account for the difference?

[Mr. J. B. MacLaren.]

Hon. Mr. HOWE: There is quite a difference in the structures.

Mr. KINLEY: The Vancouver hotel is not even opened yet.

Mr. RYAN: The property is there.

Mr. KINLEY: It is only under construction now. You are going to pay a bigger amount than that a little later on.

Mr. McLAREN: The Nova Scotian hotel is a structure costing about \$2,500,000 and the Vancouver hotel about \$8,000,000.

Mr. KINLEY: When finished?

Mr. McLAREN: No, at the present time.

Mr. WALSH: Probably my honourable friend would suggest that when the policy of the present government has been in effect for another two or three years that hotel will be upon a paying basis.

Mr. DEACHMAN: There is a sharp decline in the interest due on long-term debt. Is that due to refunding?

Mr. McLAREN: Yes, at a lower rate of interest.

Mr. DEACHMAN: Is there much prospect of that continuing as hopefully as in 1935 and 1936?

Mr. McLAREN: I would think so, in view of bond values depreciating, and lower rates of interest.

Mr. DEACHMAN: You will be a long time in getting rid of some of these perpetual ones.

Mr. McLAREN: Yes. There is a 4 per cent issue of \$60,000,000 callable issue at par. At the present time, the question of the premium on sterling prevents any action being taken.

Mr. WALSH: The increase in expenses of hotel operations is due to an increase in the number of those who have been employed, I presume?

Mr. McLAREN: It is due to an increase in business.

Mr. WALSH: You have not the statement showing the profit and loss on the individual hotels?

Mr. McLAREN: Yes, we have it for each hotel for 1936 and for the fourteen years.

Mr. WALSH: Do any of the hotels showing a loss previous to this year now show a profit?

Mr. McLAREN: Jasper Park Lodge showed a profit in 1936 of \$4,500 as compared with the previous year's loss of \$7,900.

Mr. WALSH: But what about hotels in the commercial centres, like the Chateau Laurier?

Mr. McLAREN: The Chateau Laurier has shown an increase in net over and above taxes and operating expenses in 1936 of \$11,000 over 1935.

Mr. RYAN: A loss?

Mr. McLAREN: I said an increase, an improvement. In other words the net for the Chateau Laurier in 1936 was \$183,000 and in 1935 \$172,000 over and above taxes and operating expenses.

Mr. KINLEY: What was the operating profit?

Mr. McLAREN: In 1936, \$183,000, and in 1935, \$172,000.

Mr. KINLEY: And taxes?

Mr. McLAREN: Taxes were \$63,000 in 1936.

Mr. RYAN: Has there been any increase in the salaries paid to the Chateau Laurier employees?

Mr. McLAREN: The capital investment is \$8,600,000. Did you ask if there had been any increase in wages of employees of the Chateau Laurier?

Mr. RYAN: Yes. I have heard complaints that the employees are not paid very well. Is there any increase for the employees in contemplation?

Mr. McLAREN: I could not answer that question.

Mr. BEAUBIEN: They come under the Minimum Wage Act, do they not?

Mr. McKINNON: They will, when it comes into effect.

Mr. HANSON: What is the figure for the Saskatoon hotel?

Mr. McLAREN: After operating expenses and taxes \$6,155 in 1936 as against \$5,437 in 1935.

Mr. HANSON: Is that the net profit after taxes have been paid?

Mr. McLAREN: After taxes have been paid.

Mr. HANSON: Not the interest on the bonds?

Mr. McLAREN: No.

Mr. RYAN: Is there any uniform scale of wages for hotel employees throughout the country?

Mr. McLAREN: I could not say.

Mr. HUNGERFORD: No.

Mr. RYAN: That depends on the conditions obtaining in each place, I suppose?

Mr. HUNGERFORD: Yes.

Mr. RYAN: Has any objection been voiced to the salaries paid to the employees in the Chateau Laurier?

Mr. RYAN: Some complaints came up last year.

Hon. Mr. HOWE: A complaint came up and I looked into it and found they were being paid better than the minimum wages and being paid the best wages of any hotel in Ottawa. It is difficult to analyse hotel wages because gratuities play a big part.

Mr. McKINNON: The gratuities are not included in the wages?

Hon. Mr. HOWE: No.

Mr. KINLEY: What became of the big hotel in Paris?

Hon. Mr. HOWE: It is rented.

Mr. KINLEY: Does it pay its way?

Mr. SMART: There is a little net profit from it each year.

Mr. HUNGERFORD: It is under a long term lease. The rent has been adjusted somewhat under French law. It is paying a small return at the present time.

Mr. WALSH: The item of income from sinking and other reserve funds on page 11 of the report shows a considerable decrease this year. Is there any particular reason for that decrease?

Mr. McLAREN: It is due to a reduction in sinking funds, due to bonds being called on maturing.

Mr. McLAREN: It has been called to my attention that I said there was a profit in the operation of the Saskatoon hotel after operating expenses and taxes of \$6,155 in 1936, as against \$5,437 in 1935. I should have said there was a loss of \$6,155 in 1936 as against a loss of \$5,437 in 1935.

Mr. WALSH: Coming back to the item of amortization of discount on funded debt, of \$881,000 in 1936, and \$1,085,000 in 1935 and \$827,000 the year before, how do you account for the reduction as between 1935 and 1936?

Mr. McLAREN: I will have a statement made up, Mr. Walsh, and will give you the answer later.

The ACTING CHAIRMAN: Any further questions?

[Mr. J. B. MacLaren.]

Mr. McKINNON: With regard to the item of hire of freight cars and the item of rent for passenger-train cars, does the latter item refer to Pullman equipment?

Mr. HUNGERFORD: No. The principal item there, is the hire of freight cars. Freight cars are interchanged with other railways all the time, and because we handled more business, we got more foreign cars on our road. We pay one dollar a day for every foreign freight car on our lines.

Mr. KINLEY: On the first page of the explanatory matter you claim that you will be able to collect the loans under one head and save money in accounting and operating. Have you any idea of the amount you can save?

Mr. KINLEY: In your new setup.

Hon. Mr. HOWE: Perhaps I can answer that question. The saving in refinancing is an intangible thing due to the fact that we do not obscure the real position of Canada. It is simply an intangible improvement we might get from putting the picture accurately before the people instead of including another billion and a half dollars that now appears to the casual observer. As to the matter of saving in accounting, putting all the companies into one corporate structure allows us over a period to merge them and save the cost of keeping books for one hundred different companies as we do to-day; but that can be worked out only over a period of time.

Mr. DEACHMAN: Over a period of time would it affect that item of interest for long term debt? A better accounting setup of railway accounts would tend to give the buying public a clear understanding of railway affairs.

Hon. Mr. HOWE: We hope so.

Mr. KINLEY: In other words, any advantage there is would be on the side of accounting, a new setup?

Hon. Mr. HOWE: Yes.

Mr. WALSH: On the last item would it be possible to have a copy of the balance sheet and the income statement that we are now considering, and the profit and loss statement for 1936, shown as it will be shown when Bill No. 12 becomes operative next year.

Hon. Mr. HOWE: That may be done very simply by setting up the balance sheet in the Bill.

Mr. WALSH: Would it be possible to have that inserted in the minutes of this meeting so that we could have it before us at our next meeting?

Hon. Mr. HOWE: We could put it on a sheet of paper and distribute it.

Mr. SMART: The balance sheet was tabled when the committee was in session previously.

Mr. WALSH: Yes. We have that in our minutes. It is the income statement and the profit and loss statement to which I refer.

Mr. SMART: Yes.

The ACTING CHAIRMAN: If there are no further questions on page 11 we shall pass to page 12: Operating Revenues.

Mr. WALSH: Is it necessary to have our good friend read all these items? Can we not read them ourselves?

The ACTING CHAIRMAN: If it will facilitate the work of the committee we can dispense with the reading of the items. Are there any questions in regard to page 12: Operating Revenues?

Mr. WALSH: With regard to the Demurrage item of \$270,000, is there a separate and distinct company that looks after that detail for the railway or does the railway look after that itself?

Mr. ARMSTRONG: The railways look after it.

Mr. WALSH: Is there a firm in Montreal called the Canadian Car Demurrage Company?

Mr. McLAREN: I think the company or association to which you refer is the one that checks up the railways to see that the demurrage rules are being carried out.

Mr. WALSH: That association does that work for both railways?

Mr. McLAREN: Yes.

Mr. WALSH: There is no connection between one railway and the other?

Mr. McLAREN: Yes, through the association.

Mr. WALSH: And no reference to the amount here?

Mr. McLAREN: No; this is the amount collected from industries for demurrage on freight cars.

Mr. WALSH: Do you collect it?

Mr. McLAREN: We collect it from the consignee or shipper.

Mr. WALSH: What is the function of the company or association?

Mr. McLAREN: They have inspectors whom they send to different points on both railways to check up per diem records to see that the regulations are not evaded in regard to the collection of demurrage charges on cars that might be delayed in loading or unloading.

Mr. WALSH: Who pays the salaries connected with that company?

Mr. McLAREN: The railways contribute to the upkeep of the association.

Mr. WALSH: On the basis of the amount collected or on a 50-50 basis.

Mr. McLAREN: It is on an agreed basis, but what that basis is I could not say at the present time, although I understand it is on a revenue basis.

Mr. KINLEY: As to maritime rates, which way do you haul the most from? Do you haul more from Montreal to the Maritimes or from the Maritimes to Montreal?

Mr. HUNGERFORD: I could not answer that question off-hand.

Mr. KINLEY: The freight rates reduction is only one way, is it not?

Mr. HUNGERFORD: No.

Mr. KINLEY: This reduction is on west-bound freight, is it not?

Mr. SMART: West-bound freight and local.

Mr. BEAUBIER: Local both ways?

Mr. SMART: Local inside the province.

Mr. KINLEY: Oh no.

Mr. SMART: Yes.

Mr. KINLEY: That is a competitive thing to keep the ships out.

The ACTING CHAIRMAN: It is paid, nevertheless.

Mr. KINLEY: But they have to compete with the vessels. If they do not, they do not get any freight.

Mr. RYAN: When the Duncan commission made its findings it awarded certain reductions starting with a certain period.

Mr. HANSON: What was the net profit and loss on the telegraphs and telephones last year?

Mr. McLAREN: We have not got the information here at the moment.

Mr. HANSON: I thought you would separate the account kept of it?

Mr. McKINNON: How do you allocate the revenue of these pooled trains that you are operating in conjunction with the C.P.R.?

[Mr. J. B. MacLaren.]

Mr. McLAREN: On a 50-50 basis until there is an agreement made as to what the basis shall be. That basis will be arrived at after a test period to find out what the percentages should be.

Mr. McKINNON: You have not arrived at any decision yet?

Mr. McLAREN: Not yet.

Mr. HANSON: Has that arrangement proven a success?

Hon. Mr. HOWE: Do you want the answer to your first question, Mr. Kinley?

Mr. KINLEY: Yes.

Hon. Mr. HOWE: The Maritime freight rates reduction applies on local traffic on eastern lines between Sydney and Newcastle. Then traffic moving outward westbound all rail, and traffic moving outward by rail and sea, that is from points on eastern lines to ocean ports for example, Fredericton to Liverpool—

Mr. KINLEY: Liverpool, Nova Scotia?

Hon. Mr. HOWE: No, overseas via Saint John. The rate effected should be that applicable from Fredericton to Saint John.

Mr. KINLEY: You have not the amount of east and west freight moving?

Hon. Mr. HOWE: No.

Mr. KINLEY: Do you mean to say that freight is hauled more cheaply between stations in Nova Scotia than in Ontario?

Mr. SMART: Yes, a twenty per cent reduction is allowed on local traffic.

Mr. KINLEY: Twenty per cent?

Mr. SMART: Yes.

Mr. HANSON: I was asking if the pooled trains had proved satisfactory to our railroads?

Mr. HUNGERFORD: We have saved a considerable amount of money by that arrangement.

Mr. HANSON: So you think that arrangement has proven satisfactory?

Mr. HUNGERFORD: Like everything else of that kind it is satisfactory in some respects and not quite so satisfactory in other respects. On the whole it is satisfactory.

Mr. DEACHMAN: With regard to the item at the bottom of the page in connection with traffic, some years ago there was considerable criticism of the C.N.R.—

Hon. Mr. HOWE: To what item do you refer?

Mr. DEACHMAN: The item of Traffic. I would like to know the percentage which traffic bears to total operating revenues, and how that compared with other railways?

Hon. Mr. HOWE: You will find that on page 30.

Mr. KINLEY: That simply gives the distribution of the operating dollar, does it not?

Hon. Mr. HOWE: Yes.

Mr. DEACHMAN: That is not exactly what I am asking for.

Mr. ARMSTRONG: That represents the percentage of operating revenues, 2.5 per cent.

Mr. DEACHMAN: The total operating revenue dollar?

Mr. ARMSTRONG: 2.5 per cent of the revenue dollar.

Mr. KINLEY: How does that compare with other railways. Have you the traffic expenses of the C.P.R.?

Mr. ARMSTRONG: We can get it.

Mr. DEACHMAN: Is there any difference between your traffic item and that of the C.P.R.?

Mr. ARMSTRONG: I understand the C.P.R. include their steamships traffic expense in traffic expenses. Their traffic expenses run considerably higher per dollar than ours, but the explanation is that they include a certain amount of ocean steamships traffic expenses.

Mr. KINLEY: There has been considerable confusion on the trains by reason of the fact that you were selling the first class ticket, but if one wanted to go in the parlour car one had to signify his intention at the ticket office before one bought his ticket, and then one had to buy another kind of ticket. Also commercial travellers on their tickets could not go in the parlour car. They had to buy another ticket in order to get into the parlour car.

Mr. HUNGERFORD: That is correct. On the first of June last year the old basic rate of 3.45 cents per mile, which applied to both parlour and sleeping cars and coaches, was reduced for coaches to 3 cents per mile, so that at the present time the basic schedule per mile for coaches is 3 cents per mile.

Mr. KINLEY: One can ride in a coach for 3 cents per mile?

Mr. HUNGERFORD: Yes. And if you are riding in a parlour car you pay 3.45 cents.

Mr. KINLEY: You cannot buy a parlour car ticket with the lowest rate ticket?

Mr. HUNGERFORD: No. You have to pay the higher rate.

Mr. KINLEY: Then I guess the commercial travellers travelling at reduced rates could not get into the parlour car on their reduced tickets?

Mr. HUNGERFORD: The commercial traveller travels on a special rate, both on the C.P.R. and C.N.R.

Mr. KINLEY: Of course there is no parlour car except on main line trains, but when the traveller gets to the main line he finds he cannot get into the parlour car, and I think the matter should be explained to a person when buying a ticket, especially if it is an innovation.

The ACTING CHAIRMAN: He can get into the parlour car, but has to pay a little more in addition.

Mr. RYAN: A commercial traveller will buy a commercial ticket, anyway.

Mr. HUNGERFORD: Commercial men travel on a special rate.

Mr. RYAN: It costs a commercial man a few cents more to travel in a parlour car. The conductor says it will be 30 cents to 40 cents more, and he pays it.

Mr. HUNGERFORD: There is a higher basic rate for travelling in parlour cars than in coaches.

Mr. KINLEY: What is the purpose behind it?

Mr. HUNGERFORD: It is a difficult thing to explain. It was determined in the United States and we followed suit to a certain extent. We did not go as far as they did, but went as far as Canadian conditions warranted.

Mr. KINLEY: Does it help the revenue?

Mr. HUNGERFORD: That is one of those things it is impossible to determine. They do not know in the United States whether the reduction on passenger rates has produced more revenue because two factors acted in conjunction, namely, the improvement in business conditions and the stimulus occasioned by a reduction in fares. No one can tell how much to attribute to one factor or the other.

Mr. MCKINNON: But the increase in traffic has been considerable, has it not?

Mr. KINLEY: You lowered the rate on sleeping cars?

[Mr. J. B. MacLaren.]

Mr. McKINNON: You lowered the fares for sleeping cars and also the dining car rates?

Mr. HUNGERFORD: Not the dining cars.

Mr. McKINNON: I mean the meals.

Mr. HUNGERFORD: The rates on dining cars are adjusted from time to time.

Mr. ARMSTRONG: Coming back to the question of traffic expenses I find that on the Canadian National for 1936 the rate is 2·54 per cent. On the larger roads in the United States it was 2·47 per cent of operating revenues and on the C.P.R. it was 5·17 per cent. The explanation with regard to the C.P.R., as we understand it, is that it includes some steamship traffic expenses.

Mr. DEACHMAN: How does your transportation ratio compare with the other road?

Mr. ARMSTRONG: Ours was 43·4 per cent of 1936 operating revenues—the corresponding figure for the C.P.R. was 35·83 per cent.

Mr. DEACHMAN: The difference there would be due to density of traffic?

Mr. ARMSTRONG: Yes, that is one of the large factors.

Mr. DEACHMAN: What other factor is there?

Mr. ARMSTRONG: Accounting differences in setting up the expenses.

Mr. DEACHMAN: The main thing would be the traffic density?

Mr. ARMSTRONG: Yes.

Mr. DEACHMAN: What is the relative traffic density between the two Canadian lines?

Mr. ARMSTRONG: I have not got it for this year, but in some years it would run up to 15 or 16 per cent. Last year it was 7½ per cent.

Mr. DEACHMAN: The difference between the two?

Mr. ARMSTRONG: Yes. The C.P.R. was greater in freight traffic density by 7½ per cent. These are 1935 figures. In passenger traffic density they were 20 to 40 per cent greater than the C.N.R. For average haul they are greater than the C.N.R. by 12 per cent to 30 per cent. Moreover the C.P.R. have a much better average haul than the C.N.R.

Mr. DEACHMAN: On account of the light traffic?

Mr. HANSON: And on account of their connection with steamships.

Mr. ARMSTRONG: That may have an effect. There are many factors involved.

Mr. KINLEY: I travel between here and Montreal frequently and on some mornings I am the only man in the parlour car and have two porters waiting on me.

Mr. HUNGERFORD: The demand for parlour car service varies from day to day.

Mr. HOWDEN: I was going to address a question along that line to our President: The chief complaint of those who are constantly attacking our railroads generally is the duplication that still exists between the two roads, and I have heard there is a movement on foot to reduce to some extent at all events this duplication. May I ask the President if that matter is being considered?

Mr. HUNGERFORD: To what duplication do you refer?

Mr. HOWDEN: Between here and Montreal. Probably they have eliminated duplication between those points now, but in western Canada two trains will leave their depots at the same time and run parallel to each other and arrive at their respective destinations at the same time.

Mr. HUNGERFORD: In nearly all cases these trains that leave common termini, serve intermediate points that are widely separated. That is true between here and Montreal. Our principal route, or the only one we have at the

present time, serves different towns from those served by the C.P.R. The C.P.R. have two lines, of course.

Mr. HOWDEN: But you have a lot of through passengers?

Mr. HUNGERFORD: Certainly.

Mr. HOWDEN: If the time element were broken up would it not be more satisfactory than having cars running over the two roads at the same time?

Mr. HUNGERFORD: If the service were on one road only, there would be no local service on the other line. These trains serve a double purpose; they provide a means of getting from one terminus to another as well as serving local communities.

Mr. HOWDEN: I mean if a train ran over one line during a certain period of time and another train over the other line a little later instead of the two trains leaving their respective starting points at the same time and running over the two lines during the same period of time, would that not be more satisfactory?

Hon. Mr. HOWE: I beg your pardon?

Mr. HOWDEN: I say if a train ran over the C.P.R. line between ten o'clock and one o'clock in the morning, and another train over the C.N.R. commencing at twelve o'clock or one o'clock to four o'clock, it would divide the traffic between the two roads and still serve the public efficiently.

Mr. HUNGERFORD: It would not serve the local traffic. For instance, between Montreal and Ottawa the people generally come into Ottawa or Montreal, to do their business, and they want to arrive in the city at a suitable time and leave at a suitable time after a sufficient interval in which to do their business. That is what occurs in connection with the morning train from Montreal. It arrives here about noon and leaves at 4.30 p.m., taking those people back to the intermediate points and also serving the local passengers at the other end who want to spend time in Montreal. The C.P.R. train going to Montreal this afternoon leaves at 3.30 p.m. and ours leaves at 4.30, which is the latest hour at which you can make connection with the Ocean Limited and other trains. If we ran it later we would miss connections with those trains.

Mr. HOWDEN: Is the bulk of the traffic between local intermediate points?

Mr. HUNGERFORD: On the whole it splits about 50-50.

Mr. KINLEY: In railroading is the non-running of a train a big saving or are the fixed charges so important? I mean is it a big saving to take a train off, considering the other factors?

Mr. HUNGERFORD: It does not make very much difference from the standpoint of maintenance. If you are going to run one fast train you have to maintain a suitable standard. The real saving is in the cost of operating the trains.

Mr. KINLEY: Is that a big factor?

Mr. HUNGERFORD: Yes.

Mr. DEACHMAN: Can you tell us why the maintenance of equipment and of way and structures over a period of the C.N.R. is higher than on the C.P.R., referring particularly to the period since the depression came? Prior to that time your two maintenance ratios were fairly close, but with the coming of the depression the C.P.R. cut its ratios very sharply on maintenance of way, structures and equipment while yours did not fall off as rapidly. Have you any explanation for that?

Mr. HUNGERFORD: It is a question of policy, whether you want to take too much out of your property in a given time or not.

Mr. DEACHMAN: That is to say, if you had cut yours you would have had more maintenance to make up later?

[Mr. J. B. MacLaren.]

Mr. HUNGERFORD: Yes.

Mr. KINLEY: Then your equipment is in better shape than that of the other road?

Mr. HUNGERFORD: I have no information as to the condition of their equipment, but I know we did not spend any more than was reasonably necessary.

Mr. KINLEY: They seem to be running older cars.

Mr. HUNGERFORD: I have no detailed information in regard to that.

Mr. DEACHMAN: But the difference between the two ratios maintained by you and the C.P.R. would make a vast difference in the operating ratio?

Mr. HUNGERFORD: The accounts are not made up on a uniform basis. C.N.R. accounts are strictly in conformity with Interstate Commerce Commission regulations.

Mr. DEACHMAN: And in that connection I have a first class complaint. I would like to see the accounts of the two roads made up on precisely the same basis so that a man as stupid as I am could ascertain the true facts with regard to each road.

Hon. Mr. HOWE: We have started the ball rolling in that direction. I took the matter up with both railroads about a year ago to ask for revision of the Canadian regulations with regard to Canadian railways, and they were generally in accord with the idea. We appointed a committee consisting of a man from our department, a representative from the Bureau of Statistics, a representative from the C.P.R., a representative from the Canadian National and representatives from other roads in Canada under federal jurisdiction, and we hope within a reasonably short time to bring out a set of regulations for accounting that will make all reports uniform.

Mr. DEACHMAN: The question of traffic expense was under discussion a few years ago and there was criticism of the C.N.R. That is why I asked the question about the basis of comparison, and we have had the point brought out that the C.P.R. has steamship traffic in that account. Surely both railroads should be placed on precisely the same accounting basis in order that the public can be informed as to the real facts. Colonization is under different classifications in the two railroads, and the pension systems were treated differently, and one would have to be a Philadelphia lawyer as well as a member of parliament in order to find out the real facts under the circumstances.

Hon. Mr. HOWE: What happened, I think, was that there was a regulation issued in 1917 covering accounting which was rather loosely drawn, but the Canadian National because of having lines in the United States has come more and more to follow the Interstate Commerce Commission rulings, which are the most advanced of any to-day. The C.P.R. continued to follow the old method pretty well.

Mr. DEACHMAN: Their lines in the United States are operated as separate companies?

Hon. Mr. HOWE: Yes, and they have no direct interest in carrying out their accounting in accordance with the practice of the Interstate Commerce Commission.

Mr. DEACHMAN: We all recognize that there is a very clear distinction as between the two railroads, with differences in the density of traffic, the length of haul, and that sort of thing, which are factors ultimately in these operating ratios, but I would like to see the accounts of both railroads put upon such a basis that we could present them to the House of Commons or to this committee in an understandable form.

Hon. Mr. HOWE: Within a reasonably short time we hope to set up accounting regulations that will conform with your wishes in the matter.

Mr. RYAN: Some years ago the train from Saint John to Halifax left Saint John at 11 o'clock and arrived at Halifax early in the morning. That run was discontinued, causing great inconvenience particularly to commercial travellers. I wondered whether you had given consideration lately to the advisability of running that train again in view of the fact that business is picking up and revenues are increasing on the Atlantic division?

Mr. HUNGERFORD: We ran the night train between Saint John and Halifax for many years, through good times and bad, and the returns indicated that it earned about one half of its cost. There is nothing to indicate that the earnings would be any greater if the run were restored.

Mr. RYAN: If you tried it might it not prove otherwise?

Mr. HUNGERFORD: We have already given it two or three different trials. It has been taken off and put back and taken off again, and the uniform result was that the earnings were insufficient.

Mr. KINLEY: There was no connection with Boston by that train?

Mr. HUNGERFORD: No.

Mr. RYAN: I was concerned about people travelling not only from Saint John to Halifax but from intermediate points to Halifax.

Mr. HUNGERFORD: It is a measure of economy.

Mr. RYAN: If it leaves at noon there is no mail accommodation; the service is more or less antiquated so far as mail is concerned.

Mr. HUNGERFORD: The train service during the day makes all the essential connections and provides a connection with Boston.

Mr. RYAN: How long is it since you tried out what I have suggested?

Mr. HUNGERFORD: The night train?

Mr. RYAN: Yes.

Mr. HUNGERFORD: Four or five years ago.

Mr. RYAN: Then you cannot say how the revenue has increased on the Atlantic division.

Mr. HUNGERFORD: That train ran for several years during good and bad times, and the earnings were just about the same throughout the whole period.

Mr. KINLEY: There are two ways to get to Saint John. All the rest of the Nova Scotia people slip across the bay.

Mr. RYAN: That is the C.P.R.?

Mr. KINLEY: From any part of western Nova Scotia you can get into Digby in three or four hours.

Mr. HUNGERFORD: We would put the train back on the night run if we could get enough revenue to meet the expense of running it.

Mr. RYAN: Are conditions such that you are still losing money running trains on other lines?

Mr. HUNGERFORD: Yes, because the passenger train service cannot be reduced any more. If you are going to keep a line open at all you have to provide a minimum service.

Mr. RYAN: Is the run from Montreal to Ottawa a paying investment?

Mr. HUNGERFORD: I think on the whole it earns considerably more than the train we have been discussing.

Mr. RYAN: Would you consider giving it another trial? I would like to see it tried out, if possible.

Mr. HUNGERFORD: We will give it consideration, but the whole history of that train is not very hopeful.

[Mr. J. B. MacLaren.]

Mr. HANSON: How does our road compare with number one American roads or number one roads on the continent with regard to operating ratio?

Mr. ARMSTRONG: Considerably lower, on account of the tremendously higher freight and passenger density on the United States lines. Their operating ratio last year on the average was only 72 per cent and ours was 91 per cent; that is the average of all class 1 roads.

Mr. HUNGERFORD: Year in and out, our traffic density represents about 45 per cent of the average of the United States roads.

Mr. DEACHMAN: What is the lowest operating ration in the United States?

Mr. ARMSTRONG: A single railway?

Mr. DEACHMAN: Yes, is it the Delaware and Hudson?

Mr. ARMSTRONG: We will let you know.

Mr. BARBER: Please explain what is meant by switching revenue?

Mr. McLAREN: That is switching performed around terminals such as Montreal, Toronto, and other large terminals for which a charge is made.

The ACTING CHAIRMAN: If there are no further questions to be asked with respect to page 12 we shall pass on to page 13.

Mr. KINLEY: Just a moment, please. With regard to telegraphs and telephones, does the telegraph give you a surplus?

Mr. HANSON: I asked about that a while ago.

Mr. ARMSTRONG: It depends upon how you look upon the telegraphs. As an added facility to the railway undoubtedly it gives us considerable net revenue.

Mr. KINLEY: Does the commercial part pay?

Mr. ARMSTRONG: You have to have poles and wires for railway operation, and as an added facility, the commercial department has a substantial net earning. It is rather difficult to divide it between railway and commercial, and you have to do it arbitrarily; but as an added facility, it has a substantial net earning.

Mr. BARBER: Is there any tying co-operation between telegraphs and telephones of the C.P.R. and C.N.R. in small towns where neither one pays?

Mr. HUNGERFORD: Not yet; but we are seeking to bring it about.

The ACTING CHAIRMAN: We will pass to page 13: Maintenance of Way and Structures Expenses. Are there any questions to be asked with regard to that group of items?

Mr. ELLIOTT (Kindersley): There is an item of \$19,000 odd for insurance. To what does that refer?

Mr. McLAREN: Offhand I do not know.

Mr. KINLEY: To what does the item of \$301,000 odd for Injuries to Persons refer?

Hon. Mr. HOWE: What item?

Mr. KINLEY: Injuries to persons, \$301,000.

Mr. HOWDEN: Liability, I suppose.

Mr. KINLEY: Is that a compensation charge?

Mr. ARMSTRONG: That would principally represent liability to employees.

Mr. KINLEY: You do not insure but you compensate?

Mr. ARMSTRONG: That is workmen's compensation.

Mr. KINLEY: That is what your compensation to employees of the railroad costs?

Mr. ARMSTRONG: No; that is only as to maintenance of way. You will find further items of Injuries to Persons under maintenance of equipment and transportation.

Mr. KINLEY: Do you know what your rate amounts to?

Mr. ARMSTRONG: I could not say offhand.

Mr. HANSON: Does the item include payment to anyone hurt on the train?

Mr. ARMSTRONG: Yes.

Mr. KINLEY: Are you not insured against injuries to travellers?

Mr. ARMSTRONG: No, we are not.

Mr. HANSON: It is paid in each individual case?

Mr. HUNGERFORD: Yes.

Mr. MCKINNON: I note quite a vast difference in the prices paid for ties in 1935 and 1936. Does that mean that there are more ties purchased or that a higher price is being paid for them?

Mr. HUNGERFORD: Both price and quantity are involved.

Mr. KINLEY: I would like to find out what the compensation costs. It is quite a moot question as to whether paying the losses or paying premiums is the best thing to do. All other industries pay premiums.

Mr. DEACHMAN: But they are bigger.

Mr. KINLEY: They assess the loss. That is actual. They do not put a rate on; it is actual loss. Could you furnish that information please, as to the cost of your compensation rate?

Mr. ARMSTRONG: You mean the amount paid in compensation proportionate to the revenues or expenses?

Mr. KINLEY: Yes, it is on your payroll.

Mr. ARMSTRONG: We have it included with several other accounts. That is all loss, damage and injury, and it works out at 1.28 per cent of the revenue for the Canadian National as compared with 1.32 per cent for class one roads.

Mr. KINLEY: That is a very low rate?

Mr. ARMSTRONG: Yes.

Mr. HANSON: The item of Public Improvements—Maintenance is about \$200,000 different this year as compared with last year. What is the main increase?

Mr. McLAREN: We will look it up and give it to you in a moment or two.

Mr. ELLIOTT (*Kindersley*): In connection with the erection of snow fences have you had any claims for damage to property as the result of the use of snow fences?

Mr. HUNGERFORD: We have received such claims at different times from different places but I cannot give you anything definite about that.

Mr. MCKINNON: Mr. Chairman, I am still rather curious about the tie situation. I asked if that difference meant more ties purchased or a higher price paid. What is the average price of ties last year and this year?

Mr. McLAREN: In 1936 treated ties were \$1.26 as against \$1.35 for 1935. Untreated ties in 1936 cost 56 cents as against 54 cents.

Hon. Mr. HOWE: Averaged over the whole system.

Mr. McLAREN: Yes.

Mr. MCKINNON: Most ties are treated nowadays, are they not?

Mr. HUNGERFORD: No; I suppose about one-third.

Mr. HANSON: Have you found that item about public improvements—maintenance?

Mr. McLAREN: No, not yet.

The ACTING CHAIRMAN: If there are no further questions to be asked with regard to the items appearing on page 13, we will pass to page 14: Maintenance

[Mr. J. B. MacLaren.]

of Equipment Expenses. Are there any questions to be asked with respect to the items on this page?

Mr. KINLEY: What do you mean by Floating Equipment—Repairs.

Mr. McLAREN: That refers to ferry boats between say Windsor and Detroit and out in the West; also car ferries that we have running between Vancouver and Victoria.

Mr. KINLEY: Does that item include the Prince Edward Island ferry?

Mr. McLAREN: Yes.

Mr. KINLEY: Do you know that the Prince Edward Island ferry will not carry a truck except forward? It is just wide enough for a car, but a truck cannot go on that ferry.

Mr. HUNGERFORD: I appreciate that; but the request at the time the ferry was built was for passenger carrying cars to be accommodated. The car ferry was built and we made provision for passenger cars. Since then the trucks want to use the ferry, and to be quite frank, I do not know why we should carry a competitor even if we could.

Hon. Mr. HOWE: Why should the railway carry trucks?

Mr. KINLEY: Supposing they found a way to be carried over and you did not have any part of it?

Mr. HUNGERFORD: We cannot take the trucks on the existing ferry anyhow, unless they are very small trucks.

Mr. McKINNON: With regard to repairs charged up against locomotives and cars, are those repairs made in your own shops?

Mr. HUNGERFORD: Yes.

Mr. HANSON: I would like to have on the record where those public improvements are, amounting to \$200,000.

The ACTING CHAIRMAN: They are looking that information up for you.

If there are no further questions with regard to the items on page 14 we will pass to page 15: Transportation Expenses. Are there any questions to be asked with regard to the items on page 5?

Mr. KINLEY: With regard to the item of Train Fuel, \$13,913,030.81, how much of that coal did you buy in Nova Scotia?

Mr. ARMSTRONG: The figure for eastern Canadian coal purchases is 1,383,000 tons.

Mr. KINLEY: Where do you buy the rest of it?

Mr. ARMSTRONG: In western Canada.

Mr. KINLEY: How much?

Mr. ARMSTRONG: 991,000 tons, and in the United States, 1,885,000 tons.

Mr. KINLEY: Where do you get the rest of it?

Mr. ARMSTRONG: In the United States we get 1,885,000, practically 2,000,000 tons.

Mr. KINLEY: Oh, you are speaking of tons, not dollars?

Mr. ARMSTRONG: Yes.

Mr. KINLEY: And a million tons would cost about \$2,000,000?

Mr. ARMSTRONG: From eastern Canada \$5,861,000, and from western Canada \$2,944,000.

Mr. KINLEY: And the balance from the United States?

Mr. ARMSTRONG: Yes.

Mr. KINLEY: Have you still the coal mine operating in the United States?

Mr. ARMSTRONG: Yes.

Mr. HOWDEN: Do you take the Maritime coal to meet the western coal?

Mr. HUNGERFORD: We use eastern coal as far west as Toronto.

Mr. MCKINNON: And how far east do you use western coal?

Mr. HUNGERFORD: Just this side of Winnipeg.

Mr. HANSON: And you use fuel oil in some western trains?

Mr. ARMSTRONG: In British Columbia.

Mr. HANSON: How many dollars did you pay for oil fuel?

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

Mr. KINLEY: Train fuel includes coal and oil?

Mr. ARMSTRONG: Yes.

Mr. HOWDEN: The boat-hauled coal which you use let us say between Toronto and Winnipeg is cheaper coal than either the western or eastern coal, is it?

Mr. HUNGERFORD: I do not follow you.

Mr. HOWDEN: We bring western coal a little way past Winnipeg and Maritime coal as far west as Toronto, and I suppose the coal used between those two points is taken from boats along the lake front loaded with United States coal?

Mr. HUNGERFORD: Yes.

Mr. HOWDEN: And the cost per ton to the railway is considerably less?

Mr. HUNGERFORD: Yes.

Mr. KINLEY: Do you pay any duty on it or get it in free?

Mr. HUNGERFORD: We pay duty on it.

Mr. HOWDEN: Yes, and get it cheaper than our coal.

Mr. DEACHMAN: The C.P.R. use Maritime coal about as far west as Brockville?

Mr. HUNGERFORD: I do not know how far west the C.P.R. use eastern Canadian coal.

Mr. KINLEY: There is no C.P.R. except to Saint John?

Mr. DEACHMAN: Do they use Maritime coal all the way?

Mr. KINLEY: That is only a local road.

The ACTING CHAIRMAN: Are there any further questions to be asked with respect to the items appearing on page 15? If not, we will pass to page 16: Miscellaneous Operating Expenses.

Mr. HANSON: Have you got the answer to my question as to oil fuel?

Mr. McLAREN: The bituminous coal used in 1936 by the Canadian National Railway amounted to 4,418,717 tons, and the value was \$18,429,666.87. The fuel oil used amounted to 231,149 tons, and the value was \$1,180,711.36.

Mr. HANSON: It is only in British Columbia that fuel oil is used?

Mr. ARMSTRONG: Yes.

The ACTING CHAIRMAN: Are there any questions to be asked with respect to the items appearing under Miscellaneous Operating Expenses on page 16?

Mr. KINLEY: There cannot be many restaurants owned by the railroad? The operating expense of the restaurants amounts to only \$8,000 odd, so there cannot be many.

Mr. HUNGERFORD: They are leased.

Mr. KINLEY: The one in Halifax is credited to the hotel and not to the railway.

Mr. HUNGERFORD: In that case it is operated by the hotel and charged to hotel operation.

Mr. MCKINNON: Are they all leased out to a company?

[Mr. J. B. MacLaren.]

Mr. HUNGERFORD: Yes, they are leased to the Canada Railway News.

Mr. MCKINNON: With regard to the item of Stationery and Printing, I assume you have your own plant?

Mr. McLAREN: No.

Mr. HANSON: That work is all let by contract, is it not?

Mr. McLAREN: It is by agreement or contract over a period in some cases and on orders in other cases.

Mr. HANSON: Thank you.

Mr. HUNGERFORD: I am sorry my explanation in regard to restaurants was wrong. The reference is to the operation of the restaurant on the ss. *Charlottetown*.

Mr. HOWDEN: Are the restaurants operated by the railway company?

Mr. HUNGERFORD: No; the station restaurants are not, but the restaurant on the car ferry to Charlottetown is operated by the company.

Mr. KINLEY: There is a dining room on the car ferry?

Mr. HUNGERFORD: Yes.

Mr. KINLEY: Do you lease out the privilege or run it yourself?

Mr. HUNGERFORD: They are practically all leased.

Mr. HOWDEN: Why the debit?

THE ACTING CHAIRMAN: That is the car ferry.

Mr. ARMSTRONG: This is the expense of the lunch counter on the car ferry.

Mr. RYAN: What does Law Expenses include?

Mr. ARMSTRONG: Expenses of the legal department.

Mr. RYAN: Fees for lawyers?

Mr. ARMSTRONG: Everything.

Mr. DEACHMAN: As to the item of Pensions, is it current practice to put it in General Expense?

Mr. ARMSTRONG: That has been the practice since 1923 and also before that time, I think.

Mr. DEACHMAN: Is that practice observed by other roads?

Mr. ARMSTRONG: I know the C.P.R. have it in now, but they did not a few years ago.

Mr. MCKINNON: Would Law Expenses include your police force?

Mr. HUNGERFORD: No; it would include our own legal officers and clerks.

Mr. ARMSTRONG: There are one or two items in connection with the services of outside legal firms amounting altogether to—

Mr. RYAN: What is the total amount?

Mr. ARMSTRONG: Outside?

Mr. RYAN: Yes.

Mr. ARMSTRONG: I cannot tell you.

Mr. HUNGERFORD: From time to time we employ outside counsel for specific purposes.

Mr. RYAN: But what you pay outside your own office is not segregated?

Mr. ARMSTRONG: No; it could be done. It is not available readily.

Mr. HANSON: Carried.

Mr. DEACHMAN: With regard to the increase in the pension allowance of \$565,000 odd, is that a normal increase to be expected from year to year, or is there some special reason for that increase?

Mr. ARMSTRONG: Unquestionably it will rise at least at some rate for a few years until the effect of the new scheme is felt.

Mr. DEACHMAN: You are in arrears?

Mr. ARMSTRONG: No; but it may not hit its peak for a certain time; we have not come to that yet.

Mr. DEACHMAN: You have not come to the peak?

Mr. ARMSTRONG: No; the pension cost will rise for some little time yet, and then will be considerably reduced on account of the new scheme.

Mr. DEACHMAN: Is there a contributory fund now?

Mr. ARMSTRONG: Yes, now. This is the total cost of pensions to the C.N.R. system.

Mr. KINLEY: That is over and above what is paid in?

Mr. ARMSTRONG: What is paid in goes into a trust fund for the employees. It does not enter into this account, it is for future payments of annuities. This account shows the total amount the company paid out in pensions in 1936, and has nothing to do with contributions.

Mr. MCKINNON: Contributions are kept separate?

Mr. ARMSTRONG: Yes. These are men actually on the pension payroll.

Mr. KINLEY: But under your new scheme when you go to pay in so much of your salary is that figured out on an actuarial basis to be self-sustaining in time?

Mr. ARMSTRONG: As closely as we can.

Mr. KINLEY: Is it on an actuarial basis so that it will maintain itself?

Mr. ARMSTRONG: We expect so.

Mr. BOTHWELL: The company will still have to make contributions from year to year?

Mr. ARMSTRONG: Yes, because the employees' contributions will not themselves pay for all pensions.

Mr. HUNGERFORD: This morning I said pensions were included up to the adoption of the new pension scheme on the basis of the old rule, and that obligation is continued; an employee is retired on pension on the basis of the old rule to December 31, 1934. From that time on the contributions of the employee and of the company are used to buy a supplemental annuity to be superimposed upon the pension he will receive directly from the company for the service rendered prior to December 31, 1934.

Mr. KINLEY: You will run them along together?

Mr. HUNGERFORD: Yes.

Mr. HOWDEN: To make clear, in future will the company make a contribution to the pension fund or will it be collected from the wage payments to the employees?

Mr. HUNGERFORD: Under the new scheme up to five per cent the company matches the contribution of the employee. The individual may select any rate of contribution he likes, one per cent, two per cent, three per cent, four per cent, or five per cent; and he can contribute up to ten per cent but the company will only match his contribution up to five per cent. If he elects to contribute three per cent the company will pay three per cent and if he selects five per cent the company will pay five per cent.

Mr. KINLEY: That is joint pension?

Mr. HUNGERFORD: Yes.

Mr. KINLEY: The Civil Service pension is just what they pay in?

Mr. HANSON: I think the government contribute to that, too.

The ACTING CHAIRMAN: If there are no further questions to be asked with respect to the items appearing on page 16 we will pass to page 17: Additions and Betterments Less Retirements. If there are no questions to be asked with respect to the items under that heading we will pass to page 18: Receipts and Expenditure — 14 years — 1923-1936. Are there any questions to be asked with regard to the items on page 18? If not, we will pass to page 19: Funded Debt — Principal and Interest.

Mr. HOWDEN: We had better not start asking questions about the items under that heading.

The ACTING CHAIRMAN: Then we will pass to page 20: Funded Debt — Principal and Interest (Continued). That is the same thing.

We pass on to page 21: Loans from Dominion of Canada.

Mr. HANSON: I will have to ask the Minister to get the interest lower.

Hon. Mr. HOWE: Do not worry too much about these, because we will not get them back.

The ACTING CHAIRMAN: We have been over these items pretty well already. If there are no further questions as to page 21 we will pass to page 22: Investments in Affiliated Companies. Are there any questions with respect to the items under that heading?

Mr. KINLEY: What have you to say about the item: Canadian Airways, (Limited), \$50,000?

Hon. Mr. HOWE: Several years ago the C.P.R. and C.N.R. each bought stock in Canadian Airways Limited to the amount of \$50,000.

Mr. KINLEY: Did you say \$50,000 each?

Hon. Mr. HOWE: Yes.

Mr. KINLEY: Is it a good investment?

Hon. Mr. HOWE: No.

Mr. KINLEY: Is it likely to become a good investment?

Mr. HUNGERFORD: They have not made any profit yet.

The ACTING CHAIRMAN: Is that the reason why other private companies found it difficult to get a contract from the government?

Hon. Mr. HOWE: No.

Mr. KINLEY: What is the idea behind it? You bought stock in a competitor company?

Hon. Mr. HOWE: It was a matter of government policy at the time. It was impossible for this company to carry on the work it was then doing and the service was suspended. It is pretty hard to go back and trace out the history of the matter, but at the time the government thought it proper to ask the two railways to contribute \$50,000 each.

Mr. KINLEY: I suppose there are air mail feeders in the west?

Hon. Mr. HOWE: Yes, although at that time I think they were running an air mail service parallel to the railways.

Mr. BARBER: How long ago?

Hon. Mr. HOWE: 1927 or 1928.

Mr. BOTHWELL: What about the item Public Markets Limited? I do not remember seeing that item before.

Mr. HUNGERFORD: That was a little company organized in Winnipeg to buy some property required for terminal expansion.

Mr. KINLEY: What is meant by: Canadian National Railways (France)?

Hon. Mr. HOWE: The hotel Screed.

Mr. KINLEY: That is on page 23.

The ACTING CHAIRMAN: If there are no further questions with respect to the items appearing on page 22 we shall pass to page 23: Schedule of Companies Comprising The Canadian National Railway System.

Mr. KINLEY: These "Prince" items are ships: the *Prince Charles*, *Prince David*, *Prince George*, et cetera. Where are all these boats now?

Mr. McLAREN: That refers to the issued capital stock of the individual boat companies.

Hon. Mr. HOWE: I think all those boats are in service to-day. The *Prince Charles* and the *Prince George* are on the Pacific.

Mr. ARMSTRONG: Is the question where are those boats located now?

Mr. KINLEY: Yes, where is the *Prince David*? Is she down in Halifax?

Mr. ARMSTRONG: Yes, on the east coast.

Mr. KINLEY: Is she laid up?

Mr. HUNGERFORD: Yes.

Mr. KINLEY: She didn't do very well?

Mr. HUNGERFORD: No. The *Prince Henry* is also there.

Mr. KINLEY: Both boats are laid up there?

Mr. HUNGERFORD: Yes.

Mr. BARBER: Do some of these boats operate on the terminal run at Victoria?

Mr. HUNGERFORD: No.

I would like to correct an answer I made in regard to Public Markets Limited. I was thinking of another company altogether. Public Markets Limited is the name of the organization that owns the abattoir and stockyard in Winnipeg.

Mr. BOTHWELL: There was such an increase in the amount that I wondered about your original explanation.

Mr. KINLEY: Did the tariff change increase your freights as between Boston and Halifax on imports from the West Indies? They were permitted to import through the United States certain things from the West Indies although before that they had to come to Halifax direct.

Hon. Mr. HOWE: That only affects oranges.

Mr. KINLEY: Only affects oranges?

Hon. Mr. HOWE: Yes.

Mr. KINLEY: And not bananas?

Hon. Mr. HOWE: No; bananas do not move that way.

Mr. KINLEY: They bring all the bananas to Halifax and Saint John, do they?

Hon. Mr. HOWE: Yes, the business is getting better every month, so it could not have hurt us much.

Mr. KINLEY: You do not contemplate supplementing those boats with some of these Prince boats on the West Indies run?

Hon. Mr. HOWE: They are not suitable.

Mr. HUNGERFORD: They would not carry very much freight.

Mr. KINLEY: What was in contemplation when they were constructed?

Mr. HUNGERFORD: They were built for passenger service on the Pacific coast.

Mr. KINLEY: It is suggested that the state-rooms are too big for an over-night run—

[Mr. J. B. MacLaren.]

Hon. Mr. HOWE: The more you ask about those particular boats the worse you will feel.

Mr. HANSON: They were built upon optimistic anticipations.

Mr. KINLEY: I do not know what is wrong with them.

Hon. Mr. HOWE: When they receive a load of fuel their carrying capacity is absolutely exhausted.

The ACTING CHAIRMAN: If there are no further questions to be asked with respect to the items appearing on page 23 and page 24 we will pass to page 25: Statement of Revenue Tonnage by Commodities for Years 1936-1935. That just sets out some facts.

Mr. DEACHMAN: With regard to the first classification of Agricultural Products, trucks would not constitute an important factor, would they?

Mr. HUNGERFORD: A very small factor.

Mr. DEACHMAN: What about the next classification, Animal Products, including horses, cattle and calves, sheep, hogs? They are being carried in trucks.

Mr. HUNGERFORD: Yes.

Mr. DEACHMAN: Are you not gaining somewhat on the trucks in that regard?

Mr. HUNGERFORD: It is impossible to say; I think we are gaining in places and perhaps not gaining in other places.

Mr. DEACHMAN: And with regard to the third classification of Mine Products, the truck would not be an important factor?

Mr. HUNGERFORD: No.

Mr. DEACHMAN: The truck becomes important in the case of the classification: Manufactures and Miscellaneous?

Mr. HUNGERFORD: Yes.

Mr. HOWDEN: And Perishable products.

The Acting CHAIRMAN: Are there any further questions to be asked with regard to the items appearing on page 26 under Forest Products and Manufactures and Miscellaneous? If not, we shall pass to page 27: Details of Railway Equipment. If there are no questions with regard to page 27 we shall pass to page 28: Statistics of Rail-Line Operation—Transportation Service. Are there any questions to be asked with regard to the items appearing on that page?

Mr. HUNGERFORD: That is the operating statement of locomotive miles and car miles.

The Acting CHAIRMAN: Yes. If there are no further questions with regard to pages 28 and 29 we shall pass to page 30: Employees and Their Compensation.

Mr. DEACHMAN: One moment, please. A point often in dispute is the freight rate as between the United States and Canada. Would it be correct to say that the freight rate in Canada is lower than it is in the United States, the ton mile rate?

Mr. HUNGERFORD: On the average there is not very much difference, but it is quite true that certain rates in Canada are lower than they are in the United States.

Mr. DEACHMAN: But taking your freight rate classifications into consideration, would there not be more bulk traffic in Canada in relation to the total traffic, more of the low classification?

Mr. HUNGERFORD: Relatively yes, I think.

Mr. DEACHMAN: So that if you were putting them on a comparable basis, in Canada you would get more for hauling freight than they do in the United

States. Mind you, I think you are entitled to it. It is amazing now to think they come in on an equal basis. They do not, when you take into consideration the bonus.

Mr. BOTHWELL: It is often stated that we have the lowest freight rates in Canada as compared with any other place in the world. Is there any justification for that statement, or what is the true situation?

Hon. Mr. HOWE: We have the lowest freight rates for bulk export commodities.

Mr. DEACHMAN: I think that would take in only the average ton mile rate, but having regard to the classifications of both countries our rates are lower than those on the other side of the line?

Mr. HUNGERFORD: The ratio changes from time to time.

Mr. HANSON: Do you mean the rate is lower per ton per mile?

Mr. DEACHMAN: Yes, it would be lower per ton mile.

Mr. McLAREN: That is the average ton mile.

Mr. DEACHMAN: Yes. There was a small difference of .3 or so between the two countries last year.

Mr. McLAREN: Yes, but if you made an analysis of the commodities moving in both countries you would find the rates in Canada on bulk commodities are much lower than in the United States.

Mr. DEACHMAN: Would it be true that the large proportion of low classifications is an apparent cause of the low ton mile rate?

Mr. ARMSTRONG: That includes grain.

Mr. DEACHMAN: And lumber, coal and minerals.

Mr. BARBER: Last year a question came up—I do not know whether it was under this heading or not—as to our employing persons who had been let out during the depression. Has there been an effort made all along the line to take those men back as conditions improve?

Mr. HUNGERFORD: We do take them back.

Mr. BARBER: I have brought one instance to the attention of the authorities on several occasions, the signal man at the Masga signal tower. At one time there were three men employed there each working eight hours, but four years ago the number was reduced to one man. The two men who were let out were returned men who had about ten years service. The one man to whom I have referred is carrying on the work alone and is being paid considerable overtime. I think he operates from eight o'clock to four o'clock, and after four o'clock if he is called again he gets overtime, and also overtime on Sundays. I thought it was only fair that at least one of these two men who were let out should be given an opportunity to do a little work there. One man is getting a small pension. The man who is employed now returns to his house and they telephone him when the train is coming and he goes over and gets overtime for it. I took it up with the president of the company about a year or two ago.

Mr. HUNGERFORD: It is a question of cost.

Mr. BARBER: Perhaps one man would be satisfied with the amount paid in overtime.

Mr. HUNGERFORD: I know there has been a great deal of argument about that particular case, but the position taken by the local officials appears to be well founded. After all, we have to measure these things by what we can get along with, and if we can reduce the cost in any way I feel it is incumbent on us to do so.

[Mr. J. B. MacLaren.]

Mr. ELLIOTT: (Kindersley): Do you not think it would be setting a bad precedent to have men working on jobs for overtime only?

Mr. HUNGERFORD: You could not permit that.

Mr. BARBER: But the work could be divided.

Mr. HANSON: As to the distribution of the dollar and the item of Labour, how does that figure of .5494 for 1936 compare with the American roads?

Mr. ARMSTRONG: I think we can get that information for you.

Mr. HANSON: It would be interesting for the committee to know how that figure compares with other roads.

Mr. DEACHMAN: Which do you consider the most profitable, passenger or freight transportation?

Mr. McLAREN: Freight.

Mr. DEACHMAN: In the last few years there has been a decline in freight rates on the average in Canada, has there not?

Mr. McLAREN: Yes.

Mr. DEACHMAN: Is it not true that the decline in passenger rates is greater than the decline in freight rates?

Mr. HUNGERFORD: I do not think that can be answered offhand.

Mr. DEACHMAN: I looked at the average rate the other day and it shows there has been a greater decline in the per passenger mile rate than in the freight rate. I am not asking the question in order to embarrass my friends, but it struck me as rather peculiar that the transportation of freight being the most profitable, the greatest cuts should be made in the passenger business?

Mr. HUNGERFORD: There has been a tremendous shrinkage in passenger business due to the development of good roads, the automobile and the bus, and there is a school of thought which holds that by lower rates, more attractive equipment and things of that kind we can get a portion of that business back, and that is what we have been trying to do.

Mr. DEACHMAN: I think that is the real answer. I think it is a question of making the attempt to get the volume which will permit you to make a profit even at a lower rate.

Mr. HUNGERFORD: Of course we have the problem of a relatively thin population over large areas of this country, and there is not a great deal of passenger traffic to be obtained anyhow in many sections.

Mr. HOWDEN: There has never been any profit in the passenger business?

Mr. HUNGERFORD: Taken as a whole, no.

Mr. DEACHMAN: Either in Canada or the United States?

Mr. HUNGERFORD: There has been some on certain roads.

Mr. DEACHMAN: I think the Coolidge report said that the passenger traffic in the United States had never been profitable, taking the roads as a whole.

Mr. HUNGERFORD: If you look at it from the standpoint of charging a proportion of the cost of the provision of the roadway and its maintenance, which you would have to have anyway if you were going to carry on the freight business, then the passenger business is unprofitable; but if you disregard that the picture is altered materially. If you regard it as a by-product, there is something in it.

Mr. DEACHMAN: As a matter of fact you cannot determine the cost of carrying passengers on a railroad?

Mr. HUNGERFORD: No; you have to assume certain arbitraries in order to do so.

Mr. RYAN: With regard to the question of fuel and the operating expense, I wonder if we could ascertain the amount of fuel purchased from New Brunswick coal mines as compared with mines in the Atlantic division?

Mr. McLAREN: We will get that information for you in a little while.

Mr. ARMSTRONG: The answer to Mr. Hanson's question is: for all class one roads in the United States in 1935 it was 45 cents and for Canada 55 cents. You will remember of course that the operating ratio in the United States is lower.

The ACTING CHAIRMAN: Are there any other questions?

Mr. RYAN: How is the purchase of fuel carried out? Do you call for tenders or do you go into New Brunswick and buy coal and into Nova Scotia and buy coal? What is the system?

Mr. HUNGERFORD: It is a matter of negotiation with the individual firms.

Mr. RYAN: Could we have the statement to-morrow morning taking it up as closely as you can?

Hon. Mr. HOWE: With that you ought to get the proportion the railways buy of the total production.

Mr. RYAN: I would be glad to have that, too. I think the railways ought to co-operate with New Brunswick. I think the minister appreciates my difficulty.

Mr. KINLEY: Have you coal mines in New Brunswick? I never knew that.

Mr. RYAN: All you know about is fish. I am talking about New Brunswick coal.

The ACTING CHAIRMAN: We will pass to page 31: Operated Mileage, December 31, 1936. Are there any questions to ask? (Carried.)

That concludes this report with the exception of the question with regard to coal. Is it agreeable that we meet at eleven o'clock to-morrow morning? I think the management would like to get finished as quickly as possible.

Mr. BOTHWELL: We still have the Canadian Government Merchant Marine to deal with.

Hon. Mr. HOWE: Yes, and the estimates and finance bill will be taken up to-morrow.

The committee adjourned at 5.55 p.m. to meet again on Friday, March 19, at 11 o'clock a.m.

SESSION 1937
HOUSE OF COMMONS

STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 7

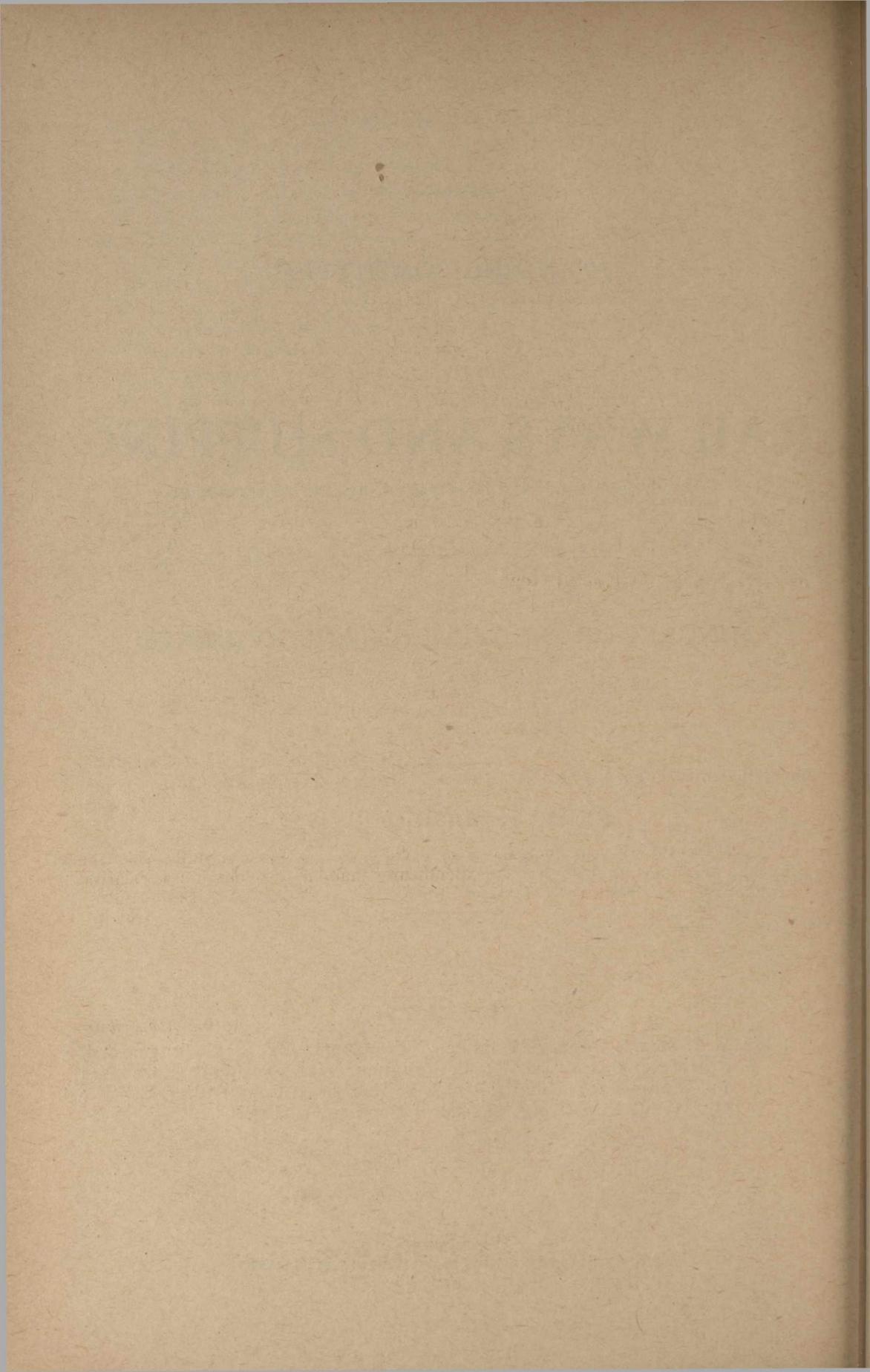
FRIDAY, MARCH 19, 1937

TUESDAY, MARCH 23, 1937

WITNESSES:

Mr. V. I. Smart, Deputy Minister of Transport; Mr. S. J. Hungerford, President, C.N.R.; Mr. R. C. Vaughan, Vice President, Purchases and Stores Dept., C.N.R.; Mr. J. B. MacLaren, Comptroller, C.N.R.; Mr. W. M. Armstrong, Bureau of Economics, C.N.R.

OTTAWA
J. O. PATENAUDE, I.S.O.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1937



REPORTS TO THE HOUSE

THIRD REPORT

MONDAY, March 22, 1937.

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

THIRD REPORT

Your committee has had under consideration the following items of the estimates referred to the committee on March 15, and approves of same, viz:—

Nos. 96, 97 and 293 of the main estimates for the fiscal year ending March 31, 1938, and Nos. 361 and 362 of the special supplementary estimates for the fiscal year ending March 31, 1938.

All of which is respectfully submitted.

A. M. YOUNG,
Acting Chairman.

FOURTH REPORT

TUESDAY, March 23, 1937.

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

FOURTH REPORT

Your committee has considered Bill No. 73, "An Act to authorize the provision of moneys to meet certain expenditures made and indebtedness incurred by the Canadian National Railways during the calendar year 1937, and to authorize the guarantee by His Majesty of certain securities to be issued by the Canadian National Railways," and has agreed to report the Bill without amendment.

All of which is respectfully submitted.

A. M. YOUNG,
Acting Chairman.

MINUTES OF PROCEEDINGS

FRIDAY, March 19, 1937.

The Standing Committee on Railways and Shipping owned, operated and controlled by the government met at 11 a.m., Mr. Young, acting chairman, presiding.

Members present: Messrs. Barber, Beaubier, Beaubien, Bothwell, Elliott (*Kindersley*), Ferland, Hanson, Heaps, Howden, Howe, Kinley, McKinnon (*Kenora-Rainy River*), Ryan, Stewart, Vien, Young.

In attendance: Mr. V. I. Smart, Deputy Minister of Transport; Mr. A. V. Franklin, Railway Auditor, Department of Finance, and officials of the Canadian National Railways, including Mr. S. J. Hungerford, President; Mr. R. C. Vaughan, Vice-President of Purchases and Stores Department; Mr. W. M. Armstrong, Bureau of Economics; Mr. J. B. MacLaren, Comptroller; Mr. T. H. Cooper, Assistant Comptroller, and Mr. R. B. Teakle, General Manager, Canadian National (West Indies) Steamships, Limited.

Answers to questions put by members of the Committee at the previous sitting were supplied by officials of the C.N.R., these answers appearing in this day's minutes of evidence. ss

The Committee proceeded to the consideration of the Annual Report of the Canadian Government Merchant Marine and the Canadian National (West Indies) Steamships, Limited.

Report adopted.

The Canadian National Railways and Canadian National (West Indies) Steamships' Budget for the year 1937 was considered and adopted.

The following estimates referred to the Committee on March 15 were considered and adopted, viz:—

Vote No. 96—Canadian National Railways, Eastern Lines (Maritime Freight Rates Act), \$1,800,000;

Vote No. 97—Railways other than the C.N.R. Lines (Maritime Freight Rates Act), \$700,000;

Vote No. 293—Canadian National (West Indies) Steamships, Limited, capital expenditure, \$48,500;

Vote No. 361—Amount to be applied by the Canadian National Railway Company in payment of net income deficit, 1937, \$35,000,000;

Vote No. 362—Canadian National (West Indies) Steamships, Limited, working capital, \$500,000.

The Committee then adjourned until Tuesday, March 23, at 11 a.m.

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

TUESDAY, March 23, 1937.

The Standing Committee on Railways and Shipping owned, operated and controlled by the government met at 11 a.m., Mr. Young, acting chairman, presiding.

Members present: Messrs. Barber, Beaubien, Beaubier, Deachman, Elliott (*Kindersley*), Hanson, Heaps, Howden, Howe, Kinley, McKinnon (*Kenora-Rainy River*), Maybank, Parent (*Quebec West and South*), Ryan, Walsh, Young.

In attendance: Mr. V. I. Smart, Deputy Minister of Transport, and Mr. A. V. Franklin, Railway Auditor, Department of Finance.

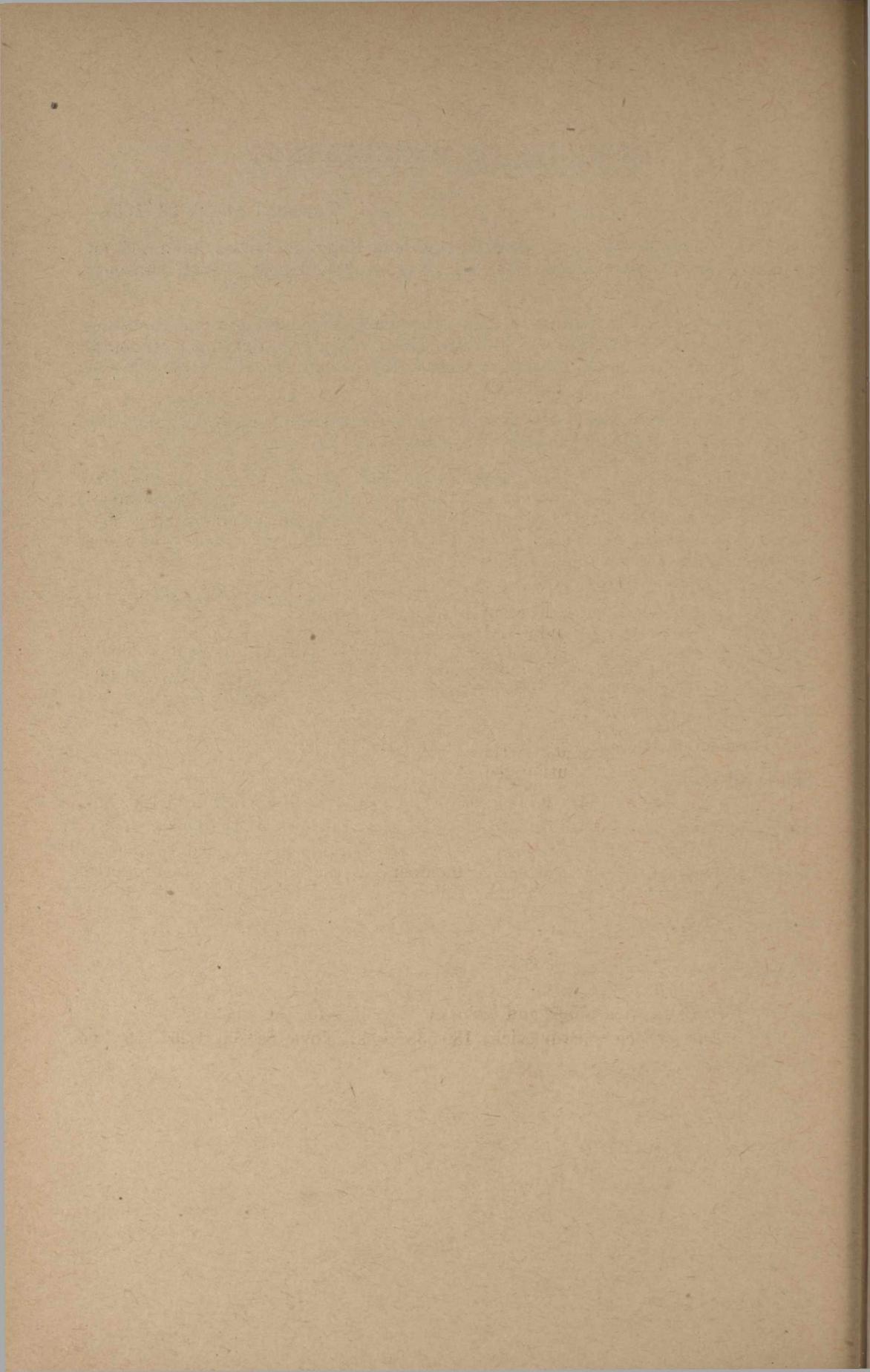
The Committee took into consideration Bill No. 73, an Act to authorize the provision of moneys to meet certain expenditures made and indebtedness incurred by the Canadian National Railways during the calendar year 1937, and to authorize the guarantee by His Majesty of certain securities to be issued by the Canadian National Railways.

The said bill was considered clause by clause, adopted without amendment, and the acting chairman authorized to report the bill.

At the request of Mr. Walsh, the Deputy Minister of Transport filed a statement showing the income and profit and loss of the Canadian National Steamships (Pacific Coast), which statement appears as Appendix A to this day's minutes of evidence.

The Committee adjourned to the call of the Chair.

R. ARSENAULT,
Clerk of the Committee.



MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 277.

March 19, 1937.

The Select Standing Committee on Railways and Shipping met at 11 o'clock Mr. A. M. Young, acting chairman, presided.

The ACTING CHAIRMAN: We will take up this morning the report of the merchant marine; but before doing so there are a few questions that were asked yesterday to which the management will make reply this morning.

Mr. ARMSTRONG:

Question by Mr. Deachman: What is the lowest operating ratio in the United States?—*Answer:* The following are examples of United States steam railways with low operating ratios:—

Railway	Operating Ratio in 1936
Chesapeake & Ohio	51·7
Bessemer & Lake Erie	49·1
Duluth, Missabe & Northern	44·0
Norfolk & Western	52·9
Virginian	44·6
Monongahela	38·6

Each of these railways is a heavy tonnage road handling large quantities of coal or ore.

These low ratios are in large measure due to extremely high traffic densities.

The next is:—

Question by Mr. Walsh: Who pays salaries in connection with Canadian Car Demurrage Bureau?

Answer: The total expenses of the Bureau are divided between all railways in Canada who are members of the Bureau. The proportion contributed by each member railway is based on the ratio of the cars loaded and unloaded on its lines, to the total cars loaded and unloaded on all member lines.

Then we have:—

Question by Mr. Ryan: What is the amount of coal purchased from New Brunswick mines and Nova Scotia mines for the year 1936?

Answer: New Brunswick, 130,538 tons; Nova Scotia, 1,253,169 tons.

Mr. HEAPS: May I ask about prices?

Mr. VAUGHAN: We have not these—just tons.

Mr. RYAN: Why the disparity? Why is there so little New Brunswick coal purchased in comparison with Nova Scotia coal?

Mr. VAUGHAN: I think that question is very easily answered. In the first place the quality of New Brunswick coal, generally speaking, is not comparable to the better grades of Nova Scotia coal. In the next place the distribution of our coal is worked out entirely on an economical basis taking into consideration the cost of the coal and the cost of haul to the point of consumption. We feel we

are using all the New Brunswick coal we can economically. I think it will be found we are using much more New Brunswick coal than anybody else is. Another thing I should like to mention is nearly all, all except two, of the New Brunswick mines are located on the Canadian Pacific Railway.

Mr. HEAPS: May I ask if you have the prices that you pay for the New Brunswick coal?

Mr. VAUGHAN: The price of New Brunswick coal, screened coal, \$4 a ton.

Mr. HEAPS: What do you pay in Nova Scotia?

Mr. VAUGHAN: It works out about the same.

Mr. HEAPS: May I ask at the same time what the United States railways pay for their coal?

Mr. VAUGHAN: The United States railways would pay for their coal an average of less than \$2.

Mr. HEAPS: Are you bringing coal now from Vermont?

Mr. VAUGHAN: We are not bringing in coal from Vermont; we are bringing some coal from the United States for the central territory.

Mr. HEAPS: Virginia coal?

Mr. VAUGHAN: No; we bring in American coal—the American coal we use in Canada is very largely coal that comes from our own mines, the Rail and River Mines, which supplies the central territory from Toronto to Port Arthur, which cannot be served by Canadian coal.

Mr. HEAPS: What does that coal cost you?

Mr. VAUGHAN: The average price of that coal at the mine is around \$1.50.

Mr. HEAPS: \$1.50 compared with what you pay here.

Mr. VAUGHAN: \$1.50 compared with Nova Scotia coal at \$4 a ton at the mine. On top of that \$1.50 we have duty and freight.

Mr. HEAPS: What does it cost you laid down here?

Mr. VAUGHAN: I can tell you pretty much by figuring it out. \$1.50, we pay \$1.51 to Lake Erie, we pay 75 cents duty and we pay 27 cents boat, which works out at a little over \$4 alongside Fort William, duty paid.

Mr. HEAPS: Do you use that coal on the western line?

Mr. VAUGHAN: We use some American coal on the western lines for a limited distance west of Fort William; we bring Alberta coal down to Winnipeg and to one divisional point east of Winnipeg.

Mr. HOWDEN: What does it cost you? I suppose the Alberta coal costs a little more?

Mr. VAUGHAN: The Alberta coal comes from different seams. The average cost of Alberta coal would be a little over \$3 a ton.

Mr. HOWDEN: Then you have the extra cost of haulage?

Mr. VAUGHAN: Yes, we have the extra cost of haulage to Winnipeg, a thousand miles for that coal.

Mr. KINLEY: Do the Nova Scotia mines lay it down on your own lines?

Mr. VAUGHAN: Yes.

Mr. KINLEY: You get the commercial haul on their other business besides?

Mr. VAUGHAN: We do; we get a large commercial tonnage from the mines in Nova Scotia, whereas we would get very little from the mines in New Brunswick.

The ACTING CHAIRMAN: What is the difference in heat units between the Nova Scotia coal and the Alberta coal?

Mr. VAUGHAN: The heat units are about the same; but there are other differences in the coal. For instance, the American coal we use from our own

mines is of hard structure and handles very well. Therefore by the time it gets to the tender on the locomotive it is in very good condition. The Alberta coal, on the contrary, is almost slack when we get it; it is very fine when it comes out of the mine.

Mr. BEAUBIER: Where does the Alberta coal come from, the Crows Nest?

Mr. VAUGHAN: No, we do not get any coal from the Crows Nest. These mines are all on the C.P.R. line. We get some coal from the Brazea line and from what we call the Coal Spur branch, just south of Edson.

Mr. HEAPS: Do the C.P.R. use New Brunswick coal?

Mr. VAUGHAN: I think the C.P.R. use about 25 per cent of the quantity we do.

Mr. RYAN: You think that coal is not giving you satisfaction?

Mr. VAUGHAN: Yes, it is giving us satisfaction. We are not having any particular trouble with it except it is of such a nature that it is not considered suitable for service on fast passenger trains.

Mr. RYAN: How is this coal delivered to you?

Mr. VAUGHAN: There is a big difference in the quality of the coal.

Mr. RYAN: I do not mean the nature of the coal. I am referring to transportation.

Mr. VAUGHAN: Well, much of the coal we get from the mines in New Brunswick is not produced on our own line, but is delivered to our line. They pay freight via Canadian Pacific to our line.

Mr. RYAN: That should be taken into consideration.

Mr. VAUGHAN: We cannot see any reason particularly why we should buy coal on a competitor's line when there is plenty available on our own line.

Mr. RYAN: The Canadian National Railways have to look at the province of New Brunswick from the standpoint of the people who are living there to help out.

Mr. VAUGHAN: We are admitting that, but we have increased very much, Mr. Ryan, and we have been increasing our purchases almost every year up to the present time. We are using that coal in as wide a territory as we can economically.

Mr. RYAN: Is the freight rate on the coal shipped from Nova Scotia to New Brunswick and Quebec considerably lower than the New Brunswick rate?

Mr. VAUGHAN: The coal we use in comparison with New Brunswick coal is coal that comes from the McCann district which is sold at the same price.

Mr. RYAN: I presume you have increased the amount used because of the more or less agitation on the part of the coal miners in the province of New Brunswick?

Mr. VAUGHAN: We have a good many representations from them to increase purchases. Remember, the province of New Brunswick imports three or four hundred thousand tons of coal, and we have been wondering why they do not use more of this coal in their own province.

Mr. RYAN: Because in 1934, if I have the figures correctly, Nova Scotia received subventions from the Dominion government to the amount of \$1,888,740; whereas Saint John received subventions of \$8,609. With protection like that Nova Scotia can ship this coal into the province of New Brunswick and undersell New Brunswick in the matter of competition.

Hon. Mr. HOWE: The subventions are exactly the same in both provinces, so much a mile on coal hauled.

Mr. RYAN: The minister has a better knowledge of this than I have. They were not on the same basis in 1934. New Brunswick got \$8,609 when it should have received something like \$84,000 if they were on the same basis.

HON. MR. HOWE: I think it has been adjusted since 1934. It was adjusted a year ago, so they are on exactly the same basis, proportion of freight rate to destination.

MR. HEAPS: I should like to ask a question in regard to that. You can get coal at \$1.50 a ton at the mine mouth from your own mines in United States and you pay probably two and a half times that for the Nova Scotia coal. Have you taken that into consideration?

MR. VAUGHAN: I think conditions have a lot to do with it. The seams in the mines in United States as a rule are easier to work, thicker seams, and the miner can produce more coal probably in a day than he can in these other districts. In Nova Scotia, of course, they have a lot of water to contend with.

MR. HEAPS: Not in all the mines, in some.

MR. VAUGHAN: In some.

MR. HEAPS: They have some mines in which coal is produced easily and cheaply.

MR. VAUGHAN: Yes, they have.

MR. HEAPS: It is practically the same in these mines in the States?

MR. VAUGHAN: Practically the same.

MR. HEAPS: Then, that is not really the determining factor.

MR. VAUGHAN: What we are endeavouring to do is to buy our coal based on quality, if we can. Many of the coal mines in Nova Scotia produce a poor grade of coal.

MR. RYAN: The only point I want to bring to your attention is this, and I do it not in a spirit of criticism at all. You refer to the fact that the Canadian National Railways should not take advantage of the New Brunswick coal because the C.P.R. is there on a competitive line. I do not think you should take that basis at all, because after all, my position is this: the Canadian National Railway is a publicly owned railway.

MR. VAUGHAN: Mr. Ryan —

MR. RYAN: I just want to say this, any deficit that you incur is paid directly by the taxpayers of the Dominion of Canada. They make it up, and it represents some \$30,000,000 or \$40,000,000 and having that in mind, New Brunswick contributes also to the payment of the taxes. I do not think when you go to purchase coal you should consider yourself in the matter of competition with the Canadian Pacific Railway.

MR. VAUGHAN: We are already buying the coal from five mines on the Canadian Pacific and only from two on our own lines, so I think we are trying to be fair.

MR. RYAN: I do not know where that takes place. Where is that.

MR. VAUGHAN: Two mines—

MR. RYAN: You are speaking of outside of New Brunswick again.

MR. VAUGHAN: No, I am talking about New Brunswick. We buy coal from five mines in the province of New Brunswick located exclusively on the C.P.R. and from two mines in the province of New Brunswick on our own lines.

MR. RYAN: I understood you to say the coal is delivered by the miners, they pay the freight.

MR. VAUGHAN: That is quite true. Unfortunately that coal is produced in mines that are served exclusively by the Canadian Pacific Railway.

MR. RYAN: Of course, the geographic position does not apply.

MR. VAUGHAN: Do you think it is fair to ask us to use so much coal from New Brunswick when some others should be doing their share.

Mr. RYAN: I do not think it is fair to ask you to do anything that is unreasonable. It is not altogether a question of economy. I think you ought to enlarge it a little bit and put your purchases on a little fairer basis so far as your purchases in the province of New Brunswick are concerned.

Mr. VAUGHAN: We are buying about 130,000 tons in the province of New Brunswick. A few years ago we did not buy more than 20,000 or 30,000 tons. We have been greatly increasing that tonnage. We think we have been treating the mines of New Brunswick remarkably well. We cannot use a larger tonnage in New Brunswick without costing us money.

Mr. HEAPS: Do you want them to buy coal in competition rather than New Brunswick?

Mr. RYAN: That is a matter of policy for the railways to decide. That is not a matter for me to decide.

Mr. HEAPS: We do not buy on a competitive basis now. I think in other years this matter has been threshed out thoroughly in this committee, and we at one time thought if coal was bought on a competitive basis in the open market that there would be an enormous saving to the railways.

Mr. KINLEY: By buying American coal.

Mr. HEAPS: On a competitive basis.

Mr. KINLEY: By buying American coal.

Mr. RYAN: I hope you accept my views in the spirit in which they are given.

Mr. VAUGHAN: Yes, I would appreciate your position.

Mr. RYAN: The matter is brought to my attention time and time again, and I have been urged to bring it to your attention.

Mr. VAUGHAN: Quite so.

The ACTING CHAIRMAN: Are there any other questions?

Mr. VIEN: You have spoken, Mr. Vaughan, about mines owned by the railway system? Where are they located?

Mr. VAUGHAN: They are located in the state of Ohio, just across the river from West Virginia.

Mr. VIEN: These are the only mines you own?

Mr. VAUGHAN: These are the only mines we own.

Mr. VIEN: Are they being operated as a separate corporate entity?

Mr. VAUGHAN: They are operated by the Rail and River Coal Company, the stock of which is entirely owned by us.

Mr. McLAREN: Mr. Hanson asked a question yesterday in reference to the increase in public improvements, maintenance of way account. This increase was brought about by the fact that on January 1, 1936, we changed our method of distribution. Prior to that date some of these expenses were distributed to other primary accounts; but effective January 1, 1936, all the public improvement maintenance expense was changed to this account. The only breakdown I am able to give you at the moment is that these expenses for 1936 are divided as follows: Atlantic region, \$23,000; Central region, \$84,000; Western region, \$45,000; United States lines, \$83,000. This amount involves possibly two to three thousand accounts. Another question was asked in regard to the method of placing insurance. The company maintains a list of insurance brokers who desire to bid for outside insurance. When insurance is required the brokers handling this particular kind of risk are invited to submit their offers, and we invariably accept the lowest tender.

Mr. HEAPS: Have you much outside insurance?

Mr. McLAREN: Not very much.

Mr. HEAPS: You carry practically all yourself?

Mr. McLAREN: There was an answer to that question yesterday, Hr. Heaps.

Mr. HEAPS: It seemed to me to be rather contradicted.

Mr. McLAREN: We pay about \$200,000 for outside insurance, if I remember rightly.

Mr. HEAPS: Is it necessary, in view of the very healthy state of the insurance fund to carry outside insurance?

Mr. McLAREN: Well, I would answer that by saying it is considered good policy to carry outside insurance on the property that we have insured with outside underwriters.

Mr. HEAPS: When you have \$11,000,000 in your own fund and you are paying practically no premium in the fund for insurance I cannot understand why you should pay \$200,000 to outside firms.

Mr. McLAREN: If I recollect rightly, the statement I gave you yesterday covered mostly vessels, and not rail property.

Mr. HUNGERFORD: It was felt that in connection with large risks it is wise to place it outside. Let me give you an example. Some years ago the *Prince David* went on a reef near Bermuda and the underwriters were required to pay upwards of \$1,000,000 for that single accident. We do not want to endanger our fund with these large concentrated risks.

Mr. HEAPS: You have not as many vessels now, Mr. Hungerford.

Mr. HUNGERFORD: You could not afford to lose very many without wrecking the fund.

Mr. KINLEY: Do you insure all your marine risks outside?

Mr. HUNGERFORD: Mostly, for the railway.

Mr. VAUGHAN: I think it is only the more hazardous risks that are insured outside.

Mr. HUNGERFORD: Practically all the railway company vessels are outside?

Mr. VAUGHAN: Take a boat on the Alaska route where there are narrow channels all the way and the trip is a very hazardous one.

Mr. KINLEY: You pay a bigger premium.

Mr. VAUGHAN: It is on a competitive basis, of course.

Mr. RYAN: Before we leave this question I would like to say in answer to Mr. Heaps, and I want to make myself clear in this respect, that I think so far as the policy of the railways is concerned in purchasing coal in the respective districts, they are to be commended for that policy, and it is well if they will be able to continue their policy to buy their coal from the coal mines in those districts so that they will encourage the industries there. I commend the railway for its policy in that respect.

The ACTING CHAIRMAN: Are there any other questions?

Mr. McLAREN: Yes. Mr. Walsh asked a question yesterday in regard to the decrease in amortization of discount. In answer I would say that in the 1935 accounts we charged to income \$258,000, covering a portion of premium and discount on bonds which were called and paid off. In 1936 we decided that such premium and discount was more correctly chargeable to profit and loss, and we changed our accounting accordingly. I was also asked by Mr. Walsh to submit a statement of profit and loss account restated to the basis of the proposed legislation.

The ACTING CHAIRMAN: We have this in statistical form.

Hon. Mr. STEWART: I think that was given some time ago in the committee when we were considering the recapitalization bill. I remember asking that a statement be given of the figures for the last year on the basis of the recapitalization. Is this something different?

Mr. McLAREN: No. This deals with the figures as disclosed in the 1936 accounts; the statement we prepared before was on the basis of the 1935 account.

Hon. Mr. STEWART: Yes, because the 1936 accounts were not ready; but this is the same kind of statement, merely being the figures for 1936 instead of 1935.

The ACTING CHAIRMAN: I was going to suggest that we put this statement in in tabulated form to complete the record. Would you like to have it read, Mr. Stewart?

Hon. Mr. STEWART: I think so, if it is not too long.

Mr. McLAREN: (Reads):

PROFIT AND LOSS STATEMENT

RE-STATED ON THE BASIS OF PROPOSED LEGISLATION—BILL 12

		Year 1936	
		\$	cts.
CREDITS—			
Credits from Retired Road and Equipment.....		22,351	25
Donations.....		47,491	01
Miscellaneous Credits.....		291,047	91
Total Credits.....		360,890	17
DEBITS—			
Surplus appropriated for Investment in Physical Property.....			707 34
Miscellaneous appropriations of surplus.....		61,831	81
Debits for retired Road and Equipment.....		5,952,442	36
Miscellaneous Debits.....		7,114,390	53
Total Debits.....		13,045,708	42
Net Profit and Loss Items, Debit		12,684,818	25
Net Income Deficit brought forward.....		43,197,346	04
System Net Loss.....		55,882,164	29
Deduct: Contributions for deficits from Dominion Government—			
Canadian National Railways.....	\$ 37,449,321	57	
Eastern Lines.....	5,550,632	36	
P.E.I. Car Ferry and Terminals.....	303,439	89	
		43,303,393	82
Change in Proprietor's Equity, representing Capital losses and other charges not contributed by the Dominion Government in cash.....		12,578,770	47

DOMINION GOVERNMENT—PROPRIETOR'S EQUITY

—	Balance at January 1, 1936		Change during the year	Balance at December 31, 1936	
	\$	cts.		\$	cts.
Can. Nat. Ry. Co. Capital Stock.....	18,000,000	00		18,000,000	00
C.N. Sec. Trust Capital Stock.....	282,616,208	35	Capital Losses. \$ 5,957,676 52 Other Losses.. 6,621,093 95	270,037,437	88
Dominion Government Expenditures for C.G. Rys. Capital.....	388,290,294	40		30 88	388,290,263
Total, as per Balance Sheet.....	688,906,502	75	\$12,578,801 35	676,327,701	40

Hon. Mr. STEWART: Mr. Chairman, I am sorry I was not here yesterday. In the statement for 1936 the system's net loss on page 10 of this report is shown as \$92,000,000 odd; in the statement of the prior year, 1935, it is shown as \$115,000,000 odd. Now, the amount written off for debits for retired road equipment in the year that has just closed, 1936, is \$5,952,000 odd. The amount

written off as already referred to in the prior year was \$29,000,000 odd, and the reasons for that have been given. That very largely I think, Mr. Chairman, accounts for the difference in the statement between the \$92,000,000 in the profit and loss statement of last year and the \$115,000,000 odd in the statement of the previous year. So that if you make that difference the result of the year's operation is comparative on the same basis—about the same, is not that correct?

Mr. McLAREN: Obsolete equipment was \$25,000,000 in 1935. On the same comparative basis for last year the result would be \$90,000,000 as compared with \$92,000,000.

Hon. Mr. STEWART: Yes, but just that one item. On page 10 of the statement for 1936 the comparative item is \$5,000,000 as against \$29,000,000 odd. That makes a difference of \$24,000,000 odd.

Mr. McLAREN: About \$23,000,000.

Hon. Mr. STEWART: In that one item alone, as I see it, there is \$24,000,000 of a difference, and the explanation given as to why it was \$29,000,000 in the prior year was that a lot of equipment which, while having a service value, had become obsolete and was written off, the result being to show, apparently, a much worse result of the operations in the year 1935 than in the year 1936, showing as I have said, the total system's net loss of \$115,000,000 in that former year as against \$92,000,000 in the last year.

Mr. McLAREN: But you were speaking originally of the \$115,000,000 compared with the \$92,000,000, and the difference between the amount you referred to \$5,900,000 and \$29,100,000 is about \$23,000,000. Taking that off the \$115,000,000 would make about the same result.

Hon. Mr. STEWART: That is what I am saying; that the net result, carried through on the same basis, would make the two practically the same.

Mr. ARMSTRONG: That is hardly correct.

Hon. Mr. STEWART: I would be glad to have it cleared up, because that is the way it looks to me.

Mr. ARMSTRONG: As I understand your point, it is that last year we had a system net loss of \$115,000,000 and this year \$92,000,000; in other words, a betterment of \$23,000,000.

Hon. Mr. STEWART: Apparently; and that is something we would rejoice in.

Mr. ARMSTRONG: In equipment retirement we had a betterment of \$23,000,000, therefore, one cancels the other. In other words, if you take out of these figures the equipment retirements you have no better result this year than last year. Is that what you mean?

Hon. Mr. STEWART: It is practically the same.

Mr. ARMSTRONG: As I understand it, you say that the operating result is not better.

Hon. Mr. HOWE: The charge for net operating to offset that, Mr. Stewart, last year, was \$6,500,000; the charge to operating for equipment retirement the year before was, I think, \$5,700,000. The operating results are roughly \$900,000 better, and the saving in refinancing is better.

Hon. Mr. STEWART: That is a different point.

Hon. Mr. HOWE: They are both savings to the taxpayer.

Hon. Mr. STEWART: Probably so.

Mr. HEAPS: I asked a question yesterday in regard to costs of these refrigerator cars that were produced at Transcona and those that were bought from private contractors. I think you said you would get the figures for me.

Mr. ARMSTRONG: We could not get those figures in time; but if it is convenient to you we will endeavour to supply them for the record. We could not get them yesterday.

Mr. KINLEY: I submitted a question yesterday.

The ACTING CHAIRMAN: What was that?

Mr. KINLEY: It was in regard to the purchase of ties.

The ACTING CHAIRMAN: What was the question you asked yesterday?

Mr. KINLEY: My question was: what price was paid for ties in my riding, and from whom were they bought.

Mr. VAUGHAN: I would prefer to give the information to Mr. Kinley privately. It is not that there is anything confidential about it, but I doubt whether it is wise—pardon me for saying so—to give the full particulars of all our contracts. I would be very glad to give Mr. Kinley that information.

Mr. KINLEY: I quite agree that it is not wise to make public the details of the contracts, but, as a matter of fact, I wrote for them and I was refused them. I would rather have them privately. I can quite see why you would not like to give them before the contracts were let, but I do not see any reason why they should not be given after the contracts are awarded.

Mr. VAUGHAN: I have no recollection of the details being asked for.

Mr. KINLEY: I have a letter here which I will show you. I showed it to the committee yesterday.

Mr. VAUGHAN: I think we can dispose of this question all right.

The ACTING CHAIRMAN: That concludes that section of the report. Now, we have the report of the Merchant Marine. Mr. Armstrong, would you just read that general statement on pages 4 and 5 concerning the Canadian Government Merchant Marine.

Mr. ARMSTRONG: (Reads):—

MONTREAL, March 10, 1937.

THE HONOURABLE C. D. HOWE, M.P.,
Minister of Transport,
Ottawa.

Sir,

On behalf of the Directors I beg to submit the last annual report of the Canadian Government Merchant Marine, Limited, this covering the year ended December 31st, 1936.

The comparative operating results were as under:—

	1936	1935	Decrease
Grosse revenues	\$2,216,441 54	\$2,764,549 09	\$ 548,107 55
Operating expenses.....	1,912,936 41	2,452,726 83	539,790 42
Operating profit	\$ 303,505 13	\$ 311,822 26	\$ 8,317 13

There were only 17 completed voyages to Australia and/or New Zealand as against 24 in 1935, due to the sale of the fleet as referred to later in this report, and therefore the decreases shown above must be reviewed with this in mind. The operating ratio in 1936 was 86·30 compared with 88·72 in 1935.

Under authority of Order in Council approved April 27th, 1936 an agreement was executed for the sale of the remaining ten vessels of the fleet. The new Company which will continue the services formerly operated by the Canadian Government Merchant Marine is known as the Montreal Australia New Zealand Line, Limited. Nine vessels were turned over to the new Company as each of them arrived in Montreal after the date of the agreement, June 8th, 1936, and had discharged cargo. The tenth vessel, "Canadian Planter", was in collision with the "City of Auckland" on

May 3rd, 1936 and had to be withdrawn from the sale to the M.A.N.Z. Line and was later sold at sheriff's sale.

The Affairs of the Canadian Government Merchant Marine have now been liquidated, except for some small transactions which will be closed during the current year. In winding up the affairs of the Company adequate provision has been made for pensions to those entitled thereto under the Pension Rules and Regulations and for dismissal compensation to those not absorbed by the new Company or entitled to pension. The Directors wish to place on record their appreciation of the loyal service rendered by the officers and employees to the Company, the existence of which must now be considered as closed.

S. J. HUNGERFORD,
President.

Mr. KINLEY: I am interested in that statement: "In winding up the affairs of the company adequate provision has been made for pensions to those entitled thereto under the pension rules and regulations and for dismissal compensation to those not absorbed by the new company or entitled to pension."

I think I said yesterday that under the railway set-up certain men were retired and were unable to fulfil the pension conditions because of the depression which caused them to be laid off. It did occur to me that some provision should be made whereby a man who reached the retiring age and had not fulfilled his time because of bad years should be given special consideration to continue on until he has qualified for his pension. Now, those men were on call, but continuous time has been defined to mean operating duty and not standing-by duty. In connection with the Canadian Merchant Marine, I had occasion to look into this matter, because when the boats were sold certain captains were within a few months or a year or so of being eligible for pension, and had it not been for the fact that they were laid off between ships would have qualified. This indicates that some regulation has been adopted to look after them, and I wonder if we can be given any further information.

Mr. VAUGHAN: The arrangement was made when those boats were sold that anyone who qualified under the pension rules would be given a pension even though they had not reached the age of sixty-five, which is the retiring age. If they had entered the service before fifty years they would be given a retiring allowance under the pension rules based on service, and those who did not qualify under the pension scheme would be given what is called a dismissal allowance which, I think, was equivalent to two weeks salary for each year's service with a maximum of six months.

Mr. KINLEY: Suppose they had twelve years. That would be two weeks for each year. They could get up to 50 per cent then. You said there was a maximum of six months.

Mr. VAUGHAN: That was the maximum they could get—50 per cent of one year's salary.

Mr. KINLEY: 50 per cent of one year's salary for dismissal allowance?

Mr. VAUGHAN: Yes.

Mr. KINLEY: That means they would get six months pay.

Mr. VAUGHAN: Yes.

Mr. KINLEY: It is not very good treatment for a man who has been in the service for some years and is kicked out because his boat is sold.

Mr. VAUGHAN: Well, it was thought to be fairly generous at that time. Of course, none of these men have been in the service very long, because the Canadian Merchant Marine, after all, has not been running very many years.

Mr. RYAN: I think everything was done to maintain employment when these boats were sold.

Mr. VAUGHAN: We got the new company to take over as many men as they could, and they did take over a lot of men.

Mr. KINLEY: You must realize that when a shipmaster loses his ship he must go to the foot of the line on another ship; they are not going to put their men out to put him in; he is practically out of a job for good because promotion and service are always taken into consideration by every company.

Mr. VAUGHAN: I know he is placed in a difficult position.

Mr. KINLEY: He is placed in a very difficult position.

Hon. Mr. STEWART: The new company took over the same ships.

Mr. RYAN: The railway should be commended for trying to keep the men employed.

Mr. KINLEY: They did not keep them on.

Mr. RYAN: Yes they did—quite a few of them.

Mr. VAUGHAN: They took over a lot of them.

Mr. KINLEY: Just a few.

The ACTING CHAIRMAN: Shall we pass from the general statement to the balance sheet?

Mr. KINLEY: You sold a ship for a certain amount of money, and she appeared in your statement at a certain amount of money when you sold her; how did you look after the shrink?

Mr. McLAREN: The amount of money received from the sale of the ship was paid over to the government and they returned the notes we had given for the original cost of the ship, and that enabled us to write the original cost out of our investment account and out of our liability account.

Mr. KINLEY: It did not affect operating and depreciation.

Mr. McLAREN: No. Depreciation was cancelled and so was the interest.

Mr. HEAPS: Have you the interest charges here so we can see the actual picture?

Mr. ARMSTRONG: You will find that on page 9.

The ACTING CHAIRMAN: We will come to page 9 in due course. Is there anything further you desire to ask in connection with the balance sheet itself?

Mr. HEAPS: I am trying to get a real picture of the situation as regards the year's operation. I notice on page 9 that interest due is \$558,068.76, and that would, of course, have to be offset against the operating cost?

Mr. McLAREN: It was transferred to profit and loss. On page 7 you will find in the liabilities the item Interest Accrued Unpaid \$8,426,637.44.

Mr. KINLEY: I see in the liabilities the item "Three Directors' Shares \$100." I notice you have three directors who are interlocked. Do they get pay from each company?

Mr. McLAREN: No.

Mr. KINLEY: They receive no pay from the Canadian Government Merchant Marine; they get it all from the parent company.

Mr. McLAREN: Yes.

Mr. KINLEY: That is true of all three, is it?

Mr. McLAREN: No directors' fees are paid.

Mr. KINLEY: Either by this company or by the West Indies Company?

Mr. McLAREN: No.

The ACTING CHAIRMAN: Are there any further questions with regard to pages 6 and 7? If not we will pass then to the profit and loss account and income account on pages 8 and 9. Are there any questions in that regard?

Mr. KINLEY: With regard to his boat, *Canadian Planter*, that was lost, I notice that in the first part you say, "The tenth vessel, *Canadian Planter*, was in collision with the *City of Auckland* on May 3, 1936 and had to be withdrawn from the sale to the M.A.N.Z. Line as was later sold at sheriff's sale." Did you fix the liability for that and settle who was liable for the collision? Have you fixed the responsibility?

Mr. HUNGERFORD: That whole matter was settled by agreement. There were suits and cross-suits, and there was considerable complication in connection with it. However, it was finally settled by joint agreement.

Mr. KINLEY: Was the crew of the *Canadian Planter* exonerated?

Hon. Mr. STEWART: There was no trial.

Mr. KINLEY: It is very important to know whether the crew was exonerated.

Mr. HUNGERFORD: The investigating board placed a certain measure of blame upon both ships, and the matter became exceedingly complicated because the vessel was towed into American waters and dealt with in American ports. Taken altogether it resulted in a very bad legal tangle.

Mr. KINLEY: Did both ships have a pilot on board?

Mr. HUNGERFORD: I understand so.

Mr. KINLEY: And was not the pilot held responsible for the accident in each case?

Mr. HUNGERFORD: Well, apparently not.

Hon. Mr. HOWE: The captain is always responsible even though a pilot is on board.

Mr. KINLEY: That is what I want to know. In this case it is not fair to the crew of the Canadian ship if the responsibility is not fixed. A captain can make only two mistakes—in fact, he can make only one; and if he comes out of the incident with a cloud over him how is he going to get a job?

Mr. HUNGERFORD: Both ships were held responsible. The suits were instituted on behalf of the shippers of the cargo, and there were cross-suits.

Mr. KINLEY: Both ships, I suppose, were insured, and you were not thinking about the matter.

Mr. VAUGHAN: Yes, they were both insured.

Mr. KINLEY: Did the insurance company file suit against the other ship?

Mr. VAUGHAN: There were threatened suits and the matter was settled really between the lawyers of the various companies.

Mr. KINLEY: Between the lawyers of the insurance companies?

Mr. VAUGHAN: Yes. In our case our boat was insured in our own fund.

Mr. KINLEY: You did not make any loss, did you?

Mr. VAUGHAN: We made some loss, but were insured.

Mr. KINLEY: For how much was the ship insured, may I ask?

Mr. VAUGHAN: I do not remember. Anyway, most of the loss in that connection would be charged up against the Canadian Government Merchant Marine insurance fund.

Mr. KINLEY: She would be insured for a lot more than you sold some of them for. She was well sold, eh?

Mr. BOTHWELL: I direct your attention to page 8. I was wondering if that item \$41,000,000 odd represents the cost to the Canadian government of operating the Canadian Government Merchant Marine?

Mr. McLAREN: No, it does not. The original cost of the boats was \$79,661,-921. There was recovered by sales and insurance \$5,412,986, leaving a loss in capital account of \$74,248,935. Loss in operating account was \$8,099,086.20; making a total loss of \$82,348,021.

Mr. BOTHWELL: That is the total net cost to the government over the period of years of operating this service.

Mr. McLAREN: Well, that is exclusive of interest charges for the period.

Mr. BEAUBIEN: And the deficits on the operations.

Mr. McLAREN: The deficit on operation is \$8,000,000.

Mr. BOTHWELL: It was a good business to get out of.

Mr. KINLEY: I do not know about that. We kept them while they lost money, and when they began to pay we got clear of them. I presume if you put them in your statement and valued them at the price you sold them at they would not be a very profitable business.

Hon. Mr. HOWE: The trouble was they were getting to the point where we had to replace them.

Mr. KINLEY: That is a matter of opinion. Other people buy them and run them.

Hon. Mr. HOWE: No, they are practically all scrapped to-day.

Mr. KINLEY: Some of them are.

Mr. BOTHWELL: There are no other credits to that statement, are there?

Mr. McLAREN: No.

Mr. VIEN: Is there a statement published somewhere showing the exact picture of what the Canadian National shipping has cost us?

Mr. SMART: In the report of the Department of Railways and Canals.

Mr. VIEN: In the report of the Department of Railways and Canals?

Mr. SMART: Yes.

Mr. VIEN: Would it give accrued interest and everything?

Mr. SMART: It gives you the whole cost.

Mr. VIEN: Everything included. What statement were you reading from, Mr. McLaren?

Mr. McLAREN: The statement we had prepared from our accounts.

Mr. VIEN: Is it available for distribution?

Mr. McLAREN: Yes.

Mr. VAUGHAN: I think we will find it.

Mr. McLAREN: I have read it.

Mr. VIEN: That is all right.

The ACTING CHAIRMAN: If these are all the questions in regard to that we will pass on to the next statement, West Indies service.

Mr. ARMSTRONG: (Reads)

CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS,
LIMITED

ANNUAL REPORT

MONTREAL, QUE., March 10th, 1937.

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

SIR,—On behalf of the Directors, I beg to submit herewith the Annual Report of the Canadian National (West Indies) Steamships, Limited, for the year ended December 31, 1936. It is a pleasure to report that for the first time since the formation of the Company the services have earned a surplus after meeting the interest on the bonds in the hands of the public. The comparative operating results are as follows:—

	1936	1935	Increase	Percent
Gross revenues.	\$4,322,592 65	\$3,816,245 75	\$506,346 90	13·27
Operating expenses.	3,765,194 10	3,616,214 92	148,979 18	4·12
Operating profit.	\$557,398 55	\$200,030 83	\$357,367 72	

After payment of bond interest there is an income surplus of \$87,398.55 to be paid over to the Government, compared with an income deficit of \$269,969.17 which had to be provided by the Government in 1935.

Operating revenues increased \$506,346. The number of completed voyages was 128, two less than in the preceding year. Freight revenue increased \$349,606 reflecting better cargoes both import and export. The number of stems of bananas carried in 1934 by the vessels in the Eastern Service was 65,422. This was increased to 235,885 in 1935 and to 385,140 in 1936. The vessels in the Western Service (Jamaica) carried 1,857,091 stems in 1936, an increase of 71,804 over 1935.

Due to exceptional demands for cargo space for Australia and New Zealand the "Cornwallis" made a special voyage sailing from Montreal in November 1935, from which a net revenue of \$21,894 was secured.

Passenger travel was exceptionally good, all vessels being fully booked the greater part of the year. Passenger revenues increased \$131,900.

Operating expenses increased \$148,979 or 4·12 per cent as compared with an increase of 13·27 per cent in revenue. The increased expense was occasioned principally by the handling expense of the additional tonnage.

The vessels of the fleet were operated during the year without serious casualty and have been maintained to a very high standard. The self insurance fund now stands at \$1,375,317, an increase of \$150,380 during 1936.

The Directors take this opportunity of expressing their appreciation of the loyal and efficient service rendered by the Company's officers and employees, both ashore and afloat.

S. J. HUNGERFORD,
President.

Mr. KINLEY: Mr. Chairman, I understand that this year the bookings on these boats were very large, and accommodation was hard to obtain. Was that so?

Mr. VAUGHAN: That is quite so. In certain months of the year we have had great difficulty in providing sufficient accommodation to meet the demand.

Mr. KINLEY: I know a lot of people in the West Indies and Bermuda find it almost impossible to get back on these boats, and even Jamaica. People

must take advantage of these cruise liners, which is a very nice way to go back. It is a question of whether it would be possible for the sake of continuity of business to increase the service at certain months of the year.

Hon. Mr. HOWE: I might say the service really needs two more boats; but there again we come up against the lack of funds. We do not feel that the position is such that we can ask for the money this year.

Mr. KINLEY: And the boats should be about two or three knots faster. The boats are beautiful boats and very comfortable, but they are too slow.

Hon. Mr. HOWE: They are ideal boats for that service, I believe.

Mr. BOTHWELL: How many boats are there?

Mr. VAUGHAN: Just five Lady boats, eleven in the service altogether. There are five Lady boats and two are what are known as "vagabond cruisers." I may say that we have asked for authority to provide more accommodation on the Lady boats.

Mr. KINLEY: You have provided for that.

Mr. VAUGHAN: We have provided for 32 additional passengers. We propose to turn sixteen second-class rooms into first-class room.

Mr. KINLEY: There is a lot of room in some of these boats that seems to be wasted. They have very big staterooms. The western run is the best run is it not?

Mr. VAUGHAN: The eastern run is the most profitable.

Mr. KINLEY: The one to Trinidad?

Mr. VAUGHAN: Yes.

Mr. KINLEY: I thought the one to Jamaica carried the most passengers but the other one carried the most freight—the Nassau and Jamaica carries the most passengers.

Mr. VAUGHAN: The net result is here. The net result of the eastern service was \$267,000; the western service, \$63,000.

Mr. KINLEY: That is due to the freight. The passenger service is heavy on the other run, I believe.

The ACTING CHAIRMAN: Are there any further questions on the steamships?

Mr. KINLEY: There is this about it. I notice the directorate is an interlocking one between the three companies. I can quite see we could have one interlocking directorate, which would be a good idea as between the railroads and the boats, which are two persons in law. But when one man directs the two operations there might be a question of freight rates and the division of proportioning the freight to the boat and to the railways. It might be wise to have one directorate for each of these companies with an independent mind, not the mind of the railroad. I do not think the primary mind of the railroad should dominate the whole situation. In these directorates you have all the men who are directors of the railroad, have we not, interlocking?

Mr. HUNGERFORD: Correct.

Mr. KINLEY: I just put that out as a suggestion.

The ACTING CHAIRMAN: If there are no further questions to ask about that section, we shall pass on to the next page, profit and loss account. This seems to be the first cash surplus we have ever had paid to the government in this regard. It is very satisfactory to note this great improvement. Are there any questions?

Mr. RYAN: What page?

The ACTING CHAIRMAN: Page 16.

Mr. VIEN: Carried.

The ACTING CHAIRMAN: No comment on that. We now come to income account on page 17.

Mr. RYAN: In connection with this income account I should like to ask where the purchases are made for these steamships.

Mr. VAUGHAN: It depends where the supplies are required. The supplies needed are mostly in the way of foodstuffs and they are bought mostly in Canada. The oil is bought from the West Indies where it can be purchased to advantage. These boats are all oil burners. The boats on the eastern trip take oil at Trinidad and on the western trip at Jamaica.

Mr. RYAN: When you spoke about foodstuffs you said they were purchased in Canada. Where in Canada?

Mr. VAUGHAN: Very largely in Halifax or Saint John.

Mr. RYAN: Is there anything at all purchased in Saint John?

Mr. VAUGHAN: Not as much as at Halifax.

Mr. RYAN: Is there anything at all purchased there?

Mr. VAUGHAN: A little, not very much.

Mr. KINLEY: There is not much bought in Halifax.

Mr. VAUGHAN: Yes, there is, quite a lot. Halifax is really the terminus of the boats and they have not got sufficient time in Saint John for one thing to provide them with very much.

Mr. RYAN: They stay there a day.

Mr. VAUGHAN: Yes.

Mr. RYAN: Do you not think you should divide the purchases up a little bit?

Mr. VAUGHAN: We have gone into that carefully, and in fact we did not long ago, to see if we could not buy more in the city of Saint John. We are looking into it now. I do not know just how it is going to pan out. It is done from the standpoint of what is the most economical thing for the boats.

Mr. RYAN: I should like to call your attention to this fact. My understanding of the situation is that so far as Saint John is concerned no purchases are made there at all.

Mr. VAUGHAN: I am quite willing to admit at the present time very little is bought there for these boats.

Mr. RYAN: In addition to that I am told by the merchants there that the laundrymen are not even allowed on the boat to take a shirt or collar from any of the employees. If they go down to take their laundry off and it can be done in a day, they are not allowed to go on the boat at all. I do not think that is a fair proposition. Have you heard any protests in that regard?

Mr. VAUGHAN: We have not heard anything about it. However, that question of buying at Saint John is receiving our attention, anyhow.

Mr. RYAN: I appreciate that very much. I hope that some benefit will accrue to Saint John from it. I should like to take up another matter, and that is in regard to the laundry being done at Saint John. I am told that if a laundryman goes down to the boat he is not allowed to go on the boat to get the laundry. I wish you would take that up as well.

Mr. VAUGHAN: We will take note of that.

Mr. BOTHWELL: I have one question I should like to ask in regard to the profit and loss account. The profit and loss account shows a deficit as at 31st December, 1935, of \$8,687,238.67, and the annual report states that you made a profit and paid interest on the bonds to the public, and yet the statement shows a deficit of \$9,000,000 apparently at the end of December, 1936. You might explain that. I do not understand it just at the moment.

Mr. McLAREN: The \$8,000,000 you speak of is the deficit at December, 1935, from which is deducted the cash deficit which was paid as a contribution, reducing the amount to \$8,417,269.50. Then we bring forward the book deficit from the year's operations of \$574,212.58, and deduct the cash surplus that is to be paid back to the government—

Mr. BOTHWELL: Where did you get that loss of \$574,212.58?

Mr. McLAREN: On page 17, Mr. Bothwell. The operating profit is \$87,000, and you have to deduct the interest due the government, depreciation on vessels, which makes a net deficit of \$574,212.58 for the year.

Mr. BOTHWELL: I get it now. You are taking into account depreciation on vessels and interest due to the government.

Mr. McLAREN: Yes.

Mr. BOTHWELL: So that your operating profit through the year was evened up by that much as well.

Mr. McLAREN: Yes.

Mr. VAUGHAN: I should like to point out that before this service was undertaken by this company the government paid a private company \$340,000 per annum as a subsidy to carry on this service.

Mr. BOTHWELL: For mail service, something of that kind.

Mr. VAUGHAN: Just for the general service, mail and otherwise to the eastern islands.

Mr. KINLEY: How much subsidy do you get from the West Indies now?

Mr. VAUGHAN: It is in this book, I think.

Mr. ARMSTRONG: \$223,000.

Mr. KINLEY: \$223,000?

Mr. VAUGHAN: That is from the various islands.

Mr. KINLEY: What about the selection of the crews? What is your policy with regard to selecting crews for these boats?

Mr. VAUGHAN: Of course, we give preference to Canadians first. In all cases a very large proportion are Canadians. When we come down to the actual crews, stewards, and so on, we try to make a fair division as between Canadians and West Indians.

Mr. KINLEY: You have an agreement with the eastern lines in regard to that?

Mr. VAUGHAN: A tentative agreement, yes.

Mr. KINLEY: You always prefer Canadians; that is the first consideration.

Mr. VAUGHAN: Yes, it is.

Mr. KINLEY: Does he have any privilege over the British sailor?

Mr. VAUGHAN: Well, he would only have a privilege in this way: if we had two men apply for a position, one a Canadian and one an old countryman, we would give preference to the Canadian if he were competent.

Mr. KINLEY: Have you not seen an advertisement very lately in which the first provision was an extra master's certificate. That is a British certificate, and it puts the Canadian out.

Mr. VAUGHAN: We have plenty of Canadians who are masters on our boats and who have Britishers working under them who have certificates that are far superior to the Canadian certificates.

Mr. KINLEY: The advertisement I have in mind was one that asked for an extra master's certificate, which is issued in England, and which puts the Canadian out at the beginning.

Mr. VAUGHAN: I do not think we advertised.

Mr. KINLEY: I saw it the other day from the Marine Department.

Mr. VAUGHAN: It was not from the Canadian National Steamships. May I make a correction in regard to an answer I gave you a while ago in regard to which service was the more profitable, the eastern or the western service. In gross earnings we show more on the eastern service, but in net earnings we show a little more on the western service. Net earnings on the eastern service were \$334,000; on the western service, \$349,000, although the gross earnings on the eastern service were \$1,700,000 and on the western service, \$1,100,000.

Mr. KINLEY: On the western service you carry passengers, and on the eastern service you handle freight.

Mr. VAUGHAN: We get a profitable banana business from the western service.

Mr. RYAN: There is another matter to which I should like to direct a question and that is in regard to the sheds on the eastern side of the harbour of Saint John. Has there been any agitation to have them renovated?

Mr. VAUGHAN: The question has not come up to us, Mr. Ryan, but I understand the United Fruit Company has had the matter up.

Mr. RYAN: I want to take it up with the minister and I should like to have your moral support.

Hon. Mr. HOWE: It seems to me I heard something about it.

Hon. Mr. STEWART: That is not the kind of support you want. I would like to ask a question, and the minister can probably answer it. I should know it myself. When does the trade agreement between Canada and the West Indies expire?

Hon. Mr. HOWE: Next year, I believe.

Hon. Mr. STEWART: Next year. I believe it is under that agreement that these services were established or in connection with it?

Hon. Mr. HOWE: Yes. The services were established to implement the agreement.

Hon. Mr. STEWART: The agreement expires next year?

Hon. Mr. HOWE: Yes, unless renewed.

Hon. Mr. STEWART: I hope we will be able to renew it.

Mr. KINLEY: I am not so sure of that.

Hon. Mr. STEWART: It looks pretty good.

Mr. KINLEY: I would not like to see it renewed if it was at the exclusion of everybody else. I would sooner see some trade with Cuba.

The ACTING CHAIRMAN: We shall pass now to pages 18 and 19, which contain some statistical information. Are there any questions in regard to that, if not we shall pass over to this last page, which merely gives information in regard to the fleet. Are there any questions in regard to that? That completes the report, then. What shall we deal with next.

Hon. Mr. HOWE: We will take up bill 73, Mr. Chairman, if there is no objection.

The ACTING CHAIRMAN: We have copies of the budget prepared and we shall distribute them. We shall pass now to the budget. I think it would meet with the approval of the committee if we read the first page.

Hon. Mr. STEWART: Yes, I think that is the best way to make progress.

Mr. ARMSTRONG: (reads)

CANADIAN NATIONAL RAILWAYS

CANADIAN NATIONAL RAILWAYS AND CANADIAN NATIONAL STEAMSHIPS BUDGET FOR YEAR 1937

SUMMARY

	Reference Page	Amount	Total
Canadian National Railways—All-Inclusive System			
Net Income Deficit			
Canadian National Railways, excluding Eastern Lines.	2	\$29,706,000	
Eastern Lines, excluding P.E.I. Car Ferry and Terminals	2	5,027,000	
Prince Edward Island Car Ferry and Terminals.	2	267,000	\$35,000,000
Capital Expenditures			
Additions and Betterments, less Retirements.	3	3,900,000	
Acquisition of Securities.	3	561,000	
New Equipment Purchases.	4	19,396,700	
		23,857,700	
Less Available from Working Capital.	250,000	
		23,607,700	
Retirement of Capital Obligations, including Sinking Fund and Equipment Principal Payments.	5	7,114,000	\$30,721,700
Total Budget.			\$65,721,700
NOTE:—Net income Deficit of \$35,000,000 includes \$1,398,900 for contribution to deficit of I.C.R. and P.E.I. Provident Fund, and \$100,000 for contribution to Grand Trunk Railway of Canada Superannuation and Provident Fund Association.			
In event of equipment trust being issued for the purchase of new equipment, it will only be necessary to provide approximately 25 per cent of the total amount of \$19,396,700 through the financing Act of 1937.			
Statutory Authorizations			
Senneterre-Rouyn Branch Line, authorized under Chapter 26, Year 1936.	4		\$ 3,900,000

The ACTING CHAIRMAN: I think we shall stop at that point and discuss it. Are there any questions in connection with it?

Mr. BOTHWELL: What was our budget last year?

Hon. Mr. HOWE: Last year we budgetted for \$39,900,000.

Mr. ARMSTRONG: \$49,859,000 was the total.

Hon. Mr. HOWE: The equipment purchase account accounted for the increase.

Hon. Mr. STEWART: Mr. Minister, is this the amount it is proposed to ask parliament for?

Hon. Mr. HOWE: Yes, for capital and for deficit.

Hon. Mr. STEWART: \$65,721,700, plus \$3,900,000?

Mr. SMART: No, that is a statutory amount.

Hon. Mr. HOWE: The \$3,900,000 was voted under the Senneterre Act.

Hon. Mr. STEWART: That is already voted.

Mr. HANSON: That is new construction.

Mr. BOTHWELL: How much new equipment purchase was made last year?

Mr. HUNGERFORD: None made last year. We made a lot the year before, and most of the deliveries were made during the year 1936.

Mr. BOTHWELL: I was wondering how much was included in the budget.

Hon. Mr. HOWE: Nothing at all.

Mr. HUNGERFORD: Nothing in the budget.

The ACTING CHAIRMAN: Perhaps if we continue with the Canadian National Steamships we will have everything in front of us.

Mr. BOTHWELL: It means this, that there is a decrease in your budget this year outside of new purchases of \$4,000,000.

Mr. HUNGERFORD: A decrease of about \$8,000,000 in the cash deficit.

Mr. KINLEY: Over last year?

Mr. HUNGERFORD: Yes. In 1936 it was \$43,300,000 and in 1937 we are budgetting for \$35,000,000.

Hon. Mr. STEWART: That is an estimate.

The ACTING CHAIRMAN: Just read to the end of the last section on the first page.

Mr. ARMSTRONG:

Canadian National Steamships

Canadian National (West Indies) Steamships Limited:

Net Income—Payable in Cash to the Government.. . . .	6	\$25,000
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Capital Expenditures

Additions and Betterments.. . . .	6	98,500
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Of the Steamships Requirement of \$98,500 for Capital Expenditures, \$48,500 is covered by Parliamentary Vote 293 of the Main Estimates for 1937, and \$50,000 is covered by Supplementary Vote.

Montreal, March 8, 1937.

Mr. KINLEY: Why are additions and betterments in here under capital expenditure?

The ACTING CHAIRMAN: When we go to the next page we shall have the details in front of us.

Hon. Mr. HOWE: On page 6.

The ACTING CHAIRMAN: Read the next page, please. Do you wish to have it read?

Hon. Mr. HOWE: It is not necessary to have this printed in the evidence.

Hon. Mr. STEWART: This is the first time I have seen it. It is not long. I should think it might as well be put in and then we have the whole story.

The ACTING CHAIRMAN: We will have it in front of us if we have it printed.

Mr. ARMSTRONG:

CANADIAN NATIONAL RAILWAYS

BUDGET FOR YEAR 1937

	Prince Edward Island Car Ferry and Terminals	Eastern Lines (excluding P. E. I. Car Ferry and Terminals)	System, excluding P. E. I. Ferry and Eastern Lines	System All-Inclusive Total	Total Require- ments
	\$	\$	\$	\$	\$
NET INCOME DEFICIT—					
Operating Revenues, excluding 20% Contribution, M.F.R. Act.....	116,000	20,084,000			
Contribution from Government under Maritime Freight Rates Act (20%)....	4,000	1,796,000			
Total Operating Revenues.....	120,000	21,880,000	183,000,000	205,000,000	
*Operating Expenses.....	380,000	24,170,000	158,000,000	182,550,000	
Net Revenue from Railway Operations.....	Def. 260,000	Def. 2,290,000	25,000,000	22,450,000	
Taxes.....		315,000	5,997,000	6,312,000	
Other Income Debits or Credits.....		851,000	Cr. 2,063,000	Cr. 12,000	
Net Income before Fixed Charges.....	Def. 260,000	Def. 3,456,000	21,066,000	16,150,000	
Fixed Charges—					
Interest due Public on Long Term Debt.....		333,000	48,842,000	49,175,000	
Other Fixed Charges.....	7,000	1,195,000	2,473,000	2,475,000	
Income Requirements.....	267,000	4,984,000	30,249,000	35,500,000	
Profit and Loss Items—Net Debit.....		743,000	2,657,000	3,400,000	
Estimated Net Change in Profit and Loss during Year—Deficit.....	267,000	5,727,000	32,906,000	38,900,000	
DEDUCT—Amounts included above not required in Cash—					
Depreciation Reserve.....			630,000	630,000	
Amortization of Discount on Funded Debt.....			1,370,000	1,370,000	
Loss on Retired Road and Property, etc.....		700,000	1,200,000	1,900,000	
Total Cash Requirement on Deficit Account.....	267,000	5,027,000	29,706,000	35,000,000	35,000,000

CAPITAL EXPENDITURES—

<i>Additions and Betterments</i> (Details on Page 3)—			
General Additions and Betterments (less Retirements).....		\$ 3,900,000	
<i>Acquisition of Securities</i> (Details on Page 3)—			
Northern Alberta Railways Company.....	\$	350,000	
Toronto Terminal Railway Company.....		100,000	
Chicago and Western Indiana Railroad Company.....		111,000	
		<hr/>	
Total Acquisition of Securities.....		561,000	
** <i>New Equipment Purchases</i> (Details on Page 4).....		19,396,700	
		<hr/>	
Less—Available from Working Capital.....		23,857,700	23,607,700
		250,000	7,114,000
RETIREMENT OF CAPITAL OBLIGATIONS, INCLUDING SINKING FUND AND EQUIPMENT PRINCIPAL PAYMENTS (Details on Page 5).....			<hr/>
			65,721,700
			<hr/> <hr/>
	Total.....		

* Operating Expenses include \$1,398,900 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.

** In event of Equipment Trust being issued for the purchase of new equipment, it will only be necessary to provide approximately 25% of the total amount of \$19,396,700 through the Financing Act of 1937.

The ACTING CHAIRMAN: These are the details of the \$65,721,700. Are there any questions in regard to that section?

Hon. Mr. STEWART: I might ask in regard to purchases of equipment under the contribution act of the government of last year for the relief of unemployment. Does that help you in the coming year? Will it reduce the amount that you would otherwise have to provide? What I mean, is it going to help you in this statement in the coming year, or do you contemplate spending a similar amount?

Mr. HUNGERFORD: I do not quite understand, Mr. Stewart.

Hon. Mr. STEWART: Parliament made provision for the relief of unemployment under the special supplementary estimates for the purchase of new equipment.

Hon. Mr. HOWE: Last year?

Hon. Mr. STEWART: Yes.

Hon. Mr. HOWE: No, nothing made for the purchase of railway equipment. What provision was made was made as a contribution to the maintenance of way.

Hon. Mr. STEWART: Yes.

Hon. Mr. HOWE: Fixing up the road, etc.

Hon. Mr. STEWART: Was not there some special—

Hon. Mr. HOWE: In 1935 there was some equipment purchased.

Hon. Mr. STEWART: Had you not in 1936 something along the same line with regard to the purchase of equipment?

Hon. Mr. HOWE: No, nothing.

Mr. KINLEY: It was worked out in 1936?

Hon. Mr. HOWE: Some delivered in 1936, yes.

Hon. Mr. STEWART: I remember the figures in 1936, and I remember going over something like that. I thought it was made in 1936.

Hon. Mr. HOWE: Out of the public works appropriation in 1935, some of the payments were made in 1936. I think it was all paid for in last year's budget; nothing in the new budget.

Hon. Mr. STEWART: The point remains the same, whether this appropriation will affect your expenditures during the coming year in the same connection.

Mr. HUNGERFORD: I suppose we will need more equipment in the future under the requirements of traffic.

Hon. Mr. STEWART: Then, with regard to the deferred maintenance of roadway operations in the last year; will that reduce your commitments or your necessary expenditures during this year? Have you overtaken it or will you have to have some assistance on that?

Mr. HUNGERFORD: Most of the work done in connection with the maintenance program last year was of a character that we could have carried forward and done a little bit later. Undoubtedly we will have some benefit from it. How much is problematical.

Hon. Mr. STEWART: How does the proposed expenditure this year on the maintenance of roadway compare with last year?

Mr. HUNGERFORD: Somewhat reduced.

Hon. Mr. STEWART: Reduced this year?

Mr. HUNGERFORD: Yes.

Hon. Mr. STEWART: I assume that would be because of the work done last year under the special appropriation, to some extent at least?

Mr. HUNGERFORD: To some extent, but possibly not to a very great extent.

Mr. KINLEY: Would it not be fair to assume that last year was a special year? Take another year. Is it higher than two years ago?

Hon. Mr. HOWE: We picked up the arrears last year. This year it will be normal maintenance, I think; last year we picked up a lot of arrears.

The ACTING CHAIRMAN: Are there any further questions with regard to this statement? If not we will pass on to the next, dealing with capital expenditures and the acquisition of securities. Have you any questions to ask in regard to page 3?

Hon. Mr. STEWART: "Betterments to Equipment, \$2,675,617." How does that compare with last year?

Mr. ARMSTRONG: The figure was \$1,322,000 last year.

Mr. RYAN: I see reference here to the Fredericton Bridge, \$1,250,000. What will the total contract amount to?

Mr. HUNGERFORD: The contract has not been let.

Mr. RYAN: Will it soon be let?

Mr. HUNGERFORD: Possibly.

Mr. RYAN: I beg your pardon.

Mr. HUNGERFORD: I say possibly.

Mr. RYAN: Can you not give me anything more definite than that?

Mr. HUNGERFORD: It depends upon certain arrangements with the Canadian Pacific Railway. I am hopeful that we will reach a conclusion in our negotiations at an early date.

Mr. RYAN: I was under the impression that the negotiations had been concluded. Is that not correct?

Mr. HUNGERFORD: Not entirely.

Mr. RYAN: What is the estimated cost of the bridge?

Mr. HUNGERFORD: The bridge and approaches will cost about one and a quarter million dollars.

Mr. RYAN: Can you give me any idea as to when you definitely expect to call for tenders?

Mr. HUNGERFORD: We hope to do so in the near future. As a matter of fact, we have already called for tenders on the steel work.

Mr. RYAN: Have you started the dismantling?

Mr. HUNGERFORD: Not for the substructure.

Mr. RYAN: I presume you appreciate the urgency in this matter?

Mr. HUNGERFORD: Oh, yes, very much so.

The ACTING CHAIRMAN: If there are no further questions we will pass on to page 4.

Hon. Mr. HOWE: The explanation of the amount in the capital budget is that part of the cost has to come out of operating, due to the fact that it is replacing an existing facility.

The ACTING CHAIRMAN: Page 4, estimated capital expenditures, acquisition of securities. Are there any questions in regard to these new equipment purchases?

Mr. HANSON: What is the total number of cars owned by the Canadian National Railway. I see that there are over 3,000 new ones to be built. Have you got that figure?

Mr. ARMSTRONG: Freight equipment at the end of the year, 95,993.

Mr. HANSON. Passenger?

Mr. ARMSTRONG: 3,022, and 5,852 work equipment. That is given in the annual report at page 27.

Mr. HUNGERFORD: Yes. It is fully set out in the annual report.

Mr. BARBER: Are these new cars air conditioned?

Mr. HUNGERFORD: Yes, the new ones are.

Mr. BARBER: What does it cost to air condition a car—a car that was not air conditioned but has been in use?

Mr. HUNGERFORD: To air condition a new car costs anywhere from, perhaps, \$5,000 to \$9,000, depending on the character of the car.

Mr. BARBER: I have heard it reported that it costs as much as \$15,000; is that correct?

Mr. HUNGERFORD: Not in our experience.

Mr. BEAUBIEN: Do you air condition these cars in your own shops?

Mr. HUNGERFORD: We are doing some of it, and we are having some of that work done outside.

The ACTING CHAIRMAN: If there are no further questions we will pass from page 4 to page 5. "Retirement of Maturing Capital Obligations." Are there any questions on page 5? If there are not we will pass to page 6, "Canadian National (West Indies) Steamships Limited."

Mr. HANSON: Just one moment before you leave page 5. I notice railway bonds drawing interest at 7 per cent, and I see several drawing interest at 5 per cent. Is any arrangement made to have those bonds refinanced at a lower date of interest?

The ACTING CHAIRMAN: They are due January 1, 1938.

Mr. HANSON: They are not payable before that time, are they?

Mr. HUNGERFORD: No, not callable.

Hon. Mr. STEWART: It is a small amount of \$11,000,000 odd.

Mr. HANSON: That represents \$7,000,000.

The ACTING CHAIRMAN: Page 6. Are there any questions with regard to the West Indies service. If not, that completes that section of the report.

Hon. Mr. STEWART: We are going fairly rapidly.

The ACTING CHAIRMAN: We are doing pretty well.

Hon. Mr. STEWART: We have not had time to study these matters. I do not think we are in a position to ask questions just by looking at a page.

The ACTING CHAIRMAN: We will have plenty of time for questions.

Mr. HANSON: On page 6 I notice the item "Interest Requirements on 5 per cent 25-year bonds issued in 1930, Principal Amount \$9,400,000." They are not redeemable, are they?

Mr. McLAREN: What was your question, please?

Mr. HANSON: I was referring to that 25-year bond issue, 1930, \$9,400,000 at 5 per cent. Are they not redeemable? Could they not be redeemed at any time and refinanced at a lower rate of interest?

Mr. McLAREN: They are not callable.

Mr. HANSON: Is it the practice of the railway to issue long term bonds that are not callable?

Mr. McLAREN: We have issued securities that are callable, and some are issued that are not callable.

Mr. HANSON: Is it not a good practice to have them callable?

Mr. McLAREN: Personally, I would say it is a very good idea to have callable issues.

Mr. HANSON: What is the reason you are not doing it? Is it easier to sell them?

Hon. Mr. STEWART: It depends upon when you could sell them.

Mr. McLAREN: It is a question of whether a callable clause is included or not.

Mr. KINLEY: What is the New England Elevator Company? I notice you have a mortgage on it.

Mr. McLAREN: That is an elevator down in Portland, Maine, a grain elevator.

Mr. KINLEY: What amount have you invested in equipment at Portland, Maine?

Mr. McLAREN: What class of equipment?

Mr. KINLEY: You must have terminals, and you say you have a grain elevator.

Mr. McLAREN: We have two grain elevators there and docks and terminals, yard facilities and shipping facilities.

Mr. BEAUBIEN: Do the elevators belong to the Canadian National Railways?

Mr. McLAREN: Yes.

Mr. KINLEY: To whom do they belong?

Mr. McLAREN: The Canadian National Railway.

Mr. KINLEY: I see you have first mortgage bonds on the New England Elevator Company. Do you own and operate the elevators down there yourselves?

Mr. HUNGERFORD: The answer is that they are not being operated very much.

Mr. KINLEY: That is commendable. Still we own them and they are there; but we are not extending them any?

Mr. HUNGERFORD: No, not at all.

The ACTING CHAIRMAN: Have you any further questions to ask with regard to page 6?

Mr. HUNGERFORD: Someone asked about the particulars of capital expenditures, in connection with Lady boats. I might point out that the details are given at the bottom of page 6.

Mr. KINLEY: Expenditures on improvements and that sort of thing. It is not very much.

The ACTING CHAIRMAN: If there are no questions to be asked with regard to the contents of this page we will allow it to pass.

Now, we have in front of us Bill 73.

Mr. RYAN: Before we leave this, I would like to ask the president again about the Fredericton Bridge, because I am anxious about that. I would like to know if these negotiations with the Canadian Pacific Railway are being speeded up?

Mr. HUNGERFORD: I can only say that I believe they are just about concluded now.

The ACTING CHAIRMAN: Bill 73.

Hon. Mr. STEWART: Do we require the officials of the railway to be here when we are discussing this bill? If not, I suggest we leave the bill over for another meeting.

The ACTING CHAIRMAN: Is there anything in the bill that is contentious?

Hon. Mr. STEWART: You were facilitated in having the bill rushed through the house yesterday; now you want to rush it through here.

The ACTING CHAIRMAN: Not at all. We will not rush anything through.

Hon. Mr. STEWART: The minister said he was anxious to get the bill over here, so it was sent here. I suggest that if we do not require the officials to be here we should allow the bill to stand over until the next meeting.

The ACTING CHAIRMAN: We have done well; if it meets with the approval of the committee we will adjourn.

Mr. BOTHWELL: I think the suggestion that has been made by Mr. Stewart is a good one. Let us get through with the matters in which the officials are interested first. There are certain votes referred to this committee also. It might be well for the members to look at these and see if they are interested in them.

The ACTING CHAIRMAN: Now, I have here the order of reference:—

That the resolution passed by this house on the 18th January, 1937, referring the following estimates to the committee of supply, be rescinded, and that the said estimates be now referred to the select standing committee on railways and shipping.

Vote 96 M.F.R.A.—Canadian National Railways eastern lines, 20 per cent reduction in tolls, \$1,800,000.

Vote 97 M.F.R.A.—Railways other than C.N.R. 20 per cent reduction in tolls, \$700,000.

Vote 293—Canadian National (W.I.) S.S. capital, \$48,500.

Vote 361—Canadian National Railway deficit 1937, \$35,000,000.

Vote 362—Canadian National W.I., S.S., working capital, \$500,000.

Mr. BOTHWELL: There is that item of \$500,000. All these other items have been covered pretty well, but that item \$500,000 strikes me as being new. Possibly the information has been distributed to the members of the committee. We have had an opportunity of discussing all of these votes, but some other item may have occurred to somebody else. I do not know what that \$500,000 item is.

Mr. SMART: That is in your estimates, votes 96, 97, 293, 361 and 362; then there are the supplementaries.

Mr. McLAREN: I might explain by saying that the Canadian Government Merchant Marine was the banker for the West Indies Company, and now that the Merchant Marine is going out of business in a short time the West Indies Company are carrying on with the money that has been advanced to the Merchant Marine by the government. The money will be paid back to the government; but we are asking for authority to obtain working capital for the West Indies.

Mr. BOTHWELL: If we are going to continue until 1 o'clock, I would suggest that we deal with each of these votes instead of with the bill. I cannot see the necessity of having the officials here when we consider the bill in committee, but there may be questions we may want to ask them in regard to these different votes.

The ACTING CHAIRMAN: Let us take vote 96.

Mr. BOTHWELL: \$1,800,000.

Hon. Mr. STEWART: Is that to be found in the main estimates?

The ACTING CHAIRMAN: Yes; vote 96.

Mr. BOTHWELL: What is the reason for that increase?

Mr. RYAN: Increased business, I presume.

Mr. HUNGERFORD: Yes, it is simply an estimate, of course.

The ACTING CHAIRMAN: The more business we have the more we have to pay. Is that item agreed to?

Mr. RYAN: Certainly. We cannot find any fault with it. (Item agreed to).

The ACTING CHAIRMAN: Vote 97, railways other than the C.N.R.—tolls—\$700,000. There is a decrease in that particular vote.

(Item agreed to).

Vote 293. Canadian National (West Indies) Steamships Limited, \$48,500. That is found at page 62 in the main estimates.

Hon. Mr. STEWART: Of course, this will come up again in the house.

Mr. BEAUBIEN: Vote 98 had nothing to do with the Canadian National Railway; it has to do with the Hudson Bay Railway.

Mr. SMART: We will take care of that in the house.

Mr. RYAN: There is no objection to this item.

The ACTING CHAIRMAN: Is this item agreed to? There is an increase of \$19,050.

Mr. SMART: Mr. Stewart, you will notice at the bottom of the first page in this budget "Canadian National Steamships," and there is an amount there "Additions and Betterments, \$98,500." \$48,500 were put in the main estimates, and it was not until after the main estimates had been tabled that we found we had to add \$50,000 to that. You will get another item of \$50,000 in the supplementaries. I do not think they are tabled yet.

Mr. RYAN: It is very essential for improvements and betterments judging from the evidence given here this morning.

Mr. SMART: Quite. It is provided for; but we did not have the information when the main estimates were asked for. We only had \$48,000. Now we have had to add \$50,000 to take care of this matter and that sum will be shown in the supplementaries when they are tabled.

The ACTING CHAIRMAN: Is vote 293 agreed to?

Hon. Mr. STEWART: It looks all right.

(Item agreed to.)

The ACTING CHAIRMAN: Vote 361. That refers to the deficit we have been discussing of \$35,000,000. Is that agreed to? That is in your supplementaries. Canadian National Deficit for 1937. That is \$35,000,000 instead of \$43,000,000 last year. Is that agreed to?

Hon. Mr. STEWART: This is an estimate only for 1937.

The ACTING CHAIRMAN: It is an estimate only, yes.

(Item agreed to.)

Vote 362. That is the vote Mr. Bothwell was asking about.

Hon. Mr. STEWART: Might I ask what the estimated deficit for the year 1936 was—the item corresponding here?

Mr. SMART: \$39,900,000; and the actual deficit was \$43,303,000.

Hon. Mr. STEWART: I hope it will be better this year.

The ACTING CHAIRMAN: The explanation was given with regard to vote 362. Are there any further questions on that?

Hon. Mr. STEWART: As I understand it, the working capital is \$500,000 and that will be paid over by the company that has gone out of existence to the government and advanced to this other company.

Mr. SMART: They will pay whatever cash they have back to the government, and this is an item transferring to the West Indies Company \$500,000.

Hon. Mr. STEWART: Is the amount to be transferred greater than the amount to be paid back?

Mr. McLAREN: The amount to be paid back will be \$495,000.

Hon. Mr. STEWART: It is approximately the same.

Mr. McLAREN: Yes.

Hon. Mr. STEWART: That is what I understood.

Mr. BOTHWELL: You are estimating this year for practically the same amount as last year.

Hon. Mr. STEWART: This is working capital.

Mr. SMART: Formerly they used the Canadian Government Merchant Marine working capital, and the West Indies really did not have any working capital; they use the same capital.

The ACTING CHAIRMAN: Is that explanation satisfactory? Is vote 362 agreed to?

(Item agreed to.)

Now, it seems to me that we have done pretty well today, and if it meets with the view of the committee—

Mr. BOTHWELL: There is one question I might as well ask while we are here instead of having to ask it in the house. In connection with that vote 293, \$48,500 is the vote for this year as compared with \$29,450, for last year, and the deputy minister has explained, and the budget shows, that another \$50,000 will be required which will be shown in the supplementary vote, and that will bring the amount up to \$98,500 as against the vote last year of \$29,450. Could we have an explanation?

The ACTING CHAIRMAN: That is to be found at the bottom of page 6.

Mr. BOTHWELL: I looked at page 6 and I still am not clear as to the difference in that vote.

Mr. VAUGHAN: That represents the amount to increase the passenger carrying capacity of the boats—about thirty-two passengers each.

The ACTING CHAIRMAN: Is that satisfactory?

Mr. BOTHWELL: Yes. I could not find the answer.

Mr. RYAN: What is there to come up at our next meeting?

Mr. SMART: There is that one item \$50,000 if the supplementary estimates are tabled. You have the whole explanation.

The ACTING CHAIRMAN: I would like an expression of opinion from the committee as to whether they would like the management of the road to be here at our next meeting. We do not want to disturb the work of the road unless it is absolutely necessary.

Hon. Mr. STEWART: It would appear to me that since the subject matter of this bill has been gone over and explained in the budget and in these other items we have before us that we certainly should not require the attendance of the officials at our next meeting unless something unforeseen develops.

Mr. BOTHWELL: We will have the deputy minister with us.

Mr. SMART: The only item outside of the bill is that item of \$50,000, and you have an explanation on it now.

The ACTING CHAIRMAN: We will not ask the officials to be here, but we will meet Tuesday morning at 11 o'clock.

The Committee adjourned to meet Tuesday, March 23 at 11 o'clock.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 277,

March 23, 1937.

The Select Standing Committee on Railways and Shipping met at 11 o'clock, Mr. A. M. Young the acting chairman presided.

The ACTING CHAIRMAN: We have bill 73 before us this morning:—

An Act to authorize the provision of moneys to meet certain expenditures made and indebtedness incurred by the Canadian National Railways during the calendar year 1937, and to authorize the guarantee by His Majesty of certain securities to be issued by the Canadian National Railways.

This bill covers many of those things which we have already discussed and agreed upon. I do not know whether you want the clauses of the bill read.

Mr. HEAPS: I think we can dispense with that.

Mr. HANSON: It is the same bill we have always passed in other years is it not?

The ACTING CHAIRMAN: Yes. Shall clause 1 carry?— (Item agreed to.) Shall clause 2 carry?

Mr. HEAPS: Perhaps the minister would like to make a statement to save any discussion on this clause.

Hon. Mr. HOWE: This is the usual financing bill. It provides for the capital expenditures on the railway; it gives authority for such refunding as is required in the year.

Mr. BEAUBIEN: That refers to the capital expenditure which we discussed in the budget.

Hon. Mr. HOWE: Yes, that is it.

Mr. ELLIOTT: How do you make up that item of \$30,721,700?

The Acting CHAIRMAN: You will find part of it on page 1 and part of it on page 2.

Hon. Mr. HOWE: Yes. Retirement of capital obligations, \$7,114,000. Of course, that is just a refunding operation. It does not change the debt position, but authority has to be obtained, and parliament can give it. Then there is the item of general additions and betterments less equipment retirements. The equipment retirement is \$7,389,000 odd and is the amount taken out of the earnings each year to provide for equipment retirements, and that is offset against general additions and betterments, as discussed in the budget, of \$11,289,000 odd. Then there is acquisition of new securities, or securing the securities of some of the small subsidiaries which we are trying to clean up, and the amount there is \$561,000. Equipment purchased amounts to \$19,396,000 odd: making a total of \$23,857,000 odd.

Mr. SMART: They are using \$250,000 of working capital.

Hon. Mr. HOWE: They, apparently, have some surplus working capital they are applying against the capital requirements.

(Item agreed to.)

The ACTING CHAIRMAN: Clause 3.

Mr. RYAN: Was there a similar section to this last year?

The ACTING CHAIRMAN: It is the same as last year.

Mr. ELLIOTT: Is the method the same as has been in effect during previous years?

Hon. Mr. HOWE: Yes. Under the Canadian National-Canadian Pacific Act it is required that all capital expenditures shall receive the approval of parliament and also all refunding operations; and this is the bill that has been passed pursuant to that Act to give the necessary authority.

(Item agreed to).

The ACTING CHAIRMAN: Clause 4.

Mr. WALSH: What is the significance of clause 4 in regard to aiding and assisting other companies?

Hon. Mr. HOWE: The Canadian National, as has been said in connection with the capitalization bill, has no direct ownership of the Canadian Northern railway; neither has it any direct ownership of the Intercolonial railway; and all the financing of those two railways is done through the Canadian National Railway. Without this clause the Canadian National Railway could hardly spend anything on a railway over which it has no ownership.

Mr. WALSH: That clause will be eliminated next year.

Hon. Mr. HOWE: Yes, I think so.

Mr. HEAPS: This is the bill we have had before us in other years.

Hon. Mr. HOWE: It is exactly the same.

(Item agreed to).

The ACTING CHAIRMAN: Clause 5.

Mr. WALSH: What is the inference there?

Hon. Mr. HOWE: It allows the government to guarantee the funds under section 2 of the act. Section 2 authorizes certain refunding and funding of new capital obligations.

Mr. WALSH: This bill deals altogether with capital requirements, not ordinary requirements.

Hon. Mr. HOWE: Not the deficit, no; that is in the budget.

(Item agreed to).

The ACTING CHAIRMAN: Clause 6.

Mr. WALSH: What is the reference? "The guarantee or guarantees may be in such forms and subject to such terms and conditions. . . ." and so on.

Hon. Mr. HOWE: That has to do with clause 5. Clause 5 allows the government to guarantee, and clause 6 sets out the form of guarantee that may be used.

(Item agreed to).

The ACTING CHAIRMAN: Clause 7.

Mr. WALSH: All these amounts are charged against the consolidated fund of Canada directly.

Hon. Mr. HOWE: No, not at all. The bonds are private.

Mr. WALSH: The money is borrowed by the Minister of Finance.

Hon. Mr. HOWE: No. It is borrowed by the Canadian National Railways and guaranteed by the government.

Mr. WALSH: And the Canadian National Railway assumes responsibility for the interest.

Hon. Mr. HOWE: That is right.

Mr. WALSH: And for the repayment.

Hon. Mr. HOWE: The item is in the balance sheet—long term debt in the hands of the public.

Mr. WALSH: And the interest on that is charged in the balance sheet.

Hon. Mr. HOWE: Yes. It is charged against operation.

(Item agreed to).

The ACTING CHAIRMAN: Shall the title carry?

(Carried).

The ACTING CHAIRMAN: Shall I report the bill?

(Carried).

Now, then, I think that covers all that has been referred to us. There is only one other item that might come in the estimates and that has to do with the \$50,000 item which we have already discussed. I do not imagine it is necessary to refer it to this committee.

Hon. Mr. HOWE: Which item is that?

Mr. SMART: \$98,500 was required. In the main estimates there was a sum of \$48,500 provided. Now they are coming along with the other \$50,000 and it will be in the supplementaries.

Mr. RYAN: We discussed that at the last meeting of the committee.

Hon. Mr. HOWE: I think that can be passed in committee of the whole.

Mr. BARBER: It is not in the estimates that have been tabled, is it?

Hon. Mr. HOWE: No. It will be tabled with the supplementaries.

The ACTING CHAIRMAN: We discussed the item the last day we were here.

Hon. Mr. HOWE: It will be in the final supplementaries which have not yet been tabled.

Mr. RYAN: The amount is to provide for improvements in the Canadian National Steamships.

Hon. Mr. HOWE: Yes; the change from second class to first class.

Mr. RYAN: It is for increasing the accommodation.

The ACTING CHAIRMAN: With the exception of a final meeting to adopt our report, we have completed everything that has been referred to the committee. The report will be drawn up and the committee will come together to consider it.

Mr. WALSH: Might I intrude a question. I was not here at the last meeting, and there was a question I wanted to ask. You can rule it out of order if it is beside the point. I was going to ask if the minister filed a profit and loss statement for the Canadian National Steamships on the Pacific coast similar to that filed with the committee last year and published on page 195 of the proceedings of evidence on May 7, 1936. It was done last year, and I wonder if it could be done this year.

Hon. Mr. HOWE: That has reference to the railway's ships. Yes. I think that can be done. (See Appendix A)

Mr. WALSH: Yes, they are run in conjunction with the railway on the Pacific coast. I hope we can get the same information this year so as to bring that matter up to date.

Hon. Mr. HOWE: We will get that for you. We have a service running from Prince Rupert to Alaska—the Prince Robert, the Prince George and the Prince Charles; I think we have one of the new Prince boats that makes summer trips.

Mr. HEAPS: All we have is that service between Vancouver, Victoria and the north.

Hon. Mr. HOWE: There is no service to Victoria; these boats run from Vancouver to Ocean Falls and Prince Rupert.

Mr. HEAPS: We have three steamers.

Hon. Mr. HOWE: We have three steamers on the service, plus one of the new Lady boats which is on summer cruise.

Mr. HEAPS: What has happened to these boats on the Vancouver-Victoria route?

Hon. Mr. HOWE: These are the Prince boats we have been having trouble with. We have abandoned that service, and since then these three boats have been in various waters. One of them is used on the Pacific coast to take summer cruises to Alaska; the other two are on the Atlantic. They were leased to Cruises Limited. I think one has been leased to the Clarke Steamship Company for use along the Gaspé coast on the St. Lawrence river.

Mr. WALSH: Before we adjourn, I would like to make a statement this morning relative to the debate yesterday in the house. I do not want the members of this committee to consider that I was an offensive member intruding certain suggestions that should not be intruded into the deliberations of a committee such as this, but I did intrude them, and I intruded them in good faith. However, I certainly had no personal reference to any person connected with this committee and certainly not to the Minister of Transport whom I hold in the highest esteem as he knows himself. The only point I wanted to make was that I differed with him on principle. Personally I am glad to see a man like Mr. Howe in public life in Canada, even if he happens to be on the Liberal side.

Mr. HEAPS: The apology is accepted.

Hon. Mr. HOWE: This has been a very gentlemanly committee, and no apology is necessary from anybody.

The ACTING CHAIRMAN: Speaking for myself as pinch hitter for Sir Eugene who, unfortunately, has been ill, I thank the members of the committee for their kind assistance and help during the meetings we have held without our regular chairman. Every member of the committee has done his best to bring to view those things which should be brought to our notice, and we have had very fair discussion on all the matters.

The Committee adjourned to the call of the Chair.

APPENDIX A

CANADIAN NATIONAL STEAMSHIPS (PACIFIC COAST) CONDENSED INCOME
STATEMENT INCLUDING PROFIT AND LOSS

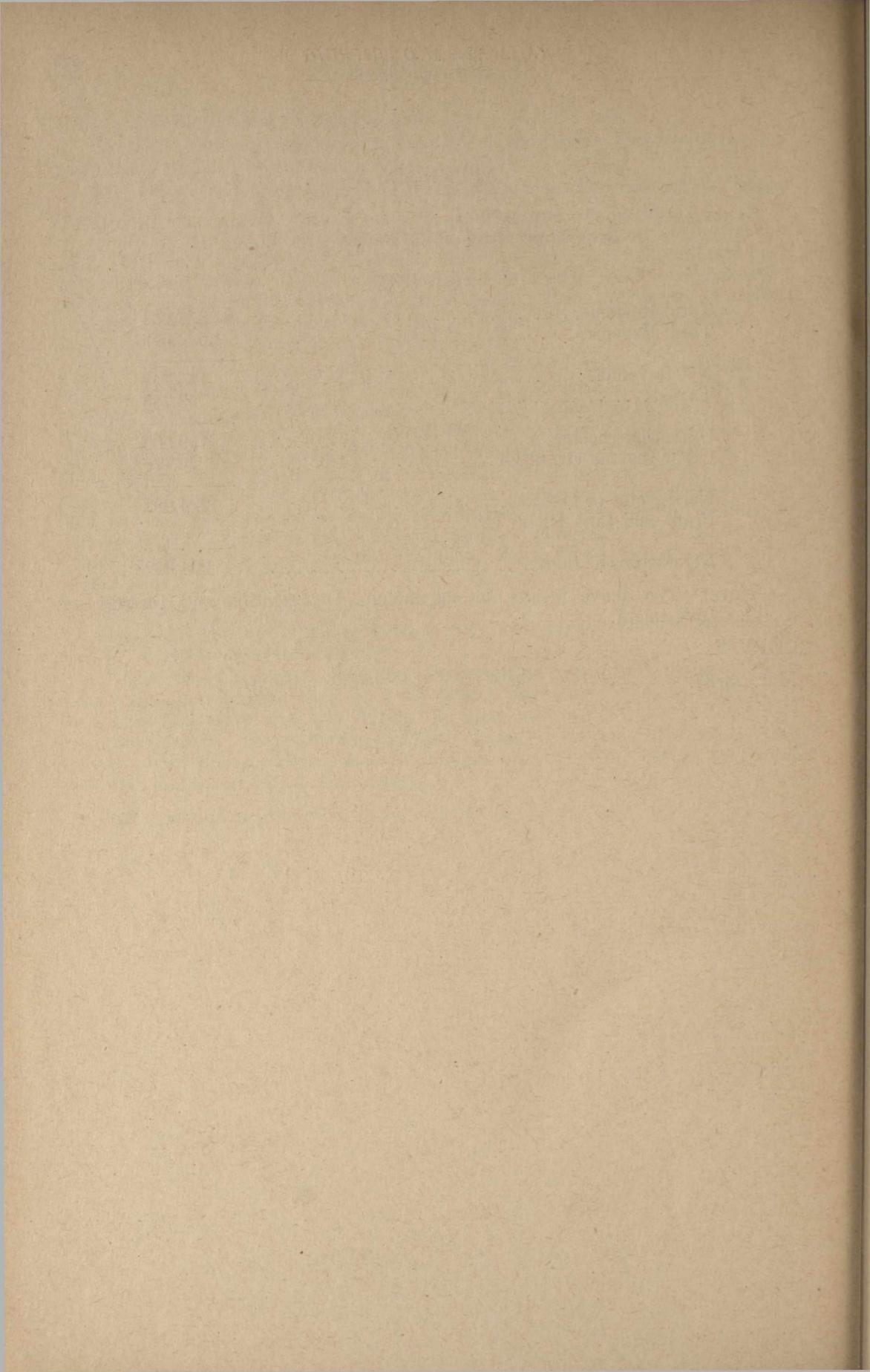
YEAR 1936

Total Revenue	\$1,374,931
Total Expenses	1,520,679
Net Revenue	145,748
Taxes	53,758
Operating Income	199,506
Other Income Dr. or Cr.	25,176
Net Income or Deficit	224,682
Profit and Loss Dr. or Cr.	—
Net Surplus or Loss	224,682

NOTE:—The above results do not include Depreciation and Interest on Investment.

COPY/F

Mar. 23/37.



SESSION 1937
HOUSE OF COMMONS

STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS

No. 8

FRIDAY, APRIL 2, 1937

FINAL REPORT OF THE COMMITTEE

OTTAWA
J. O. PATENAUDE, I.S.O.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY

1937

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MINUTES OF PROCEEDINGS

THURSDAY, April 1, 1937.

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

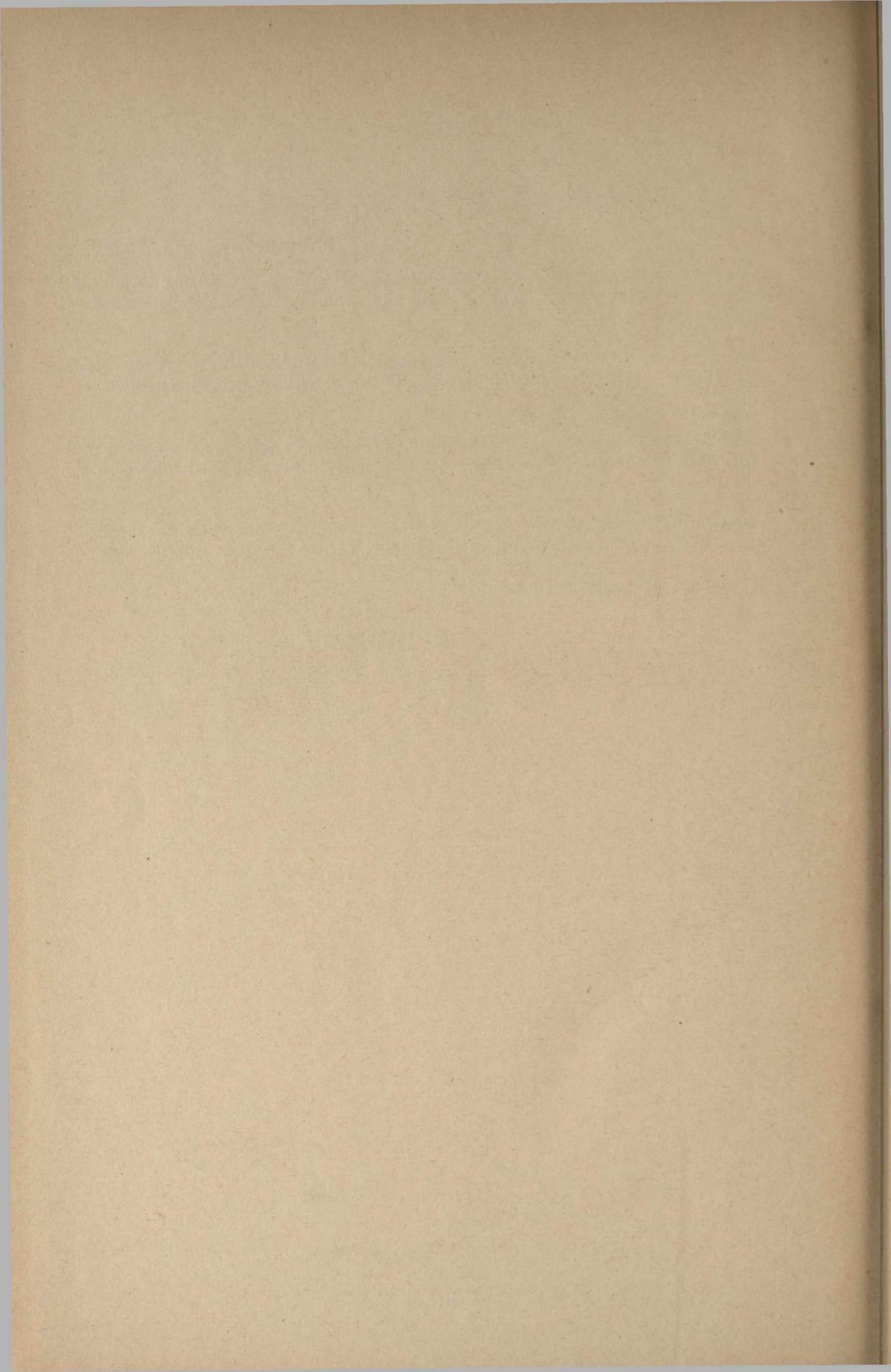
Members present: Messrs. Barber, Beaubien, Beaubier, Elliott (*Kindersley*), Ferland, Heaps, Howe, Kinley, McKinnon (*Kenora-Rainy River*), Stewart and Young.

The Chairman submitted a draft report which was unanimously adopted with minor amendments, the Chairman being authorized to present said report to the House.

The Chairman thanked the members of the committee for their co-operation and Mr. Young for replacing him in the Chair during his unavoidable absence.

The committee adjourned *sine die*.

R. ARSENAULT,
Clerk of the Committee.



REPORT TO THE HOUSE

Fifth and Final Report

FRIDAY, April 2, 1937.

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

Your committee has held nine sittings during which it has dealt with the following matters referred by the House viz:—

(a) Bill No. 12, an Act to provide for revision of the accounting set-up of the Canadian National Railway System.—Reported upon March 11.

(b) Items Nos. 96, 97, 293, 361 and 362 of the Main and Special Supplementary Estimates.—Reported upon March 22.

(c) Bill No. 73, an Act to authorize the provision of moneys to meet certain expenditures made and indebtedness incurred by the Canadian National Railways during the calendar year, 1937, and to authorize the guarantee of certain securities to be issued by the Canadian National Railways.—Reported upon March 23.

(d) The financial statements of the Canadian National Railways, including the annual report of the Canadian National Railway System, the Auditors' Report, the annual report of the Canadian Government Merchant Marine, Limited, and the Canadian National (West Indies) Steamships, Limited, and the Canadian National Railways' and the Canadian National (West Indies) Steamships' budget for 1937.

With respect to Bill No. 12, although your committee expressed its willingness to hear representations on the subject matter of the Bill, the Canadian Chamber of Commerce, Montreal, were the only applicants for a hearing before the committee, their representations having been made through the Chairman of their executive, Mr. Henry W. Morgan.

Your committee appreciates the assistance given by the officers of the Canadian National Railways and the Deputy Ministers of Transport and Finance during the examination of the Bill and Schedules pertaining thereto.

In reporting the said Bill to the House, your committee recommended the following main amendments:—

(a) Amendment to Section 8 providing for the inclusion in the Public Accounts of the adjustments (set out in Schedule "B" of the Bill) of differences between the Public Accounts and the accounts of the National Railway System and the Hudson Bay Railway;

(b) An additional clause providing for an annual report to Parliament by the Trustees of the Securities Trust; and

(c) A further additional clause providing for an appendix to be added annually to the Public Accounts of Canada, indicating the total assistance given to all railways by the Dominion Government and the manner in which such assistance has been dealt with in the Public Accounts.

In order further to clarify the Bill, it was deemed advisable by your committee to substitute the 1936 figures for those of the year 1935, as given in the original Bill, in Schedule "A" and "B," as well as in Appendices 4, 5 and 6 of the Bill.

The Annual Report of the Canadian National Railway System for the year ending December 31, 1936, shows a cash deficit of \$39,900,000. For the year 1937, the operating revenues are estimated at \$205,000,000, and the oper-

ating expenses at \$182,550,000. Sundry items charged against operating revenues, including interest on long term debt due to the public, amount to \$61,350,000, bringing the estimated deficit on the year's operations to \$38,900,000. The anticipated net cash requirement on deficit account is, however, reduced to \$35,000,000, after deducting the following items which are not required in cash, viz:—Depreciation revenue, \$630,000; amortization of discount on funded debt, \$1,370,000, and loss on retired road and property, etc., \$1,900,000.

The Annual Report of the Canadian Government Merchant Marine, Limited, indicates that all remaining vessels of the fleet have been sold, that practically all the affairs of the Company have been liquidated, and that the services it formerly operated will be continued by a Company known as the Montreal Australia New Zealand Line, Limited.

With reference to the Annual Report of the Canadian National (West Indies) Steamships, Limited, your committee notes with pleasure the steady improvement shown in the operating results of these services. For the first time since the formation of the Company, it has earned a surplus after meeting the interest on the bonds in the hands of the public.

The above-mentioned financial statements were examined by your committee in the light of the explanations given by the following officers of the Canadian National Railway System:

Mr. S. J. Hungerford, President.

Mr. D. C. Grant, Vice-President of Finance.

Mr. R. C. Vaughan, Vice-President, Purchases and Stores Department.

Mr. J. B. MacLaren, Comptroller.

Mr. T. H. Cooper, Assistant Comptroller.

Mr. W. M. Armstrong, Bureau of Economics.

Mr. A. V. Franklin, Railway Auditor, Department of Finance.

A copy of the Minutes of Proceedings and Evidence is annexed hereto.

All of which is respectfully submitted.

EUGENE Fiset,
Chairman.

