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Comm.on Railways, Air Lines and  
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Controlled by the Government,  
1958.





HOUSE OF COMMONS  
First Session—Twenty-fourth Parliament  
1958

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SESSIONAL COMMITTEE  
ON  
**RAILWAYS, AIR LINES  
AND SHIPPING**

Owned, Operated and Controlled by the Government

*Chairman:* HONOURABLE W. EARL ROWE

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MINUTES OF PROCEEDINGS AND EVIDENCE  
No. 1  
including  
REPORTS TO THE HOUSE

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MONDAY, JULY 14, 1958  
TUESDAY, JULY 15, 1958

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Canadian National Railways Annual Report (1957) and Budgets (1958);  
Canadian National (West Indies) Steamships Ltd. Annual Report (1957)  
and Budget (1958);  
Canadian National Railways Security Trust Annual Report (1957);  
Auditors' Report to Parliament of Geo. A. Touche & Co.;  
Estimates (1958-59) Items 431, 432 and 443 and Item 635 of the Supple-  
mentary Estimates.

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WITNESSES:

Mr. Donald Gordon, C.M.G., Mr. S. F. Dingle and Mr. R. D. Armstrong  
of the Canadian National Railways; Mr. J. A. Wilson and J. W. Beech  
of George A. Touche & Company.

*(Proceedings relating to Trans-Canada Air Lines appear in  
Issue No. 2)*

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1958



SESSIONAL COMMITTEE  
on  
RAILWAYS, AIR LINES AND SHIPPING

Owned and controlled by the  
Government.

Chairman: W. Earl Rowe

Vice-Chairman: Yvon R. Tassé  
and Messrs.

Bourbonnais	Fisher	Mitchell
Brassard ( <i>Lapointe</i> )	Fraser	Monteith ( <i>Verdun</i> )
Broome	Grills	Pascoe
Carter	Gundlock	Robichaud
Chevrier	Hardie	Robinson
Chown	Kennedy	Rynard
Creaghan	Loiselle	Smith ( <i>Calgary South</i> )
Drysdale	Martini	Smith ( <i>Simcoe North</i> )

Antonio Plouffe,  
Assistant Chief Clerk of Committees.



## ORDERS OF REFERENCE

HOUSE OF COMMONS,  
WEDNESDAY, July 9, 1958.

*Resolved*,—That a Sessional Committee on Railways, Air Lines and Shipping owned and controlled by the Government be appointed to consider the accounts and estimates and bills relating thereto of the Canadian National Railways, the Canadian National (West Indies) Steamships, and Trans-Canada Air Lines, saving always the powers of the Committee of Supply in relation to the voting of public moneys; and that the said Committee be empowered to send for persons, papers and records and to report from time to time and that, notwithstanding Standing Order 67 in relation to the limitation of the number of members, the said Committee to consist of Messrs. Bourbonnais, Brassard (*Lapointe*), Broome, Carter, Chevrier, Chown, Creaghan, Drysdale, Fisher, Fraser, Grills, Gundlock, Hardie, Kennedy, Loisel, Martini, Mitchell, Monteith (*Verdun*), Pascoe, Robichaud, Robinson, Rowe, Rynard, Smith (*Calgary South*), Smith (*Simcoe North*), and Tasse.

WEDNESDAY, July 9, 1958.

*Ordered*,—That the Annual Reports for 1957 of the Canadian National Railways; Canadian National (West Indies) Steamships Limited; Canadian National Railways Securities Trust; Auditor's Report to Parliament in respect of the Canadian National Railways and Canadian National (West Indies) Steamships for the year 1957, tabled on May 22, 1958; the budget for 1958 of the Canadian National Railways tabled on June 2, 1958; the Annual Report of Trans-Canada Air Lines for 1957; the Auditor's Report to Parliament on Trans-Canada Air Lines for the year 1957, tabled on May 23, 1958, and the budget for 1958 of Trans-Canada Air Lines, tabled on January 31, 1958, be referred to the Sessional Committee on Railways, Air Lines and Shipping owned and controlled by the Government, and that items numbered 431—Prince Edward Island Car Ferry and Terminals; 432—Newfoundland Ferry and Terminals; 442—Maritime Freight Rates Act; 443—Canadian National (West Indies) Steamships Limited as listed in the Main Estimates 1958-59, and item 635—Canadian National (West Indies) Steamships Limited as listed in the Supplementary Estimates 1958-59, be withdrawn from the Committee of Supply and referred to the said Committee, saving always the powers of the Committee of Supply in relation to the voting of public moneys.

FRIDAY, July 11, 1958.

*Ordered*,—That the quorum of the Sessional Committee on Railways, Air Lines and Shipping be set at 10 Members.

*Ordered*,—That the said Committee be empowered to sit while the House is sitting.

*Ordered*,—That the said Committee be authorized to print, from day to day, 1000 copies in English and 250 copies in French of its Minutes of Proceedings and Evidence and that Standing Order 66 be suspended in relation thereto.

MONDAY, July 14, 1958.

*Ordered*,—That the revised Budget for 1958 of the Canadian National Railways and the operating budget of the Canadian National (West Indies) Steamships Limited, tabled this day, be referred to the Sessional Committee on Railways, Air Lines and Shipping owned and controlled by the Government.

Attest.

LEON J. RAYMOND,  
*Clerk of the House.*

## REPORTS TO THE HOUSE

FRIDAY, July 11, 1958.

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

## FIRST REPORT

Your Committee recommends:

1. That its quorum be set at 10 members.
2. That it be empowered to sit while the House is sitting.
3. That it be authorized to print, from day to day, 1000 copies in English and 250 in French of its minutes of proceedings and evidence and that Standing Order 66 be suspended in relation thereto.

Respectfully submitted,

W. EARL ROWE,  
*Chairman.*

*Note:* Concurred in this day.

WEDNESDAY, July 16, 1958.

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

## SECOND REPORT

Your Committee has considered the following items of the Estimates referred to the Committee on Wednesday, July 9, 1958:

Vote 431—Prince Edward Island Car Ferry and Terminals;

Vote 432—Newfoundland Ferry and Terminals;

Vote 442—Maritime Freight Rates Act; and

Vote 443—Canadian National (West Indies) Steamships Limited, of the Main Estimates 1958-59, and item 635—Canadian National (West Indies) Steamships Limited of the Supplementary Estimates 1958-59.

Your Committee recommends their approval.

Respectfully submitted,

W. EARL ROWE,  
*Chairman.*

The Sessional Committee on Railways, Air Lines and Shipping, owned and controlled by the Government, begs leave to present the following as its

## THIRD REPORT

Pursuant to the Orders of Reference of the House of Commons of July 9, 11, and 14, 1958, your Committee had for consideration the following:

1. The Annual Reports of the Canadian National Railways; Canadian National (West Indies) Steamships, Limited; Canadian National Railways Securities Trust, for the year 1957 and the Auditors' Reports to Parliament in relation thereto, tabled on May 22, 1958 and the Canadian National Railways revised Capital and Operating Budget for 1958 tabled on July 14, 1958; the Annual Report of Trans-Canada Air Lines for the year 1957 and the Operating and Capital Budget thereof for the year 1958, and the Auditors' Report to Parliament thereon.

2. Your committee held eight meetings in the course of which the officials of the Canadian National Railways and the Trans-Canada Air Lines as well as representatives of George A. Touche & Co., auditors, were heard and examined.

3. The Annual Report of the Canadian National Railways for 1957 disclosed operating revenues of \$753,165,964 and operating expenses of \$734,556,041 resulting in a net revenue from railway operations of \$18,609,923. However, after taxes, rents, other income and fixed charges were taken into account the net result was a deficit of \$29,572,541 for the year's operations. This compares with a surplus of \$26,076,951 in the year 1956, the change being attributed to a combination of lower traffic and higher wage and material costs. Your Committee noted however that in spite of the traffic decline in 1957 the Canadian National continued to improve and modernize its equipment, facilities, methods and techniques.

4. Your Committee observed that in 1957 three separate new rail lines were added to the Canadian National System, opening up additional areas of Canada for settlement and development. In Quebec, a 161-mile line from Beattyville to Chibougamau was officially opened in November and progress made on a 133-mile line from St. Felicien to Cache Lake, where it will link up with the Beattyville-Chibougamau branch. In New Brunswick, a 23-mile line was opened between Bartibog and the base metal development at Heath Steele. In Manitoba, Canadian National took over operation of a new 31-mile line from Sipiwek on the Hudson Bay line to the International Nickel Company development at Thompson.

5. Your Committee also noted with satisfaction that progress was made during the year on the Company's long range plans for the construction of new automatic train marshalling yards at main strategic centres in the Atlantic, Central and Western Regions.

6. The Annual Report of the Canadian National (West Indies) Steamships, Limited for 1957 disclosed a net deficit of \$648,849.80, compared with a surplus of \$23,280.72 for 1956. Operations of the company were curtailed during 1957 by a strike called by the Seafarers International Union effective July 4. As a result of the strike, which remained unsettled at the year end, the number of voyages made by company vessels was reduced to 33 from 54 in the previous year.

7. Your Committee was also informed that the decision had been reached to abandon the service, dispose of the assets by sail and wind up completely the above Company's affairs.

8. The Annual Report of Trans-Canada Air Lines for 1957 showed a net surplus of \$404,674, after provision for depreciation of \$6,819,160, and the payment of interest on capital invested in the enterprise in the amount of \$1,690,819. The year 1957 was the seventh consecutive one in which the company reported a profitable operation.

9. Of particular interest to your Committee was the fact that the programme of fleet conversion to turbine type aircraft, which by 1961 is expected to make TCA the first international airline in the world to have a fully turbine-powered fleet, was adhered to during 1957, fourteen additional Viscounts being placed in service, and six DC 3's retired. Your Committee also noted that, as planned, the company in 1957 had increased its capacity by 20 per cent in relation to a 15 per cent increase in traffic carried. This action, while reducing the over-all load factor from 73.1 per cent in 1956 to 70.7 per cent in 1957, substantially improved the company's ability to meet the peak period traffic demand.

It was also noted that as of the year end, the company had on order nineteen Viscounts, six full jet DC 8 long range aircraft, and twenty medium range Vanguard turbine propeller aircraft, which, with associated spares, represent a capital commitment of \$118,000,000, exclusive of payments already made on these orders.

10. Your Committee adopted the Annual Reports of the Canadian National Railways and Trans-Canada Air Lines for 1957, as well as their respective Capital and Operating Budgets for 1958. Your Committee also approved the C.N.R. Securities Trust and the Auditor's Report to Parliament. It also approved the Annual Report for 1957 of the Canadian National (West Indies) Steamships, Limited, and the Auditor's Report thereon.

11. Your Committee, in accordance with an Order of Reference of the House, dated July 9, considered Votes 431, 432, 442 and 443 as listed in the Main Estimates for 1958-59, and Item 635 as listed in the Supplementary Estimates 1958-59. In its Second Report to the House, your Committee recommended the approval of the said Estimates.

12. Your Committee feels indebted to all those who contributed to its inquiring by their attendance and their information, including the Minister of Transport and Mr. Donald Gordon, C.M.G., LL.D.; Mr. S. F. Dingle and Mr. R. D. Armstrong for the Canadian National Railways; and Mr. G. R. McGregor, Mr. W. S. Harvey, Mr. H. W. Seagrim, Mr. S. W. Sadler for Trans-Canada Air Lines, and Mr. J. A. Wilson and Mr. J. W. Beech, Auditors.

13. Your Committee also wishes to express its appreciation to Mr. McGregor his officials, and T.C.A. crew for a flight on board Trans-Canada Air Lines Viscount over the St. Lawrence Seaway Development project which took place on Wednesday, July 16.

14. A copy of the Minutes of Proceedings and Evidence adduced in respect of the matters referred to is appended.

Respectfully submitted,

W. EARLE ROWE,  
Chairman.

## MINUTES OF PROCEEDINGS

FRIDAY, July 11, 1958

(1)

The Sessional Committee on Railways, Air Lines and Shipping owned and controlled by the Government held its organization meeting at 10.30 o'clock a.m.

*Members present:* Messrs. Bourbonnais, Broome, Chown, Fisher, Grills, Gundlock, Hardie, Loiselle, Martini, Monteith (*Verdun*), Pascoe, Robinson, Rowe, Rynard, and Smith (*Calgary South*).—(15).

The Clerk of the Committee attending, on motion of Mr. Broome, seconded by Mr. Martini, and there being no further nominations, Honourable W. Earl Rowe was elected Chairman.

Mr. Rowe took the Chair, thanked the Members for his election and proceeded to the routine business.

On motion of Mr. Chown, seconded by Mr. Fisher,  
*Resolved*,—That Mr. Tassé be elected Vice-Chairman.

On motion of Mr. Chown, seconded by Mr. Fisher,  
*Resolved*,—That the Committee recommend to the House that the quorum be 10 members.

On motion of Mr. Pascoe, seconded by Mr. Martini,  
*Resolved*,—That the Committee ask power to print, from day to day, 1,000 copies in English and 250 copies in French of its Minutes of Proceedings and Evidence.

On motion of Mr. Martini, seconded by Mr. Smith,  
*Resolved*,—That the Committee seek authorization to sit while the House is sitting.

After discussion on the most suitable hours of sitting of the Committee, beginning Monday July 14, on motion of Mr. Broome, seconded by Mr. Fisher,  
*Resolved*,—That the Committee be called for 9.30 o'clock a.m.

The Chairman reminded the Members that the practice for this Committee was to hold three meetings every day until completion of its business during which meetings officials of the Canadian National Railways and of Trans-Canada Air Lines would be in continuous attendance, and that it was customary to begin with the Canadian National Railways Annual Report.

The Chairman referred briefly to a letter of the President of Trans-Canada Air Lines inviting the members of the Committee to a special flight over the St. Lawrence Seaway Development as soon as practicable.

On motion of Mr. Rynard, the Committee adjourned until Monday, July 14, at 9.30 o'clock a.m.

MONDAY, July 14, 1958

(2)

The Sessional Committee on Railways, Air Lines and Shipping owned and controlled by the Government met at 9.30 o'clock a.m. The Honourable W. Earl Rowe, Chairman, presided.

*Members present:* Messrs. Broome, Carter, Chevrier, Creaghan, Fisher, Grills, Gundlock, Hardie, Kennedy, Martini, Mitchell, Monteith (*Verdun*), Pascoe, Robichaud, Robinson, Rowe, Smith (*Calgary South*), Smith (*Simcoe North*), and Mr. Tassé. (19).

*In attendance:* The Honourable George H. Hees, Minister of Transport; Mr. Donald Gordon, Mr. S. F. Dingle, Mr. R. D. Armstrong, respectively President and Chairman of the Board, Vice-President (Operations), Vice-President (Accounting and Finance) of the Canadian National Railways.

The Chairman referred to the Orders of Reference of Wednesday, July 9, which were taken as read.

The Committee proceeded to the consideration of the 1957 Annual Report of the Canadian National Railways.

Mr. Donald Gordon was called. He read the Annual Report and made an explanatory statement respecting the 1958 revised Budget (Capital and Operating).

In answering questions, he was assisted by Messrs. Dingle and Armstrong.

Before adjournment, Mr. Chevrier asked Mr. Gordon for a statement on the dispute concerning the non-operating unions. Mr. Gordon undertook to provide an answer at the next meeting.

At 12.30 o'clock the Committee adjourned until 3.30 o'clock this day.

#### AFTERNOON MEETING

(3)

The Committee resumed at 5.30 o'clock. The Chairman, The Honourable W. Earl Rowe, presided.

*Members present:* Messrs. Bourbonnais, Broome, Carter, Creaghan, Fisher, Fraser, Martini, Monteith (*Verdun*), Pascoe, Rowe, Smith (*Calgary South*), Smith (*Simcoe North*), and Tassé. (13).

*In attendance:* Same as at morning sitting.

The Committee continued its examination of the Canadian National Railways Annual Report.

Mr. Donald Gordon provided answers to questions which were outstanding and was further examined.

At 6.00 o'clock, the Committee adjourned until 8.00 o'clock in the evening.

#### EVENING SITTING

(4)

The Committee resumed at 8.00 o'clock. The Chairman, the Honourable W. Earl Rowe, presided.

*Members present:* Messrs. Bourbonnais, Broome, Carter, Chown, Creaghan, Fisher, Fraser, Grills, Gundlock, Kennedy, Loiselle, Martini, Mitchell, Monteith (*Verdun*), Pascoe, Robichaud, Rowe, Smith (*Calgary South*), Smith (*Simcoe North*), and Tassé.—(20)

*In attendance:* Same as at morning and at afternoon sittings.

Mr. Gordon's examination was continued.

In answer to Mr. Broome the witness reviewed and summarized the Management's arrangements of the Queen Elizabeth Hotel. He undertook to file with the Committee certain operating figures on the C.N.R. Hotels (*See Appendix I*)

On motion of Mr. Broome, seconded by Mr. Smith (*Simcoe North*), the 1957 Annual Report of the Canadian National Railways was adopted.

At 10.45 o'clock p.m. the Committee adjourned until Tuesday, July 15, at 9.30 o'clock a.m.

TUESDAY, July 15, 1958.

(5)

The Sessional Committee on Railways, Air Lines and Shipping owned and controlled by the Government met at 9.30 o'clock a.m. this day. The Honourable W. Earl Rowe, Chairman, presided.

*Members present:* Messrs. Bourbonnais, Broome, Carter, Chevrier, Chown, Creaghan, Fisher, Fraser, Grills, Gundlock, Hardie, Kennedy, Loisselle, Martini, Mitchell, Monteith (*Verdun*), Pascoe, Robinson, Rowe, Rynard, Smith (*Calgary South*), Smith (*Simcoe North*), and Tassé.—(23)

*In attendance:* The Honourable George H. Hees, Minister of Transport; Mr. Donald Gordon, Mr. S. F. Dingle, Mr. R. D. Armstrong, respectively President and Chairman of the Board, Vice-President (Operations), Vice-President (Accounting and Finance) of the Canadian National Railways.

The Committee considered the 1958 Operating and Capital Budget (Revised and as tabled in the House on July 14) of the Canadian National Railways.

Mr. Donald Gordon was recalled.

By unanimous consent, the Committee reverted to the C.N.R. Annual Report, and Mr. Gordon read a supplementary statement on dieselization, and was further examined.

Mr. Gordon, referring to the Budget, made an introductory statement thereon.

Mr. Gordon was examined at some length on safety signals and highway crossing protection. In the course of his examination, he made a specific statement on depreciation accounting on steam locomotives.

On motion of Mr. Smith (*Simcoe North*), seconded by Mr. Chevrier, the above Budget (1958) was adopted.

The Committee then proceeded to the consideration of the Canadian National (West Indies) Steamships Limited Annual Report.

Mr. Gordon read the Report and was examined, particularly on the registration and sale of certain ships.

On motion of Mr. Martini, seconded by Mr. Chown, the said Annual Report was adopted.

Mr. Gordon then read the 1958 Budget and on motion of Mr. Smith (*Simcoe North*), seconded by Mr. Martini, the said Budget was adopted.

The Committee then turned to the Canadian Railways Securities Trust. This Report was adopted on motion of Mr. Kennedy, seconded by Mr. Tassé.

The Committee then considered the Auditor's Report both for the Canadian National Railways and the Canadian National (West Indies) Steamships Limited.

Mr. J. A. Wilson of George A. Touche & Co. was called. He was assisted by Mr. J. W. Beech. Mr. Wilson made a statement on the depreciation accounting. The Auditors' Report was adopted on motion of Mr. Martini, seconded by Mr. Smith (*Simcoe North*).

The Chairman expressed the Committee's appreciation to Messrs. Gordon, Dingle and Armstrong for the manner in which they appeared, and to the other C.N.R. officials for the diligence with which they provided answers to questions.

It was agreed to consider the items of the Estimates referred to the Committee at the afternoon meeting.

At 12.40 p.m. the Committee adjourned until 3.30 p.m. this day.

#### AFTERNOON SITTING (6)

The Committee resumed at 3.30 p.m. The Chairman, Honourable W. Earl Rowe, presided.

*Members present:* Messrs. Bourbonnais, Broome, Carter, Chevrier, Chown, Creaghan, Fisher, Fraser, Gundlock, Kennedy, Loiselle, Martini, Mitchell, Monteith (*Verdun*), Pascoe, Robichaud, Rowe, Rynard, Smith (*Calgary South*), Smith (*Simcoe North*), and Tassé.—(21)

*In attendance:* Same as at morning sitting.

The Committee considered items 431, 432, 442, 443 of the Main Estimates 1958-59, and item 635 of the Supplementary Estimates of 1958-59 and agreed to recommend their approval to the House.

On motion of Mr. Chown, seconded by Mr. Pascoe, Mr. Gordon's examination was concluded and he was retired.

The Committee then proceeded to the consideration of the Annual Report of Trans-Canada Air Lines, the printed Minutes of Proceedings and Evidence appearing in issue No. 2.

TUESDAY, July 29, 1958.  
(8)

The Sessional Committee on Railways, Air Lines and Shipping met at 10 o'clock this day *in camera* to discuss its Third Report to the House. The Chairman, the Honourable Earl W. Rowe, presided.

*Members present:* Messrs. Bourbonnais, Carter, Drysdale, Martini, Mitchell, Robichaud, Robinson, Rowe, Smith (*Simcoe-North*) and Tassé—(10).

The Chairman tabled copies of a draft report for the consideration of the Committee.

After a brief discussion, on motion of Mr. Robichaud, seconded by Mr. Robinson, the said draft report was adopted.

*Ordered*,—That the Chairman present the draft report as the Committee's third report to the House.

The Committee adjourned to the call of the Chair.

Antonio Plouffe,  
*Assistant Chief Clerk of Committees.*

## APPENDIX I

*Canadian National Hotels Limited**Summary of Profit and Loss**Railway-operated hotels.**Year ended December 31, 1957.*

	Profit or (Loss)
Bessborough .....	\$ (62,482)
Charlottetown .....	(30,778)
Chateau Laurier .....	182,882
Fort Garry .....	20,969
Jasper Park Lodge .....	85,671
Macdonald .....	470,770
Newfoundland .....	129,129
Nova Scotian .....	69,496

## EVIDENCE

MONDAY, July 14, 1958,  
9:30 a.m.

The CHAIRMAN: Gentlemen, I observe a quorum. We will begin this committee without further preliminaries.

Is it your pleasure that the president, Mr. Gordon, read the report before any questions are asked, or is it the desire of the committee to ask questions as we proceed? I think it would be preferable for Mr. Gordon to read the report, is that satisfactory?

Mr. Gordon will introduce his associates who are here with him.

Mr. CHEVRIER: Is the president going to make a short statement prior to reading this report? I think that has been the customary practice in the past.

Mr. DONALD GORDON (*President, Canadian National Railways*): I did not intend to make such a statement. I think it would be satisfactory if we proceed with the report and then go back over it later.

Mr. Chairman, first of all I would like to introduce to the committee Mr. S. F. Dingle, vice president of operations, and Mr. R. D. Armstrong, vice president of accounting and finance. These gentlemen are here to assist me with details in answering your questions.

I will commence reading the report which you have in front of you. I would suggest that we take the letter of transmittal as read, Mr. Chairman.

### CANADIAN NATIONAL RAILWAYS

MONTREAL  
MARCH 1, 1958.

DONALD GORDON  
Chairman and President

The Honourable George Hees, M.P.,  
Minister of Transport,  
Ottawa.

Dear Sir:

On behalf of the Board of Directors I submit herewith the Annual Report of Canadian National Railways for the year 1957.

In September 1957, the Honourable H. J. Symington, C.M.G., Q.C., who had rendered distinguished service to the Board since 1936, retired as a director. By order in Council No. 1251, Mr. Edward W. Bickle of Toronto was appointed a director, effective October 1.

The Management acknowledges with gratitude the loyalty and devotion to duty of officers and employees throughout the System.

Yours truly,  
(Signed) D. Gordon.

The annual report itself commences as follows:

The year 1957 was financially unrewarding for Canadian National Railways. Although significant improvements were made in facilities and opera-

tions, a combination of lower traffic and higher wage and material costs produced a deficit of \$29.6 million.

The following table summarizes the results for 1957 and for each year since the passage of the Canadian National Capital Revision Act in 1952:

Mr. Chairman, with your permission may we take the table appearing here as read? You will observe that the column for 1957 shows an over-all deficit for the year of \$29.6 million.

	1957	1956	1955	1954	1953	1952
	(Millions of Dollars)					
Operating revenues .....	\$753.2	\$774.8	\$683.1	\$640.6	\$696.6	\$675.2
Operating expenses .....	734.6	703.3	629.0	626.4	659.0	634.8
Net operating revenue .....	18.6	71.5	54.1	14.2	37.6	40.4
Taxes, rents, less other income .....	11.2	13.6	10.4	10.5	8.0	14.9
Available for fixed charges ..	7.4	57.9	43.7	3.7	29.6	25.5
Fixed charges .....	37.0	31.8	33.0	32.5	29.4	25.4
Surplus or deficit .....	\$29.6	\$26.1	\$10.7	\$28.8	\$ 0.2	\$ 0.1

This record reflects not only variations in the volume of business but also the unfavourable effects of the growing disparity between wage and material cost increases on one hand and freight rate increases on the other. By way of illustration, if the 1957 results were re-stated in terms of the 1951 average revenue per ton-mile, average prices and average hourly earnings, the record would show a surplus of nearly \$30 million. This is shown by the charts on the following page.

### Freight

The volume of freight traffic, measured in revenue ton miles, decreased by 12.5% during 1957, but the revenue from this business dropped less sharply because of an increase in average revenue per ton-mile.

Freight revenues, which accounted for nearly four-fifths of total operating revenues, amounted to \$587.3 million, a decline of \$25.5 million or 4.2%. Revenues from other freight services, shown on page 30, declined by 7.6% to \$17.6 million.

Both tonnage and average haul, the two components of the ton-mile measure, decreased during the year. In 1957 Canadian National carried a total of 88.9 million tons, compared with 99.0 million in 1956, while the average length of haul fell to 413 miles, from 423 miles in the previous year.

Many of the reductions in traffic volume occurred in the low-rated bulk commodities. This change in the "mix" of traffic, together with slightly higher freight rates, caused the average revenue received by the railway for hauling one ton of freight one mile to rise from 1.461 cents in 1956 to 1.601 cents in 1957.

A general freight rate increase of 11% was granted by the Board of Transport Commissioners effective January 1, 1957. This replaced the previous interim award of 7% authorized in June, 1956. The railways' original application, filed in May 1956, sought a 15% general increase.

In August 1957, the railways applied for a further 10% increase on the rates existing at that time. Subsequently, the Board of Transport Commissioners approved an increase of 3.6% effective January 15, 1958, but implementation of this increase was suspended pending review by the Governor-in-Council, following an appeal by eight provinces.

Subsidies payable under the Maritime Freight Rates Act were increased by legislation from 20% to 30% for movements from the Maritimes to other Canadian points. Corresponding rate reductions passing on the benefit to shippers were made effective July 1, 1957, so that railway revenues were not directly affected.

In the United States, the Interstate Commerce Commission authorized general increases ranging from 4% to 7% in all territories effective August 26, 1957. International rates between Canada and the United States were increased in the same proportion with the exception of class rates which were raised 14%.

Carload incentive rates, designed to induce shippers to load cars closer to physical capacities, were extended during the year to a broad range of commodities moving between most of the major points in Western Canada.

In October, the Canadian National inaugurated a new "piggyback" service between Montreal and Toronto, in which highway common carrier trailers are carried on railway flatcars. The CNR also continued to operate railway-owned trailers on flatcars.

### *Passenger*

Passenger revenues rose for the third year in succession. While the total number of passengers declined from 16.0 million in 1956 to 13.9 million in 1957, revenues increased 2.1% to \$46.8 million. This was the result of higher passenger fares and an increase in the average journey per passenger from 94 to 108 miles. Revenue per passenger mile rose from 3.05 cents to 3.12 cents.

The number of commuters declined by 11.1% to 5.2 million in 1957. Commuters represented 37.4% of all passengers carried, and contributed 3.0% of passenger revenues.

During 1957, Canadian National carried a total of 95,500 immigrant passengers from eastern Canadian ports. This involved 234 special trains, as well as the operation of a considerable number of extra sections of regular trains.

Revenues from other passenger services, including sleeping, parlor, dining, and buffet car operations, increased by \$663,000 to \$11.2 million.

Increases in passenger fares of 10% for first class and 5% for coach class were authorized and were implemented selectively on Canadian lines effective September 1. Charges for parlor car seats and duplex roomettes were also increased during the year.

As the final instalment of fare increases authorized by the Board of Transport Commissioners in 1955, commuter fares in all commutation areas raised on May 1, 1957, by 25% of the 1950 level of fares.

Continued efforts were made to stimulate rail passenger travel through promotion of the family fare plan, bargain coach excursions, and package tours.

### *Express*

Revenues earned by the Express Department were \$42.2 million, a slight decrease from the peak year of 1956. A lower volume of shipments more than offset higher unit charges.

### *Communications*

Revenues of Canadian National Communications reached a new record of \$20.7 million, an increase of 4.4% over the previous high in 1956. Fewer messages were sent during 1957—12.3 million compared with 12.9 million in 1956—but higher message rates, including the new Canadian message tariff which came into effect on October 16, served to maintain transmission revenues. Non-transmission revenues from private wire services, equipment rentals and radio broadcast and television services showed substantial gains.

*Other Revenues*

Mail revenues increased by 12.8% to 10.5 million as the result of the payment of higher rates by the Post Office Department. In March 1957, the railways were granted an interim increase in Canadian mail rates of 7% retroactive to July 3, 1956, with a further advance of 4% retroactive to January 1, 1957.

## OPERATING EXPENSES

Total railway operating expenses during 1957 amounted to \$734.6 million, an increase of \$31.3 million. The major factors were wage and material cost increases of \$31.8 million and higher depreciation charges.

Road maintenance expenses rose by \$13.4 million or 9.5% during 1957. About one-third of the increase was attributable to a bigger road maintenance program occasioned by main-line improvements in the Western Region.

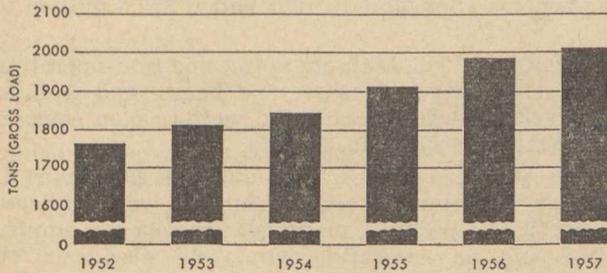
Although the amount of work performed in equipment maintenance was somewhat less than in the previous year, expenses rose by \$19.7 million or 13.9%. The increase resulted from higher wage and material costs and additional depreciation charges, including a supplementary charge of \$7.5 million for steam locomotive depreciation.

Transportation expenses, after absorbing wage and material price increases of \$16.2 million, declined by \$3.8 million during 1957. This was the result of the lower traffic volume.

## Freight Train Performance

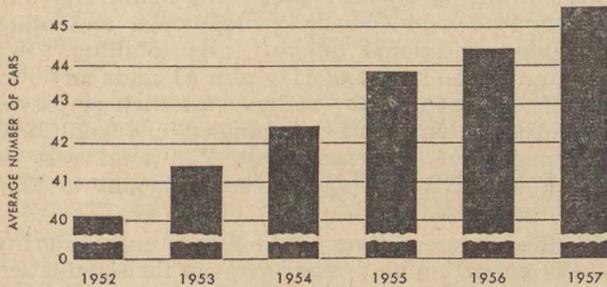
*Continued efforts to improve train operations have resulted in...*

*... greater loads per train*



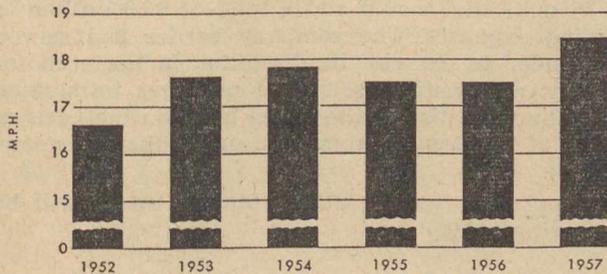
AVERAGE GROSS LOAD PER TRAIN (TONS)	
1952	1,771
1953	1,815
1954	1,848
1955	1,915
1956	1,980
1957	2,010

*... longer trains*



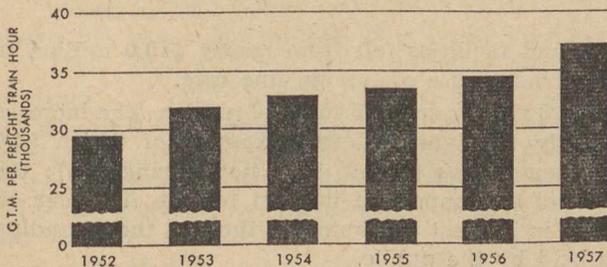
AVERAGE NUMBER OF CARS PER TRAIN	
1952	40.1
1953	41.4
1954	42.4
1955	43.8
1956	44.4
1957	45.5

*... faster trains*



AVERAGE SPEED OF FREIGHT TRAINS (M.P.H.)	
1952	16.6
1953	17.6
1954	17.8
1955	17.5
1956	17.5
1957	18.4

*... and thus in better freight train performance*



GROSS TON MILES PER FREIGHT TRAIN HOUR	
1952	29,309
1953	31,980
1954	32,841
1955	33,597
1956	34,742
1957	37,017

### Wages

Payrolls, by far the biggest item of railway expense, amounted in 1957 to \$427.8 million or 58.2% of the total operating expenses. Including pensions and health and welfare benefits, labour compensation accounted for 63.7% of the railway's 1957 expense dollar.

Wage increases and other benefits applicable to 1957 added \$22.5 million to operating expenses.

Under terms of contracts signed in 1956, both operating and non-operating employees on Canadian lines received wage increases and health and welfare coverage in 1957. By March 1, 1958, a revised health and welfare plan covered all non-scheduled and management employees in Canada.

Under the terms of a three-year agreement concluded on November 1, 1956, non-operating employees on U.S. lines received a further wage increase of seven cents per hour during 1957. Operating employees received a similar wage increase. Both operating and non-operating employees also received a cost-of-living adjustment totalling eight cents an hour during the year. The contracts provide for another wage increase of seven cents an hour during 1958.

On November 12, 1957, fifteen railway unions representing about 77,000 of the company's non-operating employees in Canada served wage and other demands on the railway involving additional annual costs totalling \$77.5 million. The demands included an increase in pay of 11% plus 17 cents an hour; an additional \$8.50 per month contribution by the railway for each employee to the company health and welfare plan; longer vacations; one additional statutory holiday; and establishment of severance pay. The total cost of implementing these demands for all CNR employees would amount to \$113 million annually.

Discussions were held with the representatives of the fifteen unions during November 1957 and ended on December 2 with a union request for conciliation services. A federal conciliation board was appointed early in 1958.

Negotiations for new contracts with the Brotherhood of Locomotive Firemen and Enginemen opened February 20, 1958, with a union request for an 18% pay increase and other benefits that would add a total of \$6.8 million to the company's annual operating expenses. The company earlier had served notice on the union that it intended to exercise its discretion in the need for assignment of firemen to freight and yard diesels. The meetings terminated February 25 after the union declined to discuss the diesel issue on the basis of principles outlined in the report of the Royal Commission under the chairmanship of Mr. Justice R. L. Kellock.

Current contracts with unions representing other running trades will be open for re-negotiation in the spring of 1958.

### TAXES, RENTS AND FIXED CHARGES

Taxes paid by the railway amounted to \$16.6 million, an increase of \$1.8 million over 1956.

Rents paid for equipment and facilities fell from nearly \$10.0 million to \$4.1 million, due to a reduction in the use of foreign line cars.

Fixed charges rose from \$31.8 million in 1956 to \$37.0 million. The increase of \$5.2 million was due entirely to higher interest expense, of which \$4.0 million is attributable to new borrowings of \$197.1 million during 1957; the remainder is chiefly a reflection of the impact of interest for the full year on 1956 borrowings. A small saving in interest was obtained through the refunding of \$73.3 million of securities held by the public.

## OTHER INCOME

Other income after deductions, as detailed on page 29, dropped 14.6% to \$9.4 million. The decrease was partially attributable to lower profits from land sales and to the inability of the Northern Alberta Railways to pay interest and dividends to the parent companies.

*Hotel Operations*

The net income of Canadian National Hotels Ltd. amounted to \$1.6 million after depreciation, virtually unchanged from 1956. This result does not include provision for an interest return on invested capital. Increased revenues from convention and tourist business were offset during the year by higher payroll and material costs.

The number of guests accommodated at seven year-round hotels and Jasper Park Lodge totalled 643,196, slightly higher than in 1956.

## GROWTH AND PROGRESS

In spite of the decline in traffic in 1957, the Canadian National continued to improve its equipment, modernize its facilities and streamline its methods and techniques.

Progress was reflected in the opening of several important new rail lines bringing mineral and other natural resources to market. New freight and passenger services were put into effect during the year. Freight trains in 1957 were longer and faster, and carried bigger loads than in the year before. Significant advances were made in operating methods and administrative practices.

Many of these improvements involved capital expenditures on a substantial scale the details of which are shown on page 32. The inventory of railway equipment appears on page 36.

*New Lines*

In 1957, three separate new rail lines were added to the Canadian National System, opening up additional areas of Canada for settlement and development. In Quebec, a 161-mile line from Beattyville to Chibougamau was officially opened in November and work was progressed on a 133-mile line from St. Felicien to Cache Lake, where it will link up with the Beattyville-Chibougamau branch. In New Brunswick, a 23-mile line was opened between Bartibog and the base metal development at Heath Steele. In Manitoba, Canadian National took over operation of a new 31-mile line from Sipiwesk on the Hudson Bay line to the International Nickel Company development at Thompson.

Still in the surveying stage is another new branch line from Optic Lake, on the Sherridon Subdivision, to Chisel Lake, Manitoba, a distance of some 52 miles.

A total of 352 industrial sidings, spurs and track extensions were built during the year, representing 73 miles of new trackage.

*Roadway*

New rail was applied to 804 miles of track during the year, thereby completing the second largest rail program in thirty years. Part-worn rail was relaid on 308 miles of secondary lines. In the Western Region, the six-year main-line track improvement program moved ahead on schedule in its second year.

On the System as a whole, a total of 3.5 million ties was installed.

The program of lengthening sidings in order to handle longer trains was also continued and, with the work slated for completion in 1958, all sidings from Montreal to Winnipeg will be able to accommodate 100-car trains and those between Winnipeg and Edmonton 117-car trains.

Further progress was made in the mechanization of track maintenance with the purchase of 284 units of roadway machinery.

#### *Signals*

The detailed engineering stage was reached in a program for the systematic application of Centralized Traffic Control to more than 4,000 miles of the railway's transcontinental main line. In 1957, CTC installations were completed on 17.5 miles of Grand Trunk Western lines between Flint and Port Huron, Michigan, and also in the eastern section of the Winnipeg terminals.

#### *Yards and Terminals*

Progress was made during the year on the company's long range plans for the concentration of train marshalling operations at main strategic centres. Grading at the Cote de Liesse yard in Montreal proceeded on schedule. Plans were advanced for the construction of similar automatic hump retarder yards at Moncton and Winnipeg, and steps were taken to acquire the necessary property. These three hump yards will incorporate the most modern control and communication devices.

An extensive study of freight handling problems in Toronto, where terminal facilities are badly congested, is now under way in collaboration with independent consultants.

Studies were also undertaken for the construction of new yard facilities at Corner Brook and St. John's, Newfoundland.

Meanwhile, the company proceeded with other yard improvements at Port Mann, B.C., Edmonton, Alta., Sarnia, Ont., Joffre, Que., Edmundston and Saint John, N.B., and at Flint, Pontiac, and Battle Creek on the Grand Trunk Western.

To increase the efficiency of freight car handling, train marshalling studies were undertaken and better inter-yard communications were effected by means of through teletype circuits between Montreal, Toronto and Winnipeg, and certain other terminals.

#### *Dieselization*

Dieselization by geographic areas, the second phase of the CNR's long range program, made satisfactory progress during the year. This phase was started in 1957 on completion of the company's original five-year plan in which diesel power was applied selectively to specific runs and services.

In the early stages of the program, the maximum utilization made possible by the selective application of diesels yielded very substantial benefits, despite the operation of repair and servicing facilities for both steam and diesel power. The latter stages of dieselization by areas, however, can only be justified by achieving the economies inherent in an orderly elimination of the steam power facilities.

At year end, a new diesel maintenance shop for running repairs was approaching completion at Cote de Liesse yard, and a start had been made on construction of a similar shop at Calder in the Edmonton area. Motive power shops for heavy repairs at Moncton, N.B., Point St. Charles (Montreal) and Battle Creek, Michigan, were being converted from steam to diesel maintenance.

In 1957, diesel operations accounted for 72.9% of freight gross ton miles, 81.6% of yard locomotive hours and 58.0% of passenger car miles. By year end, Canadian National was operating 1,433 diesel units on System lines.

### *Rolling Stock*

The company continued to improve the quality of its transportation equipment by adding new units and by modernizing and renovating older cars. A total of 6,439 new freight cars was taken into service during the year. The net addition to the railway's equipment, allowing for retirements and conversions, amounted to 4,155 cars.

New acquisitions of freight equipment by Canadian National over the past ten years represent just under 40% of the current inventory.

During 1957, eighty-nine units of passenger train equipment were placed in service, consisting of fourteen self-propelled diesel Railiners, five dinette cars, twenty baggage cars and fifty express refrigerator cars.

### *Service Improvements*

A reduction of one hour and 15 minutes was made in the schedule of the Super Continental westbound from Montreal and one hour and 30 minutes westbound from Toronto. The eastbound schedule from Vancouver to Montreal and Toronto was reduced by half an hour.

Improvements were also made in passenger train schedules between Montreal-Toronto-Chicago, Halifax-Montreal and Halifax-Sydney.

Self-propelled Railiners were placed in operation on the following inter-city runs: Truro-Sydney, Moncton-Campbellton, Quebec-Edmundston, Montreal-La Tuque, Montreal Sherbrooke-Island Pond, Regina-Saskatoon-Prince Albert, and Fort Frances-Duluth. These changes in service produced operating economies and in most cases permitted worthwhile reductions in running times.

Following a special survey made by railway officers, a number of improvements were put into effect in Newfoundland rail and coastal operations, and budget submissions were prepared for other improvements involving capital expenditures.

### *Montreal Terminal Development*

A master plan for the development of the 21-acre terminal area surrounding Central Station Montreal was formally accepted by the company in August. The plan, formulated by Webb & Knapp (Canada) Ltd., calls for the construction of a 40-storey, cruciform-shaped office building on Place Ville-Marie. Surrounding the main building will be a multilevel complex of shops, restaurants, a theatre, transportation and parking facilities and other office buildings.

On January 1, 1958, a lease covering 5.9 acres was concluded with Place Ville-Marie Corporation, a fully-owned subsidiary of Webb & Knapp (Canada) Ltd. The agreement provides that a major part of the development is to be completed within five years of the signing of the lease.

During 1957, plans progressed for the construction of a new CNR headquarters office building to be located in the terminal area.

### *Hotels*

The new Queen Elizabeth hotel in Montreal was near completion at the end of 1957, with the official opening planned for mid-April 1958. It is expected that this 21-storey hotel, with its 1,216 rooms, will attract many visitors and convention groups to Montreal.

Plans were also made during the year for a 165-room addition to the Nova Scotian hotel in Halifax.

### *Communications*

The demand for commercial communications service continued to grow during 1957 and Canadian National Communications facilities were again

expanded. Telegraph channel mileage increased by 21% to 610,724 and telephone channel mileage rose by 38% to 142,303.

The joint Canadian National-Canadian Pacific microwave facilities for the CBC television network were extended from Quebec City to Jonquiere and Rimouski during the year. Preliminary surveys were conducted for the extension of this network to Three Rivers, Que. Work was also started on the construction of Canadian National's microwave relay facilities for television and general communications between Sydney, N.S. and St. John's, Nfld.

"Telex" service, inaugurated jointly by Canadian National and Canadian Pacific in 1956 between Canada and overseas countries, was expanded during 1957 to provide service between eleven Canadian cities. At year end, installations were being made in ten additional cities. "Telex" service, providing instantaneous two-way written communication between subscribers' offices, has been highly successful, and the biggest problem has been to obtain equipment fast enough to meet the demand.

Canadian National's message relay operations were further improved during the year with the installation of modern torn-tape facilities at Moncton, Winnipeg and Vancouver. In addition, a semi-automatic switching system is being installed at the relay centre in Montreal.

#### *Work Methods*

Further advances were made during the year in the planned application of integrated data processing principles to the mass handling of railway information. This program is designed to increase the effectiveness of the CNR's recording and accounting operations, to provide improved control data, and to reduce clerical costs.

As part of this program, Canadian National brought its new Computer Centre in Montreal into operation during the year, and this centre is being utilized to process a large part of the railway payroll. The centre houses a medium-scale magnetic-drum computer which, with the help of smaller machines, is currently performing the enormously detailed calculations incidental to payroll operations and is producing completed cheques at the rate of 1,500 per hour.

Electronic data processing techniques are also being applied to the field of recording and tracing the movements of freight cars.

The introduction of data processing machines is an important phase of a general approach to the improvement of methods of performing work, whether of a clerical or production nature. The streamlining of office routines and procedures, the reorganization of work groups in repair shops, and improvements in materials handling techniques are representative of other efforts that are being made in this direction.

#### *Research and Experimentation*

Canadian National continued to place emphasis on research and experimentation during 1957. To keep the railway in step with the changing needs of the travelling and shipping public, studies were made of new equipment, materials and processes effecting virtually every phase of railway activity.

Technical research resulted in improvements in a wide variety of railway equipment, including rail fastenings, locomotive wheels and passenger car upholstery. In addition, a continuing program of laboratory testing led to new specifications for the purchase of items such as oil filters, rolling stock components and hotel furnishings.

Two new versatile types of freight equipment are under development. One type, a heated box car, is being designed to give sufficient protection to perishable traffic during the winter months, without losing the advantages of the standard box car during the rest of the year. The other type, a multi-purpose box car, has adjustable doors that can be adapted to the dimensions and loading characteristics of different commodities.

During the year, Canadian National entered upon a new and promising field of research activity, with the organization of an Operational Research section in the Department of Research and Development. This new section will seek to apply to railway problems the methods and techniques of this new branch of applied science that have proven their worth in other fields of activity.

## GENERAL

### *Industrial Development*

Company officers worked closely with both municipal authorities and business interests to promote orderly industrial development in areas served by the railway. In the Maritimes, industrial survey of towns and cities were under preparation by the company as part of a co-ordinated regional program to stimulate industrial development in the eastern provinces.

### *St. Lawrence Seaway Project*

Construction of the St. Lawrence Seaway and associated power development projects necessitated a number of changes in CNR facilities. A 40-mile diversion of the railway's main line between Cornwall and Cardinal in Ontario was completed and placed in operation during the year. Negotiations with Ontario Hydro covering apportionment of the costs of this diversion were satisfactorily concluded.

The seaway project also made necessary the construction of new highway approaches to Victoria Bridge. These new approaches, in conjunction with lift spans, will allow an uninterrupted flow of vehicular traffic across the bridge. Construction of a railway diversion for accommodation of railway traffic around the St. Lambert lock has been undertaken by CNR pending final allocation of cost.

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

Studies were conducted by both railways during the year to determine the feasibility and value of further pooling arrangements but no new pool services were instituted.

### *Corporate Reorganization*

While there were still 45 companies in the complex of corporate identities comprising the Canadian National System at the end of 1957, progress was made in studies aimed at the elimination of a number of these companies in 1958.

## THE YEAR IN PERSPECTIVE

The financial results for 1957 are a matter of particular concern because of what they portend for the future.

Mention has already been made (page 5) of the growing imbalance between the prices paid by the railway for material and labour services on the one hand, and the rates charged for railway services on the other. Not only does this

condition obscure (especially in a period of falling traffic) the very real improvements that have been made in operating performance but it threatens to frustrate the long-term objective that Canadian National should, on the average, be able to pay its way taking the good years with the bad.

The financial outlook for the immediate future is overshadowed by the implications of the wage and other demands put forward by the unions, particularly those representing the non-operating employees and the firemen. These demands, if implemented, would inevitably result in deficits greater than any recorded since the Canadian National began operations as a unified system.

It is evident that CNR, in common with other railroads in North America, has entered upon a period of transition accompanied by severe financial stress. Along with the need to adapt to an increasingly competitive environment and to rapid changes in the technology of transportation, there arises the collateral need for an acceptance, on the part of those employed in the industry as well as the public they serve, of the implication of these changes. Specifically this includes a re-appraisal of traditional methods and practices, the elimination of functionally duplicate facilities and operations, and the abandonment of unprofitable services that can no longer be justified. This in turn requires a proper climate of understanding, and a willingness, on the part of all interests, to make common cause of improved efficiency in transportation.

**Financial  
and Statistical  
Statements**

**FOR THE YEAR ENDED**

**December 31,  
1957**

## CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 1957

ASSETS		LIABILITIES	
Current Assets		Current Liabilities	
Cash.....	\$ 22,342,733	Accounts payable.....	\$ 74,736,815
Temporary cash investments.....	6,383,508	Accrued charges.....	19,306,020
Accounts receivable.....	61,071,421	Other current liabilities.....	<u>2,039,787</u>
Material and supplies.....	100,997,322		\$ 96,082,622
Other current assets.....	9,931,849		
Government of Canada—Due on deficit account.....	16,572,541	Provision for Insurance.....	15,000,000
	<u>\$ 217,299,374</u>	Other Liabilities and Deferred Credits.....	28,527,287
Insurance Fund.....	15,000,000		
Investments in Affiliated Companies Not Consolidated.....	100,838,087	Long Term Debt	
		Bonds, debentures and equipment obligations.....	748,325,499
Property Investment		Government of Canada loans and debentures.....	<u>623,967,851</u>
Road.....	1,974,959,848		1,372,293,350
Equipment.....	1,235,443,936		
Other physical properties.....	91,241,504		
	<u>3,301,645,288</u>		
Less recorded depreciation.....	511,251,267	SHAREHOLDERS' EQUITY	
	<u>2,790,394,021</u>	Government of Canada	
Other Assets and Deferred Charges		6,000,000 shares of no par value capital stock of Canadian National Railway Company.....	396,518,135
Other investments.....	4,807,120	861,354,082 shares of 4% preferred stock of Canadian National Railway Company.....	861,354,082
Prepayments.....	3,030,286	Capital investment of Government of Canada in the Canadian Government Railways.....	381,579,089
Unamortized discount on long term debt...	4,875,911		<u>1,639,451,306</u>
Other assets.....	7,516,626	Capital Stock of Subsidiary Companies Owned by Public.....	4,505,870
Deferred charges.....	12,099,010		<u>1,643,957,176</u>
	<u>32,328,953</u>		
	<u>\$3,155,860,435</u>		<u>\$3,155,860,435</u>

The notes appearing on page 28 are an integral part of this Balance Sheet.

J. L. TOOLE,  
Comptroller.

AUDITORS' REPORT

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

We have examined the books and accounts of the Canadian National Railway System for the year ended December 31, 1957. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the above consolidated balance sheet and the related consolidated income statement are prepared on a basis consistent with that of the preceding year except for the additional provision for depreciation referred to in Note 1 which we approve, and subject to the position with regard to depreciation accruing prior to the adoption of depreciation accounting referred to in Note 1,

February 25, 1958.

are properly drawn up so as to give a true and fair view of the state of the System's affairs at December 31, 1957 and of the results of operations for the year then ended, according to the best of our information and the explanations given to us and as shown by the books of the System.

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

We are also submitting a supplementary explanatory report.

GEORGE A. TOUCHE & CO.,  
Chartered Accountants.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AT DECEMBER 31, 1957*Note 1. Property Investment:*

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

Depreciation on Canadian Lines: Depreciation accounting as adopted for equipment in 1940, for hotel properties in 1954 and for track and road structures and all other physical properties except land in 1956 has been continued in 1957. The depreciation rates used are based on the estimated service life of the properties but do not provide for depreciation which was not recorded in prior years under the replacement and retirement accounting principles then in force, nor for extraordinary obsolescence resulting from the introduction of more efficient equipment. In recognition of the obsolescence now occurring with steam locomotives, supplementary depreciation amounting to \$7,500,000 has been charged to operating expenses this year to provide in part for the deficiency in the depreciation reserves which will arise from the early retirement of steam locomotives and their replacement by diesel power.

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

*Note 2. Buffalo and Lake Huron Railway Company:*

The railway line of this company has been operated as a part of the System for many years under a lease arrangement. Pursuant to an offer made in November 1956 to the shareholders of the company, all the shares of the capital stock have been purchased. The assets and liabilities of this company, including \$3,148,856 for property investment and \$2,023,765 of long term debt, have been consolidated with the System accounts.

*Note 3. Material and Supplies:*

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

*Note 4. Capital Stock:*

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

*Note 5. Pensions:*

At December 31, 1957 an amount of \$177,967,669 had been accumulated in the Pension Trust Fund in respect of pension liabilities. This amount represents provision for pensions in force under the 1935 plan, but not for pensions granted under prior plans or for increased benefits granted to employees who were contributors under the 1935 plan and who retired on pension prior to January 1, 1952. Consistent with its established practice the railway has made no transfer or allocation of funds for pensions conditionally accruing in respect of employees now in service.

Note 6. Major Commitments:

(a) Chicago & Western Indiana Railroad Company:

Pursuant to a joint supplemental lease dated May 1, 1952, the Grand Trunk Western Railroad Company and four other proprietary-tenant companies are obligated to pay, as rental, sinking fund payments sufficient to retire bonds at maturity and interest as it falls due with respect to First Collateral Trust Mortgage 4 $\frac{3}{8}$ % Sinking Fund Bonds Series "A" due May 1, 1982. The Grand Trunk Western's proportion is one-fifth in the absence of default of any of the other tenant companies. The bonds outstanding at December 31, 1957 total \$57,375,000.

(b) Detroit & Toledo Shore Line Railroad Company:

The Grand Trunk Western Railroad Company is jointly and severally liable as guarantor of principal, interest and sinking fund payments with respect to \$2,850,000 First Mortgage 3 $\frac{1}{4}$ %-30 year Series "A" Bonds, due December 1, 1982, of the Detroit & Toledo Shore Line Railroad Company.

## CONSOLIDATED INCOME STATEMENT

	1957	1956
<b>Railway Operating Revenues</b>		
Freight services.....	\$ 604,932,271	\$ 631,880,409
Passenger services.....	58,035,602	56,397,814
Express.....	42,926,608	43,269,566
Communications.....	20,750,060	19,881,534
All other.....	26,521,423	23,371,324
Total operating revenues.....	<u>753,165,964</u>	<u>774,800,647</u>
<b>Railway Operating Expenses</b>		
Road maintenance.....	153,760,070	140,379,408
Equipment maintenance.....	161,961,616	142,251,485
Traffic.....	14,507,955	13,441,595
Transportation.....	342,364,345	346,127,246
Miscellaneous operations.....	7,066,328	7,201,150
General.....	54,895,727	53,902,678
Total operating expenses.....	<u>734,556,041</u>	<u>703,303,562</u>
Net revenue from railway operations.....	<u>18,609,923</u>	<u>71,497,085</u>
<b>Taxes and Rents</b>		
Railway tax accruals.....	16,573,037	14,733,987
Equipment rents—Net debit.....	3,856,235	9,758,278
Joint facility rents—Net debit.....	229,065	213,010
Total taxes and rents.....	<u>20,658,337</u>	<u>24,705,275</u>
Net railway operating income.....	<u>2,048,414</u>	<u>46,791,810</u>
<b>Other Income</b>		
Income from lease of road.....	45,362	45,362
Miscellaneous rent income.....	1,674,537	1,649,726
Income from non-transportation properties.....	1,436,271	1,921,301
Hotel income.....	1,606,824	1,629,836
Income from separately operated properties.....	—	595,590
Dividend income.....	374,061	361,666
Interest income.....	2,919,346	2,754,680
Miscellaneous income.....	1,513,452	3,318,771
Profit and loss—Net Credit.....	485,479	236,232
Total other income.....	<u>10,055,332</u>	<u>12,513,164</u>
<b>Deductions from Income</b>		
Miscellaneous rents.....	417,635	682,501
Miscellaneous income charges.....	190,144	762,531
Total deductions from income.....	<u>607,779</u>	<u>1,445,032</u>
Net income available for fixed charges.....	<u>7,399,139</u>	<u>57,859,942</u>
<b>Fixed Charges</b>		
Rent for leased roads.....	161,898	476,054
Interest on bonds, debentures and equipment obligations.....	24,766,117	26,472,551
Interest on government loans.....	11,049,277	3,786,009
Interest on other debt.....	308,155	312,302
Amortization of discount on bonds.....	686,233	736,075
Total fixed charges.....	<u>36,971,680</u>	<u>31,782,991</u>
<i>Deficit or Surplus</i> .....	<u>\$ 29,572,541</u>	<u>\$ 26,076,951</u>



## OPERATING REVENUES

	1957	1956		1957	1956
Freight Services			Express		
Freight.....	\$587,273,516	\$612,767,267	Express department.....	\$ 42,189,962	\$ 42,416,140
Switching.....	6,131,342	6,707,379	Railway Express Agency.....	736,646	853,426
Cartage and transport.....	4,865,000	5,144,234	Total.....	<u>42,926,608</u>	<u>43,269,566</u>
Demurrage.....	2,857,482	3,270,839			
Water transfers.....	1,579,867	1,544,242	Communications		
Grain elevator.....	1,035,439	1,175,561	Communications department.....	20,739,214	19,869,753
Wharves.....	917,919	990,182	Commissions—U.S.....	10,846	11,781
Storage.....	271,706	280,705	Total.....	<u>20,750,060</u>	<u>19,881,534</u>
Total.....	<u>604,932,271</u>	<u>631,880,409</u>			
Passenger Services			All Other		
Passenger.....	46,818,462	45,843,419	Mail.....	10,549,873	9,357,361
Sleeping and parlor car.....	5,140,915	4,892,857	Rents of buildings and other property.....	1,668,916	1,572,933
Dining and buffet car.....	4,455,867	4,021,755	Joint facilities.....	242,073	814,643
Water transfers.....	523,359	556,391	Miscellaneous.....	14,060,561	11,626,387
Station, train and boat privileges.....	493,940	443,364	Total.....	<u>26,521,423</u>	<u>23,371,324</u>
Restaurants.....	328,475	373,608			
Baggage transportation and storage.....	258,275	250,689	Total Operating Revenues.....	<u>\$753,165,964</u>	<u>\$774,800,647</u>
Miscellaneous.....	16,309	15,731			
Total.....	<u>58,035,602</u>	<u>56,397,814</u>			

## OPERATING EXPENSES

## ROAD MAINTENANCE

	1957	1956		1957	1956
Superintendence.....	\$ 11,281,130	\$ 10,299,105	Miscellaneous		
Track and Roadway			Roadway machines.....	3,638,469	2,952,102
Track and roadway maintenance.....	50,891,829	47,313,165	Public improvements.....	831,458	764,143
Ties.....	804,457	927,859	Injuries to persons.....	987,251	955,900
Rails.....	1,807,532	414,408	Insurance.....	348,513	30,999
Other track material.....	4,175,248	3,402,029	Stationery.....	186,662	191,202
Ballast.....	253,455	304,723	Other expenses.....	1,362,632	206,837
Fences, snowsheds and signs.....	1,724,204	1,576,574	Right-of-way expenses.....	83,335	125,540
Small tools and supplies.....	2,623,916	2,209,672			
Removing snow, ice and sand.....	4,569,254	6,789,824	Total.....	7,428,320	5,226,723
Total.....	66,849,895	62,938,254			
Bridges and Structures			Depreciation and Retirements		
Tunnels, bridges and culverts.....	6,213,508	5,746,631	Road property depreciation.....	35,164,598	32,451,406
Station and office buildings.....	6,446,848	5,787,681	Road property retirements.....	111,669	174,039
Roadway buildings.....	965,721	876,851	Dismantling retired road property.....	475,068	533,101
Water and fuel stations.....	1,183,283	1,268,245			
Shops and enginehouses.....	4,097,208	3,703,635	Total.....	35,751,335	33,158,546
Grain elevators.....	100,135	98,860			
Wharves.....	406,524	425,243			
Power plant systems.....	559,223	544,323			
Other structures.....	36,336	39,161			
Total.....	20,008,786	18,490,630			
Communication and Signal Systems			Joint Facilities		
Communication systems.....	10,430,743	8,411,719	Maintaining joint facilities— <i>Net Credit</i> .....	835,908	670,472
Signals.....	2,845,769	2,524,903			
Total.....	13,276,512	10,936,622	Total Road Maintenance.....	\$153,760,070	\$140,379,408

## OPERATING EXPENSES

		EQUIPMENT MAINTENANCE		1957	1956
	1957	1956			
Superintendence.....	\$ 4,449,726	\$ 4,099,943	Depreciation and Retirements		
			Other equipment and machinery depreciation.....	1,482,909	1,529,783
			Dismantling retired machinery.....	15,511	22,571
			Dismantling retired equipment.....	414,600	339,685
			Rolling stock and vessels depreciation.....	33,689,891	29,026,517
			Supplementary dep'n.—steam locomotives.....	7,500,000	—
Machinery			Total.....	43,102,911	30,918,556
Shop and power plant machinery.....	4,605,407	4,162,097			
			Joint Facilities		
Equipment			Maintaining joint facilities— <i>Net Credit</i> .....	188,191	277,607
Steam locomotives.....	19,028,457	24,629,687			
Diesel locomotives.....	20,412,450	15,747,591	Total Equipment Maintenance.....	\$161,961,616	\$142,251,485
Freight train cars.....	41,009,254	37,628,570			
Passenger train cars.....	17,955,771	15,659,600			
Vessels.....	1,920,634	1,467,658			
Work equipment.....	4,317,570	4,053,418			
Express equipment.....	876,833	849,659			
Cartage and transport equipment.....	1,634,121	1,777,255			
Other equipment.....	63,148	64,312			
Total.....	107,218,238	101,877,750			
Miscellaneous			TRAFFIC		
Injuries to persons.....	859,308	814,437	Superintendence.....	\$ 5,044,429	\$ 4,700,299
Insurance.....	386,254	244,334	Agencies.....	5,404,674	5,203,813
Stationery.....	160,144	158,509	Advertising.....	1,975,586	1,737,000
Other expenses.....	1,367,819	253,466	Associations.....	301,606	243,479
Total.....	2,773,525	1,470,746	Stationery.....	872,912	792,420
			Other expenses.....	75,185	21,238
			Total.....	13,674,392	12,698,249
			Colonization and agriculture.....	338,495	311,872
			Industrial development.....	239,504	308,703
			Development and natural resources.....	165,564	122,771
			Total Traffic.....	\$ 14,507,955	\$ 13,441,595

OPERATING EXPENSES—(Concluded)

TRANSPORTATION

	1957	1956
Supervision		
Superintendence.....	\$ 8,775,943	\$ 8,130,957
Dispatching.....	4,611,505	4,429,898
Total.....	<u>13,387,448</u>	<u>12,560,855</u>
Station Services		
Station employees.....	47,599,637	46,777,585
Weighing, inspection and demurrage.....	195,987	213,736
Coal and ore wharves.....	179,163	185,451
Station expenses.....	4,217,139	3,725,697
Total.....	<u>52,191,926</u>	<u>50,902,469</u>
Yard Services		
Yardmasters and clerks.....	11,672,167	11,249,526
Yard trainmen.....	21,885,764	22,227,499
Yard switchmen.....	1,868,026	1,889,092
Yard enginemen.....	15,038,095	15,172,770
Yard locomotive fuel and power.....	4,746,214	6,054,798
Yard locomotive water.....	106,946	148,423
Yard locomotive other supplies.....	339,626	364,038
Yard enginehouse expenses.....	3,504,655	3,625,292
Yard other expenses.....	493,021	487,469
Total.....	<u>59,654,514</u>	<u>61,218,907</u>
Train Operations		
Train enginemen.....	27,864,214	29,304,392
Train locomotive fuel and power.....	40,507,705	48,028,725
Train locomotive water.....	1,108,722	1,348,065
Train locomotive other supplies.....	1,990,603	1,753,618
Train enginehouse expenses.....	12,196,297	12,430,257
Trainmen.....	33,012,319	34,799,642
Train other expenses.....	23,508,462	22,683,088
Operating sleeping and parlor cars.....	5,996,557	5,468,426
Total.....	<u>146,184,879</u>	<u>155,821,213</u>
Miscellaneous		
Signal operation.....	\$ 940,494	\$ 921,731
Crossing protection.....	1,904,051	1,539,660
Drawbridge operation.....	398,105	356,349
Communication system operation.....	14,226,270	13,378,141
Operating vessels.....	11,087,249	10,024,922
Express department operation.....	28,825,673	27,272,879

	1957	1956
Cartage and transport operation.....	2,644,473	2,668,132
Stationery.....	1,614,095	1,551,897
Other expenses.....	1,869,438	647,042
Total.....	<u>63,509,848</u>	<u>58,360,753</u>
Casualty Costs		
Insurance.....	356,615	43,556
Clearing wrecks.....	1,151,044	1,279,712
Damage to property.....	285,152	236,236
Loss and damage—freight.....	4,607,472	4,130,164
Loss and damage—baggage.....	2,590	19,746
Injuries to persons.....	2,337,779	2,377,199
Total.....	<u>8,740,652</u>	<u>8,086,613</u>
Joint Facilities		
Operating joint yards & terminals— <i>Net Credit</i> .....	602,062	570,391
Operating joint facilities— <i>Net Credit</i> .....	702,860	253,173
Total.....	<u>1,304,922</u>	<u>823,564</u>
Total Transportation.....	<u>\$342,364,345</u>	<u>\$346,127,246</u>

MISCELLANEOUS OPERATIONS

Dining and buffet service.....	\$ 5,933,745	\$ 5,611,809
Restaurants.....	324,473	365,006
Grain elevators.....	337,885	343,790
Other operations.....	571,225	497,043
Operating joint miscellaneous facilities.....	101,000	383,502
Total Miscellaneous Operations.....	<u>\$ 7,066,328</u>	<u>\$ 7,201,150</u>

GENERAL

General officers.....	\$ 1,105,944	\$ 992,604
Clerks and attendants.....	13,640,198	13,008,679
Office expenses.....	1,376,751	1,170,166
Law expenses.....	776,029	731,820
Pensions.....	36,000,000	36,392,000
Stationery.....	872,196	728,269
Valuation expenses—U.S. Lines.....	14,396	17,278
Other expenses.....	989,045	753,521
General joint facilities— <i>Net Debit</i> .....	121,168	103,341
Total General.....	<u>\$ 54,895,727</u>	<u>\$ 53,902,673</u>

## PROPERTY INVESTMENT STATEMENT

## Capital Expenditures in 1957

Property Investment at December 31, 1956.....			\$3,093,411,876
Roadway improvements.....	\$ 55,204,784		
Large terminals.....	6,170,977		
Communications facilities.....	12,354,808		
Roadway buildings.....	8,218,874		
Yard tracks and sidings.....	4,387,198		
Roadway and shop machinery.....	3,201,230		
Signals.....	1,563,742		
Highway crossing protection.....	392,617		
Line diversions.....	359,399		
Other facilities.....	2,197,302		
		94,049,931	
Branch Lines.....	8,695,190		
Hotels.....	9,890,863		
Equipment.....	139,643,428	\$252,279,412	
Deduction in respect of property retirements in 1957.....		47,624,317	
		204,655,095	
Government of Canada expenditure on Canadian Government Railways.....		429,461	
Buffalo and Lake Huron Railway Company (Note 2).....		3,148,856	208,233,412
Property Investment at December 31, 1957.....			<u>\$3,301,645,288</u>

## RECORDED DEPRECIATION STATEMENT

Recorded Depreciation at December 31, 1956.....			\$461,123,003
Add—Provision for depreciation for the year			
Road Maintenance			
Road property depreciation.....	\$ 35,164,598		
Equipment Maintenance			
Rolling stock and vessel depreciation.....	33,689,891		
Supplementary depreciation—steam locomotives...	7,500,000		
Other equipment and machinery depreciation.....	1,482,909		
Other Physical Properties.....		822,832	78,660,230
			539,783,233
Deduct—Charges in respect of property retirements.....			28,531,966
Recorded Depreciation at December 31, 1957.....			<u>\$511,251,267</u>



## LONG TERM DEBT

## Bonds, Debentures and Equipment Obligations

Rate %	Maturity (See Note)		Currency in which payable	Outstanding at Dec. 31, 1956	Transactions Year 1957 Increase or Decrease	Outstanding at Dec. 31, 1957
2½	Mar. 1, 1957	Newfoundland Railway Notes.....	U.S.	\$ 71,583	\$ 71,583	
4½	July 1, 1957	Canadian National 30 Year Bonds.....	Can.-U.S.	64,136,000	64,136,000	
3½	July 20, 1957	Canadian Northern Debenture Stock.....	(Canadian Sterling)	5,315,545 320,961		\$ 5,315,545 320,961
5	Nov. 15, 1958	Indebtedness to Province of New Brunswick.....	Canadian	380,023		380,023
3	Jan. 15, 1959(a)	Canadian National 20 Year Bonds.....	Canadian	35,000,000		35,000,000
3½	May 4, 1960	Canadian Northern Alberta Debenture Stock.....	Sterling	550,727		550,727
3½	May 19, 1961	Canadian Northern Ontario Debenture Stock.....	Sterling	3,597,518		3,597,518
3	Jan. 1, 1962	Grand Trunk Pacific Bonds.....	Can.-U.S.-Stg.	26,465,130		26,465,130
4	Jan. 1, 1962	Grand Trunk Pacific Bonds.....	Can.-U.S.-Stg.	7,999,074		7,999,074
2¾	Feb. 1, 1963(b)	Canadian National 8 Year 1½ Month Bonds.....	Canadian	250,000,000		250,000,000
3	Jan. 3, 1966(c)	Canadian National 17 Year Bonds.....	Canadian	35,000,000		35,000,000
3	Jan. 2, 1967(d)	Canadian National 20 Year Bonds.....	Canadian	50,000,000		50,000,000
2	Sept. 15, 1969(e)	Canadian National 20 Year Bonds.....	Canadian	70,000,000		70,000,000
2	Jan. 16, 1971(f)	Canadian National 21 Year Bonds.....	Canadian	40,000,000		40,000,000
3	Feb. 1, 1974(g)	Canadian National 20 Year Bonds.....	Canadian	200,000,000		200,000,000
2¾	June 15, 1975(h)	Canadian National 25 Year Bonds.....	U.S.	6,000,000		6,000,000
4½	Jan. 1, 1980	Grand Trunk Western Bonds.....	Can.-U.S.-Stg.	400,000		400,000
5	Perpetual	Debenture Stocks—Various.....	Sterling	88,972		88,972
4	Perpetual	Debenture Stocks—Various.....	Sterling	8,979	195	8,784
2	Dec. 1, 1957	Equipment Trust Certificates—Series "R".....	Canadian	560,000	560,000	
2½	Mar. 15, 1958	Equipment Trust Certificates—Series "S".....	Canadian	5,600,000	2,800,000	2,800,000
2½	Nov. 1, 1958	Equipment Trust Certificates—Series "T".....	Canadian	4,300,000	2,150,000	2,150,000
2½	Mar. 15, 1960	Equipment Trust Certificates—Series "U".....	Canadian	7,700,000	2,200,000	5,500,000
2½	Jan. 15, 1961	Equipment Trust Certificates—Series "V".....	Canadian	6,075,000	1,350,000	4,725,000
		Total.....		819,569,512	73,267,778	746,301,734
		Buffalo and Lake Huron Railway Company (Note 2)				
5½	Perpetual	First Mortgage Bonds.....	Sterling		795,366	795,366
5½	Perpetual	Second Mortgage Bonds.....	Sterling		1,228,399	1,228,399
		Total Bonds, Debentures and Equipment Obligations.....		819,569,512	71,244,013	748,325,499

## Government of Canada Loans and Debentures

Capital Revision Act, 1952 Jan. 1, 1972	Debenture.....	Canadian	100,000,000		100,000,000
Canadian Government Railways	Advances for Working Capital, 1923.....	Canadian	16,771,981		16,771,981
Financing and Guarantee Acts 1954-1957	Temporary Loans.....	Canadian	93,602,991	197,035,440	290,638,431
Refunding Acts, 1951 and 1955	Loans for Debt Redemption.....	Canadian	143,289,856	73,267,583	216,557,439
Total Government of Canada Loans and Debentures.....			353,664,828	270,303,023	623,967,851
Total Long Term Debt.....			<u>\$1,173,234,340</u>	<u>\$ 199,059,010</u>	<u>\$1,372,293,356</u>

Note:—(a) Callable at par on or after Jan. 15, 1954  
 (b) Callable at par on or after Feb. 1, 1961  
 (c) Callable at par on or after Jan. 3, 1961  
 (d) Callable at par on or after Jan. 2, 1964

(e) Callable at par on or after Sept. 15, 1964  
 (f) Callable at par on or after Jan. 16, 1966  
 (g) Callable at par on or after Feb. 1, 1972  
 (h) Callable on or before June 14, 1958 at 102;  
 thereafter at varying redemption premiums.

## SHAREHOLDERS' EQUITY

Government of Canada					
No par value capital stock of Canadian National Railway Company.....		\$ 396,518,135		\$ 396,518,135	
4% Preferred stock of Canadian National Railway Company.....		835,603,203	\$ 22,750,879	861,354,082	
Capital investment in Canadian Government Railways.....		381,149,628	429,461	381,579,089	
Total Government of Canada.....		<u>1,616,270,966</u>	<u>23,180,340</u>	<u>1,639,451,306</u>	
Capital Stock of Subsidiary Companies Owned by Public.....		4,508,670	2,800	4,505,870	
Total Shareholders' Equity.....		<u>\$1,620,779,636</u>	<u>\$ 23,177,540</u>	<u>\$1,643,957,176</u>	
Total Long Term Debt and Shareholders' Equity.....		<u>\$2,794,013,976</u>	<u>\$ 222,236,550</u>	<u>\$3,016,250,526</u>	

## COMPANIES COMPRISING THE CANADIAN NATIONAL RAILWAY SYSTEM

## CAPITAL STOCK OWNED BY GOVERNMENT OF CANADA

Company  
number

1	{ Canadian National Railway Company (Common).....	\$ 396,518,135
	{ Canadian National Railway Company (Preferred).....	861,354,082
		<u>\$1,257,872,217</u>

## CAPITAL STOCKS OWNED BY SYSTEM OR PUBLIC

	Name of Issuing Company	Controlled by company number	Capital stock issued	Owned by public
1	Canadian National Railway Company.....	see above		
2	Atlantic and St. Lawrence Railroad Company....	1	\$ 6,302,340	\$ 3,840
3	Buffalo and Lake Huron Railway Company.....	1	1,406,298	
4	Canadian National Express Company.....	1	1,000,000	
5	Canadian National Hotels, Limited.....	1	28,970,150	
6	Canadian National Railways (France).....	1	1,886,114	
7	The Canadian National Railways Securities Trust	1	5 million shares	
8	Canadian National Realities, Limited.....	1	40,000	
9	Canadian National Rolling Stock Limited.....	1	50,000	
10	Canadian National Steamship Company, Limited	1	15,000	
11	Canadian National Telegraph Company.....	1	525,900	
12	Canadian National Transfer Company.....	1	500,000	
13	Canadian National Transportation, Limited.....	1	500	
14	The Canadian Northern Quebec Railway Com- pany.....	1	9,550,000	3,849,200
15	The Central Counties Railway Company.....	1	500,000	12,000
16	The Champlain and St. Lawrence Railroad Com- pany.....	1	50,000	
17	The Great North Western Telegraph Company of Canada.....	1	373,625	6,825
18	The Lake Superior Terminals Company Limited.	1	500,000	
19	The Minnesota and Manitoba Railroad Company.	1	400,000	
20	The Minnesota and Ontario Bridge Company.....	1	100,000	
21	Montreal and Southern Counties Railway Com- pany.....	1	500,000	140,600
22	Montreal Fruit & Produce Terminal Company, Limited.....	1	500	
23	The Montreal Stock Yards Company.....	1	350,000	
24	The Montreal Warehousing Company.....	1	236,000	3,820
25	Mount Royal Tunnel and Terminal Company, Limited.....	1	5,000,000	
26	National Terminals of Canada, Limited.....	1	2,500	
27	The Niagara, St. Catharines and Toronto Railway Company.....	1	925,000	
28	The Oshawa Railway Company.....	1	40,000	
29	Prince George, Limited.....	1	10,000	
30	Prince Rupert, Limited.....	1	10,000	
31	The Quebec and Lake St. John Railway Company	1	4,508,300	489,160
32	St. Clair Tunnel Company.....	1	700,000	
33	The Thousand Islands Railway Company.....	1	60,000	
34	The United States and Canada Rail Road Com- pany.....	1	219,400	425
35	Vermont and Province Line Railroad Company..	1	200,000	
36	Central Vermont Railway, Inc.....	1	10,000,000	
37	The Centmont Corporation.....	36	176,400	
38	Central Vermont Transportation Company.....	36	200,000	

39	Duluth, Winnipeg and Pacific Railway Company...	1	3,100,000
40	Duluth, Rainy Lake & Winnipeg Railway Company.....	39	2,000,000
41	Duluth, Winnipeg and Pacific Railroad Company.	39	100,000
42	Grand Trunk Western Railroad Company (Common).....	1	20,000,000
42	Grand Trunk Western Railroad Company (Preferred).....	1	25,000,000
43	Consolidated Land Corporation.....	42	64,000
44	Grand Trunk-Milwaukee Car Ferry Company....	42	200,000
45	Industrial Land Company.....	42	1,000

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\$4,505,870

In addition to the shares of the Canadian National Railway Company the Government of Canada has also invested \$381,579,089 in Canadian Government Railways. The Canadian Government Railways property is entrusted to the Canadian National Railway Company as part of the System.

## INVESTMENTS IN AFFILIATED COMPANIES NOT CONSOLIDATED

Company	Percentage of Investment Held	Investment at Dec. 31, 1956	Transactions Year 1957 Increase or Decrease	Investment at Dec. 31, 1957
The Belt Railway Company of Chicago				
Capital Stock.....	7.69	\$ 240,000		\$ 240,000
Advances.....		48,971	\$ 2,479	51,450
Chicago & Western Indiana Railroad Company				
Capital Stock.....	20	1,000,000		1,000,000
Advances.....		4,945,023	327,521	5,272,544
The Detroit & Toledo Shore Line Railroad Company				
Capital Stock.....	50	1,500,000		1,500,000
Detroit Terminal Railroad Company				
Capital Stock.....	50	1,000,000		1,000,000
Northern Alberta Railways Company				
Capital Stock.....	50	6,475,000	343,000	6,818,000
Bonds.....	50	12,867,500	682,000	13,549,500
Advances.....			1,150,000	1,150,000
The Public Markets, Limited				
Capital Stock.....	50	575,000		575,000
Railway Express Agency, Inc.				
Capital Stock.....	0.6	600		600
Advances.....		173,493		173,493
The Shawinigan Falls Terminal Railway Company				
Capital Stock.....	50	62,500		62,500
The Toledo Terminal Railroad Company				
Capital Stock.....		387,200	387,200	
The Toronto Terminals Railway Company				
Capital Stock.....	50	250,000		250,000
Bonds.....	50	12,455,000	335,000	12,120,000
Trans-Canada Air Lines				
Capital Stock.....	100	5,000,000		5,000,000
Debenture.....	100	20,000,000		20,000,000
Advances.....		20,000,000	12,000,000	32,000,000
Vancouver Hotel Company Limited				
Capital Stock.....	50	75,000		75,000
<b>Total.....</b>		<b>\$87,055,287</b>	<b>\$13,782,800</b>	<b>\$100,838,087</b>

## SOURCE AND APPLICATION OF FUNDS FOR THE YEAR 1957

Source of Funds			
Amount recoverable from Government of Canada in respect of deficit for the year (including \$13,000,000 received on account prior to December 31, 1957).....			\$ 29,572,541
Increase in Recorded Depreciation			
Provision for the year.....	\$ 78,660,230		
Less—Reduction in respect of retirements.....	28,531,966		50,128,264
Long Term Debt			
Increase in Government of Canada loans.....	270,303,023		
Debt of Buffalo and Lake Huron Railway Company.....	2,023,765		
	272,326,788		
Less—Decrease in bonds, debentures and equipment obligations.....	73,267,778		199,059,010
Shareholder's Equity—Government of Canada			
Issue of 4% Preferred stock of Canadian National Railways.....	22,750,879		
Additional capital invested in Canadian Government Railways.....	429,461		23,180,340
			<u>\$301,940,155</u>
Application of Funds			
Deficit for the year.....			\$ 29,572,541
Property Investment			
Additions.....	\$252,279,412		
Less—Retirements.....	47,624,317		
	204,655,095		
Property of Buffalo and Lake Huron Railway Company.....	3,148,856		
Government of Canada expenditure on Canadian Government Railways.....	429,461		208,233,412
Advances to Trans-Canada Air Lines.....			12,000,000
Government of Canada current account.....			42,649,492
Increase in working capital.....			3,627,283
Other.....			5,857,427
			<u>\$301,940,155</u>

## EQUIPMENT PLACED IN SERVICE DURING 1957

## Diesel-Electric Locomotives

1	380 HP road-switching
14	1000 HP road-switching
31	1200 HP road-switching
6	1600 HP road-switching
138	1750 HP road-switching
58	1800 HP road-switching
36	1750 HP road-passenger
10	900 HP switching
33	1000 HP switching
3	1200 HP switching

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 330
 

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## Passenger Equipment

14	unit cars—diesel railiner
5	dinette cars
20	baggage cars
50	express refrigerator cars

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 89
 

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## Freight Equipment

1,400	50-ton automobile transporter cars
150	30-ton box cars
3,015	50-ton box cars
94	70-ton covered hopper cars
250	70-ton triple hopper cars
587	70-ton longitudinal hopper cars
150	30-ton flat cars
100	70-ton flat cars
200	50-ton refrigerator cars
280	75-ton ore cars
200	70-ton gondola cars
13	caboose

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 6,439
 

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## Work Equipment

7	diesel locomotive cranes—30-ton
1	diesel locomotive crane and pile driver—30-ton
1	diesel wrecking crane—250-ton
1	Burro crane—12-ton
3	Jordan spreaders
4	Jordan spreader-ditchers
1	scale test car
1	Russell snow plow
130	30-cu. yd. 50-ton air dump cars
1	work unit built from salvage in railway shops

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 150
 

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## INVENTORY OF RAILWAY EQUIPMENT

	On Hand Jan. 1, 1957	Placed in Service	Retired	Converted Added	Retired	On Hand Dec. 31, 1957	Orders Out- standing Dec. 31, 1957
<b>Locomotives</b>							
Steam—Road.....	1,380		188			1,192	
Steam—Switching.....	325		73			252	
Electric.....	33					33	
Diesel—Electric—							
Road—Freight.....	173					173	
Road—Passenger.....	52	36				88	16
Road—Switching.....	496	248	2			742	106
Switching.....	384	46				430	19
<b>Total.....</b>	<b>2,843</b>	<b>330</b>	<b>263</b>			<b>2,910</b>	<b>142</b>
<b>Freight Equipment</b>							
Box cars.....	79,100	4,565	1,401		404	81,860	
Flat cars.....	6,302	250	104		41	6,407	406
Stock cars.....	2,796		31			2,765	15
Hopper cars.....	6,329	344	153		3	6,517	1,150
Gondola cars.....	11,899	200	52			12,047	200
Ore cars.....	1,369	280				1,649	200
Ballast cars.....	2,177	587	7		90	2,667	101
Tank cars.....	25					25	
Refrigerator cars.....	5,047	200	27		9	5,211	285
Caboose cars.....	1,802	13	46	84		1,853	12
Other cars in freight service..	1					1	20
<b>Total.....</b>	<b>116,847</b>	<b>6,439</b>	<b>1,821</b>	<b>84</b>	<b>547</b>	<b>121,002</b>	<b>2,389</b>
<b>Passenger Equipment</b>							
Coach cars.....	1,032		45	2	10	979	2
Combination cars.....	244		8	2		238	
Dining cars.....	103	5	3		1	104	1
Colonist cars.....	72		3		2	68	
Parlor cars.....	77				1	76	
Cafe cars.....	19		1			18	
Sleeping cars.....	456				4	452	
Tourist cars.....	35				3	32	
Baggage and express cars.....	1,348	70	14	11		1,415	32
Postal cars.....	57				1	56	
Unit cars.....	41	14	2			53	5
Other cars in passenger ser- vice.....	80		2	3		81	49
<b>Total.....</b>	<b>3,565</b>	<b>89</b>	<b>78</b>	<b>18</b>	<b>22</b>	<b>3,572</b>	<b>89</b>
<b>Work Equipment</b>							
Units in work service.....	9,367	150	308	467		9,676	90
<b>Floating Equipment</b>							
Car ferries.....	8					8	
Barges.....	6					6	
Steamers.....	15					15	
Tugs.....	5					5	
Work.....	2					2	
<b>Total.....</b>	<b>36</b>					<b>36</b>	

## STATISTICS OF RAIL-LINE OPERATIONS

	1957	1956
<b>Train-Miles</b>		
Freight service.....	42,073,087	47,944,638
Passenger service.....	23,820,127	24,268,051
Work service.....	2,240,263	2,377,562
<b>Total train-miles.....</b>	<b>68,133,477</b>	<b>74,590,251</b>
<b>Locomotive-Miles</b>		
Freight service.....	43,555,662	50,322,972
Passenger service.....	22,692,795	23,632,672
Train switching—Freight.....	3,288,334	3,722,002
—Passenger.....	113,725	120,059
Yard switching—Freight.....	17,612,051	18,979,856
—Passenger.....	1,808,085	1,805,446
Work service.....	2,320,934	2,463,917
<b>Total locomotive-miles.....</b>	<b>91,391,586</b>	<b>101,046,924</b>
<b>Car-Miles</b>		
<b>Freight Service:</b>		
Loaded freight cars.....	1,267,510,516	1,417,709,588
Empty freight cars.....	645,368,069	711,181,806
Passenger coach and combination cars.....	4,849,219	5,206,310
Other cars.....	11,918,313	10,436,049
Caboose cars.....	42,538,945	48,270,164
	<b>1,972,185,062</b>	<b>2,192,803,917</b>
<b>Passenger Service:</b>		
Loaded freight cars.....	1,475,497	879,553
Empty freight cars.....	60,746	54,245
Passenger coach and combination cars.....	53,798,538	54,977,530
Sleeping, parlor and observation cars.....	59,010,840	57,654,261
Dining cars.....	9,469,868	9,090,836
Motor unit cars.....	2,293,943	1,916,297
Other cars (baggage and express cars, etc.).....	93,789,200	92,501,172
	<b>219,898,632</b>	<b>217,073,894</b>
Work service.....	4,977,773	4,810,716
<b>Total car-miles.....</b>	<b>2,197,061,467</b>	<b>2,414,688,527</b>
<b>Average Mileage of Road Operated.....</b>	<b>24,282.06</b>	<b>24,270.56</b>
<b>Freight Traffic</b>		
Tons carried—Revenue freight.....	88,880,881	99,033,731
Ton-miles—Revenue freight.....	36,673,910,825	41,935,388,811
Revenue per ton.....	\$6.60742	\$6.18746
Revenue per ton-mile.....	\$0.01601	\$0.01461
Average haul.....	412.62	423.45
Ton-miles—Revenue freight per mile of road.....	1,504,385	1,721,343
Ton-miles—All freight per mile of road.....	1,587,684	1,823,510
Gross ton-miles of cars, contents and cabooses.....	85,556,996,797	95,956,149,254
Net ton-miles of freight (revenue and non-revenue).....	38,552,235,048	44,257,605,305
Train-hours in freight road service.....	2,284,285	2,731,939
Gross ton-miles per freight train hour.....	37,017	34,742
Average speed of freight trains (miles per hour).....	18.4	17.5
Average gross load—Freight trains (tons).....	2,010	1,980
Steam locomotive miles per serviceable day (excluding stored).....	92	122
Diesel unit miles per serviceable day (excluding stored).....	223	251
<b>Passenger Traffic</b>		
Passengers carried.....	13,920,236	15,989,368
Passenger-miles.....	1,498,655,566	1,500,929,719
Revenue per passenger.....	\$3.36334	\$2.86712
Average passenger journey (miles).....	107.66	93.87
Revenue per passenger mile.....	\$0.03124	\$0.03054
Passenger-miles per mile of road.....	61,719	61,842
Percent on time arrival principal passenger trains.....	72.9	64.3
Steam locomotive miles per serviceable day (excluding stored).....	170	200
Diesel unit miles per serviceable day (excluding stored).....	485	538
<b>Net Railway Operating Income</b>		
Gross revenue per mile of road.....	\$31,017	\$31,923
Gross railway operating charges per mile of road.....	\$31,101	\$29,995
Net railway operating income per mile of road.....	\$84	\$1,928

## REVENUE TONNAGE BY COMMODITIES

	Year 1957 Tons	Year 1956 Tons	Increase or Tons	Decrease Percent
<b>Agricultural Products</b>				
Grain.....	9,437,049	11,465,038	2,027,989	17.69
Grain products.....	3,315,126	3,789,331	474,205	12.52
Fruits, fresh or fresh frozen.....	422,058	407,211	14,847	3.65
Vegetables, fresh or green.....	641,127	711,765	70,638	9.93
Other agricultural products.....	1,266,173	1,280,088	13,915	1.09
Total Agricultural Products.....	15,081,333	17,653,433	2,571,900	14.57
<b>Animals and Animal Products</b>				
Livestock.....	330,848	335,461	4,613	1.38
Butter, cheese and eggs.....	59,377	62,972	3,595	5.71
Fresh meats, fish and packing house products (edible).....	328,364	334,997	6,633	1.98
Other animal products (non-edible).....	199,923	225,781	25,858	11.45
Total Animals and Animal Products.....	918,512	959,211	40,699	4.24
<b>Mine Products</b>				
Coal.....	10,270,018	13,103,219	2,833,201	21.62
Coke.....	957,506	924,753	32,753	3.54
Iron ore.....	3,211,103	4,675,824	1,464,721	31.33
Non-ferrous ores and concentrates.....	4,178,869	4,102,703	76,166	1.86
Crude petroleum.....	502,652	681,027	178,375	26.19
Building sand, gravel and crushed stone.....	8,603,665	6,407,308	2,223,357	34.70
Other mine products (non-metallic).....	5,644,159	8,220,573	2,576,414	31.34
Total Mine Products.....	33,394,972	38,115,407	4,720,435	12.39
<b>Forest Products</b>				
Logs, posts, poles and piling (excluding cordwood and fuelwood).....	957,425	979,099	21,674	2.21
Lumber, timber and plywood.....	4,142,645	5,066,036	923,391	18.23
Pulpwood.....	4,962,465	5,282,416	319,951	6.06
Other forest products.....	276,080	305,755	29,675	9.71
Total Forest Products.....	10,338,615	11,633,306	1,294,691	11.13
<b>Manufactures and Miscellaneous</b>				
Iron and steel: pig, bloom and ingots.....	620,681	745,231	124,550	16.71
Iron and steel products (manufactured).....	1,948,131	1,839,438	108,693	5.91
Non-ferrous metals: matte, pig and ingot.....	1,026,164	1,123,025	96,861	8.63
Machinery: boilers and castings.....	424,554	464,491	39,937	8.60
Gasoline.....	2,395,292	2,455,583	60,291	2.46
Fuel oil.....	1,900,678	1,931,991	31,313	1.62
Other petroleum products.....	769,789	824,790	55,001	6.67
Cement.....	1,388,847	1,542,790	153,943	9.98
Plaster, lime, brick, building stone, tile and non-metallic pipe.....	697,615	971,591	273,976	28.20
Woodpulp.....	1,518,178	1,669,927	151,749	9.09
Newsprint paper.....	2,423,945	2,470,492	46,547	1.89
Paperboard, pulpboard and wallboard (paper).....	827,082	935,416	108,334	11.58
Paper other than newsprint.....	652,395	640,783	11,612	1.81
Beverages.....	371,123	399,405	28,282	7.08
Canned goods.....	775,807	772,398	3,409	.44
Sugar.....	234,218	251,629	17,411	6.92
Agricultural implements and farm tractors.....	128,641	148,345	19,704	13.28
Automobiles, auto trucks and parts.....	2,087,884	2,121,410	33,526	1.58
Fertilizers.....	973,863	912,412	61,451	6.74
Miscellaneous carload commodities not specified above.....	6,758,912	7,173,066	414,154	5.77
Total Manufactures and Miscellaneous.....	27,923,799	29,394,213	1,470,414	5.00
All less than carload freight.....	1,223,450	1,278,161	54,711	4.28
Grand Total.....	88,880,881	99,033,731	10,152,950	10.25

## OPERATED MILEAGE AT DECEMBER 31, 1957

	Owned	Leased	Trackage Rights	Total
First main track in Canada.....	22,485	67	194	22,746
First main track in United States.....	1,446	182	123	1,751
Total first main track.....	23,931	249	317	24,497
Other main track.....	1,187	—	83	1,270
Spurs, sidings and yard tracks.....	6,816	79	1,589	8,484
Total all tracks.....	31,934	328	1,989	34,251

## A 25-YEAR SYNOPTICAL HISTORY OF THE CANADIAN NATIONAL RAILWAYS

Year	Operating Revenues	Operating Expenses	Net Operating Revenue	Taxes Rents and Other Income	Available for Fixed Charges and Dividends	Fixed Charges	Surplus or Deficit	Freight Revenue Ton Miles	Freight Revenue per Ton Mile	Revenue Passenger Miles	Revenue per Passenger Mile	Average Number of Employees	Average Hourly Earnings per Employee
	(Thousands)	(Thousands)	(Thousands)	(Thousands)	(Thousands)	(Thousands)	(Thousands)	(Millions)	c.	(Million)	c.		\$
1933	\$148,520	\$142,813	\$ 5,707	\$ 5,755	\$ 48	\$58,907	\$58,955	11,550	.972	665	2.261	74,107	.583
1934	164,902	151,936	12,966	3,152	9,814	58,222	48,408	12,950	.974	723	2.259	78,532	.563
1935	173,184	158,926	14,258	4,787	9,471	56,893	47,422	13,509	.990	770	2.162	79,044	.590
1936	186,611	171,478	15,133	6,264	8,869	52,172	43,303	14,814	.982	831	2.048	83,506	.590
1937	198,397	180,789	17,608	6,684	10,924	53,270	42,346	15,165	1.014	953	1.987	84,363	.613
1938	182,242	176,175	6,067	6,929	862	53,452	54,314	14,505	.964	892	2.030	79,940	.653
1939	203,820	182,966	20,854	7,461	13,393	53,488	40,095	17,084	.938	875	2.035	81,672	.652
1940	247,527	202,520	45,007	8,667	36,340	53,305	16,965	21,532	.904	1,125	1.929	86,366	.650
1941	304,377	237,769	66,608	9,430	57,178	53,162	4,016	27,200	.881	1,762	1.810	95,362	.682
1942	375,655	288,999	86,656	9,923	76,733	51,670	25,063	31,729	.909	2,708	1.784	100,651	.730
1943	440,616	324,476	116,140	28,311	87,829	52,190	35,639	36,327	.894	3,619	1.848	106,893	.763
1944	441,147	362,547	78,600	6,099	73,501	50,474	23,027	36,016	.893	3,697	1.888	108,278	.827
1945	433,773	355,294	78,479	4,713	73,766	49,010	24,756	34,600	.915	3,338	1.953	110,591	.832
1946	400,586	357,237	43,349	5,626	37,723	46,685	8,962	30,812	.975	2,289	2.190	109,809	.898
1947	438,198	397,123	41,075	11,034	30,041	45,926	15,885	32,945	1.040	1,845	2.332	112,801	.927
1948	491,270	464,740	26,530	13,721	12,809	46,342	33,533	32,943	1.195	1,755	2.368	115,395	1.064
1949	500,723	478,501	22,222	16,633	6,589	48,632	42,045	30,922	1.276	1,621	2.671	116,057	1.104
1950	553,831	493,997	59,834	16,673	44,161	47,422	3,261	31,988	1.394	1,408	2.834	116,347	1.133
1951	624,834	580,150	44,684	11,639	33,145	48,177	15,032	36,435	1.369	1,611	2.947	124,608	1.294
1952	675,219	634,853	40,366	14,809	25,557	25,415	142	38,430	1.397	1,635	2.964	131,297	1.425
1953	696,622	659,049	37,573	7,953	29,620	29,376	244	36,678	1.509	1,539	2.984	130,109	1.525
1954	640,637	626,465	14,172	10,403	3,769	32,527	28,758	32,882	1.529	1,472	2.973	122,237	1.550
1955	683,089	629,013	54,076	10,354	43,722	33,004	10,718	35,677	1.511	1,464	3.001	119,430	1.560
1956	774,801	703,304	71,497	13,637	57,860	31,783	26,077	41,935	1.461	1,501	3.054	126,639	1.645
1957	753,166	734,556	18,610	11,211	7,399	36,972	29,573	36,674	1.601	1,499	3.124	124,620	1.716

Mr. Chairman, that ends the report. But there is one comment I would like to make about an item in it.

The CHAIRMAN: Very well.

Mr. GORDON: I would like to say, with your permission, that in respect to the supplementary charge of \$7½ million for steam locomotive depreciation which is referred to in paragraph 26 on page 9 of this report, that this accounting entry was made with the approval of our auditors and supported by our legal advisers.

However, following consideration by departmental advisers, the government, through the Minister of Finance, reached the conclusion that the governing statutes do not provide clear authority for the inclusion of this item as an expenditure which would enlarge the deficit to be reimbursed to the railway.

Since our books for 1957 were closed before this conclusion was reached, the necessary adjustment will have to be made in the 1958 accounts.

However, we have been able to revise our 1958 capital budget and estimated income account. This amended budget will be tabled by the Minister of Transport in the House of Commons at 2.30 this afternoon. And I understand that copies of this amended budget will be provided to the members of this committee.

I suggest, Mr. Chairman, therefore, that the committee at this point merely take notice of this item so far as the annual report is concerned, and that any further questions if desired may be conveniently dealt with when the committee comes to discuss the capital budget proposals and our auditors' report to parliament.

The CHAIRMAN: Gentlemen, you have heard the report. It is rather an exhaustive and a very explanatory one. I think it is a splendid report. Are there any questions or comments?

Mr. BROOME: The deficit includes the \$7½ million depreciation?

Mr. GORDON: In this particular report, that is right. We shall have to make reversing entries for the reasons I mentioned. We can deal with that in detail when we come to the budget itself.

Mr. SMITH (*Calgary South*): Perhaps we might have some questions. I wondered how you would like to take them. Would you like them just from the report itself?

The CHAIRMAN: I think it would be more orderly if we proceeded in the same order as Mr. Gordon has read his report.

It was a long report and I thought that we might take part of it as read. However, Mr. Gordon has read it carefully, and I think that should expedite our general procedure.

I suggest that we start at the first of the report and then continue from paragraph one on page 5. You have all read the report and you have listened to it this morning, and you know wherein you have some comments to make. Shall we take the first paragraph on page 5? Are there any questions or comments on that?

Mr. FISHER: I would like to ask a general question first. This has to do with the number of changes which have taken place in our government service. Does the president expect to be with the railway throughout the next year?

Mr. GORDON: What is that again, please?

Mr. FISHER: Does the president expect to be with the railway throughout the next year?

Mr. GORDON: If you are speaking to me personally, I have no plans to the contrary at the moment.

Mr. CHEVRIER: Mr. Chairman, in dealing with the first page of the report may I ask the president if he can simply give us the reasons for the decrease

in freight. Throughout the report it has been shown that the volume of freight has decreased. Is this a position that pertains to the whole of North America?

Mr. GORDON: Yes, indeed. There is breakdown of the individual traffic if you will turn to page 38. There you will see a comparison and breakdown on the way it actually took place. This reflects the recession or whatever other term we might use to describe what has been taking place in the economic activity of the North American continent.

Both railways, the Canadian Pacific and the Canadian National in their earnings will reflect to some degree the economic health of the Country in terms of traffic.

Mr. CHEVRIER: Does it apply to the Canadian Pacific Railway as well?

Mr. GORDON: Yes, but I think the impact on the Canadian National is heavier.

Mr. SMITH (*Calgary South*): That is a question I wanted to ask. I am sure Mr. Gordon has looked through the Canadian Pacific Railway report. I wonder if he might give us an indication, without elaborating greatly on all the details, on how we find ourselves with the Canadian National Railways with a fairly substantial net loss whereas the Canadian Pacific Railways are almost in the opposite position to a certain extent showing a net profit. Is the answer to this largely that one is almost twice the size of the other?

Mr. GORDON: That will always occur in making a comparison between the Canadian National and the Canadian Pacific railways, and that is because the two organizations are not comparable. You have to make major allowances for these differences and also the differences in the type of business. In the first place while both the Canadian National and the Canadian Pacific indicate in their systems' annual reports many collateral activities such as hotels, express, communications and other allied activities of that character, the Canadian National Railway does not have the amount of other income shown by the Canadian Pacific Railway and this other income forms a substantial proportion of the total income of that company.

Mr. Crump, in his recent report to his shareholders made this statement:  
—the proportion of total income provided by your railway enterprise dropped from 80 per cent in 1928 to around 60 per cent in 1957.

So, in that respect it is not a fair railway comparison. It is their other income which assists their earning record.

In the second place while uniform accounting is required for rate-making purposes by the Board of Transport Commissioners, for their own purposes both companies make certain reclassifications of their accounts. The Canadian Pacific Railway uses what is known as the user method of depreciation, whereas the Canadian National Railway uses the straight line method of depreciation. And whereas the Canadian National Railway reflects the full proportion of depreciation on capital assets the Canadian Pacific Railway depreciation charges will fluctuate year after year in response to the traffic handled.

There are also other features. There are some items that the Canadian Pacific Railway show in their net total that we do not. Knowing that the two railways are not in all ways comparable I have tried to make a sensible comparison by extracting from the Canadian Pacific Railway's results the railroading segment of their operations. And that is what we try to watch all through the piece.

If you look at what you might call the railroading part of their activity and compare that with the railroading part of our activity you will see that

we show a higher transportation ratio by about 5 to 7 points, and working out it means an additional cost to the Canadian National Railways of about \$45 million in 1957.

Putting it more simply, if we had the same transportation ratio as the C.P.R. we would have been \$45 million better off in 1957.

There are no definitive reasons that can be allocated to it, it is a plain historical fact, growing out of the difference between planned building on the one hand amalgamating of existing railroads on the other. Transportation expense is the area in which you would be perfectly entitled to question us about our operations. We are making encouraging improvements in this field and will continue these efforts until we get our transportation costs down to the point we wish.

Our maintenance costs are also higher than the C.P.R. For several years now, we have been catching up on deferred maintenance. This deferred maintenance was a result of several things—lack of funds during the depression period and the inability to get either men or material during the war and early post-war years, when heavy traffic was imposing a severe drain on the life of our facilities. So, recently we have been doing not only current maintenance but catching up on this back-log.

I might say there are very many other things that add to the growing financial cost of our enterprise. Our cost of borrowed capital is growing steadily greater because we do not have the advantage of using other income. A comparison I have here, as of December 31, shows that equity capital in the Canadian National is 58.4 per cent, whereas in the Canadian Pacific it is 69.9 per cent. This means that we pay interest charges on an amount of about 40 per cent of our total capital, whereas the Canadian Pacific only pay on 30.1 per cent.

Mr. CHEVRIER: I wonder if we cannot get back to the original question I asked about decrease in volume of traffic and what caused it in Canada?

Mr. GORDON: Well, Mr. Chevrier, that is asking me what is the cause of the recession.

Mr. CHEVRIER: Well, I did not want the question to be expressed in that way. I wanted to put it to you, what are the reasons for the decrease in Canada?

Mr. GORDON: There are two major reasons. One is that we have a direct reflection of the fact that economic activity has gone into a decline over the last year or eighteen months. Railway carloadings are the first indicator to reflect fluctuations in economic activity so that railways figures become very realistic. That is probably the best business barometer to show whether our boom is booming or whether our depression is depressing. That is the most sensitive indicator we have. So we have a clear indication that we are in a recession.

The second is that competition is becoming more and more effective.

Mr. CHEVRIER: With other forms of transportation?

Mr. GORDON: It is the loss of high-rated traffic which we formerly carried. We are doing our best to stop it.

Mr. CHEVRIER: What is the immediate outlook for carloadings in the immediate future?

Mr. GORDON: I have made notes on that in the budget, which I will come to a little later and will give you actual figures. I will be glad to move to it now if you wish. I have some figures when I come to my budget later and if you will refer to your question then I will be able to give a better answer to your question.

Mr. SMITH (*Simcoe North*): Is the loss to other means of transportation heavier in certain commodities, in certain materials than in others?

Mr. GORDON: Yes, it is.

Mr. SMITH (*Simcoe North*): For example, local carriage of mails.

Mr. GORDON: We are most concerned in connection with the competition of trucks for high-rated traffic. The trucks are able to choose the more desirable and remunerative loads and we are left with the heavy bulk commodities which generally are low-rated.

The other place where we are extremely vulnerable is in our passenger traffic. We do not have the efficiency of an airline for long distance traffic and our passenger traffic in that respect is declining.

Mr. SMITH (*Simcoe North*): I suppose pipe lines offer some competition?

Mr. GORDON: Yes, although, the pipe line does not take traffic away from us in the first instance.

Mr. CHEVRIER: Speaking of competition with other railroads, do you feel that the Canadian Pacific Railway, with their stainless steel equipment, are a danger to the Canadian National in taking traffic away?

Mr. GORDON: That is one of those questions for consideration. When we looked at the question of spending some \$50 million in passenger equipment we wanted to spend it on equipment that was as modern as possible and get the maximum amount of equipment. That dome car is a stunt car. It is not a revenue car in itself, and our traffic people did not think too highly of it.

Mr. SMITH (*Simcoe North*): I suppose the formula of competition runs along the lines that were formerly profitable to the railways—where there was a heavy volume of passenger traffic you get heavy competition with buses and airlines?

Mr. GORDON: That is true in part, although it might be that the airlines concentrate heavier on long distance traffic while we have some hopes that we can develop a better approach to our passenger problem in the form of better inter-city travel. That is what we are concentrating on at the moment.

Mr. BROOME: In regard to Crowsnest Pass rates on lumber shipments from the coast to central and eastern markets, these shipments have dropped to perhaps half what they were in 1948, for instance. Actually other rates have gone up 100 per cent. Are you not finding that with the rate jumps you are losing a lot of traffic and that you place the increases against selected products and that these products are going to pass over to other forms of transportation because you have just about reached the point of all that the traffic will bear; I am speaking of the lumber products particularly?

Mr. GORDON: That is a question of whether our cost of service has gone up relatively to the cost of other competitive services. In many cases there has been an increase in the order of 100%, while the traffic offering has not increased to the same extent, so that many other commodities will have to take the full effect of the authorized increases. If you put the same increase on all commodities throughout it would stifle the trade.

I would not agree that that is the general situation. As you know, we apply to the Board of Transport Commissioners for a general freight rate increase. If that freight rate increase is granted and is not upset by any other governing authority then it is a progressive increase, that is to say, it goes in regular progression by increases of, we will say for example, 10 per cent. The Board can only grant us permission to increase our freight rates. They do not tell us how to increase them or where; and it is our job to apply that increase in

such a way that we do not lose competitive traffic, and we do not intend to put that increase across the Board on all commodities. We look at what the competitive situation is.

The CHAIRMAN: In a particular district?

Mr. GORDON: In light of the competitive situation. But getting back to the question of lumber I had an idea that there has been a slight increase in lumber shipments through the lakehead.

Mr. BROOME: The only point I want to make is that housing has increased, other things have increased and that the coast lumber is reduced on the market it normally filled.

Mr. GORDON: I might comment that other costs in the production of lumber might increase and I cannot see that the one factor of transportation would be the deciding factor.

Mr. BROOME: Yes, the price of lumber at the mill has been reduced since 1948 on the shipments I referred to, according to the brief of the British Columbia Lumbermen's Association.

Mr. SMITH (*Calgary South*): You leave the Crowsnest Pass alone too.

The CHAIRMAN: Truck and water transportation.

Mr. CHEVRIER: Mr. Chairman, I would like to ask a question that relates to trucking competition. Has the Canadian National Railways been considering the purchase of trucking lines across Canada?

Mr. GORDON: Now, there is a question which makes me sit back and think how much I should say. Let me put it this way, that it is our intention that the Canadian National Railways remain competitive in the transportation business. Now, what that involves depends on the circumstances of the day. We will not hesitate to use any form of transportation media if we consider that that particular form is profitable business. The question of the use of trucks as a collateral arm with the railway industry is a very lively one at the moment.

Mr. CHEVRIER: I do not want to embarrass the president, so might I put it this way: can you tell us how the piggy-back service is operating between Toronto and Montreal? Has the use of this form of competition made it unnecessary to give consideration in that area to the purchase of truck lines?

Mr. GORDON: There are two phases to the piggy-back service. We have, as you know, the railway-owned trailer which we send out for pick-up and operate ourselves between the two cities. We put that in as our answer to the trucking competition in certain areas where there was heavy congestion on the highways.

The second step is that we have now extended this service to trailers of "for hire" common carriers in highway service which we carry on cars similar to those used for our own piggy-back service. In certain places we have trucking services of our own and we may do more, but how far we would go has not been discussed and I would not like to prognosticate at this moment. But it is a very serious matter in our deliberations.

Mr. FISHER: How much are you feeling the competition of Smith Transport recently purchased by the Canadian Pacific?

Mr. GORDON: Nothing in particular. The purchase of the Smith Transport by the Canadian Pacific Railway may serve sharply as a means to making up our minds in our deliberations whether the Canadian National Railways should go into that type of business. We are not sitting back. The matter is a very live one in our considerations. I do not want to say anything here that will confirm or deny that we are in negotiation with any group of trucking interests.

Mr. FISHER: I just want to ask a general question. In going back over the Canadian National Railways record you seem to have had probably two hurdles, first of all, the standing debt and the fixed charges which you got reduced, I think, in 1952. Then your next hurdle was to get over modernization, including dieselization and we had a certain amount of argument up until last year's report that now we would have something very profitable however now we are talking of additional labour costs and material costs related to freight rates. I wonder if you would care to make some remark, because we thought when you had overcome these two hurdles this enterprise would be very profitable for the first time.

The CHAIRMAN: I think if we could just follow more definitely on the paragraph we are following and have the discussion confined there. We are going through page 7 under the heading of freight and if we could proceed with the freight and passenger and possibly your question with relationship to other matters could come in later as we proceed to page 11. I think if you could just keep your questions confined to the order we are proceeding in, on freight at the moment. We have discussed freight and if you are interested in freight issues you can ask questions on them and then go on to passenger.

Mr. FISHER: I notice in paragraph 1 you say that the year 1957 was financially unrewarding. Well, up to 1957 we have discussed some of these hurdles that you were getting over until we would finally reach the stage where it would be rewarding and I thought we had more or less reached that point.

But then you have brought up another crisis.

Mr. GORDON: I would certainly not agree with that. I think I can answer it much better when I come to our operating budget forecast. I will have the figures then and will be able to give a more comprehensive form of answer.

Mr. FISHER: Will it be retroactive to that point? Where would you be if it had not been for the alteration in fixed charges?

Mr. GORDON: The capital revision in 1952, relieved the Canadian National Railways of the burden of paying interest charges on debts that had been on the books of the six bankrupt companies which formed a heavy load. By this revision we were relieved of about \$25 million in annual interest charges.

Mr. SMITH (*Calgary South*): The question of profitable operation will come later?

The CHAIRMAN: Yes.

Mr. PASCOE: In regard to freight and truck competition will the forecast of a greater shipment of grain this year have an impact?

Mr. GORDON: Well, if we get the shipments, of course, the total will increase. At the moment the prospects look definitely good.

The CHAIRMAN: Are there any further questions about freight? So we can work it as practically as we can for all interests, will you ask questions on freight just so we will be on top of our procedure, and I think we can expedite matters in that way? If there are no further questions at this point—

Mr. ROBICHAUD: Mr. Chairman, I might ask if there is any consideration for a revision of freight rates for the transportation of green lumber to be processed? We have this shipment in the maritime where green lumber is being transported, say, from Nova Scotia to certain mills in New Brunswick and the rates on this green lumber are excessive.

Mr. GORDON: In the opinion of the shipper?

Mr. ROBICHAUD: In general opinion because there was a big market in the maritimes and it has practically disappeared.

Mr. GORDON: It was discussed several years ago. Of course this would be a specific matter in regard to a specific commodity which would not appear in the form of a general freight rate increase before the Board of Transport Commissioners. In this particular case this is a specific commodity as I say in a specific area, and these, I might say, are under close examination with us all the time. We weigh the ability of the product to reach its market. As I remember it, this had to do with a processing charge. It was carried at one charge as green lumber and then at a different rate after it was kiln dried, and I know we had discussions on that time and again.

Mr. CHEVRIER: May I ask a question of the minister on freight rates. There is a reference in paragraph 10 dealing with the Maritime Freight Rates Act saying that there has been an increase from 20 per cent to 30 per cent. I would like to ask the minister is there not further consideration being given by the government to a further increase in the maritime freight rates subsidy?

Mr. HEES: This matter is always being considered but there is no imminent action planned.

Mr. CARTER: Might I ask the president if the freight rates between points on the Newfoundland railway are the same as on the mainland, the same based on miles or whatever it is? Will you tell me if you have the same freight rates for the Newfoundland railway as you have for the rest of Canada.

Mr. GORDON: Yes, the same freight rates are applicable across Canada.

The CHAIRMAN: If there are no further questions at this time on freight, shall we pass on?

Mr. FISHER: You had some plans to give better service with a special pulpwood car. Have you gone ahead with that?

Mr. GORDON: We have designed a car and we have set it up with a couple of companies and it is at the moment under test. We are trying to work out a procedure which will encourage us to build a supply of cars. We have approached several pulpwood companies and have offered them a rate in return for their utilization of that car for their particular product.

Unless we can keep such a car operating at maximum utilization with these companies, it would be a losing proposition for us. We are trying to work out an agreement with several companies and, at the moment, we believe that we will be successful.

Mr. FISHER: We have had one American company fall down at the lake-head—Hammermill—and one of their reasons was that the transportation by rail—and they are on the north line of the Canadian National Railways—was just too high. I was wondering if you have studied any way of decreasing those charges or if you have any way of using those cars in this area to get some of this pulpwood business?

Mr. GORDON: Isn't that in the same area in which Abitibi operates?

Mr. FISHER: Yes.

Mr. GORDON: We just made an agreement with Abitibi—on newsprint, I think.

Mr. FISHER: Has that been approved by the Board of Transport Commissioners?

Mr. GORDON: It does not need approval. We file it with the board but under the law now, we can make an agreed charge, file the charge and unless it is challenged it goes into effect almost immediately. It has not been challenged and I do not see why it would be as the price is quite reasonable.

Mr. FISHER: There was an operation up at Kowkash on the north line of the Canadian National Railways shipping pulp to the Americans and I inquired

and got the answer that they could not get a decrease in charges sufficient to enable them to remain in business. That is why I am suggesting to you that a study should be made in this area.

Mr. GORDON: Well, first of all, in any of these particular cases we have to proceed very carefully. That is one of the handicaps under which we are working in the railway business but one of the things which I feel is a good thing. That is, when a rate is put in it must be non-discriminatory.

The second thing is we must look at our own costs. Now, if we cannot supply a service at a freight rate that will yield us some profit or perhaps break even, then we do not put that rate in. I do not know the particular case you have in mind, but some of those elements I am sure must be in it. There is also the fact, of course, that the pulpwood business itself may be suffering under an uneconomic geographical location.

Mr. FISHER: That is one of the general complaints all along, as you go from Sioux Lookout to Nakina that you cannot get the pulpwood out.

Mr. GORDON: But remember that transportation charges are based on costs and we have no magic formula that will enable us to supply a service on any basis other than what our costs are to carry it.

We have train costs, servicing costs, overhaul costs, and many others and in figuring any freight rates we have to apply those costs.

Mr. FISHER: Have there been any indications of establishing an agreed charge with the pulpwood mill at Kenora for the haul that comes down to the Red Lake road?

Mr. GORDON: I will be glad to look that up. Where is the location?

Mr. FISHER: At Kenora. It would be from Quibell.

Mr. GORDON: You are on the wrong railway at the moment.

Mr. FISHER: There was a question of both the Canadian National and Canadian Pacific getting there and putting in a truck from Winnipeg to service the mill at Kenora.

Mr. GORDON: This sounds to be like a company at Kenora, the M. and O.

Mr. FISHER: It is at Kenora where they operate up the Red lake road which cuts north from Quibell which is near Sioux Lookout.

The CHAIRMAN: As the president has mentioned that would have to be in relation to the competition and also a general rate that is applied to all companies and that would include M. and O. and the Abitibi and the K.V.P. and a lot of others.

Mr. FISHER: They say the railways are too insensitive to their demands.

Mr. GORDON: It is hard to think of the railways as being too insensitive to their demands. It is very noticeable in Northern Ontario that we have a great many of our low rates and agreed charges in effect where the hauls are long and the remuneration is negligible. No one is more sensitive to the needs of the consumer than the railway business but it is futile for us to try and reach the consumers of basic products on the subject of railway economics.

I do my best to try to get costs down. I am being frustrated in every direction, in every endeavour to get them down for various reasons. But speaking as businessman to businessman, having arrived at a figure, I say those are my costs and we are willing to discuss a freight rate based on them at any time.

The CHAIRMAN: I have had some experience in shipping pulpwood. As you get back in the English river area behind Kenora, in the area that the Abitibi and other companies are operating, the costs of wood are getting higher all the time and the railroads are losing traffic due to the trucking; they have these large trucks now. In most cases they have to pick up the wood and truck it

sometimes 20 or 25 miles and sometimes put it into water and drive it. Handling it each time adds to the cost of the pulpwood greatly, and so a great many companies—International in Quebec and others—are figuring that where you have to come out of the bush into water and out of the water on to a railroad siding again this adds terrifically to the cost. What a lot of them are doing is to build throughways where they can truck it right through.

I think that the International Paper Company is trucking 25 or 30 miles; and Bathurst is doing the same. I do not think that Abitibi are doing it because they have to spend more money on the development of roads in the English lakes area. It is a question of whether or not it would be better to build roads or have it hauled to the water, out of the water and on to the railroad. So the railroads are finding in that respect tougher competition year by year as the forest is moving back and you have to go further for wood.

I think you can say that in future the competition will be still tougher all the time year by year because of that. Previously when it could be just loaded right on a siding from the bush then there was not competition by the trucks; but where you have to load off trucks and into water, and out of the water into a railway car or an elevator, then they give consideration to the building of roads right through.

Mr. GORDON: I would like to say, Mr. Fisher, that if you have some specific case in which you are interested I would be very happy to hear from you and we will give you the details.

Mr. FISHER: I would like you to check on that Kowkash section.

Mr. CARTER: Do the freight rates for the railroad in Newfoundland apply to freight by water?

Mr. GORDON: Yes. The general understanding is that the sea transportation is part of the rail line. That was part of the confederation agreement. The link between Sydney and Port aux Basques is regarded as a rail link; in other words a rail "bridge".

Mr. CARTER: It is all carried at the same rate.

Mr. GORDON: You are speaking about coastal carryings?

Mr. CARTER: Yes; from Port aux Basques to points along the coast.

Mr. GORDON: If you are speaking about a shipment from the mainland delivered to an out-port—

Mr. CARTER: Yes?

Mr. GORDON: —then that is a rail rate. What I cannot answer specifically is if the traffic was put on board at a port for delivery to another coastal port; I am not sure about that. I think it is a rail rate, but I would have to check it. I want to be sure when I answer your questions because I know you will come back and check on me.

Mr. CARTER: In Newfoundland we have some industries which are finding transportation costs one of the handicaps. We have, for instance, at Corner Brook, a cement industry and we are told that the freight charges from Corner Brook to St. John's in respect of hauling cement are higher than they are in bringing cement from Europe by water. Do you take that competition into consideration when you fix your rates, or if you adjusted the rates between St. John's and Corner Brook to meet that competition, would you have to apply that all over the system?

Mr. GORDON: No. We are permitted to quote a competitive rate in the light of specific competitive conditions. I would say, as a general statement, if there is competition in respect of cement being delivered to St. John's out of European ports as against cement from Corner Brook then we would meet that rate.

Mr. CHEVRIER: May I ask a question in reference to paragraph 9 and the increase of 3.6 per cent. Could the president tell us what that increase meant in the way of revenue to the Canadian National Railway?

Mr. GORDON: About \$8½ million annually.

Mr. CHEVRIER: Can you tell us what it meant to the other railway?

Mr. GORDON: I would say roughly 60 per cent of that figure. It usually runs about 60 per cent of our figure. That is a broad figure.

Mr. CHEVRIER: Approximately \$13 or \$14 million in all?

Mr. GORDON: Yes.

Mr. SMITH (*Calgary South*): In respect of passenger service, do you intend to improve your facilities in rolling stock for passenger service this coming year?

Mr. GORDON: Just in respect of replacements.

Mr. SMITH (*Calgary South*): You are not going into a stainless steel train?

Mr. GORDON: No. At the moment our passenger service is one of our biggest worries. It is our biggest losing service in the whole railway and we will have to take some measures to deal with that situation, so as I see it now the whole trend will be against further capital expenditures rather than the reverse.

Mr. SMITH (*Calgary South*): I am speaking without knowledge of all the facts, but do you not think that one of the advantages and experiences which the C.P.R. has had is in the speeding up of its services across Canada in addition to providing very excellent facilities and that that has taken some of the business away from you and made it more competitive? Have the additional expenditures not proven beneficial to the C.P.R.?

Mr. GORDON: We have done that. We have spent very large amounts and more, relatively, than the C.P.R. The only point which has caught the public's imagination and the only place where we have not been competitive, in respect of what you have been suggesting, is in the dome cars. Being competitive does not require that you do exactly as your competitor is doing. We are not satisfied that a considerable expenditure in respect of the dome car would pay off for the C.N.R.

Mr. BROOME: As a comparison between the C.P.R. and the C.N.R. in respect of passenger revenue have you made an analysis of the passenger operations in the C.P.R. as against yours?

Mr. GORDON: As best we can. We do not have access to their books, but from the standpoint of operation we make certain analyses.

Mr. BROOME: Do you think they are in the same position you are?

Mr. GORDON: Relatively I would think they must be.

Mr. BROOME: I have travelled on both lines and, frankly, I like travelling on the C.P.R. because I like their train, the Canadian, better.

Mr. GORDON: From the standpoint of equipment, or what?

Mr. BROOME: Equipment.

Mr. GORDON: I am surprised to hear that.

Mr. BROOME: I am, of course, a non-revenue passenger.

Mr. GORDON: Apart from the scenic value I would certainly be prepared to argue that the equipment on the C.N.R. is just as good as on the C.P.R. from the standpoint of travelling comfort.

Mr. CARTER: I have a question in reference to paragraph 12. Is a carload rate in Newfoundland the same as a carload rate on the mainland?

Mr. GORDON: These are our special rates between particular points referring to different types of commodities. That would be applicable to Newfoundland.

Mr. CARTER: You do have carload rates for Newfoundland?

Mr. GORDON: Yes.

Mr. CARTER: Would you have a carload rate for cement?

Mr. GORDON: I do not know whether we have. I do not think we have. I would have to look up the particular tariff. However, if there is a carload rate for cement, it would apply to Newfoundland. I take it that your point is you want to be sure that there is no discrimination in respect of Newfoundland with regard to any of these incentive types of rates.

Mr. CARTER: I am interested in the general carload rates for shipments under the incentive rates.

Mr. GORDON: The incentive rates about which we are speaking are competitive rates in which we offer an incentive to shippers to load the cars to the maximum allowable carload weights. If they will do that then we give them a better rate for utilizing the car to the best possible advantage.

Mr. CARTER: If the cement plant at Corner Brook said we have a carload of cement and you place a car at their disposal and they fill it up, would they pay the same rate on that carload as would be paid on the mainland?

Mr. GORDON: Yes; and if there is an incentive rate given then they would get that rate the same as anybody else.

Mr. CARTER: Is there a very big discrepancy between the carload rates and the regular rates?

Mr. GORDON: The carload incentive rates which I have mentioned here are included in special tariffs. It only applies to particular commodities which we have selected.

Mr. CARTER: The incentive rates?

Mr. GORDON: Yes. At the moment I do not recollect that we have a carload incentive rate for cement. Cement is a bulk commodity, you see, and I do not think it is included?

Mr. CARTER: If a shipper in Newfoundland has to pay the same rate on a carload in Newfoundland as his counterpart would pay on the mainland, then the Newfoundland shipper is at a disadvantage because his carload is much smaller.

Mr. GORDON: That would be taken into account. Your cement is a bad example. That is what is confusing me. Cement is a heavy bulk commodity and is not a commodity that would travel to a great extent in trucks. It is only used when we are able to demonstrate to ourselves that by offering incentive rates for loading a carload that we can do it for the same rate as a trucker.

Mr. CARTER: I will switch to plywood.

Mr. GORDON: I can certainly say if there is any incentive rate which is made applicable to the filling of a car, the difference in the bulk capacity in a Newfoundland car versus a mainland car would be taken into account.

Mr. FISHER: At a previous meeting you expressed a certain concern about the fact that more and more automobiles, because of some decision in respect of rates, were being shipped by boat via the lakehead. What has been the effect of the new cars which you introduced to recapture that business?

Mr. GORDON: That has satisfactorily dealt with that situation. The situation with which I was dealing was a practice which had sprung up of certain firms

using university students to drive the car all the way to western Canada and deliver it at the point of delivery as a new car. We put in rates to meet that type of competition and it has effectively cut that down.

Mr. FISHER: What about competition by boat from the lakehead?

Mr. GORDON: Our rates have met that also. The steamship rate was under discussion at that time. There was a lot of discussion about special ships being built for the purpose of handling these cars. That never went through. Our rates, probably were a factor in discouraging the development of that type of competition. We have done another thing. We have developed, in the C.N.R., a new type of car called an auto-transporter, which is designed especially for handling automobiles and will carry eight cars as against three or four in the ordinary box car. We have just got those into service comparatively recently. It is a success. They are in great demand.

Mr. FISHER: In relation to Duluth and the lakehead there has been a great deal of concern about our facilities there. There is a railway there, I think it is the Duluth, Winnipeg and Pacific Railway Company. Is that a line of a standard to compete with your rail line from the lakehead?

Mr. GORDON: In what way? Do you mean operating standard?

I would ask Mr. Dingle to answer the question.

Mr. DINGLE: I would say, yes.

Mr. GORDON: It is not one of our top standard lines.

Mr. DINGLE: No. It is a secondary main line.

Mr. GORDON: Quite adequate for the purpose it is operated.

Mr. FISHER: The decision to go ahead with the lakehead terminal was not one, I gather, which found favour with the Canadian National and the Canadian Pacific Railways. This was a decision which the government made following pressure from western Canada. What was the assessment of the situation at the lakehead

Mr. GORDON: Are you speaking about the joint terminal facilities?

Mr. DINGLE: For the seaway.

Mr. FISHER: Yes.

Mr. GORDON: When the discussion arose, in the first stages the railways made it clear that they did not think it was their business to take responsibility for providing the capital expense for that sort of facility. We never at any time suggested to the government we would not go along with the joint facility and we agreed to join with it at once.

Mr. FISHER: The decision to go ahead was greeted by the trucking associations as a victory in a sense. What plans have you to meet the competition which will develop out of that terminal?

Mr. GORDON: I do not know whether or not I can answer that. The only answer is that our plan is to provide the best service we can from a competitive point of view.

Mr. CHEVRIER: Is there going to be any reduction in the Canadian National Railways' business because of this terminal being set up?

Mr. GORDON: That is what I am wondering about. I do not think so. The terminal facility is being set up there for convenience in respect of moving traffic on a trans-shipment basis. I do not see why we would not be able to maintain our position as in the past. I do not agree with the statement that the truckers had a victory, because as far as I know there has never been a fight.

Mr. HARDIE: May I ask a question, the answer to which may be given at some other time. I wonder if the company could give me a comparison of

the freight rates between Senneterre, Quebec, and Chibougamau as compared to freight from Edmonton to Waterways on the Northern Alberta Railways.

Mr. GORDON: Freight rates on what?

Mr. HARDIE: On, say, ore.

Mr. GORDON: Senneterre to Chibougamau as compared to what?

Mr. HARDIE: Edmonton to Waterways.

The CHAIRMAN: The president might have that answer provided later.

Mr. GORDON: I can answer it now. We do not move any ore from Edmonton to Waterways.

Mr. HARDIE: You move ore from the Eldorado mine at Fort Radium. You move it from Waterways to Edmonton. It is stockpiled all winter.

Mr. GORDON: What kind of ore?

Mr. HARDIE: Uranium.

Mr. GORDON: There is not any moved out of Senneterre or Chibougamau.

Mr. HARDIE: No; but you are moving ore.

Mr. GORDON: Not competitive ore. The rate on uranium would have no significance as between Senneterre and Chibougamau. I am afraid I cannot answer your question purely on the basis of a hypothetical question as to whether we are charging more or less. If you will tell me what kind of shipments you are interested in, then I will be glad to give you any comparison you want.

Mr. HARDIE: It will give you a list of the shipments later.

Mr. GORDON: I will be glad to look at them.

Mr. CHEVRIER: You are saying you must compare like with like when you are moving a commodity over a certain distance.

Mr. GORDON: Quite so.

Mr. FISHER: What are your relations with Canada Steamship Lines?

Mr. GORDON: On a basis of interchange only. We have a close working arrangement with Canada Steamship Lines. We have facilities for them, particularly at the lakehead, at Port Arthur, where we have a big shed; but it is on a basis of interchange only.

Mr. FISHER: Has there been any discussion in the past year as to the rates charged at the lakehead for iron ore?

Mr. GORDON: Yes.

Mr. FISHER: Have those rates been raised in the past year.

Mr. GORDON: I do not think so. However, they have been raised over a period of some years and the agreement which we have reached with the Steep Rock people in respect of both the companies operating there is that our rate will fluctuate more or less in harmony with the rate with which they are in competition.

Mr. FISHER: There have been some rumours to the effect that there may be an extra ore dock built at the lakehead. Will that affect your planning at all?

Mr. GORDON: That is our planning. We have already extended the ore docks and finished them last year. We will replace the wooden trestle and we have plans to keep ourselves abreast of the production of ore in the area so that we can handle it at the ore dock.

Mr. ROBINSON: I think that you said that the matter of cement trucking did not provide much competition. Do you not say that the larger haulage of cement and flour in these bulk haulage trucks is taking some business?

Mr. GORDON: It is increasing. I had particular reference to Newfoundland.

Mr. ROBINSON: In Ontario we see a lot of cement being delivered by bulk haulage trucks.

Mr. GORDON: Yes. It is increasing. I cannot resist the comment that it is raising hell with the highways.

The CHAIRMAN: Shall we proceed to the heading "Passenger".

Mr. ROBINSON: Under this heading, could the president tell us if there is any movement towards more railiners and Budd cars?

Mr. GORDON: Yes. We have increased our service in that respect and have a number of plans and items in our budget for it. My statement shows 27 units in service. We also have studies in hand which we feel certain will require about 15 additional units in 1958. We have provided in our budget for the purchase of these additional units. We are continuing our studies of areas where we think these units would be advantageous in respect of service and reduction of cost.

Mr. ROBINSON: Is there in some countries, probably not in Canada, a system in vogue where they use an automobile bus on the rail?

Mr. GORDON: I do not know of any successful effort in that direction. It was one of my pet hobbies when I came into the railway, but it was shown to me that it was completely impracticable. We have cars of that type which we use for maintenance purposes, but from a standpoint of passenger operation it was revealed that it would not be practicable.

Mr. ROBINSON: In paragraph 15, I notice that commuters represented 37.4 per cent of all passengers carried and contributed 3 per cent of passenger revenues. Just offhand, that would strike me as being subsidized a bit.

Mr. GORDON: There is no doubt about it. Our commuter services are all unprofitable and will continue to be so if not more so. Our passenger service as a whole is unprofitable and will continue to be so. It is the big headache in the railway business. Commuter traffic is a special degree of headache.

Mr. ROBINSON: I take it that commuter traffic is around the larger cities?

Mr. GORDON: Yes. It is only at a place where there is heavy traffic density that we are involved with commuter service. We have been getting out of it wherever we can. We abandoned the Montreal-Southern Counties service over the last few years.

Mr. ROBINSON: Would you say that the commuter traffic is mostly for labour?

Mr. GORDON: No. If you look at the commuter train coming into Toronto in the morning you will find that there is a pretty general cross-section of types—clerks, businessmen and so on. I would not say that it is basically for labour. It is a general cross-section of the community.

Mr. ROBINSON: Would you say that commuter service is catering to centralization in the cities, and if it was not there do you suppose there would be little encouragement for decentralization?

Mr. GORDON: There is an element in it. Certainly if the rapid transport service were not provided it would be less attractive to live in these areas. I do not think the abandonment of rail service would be the answer. Buses would come into play and also private cars and more subways would be asked for.

Mr. ROBICHAUD: In paragraph 16 it shows that the Canadian National carried a total of 95,500 immigrant passengers from eastern Canadian ports. Are these transported at a special rate or at the regular rate?

Mr. GORDON: They have a special rate, as I recollect it. This is another of these complicated things. I think I can answer the question generally by saying that in collaboration with the steamship companies we transport immigrants from the seaboard to all parts of Canada.

Mr. CHEVRIER: Does the government pay any portion of that?

Mr. GORDON: No. In the main immigrants are carried on special trains and in this way we can handle them more expeditiously than we can on a regular scheduled train.

Mr. CARTER: Would you attribute the decline in commuter service to the raising of the commuter fares?

Mr. GORDON: No. In part, perhaps; I will not say no. But we have abandoned some commuter service. The one I have in mind is the Montreal-Southern Counties line.

Mr. CARTER: Have you discontinued the night train on Sunday between Toronto and Ottawa, or Toronto and Montreal; have you reduced the service between Toronto and Ottawa?

Mr. ROBINSON: I would not be here this morning if they had.

Mr. CARTER: I arrived in Toronto by air and was grounded there and called up on Sunday night for a train and I was told that there was no train.

Mr. GORDON: I do not have the Toronto-Ottawa schedule here.

Mr. ROBINSON: I think Mr. Carter is referring to the fact that on Sundays in the summer the second section does not run on certain nights.

Mr. GORDON: Yes. On Saturdays and Sundays from June 7 until September 7, inclusive.

Mr. FISHER: I would like to ask Mr. Gordon a question. Last year in answer to a question from Mr. Hamilton of York West you said the reason that you switched from steam right over to buses from Fort William to Longlac was, "We have made an analysis which shows we could do it cheaper with buses than with a railiner." Then later you said, "It is reducing our losses. Again I have not analyzed it and I do not know whether it has an over-all profit." Could you give me any analysis of that particular service? The two union locals asked me to check to see if there could be a railiner put on there. I received a very perfunctory answer from your office. I would like to have a bit more information. I know it is a point which will be brought up again when I go back.

Mr. GORDON: I have not got it specifically before me, but I will look into it. I am sorry to hear you would ever get a perfunctory answer from the Canadian National Railways.

Mr. FISHER: This was a perfunctory answer and it was after a considerable interval of time.

Mr. GORDON: It should not have been.

Mr. FISHER: I would like the information.

Mr. GORDON: On the railiner versus the use of the Bus.

Mr. FISHER: Yes.

Mr. GORDON: It has not been before me. I will have to get the information for you.

The CHAIRMAN: Are there any other questions on passenger?

Mr. ROBINSON: In 17—would there be a breakdown available of the dining car services?

Mr. GORDON: What kind of information?

Mr. ROBINSON: On dining car service. Have you separated that out?

Mr. GORDON: Well, I hardly know where to start. You are thinking of dining car service itself?

Mr. ROBINSON: Yes.

Mr. GORDON: Some of these figures may be of some interest to you. We served in the year 1957 342,429 meals at an average revenue of 99 cents per meal and that would have resulted in a loss. I do not see it here. I am only giving you dinette figures. The number of meals served all told over the whole system was 2,530,093, and the average revenue was \$1.48. Our average cost was \$2.21, so we lost about 73 cents a meal.

Mr. ROBINSON: That would amount to quite a figure to subsidize the dining cars?

Mr. GORDON: Yes, the total loss on all our service of meals covering all types of diners, dinette cars, cafe, buffet cars, and so on, is estimated at practically \$1½ million, that is, after out-of-pocket expenses only. It does not include transportation expenses for hauling the cars and that sort of thing.

Mr. ROBINSON: That would make it much more?

Mr. GORDON: Yes, if you added them together.

Mr. CARTER: Is your buffet car becoming any more popular?

Mr. GORDON: The buffet car has been well accepted. The result for buffet cars shows the number of meals served as amounting to 1,686,272 against 1,618,985 in the previous year and our loss has declined somewhat. We had \$1,580,000 against \$1,663,000.

Mr. CARTER: When you say the buffet car, is that the cafeteria car?

Mr. DINGLE: The buffet has a combination lounge and dining section. The other car you are thinking of is the cafeteria car. We are experimenting with it.

Mr. GORDON: We have only started on the cafeteria car. We only started with this service last year on an experimental basis so the results are not complete, but they have shown some gain. We have only had a total of about \$59,000 revenue at the moment, and we have lost about \$19,000 in the process, but it is a popular car and the ratio of loss is less than in the other cars.

Mr. CHEVRIER: I wonder if I can bring a small matter to your attention. I have a note here, not from one of my constituents, but which was brought to my attention and it is a short letter which I would like to read to you on this subject:

Sir,—

I am taking the liberty of forwarding to you under separate cover, a little plastic package of breakfast marmalade for which I paid twenty-five cents in the club car of the Canadian National's remarkable train from Chicoutimi to Montreal. Please do not offer it to any hungry member of the house. I would rather solicit your good offices in having it returned to the appropriate department as it would appear that the C.N.R. needs the money more than I do.

I pass it over to you, not in criticism, but I think perhaps it should be brought to your attention for what it is worth, and I am sure you will not use the letter to which it is attached.

Mr. GORDON: I am interested to have this because my first reaction is that I think it is a sample provided by the Kraft people, so I do not see anything wrong with that. It looks clean to me. I have not tasted it yet but if the person in question wants more marmalade he can get it by paying for it.

Mr. CHEVRIER: It seems rather expensive.

Mr. GORDON: It is a free country, he does not have to buy it.

Mr. CHEVRIER: If you are interested I will let you have this letter for what it is worth.

Mr. GORDON: Shall I keep this?

Mr. CHEVRIER: Yes, but bring the letter back.

Mr. ROBICHAUD: Mr. Gordon, would you tell us what is the main objection for members of parliament not being able to use passes on the Super-Continental unless they have special permission and the special permission is difficult to get at the last moment. I am talking of transportation to the eastern provinces where we have to make connections in Montreal. I can give one instance where my own wife missed her connection in Montreal. Has the traffic been heavy?

Mr. GORDON: Well, the difficulty with the Super-Continental is that it is an absolutely specialized train that is geared to make as fast time as it possibly can. In order to do that we have to keep the equipment on as limited a basis as possible, so we felt in regard to a specialized train that we were justified in ruling against all pass travellers. We do not allow any use of passes at all on that train except with special permission. It is certainly my understanding that we have always given those permits to members' wives when asked for, but we cannot make it a general rule for pass-holders. Of course there are no restrictions on members themselves.

Mr. SMITH (*Simcoe North*): Has travel on the Super-Continental generally been on a reservation basis?

Mr. GORDON: I do not think we ever put a reservation system on coaches, no. I remember discussing it but I do not think it was ever implemented. It was discussed. We found it was impractical to reserve coach seats. We would have had to charge 75 cents or something like that.

The CHAIRMAN: Does that answer your question, Mr. Robichaud?

Mr. ROBICHAUD: Yes.

Mr. FISHER: The Ontario Northland Railway has recently reduced the prices of meals on their dinettes, which I think was through a change of model. Do you know if they are losing money?

Mr. GORDON: I cannot speak for them, but I should expect they would, knowing of the fact that we lose money on meals. Of course, do not take me as answering these questions in a critical sense. We quite recognize if we are going to attract passengers, meal service is part of our loss leader. What we are attempting to do is keep our losses as moderate as possible. We have tried quite a number of experiments over the years to reduce costs, but the Canadian public has been pretty well educated to a standard of luxury. These loss leaders are governed by the necessity of meeting competition.

Mr. GRILLS: We own the Canadian National and you would think it would be to all their individual advantages as well as for Canada as a whole for people to use the Canadian National. Do you ever use that in your advertising?

Mr. GORDON: No, we never have. I think the Canadian people are very conscious of the fact that they own the Canadian National. If they have a complaint to make they look upon it as one of their own services and certainly complain. I would question very much if there is much in the way of deliberate decisions in respect of preference or otherwise because it is a state-owned railway. I do not think that is an active factor.

Mr. CARTER: Do you have any comparative costs of meal services on the Newfoundland trains as compared with the rest of the country?

Mr. GORDON: I do not know if I have that particular information. We should not do this. It does not serve any good purpose.

Mr. CARTER: The point I was coming to is there is quite a discrepancy in the service and meals on the Newfoundland trains, not that the service is not good, but the meals are not the same as you get on the main line. You cannot obtain the same menu on the Newfoundland train as you can on the main line.

Mr. GORDON: Of course, part of our reason could be that we try as much as possible to use Newfoundland products.

Mr. CARTER: I think if you concentrate on Newfoundland products you will vary the fish menu? It has not changed since confederation.

Mr. GORDON: Surely the fish itself has varied since then.

Mr. CARTER: I do not know, I have been worrying about it. You can get fresh fish out of Port aux Basques every day of the year and we do not get it. In the buffets leaving Port aux Basques they use cold storage fish which they have obtained at St. John's and what is the point in having cold storage fish at all?

Mr. GORDON: I will look into this particular question because fish is a hobby of mine. I think fish could be cooked and prepared in a much better way than it is done in most restaurants and I will be glad to communicate in personal correspondence with you about Newfoundland fish. I will tell you how we get it, who we get it from and you can see what the problems may be. You must remember that to keep fish in condition requires equipment.

Mr. CARTER: But you have your own "Canex" equipment.

Mr. GORDON: I do not know if the "Canex" equipment would be appropriate in a dining car.

The CHAIRMAN: Are there any further questions on passenger here?

Mr. FISHER: You have slowed your eastbound time on the Supercontinental and I understand one of the reasons it was slower than the westbound was to make the Supercontinental running from Ottawa to Montreal compete with the airlines. What led to your decision to lower the elapsed time?

Mr. GORDON: Well, I know it was due to the fact that we have been engaged in the past few years in improving our roadbed in Western Canada. We are now able to run our trains a little faster as the result of that expenditure in the western region. In the western region the rails generally were not of the standard over which we felt we could run our fast trains and there has been that apparent improvement in the operating section in the western region.

Mr. DINGLE: Yes, we are now making the same time east and west—70 hours and 50 minutes.

Mr. FISHER: Have you lowered the percentage of lost time this year? I understand one train in three lost time.

Mr. DINGLE: We have increased our efficiency, yes, and our operations are much improved this year over last.

Mr. FISHER: Fewer lost time trains?

Mr. DINGLE: Yes, sir.

The CHAIRMAN: Any other questions? If not, what are your observations with regard to express?

Mr. TAYLOR: I would like to ask if Mr. Gordon can tell us what progress is being made to establish these semi-express offices at coastal ports.

Mr. GORDON: Well, that raises the general question of our Newfoundland division. I would have to refresh my mind on that. I was assuming that somewhere along the line when we got into operating budget you would have a lot of questions on Newfoundland and I think you will find it in that.

Mr. FISHER: Does that include the activities of this Newfoundland railway benevolent association?

Mr. GORDON: Yes, we will be able to tell you about that. Your interests range wide, Mr. Fisher.

Mr. FISHER: It is just ranging pretty wide in this case.

Mr. GORDON: I agree with you it is an unsatisfactory situation.

The CHAIRMAN: Any other questions on 21? If not, what about the revenue of Canadian National communications?

Mr. SMITH (*Simcoe North*): Is this a profitable part of Canadian National Railway's operations?

Mr. GORDON: Yes, it is included in with the operations. Broadly speaking this is a profitable operation. In fact, I go further and say here that on our most recent analysis all the operations of the Canadian National Railways are profitable except railway operations. It is the railway that loses money not our others operations.

Mr. FISHER: This may be futuristic but has your research department taken any notice of experiments by the research people of Westinghouse and others of the development of this long-range micro-wave beam?

Mr. GORDON: Yes, we are in very close touch with all these technical developments in our research department. We have people in microwave and coaxial cable, we have been very closely in touch with British manufacturers as well as American manufacturers and I think we are right up to date on it.

The CHAIRMAN: Any other questions on communications? If not, 23—Other Revenues. Mail revenues increased by 12.8 per cent and so on.

Mr. ROBINSON: Mr. Chairman, I wonder if Mr. Gordon could tell us if there was any money made from the mail services as a whole?

The CHAIRMAN: Well, it says here mail revenue increased 8.8 per cent. I think he answered that when he said all services were profitable with the exception of rail.

Mr. GORDON: These increases in mail revenue follow on an agreement we have concerning general freight rate increases and, moreover, in our negotiations with the Post Office Department we endeavour to produce figures to show that our costs are at least met. That is plain justice. I would say, that we should at least make our costs and show a little profit.

The CHAIRMAN: Paras 26 and 27. There was a wage and material cost increase of \$7.5 million and transportation expense increase of \$3.8 million.

Mr. ROBINSON: In connection with that has it been the custom of the company to discourage certain lines from carrying mail?

Mr. GORDON: It would depend on circumstances. I would say yes, we have in particular cases when we are applying for abandonment of the service where the mail would be the main factor for keeping up the service and if we can provide that service by truck we have done so. I think Prince Edward Island is a case in point. We are quite alert to that and if we can provide substitute service for mail that is cheaper than railway we have done that.

Mr. ROBINSON: Say you have a line that was carrying mail, would there be any reason for this taking away of mail on that line?

Mr. GORDON: Only after the post office department decided. It is quite possible that they could get better service by truck and they have taken mail away from us and transferred to a highway contractor.

The CHAIRMAN: Haven't you places in your district that very often when they have taken it away from the railway they have provided more efficient service?

Mr. ROBINSON: It is more flexible.

The CHAIRMAN: And the post office department would naturally think of that.

Mr. ROBINSON: That might be true but I know of a case where the instigation of dropping mail service came from the railways.

Mr. GORDON: That had to do with the abandonment of a service?

Mr. ROBINSON: Probably looking to the future, yes.

Mr. GORDON: If we did that it would certainly be because there was an alternative service and probably better than the railway.

Mr. ROBINSON: Well, the instance I had concerned two lines up in our district and the mail service was discontinued, probably about three years ago and the trains are still running there. So this looked as though the company's plan was to make the revenue on that line deteriorate and they could eventually go to someone with the alibi for discontinuing part of its service.

Mr. GORDON: I would take issue with that. I do not think we would do that. If the mail revenue combined with other revenues in the freight service was enough to justify a continuation of that line we would be the last people in the world to ask to abandon it. It may well be in this particular situation that all we had in mind was that we wanted to abandon it and we probably approached the mail people and told them they should look for an alternative service.

We were able to show we were operating on a loss.

Mr. CHEVRIER: Does an application for abandonment of a line have to go to the Board of Transport Commissioners?

Mr. GORDON: You know the board sits in judgment on our presentations.

Mr. CHEVRIER: Has an application for discontinuance of service to go before the board?

Mr. GORDON: Oh yes, definitely where there is complete withdrawal of passenger service.

Mr. ROBINSON: Mail service?

Mr. GORDON: Oh yes, and the Board of Transport Commissioners would have to be shown and it would have to see that real public interest was not being prejudiced. The Board of Transport Commissioners is a very hard judge.

Mr. ROBINSON: As far as we are concerned too.

Mr. PASCOE: I was going to ask this be referred to, this negotiation with the post office. It says:

The matter was recently brought to a head by a decision of the C.N.R. to reorganize their train operations between Regina, Saskatoon, North Battleford, Lloydminster, and Edmonton, in which R.P.O. (Railway Post Office) service functions. The company has decided to instal R.D.C. equipment with schedules unsuitable for mail service and further, the equipment would not have sufficient mail accommodation west of North Battleford.

The elimination of the R.P.O. in the trains, make necessary the development of highway service . . .

They have given it to trucks. I know this particular passenger service, I take it myself from Saskatoon.

The CHAIRMAN: What are you reading from?

Mr. PASCOE: It is a post office item. I wondered if loss of revenue from the Canadian National . . .

Mr. GORDON: You see, there has been quite a change in the post office methods of delivering mail. I do not know this particular case. For instance, we used to run a lot of trains where the mail was sorted en route by postal employees in the railway postal car.

The post office is getting away from that more and more and that has an influence on whether or not they find it advantageous to use our service.

Mr. PASCOE: They say that you started this one by dropping that service.

Mr. GORDON: But we could not drop that service.

Mr. PASCOE: I mean change the service.

Mr. GORDON: We could not do it. You have got to get this in sequence. All railways are required to carry mail as part of the statute. We cannot refuse to carry the mail. We can, however, make representations to the post office that the particular service would be better in some other way, say performed through the post office themselves.

We do not go to the post office and say arbitrarily "We are not going to provide the service". They can force us to carry the mail but we cannot force the mails off. If we have a loss on the service we would want to abandon the service which would mean that we would clear it with the post office first. If we first went to the Board of Transport Commissioners and asked for abandonment the Post Office could come right in there.

Mr. PASCOE: Was there a loss of revenue because you are not carrying the mail now?

Mr. GORDON: There was certainly a loss of net revenue.

The CHAIRMAN: The post office makes you carry the mail whether you are losing on it or not.

Are there any further questions on 23?

If not, we have heading 24—Total operating expenses \$31.3 million. We had wage and material cost increases of \$31.8 million, higher depreciation charges. What is your comment on that particular item? It is a matter of fact, I guess.

Mr. GORDON: I think it speaks for itself.

Mr. ROBINSON: Mr. Chairman, I wonder if the president could give us a comparison of the operating costs compared with the Canadian Pacific?

The CHAIRMAN: I do not know how you would get the Canadian Pacific report?

Mr. GORDON: I can give you the comparison but you are comparing different things again. The higher portion of the Canadian Pacific railway operating cost is certainly in the railway section, but so far as that goes a comparison of costs does not mean anything unless you relate it to the volume of traffic and things of that kind.

For example, I can show you here that our total operating expenditures referred to in our report are \$734,556,000 and those of the Canadian Pacific Railway are \$417,785,000.

Mr. ROBINSON: Can that be cut down into miles or anything like that?

Mr. GORDON: Yes, you can examine it roughly this way,—that the Canadian Pacific Railway is roughly 60 per cent of our size. We are a much bigger railway and much bigger operationally than the Canadian Pacific Railway. The ton miles of revenue freight, which is our bread and butter, on the Canadian National Railways in 1957 was 36,674,000,000; on the Canadian Pacific Railway it was 27,281,000,000. On the United States class one railroads, which represent the larger railroads in the states, it totalled 618,094,000,000.

In the light of these figures you will see that the actual traffic handlings on the Canadian Pacific is roughly about 60 per cent of the Canadian National Railways.

Mr. ROBINSON: What I was wondering if I could find out was,...

Mr. GORDON: Were you talking about mileage operated?

Mr. ROBINSON: Yes.

Mr. GORDON: The mileage operated on the Canadian Pacific Railway in 1957, that is the actual mileage on the roads they are operating is 17,097. On the Canadian National Railways it is 24,497. Those are main line tracks. In addition to that on the Canadian National we have about 10,000 miles of yard tracks, subsidiary tracks, etc. which makes roughly about 35,000 miles of trackage.

I do not know if we have that other figure for the Canadian Pacific Railway, but it would be about 60 per cent.

Mr. ROBINSON: I do not know whether I have got myself clear yet or not, but I was under the impression from something I read that the Canadian Pacific Railway were operating cheaper than what the Canadian National was per mile of everything covered?

Mr. GORDON: Yes, I think that is correct.

Mr. ROBINSON: In that case I was just wondering, can you tie it down to any certain line where that costs the company more than it does the Canadian Pacific.

Mr. GORDON: It is perfectly true that the operation of the Canadian Pacific Railway on a mileage basis is cheaper than on the Canadian National. There are quite a number of reasons for it as I mentioned to Mr. Broome earlier this morning. One of the reasons is that the Canadian National Railways services have far more thin traffic lines than the Canadian Pacific. There is this further factor, and we have not discussed it yet. The Canadian Pacific Railway has developed and has been built as a planned and integrated line. It grew along their base line and spread out from this main trunk line. The Canadian Pacific Railway was built as a cohesive unit.

The Canadian National Railways in 1923 took over six major operating lines that were built to compete with each other, so that we had further overhead in the nature of duplication of facilities, terminals, branch lines, and so on, and even to this day we cannot say they are coordinated. As a result our transportation ratio is five to seven points higher than that for the Canadian Pacific Railway.

Putting it another way, if we were able to achieve the same transportation ratio as the Canadian Pacific our results for 1957 would have been \$45 million better. That is something we are working on and we are making headway with it.

Mr. ROBINSON: Would I be right in thinking if we were not a government-owned railway we could have a better chance to hold our end up and compete with the other lines financially?

Mr. GORDON: That opens up a very broad question as to the extent to which management is necessarily hampered by the fact that we are publicly owned. The fact is that while there is no active interference with management from a political point of view I would say that the Canadian National Railways is consistently under pressure from members, criticism from railway labour organizations, employees, and from other people in the country who feel that because the Canadian National Railway is a publicly-owned railway they have a right to protest.

In the nature of things we of the Canadian National Railways try to be humane about these things and might not proceed as ruthlessly as a private corporation in cutting expenses, and so on.

In other words, we are a considerate group and give further consideration to continuing a service even though it might lose money.

Mr. CHEVRIER: Is that not one of the prices we have to pay for having a public line on the one hand and a private line on the other?

Mr. GORDON: I think it is a matter of degree. It can go too far. It is a constant concern of management. Take the case of our labour. As you know, you get delegations all the time at Ottawa to the Minister of Transport and the Prime Minister in respect of lay-offs and other things. You never get delegations in respect of Canadian Pacific matters. We get hell if we try to reduce expenses on the Canadian National but the Canadian Pacific does not, because that is a private company and everybody really thinks they are in business to pay expenses. We are up against resistance all the way. I am not complaining. All I am saying is that it is much more difficult and these factors affect our operations in some degree.

The CHAIRMAN: That is the tough thing about public ownership.

Mr. ROBINSON: Would I be right in making this statement, that it does not seem fair to me that in some districts our service is getting curtailed and yet we find other districts which, as was brought out about the dining car service, are losing money and yet we have to pay our portion to subsidize these losses?

Mr. GORDON: You put your finger right on the point of the constant argument as to whether management in the Canadian National is doing what might be called even-handed justice everywhere. Where we adjust our service we try to be as objective as we possibly can and, moreover, when it comes to the question of the provision of service you have the established Board of Transport Commissioners for the purpose of protecting the public interest. We have to establish without peradventure that what we are doing is justifiable and non-discriminatory and not against the public interest. As I say, in Newfoundland, as Mr. Carter will be the first to tell you, what we do for them is compared with what we are doing in western Canada, and if we do something in western Canada they will want to know why we are not doing so much in Toronto. Probably you have the idea. It is just human nature. All I can do is assure you, speaking for management, that we bend over backwards to try to be fair.

Mr. CARTER: I suppose you are making a further comment on this additional depreciation later on?

Mr. GORDON: Yes.

Mr. FISHER: I want to ask a general question. You have hinted for several years that the future in passenger service may be a de-emphasis on transcontinental line and emphasis on inter-city service.

Mr. GORDON: Yes.

Mr. FISHER: What will be the effect there as far as operating expenses are concerned?

Mr. GORDON: We are making the most meticulous analysis. We have got to get down to cases as to the type of service particularly on this transcontinental line and we have got to decide whether we are justified in operating what might be called a Super-Transcontinental service or whether we would be better to concentrate on the adequate rather than the spectacular operation.

For example, we have cut the time, as you mentioned a few minutes ago. That costs money. We cannot cut down the scheduled times on any train without having regard to their greater cost and we have to plan that and

decide whether it is worthwhile. Are we going to be able to use a type of train in our passenger service that will be reasonable in terms of its loss?

We took the gamble in respect of the "Supercontinental" and so did the C.P.R. in respect of the "Canadian," to see if by putting on a "super-duper" type of railway passenger service we could give effective competition to the airlines and the buses—mostly the airlines. Now we have had three years of that experience which has been most discouraging. We are looking at it now to see what is the next step.

As far as I can see at this moment the next step will be a curtailment rather than an enlargement of service. We will, in any curtailment, keep in mind the question of the convenience of the public; but the Supercontinental is not a success really.

Mr. FISHER: Do you think there would be some compensation in a switch to inter-city emphasis?

Mr. GORDON: We think there is a field there, particularly in the developments we see in air transportation; for instance, where they are going heavily into jet planes. The jet cannot be economical in short distances; it has to handle long-distance travel for maximum efficiency. If you were to fly a jet plane between Toronto and Montreal, by the time you got the jet plane up high enough in the atmosphere to be operated efficiently it is time for it to come down. It may be in a short run that the jet plane will be uneconomical. So again, it may be the case that the railways will find a field for fast and frequent services between larger cities, not linking them into a continuous Transcontinental service going right through to the coast.

We were speaking about the trans-continental service from Montreal and Toronto to Vancouver and back. One train set involves a capital expense of roughly \$3 million. It takes sixteen sets of trains going around and around, and that is sixteen times \$3 million.

Mr. FISHER: My constituency would be one of the first to suffer. I imagine you will increase first in the Montreal and Toronto areas.

Mr. GORDON: It depends on what you mean by suffer. We may improve the transportation from the outlying areas to the main cities, such as Winnipeg; but it would not necessarily improve the service from your constituency through to Vancouver, because we find in our analysis that only about 10 per cent of the passengers who board a train in Montreal go through to Vancouver.

Mr. FISHER: Can we expect from the railway some kind of a decision, say reasonably soon on this particular point.

Mr. GORDON: Not necessarily a complete decision, but some gesture along that line.

Mr. CARTER: In respect of the pooling of trains, do you do that by mutual arrangement, or is there any compulsion on either railway with reference to putting up pool trains?

Mr. GORDON: There is no compulsion except under the general C.N.-C.P. Act. The railways are required to examine all possibilities of were it is possible to reduce costs. If pooling between the railways is the answer we have to get together to examine what can be accomplished in pooling. We have a committee which talks about that constantly but does not get very far.

Mr. CARTER: Are you convinced that by the pooling of trains you are saving expenses?

Mr. GORDON: I do not think there is any doubt about the actual saving of operating expenses. I have considerable doubts as to the wisdom of pooling. That is one of the things we are constantly trying to talk ourselves out of, or into. The pooling arrangement went into effect in the 'thirties. It was a depression-prompted device to cut our expenses. With the growth of the

country there is a question mark as to whether the pooling system has an overall advantage, although it can be demonstrated in dollars and cents that we are saving amounts running into the millions in the pooling arrangements, which are now operating, in terms of out-of-pocket expenses. But whether or not it operates to the long-range advantage of ourselves or the C.P.R. is a question mark.

Mr. FISHER: I have been studying this question for a member of years and have not seemed to have reached any conclusions. Are these bilateral discussions?

Mr. GORDON: Yes.

Mr. FISHER: What are the main stumbling blocks?

Mr. GORDON: I wish you could take a look in my file. We are having discussions all the time. We have a meeting and talk about it and either one side or the other wants more information. Then you start to make an analysis which takes months and by the time the analysis is complete it is invalid, and it goes on and on.

Mr. FISHER: Would you say that the C.P.R. has been cooperative throughout the whole discussion period?

Mr. GORDON: I would rather you ask them if they think we have been co-operative. It is a matter of opinion. We have met continually and we have been honest with each other. It is very difficult to get officers of competing organizations to agree on what is the particular interest. For instance, in our pooling arrangements between Toronto and Montreal, we run a pool train out of Windsor station and our officers think that is terrible. Take the pool between Ottawa and Toronto. It is operated by the C.P.R. If we were to break the pool now, we would in turn have to provide a service between Toronto and Ottawa. Our line between Toronto and Ottawa has been allowed to go down into the category of a freight line only. We would have to spend I do not know how many millions of dollars to rehabilitate the line in order to bring it up to fast passenger train standard. If we did that I am not certain that we would get enough traffic to justify such an expenditure.

Mr. FISHER: There has been a marked reduction in the number of maintenance of way men.

Mr. GORDON: Yes.

Mr. FISHER: I have had, especially, complaints from North Bay westwards. Could you give us sort of a statistical picture as to the decrease from, say, North Bay to Winnipeg as to the number of maintenance of way men and what it has meant in savings in labour costs.

Mr. GORDON: I would find it very difficult to pick out a single line in an area and make an analysis. It would take a good deal of time. I will tell you the background and you can see how it fits into your point.

After the forty-hour week came in, the railways embarked on an intensive mechanization program to see if they could adjust the forty-hour week to our railway operations. We provided much more mechanization so that a maintenance force could cover much more mileage than before. That reduced the need for the numbers of section gangs. However the mileage covered is governed by the line's physical characteristics and the sections vary greatly. It would require quite an analysis to answer your question in particular.

Mr. FISHER: The point which was brought up to me is that the men along the line feel that the railway has not considered the safety factor.

Mr. GORDON: That is absurd.

Mr. FISHER: Probably it is; but how does a member of parliament answer complaints like that?

Mr. GORDON: The answer simply is that if there is one thing of which railway management is always conscious it is the safety factor. We would never make any amendment in our inspection service or track maintenance or anything else which would reduce the safety factor. Mr. Dingle is our operations vice-president and I would like to hear what he has to say about it. The safety factor is, economically speaking, a nuisance, but to Mr. Dingle it is his job, and he will not permit me nor anyone to reduce that.

Mr. DINGLE: What Mr. Gordon has said is true. We certainly do not sacrifice safety. We are spending a lot more capital on our track structure and track maintenance equipment than we did before, and for that reason our maintenance costs are being reduced.

Mr. FISHER: What about the problem of broken rails? Does it tend to disappear in your switch to dieselization?

Mr. DINGLE: No, but of late there has been a reduction because of better rail maintenance and detection services.

Mr. GORDON: The way the engineers explained it to me is that with a steam locomotive the piston and driver action gives tramping effect on the rail whereas a diesel locomotive has a smoother drive and does not produce the pounding effect. If anything, a diesel locomotive must be more kind to a rail.

Mr. FISHER: I think there was the case of a train running out of Sioux Lookout with a steam locomotive and you had broken rails all along the line.

Mr. GORDON: Aside from our careful visual inspections, we put on Sperry cars which are one type of the pieces of equipment we use.

I have a note reminding me that the C.N.R. won the National Safety Council fifth annual award for public safety, and only seven other Canadian and United States railways were so recognized for 1957.

I would like to say most emphatically that we do not compromise with safety under any circumstances.

Mr. SMITH (*Simcoe North*): What is the operating crew of a dayliner?

Mr. GORDON: It depends on the number and type of units. A one-car unit could have an engineman and conductor.

Mr. SMITH (*Simcoe North*): How many passengers would it carry?

Mr. GORDON: It depends on the type of car; there are four different units.

Mr. SMITH (*Simcoe North*): How many passengers would a dayliner carry with a crew of two?

Mr. GORDON: A straight passenger dayliner has about 80 odd seats.

Mr. SMITH (*Simcoe North*): On a run of up to 100 miles what average speed can it accomplish?

Mr. GORDON: It is too bad that we always have to qualify our answers. In this instance it would depend on the run and on the condition of the track.

Mr. SMITH (*Simcoe North*): What I am thinking of is the matter of semi-commuter traffic and competition between a dayliner and a bus from Barrie or Orillia or Midland?

Mr. GORDON: If we were running a dayliner between Ottawa and Montreal we could run it up to 80 miles an hour or perhaps more. That is a first-class line.

Mr. SMITH (*Simcoe North*): Could you average, for example, on that run a speed of 50 miles an hour?

Mr. GORDON: It would depend on the number of stops. If we were able to make a non-stop run from Ottawa to Montreal, I would think we would be able to average well over 60, even allowing for places where we would have to go slow. If there are any stops at all you lose a lot of time.

Mr. SMITH (*Simcoe North*): I am thinking more in respect of short lines such as the 60 miles from Toronto and Orillia.

The CHAIRMAN: In that 60 miles you have about six stops and starts.

Mr. GORDON: Again you have to know the locality. Take an area around Toronto. The difficulty there is it is terribly congested. We are almost at the point of saturation on our line between Toronto and Hamilton. We could not put more trains on there. We would have to build another line. Remember always that while most people are intrigued about passenger service, our bread and butter is freight; only about eight per cent of our actual earnings come from passenger service. While naturally we have to give the passenger trains the right of way, from the railways' standpoint it is freight we want to move.

Mr. MONTEITH (*Verdun*): I would like to ask a question in respect of pool trains. What proportion of equipment is provided by the C.N.R. and what proportion is provided by the C.P.R. Is this on a fifty-fifty basis?

Mr. GORDON: No. It really does not matter which one of us provides the equipment. It is worked out on a wheelage basis and expenses and revenues are shared depending on the equipment which goes into the particular train. We may operate the majority of the equipment between Montreal and Toronto and the C.P.R. between Montreal and Quebec, and from Toronto to Ottawa. Then there are instances where we provide the dining car. But it does not make any difference because whatever equipment goes into a pool train the revenue and expenses are worked out on a wheelage basis formula and our share dependent on the amount of equipment which goes into the operation. That covers not only passenger cars but also motive power which is the big cost item.

Mr. FISHER: Could I ask for the details of the arrangements which you have with R. F. Welch Company for recruiting labour in Europe for you?

Mr. GORDON: Yes.

Mr. FISHER: And what service charge there is for that, if any?

Mr. GORDON: Our present arrangement is that Welch recruits labor required over and above local labor secured by the Railway for extra gangs.

The fee charged for recruiting labour by R. F. Welch is 3% of wages earned by each recruited worker during an uninterrupted term of employment. Cost of board to all men in gangs was reduced from \$2.31 to \$2.10 per day, and a subsidy of 30c per man per day was paid to R. F. Welch, so that on that basis the fee paid by the Company, works out, if you want to put it that way, at the rate of 30c per man per day, plus 3% of the wages earned by men recruited by Welch.

Mr. FISHER: What was the total amount they received in 1957?

Mr. GORDON: I am afraid I do not have the figure available.

Mr. FISHER: Never mind. Has the arrangement generally been satisfactory to the unions?

Mr. GORDON: We have had no complaint from the unions since we made the last arrangement.

Mr. FISHER: Are there any plans to bring over any labour in this period which is coming up?

Mr. GORDON: I do not know precisely what the Welch Company did this year, but my impression is that they recruited all labor in Canada.

This has been a very useful arrangement for the railways all through the piece because the Welch people have been able to deal with a class of labour, on a sort of rehabilitation basis and they have over the years, brought in people from such places as Italy who have proven useful to the industry.

In addition they have provided a useful social service. By rehabilitating many people by finding jobs for them. They took them on gangs on the railway and that is where we got a lot of our recruitment for certain types of work.

The CHAIRMAN: If there are no other questions in respect of operating expenses at this stage, we might proceed to wages.

I thought, with your consent, that probably 12:30 would be a good time to adjourn.

Mr. CHEVRIER: If we are going on, may I ask Mr. Gordon if, over and above the statement contained here in reference to the dispute concerning the non-operating unions, if he would be good enough to tell the committee where the matter stands? First, I wish he would comment with reference to the amount claimed. What does it represent by way of an additional freight rate increase if such a demand is granted? Also is the Canadian Pacific Railway in the same position as the Canadian National Railways? Could we have a statement on the present position of this dispute?

Mr. GORDON: I would be glad to do that. I might work on that over the noon hour and make a statement at the opening of the committee in the afternoon.

Mr. CHEVRIER: I will not be here at the early part of the afternoon's meeting.

Mr. GORDON: In respect of the figure on the freight rate increase I would have to get information on that. I can answer the other points. The conciliation board has completed its hearings. Both the C.P.R. and ourselves have filed evidence before the conciliation board showing that no increase in wages is justified. We have attempted to show that the Durable Goods Index which the unions are putting forward as a yardstick is not appropriate to the railway industry.

We have presented to the board detailed comparisons of rates from all across Canada covering comparable types of work performed on the railways and have proven to our satisfaction—whether or not to theirs I do not know—that the railway worker is not underpaid and therefore no wage increase is justified.

The evidence is in, as I say, and the unions have stated their opposition to the company's point of view. The board is preparing its report now. I have no definite knowledge as to when it will come out, but I would suspect that it will be within the course of the next two or three weeks when the conciliation board is under the chairmanship of Mr. Justice Thompson. Until that report comes out I do not know what the next step may be.

Mr. CHEVRIER: Could I ask you to give us that a step further in reference to the other group; I am referring to the firemen and enginemen.

Mr. GORDON: It needs a little more explanation in respect of the background. We have to go back to the period prior to the present agreement with the firemen which expired on March 31 of this year. When that contract was being discussed over two years ago, we took the stand that we wished to discuss the need for firemen on diesel operations of any kind. In the ensuing discussion, we realized that the basic issue affected not only firemen but all members of the crew on a diesel powered train, and we did not feel that we had sufficient data to press that point of view before a conciliation board.

So in 1956 we agreed to extensions of our wage agreements and said that we were going to conduct a very detailed review of our train operations with respect to all members of the train crew. That was done.

The C.P.R., on the other hand, at that point decided they would press the issue concerning use of firemen in yard and freight service. That issue is what gave rise to the Kellock commission, so called.

We proceeded with our independent survey for our own purposes and C.P.R. carried the issues to conciliation and still later to the Kellock commission.

When our agreement expired on March 31 this year we, in accordance with the terms of the agreement, again served notice that we proposed to ask for an amendment of the wage agreement leaving to management discretion as to when firemen should be used. The union would not negotiate on that point at all. The question now is before a board of conciliation under the chairmanship of Mr. Justice Montpetit and he is examining the merits of our case, not only in respect to a wage increase but also in respect to the matter of using firemen at the discretion of management.

Our case in that respect is different from the case of the C.P.R. because we allege we should have, basically, the discretion as to when the men should be used in any particular job, be it firemen or any other classification. That is where the matter stands. The hearings have been adjourned until August 11. We do not know our position, therefore, until we have the findings of that board.

Mr. FISHER: This afternoon I would like to bring up some question in respect of points such as Sioux Lookout, Armstrong, Nakina, Hornepayne, Foleyet and Port Arthur.

Mr. GORDON: Affecting what?

Mr. FISHER: If you are successful in obtaining what you want as far as the fireman is concerned, how it will affect the people at those points.

The CHAIRMAN: You mean in respect of unemployment of people in those districts?

Mr. FISHER: Yes. In terms of straight employment this is the most live question which we have in those areas.

Mr. GORDON: I would like to talk this over during the lunch hour with Mr. Dingle. Divisional points, of course, are being affected by the dieselization program. There will be a major re-orientation required as we proceed to complete our dieselization program.

On the particular point mentioned here, if management has the discretion as to when to use men on a train, be it firemen or other crew members, that is subject, of course, to the safety consideration which is under the jurisdiction of the Board of Transport Commissioners. If we have the power to reduce the number of men on a train, we will do that wherever it appears to be required at that time. I do not know how it affects divisional points. It depends on where the men live and what their run might be in this particular area.

Mr. FISHER: I do not know whether or not you can anticipate the seriousness of this question from the point of view of a politician, but it is a very live one. The sharpest question which is being asked at a Division point is, "Where are we going?" and the railway does not tell us. I think, in view of the whole trend, that the community deserves some kind of a foreshadowing of their future because they depend entirely on the railway. I hoped that you would be able to give us some information.

Mr. GORDON: Perhaps this is indiscreet; but would those communities either listen or believe me if I do tell them?

Mr. FISHER: I would hope they would.

Mr. GORDON: It has not been my experience.

Mr. FISHER: You spoke earlier about the question of human relations. This is one of the toughest. I have been associated since birth with the C.N.R. I have a great number of very close relatives who are working on the railway, and my mother is a railway pensioner. I think I understand their points of

view. I think it is about time we had a pretty forthright statement as to what will happen to these communities in terms of employment.

Mr. GORDON: I fully agree with you. I think it is our duty to let that be known as soon as we can. We cannot get away from the fact that we are in the middle of tremendous technological change in railways and unless the railways do adopt changes which will enable them to keep competitive or improve their competitive position, the over-all result on railway labour will be much more serious than if we do not.

This dieselization program has some very unfortunate effects, I grant. No one is more concerned about this than I and the rest of management. We have tried to explain it. Never at any point have we suddenly changed the orientation of our labour force without sending our supervisors and others to explain to the individuals what they can expect and why we are doing it. The employees affected have privileges, under the seniority provisions and under transfer provisions, but we get to the point where it means they must go elsewhere. I quite recognize how difficult it is for a person to have to tear up his roots, but it cannot be avoided. You have to adapt yourself to change.

Mr. FISHER: There are such things as real estate values. No one knows where they stand at the present time. Quite frankly the substandard communities in my constituency are the Canadian National divisional points.

The CHAIRMAN: Gentlemen, it is 12:30. We will adjourn, and it being agreeable, we will meet here immediately following the orders of the day if and when that should be. This evening, if you are satisfied, we will meet at eight o'clock.

#### AFTERNOON SESSION

MONDAY, July 14, 1958

5:30 p.m.

The CHAIRMAN: Order gentlemen, I see a quorum. Shall we proceed? I think Mr. Gordon is prepared to deal with the questions that were outstanding.

Mr. GORDON: During the lunch hour I managed to get the answers to most of the questions which were left pending.

There was a question about some pulp wood movement. I have not been able to identify this but perhaps if Mr. Fisher had a talk with one of my assistants he would be satisfied.

Mr. FISHER: Yes.

Mr. GORDON: In regard to your question, Mr. Carter, as to whether railway rates apply to coastal shipping—that is ships plying between one port and another—the answer is no, water rates apply. These water rates have remained practically the same as they were at Confederation.

In regard to cement rates, there is no incentive rate regarding cement. We have met competitive rates represented by cement being shipped from the United Kingdom into St. John's. Last March we instituted reduced rates in order to meet that competition.

There was a question asked in connection with the bus and truck service between Port Arthur and Longlac. The answer to that question is that we ceased rail service there following application to the Board of Transport Commissioners and substituted a bus-truck service. Our experience has shown that we can definitely provide service for all the traffic offering in that com-

munity and are saving about \$270,000 to \$280,000 a year as a result of this change. It is not our intention to reestablish any form of railiner or rail service in that regard.

I think those answers pretty well cover the outstanding points except in regard to the general question having to do with enlightening communities of our intentions. That is a broad question. I find it difficult to give a comprehensive answer because it breaks down into so many facets.

The fact of the matter, however, is that at any point or division where we have in mind a dislocation respecting the working force, we communicate and talk to the representatives of the unions and give notice as far ahead as we can, to let them know what our intentions are in a particular community. That varies depending on the particular circumstances, but we do communicate with the union representatives of the various trades.

The reason I say it breaks down into different facets is because there are a number of different union agreements affecting the various trades and crafts and this complicates the problem. We do give advance notice as far ahead as we are able to plan on an intelligent basis.

Mr. FISHER: You do not make a particular point of explaining to the community as a whole; for example to the town council, do you?

Mr. GORDON: The answer to that question is yes, and no. We do make a point of doing that when our plans are sufficiently far advanced that we can see the situation clearly ourselves. The difficulty Mr. Fisher is that we are in the middle of a very complex period of transition from steam locomotives to diesel power. As soon as we have our dieselization program sufficiently far advanced that we can see what the impact is going to be on a community, then we do talk to the councils and employees in that community.

A case in point, for instance, is the City of Stratford. The city of Stratford has been fully informed of the situation there. We have met with the City Council, we have met with all the community representatives, we have communicated with each individual employee and have set up a counselling service for the purpose of personally advising each one of these men as to what his rights are in regard to seniority arrangements, transfer procedures, pension arrangements and that sort of thing. Whenever we have crystallized plans we are able to do that.

Some of the points you are interested in are in the 'bridge' area, and we must get closer to the completion of our dieselization arrangements before we ourselves can decide what points we will be able to run through on.

One of the efficiencies in dieselization, among other things, is that much longer runs are possible without maintenance service on the diesel power. As soon as we get far enough ahead in the planning in that regard, then we will certainly inform the communities of the situation.

I will give you another example; the transfer of our shop between Cochrane and Senneterre. More than a year ago we talked to the city council of Cochrane. As I suggested this morning, we have had to work very hard getting them to understand that these things are inevitable if the railroad industry is going to survive.

I can assure you just as soon as we are able to give some real practical advice we will get in touch with the communities and take them into our confidence.

There is another point which I rather hesitate to mention. Experience has shown that if we begin to announce our intentions of changes in any community before we are sure of them ourselves, we are asking for resistance; We just invite resistance. It makes our planning operations much more difficult. Therefore we tend to wait until we are absolutely sure so that we do

not initiate a lot of unnecessary representations and agitation. It is only when we know definitely what must be done that we, as I say, work through our union representatives, and so on, to give the necessary advice.

Mr. FISHER: I do not want to put this on the record as a positive statement of fact, but one could be very disturbed by the general morale along the north line, and I am thinking of communities such as Hornepayne. There seems to be a lot of doubt about the situation there. I would like your assurance that you will let those communities know where they stand at the earliest possible moment.

Mr. GORDON: We are very conscious of this fact. These communities of which you speak are not only rather isolated, they are very dependent upon railroad operations. We have a very sympathetic understanding of this situation and I can assure you that we will try to keep them informed of the situation as soon as is practical and to establish any transitional changes on as considerate a basis as possible.

Mr. FISHER: I might suggest that the president himself could go to some of these places.

Mr. GORDON: There is nothing I would like to do better but I have never been able to figure out how to be 60 places at one time. I have been through those communities you mention from time to time, but to spend the time necessary, going to all of them, is just beyond me. But I shall very much keep in mind what you say and to the major possible extent I shall try to make visits there, or to have senior officials make visits in those territories.

Mr. CARTER: May I ask for a clarification arising out of an answer which Mr. Gordon gave to me? We have coastal boats going around my riding which carry freight also to the mainland.

If they take on board freight on the mainland, then that freight is not taken out of the ship. It goes from the mainland to a point in Newfoundland.

Mr. GORDON: That would be at the railway rate.

Mr. CARTER: But if it is unloaded at Port aux Basques and put on again, then it would carry a water rate?

Mr. GORDON: That is right.

Mr. CARTER: Do these rail rates apply on the ferry?

Mr. GORDON: Yes.

Mr. CARTER: Do they apply to motor cars?

Mr. GORDON: I can see no reason why they would not. You are talking about the transportation of automobiles?

Mr. CARTER: Yes. Do you have special rates for them?

Mr. GORDON: They would get the same rate as if they were being transported on the railway.

Mr. CARTER: It is a rail rate?

Mr. GORDON: Even though we are required to give straight water transportation, it is the same as if it were a railway. That was the theory under which it was set up. In other words, you may remember that shortly after confederation our rate was challenged.

Mr. CARTER: Yes.

Mr. GORDON: At that time the principle was established of a bridge between North Sydney and Port aux Basques which, for rate-making purposes would be treated as if there were a railway running thereon. It is freight you are talking about?

Mr. CARTER: I understand if a person ships a car from Port aux Basques to North Sydney, he must pay the ordinary freight rates on that car?

Mr. GORDON: That is right.

Mr. CARTER: But what I am not sure about is this: is the rate for the 90 miles the same as if it were for 90 miles somewhere else on the railway line?

Mr. GORDON: If it is freight, yes.

Mr. CARTER: They can only ship it by freight. There is no other way of doing it.

Mr. GORDON: I am talking about freight, such as a new motor car shipped as freight.

Mr. CARTER: No. I am talking about a passenger's car.

Mr. GORDON: Then there is a regular tariff on the ferry for that car.

Mr. CARTER: Oh, then it is not a freight rate?

Mr. GORDON: Well, it is on the freight basis; there is a tariff and it is on the freight basis. If you drove your car up to the station at Montreal, we would not take it on board a passenger train going to Toronto. However when you drive your car to Port aux Basques, you will be able to drive it on a ferry which will take it to North Sydney, and there will be a rate applicable for that ferry service from that point.

The CHAIRMAN: Shall we now proceed to paragraph 28, "Wages", and paragraph 29, "Wage increases and other benefits applicable to 1957"?

Are there any comments on these paragraphs?

Mr. CARTER: Mr. Chairman, pensioners who are retired without having made a contribution towards the pension I believe, get a flat rate pension?

Mr. GORDON: If they qualify under the terms of the pension fund they get a basic pension, as we call it, of \$25 per month, without having contributed to the pension fund.

The CHAIRMAN: I think this is further clarified with other items, Mr. Carter.

Mr. CARTER: I did not want to bring this up here. But there are one or two points in connection with it I want to get clarified. Perhaps at the time of the budget item would be a better opportunity.

Mr. GORDON: Well, this is just as good here as any place.

Mr. CARTER: Well, this is what I want to get at. The pension rate for a regular Canadian National Railways pensioner who made no contribution, as you said, was \$25 a month. Now, when confederation took place a number of Newfoundlanders came under the non-contributory scheme as part of their service was with the Newfoundland railway and part with the Canadian National Railways, and I understand that instead of \$25 they get \$30. There is a figure of \$30 a month comes in there somewhere and I was wondering what would be the basis for that?

Mr. GORDON: That was an agreement that was worked out between the two governments at the time of confederation. This is probably one of the most complicated things in the railway and that is going some, I can tell you.

I believe what you are talking about in this instance concerns a Newfoundland employee who was a non-contributor to the pension plan. This is what it says:

A Newfoundland employee who has not contributed under a pension fund shall receive such amount additional on a pension payable him under the pension plan as may be required to augment such pension to the equivalent of \$15 each year, but not exceeding twenty years of allowable service calculated in accordance with the provisions of the Newfoundland act of March 31, 1949.

Then comes a number of commitments. At the time of confederation the Newfoundland people had a certain type of pension plan and certain concessions were given to railway employers in order to ensure that employees of the Newfoundland railways would not be any worse off in regard to any pension coming to them than they would have been had no amalgamation taken place.

At the same time it was not considered fair that the Canadian National Railways should have to provide for those particular employees a higher allowance than dictated by the amount of service with us, because if we had done that we would have had all sorts of complaints across Canada. So it became a fact that it would be a separate scheme, not affecting the pension fund as such but coming under this Newfoundland board.

Mr. CARTER: But somewhere it is stated there was a basic rate of \$30 a month. I have never quite understood why that rate should have been \$30.

Mr. GORDON: Mr. Armstrong says he knows.

Mr. ARMSTRONG: I think, Mr. Carter, you are speaking of the Intercolonial Railway, which had a minimum pension rate of \$30. This was established back in 1923 or 1924.

Mr. CARTER: In Newfoundland?

Mr. ARMSTRONG: No, it does not apply to Newfoundland. I do not know the minimum basic for Newfoundland.

Mr. GORDON: It is a varying amount.

Mr. CARTER: Well, now we have two figures. You had \$25 and now Mr. Armstrong is saying in 1923 we had a rate of \$30.

Mr. ARMSTRONG: With respect to the Intercolonial Railway.

Mr. CARTER: But in some respects that affects Newfoundland employees. The reason I am asking this question is because I have a constituent who was retired and who had Newfoundland railway service and so much Canadian National Railways service and the rate he gets is \$32, part paid by the Canadian National Railways at \$30 and part paid by Newfoundland, and I cannot understand why.

The CHAIRMAN: We must try to keep our questions as relevant to the discussion as we can. If we have a lot of fine details it will take a lot of the committee's time.

Mr. GORDON: I would say, Mr. Chairman, that this is one of those cases which is so complicated in respect of what happened in Newfoundland that they all have to be treated individually and if Mr. Carter would care to bring the individual case to my attention I will analyse the thing for him and show him how it operates.

The CHAIRMAN: I think it would be better, Mr. Carter, because it takes a lot of the time of the committee if we go into details.

Mr. FISHER: Have you been able to estimate the figure of those employees who are now in service who have willingly switched to the contributory part of the pension scheme?

The CHAIRMAN: This is by the revised health and welfare plan?

Mr. GORDON: We are talking of the revised pension plan, which is part 2. Well now, the part 2 contributors as at the end of 1956 were 35,160, and as of 1957, 35,630—practically the same.

Mr. FISHER: Practically the same?

Mr. GORDON: Yes.

Mr. FISHER: Can you analyze why they are so loath to step in and take advantage of this very generous offer?

Mr. GORDON: Yes, I think I can answer that. It is due to the fact that at an early age few men really are able to look far enough and realize that after they are married and settled down it would be nice to have the protection. Combined with this is the basic weakness in our fund,—that it is a voluntary fund.

We are convinced that that is wrong. We are engaged now in some very heavy analysis with the thought that we are going to make the plan compulsory for all new employees engaged from a certain date forward. This will make it a contributory fund the same as the C.P.R. and others.

Mr. FISHER: Willy-nilly?

Mr. GORDON: Willy-nilly for new employees. In other words, we will say that as of a certain date, let us take January 1st next year, we will say that any employee joining the railway must automatically become a contributor to the plan. The present voluntary arrangement is not fair because what happens is that at the time when a man has been in the service perhaps eight or ten years and gets to the point where he should be contributing he is married and has a family, and this generally coincides with the time when his own financial obligations are at the heaviest. In these circumstances the tendency is to say: "Well, I will do it next year", and he never gets around to doing it.

We think the voluntary approach is fundamentally wrong.

Mr. FISHER: If you have a compulsory pensions scheme, what figure will you try to make him compulsorily contribute towards the plan?

Mr. GORDON: Under our provisions in the pension fund an employee contributes five per cent of his salary and on that basis he receives benefits which are outlined in the formula of the pension fund and the railway underwrites the balance of that cost whatever it may be. That is the revised pension fund.

The former plan provided no benefits except on this basis the fund said that if a contributor agreed to pay five per cent of his salary (or up to ten per cent if he chose), the company would match the five per cent. When he came to retire it would amount to a good deal of money, accumulated at interest, and at this time that lump sum and interest would be invested in an annuity which would be established under regular actuarial tables applying at that time. Shortly after I came into the railway, in fact the very first year I was there, that whole pension fund was revised to bring it up to date in line with modern thinking. In essence, we think one of the basic reasons for a pension is to look after a man's survivors. We therefore revised it and made the Part 2 which says that if a man comes under part 2 then he cannot withdraw; once he made his decision to come in it is compulsory. He pays 5 per cent of his salary and receives the benefits which are spelled out. It provides for 50 per cent to his widow in the case of death, subject to some minor adjustments which could happen, and an allowance for children up to the age of eighteen.

The cost to the company can fluctuate, depending on how our investments for the pension fund vary. The residual amount necessary to underwrite the benefits is an obligation on the company. We hope to persuade everybody to get into the revised fund and we hope to make it compulsory, if we can, for new employees.

Mr. FISHER: Will you have to write this into the union agreements.

Mr. GORDON: No. The pension fund is no part of our wage agreement at all. In respect of these pension suggestions we always have a labour representative on the committee working on it and therefore we carry the labour forces' opinions along with us before we announce anything concerning a revision.

Mr. FISHER: What other pensions—

Mr. GORDON: May I add something to what I have said. There will be a number of situations which will have to be considered. We will have to consider giving other types of employees an opportunity to come in. I do not want you to think it is only for new employees. The whole matter will have to be comprehensively covered.

Mr. FISHER: You had a problem in respect of the welfare plan with the other insurance companies, the Blue Cross and the Sun Life in relation to prior pensions and in relation to double coverage.

Mr. GORDON: Our problem was this; in the Canadian National Railways there were a number of other provident and benefit funds of various types. The main ones were the Grand Trunk Railway Insurance and Provident Fund, the Canadian Railway Employees' Relief Association, Railway Employees' Welfare Association Limited in Newfoundland, and a number of minor ones which were sort of voluntary benefit associations.

The problem was that all these companies had coverage issued, and when we negotiated with the unions and the non-operating trades a comprehensive coverage in the form of hospital, medical and surgical benefits, plus a life insurance benefit and a weekly indemnity covering sickness, duplicate coverage turned up. We, therefore, had to go to these old, established benefit organizations and talk to them on the basis of eliminating their coverage. It was improvident for the insurance companies because they are not interested in duplicate coverage. We worked it out.

The Grand Trunk Railway Insurance and Provident Fund was on a financial basis where it was at the break even point and we have taken over its assets and liabilities. We are looking after its outstanding life insurance policies which it had. In the case of the Canadian Railway Employees' Relief Association, we have been able to eliminate the hospital, medical and surgical coverage, and the payroll deductions are no longer made for that. However, that association wants to continue its insurance benefits and we are making deductions from the payroll in connection with the insurance premiums. Because in that case it is life insurance coverage and it is not duplicate coverage. It is merely an extended and larger coverage.

Now there is one final point. I think the one in which you are mostly interested is the Railway Employees Welfare Association. That is a different breed of cat, again, because they cover more than the Canadian National Railways. They have issued policies of different types covering death benefits, widows pensions, sick benefits and all sorts of things all across Canada including T.C.A., C.P.R., Ontario Northland and others. So it is not solely a C.N.R. company, and we have never been involved in the management of it at all. It has always been an arms length proposition. We are now more or less in negotiation with them as to how best to work it out. We have successfully concluded in connection with the medical, surgical and hospitalization benefits, but there is no duplicate coverage in that and we are not deducting on that basis. We still have some outstanding liabilities for which we are at the moment deducting from the payroll at the request of our employees.

Mr. FISHER: I understand from talking with railroaders in the last few days that that Newfoundland group is still proselytizing and still extending its efforts.

Mr. GORDON: It could be. There is no way we could stop it. Provided they have a license to do business, and while it may be inadvisable, there is no way for us to stop them.

The CHAIRMAN: Are there any further comments on wages?

Mr. CARTER: I believe Mr. Gordon was going to get some figures for Mr. Chevrier on the impact of these wage demands.

Mr. GORDON: I was not clear on what Mr. Chevrier had in mind. We stated in our report here—

The CHAIRMAN: It is pretty well set out in the report.

Mr. GORDON: We stated that \$113 million would be the cost of implementing these demands. We regard that as not being a practical proposition. If we are going to take the plain arithmetical results of it, I can tell you that a one per cent increase in freight rates would yield us about \$2 million in revenue. So if we are to attempt to recover \$113 million additional expense, even allowing for the fact that it would not all come from freight rates—then you are talking in terms of a 50 per cent increase in freight rates—that is quite impractical because it would be self-defeating, obviously, if you demanded anything of that sort. So it is not a practical proposition. That is my point. I therefore would not forecast what freight rate adjustment might be required until negotiations with labour have been finalized.

The CHAIRMAN: You see that in paragraphs 33 and 34 under wages, that discussions were held with the representatives of 15 unions during November 1957 and ended on December 2 with a union request for conciliation services.

Mr. SMITH (*Calgary South*): On discussions on freight rates, does the Canadian National Railways negotiate or initiate any of these themselves? I have heard it said that invariably they find themselves saying "Me too" to Canadian Pacific Railway Briefs.

Mr. GORDON: No. It is usually a joint application entered into by both railways.

Mr. SMITH (*Calgary South*): You have your own counsel?

Mr. GORDON: Yes. As a matter of fact the approach is, that presentation is made by the Railway Association of Canada which represents all 14 railways in Canada. The association represents them all and the presentation is usually made by the C. P. R., supported and assisted by our company.

The CHAIRMAN: Are there any further questions with reference to the negotiations carried on and now outstanding?

Mr. FISHER: You gave us information this morning on the diesel matter. You are serving notice to the unions that the company "intended to exercise its discretion in the need for assignment of firemen to freight and yard diesels." Are you all set up in an operating way to make a switch right now?

Mr. GORDON: We can make it very quickly if we are able to work it out, yes.

Mr. SMITH (*Simcoe North*): If a man is a fireman on the C.N.R. and sees no future in being a fireman, does your contract with the union permit him, assuming he has the qualifications, to transfer and become a trainman or a brakeman?

Mr. GORDON: Again there would be the fact of the very complicated question of seniority.

Mr. SMITH (*Simcoe North*): Does he lose his seniority?

Mr. GORDON: Yes he does, if he goes into another group. His normal promotion is from fireman to engineer. But if he transfers from fireman to, let us say, trainman, he has to go to the bottom of the seniority list of the trainmen group. Mind you, it is the union's stipulation, not ours.

Mr. SMITH (*Simcoe North*): It is the union's stipulation?

Mr. GORDON: Yes.

Mr. SMITH (*Simcoe North*): Are comparisons made as to the amount of work hours required to do an operation by the C.N.R. as compared with the American railroads doing the same operation—the number of men required to do a job? Have you any yardstick?

Mr. GORDON: Yes, we have charts that will demonstrate that. I do not know if we have them here. I have a chart which would have demonstrated that very clearly, but unfortunately I have not got it with me.

The CHAIRMAN: It is six o'clock. I believe we have pretty well exhausted the wages item.

Mr. FISHER: Just on the one point, what it says here is pretty final. "The meetings terminated after the union declined to discuss the diesel issue." Is there anything more to be said?

Mr. GORDON: The point we are referring to here is where negotiations between the railway management and the unions broke off. Under the law, there are two steps to take. There is a conciliator appointed who meets the parties and tries to see if they can reach an agreement. He may make a report that there was no possibility of an agreement. Then the government appoints a conciliation board, and both parties would appear before the conciliation board and present their case. That board is sitting now. It has adjourned until August 11 but we are presenting our case before it and the unions are presenting their case. When the board brings down its ruling each side will have to decide what it is going to do. The ruling is not binding.

The CHAIRMAN: There is not much we can discuss on that while it is being considered before the commission.

Mr. FISHER: I quite agree with you. I have a number of briefs and representations with me.

The CHAIRMAN: I think we might consider the wage end is pretty well concluded.

Mr. GORDON: Under this heading I could not make any further reference because the case is before the court.

The CHAIRMAN: Gentlemen, there is not much further we can do, so if you are satisfied, we will adjourn.

We will sit tonight from 8 till 10 o'clock and again tomorrow at 9.30 a.m. 3.30 p.m. and 8 p.m.

Mr. FISHER: Have you any word when the T.C.A. flight is going to take place?

The CHAIRMAN: As soon as we can conclude this, we will proceed with T.C.A.

## EVENING SESSION

MONDAY, July 14, 1958  
8:00 P.M.

The CHAIRMAN: Gentlemen, I see a quorum.

We are dealing with the item under the heading taxes, rents and fixed charges.

Taxes paid by the railway amounted to \$16.6 million, an increase of \$1.8 million over 1956.

Rents paid for equipment and facilities fell from nearly \$10 million to \$4.1 million, due to a reduction in the use of foreign line cars.

Fixed charges rose from \$31.8 million in 1956 to \$37 million. The increase of \$5.2 million was due entirely to higher interest expense, of which

\$4 million is attributable to new borrowings of \$197.1 million during 1957; the remainder is chiefly a reflection of the impact of interest for the full year on 1956 borrowings. A small saving in interest was obtained through the refunding of \$73.3 million of securities held by the public.

Are there any comments you wish to make in regard to those items? They are fixed items and we cannot change them.

Under the heading other income: other income after deductions, as detailed on page 29, dropped 14.6 per cent to \$9.4 million. The decrease was partially attributable to lower profits from land sales and to the inability of the Northern Alberta Railways to pay interest and dividends to the parent companies.

Are there any comments you wish to make on that item?

Mr. SMITH (*Simcoe North*): In the matter of land sales, Mr. Gordon, I realize that certain sales are made for the purpose of increasing the business of the railway. In cases where the increase in business of the railway is not a factor, is there any fixed policy in regard to selling land such as taking bids for tender?

Mr. GORDON: No, it does not always work that way because the sale of land is a little different from what you might call the normal tender process. Very often we find that some group or some individual has worked out a plan of his own in regard to the use of land and he will come to us with a proposal. The proposal may be his own idea in respect of how he may best use the land. Our analysis in that regard is based on whether or not the land in question is likely to be needed for railway purposes.

If our operations officers are satisfied that we are not likely to need it for railway purposes then we make the land available for sale and we check the proposal against what we might call the market value of previous sales of land in that particular area.

The CHAIRMAN: You will observe the chart of the revenue dollar which gives a good idea of the situation. As the president told us before the 3.5 cents of the dollar represents all other revenue and the payrolls amount to 56.8 per cent. 5.4 cents represents pensions and health and welfare together amounting to over 60 per cent. This chart gives a good picture of the situation.

Mr. BROOME: Where do you find the figure of \$9.4 million on page 29?

The CHAIRMAN: On page 13 at the top under the heading, "other income".

Mr. BROOME: It says the details appear on page 29.

The CHAIRMAN: It says, "other income after deductions, as detailed on page 29—"

Mr. BROOME: I am looking now at page 29.

Mr. GORDON: It is the total of the other income which you will see on that table as \$10,055,000 less the total deductions from income being \$607,000 shown below. It is the net figure of \$9.4 million.

Mr. BROOME: To arrive at the net income available for fixed charges you have deducted \$607,000 from \$10,055,000?

Mr. GORDON: To arrive at the net other income we deduct the \$607,000 from the \$10,055,000 which gives the figure of \$9.4 million. This is the net figure we are quoting on page 13.

Mr. BROOME: Just below that item it says "net income available for fixed charges \$7,399,139". Should that be the figure "9" in there instead of "7"? Is that a misprint?

Mr. GORDON: No, this is not a misprint. We could not allow that! The figure of \$9.4 million is the net of \$607,000 deducted from \$10,055,000. The

figure representing net income available for fixed charges, \$7,399,000, is the \$9.4 million less the \$2.048 million representing net railway operating income which is a deficit figure.

Mr. BROOME: That is a deficit figure?

Mr. GORDON: That is right.

The CHAIRMAN: We can now deal with the paragraph headed, hotel operations, paragraph 40.

Mr. SMITH (*Calgary South*): Mr. Chairman, I wonder if Mr. Gordon would give us some indication as to future anticipated expenditure for new accommodation, or new hotels, and for my own edification will he tell us if he is going to, in regard to the Chateau Laurier, before it gives in completely to the termites, spend some money bringing it up to date? It seems to me, sir, that of the C.N.R. hotels—we have many good C.N.R. hotels—this is the least attractive although it should be one of the better hotels.

Mr. GORDON: That is extraordinary, Mr. Chairman. Just the other day I had the pleasure of reading a letter presented by a world-wide organization which certified that the Chateau Laurier was one of the finest hotels in the world.

Mr. SMITH (*Calgary South*): I am not speaking of service, Mr. Gordon, I am speaking of the facilities and accommodation that are available and which, I think, are very outdated.

Mr. GORDON: What type of accommodation do you have in mind?

Mr. SMITH (*Calgary South*): I am speaking of almost all the rooms with the exception of a few which you have modified. Is it not true that it is some time since a considerable amount of money has been spent on this hotel?

Mr. GORDON: That is certainly not a true statement. Certainly in regard to the old wing, which was in bad shape—

Mr. SMITH (*Calgary South*): I have seen it.

Mr. GORDON: We have just finished a major remodelling project of the old wing, about six months ago. Previously there were no bathrooms or normal facilities in 128 rooms but we have spent almost one-half a million dollars on that renovation.

Mr. SMITH (*Calgary South*): My friends must occupy the cheaper rooms, Mr. Gordon, because that is all I have seen.

Mr. GORDON: What do your friends pay for, the cheaper rooms or the better ones?

Mr. SMITH (*Calgary South*): I thought the accommodation was sub-standard throughout the hotel.

Mr. GORDON: I am very sorry that you think that but I believe you could find quite a difference of opinion in that regard.

Mr. BROOME: In regard to the Queen Elizabeth hotel I understand that most of the design and engineering work, also architectural work, was done in New York city, is that true?

Mr. GORDON: That statement is absolutely wrong. The chief architect of the Canadian National Railways is the architect responsible for the building of the Queen Elizabeth hotel.

Mr. BROOME: That is quite true. His name is on the top of the building but that does not mean anything.

Mr. GORDON: Oh, yes, it does, I beg your pardon. If you asked the chief architect if it meant anything he would tell you that it means hard work—enough probably to kill himself in the process.

Mr. BROOME: Do you farm out the detailed engineering work?

Mr. GORDON: Certainly not. What happened in regard to the Queen Elizabeth hotel was that the concept of the hotel was in the control of the architectural department of the Canadian National Railways. In the early stages they called in, as consultants, the firm of Holabird & Root of the United States for the simple reason that we had not built a hotel of that size in Canada for 20 or 30 years. We received their advice in that regard but the actual architectural details were entirely the responsibility of the chief architect of the Canadian National Railways.

In regard to the engineering side of the question, this was completely Canadian talent.

Mr. BROOME: Are figures available as to the amount of money spent for architectural and engineering fees paid to United States firms?

Mr. GORDON: Yes, we could get those figures for you. I do not know if I have them readily available. It is a small amount.

Mr. BROOME: Could you tell us also why the management of the hotel was given to the Hilton people?

Mr. GORDON: I dealt with that in more detail two years ago when we first made that contract. I have no objection, however, to summarizing it for you now. I hope you will bear in mind this is a summary only.

The history of that situation is that when we decided to go ahead with the construction of the hotel, which we did entirely on our own responsibility, we learned that the Hilton organization was reviewing the city of Montreal with the intention of locating there. These people came to see me after we had announced our decision. We had a discussion as to the market, so to speak, of hotel accommodation in the city of Montreal. At that time it became clear we could join forces in the sense that if we accepted Hilton management we would be sure to obtain contact with this large world-wide organization.

You must keep in mind—I am not going to look at my previous statement now, because I could read it and give you what I said before—but I shall speak entirely off the cuff.

You must keep in mind that the success or otherwise of the Queen Elizabeth is based entirely on the fact that it is built for the purpose of handling large conventions.

Let me put it this way, it is a mass production affair in terms of hotel accommodation. It is intended to bring large conventions of a size which we have never been able to handle in Canada, and to bring them in with the attraction of facilities particularly geared for large sized conventions.

It became very obvious to us that with that project in mind, in order to attract these large conventions we would have to break into the market in the United States. We discovered that practically all conventions of large size are almost a monopoly of three hotel chains in the United States.

If we were to attract that type of convention we would have had to establish solicitation offices throughout all the major cities in the United States which would have added considerably to our overhead. We realized that by forming an association with the Hilton organization we would be given an opportunity to become one of their chain, which is a world wide chain of high class hotels, and that it would be to their benefit as well as to ours.

Furthermore, as we went into the details we were able to work out with them a most satisfactory operating agreement whereby they would manage the hotel for our account.

It is a Canadian National hotel, owned entirely by the Canadian National, but managed and operated by the Hilton organization; and the consequence is that we have full access to all the business that will come into the Hilton chain through their world-wide organization.

The Hilton organization is the largest world chain of hotels anywhere, as you probably know; and we have the advantage of this contact in getting ourselves included as part of the chain for the large conventions as well as the interchange of information affecting travellers who may be coming from foreign countries to Canada, and who will be directed to our hotel by the Hilton organization.

Mr. BROOME: It is on a management-fee basis?

Mr. GORDON: That is right.

Mr. BROOME: And any losses are taken care of by the railway?

Mr. GORDON: No, absolutely no. Any losses from operating the hotel will be borne by Hilton.

It is one of the best arrangements that I have ever seen. I have made many arrangements in my life time on behalf of the government and public administrations in various capacities but there is no arrangement which has given me more pride or gratified me more than this arrangement with Hilton.

Mr. FRAZER: May I ask when you expect to be putting television into the Chateau Laurier? It is about the only hotel of its kind in the country which has not got television.

Mr. GORDON: It is a question of what the traffic will bear, and whether, if we decide to put television into the suites or the various rooms, we can increase the room rent per day.

Mr. FRAZER: Please do not do that.

Mr. GORDON: I thought you would take that attitude.

Mr. FRAZER: I have been there for nineteen years.

Mr. GORDON: I thought that would be your reaction, but remember, it is just the same with hotel operation as it is in any business organization. If the organization is going to spend capital for hotels, it should do it on the basis of getting a return for the money spent, and whether or not \$1 or 50 cents per room will pay for television if it is installed is the question.

Mr. FRAZER: Do you not think that you would get more business if you put television in?

Mr. GORDON: It is a matter of judgment, of opinion. I do not want to go into the technical aspects of it but it so happens that the Chateau Laurier hotel, particularly from the technical operation in regard to television, is a place where it is difficult to put television into the rooms because there is broadcasting going on in the hotel itself.

Do not ask me why, but there are technical difficulties, and it would be most difficult to put television into the Chateau.

I happen to have a television set in my suite. That is not because I am the president, but because that room happens to have the advantage of a chimney and they managed to run the wires down through the flue. But to put television into the ordinary rooms would create technical difficulties which would be very expensive to overcome.

Mr. SMITH (*Calgary South*): I think our chairman has one in his room.

The CHAIRMAN: No, I have not. But I wish they would build a chimney for me. I certainly pay enough to warrant one.

Mr. SMITH (*Calgary South*): May I ask the same question that I put to you on the Chateau Laurier with respect to the Jasper Park lodge? It is true that you have built a very beautiful lodge.

Mr. GORDON: Yes.

Mr. SMITH (*Calgary South*): I was there last summer and again this year. The conditions around the lodge and the cabins attract a great deal of revenue to you.

Is any consideration being given to improving those facilities, other than the lodge at Jasper?

Mr. GORDON: Our problem at Jasper is that it has a very short operating season which runs from about the middle of June through the first week of September.

If we could devise ways and means of extending the period of the work force, we could put in a lot of improvements there. That matter is being examined now.

One of the difficulties is the tradition which has been built up there to employ student help. But that student help has to return to university by the first week of September, and to get temporary help after that period creates great difficulty.

Mr. SMITH (*Calgary South*): Speaking specifically of improvements required, aside from the accommodation of this lodge, the facilities are becoming rundown.

Mr. GORDON: It becomes a question of whether we can put in the necessary expenditure and achieve a return on it. I am going to try to get out there again this fall to see what is possible. We could afford, I think, to put a good deal of capital into Jasper if we could extend the season.

Right now Jasper Park is at a premium for accommodation. We have a waiting list and we have no difficulty in selling people on the hotel for the usual period; but if we could find a way to extend it, there are a lot of things we might do.

Mr. SMITH (*Calgary South*): The second part of my question is this: are there any major capital expenditures anticipated on the hotel operations?

Mr. GORDON: That will be in our budget when we come to deal with it. I have specific items in it, but I do not recollect them offhand.

Mr. CREAGHAN: I notice in your schedule that you show nine system hotels across the country, while in this report you mention seven year-round hotels. There are a couple that are not accounted for. I wonder if you would explain what they are? Secondly, if you have nine across the country, have you any plans for a tenth one which would give you a hotel in every province?

At the present time you have nine hotels in nine different provinces. But you have none in New Brunswick. Would you consider a survey for a hotel for Moncton?

The time has come I think that if you plan a hotel in eastern Canada, some consideration should be given to your regional office.

Mr. GORDON: You have picked up a point which is expressed rather loosely when you refer to seven year-round hotels. The Vancouver hotel, which is a joint operation, is not included. Perhaps we were too precise about it, but in part it is a Canadian National hotel.

The other one is the Queen Elizabeth, which was not open in December of 1957 when this report was written. So we do have nine hotels if we include the Hotel Vancouver and the Queen Elizabeth.

In so far as New Brunswick is concerned, we have had a look at the general situation in New Brunswick, particularly with reference to Moncton, and we have not reached the conclusion that the traffic available would be sufficient to justify the kind of hotel that the Canadian National Railways is prepared to build.

Going back a few years, we disposed of the smaller hotels that we then owned, such as the ones at Port Arthur, Pictou Minaki and Brandon. We got

rid of them because we came to the conclusion that you just cannot mix the two types of business. You have either to be in the big hotel business or the small hotel business.

Mr. CREAGHAN: I was thinking of one about 360 rooms, which would be built in Moncton and which would make your system national.

Mr. GORDON: Yes, it would be something along the order of the one established in Charlottetown, but that was done twenty-five years ago. We do not see anything that would justify our building any hotel that would not be in our opinion of the standard that CNR hotels should be.

Mr. CREAGHAN: How many small hotels do you have in your system today?

Mr. GORDON: The smallest one, I think, would be the Charlottetown. The Charlottetown was built in the days when small hotels were being built. I am sure if it was a question of building it today we would not build it.

Mr. CREAGHAN: Are you making a profit at the Charlottetown?

Mr. GORDON: We are not making a profit from the Charlottetown.

Mr. BROOME: Would you table figures on profits and losses for all your hotels?

Mr. GORDON: Yes, I am always a little reluctant because it leads to invidious comparisons, but I will table it.

Mr. BROOME: I do not need it now, I will get it in the record.

(See Appendix A).

The CHAIRMAN: Any other questions on hotels?

Mr. CARTER: May I ask if there are any plans to expand the Newfoundland Hotel in the near future?

Mr. GORDON: No plans yet. We have that matter under consideration but there has been no development on it as yet. There is the question now as to what future there is going to be in the light of the fact that there may not be any more American occupation, if that is the proper term. If we can satisfy ourselves that traffic will justify our going into it we will be able to recommend expansion of the Newfoundland Hotel. We are now going ahead with the Nova Scotian. The ceremonies finished today, turning the first sod or whatever it is a bulldozer does. Anyway they started work today on the Nova Scotian. There is a possibility in connection with the Newfoundland that there has been some change in the situation that causes us to have another look at it.

Mr. CREAGHAN: Would a change in the provincial liquor laws in New Brunswick perhaps change your outlook on a new hotel?

Mr. GORDON: It could be. I would not rule it out. It has got to be regarded from the standpoint of a serious business proposition and while Moncton is the hub of the Maritimes from a railway point of view we have not been able to satisfy ourselves that the type of hotel traffic that would be required to maintain the type of hotel that we would want to build could be obtained in Moncton. What I mean by that is, I would be prepared to say that there is need and room for smaller hotels in Moncton. We do not want to build that small hotel. We have found from experience that the way we can operate most efficiently is by having large hotels. We are in the large hotel business. For instance, when I was in Prince George in British Columbia I told them the same thing and the result of our survey meant that they were able to attract some other operators who realized there was a need for a small hotel and they have gone ahead with the development. There would be room in Moncton for a private enterprise operator too, who could do the kind of things we cannot do. We have to maintain the kind of standard that Mr. Smith criticized. We cannot do the things a small hotel operator can.

The CHAIRMAN: Any other questions on hotel facilities? Now, growth and progress.

We have other things to do besides the annual report and we have a lot in the annual report so let us expedite things and keep as close to what is relevant and material as we can.

Mr. CARTER: Before we go on to the next page I ask permission to revert for just one question. I was late getting here and this item was called. I just want to ask if the tax negotiations with the town of Port aux Basques have been completed now.

Mr. GORDON: Tax negotiations?

Mr. CARTER: The tax negotiations going on in the town of Port aux Basques. I believe they have been going on for some time.

Mr. GORDON: I do not recognize the item. Tax negotiations in regard to the channel?

Mr. CARTER: No, with regard to the town and the town council. Was there some negotiation with the town council of the town of Port aux Basques?

Mr. GORDON: Sorry, it does not ring a bell at all. I will have to look it up and see what the situation is. I am sorry it escapes my memory at the moment.

The CHAIRMAN: "Growth and progress", paragraph 42.

In spite of the decline in traffic in 1957, the Canadian National continued to improve its equipment, modernize its facilities and streamline its methods and techniques.

And then the beginning of the next paragraph 43:

Progress was reflected in the opening of several important new rail lines bringing mineral and other natural resources to market.

Mr. BROOME: Mr. Chairman, in regard to dieselization, Mr. Gordon, would you say...

The CHAIRMAN: We are not to that yet, that is on the next page.

Mr. BROOME: That is not growth and progress?

Mr. GORDON: It is under the heading of dieselization. There is a special heading.

The CHAIRMAN: Let us stick to all the items as we come to them. We are now on growth and progress.

Mr. BOURBONNAIS: Mr. Chairman, it states at paragraph 62 the amount of box cars that were built in 1957, over 6,000 box cars. Would it be possible to have the provision for next year's boxcars?

The CHAIRMAN: The question is what are your plans for boxcar provision for next year.

Mr. GORDON: That will be in the capital budget when we come to it. We have our details of that in the budget.

Mr. BOURBONNAIS: Thank you.

The CHAIRMAN: Any other comment?

Mr. FISHER: Just in passing how is the line from Hillsport to Manitouwadge getting on in terms of competition with the Canadian Pacific railway for traffic out of Manitouwadge?

Mr. GORDON: It is a struggle. We are getting along as well as we expected but there is heavy competition for the traffic out of that area.

Mr. FISHER: Is it a money maker?

Mr. GORDON: We think so. It is hard to analyze these things in detail but we are quite satisfied with the nature of our investment.

Mr. BROOME: In growth and progress would a question in regard to dropping of miles of uneconomic track that have been taken down be in order, in other words, taking off lines or relinquishing lines.

Mr. GORDON: Yes, abandonments.

Mr. BROOME: Abandonments of the road bed.

Mr. GORDON: Yes.

The CHAIRMAN: What is the point there, to find out how many have been taken off?

Mr. BROOME: Just to see what progress has been made in getting rid of these losing spurs.

Mr. GORDON: I have a statement here that goes back into the years on the track miles abandoned. The record of the last 30 years shows that we have abandoned a matter of 1,269 track miles and in the period 1955 to 1957 which I presume you are especially interested in, the abandonment was 165 miles of which 155 miles were in Canada.

Mr. BROOME: Should not that program be accelerated?

Mr. GORDON: We would like to accelerate it in many cases, but when it comes to the abandonment of lines, as I said earlier today, that carries very fierce opposition, and we cannot abandon a line without an order from the Board of Transport Commissioners. We have a Hearing because anyone who has any reason, legitimate or otherwise, to object to that, has the privilege of appearing before the board and stating his objections. The abandonment of lines is one of the things we must do in many cases to cut down our deficit, but the resistance and the objections that are raised every time makes that practice very difficult indeed.

The CHAIRMAN: In the next two items you will see where they have built additional lines. They have added 73 miles of new track under item 47.

Mr. FISHER: Is it in order to ask Mr. Gordon about this projected line development in northern Alberta, up into the Northwest Territories and the position of the Canadian National Railways.

The CHAIRMAN: That is under 45.

Mr. FISHER: I would just like a very brief summary of the Canadian National Railway's position.

Mr. GORDON: Well, that breaks into two or three points. There are several branch lines in Manitoba which are under survey and as we say in paragraph 46, there is a line going in on the Sherridon subdivision to Chisel lake, Manitoba. We also have made an agreement with the International Nickel company for 31 miles of line in Sipiwesk.

Mr. FISHER: It was Alberta I was interested in. The reason I asked if the question was in order was because there was some discussion in the house with the Minister of Transport and I did not want to usurp his privilege.

Mr. HEES: If I might answer that, as I said in the house, that matter is under very careful consideration by the government at the present time and we are not in a position to give any more information on it right now.

Mr. FRASER: Do you intend to put on dayliners throughout Ontario this year?

Mr. GORDON: I answered that question earlier.

Mr. FRASER: I am interested only in respect of Ontario.

Mr. GORDON: We have 26 units in service at various points. We have 7 different points under examination. I do not want to forecast or refer to the things which we have under examination until we have made up our minds

as to whether or not we are going ahead with them. The minute we say that something is under examination we are pressured on all sides as to what should be done.

The general principle is that wherever a railiner can provide service and reduce cost we will consider its use. We have a system-wide examination under way to determine where use of these units is feasible.

Mr. FRASER: I just thought that it may bring in a little extra revenue.

Mr. GORDON: It is not so much a matter of extra revenue, but rather a matter of cutting down the cost.

Mr. MITCHELL: Are you at liberty to give me a progress report concerning the improvement of facilities at Sudbury? I think you will remember we mulled this over two years ago and again last year, and since that time I would say that the rumours have you in the field of buying a location outside of the city relative to what we were figuring out a couple of years ago. I believe you are in the progress of buying a location. I am only asking for a progress report if you wish to give one.

Mr. GORDON: We have had our passenger and freight facilities in Sudbury, as you know, under very careful examination. We have here an item to provide for the eventual construction of new passenger and freight facilities to service this area. In our 1958 capital budget there is an item covering the purchase of land at Sudbury Junction. A plan for expropriation of land has been filed but the necessary land transaction has yet to be accepted.

However, we have in the capital budget provision for the money requirement although we do not want to state specifically what our land requirements are because people have a nasty habit of raising the price when they find that someone is interested in purchasing the land.

Mr. MITCHELL: I agree with you. Let us assume, for argument's sake, regardless of where that location is that the land is acquired; I surmise that would remove the depot from where it is now to that new location.

Mr. GORDON: That is the intention.

Mr. MITCHELL: Thank you.

The CHAIRMAN: What about the roadways; the new rails that were put in?

Mr. BROOME: Will those allow you to speed up schedules at all? It doesn't look like we will get air transportation.

Mr. GORDON: Subject to what I said earlier, speed costs money.

Mr. BROOME: It does, does it?

Mr. GORDON: Yes. Faster speed among other things means you have to improve the roadbed substantially.

Mr. BROOME: I meant that because of that you might be speeding up your schedules.

Mr. GORDON: We started from scratch in the western region, in a sense, because it was very much below par in respect of what we regard as being a good roadbed. The early history of the country, particularly with reference to the Canadian Northern Railways was that the lines were simply laid on top of the prairie and there were no drainage or ditching arrangements to the extent we consider adequate. We were very much in arrears in respect of putting the western region lines on a speed basis.

I think I mentioned that we had a program which would take about six years and which would cost something under \$50 million to bring us up to standard. We are making progress on that, and as we improve the line we study the question of improving schedules even having in mind that running trains fast costs money. You do not get the same fuel consumption. It is the

same as a motorcar; if you drive it at 90 miles an hour you do not get the same number of miles to a gallon of gasoline as you do at 40 miles an hour. The same applies to railways. We have to consider the question of speed in relation to the results accomplished by it. If by cutting schedules we can be more competitive in relation to other transportation we will do it.

Mr. BROOME: In connection with these schedules are the two railway companies usually in agreement?

Mr. GORDON: Yes.

Mr. BROOME: Are you holding back the C.P.R. or are they holding you back?

Mr. GORDON: I do not want you to think for a moment that we have an agreement in the sense that we agree with each other that we will not run our trains so as to be competitive. The point is that we have an agreement to pass on to each other our spring and fall time-table changes to inform each other of the plans we have. We do tell each other what plans we have in relation to particular runs, especially where we are competitive; but we do not reduce our services, nor they theirs, in order to accommodate each other.

The CHAIRMAN: The next paragraph is 52.

"The detailed engineering stage was reached in a program for the systematic application of centralized traffic control to more than 4,000 miles of the railway's transcontinental main line."

That is necessary if we are to get more speed.

Mr. FISHER: It has been said in union circles, when C.T.C. is finally in, that there will really be no need for the fourth member of the train crew. In other words, one of the brakemen could go.

Mr. GORDON: That falls into what I said earlier today, that we have examined our train crew in relation to what is needed for the whole train. We have views on that. These views will become known in the course of our labour negotiations. The case in point which is uppermost now is the fishermen; but we are not acknowledging that the fireman is the only one who may be affected by reason of technological developments.

While I do not want to say anything to start an alarm, it is perfectly true with each one of these technological improvements that, it should produce either an increase in productivity or a labour change. These can take place in a number of ways either by reduction of labour or an increase in productivity in relation to an increase in traffic. Automatic signals basically have the safety factor in mind, first of all, as well as the improved operation of a train generally.

Certainly with C.T.C. we can run trains more efficiently and that is a part of the conditions that we must achieve to obtain the maximum results from our huge expenditure in dieselization. We are away below the standard of the CPR or the major United States railways in regard to signalling generally. We are below standard.

Mr. FISHER: How long do you think it will take in this plan which you have prepared to completely introduce centralized traffic control?

Mr. GORDON: Ten years.

Mr. DINGLE: Yes. We are working on a five-year plan now.

Mr. GORDON: We have broken this down. The problem here is that so many of these things in the past have been on a sort of hit and miss basis. There has not been any really intelligent plan in respect to how best to do it. We started some years ago—I will use the personal pronoun in this respect, —I started years ago to say, "I will not authorize any more money on signalling until I get a plan." I wanted to know where we were headed. We have spent

two years in order to find what is the best type of signalling. We now have the plan and the question of how rapidly we will implement this plan will depend on two things: First, the amount of money that we feel we can put forward in our capital budget and, second, the availability of the very highly specialized technical equipment and staff that is needed to establish these signals. We are short of skilled staff to install and we are also short of equipment itself. But we intend to go ahead as rapidly as these factors will permit.

The CHAIRMAN: Are there any further questions on signals, yards and terminals?

Mr. KENNEDY: Mr. Chairman, may I ask a question with respect to the Atlantic division. Do you know there has been a serious depletion of repair services at Truro which are now being concentrated in terminals at Halifax, Sydney and Moncton? How is that new system working out there? Have you saved enough money to warrant displacement of other senior men there?

Mr. GORDON: I would not let your comment about displacement of senior men pass without a question mark. Certainly the results of modernization of the railway in the form of signalling, dieselization and so on have been very noticeable in Truro, and it has only recently become noticeable. So it will take a little time for us to prove what we think is so. All we can say is that from all the analyses we have at present we are satisfied that our decisions will bear fruit. I do not think there is any doubt about it.

Mr. KENNEDY: It is probably a little different from some other points, being a sort of junction and terminus of the D.A.R. there.

Mr. GORDON: That has been taken fully into account. It would take quite an analysis to demonstrate just what we have in mind there. But the fact of the matter is that with diesels and with signalling we can accomplish the same thing by centralization in Moncton and rearrangement of yards, and do without the facilities that we have in Truro.

Mr. KENNEDY: I have another question regarding the auxiliary equipment which has been there from time eternal, so to speak. It has now been placed on the end of the line at Halifax, which puts it on the extremities. Why is that?

Mr. GORDON: That again gets into the question of the analysis as to why we do certain things. The auxiliary was moved from Truro to Halifax. It is considered better to have protection at both ends of the area, and particularly to have the auxiliary at Halifax in order to protect the south shore. If a crane, for instance, was located in the centre of the area at Truro, then it would also be needed at either end. And with dieselization it takes only a relatively short time to reach a wreck scene, north or west of Truro from Halifax. The location of our equipment generally, particularly the equipment having to do with wrecks, is spotted on the basis, out of our experience, where we can reach the wreck scene most quickly. We have to get there fast and that is how we arrive at where we could best place the equipment and the auxiliary that you have in mind.

Mr. KENNEDY: Of course the centralization down in the Maritimes is not very popular, especially since we have been preaching decentralization down there. That makes it quite difficult.

Mr. GORDON: I agree with you;—and bless me, I wish I could find some way where we could make these adjustments and please everybody; but I do not know how to do it. You have to recognize that change is inevitable. If we are going to keep the railway industry efficient, then that means we have to take advantage of every technological development and use it to the best advantage. If we do not do that, not only will the railway industry suffer by reason of that fact that it ceases to be competitive and loses business but, more seriously, we will not provide the Maritime provinces with the kind of transportation service that will make industry there generally efficient.

You cannot have it both ways. You have to make up your mind one way or another. Service is service; and the only thing that can give the Maritimes the maximum benefit is to give them the most efficient service we can—all things considered.

The CHAIRMAN: We are now dealing with yards and terminals. Are there any questions now on 53, 54, 55, 56 and 57, studying of freight handling and the problems at Truro, and St. John's, Newfoundland.

Mr. CARTER: Mr. Chairman, what is the present stage of negotiation between the C.N.R. and the provincial government with respect to the overpass at the terminal at Port aux Basques?

Mr. GORDON: That is an old story by now. Two or three years ago, I remember having said "That is fine, that is adjusted." I have not the details here, but I know there is no argument left. We have come to an agreement.

Mr. CARTER: An agreement has been reached?

Mr. GORDON: Yes.

Mr. CARTER: And it is up to the provincial government to start building?

Mr. GORDON: Under the terms of the agreement there is no dispute remaining between the provincial government and the C.N.R.

The CHAIRMAN: Are there any further questions on yards and terminals?

Mr. ROBICHAUD: Could Mr. Gordon tell us if the C.N.R. expects any major improvement in the passenger station at Bathurst?

Mr. GORDON: I do not know. Perhaps under my capital budget there might be something for Bathurst. May I defer all these questions, Mr. Chairman, having to do with the extension of facilities such as new stations and take them up under our capital budget?

The CHAIRMAN: I think that would expedite it, Mr. Robichaud. It is the general policy which we are dealing with now.

Mr. CHOWN: Has any official decision been made with respect to the removal of the C.N.R. shops from south Winnipeg?

Mr. GORDON: What do you mean by south Winnipeg?

Mr. CHOWN: Fort Rouge.

Mr. GORDON: We made a statement in Winnipeg the other day which evoked headlines congratulating the C.N.R. I do not know whether or not you read that.

Mr. CHOWN: It has not caught up to me yet.

Mr. GORDON: There has been a great deal of misunderstanding and distortion about our position in Winnipeg. We issued a statement there made by Mr. J. R. McMillan, vice president of the Western Region. If I may quote just part of it:

The greater Winnipeg area will continue to be the centre of our Western Region operations, including main shops, Mr. McMillan declared. He also emphasized that the C.N.R.'s plans do not contemplate transferring to other points any shop or maintenance work now being done in the Winnipeg area.

The C.N.R. vice president also stated that the diesel locomotive and car repair work was being consolidated at Transcona because of superior building structures; more up-to-date machinery and equipment; and the existence of important supporting facilities, including a central material handling midway. The facilities at Fort Rouge could not be made suitable except at excessive cost, he added.

The use of steam locomotives in the west is constantly diminishing and it is expected that complete dieselization will be effected by 1961, Mr. McMillan continued. Inasmuch as there is a good supply of serviceable steam locomotives on the region, Mr. McMillan said that only light repairs would be required to these locomotives in the interim. At the same time, with the increasing number of diesels in use in the west, it is imperative that the Transcona shops be converted to handle increased diesel repairs by early 1959. This C.N.R. shop will then become the main plant for heavy diesel repair work on the western region.

That means that our main stops and facilities will be at Transcona; and the Fort Rouge shops—what is left of them—will be devoted to passenger car servicing work in the Fort Rouge area. But it does not mean that work will be removed from the Winnipeg area.

Mr. CHOWN: Does that account for the lay-offs that have been taking place in the Fort Rouge area?

Mr. GORDON: No, I would not say so. The Winnipeg area lay-offs have in part been due to the traffic decline, and the lesser need for locomotive repair work and things of that kind. But it is difficult to be precise about that because in the midst of this transitional work that we are doing we are bound to have periods in which our requirements will fluctuate. There is an adjustment period which will make for some little difficulty; but on the over-all I would say that there would be more work available in Winnipeg than there has been in the past.

Mr. CHOWN: Do you contemplate a reasonably early re-employment of these men you laid off?

Mr. GORDON: It depends on how fast we get ahead with implementing our capital budget. You will find when we come to our capital budget that we have large expenditures for the Symington yard as well as for Transcona itself. There will be capital expenditures of that kind which will employ labour but whether it will employ the type of labour laid-off is difficult to say. We cannot give out instructions to transfer men from locomotive jobs, for instance to other types of work or other trades where there is a union agreement with seniority provision. So you will encounter the situation where you have certain types of labour being laid off while we are taking on other types.

Mr. FISHER: The city of Fort William has been anxious to get the C.N.R. line through the town re-routed and there have been some discussions in regard to this. What is the C.N.R.'s position?

Mr. GORDON: The ore handling facilities as you know come through from Steep Rock and our own facilities there are important. I have looked at that situation several times and from the railway point of view there are only two acceptable routes that have been under discussion with the city. The city of Fort William has submitted its comments on six alternative routes to the Board of Transport Commissioners. I thought the argument had been settled, but Mr. Dingle informs me it has not been completed.

Mr. DINGLE: They only recommended two.

Mr. GORDON: The matter is still under discussion with the Board of Transport looking on as a referee in case we do not arrive at an agreement. We have had a considerable discussion with the city and I am disappointed to learn that we have not reached an agreement.

Mr. GRILLS: A rumour has been circulated that the Belleville area might be contemplating some return for the shops at Belleville which long has been a divisional point of the C.N.R. Is that true?

Mr. GORDON: I would not want to comment. I do not know what the immediate situation is. We make our adjustments in staff arising out of quite a number of reasons. It is a normal happening in the railway that the numbers of its working force must rise and fall under the needs of many conditions. There are seasonal factors, traffic factors and the technological factors.

Mr. GRILLS: In the past they repaired steam locomotives in those round-houses.

Mr. GORDON: Yes. If it is a roundhouse for steam locomotives, you may just as well tell your constituents they have to accept the fact it will eventually be closed. There will be no need for roundhouses when steam locomotives disappear. We are trying to make those adjustments as considerately as possible, but they have to be made.

The CHAIRMAN: The next item is dieselization.

Paragraph 58:

Dieselization by geographic areas, the second phase of the C.N.R.'s long range program, made satisfactory progress during the year. This phase was started in 1957 on completion of the company's original five-year plan in which diesel power was applied selectively to specific runs and services.

Paragraph 59:

In the early stages of the program, the maximum utilization made possible by the selective application of diesels yielded very substantial benefits, despite the operation of repair and servicing facilities for both steam and diesel power.

Then there is paragraph 60 and paragraph 61 which says:

In 1957, diesel operations accounted for 72.9 per cent of freight gross ton miles, 81.6 per cent of yard locomotive hours and 58 per cent of passenger car miles. By year end, Canadian National was operating 1,433 diesel units on system lines.

Mr. BROOME: I notice on the summary of inventory of railway equipment there were 330 diesels placed in operation and 263 steam locomotives retired. I would have thought there would have been more steam locomotives retired than diesel electric put into operation.

Mr. GORDON: Yes, that is the difficulty of reconciling the timing of these events. Of course, all steam locomotives will eventually be retired, but it depends very largely on the phase of the traffic cycle how rapidly these steam locomotives should and might be retired. We have quite a number of steam locomotives that now are what we call in "tallow". They are sitting there by reason of the fact that our traffic has declined so quickly and so materially. If it had not been for the decline in traffic, we would have been using the steam locomotives to take up the peak load. Our program now is that we will complete full dieselization by the year 1960 or 1961. That is running at the rate of 300 diesels a year.

The CHAIRMAN: Are some steam locomotives scrapped or are some sold to other countries?

Mr. GORDON: We are at present at the most difficult stage of our transitional period between diesel and steam locomotives.

The CHAIRMAN: Eventually they are scrapped?

Mr. GORDON: Yes, there is no sale for them. We have canvassed the world, particularly in the last few months. We have been in touch with almost every country in the world and there is no sale for them.

The CHAIRMAN: There is no chance for them?

Mr. GORDON: No chance of giving them away. There is no use for steam locomotives. They are not being built and have not been built for years.

The CHAIRMAN: In other countries as well?

Mr. GORDON: No.

Mr. BROOME: Are they 100 per cent depreciated?

Mr. GORDON: No. I will give that information later.

Mr. SMITH (*Simcoe North*): Where do you buy your diesels?

Mr. GORDON: In Canada for the Canadian lines at General Motors Company, Montreal Locomotive, Canadian Locomotive & Canadian General Electric. They are the manufacturers of diesels. We call for tenders from each one of these manufacturers. In connection with the United States lines we call for tenders from United States manufacturers.

Mr. SMITH (*Simcoe North*): In regard to the Canadian diesels, are the component parts largely made in Canada?

Mr. GORDON: It varies; I do not know what the percentage is offhand. My impression is that the General Motors content of the imported parts is probably a little higher than Montreal Locomotive. What is your impression, Mr. Dingle?

Mr. DINGLE: That is my impression.

Mr. SMITH (*Simcoe North*): We have received criticism that the electrical components for General Motors are almost all made in the United States and that there is very little assembling of the electrical components. Is there anything in that story?

Mr. GORDON: That could be; we do not know. We call for tenders for a delivered diesel and we do not think it is our job to try to specify where the component parts are obtained because if it is the intention to protect an industry in Canada which might produce these components that is the business of government to decide on a tariff policy.

Mr. BROOME: On that same point, are you not allowed to use Canadian built diesel electric power units in the United States? Why would you buy these in the United States rather than buying in Canada?

Mr. GORDON: They are cheaper in the United States than here. If we were buying diesel locomotives in the United States for use on Canadian lines we would pay a duty of 22½ per cent. When we buy diesels for use in the United States we buy them cheaper delivered in the United States.

Mr. BROOME: Is the Canadian diesel locomotive the American price plus 22½ per cent?

Mr. GORDON: No, not necessarily.

Mr. BROOME: I am not talking about buying them in the States. I am talking about the Canadian manufacturer.

Mr. GORDON: We call for tenders for diesel locomotives in Canada. But if an American company wishes to tender to us, with the 22½ per cent protection they cannot quote an American price plus this 22½ per cent and be competitive with a Canadian manufactured product.

Mr. BROOME: Could the Canadian manufacturer quote a price that is competitive with the United States manufactured price in the United States?

Mr. GORDON: Yes, the Canadian price is lower than what we could get quoted by an American manufacturer plus 22½ per cent.

Mr. BROOME: I do not mean that. In other words, if you bought from a Canadian manufacturer and used it on your United States lines, you would have to pay the American duty?

Mr. GORDON: Yes, we are up against duty in that regard.

Mr. MITCHELL: I would like to ask Mr. Gordon a question if I may, Mr. Chairman. Has the C.N.R. recently accepted tenders for 100 or more diesel units which are either in the course of delivery now, or will be delivered in the near future?

Mr. GORDON: Yes, we placed orders just recently both to General Motors and to Montreal Locomotive for a total of 300—

Mr. DINGLE: I believe it was 144.

Mr. MITCHELL: I believe the figure was 144 as Mr. Dingle has just mentioned. In regard to the tenders I am speaking of, from Montreal Locomotive and General Motors of London, were they comparable in price?

Mr. GORDON: They were tenders in response to our request and we placed the orders at the best prices obtainable.

Mr. MITCHELL: These locomotives were not all purchased from the same firm?

Mr. GORDON: Oh, no.

Mr. MITCHELL: Would there be any difference in the prices of the 86 locomotives purchased from General Motors and the balance purchased from Montreal Locomotive?

Mr. GORDON: I have a breakdown.

Mr. MITCHELL: Would there be any difference in the price?

Mr. GORDON: Oh, yes, we placed the orders with the company that tendered lowest.

Mr. MITCHELL: Why would the order be split?

Mr. GORDON: Diesel locomotives consist of different kinds of units. There are passenger units, switcher units, road diesels and so forth. Each one of them consists of a different horsepower, and so forth. We called for tenders from each of these companies that I mentioned in respect of the breakdown of the particular types of diesels which we required with the result that General Motors quoted the lowest price on certain of the units and Montreal Locomotive quoted a lower price for other units. The order was placed on the basis of the lowest price.

Mr. MITCHELL: Canadian Locomotive's prices, for instances, were not competitive?

Mr. GORDON: Canadian Locomotive's prices in this case were not competitive.

Mr. LOISELLE: Mr. Chairman, I would like to ask Mr. Gordon a question, which I wrote him about in June of 1957, with regard to the steam locomotives that are still operating in Montreal in residential districts as well as other districts. The situation has become difficult on account of that fact. Could you tell me if in Montreal we can hope that these steam locomotives will disappear shortly?

Mr. GORDON: The Canadian National Railways expects to be completely dieselized in the latter part of 1960 or 1961. By that time we will have nothing but diesels operating in the system. You in the Montreal area will probably have the last of the steam locomotives on some parts of switching operations. The vice president of operations tells me that we will be fully dieselized in the Montreal area within the next two years.

Mr. LOISELLE: In that event we will still have steam locomotives operating in Montreal for two years. Is there any chance of receiving diesels there earlier than that?

Mr. GORDON: I hope you will not be too anxious. A period of two years passes very quickly.

Mr. SMITH (*Calgary South*): Could you give us some information in regard to your fuel contract? Is your fuel contract let with a particular company?

Mr. GORDON: No, again in this regard we call for tenders.

Mr. SMITH (*Calgary South*): You call for tenders?

Mr. GORDON: We call for tenders in that regard but the actual placement of the orders will vary considerably from year to year.

Mr. FISHER: I want to ask a general question. It has been the general thesis put to me by union men that in regard to the dieselization program which has resulted in great savings to the railway and great increase in productivity, in terms of labour, that this particular point has never been recognized by the railways in labour negotiations. Would you care to comment on that statement?

Mr. GORDON: Yes, I would be very glad to comment in this regard.

We have in the course of our presentations before various conciliation boards deal with that point again and again. I have no hesitation in saying that in regard to the improvement in our efficiency brought about by dieselization, labour has now received its share of that improvement.

Mr. FISHER: You feel that labour has received more than its share in that regard?

Mr. GORDON: I feel that labour has received more than its share. In other words, the capital investment has not produced for us the result that we, as management, feel we are entitled to.

Mr. FISHER: That is why you feel there will be more reduction?

Mr. GORDON: This question of productivity is another one of those easy economic terms that is commented on loosely and which is very seldom understood.

Productivity in regard to a single industry is a very dangerous term. If you talk about productivity of labour in relation to the national economy you might get some proper analysis of it. When you are speaking about the productivity of labour in regard to a single industry like the railway industry and try to apply the capital investment that has gone into machines you get into a sort of qualification which not only has to do with the capital value of the machine that is produced for the railway business, but a consideration of the value of the machine that produced the machine, and the productivity of the business that produced the machine that was sold to the railway. You get into a "ring around the rosey" sort of argument on productivity. It is not a term which you can deal with loosely.

I do feel there is a great need for a thorough economic analysis of what is true productivity in terms of labour. If we could get that analysis, plus the other indexes we have, then we might be able to talk to labour on a much more sensible basis than we are able to do now.

Mr. FISHER: When you say it would be ideal to have a study like that you are thinking in terms of a general Canadian study?

Mr. GORDON: Yes, I am thinking of a statistical study of our local situation through a department like the Dominion Bureau of Statistics.

If you look at some of the figures I have here you could very easily be misled. In regard to many of the qualifications of productivity you can average the revenue per ton mile, which is our yardstick.

Mr. Armstrong tells me that in 1957, using 1935/1939 as a basis of 100 per cent we received 163.7 per cent revenue per ton-mile. If you compare that with the hourly earnings per employee in the system, which one could call a "shallow argument," you will find that indicates an hourly earnings per man of 277 per cent. I hasten to add at once that I am not alleging, although I could, from a debating point of view, that we are paying our employees 277 per cent

of the 1935/1939 level as compared with the productivity figure of 163 per cent. I could make that argument and it would be very difficult to refute, but in fairness I say there is more to it than that. We need an analysis of what productivity really means before we would be justified in using it as an argument on labour.

All I can say on a general basis is that I do not think productivity has kept pace with the increased cost of our labour.

Mr. LOISELLE: Mr. Gordon, you have just been dealing with the labour situation. In my riding the Canadian National Railways operate the Point St. Charles' shops. There have been lay-offs or rumours of lay-offs, which have been brought to my attention over the week-end, in regard to the Point St. Charles' shops. It is also rumoured that there will be more lay-offs at the Point St. Charles' shops this fall. Is there any truth to these rumours, and if there is, are the lay-offs the result of steam locomotives being taken off service?

Mr. GORDON: No, not in regard to Point St. Charles. We have not repaired any steam locomotives there for some time. If there are lay-offs, and I am not predicting there will be, they will be due to a reduction of traffic. Whether or not our volume of traffic is such that we have to reduce the number of repairs at our Point St. Charles' shops is something we cannot foresee. However, if there is enough traffic we will be able to keep these men employed there.

Mr. LOISELLE: Do you think there is any truth to the rumour that we are going to have more lay-offs at Point St. Charles?

Mr. GORDON: I have not heard that rumour. I cannot say yes or no. This will depend on the traffic. If the traffic increases the answer will be "no" but if the traffic does not increase the answer will probably be "yes". Let us pray for more traffic.

Mr. LOISELLE: That is what I am praying for.

The CHAIRMAN: Are there any further questions in regard to dieselization?

We will deal now with the next item, rolling stock. I believe you have pretty well covered this subject in your discussion of dieselization. Paragraph 64 says:

During 1957, eighty-nine units of passenger train equipment were placed in service, consisting of fourteen self-propelled diesel railiners, five dinette cars, twenty baggage cars and fifty express refrigerator cars.

Mr. BROOME: Are they thinking of manufacturing in Canada?

Mr. GORDON: They are manufacturing in Canada in respect to Canadian lines.

Mr. BROOME: They are all manufactured here—your rolling stock?

Mr. GORDON: The Budd cars up until last year were coming in from the United States, but a year ago there was an arrangement made by Canadian Car whereby they now have the patent.

Mr. BROOME: You now buy them from Canadian Car?

Mr. GORDON: Yes, and the net result is that we pay 12½ per cent more to have the satisfaction of having them made by Canadian Car.

Mr. BROOME: You get that 12½ per cent back many many different ways, and it is good business.

Mr. GORDON: I hope so. I am Scotch enough to resent paying the extra price.

Mr. CARTER: Has the Canadian National Railways purchased any equipment from the New York Central?

Mr. GORDON: Yes, we purchased some used cars that were offered to us at a very advantageous price. There were 32 sleepers which became available from the New York Central by reason of the fact that they have largely abandoned their passenger services; they have made a widespread abandonment.

We were able to purchase some for \$10,000 which was such an advantageous price that we thought we ought to take our share of them as they became available.

The CHAIRMAN: Now, "Service improvements". We have discussed this before.

Mr. FISHER: I have one question on dinette cars. I do not ask it flippantly. Are the employees in connection with dinette cars—do you feel that their pay is high enough that they can live on it by itself, or do they need the tips or gratuities which are given to them to put them on an economic basis?

Mr. GORDON: When we put in the dinette cars the question of tips was carefully examined by our dining car department. We came to the conclusion that it did not work out too badly. Tips tend to be lower per unit of volume going through, but since there is a larger volume the total more or less equalizes.

I do not think you will get any dinette attendant to agree. But if you give him \$1 instead of 10 cents, you can pay your share in helping to equalize it.

Mr. FISHER: Do they need the tips, so to speak, to live?

Mr. GORDON: No, I would say that generally speaking they get a good living wage, and that the tip is simply the cream on the top.

Mr. CREAGHAN: Are you speaking of the dinette only?

Mr. GORDON: No. I think it applies to all forms of railway employment.

Mr. CREAGHAN: What about the porters themselves?

Mr. GORDON: You must remember that all these men are employed under wage agreements with the unions, and that the unions never admit that such a thing as tipping takes place. They are dealing with basic wages and they will always insist on that when negotiating for a living wage.

That is why all the wages negotiated under our contracts represent good wages for the services performed, and the tip is something extra.

Mr. CREAGHAN: Has management ever considered advertising that fact and suggesting that there be no tipping on the system?

Mr. GORDON: No. The New York Central and a couple of other American railways tried it with rather disastrous results.

Mr. CREAGHAN: I have heard of people who preferred to go by air because of the tipping feature on the trains.

Mr. GORDON: Tipping is one of the unfortunate things in railway operation, and not only in railway operation but in other things. But it is traditional. I certainly have not found any way to abolish it.

The CHAIRMAN: We are getting a little far afield of rolling stock. We had better stick to what is relevant here.

"Service improvements"; we have discussed the speed of trains in different places, and you will see in paragraph 65, 66, 67 and 68 specific places in operation about which some of you may be interested.

Mr. CARTER: I would like to say that we appreciate the improvement made in the service between Sydney and Montreal which gets us from Sydney to Montreal much quicker than was formerly the case. There is a railiner between Truro and Sydney which helps us to make the connection quicker in getting back.

I would like to ask Mr. Gordon if he would care to comment on what recommendations were made with respect to the Newfoundland service by the special service committee?

Mr. GORDON: As you know, we had a special committee of officers travelling around Newfoundland and inviting comments about our service from local interests. They came up with a very comprehensive report.

Some of the recommendations made were such that we were able to apply them ourselves, while other recommendations were such that we were not able to do so, but we passed them on to the interested department of government, pointing out that these suggestions had been made. To some extent action has been taken there.

Let me run down the list quickly. There were 26 recommendations for improving the standards of the Canadian National Railways service in the fall of 1956-57.

These consisted mainly of procedural improvements and other things, such as teletype devices to give information on cars for Newfoundland as they passed Moncton; the issuing of daily instructions for the allotment of cars, departmental duties and so forth, and a whole lot of other things which had to do with speeding up the movement of traffic, particularly that of freight.

I shall not go into them in detail, but there are 26 specific recommendations the majority of which have been put into effect, and have resulted in considerable improvement to the service.

With respect to freight cars required, that is, the actual rolling stock itself, we have recommendations which cover not only new rolling stock, but improvements to yards, extension of sidings, all with the aim of putting the Newfoundland service on a comparable basis with service on the mainland.

455 units were recommended which would cost about \$5 million. We have purchased 362 of them. We have ordered all of them, but 362 have been received to date and are now in service.

Major yard improvements in Newfoundland have gone forward to a total of \$3 million. This appears in the 1958 budget. At St. John's we will spend a total of \$1.6 million, at Corner Brook, \$1,460,000. In addition we have siding extensions at various locations to speed up our operation.

We have a whole series of other recommendations which have to do with the operation of the William Carson when it goes into service; and we have placed the wharf at North Sydney, under the jurisdiction of the Newfoundland district. I do not mind telling you that we had quite a family quarrel about that. But the net result is that we have put the wharf operation at North Sydney under the jurisdiction of the Newfoundland district, and we have placed a superintendent in charge of the wharves for both North Sydney and Port aux Basques in expectation of improving the service when the William Carson begins to operate.

Now, I have a whole list of things here which have been along the same line. The frequency of service has been improved, as I think you know, and then there was some improvement in Placentia bay where we were able to improve the service. We have doubled the service in Placentia bay to run twice weekly. Acting generally on the recommendations of the committee four new coastal ships will be built to replace three of the others now in use, leaving a general service unit as a stand-by. That recommendation has been placed before the Department of Transport and I understand has been accepted and the orders are being placed for construction of these ships.

Mr. BROOME: The Conservatives are very popular in Newfoundland.

Mr. GORDON: There are a number of other things I have not mentioned or gone into, such as the fact that there were twenty-two ports where we have arranged with the Department of Transport to install caretakers who will be

available on the arrival of ships, and eight of the twenty-two are now in force and the others being examined. There were other things in regard to the development of the delivery sheds and so forth and they have been put into force or are in process of being put into force.

One problem that we have been looking at and in which we are making very great efforts is the problem of excessive damage under the present method of handling. We are making a very intensive survey and taking action in connection with that, but it is going to take a little patience to get our staff in Newfoundland trained in the handling of goods, plus the fact that we are up against a difficulty in respect of the use of packaging. Under the present regulations Newfoundland is considered as part of Canada, and this I assume you agree with, and the shippers are entitled to use domestic packaging. Well, it is obvious that domestic packaging just will not stand up to transshipment from railway to ship and then off the ship and on board the railway, and we are getting into a lot of difficulty in that respect.

We are now making a canvass with the shippers to improve packaging and if we cannot get results we will try to have special conditions set up by the Board of Transport Commissioners in terms of packaging.

That is a general outline of the sort of thing we have done.

We have been in touch with the Department of Transport in respect of wharves, and one of the things which we say but which I do not suppose we will be allowed to do is that we should discontinue servicing a fair number of outports in the Newfoundland service, but that is an editorial comment rather than any real hope.

Mr. CARTER: Can you give any idea of the dates the new boats for the Bonaventure bay service may be put into action?

Mr. GORDON: It is a Department of Transport matter and I would prefer not to give evidence on that. Have you anything to say, Mr. Minister?

Mr. HEES: No, I cannot tell you offhand.

Mr. CARTER: The tender has been accepted, is that it?

Mr. GORDON: No, we have been asked for assistance in the matter of equipment and these ships have to be of a special type as you know and have to be able to handle ice and to accommodate themselves to the special conditions surrounding Newfoundland.

Mr. HEES: If you will drop me a note about that I will get you the information.

Mr. CARTER: Have you any idea of when the Carson is likely to have trial runs?

Mr. GORDON: We are now at the point of working out with the Department of Transport the final details in respect of harbour arrangements and various navigational requirements to make the service possible. The Canadian National Railways is ready to go ahead with the service as soon as these navigational matters have been settled and my last advice is that by the middle of August—is that what you say Mr. Dingle?

Mr. DINGLE: I think we will have that information in a matter of days and it is a question of when we start the trial runs.

Mr. GORDON: Before we put in the scheduled service these ships have to make several test runs in order to determine and decide the safe channels and other things that enter into the picture such as the navigational aids required, because all of these have to be done before we are ready for a scheduled service.

Mr. CARTER: And your trial runs will be previous to that?

Mr. GORDON: Yes. The reason I qualify it is that if the trial runs show any problems my other date is not correct because trial runs are to establish difficulties and if difficulties are encountered we might have to take a new look at it.

Mr. CARTER: Are you looking forward to the fact that Newfoundland's population is increasing now over 400,000—are you looking forward to the time when we will get a standard gauge?

Mr. GORDON: No, I am not. That question has been raised many times and it boils down to the fact of the very large costs involved. I would say, that to put in standard gauge in Newfoundland would cost a minimum of \$150 million, perhaps more.

Secondly, it would mean the relocation of the rail lines which we feel at present are in the wrong place, so it becomes a matter of policy and is not in the hands of the railway to decide.

Mr. CARTER: Your survey did not show any need for relocation of your line?

Mr. GORDON: No, it did not touch that point.

Mr. KENNEDY: I think in regard to railiner service between Sydney and Halifax, the passenger service . . . .

Mr. GORDON: I beg your pardon?

Mr. KENNEDY: The railiner service between Sydney and Halifax has provided good service for passengers generally but it seems to be a question of overcrowding there. What can you do with these things to give us accommodation?

Mr. GORDON: I am glad to hear that some of our equipment is crowded! I will only comment on that, that if the crowding reaches a point where it is objectionable we will have to increase the equipment. We can add another unit to the railiner.

Mr. KENNEDY: You could put another live unit on it?

Mr. GORDON: Yes. We will watch that and if we find that the service requires, we would supply it.

Mr. PASCOE: Speaking of the line from Saskatoon, Regina and Prince Albert, the railiner, has it been going long enough to indicate the type of result?

Mr. GORDON: Yes. The railiners have been quite successful.

Mr. PASCOE: What size of a crew do they need?

Mr. GORDON: I will let Mr. Dingle reply to the operational point, if he will.

Mr. DINGLE: Where one car is operated we use two men and in the cases of tandem service, three men.

Mr. KENNEDY: Just another point on that Sydney railiner. I understand it has been looked into and the rail authorities, I believe, report that there is not any crowding. Would you perhaps look into it again because it is reported from many parties that it is overcrowded and in fact that passengers are standing.

Mr. GORDON: Staff standing up?

Mr. KENNEDY: Passengers. It is a long trip to have to stand up.

Mr. GORDON: We will have a look at that.

The CHAIRMAN: Are there any more questions on service? If not, "Montreal terminal, master plan of the development of Montreal".

Mr. BROOME: I would like to ask the same question here I asked in regard to the Queen Elizabeth and that is in regard to the use of United States architects and engineers.

Mr. GORDON: Well, again that is not so. The history of the development of the Montreal terminal site goes back over 30 years.

Mr. BROOME: Actually I am told by members of the Engineering Institute of Canada and people who should know what they are talking about that all of this C.N.R. development around Montreal has pretty well bypassed Montreal engineering firms.

Mr. GORDON: I wish your correspondents would give me the statements on which they base the allegations and I will be very glad to look into them.

Mr. BROOME: Some of it is right there under the bottom where it went in tender, and a list of the architectural and engineering firms in there.

Mr. GORDON: Well, this is not a statement of fact, it is a newspaper report.

Mr. BROOME: If you lift that and look underneath you will find five or six New York engineering firms listed there who are the engineering firms concerned. You will notice where I have underlined all of New York.

Mr. GORDON: Yes. Well, the situation of course, with these firms is . . . . .

Mr. BROOME: I think you will find the same thing applies to the Queen Elizabeth.

Mr. GORDON: Webb and Knapp established a Canadian company.

Mr. BROOME: I am quite familiar with that. My only question is on policy. I would think the Canadian National Railways would try and place as much of their work as possible in Canada.

Mr. GORDON: That has been our policy and that has been our intention. Webb and Knapp have meticulously carried out that policy. On their board of directors eleven out of sixteen are Canadian. They have floated their stock in the Canadian market in circumstances and conditions prejudicial to their own interests and Canadians have not seen fit to take it but they are willing and ready to float more of it.

Mr. BROOME: I am not talking about the financial end. They can get their money wherever they want to.

Mr. GORDON: But where they get their money has some relation to where they get the techniques.

Mr. BROOME: Then is it your statement that the necessary engineering techniques are not available in Canada?

Mr. GORDON: No, that is not so. We have no control over how Webb and Knapp (Canada), which is an independent organization, proceed to build on any site which they have leased from us. That is their own business. I am telling you that our association with them has been so close that they have assured me all through the piece that in the development there is to be maximum Canadian content. The concept of the cruciform came from Webb & Knapp of New York. Their main enterprise was the concept of that building. But the implementation, the erection of the building, the foundation work, and all the general contracting, and the actual engineering, in my understanding is all-Canadian.

There is a heavy accent on Canadian utilization. I think, in fairness to Webb and Knapp, I should add that the president, Mr. Zeckendorf has gone to great extremes to accentuate the desire to use Canadian materials, Canadian talent and money to the maximum possible.

Mr. BROOME: I am not unfamiliar with the engineering field, and I know when an engineer is down in the United States and drawing up specifications, the specifications are bound to be written around American products and the Canadian manufacturer is at a disadvantage.

Mr. GORDON: What things do you have in mind? Take, for instance, the steel. It will be all-Canadian?

Mr. BROOME: I am speaking about machinery such as pumps. I know of a plant which was built in our area in Vancouver where underground valves were used, and because the specifications were American they specified American manufacture and they paid 60 per cent more for them. I have just taken this as an example to show that when specifications are written in a certain country they are written around products which are manufactured in that country.

Mr. GORDON: Certainly my association with the Webb and Knapp organization does not leave me with any doubt as to the use of Canadian materials to the maximum. However, I will make a note of your comments and will make inquiries.

The CHAIRMAN: Paragraphs 72 and 73 are pretty much in the same category. You discussed them under other items.

Mr. CHOWN: Mr. Gordon, why was the concession to operate the Queen Elizabeth hotel rented out to Conrad Hilton?

The CHAIRMAN: That has been dealt with.

Mr. CHOWN: I will not ask to have it answered again. I can read it in the minutes.

Mr. GORDON: I would suggest that you look at my evidence which was given in 1955. I went through it very exhaustively at that time. After you have read it if there is anything more you would like to know I would be happy to speak to you personally about it.

The CHAIRMAN: I might add, Mr. Chown, that the president said today that in view of all the factors he has taken into consideration he is prouder of those negotiations than he is of any other negotiations which he made on behalf of the institution of which he is president.

Mr. FISHER: What about the Toronto field from a hotel point of view. Have you ever considered invading it?

Mr. GORDON: We looked at it and decided against it.

The CHAIRMAN: Are there any other questions with reference to hotels. I do not want to rush you, but I see we are only about half way through this report. We have another one on the Canadian National (West Indies) Steamships, Limited, the Security Trust and the Auditor's report, all for tomorrow.

Mr. FISHER: In connection with the steamships, where may I ask a question about the one which the C.N.R. operates on the west coast?

Mr. GORDON: That is the Prince George. That is a railway operation.

Mr. FISHER: Where may I ask questions on that?

Mr. GORDON: Anywhere you like. I do not think we have a specific item on that in the report.

Mr. FISHER: Have you given any consideration to extending the season for these ships and, if not, what are the difficulties?

Mr. GORDON: We have looked at it from the point of view of using the ship in southern service during the winter, but we have found that the cost of equipping it with refrigeration and so on was such that we would not make a dollar.

Mr. FISHER: What about the employees in the off-season? Are there any special arrangements for them?

Mr. GORDON: We only have the one ship and they are entirely tied into that.

The CHAIRMAN: Communications.

The demand for commercial communications service continued to grow during 1957 and Canadian National Communications facilities were again expanded. Telegraph channel mileage increased by 21 per cent to 610,724 and telephone channel mileage rose by 38 per cent to 142,303.

Mr. CARTER: Do you have a "Telex" service between St. John's and mainland points?

Mr. GORDON: Oh yes.

The CHAIRMAN: Work methods. You have heard Mr. Gordon read this. I take it it is unnecessary to read it again.

Industrial development.

Mr. FISHER: In connection with work methods, most of what is outlined here would seem to affect office and clerical workers.

Mr. GORDON: Yes.

Mr. FISHER: What percentage of them are not covered by union agreements and therefore would have no seniority protection?

Mr. GORDON: Very, very few. I would say less than 10 per cent.

Mr. FISHER: Have you had much in the way of loss of staff?

Mr. GORDON: No. All that we have been able to accomplish in agreement with the unions has been largely on the policy of attrition. We are putting this system in on the basis of agreement with the unions that our turn-over of staff is such that, as the older men reach retirement and so forth, we have not had to lay many off. We have a high turn-over in this particular element because we employ a lot of young girls and young staff. It is a natural attrition. If we stop taking them on we do not have to face the problem of laying them off.

Mr. FISHER: Automation is no particular problem in this instance?

Mr. GORDON: I will not say that, but we are able to work out agreements on it.

The CHAIRMAN: Are there any questions on research and experimentation? Are there any questions on industrial development?

Mr. CREAGHAN: I was wondering if the minister has made any survey, or has any report, on what effect the seaway might have on freight traffic to the maritime ports?

Mr. GORDON: Well we have made various surveys in that. Our general conclusion is that a relatively small portion of our traffic will be affected although it is bound to be affected to some extent in the first instance. But we believe that the fertilizing effect so to speak of the seaway development and particularly the power development—the availability of cheap power in the central region of Canada—will rapidly produce industrial development that will generate new railway traffic. There will be however a transitional period when what I have said in the over-all may not be true. It is difficult to be precise. No one will go out on a limb and make a firm forecast as to the extent to which ships will operate on the seaway. That remains to be seen. In my opinion there may be some unpleasant surprises to be experienced in regard to the actual operation of ships on the seaway and their ability to meet the economic costs and things of that kind.

Mr. CREAGHAN: Did you predict that your freight rate will be competitive with the sea traffic?

Mr. GORDON: They will have to be or we will not get the business. We have always had, as you know, water compelled rates in season. That is a big factor in regard to the railways. You should keep in mind also that at best the seaway is a seasonal operation.

The CHAIRMAN: Are there any other questions relating to the seaway project? May we now turn to cooperation under the Canadian National-Canadian Pacific Act, 1933. "Studies were conducted by both railways during the year to determine the feasibility and value of further pooling arrangements but no new pool services were instituted".

That pooling service was discussed at considerable length before and explained by Mr. Gordon. Are there any further questions on it?

We now come to corporate reorganization. "While there were still 45 companies in the complex of corporate indentities comprising the Canadian National system at the end of 1957, progress was made in studies aimed at the elimination of a number of these companies in 1958."

Mr. SMITH (*Calgary South*): The question I have really is also part of your explanation, making some reference in the last paragraph in connection with the abandonment of unprofitable services. You elucidated very clearly the problem which you have of the cost of your operation of which a large proportion is salaries and wages. You come to the conclusion which is dealt with in the last phase of the order in perspective, that one of the only hopes of making this a more profitable operation without another \$30 million loss is in the abandonment of unprofitable services or going back to corporate reorganization, something which may be effected to create some saving there. Am I correct in interpreting that one hope that we have in this railway of seeing it not in a position of showing a \$30 million loss either through corporate reorganization or abandonment of unprofitable services. Is there any other solution?

Mr. GORDON: Corporate reorganization has nothing to do with it. It is purely a technical matter of bookkeeping and a tidying up of the corporate structure. It is the simplification of our books. When this system came together, and up to about five years, we had about 88 different companies. I started an examination of all the legal factors which made it necessary to continue these corporations. We proceeded by a process of merging these subsidiaries with branches of the main bankrupt companies which we took over in 1923. It has been a slow process because we ran into difficulties regarding franchise rights and various other formalities. Our objective is that we will eventually get the C.N.R. system down to six companies and that we will have a railway company, a telecommunication company, a steamship company, a hotel company and one realty company. That is five. Somewhere there is another one but if we can get it down to five, so much the better.

Mr. SMITH (*Calgary South*): May I throw a question back to corporate reorganization. Will you deal with it now.

Mr. GORDON: He asked the question in regard to paragraph 90. So, I will deal with it now. The abandonment of unprofitable lines is certainly a part of our difficulty but I would not say that it is a major part. It is something that we should be very much freer to do and proceed with. But the real point is that the implication of all the capital expenditures that we are putting into this operation—the implications of those capital expenditures—will have to be faced and they will have to be faced in the matter of the necessary readjustments that affect not only labour but affect communities as well as services. As I have tried to indicate I am not at all hard-boiled about these things. I can recognize that the disruption of long-standing operations in any community is a very painful and difficult business. But when we started our

dieselization program back in 1951, when I first went with the railway, I am free to confess that if I had appreciated the scope of the thing and the size of it, I might have been much more faint-hearted than I was in getting on with it. Nevertheless, it has proved inevitable and we have up to now effected our readjustments with a relatively small degree of opposition, objection and excitement. We are, however, at the stage now where, as I have said before, we have the first part of our program through and got the benefit of quite large savings, it is the end part of the program that hurts. We are now at the stage of giving up all steam locomotive operations which eliminate round-houses and requires readjustments of divisional points, decisions in regard to where the operations can best be managed. Unfortunately that will tear out roots—establishments that have been a hundred years in the making. Now despite our best efforts to do that with all consideration possible, it nevertheless does mean a major change and we need desperately an enlightened and understanding public which will accept the need for doing it if the railway business represented by the C.N.R. is to continue to be efficient and reach the place where we will be able to maximize efficiency as well as provide services to the various communities we are serving. If we cannot accomplish this we will go through a long period in which we will have these unnecessary and duplicate facilities. That will just make it impossible for us to get out of our deficit position. I have not by any means come to the conclusion that by reason of the deficit this year we are committed to a long period of deficits. I think there is a period of time when we will have to accept them along with other things. But I still have faith that if we receive intelligent acceptance of what the program means then the C.N.R. can stand on its own feet.

Mr. SMITH (*Calgary South*): You say perhaps, Mr. Gordon, that this is a very important and costly operation, the transitional period. Otherwise we have seen evidence of that through the railway stock, signalling system and so on and this is a phase in which we are going to expect to have these extreme costs.

Mr. GORDON: Yes I should say this, in fact those who are interested I would suggest you read a speech I made not long ago called "Background and Accomplishment." I would be only too happy to make a copy of this available to you. It should not be forgotten that during the four stages of the C.N.R. we came into a stage during the 1930's where for one reason or another the railway was badly run down. There was no money spent on it. Then we came into the war period when money could not be spent on it because the equipment and supplies were not there and we faced the terrific exhaustion of war by a process of improvisation and so forth. When we came out of the war and following the two or three post-war periods, we could not do the rehabilitation job.

So we have a tremendous rehabilitation job of the physical services of the railway plus this technological job in terms of diesel power and it has cost a tremendous amount of capital.

Mr. SMITH (*Calgary South*): Have the first quarter figures shown any encouragement?

Mr. GORDON: Not for this year. You will come to that in the operating budget.

The CHAIRMAN: Are there any other questions?

Mr. FISHER: What responsibility do you feel the railway has in terms of the dislocation and the uprooting you talk about in terms of retraining and relocating people?

Mr. GORDON: Oh yes, we accept that responsibility. As a matter of fact we have had a very large training program. We are giving everyone working for us an opportunity to retain in dieselization methods, not only in the running of locomotives but in shop and electrical work. The fact is that we need electricians and do not need boilermakers. All our men have been given an opportunity to take these courses and regular classes are being held at Moncton, Campbellton, Charlottetown, Halifax and all across the country. They are specifically designed to retrain our own staff to accept the new jobs which become available with the abandonment of the old.

Mr. FISHER: Has there been any resistance to this program?

Mr. GORDON: No, it has been well received. Of course, you find inevitably the older men find it difficult to change. We find the best response from the younger and middle-age people.

Mr. FISHER: Have you noticed any difference in the distance from the medium or larger centres of operations as you get out towards the periphery of your operations?

Mr. GORDON: Mr. Dingle, what would your comment on that be?

Mr. DINGLE: I do not understand the question.

Mr. FISHER: The further you get from a large centre of operation such as Toronto, Stratford or Winnipeg out in the sticks do you find more response there or less opportunity to train people?

Mr. DINGLE: No, we have no difficulty. As a matter of fact in the rural classes a greater interest is shown at the outside points.

This is the case also with our dieselization education program. I cannot say we have experienced difficulty.

Mr. GORDON: Just counting roughly we have upwards of 100 points across the system where the classes are made available.

Mr. CREAGHAN: Do you give any financial assistance to your workmen during the conversion course? Take, for instance, the boilermaker whose job has disappeared; he has an educational background and an interest to become an electrician.

Mr. GORDON: If he takes these courses we keep him on the payroll as a trainee. It is training that works in conjunction with the job so to speak. We give him time off his job to take this course.

Mr. CREAGHAN: At a loss in pay?

Mr. GORDON: No.

Mr. CREAGHAN: He gets his old trades pay while he is taking his course?

Mr. GORDON: Yes.

The CHAIRMAN: We are approaching almost on the minute of 10 o'clock. I think I can say that on your behalf we appreciated the generous explanation the president has given to his annual report. I think it has been very instructive and informative. So if you are prepared to take the financial statement and the auditor's report figures as read, we are open for a motion for the adoption of the annual report.

Mr. BROOME: I so move.

The CHAIRMAN: Moved by Mr. Broome and seconded by Mr. Smith, (Simcoe North) that the annual report be carried. What is your pleasure?

Carried.

The CHAIRMAN: The auditor's report can be dealt with separately. We will need a separate motion for that. We have the auditor's report here but—

Mr. BROOME: Take it now.

The CHAIRMAN: If it is your pleasure we are right on the minute of 10 o'clock. I hope you are all back on the minute at 9:30 tomorrow morning. Thanks for your cooperation. We have the annual report passed and tomorrow we will deal with the West Indies steamship line, the auditor's report and the budget for 1959.

Mr. GORDON: As an orderly procedure I suggest we might go on with the capital budget and the operating budget of the C.N.R. and that will conclude the C.N.R. report and its collateral activities. Then we might deal with the Canadian National Steamship report and its budget and then we take the auditor's report of the C.N.R. and the steamship jointly so the auditor may be called to deal with his report in that order, because by the time you reach the auditor's report you should I think have the benefit of everything affecting the C.N.R. annual report plus our capital budget plus our operating budget. If you take it in that order you will find it more convenient.

## EVIDENCE

TUESDAY, July 15, 1958.

The CHAIRMAN: Order, gentlemen.

Mr. CHEVRIER: Would you allow me to raise one or two small questions dealing with the report which I understand has been passed? I was unavoidably detained in the house yesterday and could not be here.

The CHAIRMAN: Very well, if it satisfactory to the committee.

Mr. CHEVRIER: First of all dealing with dieselization: I wonder if you would be good enough to tell me if in the purchase of diesel locomotives the company accepts the lowest tender?

Mr. GORDON: Yes, that is so.

Mr. CHEVRIER: I am dealing now particularly with the shops at Kingston. The question has been raised as to whether or not that is the case. I am glad to have your assurance that it is.

Does the company insist in the specifications upon a percentage of Canadian content?

Mr. GORDON: No, there is no reference made to Canadian content. We make our specifications for the particular unit type of diesel. They are circulated to any manufacturer who wishes to bid.

In other words, an American manufacturer could bid directly if he wished to do so. If he does not, it would be because of the tariff protection.

Mr. CHEVRIER: So a company which has a greater Canadian content in its diesels over another manufacturer would receive no preference?

Mr. GORDON: We would find it quite impractical to work out specifications of that kind.

Mr. CHEVRIER: May I ask about the relocation of the line from Cornwall to Cardinal? Was that done at the exclusive cost of Hydro?

Mr. GORDON: No. What happened there was that we sat down with Hydro and made a very detailed analysis with them comparing what we thought were the advantages and the disadvantages by reason of the relocation. For example, we consider the fact that new material was used and there was a longer life available than would have been the case in the older line, we took all the offsetting factors, including the fact that we had a well-established line.

We then took into account the advantages we would get by reason of the diversion, where it was clear that we had the sole advantage, we paid for it.

Mr. CHEVRIER: Would you tell the committee how much the cost of the diversion was, and how much of it was paid by the Canadian National Railways, and how much of it was paid for by Hydro?

Mr. GORDON: I have the figures on that. Let me read this item which I have here: The total cost of this diversion, including the estimated cost of the grade separations yet to be completed, will be in the vicinity of \$18,000,000. The entire cost of construction is being borne by the Ontario Hydro in honouring their obligation to provide a substitute facility acceptable to the C.N.R. In our negotiations with Hydro, it was accepted as a fair principle that the railway should make some contribution in view of the fact that we were getting a new line of railway to replace a partially depreciated facility. In order to give effect to the old established principle of cost of replacement less depreciation, we agreed on a satisfactory basis of settlement in which we compared the value of the advantages with the disadvantages accruing to the railway on the new line. On this basis, the railway agreed to contribute a sum slightly in excess of \$1,000,000.

Mr. CHEVRIER: Is that inclusive of the \$18 million?

Mr. GORDON: Yes. Our portion of it was \$1 million.

Mr. CHEVRIER: And that includes the construction of the stations as well?

Mr. GORDON: Yes, everything is included.

Mr. CHEVRIER: Does it include the construction of the overpasses?

Mr. GORDON: Yes.

Mr. CHEVRIER: It will cover those which are done and those which are to be done?

Mr. GORDON: That is right.

Mr. CHEVRIER: On the question of lay-offs—I do not want to go into this in detail—but I would like you to make a statement if you would about the magnitude of the lay-offs in the various shops of the Canadian National Railways. What does it mean?

Mr. GORDON: That question was mentioned on quite a number of occasions yesterday and I have made several statements on it already.

Generally speaking our situation is very difficult to pin-point, as to exactly what the total overall may be, because we are taking men on and at the same time we are laying men off.

There has been a diversion of labour arising not only out of the adjustments due to dieselization but also because of the drop in traffic which would be a temporary matter. Seasonal factors also affect the work force. I find it difficult to pin-point exactly what portion of the reduction of the staff could be called a permanent reduction. We are taking on men with certain skill at the very same time that we are laying others off.

Mr. CHEVRIER: Have you closed down any shops because of these lay-offs?

Mr. GORDON: There has been no complete closing down.

Mr. CHEVRIER: What is the position at Fort Rouge where the intention is to close down that shop?

Mr. GORDON: The effect of it is this: there will be no work lost to the Winnipeg area by reason of our readjustment in Winnipeg. The Fort Rouge main shop, as you will recall, was destroyed by fire in 1956 and we do not propose to rebuild it. When we get on with our changes to be made in Winnipeg, both in our marshalling yards, and our new facilities at Transcona, Fort Rouge will be used for the servicing of passenger cars. The rest of our shop work will be concentrated at Transcona. That means that any transfer of

employment will be in the area itself and there will be no work facilities moving out of the Winnipeg area. Winnipeg is one of our three main points for major diesel maintenance and repair.

Mr. CHEVRIER: What about the hotel in Montreal?

Mr. GORDON: And may I add this: you have not had time to see it yet, but we have had an interesting clarification made at Winnipeg a few days ago. There was a great deal of rumour, distortion, and misunderstanding there, but it has all been cleared up by a statement made there which has been very well received.

Mr. CHEVRIER: I am glad to hear that. I asked my question because of a press clipping sent to me having to do with a statement made by Mr. McMillan, vice president of the western region.

Mr. GORDON: I think the situation has been fully clarified now.

Mr. CHEVRIER: Would you tell us how the operations of the new Queen Elizabeth hotel are proceeding and whether it is living up to the expectation for the future that you had.

Mr. GORDON: It is not only living up to its expectation; it has greatly exceeded it.

Mr. CHEVRIER: Good. I am glad to hear that.

Mr. GORDON: We are very satisfied, indeed, with the prospects. On the basis of any estimates made previously, as of now, it has developed as a huge success; and also in looking ahead in terms of conventions that are already booked or are under negotiation, it looks very promising indeed.

Mr. CHEVRIER: Would you mind saying a word about the progress on the north side of the street, that is, the Place Ville Marie, and the building that is to rise on the north side or at the north east corner?

Mr. GORDON: That is well in hand. As you know, Webb and Knapp have the rights in respect to the development of the north side, and they have announced their plan in regard to the so-called cruciform building. Only recently they were able to announce a major arrangement made with the Royal Bank of Canada.

Mr. CHEVRIER: When is construction likely to begin?

Mr. GORDON: I think construction is likely to begin within a week. There will be definite activity soon.

Mr. CHEVRIER: What about the new office building for the Canadian National Railways, is that proceeding?

Mr. GORDON: It is. We have already got the foundation work started.

Mr. CHEVRIER: Where will it be located?

Mr. GORDON: At the corner of Lagauchetiere and Mansfield, just south of the hotel.

Mr. CHEVRIER: That is between the hotel and the aviation building?

Mr. GORDON: No. That was what was originally planned, but we gave it up because we did not feel that the Canadian National Railways needed to be in that location which was what we hoped would be a very high revenue producing building. Eventually a building will go in there.

Mr. CHEVRIER: Thank you.

The CHAIRMAN: Now, gentlemen, we will take this up in the order which we indicated last night. You have before you the budget for 1958. You each have a copy of the capital budget and estimated income account.

Mr. GORDON: I would like to make a brief introductory statement in order to assist the members to follow the order in which I suggested we might proceed.

Let me say that our 1958 capital budget comes about mid-way in the program of heavy capital rehabilitation, which commenced in 1950.

By that year wartime shortages of equipment and material had ceased sufficiently to allow for our planning for capital expenditures and in order to take cognizance of our own need for physical rehabilitation of railway property necessarily deferred during the war and immediate post war years.

Added to that was the need to recognize widespread technological developments which were exemplified by but no means limited to, dieselization, and the growing effect of greatly intensified competitive transportation methods.

A detailed analysis of all this would make a very lengthy statement by way of background material. But for our immediate purpose I suggest the committee might find it more convenient to turn directly to the pages which are now before you where we have tried to present this statement in a manner which will give members of the committee a financial summary of the highlights.

I shall run through them. Our custom has been to deal with any questions which you think of interest. And following the budget, you will find an attached statement known as the operating budget.

The document to which I would direct your attention is the capital budget and estimated income account. I suggest you leaf over the first two pages and go to the page headed page one. There you will find a summary of the 1958 capital budget in the form which has been used for the past several years.

I think the committee will find it useful to grasp the main highlights of the budget before we get into the details. Therefore you will find on page one under the heading of 1958 proposals that we have summarized it at an overall total of \$377 million, the proposals which are new for the year 1958.

That includes, as you will observe, the figure of \$47,123,000 under the heading of "Investment in affiliated companies" such as T.C.A.; but we will give them to you when we come to that item in the budget later on.

You will observe under the heading "Cost to complete projects authorized in prior years", a total of \$168,354,000.

These projects have already been authorized and are in progress.

For the purpose of this budget, they form the same kind of thing you are accustomed to meet with in the House of Commons under the heading of revotes.

There is a grand total budget shown as \$545,596,000.

The important thing, or the most interesting thing for our purpose is the column under the heading of 1958 expenditures. That represents our estimate of cash expenditures to be made during 1958 under the various headings, as being the discharge of the total budget of \$545,596,000.

That is what the Minister of Finance is interested in, because that is the money we will have to raise for the Canadian National Railways in order to finance payments out in this budget.

With these main items in mind, will you now please turn to page two.

Mr. CARTER: Could you give us the estimated expenditure for last year and the actual expenditure?

Mr. GORDON: Yes. It was \$266,062,000 actual as compared with an estimated expenditure of \$268,707,000. Incidentally, that \$266 million of actual expenditure appears as a budgeted expenditure of \$268 million. So you see we came within \$2 million of spending what we intended to spend.

On page two you will see how this operates. Under the heading of "Gross capital expenditures for the year 1958", you will find summarized the total which comes to \$302,623,000, and that again checks off with the item on the previous page.

We say under the heading of "Sources of funds" where we expect to find the money. We will take out of depreciation accruals and so on the sum of

\$85,130,000; an arrangement will be made whereby we shall sell preferred stock of \$21,000,000 to the government under the provisions of the Capital Revision Act of 1952. We have to borrow during the year either from the public or the government a total of \$196,493,000.

Mr. CHEVRIER: How much will be borrowed from the public and how much will be borrowed from the government?

Mr. GORDON: That will depend entirely on when the government wishes us to go on the market.

We first of all borrow from the government, then we discuss with the government when would be the appropriate time to float a market issue.

We necessarily adjust ourselves in our approach to the market on the state of finances of the government in relation to their large and bigger job of government financing directly. At the moment, in view of the announcement of the \$6,400,000,000 refinancing, it seems obvious that we will not be in the market until that is out of the way.

Mr. FISHER: Have you noticed that the United States Congress has just introduced some new system of capital funds to help the railroads?

Mr. GORDON: It is under discussion but nothing has been done yet. The Smathers' committee has made a number of recommendations to assist the railroads in their financial plight, but as I understand it is still at the discussion stage.

Mr. FISHER: It is recognized in the United States that the railroads are in a desperate plight.

Mr. GORDON: Yes. The plight of some railroads is very dangerous, indeed, and I do not think it is too much to say that three of them are actually facing bankruptcy.

Under the heading of "January 1, 1959 to June 30, 1959"

The annual Financing and Guarantee Act is the statutory authorization for the C.N.R. capital expenditures and additional borrowing. Typically this act is passed by parliament towards the end of the first half of the year. As a practical measure the act for the current year, in this case 1958, also provides interim authority for capital expenditures on previously approved projects during the first half of the ensuing year, in this case 1959. This interim authority is superseded by the passing of the next year's Financing and Guarantee Act.

The caption "Existing financial authority" at the bottom of the page demonstrates how this process works; it sets out the extent of the interim authority which was provided by the 1957 act with respect to the first half of 1958. The interim needs having been met, these figures have now been moved up into the "Year 1958" totals at the top of the page for formal authorization in the 1958 Financing and Guarantee Act.

In the normal course of carrying out approved capital budget projects it is necessary for us to sign contracts with other parties (principally equipment manufacturers) which entail deliveries and payments falling outside the budget year. The total of such projects for 1958 is \$110.0 million. The cash for such contracts during the first half of 1959 is included in the January 1, 1959—June 30, 1959 interim financial authority figure of \$134 million while the balance will become a current cash item in the 1959 gross capital expenditure budget.

The other pages, 3 through 7, provide further information with respect to the major items included in the summary. Page 8 is a statutory statement of the 1958 refunding requirements and page 9 presents the 1958 operating budget forecast.

If you will turn to page 3 we can get on with the job of examining the specific summary and the details of the items we are presenting for approval in this budget. Again this item on page 3 under the heading of "Summary of road property, capital budget projects by areas" will summarize the gross total of \$253,375,980 which is the heart of our budget.

Apart from equipment purchases which are dealt with separately, this is the gross figure, and there is shown at the bottom of the page the actual cash expenditures under each one of these headings.

You will observe under the heading of "Line diversions", that we plan in the Atlantic Region an expenditure of \$35,900; in the Central Region, \$5,656,000; and in the Western Region, \$8,400. I suggest that we deal with each item as we go along.

Mr. CHEVRIER: May I ask about the line diversions in the central region? How many of them are line diversions which are not approved by parliament?

Mr. GORDON: I do not know just what you mean?

Mr. CHEVRIER: I mean those lines that you are authorized to build under the statute without an act of parliament.

Mr. GORDON: None of these is lines which require a separate act. The total is \$5,656,000. It arises out of main line diversions, and an entrance to the Côte de Liesse yards, at a cost of \$4,900,000.

Mr. CHEVRIER: That is what I was coming to. That is what you see as you go into Montreal. Is the work progressing fairly satisfactorily? When will that diversion be completed, and how long will it be?

Mr. GORDON: Well, we are planning this year on a grand total program of \$4,900,000. This budget calls for an expenditure of \$400,000 in 1958, and the commitment for expenditure will be \$500,000; so we will have \$900,000 of the total expenditure in play for that actual diversion.

Now, we have to go to another heading to get the whole progress of the year, and to complete the yard itself and all the necessary approach facilities will take about five years. Our approximate estimate of the period is 1961. We figure that we will complete the total project of the Cote de Liesse yard by about 1961. The entire project will total over \$30 million.

Mr. CHEVRIER: How will it affect entry into the central station?

Mr. GORDON: It will have no bearing on the entrance to central station. It is completely a freight yard. It is a hump retarder classification yard, as we call it, for the purposes of marshalling our freight. It will have no bearing on passenger traffic into central station.

Mr. FRASER: Mr. Chairman, I want to ask Mr. Gordon if there is anything to be spent of this money around Ottawa at the first of the year?

Mr. GORDON: In the totals including the entrance for the yard at Cote de Liesse there is an item for Cornwall to relocate some tracks on account of the St. Lawrence seaway and there is \$466,000 in play, and the last item is a rearrangement which included among other things Seaway requirements in the St. Lambert area.

Mr. CHEVRIER: The diversions in Ottawa are paid out of the Federal District Commission, are they not?

Mr. GORDON: That is a separate matter altogether. That has been at the Federal District Commission expense.

Mr. FRASER: You would not have any item at all?

Mr. GORDON: Not under this heading. This is line diversions. There will be, however, expenditures that affect us.

Mr. CHEVRIER: This is all lines under seven miles?

Mr. GORDON: All lines six miles and under on which there was no special statutory provision.

Mr. CARTER: Will any of this be done on the Atlantic region?

Mr. GORDON: Under the Atlantic region there is only \$335,900, and this is being spent on the Cascapedia subdivision which includes the relocation of 1600 feet of main line at mileage 42.7, straightening out a bad curve.

Mr. CHEVRIER: Is the diversion at Cornwall in connection with the seaway or has it got to do with the purchase of the New York Central by the Canadian National Railways?

Mr. GORDON: It has nothing to do with the New York Central.

Mr. PASCOE: I wonder whether Mr. Gordon can say where the western region starts?

Mr. GORDON: The Western Region starts at Armstrong and runs right through to the British Columbia coast. Winnipeg is the headquarters of the Western Region.

Mr. PASCOE: And the Hudson Bay Railway is not included, you have a separate item for that?

Mr. GORDON: It is now. We have just recently taken over the Hudson Bay Railway. It was formerly run separately but there have recently been changes made in the terms of entrustment.

Mr. CHEVRIER: Well, the Hudson Bay Railway item is voted by parliament as a separate item.

Mr. GORDON: Not now, we have recently been entrusted with the Hudson Bay Railway.

Mr. CHEVRIER: When was that?

Mr. DINGLE: Effective January 1st, 1958.

Mr. GORDON: It has been under discussion for quite a while but the formalities have been completed this year.

Mr. CHEVRIER: You always managed it, did you not?

Mr. GORDON: Yes, originally it was a separate company and we managed it. We made it a division of the Canadian National and operated it for all purposes but it was treated in its accounting as a separate item. We have now taken over the Hudson Bay Railway in exactly the same way as we have done with other railways.

Mr. CHEVRIER: Then in your accounts there will have to be in future an item covering the deficit of the Hudson Bay Railway?

Mr. GORDON: Yes, that is right.

Mr. CHEVRIER: There is an item in this year's estimate for the Hudson Bay Railway deficit?

Mr. GORDON: This is maybe the clean-up item. It will be in our estimates from now on.

The CHAIRMAN: Any comments on roadway improvements?

Mr. GORDON: I do not want to leave any misunderstanding here. I want to make it clear that there will no longer be an item you will recognize as a deficit or profit for the Hudson Bay Railway. It is meshed into the estimates in total.

Mr. CARTER: May I ask—this is a considerable amount on roadway improvements in Newfoundland and just for my information—

Mr. GORDON: Are we on that item now?

The CHAIRMAN: Yes.

Mr. GORDON: We are dealing now with roadway improvements and your question is, are there any improvements included in Newfoundland?

Mr. CARTER: I presume that is rebuilding roadbed, laying track and regrading?

Mr. GORDON: The total item there is the general operation of the railway. It covers replacement of rails, fastenings, tie plates, rail anchors; it includes the installation of ties, ballast, widening of cuts and fills and everything—bridges, trestles, culverts. That covers what might be called the operational requirements.

Mr. CARTER: How does that compare with last year's expenditures?

Mr. GORDON: The expenditures last year for 1957 were \$1,403,000 as compared with a budget of \$1,497,300. This year our budget is \$1,782,000.

Mr. PASCOE: I wonder, Mr. Gordon, if you could give a breakdown in regard to the Hudson Bay line?

Mr. GORDON: Under roadway?

Mr. PASCOE: Yes, it is other lines including the Hudson Bay Railway.

Mr. GORDON: The grand total covers again, as I say, rails, fastenings, tie plates, rail anchors, bridges, culverts and so on, and we have estimated for the Hudson Bay portion approximately \$800,000.

Mr. PASCOE: That is for the Hudson Bay Railway alone?

Mr. GORDON: That is right.

Mr. CARTER: Will most of this work be performed by regular maintenance employees?

Mr. GORDON: Yes, by the regular maintenance employees of the railway.

The CHAIRMAN: Any other questions? Large terminals, Atlantic region.

Mr. FISHER: That is a tremendous increase in the expenditure in the western region for terminals.

Mr. GORDON: It is in fact true of other items here. We have for many years planned elimination of terminal congestion and after a great deal of study we have now put in process the necessary terminal construction at Moncton, Winnipeg and Montreal, which we have just discussed. We have got, we think, most of our terminal congestion problems solved, with the exception of Toronto. We are still struggling to find a solution in the city of Toronto which we have not yet arrived at.

In the western region we have now crystallized the plan for the large terminal at Symington yard. This is a hump yard at Winnipeg and is intended to be one of the key system freight marshalling terminals which will function as a team to permit a greater freedom of flow for freight traffic. There will be substantial operating economies effected at Winnipeg and we have planned to take care of expansion in the foreseeable future. These yards are so arranged that they will synchronize with each other and eliminate a lot of duplicate work. The trouble in the west, of course, was that we still had an inheritance of the old Canadian Northern and Grand Trunk and until we make a complete amalgamation of the two there will be considerable congestion.

Mr. FISHER: What is the Toronto problem under discussion?

Mr. GORDON: Congestion and the fact that no plan was made thirty years ago. The real trouble in Toronto was that if there had been proper planning thirty years ago this would not have arisen, but now the city is so built up there is no place we can find in which to establish a yard. All yards have been concentrated down around the lake front and everything now has to come in to the lake front and out again. It is like spokes in a wheel and we

are now working with planning authorities to see what the remedy is. We have outside consultants examining the problem with us. I do not know what the solution is going to be. It may be we will have to go into a series of yards to carry the traffic, but we would prefer one large hump yard if we can find the area.

The CHAIRMAN: Any other questions on terminals?

Mr. CARTER: May I ask, Mr. Chairman, what is included besides Corner Brook and St. John's in this \$3 million for activities at Newfoundland?

Mr. GORDON: Corner Brook—the item we have in here is an item which will authorize the purchase of land as well as making additions and improvements to the area. It is a re-vote item too. The grand total of it is estimated to be \$1½ million and the amount we expect to spend this year will be an actual expenditure of \$390,000 and probably a commitment of around a quarter of a million dollars.

The way the rest of that item is made up is at St. John's where we have to purchase land as well as make additions and improvements. That has also been previously authorized to the extent of the land purchase and the new amount we are asking for here is \$1,150,000 towards a total budget of \$1,600,000 of which we will be spending over \$450,000 and commit ourselves to some \$450,000.

Mr. CARTER: That sum is taken up entirely on Corner Brook and St. John's?

Mr. GORDON: Yes.

Mr. CARTER: Nothing besides that?

Mr. GORDON: Not under this heading of terminals.

Mr. CARTER: Well, I was going to say is that the same with buildings?

Mr. GORDON: We come to an item on buildings farther down.

Mr. CREAGHAN: Under the same heading of terminals, Atlantic regions, \$15,755,000, does that include a hump at Moncton?

Mr. GORDON: Yes, it does.

Mr. CREAGHAN: Is that a re-vote or a new vote?

Mr. GORDON: Yes, the Moncton hump yard is a re-vote although it is a re-vote in part only. It is a re-vote in the sense that we had the project approved and got authority for the purchase of the land, but the new item required for the yard is the item we are discussing now. The total cost of the project is estimated at \$15 million and we expect to spend this year a total of \$1,150,000 and have a commitment for further expenditures of \$1½ million.

The CHAIRMAN: Any other questions on terminals? Yards, tracks and sidings.

Mr. CHEVRIER: On the question of the terminal at Montreal is anything being done to hasten the entry and exit of passenger trains out of the station?

Mr. GORDON: The passenger trains out of central station?

Mr. CHEVRIER: Yes.

Mr. GORDON: I guess the answer to that is no. We are still studying the problem.

Mr. CHEVRIER: It is a pretty difficult problem because of the canal?

Mr. GORDON: We have a number of proposals under examination. It is a very difficult problem and a very difficult bottleneck there, but we are trying to see if we can bring into play an approach through the tunnel of Mount Royal. That would be very costly in any way you look at it, and we are now examining that location and other proposals, but I believe there is nothing in this budget on it.

Mr. CHEVRIER: I realize that. Would that shorten the time considerably if you were to use that tunnel?

Mr. GORDON: It would not make much difference in time, but it would give us a better service for passengers from the Town of Mount Royal and other areas.

The CHAIRMAN: Any other questions?

Mr. FISHER: The figure on the extension to sidings has been set roughly at 100 cars. I wondered why they were not larger after you had told us there will be a few longer trains?

Mr. GORDON: Our studies on that have been based on the considerations of the traffic volume in particular places, the frequency of freight trains, and so on. Now, the longer a siding the bigger the cost, of course, and we examined that on the basis of train frequency, train loading, service requirements, etc. You will remember, that our average siding, except in western Canada, where I think we will reach a maximum of 117, is 100 cars capacity, and we are establishing that as a standard. That is the economics of operations.

The CHAIRMAN: Yard tracks and sidings—any comment on them? Buildings.

Mr. CARTER: May I put my question now on the buildings?

Mr. GORDON: Yes. What was your question again, Mr. Carter?

Mr. CARTER: What is in this item apart from Corner Brook and St. John's?

Mr. GORDON: The grand total in Newfoundland is \$797,900. It covers quite a number of small items. There is a station alteration at Deer Lake, construction of a freight shed at Lewisporte, a dwelling and bunk house at Bishop's Falls, an express office at Gander, our repair shop extension at St. John's as well as some small items covering extra equipment for docks and there is an item of a stores building at St. John's, which is \$22,700; and that is it.

The CHAIRMAN: Quite a few of these items were dealt with in the annual report that was passed yesterday. We discussed general policies on it.

Mr. FISHER: Are there any new buildings at the lakehead in that \$14 million figure?

Mr. GORDON: There are quite a number of small items in this figure. There is an item at Fort William, the replacement of some section tool-houses, \$9,000, an item at Port Arthur replacing three B. and B. buildings, \$13,000, and there is another item, construction of a repeater station in our communications at Fort William which will be \$51,000, and I think that is all at the lakehead.

Mr. FISHER: Thank you.

The CHAIRMAN: Any further comments?

Mr. MARTINI: Mr. Chairman, in Hamilton, the Canadian National Railways station there, the steps are quite high.

Mr. GORDON: The steps are high?

Mr. MARTINI: Yes, very high from the platform. Has any consideration been given to putting an escalator in?

Mr. GORDON: No I have never heard that complaint before.

Mr. MARTINI: Well, I have heard it many times.

Mr. GORDON: I would think the cost of an escalator would be almost prohibitive in relation to the actual need.

Mr. MARTINI: The steps are quite high.

Mr. GORDON: There are pretty high steps out of the Ottawa station too, as I recollect. The walk up there is pretty severe, but the cost of escalators is pretty heavy.

Mr. MARTINI: You can go through the tunnel.

Mr. GORDON: Yes, down through the hotel, but you still have a walk.

Mr. CARTER: Might I ask, Mr. Chairman, are there any plans to rebuild the station at St. John's, or to build a new station there?

Mr. GORDON: No.

Mr. CARTER: The fire you had in the express office, are those repairs included in this item?

Mr. GORDON: The necessary facilities will be provided this year.

Mr. SMITH (*Calgary South*): I wonder if I could ask whether or not you have carried on any further discussion on pooling your facilities with the Canadian Pacific Railway in Calgary? There have been some discussions.

Mr. GORDON: I know the problem there. There is nothing that could be regarded as serious discussions, no.

Mr. SMITH (*Calgary South*): Could you tell me whether in the time that you have been carrying on these discussions during the past year any work has been done in the main station?

Mr. GORDON: Yes, under buildings but as a revote.

Mr. CREAGHAN: Mr. Gordon, I wonder how you arrive at this figure for buildings for the maritimes?

Mr. GORDON: The Atlantic region?

Mr. CREAGHAN: Yes. It seems to be a very, very small amount for capital investment in buildings for such a large area. When you consider it includes the maritime provinces and a big part of Quebec it is about six per cent of your national building program and in most cases the buildings are probably a hundred years old and with old platforms. It seems to me that besides the dieselization program some buildings should be improved to make your facilities attractive to the public and attractive to work in.

Mr. GORDON: Well, of course, all our capital expenditures are aimed at meeting actual needs. Personally, I see nothing wrong about a building being a hundred years old if it serves the operating requirement of the railway. I think it is a fetish that we sometimes have to get rid of buildings just because they are old. We should be developing a pride in older buildings!

Mr. SMITH (*Calgary South*): Like the Chateau Laurier.

Mr. GORDON: Well, I must say I have a great deal of pride in the Chateau Laurier.

Mr. SMITH (*Calgary South*): You like the character and atmosphere.

Mr. CHEVRIER: I lived there for six years and I have the greatest respect for the Chateau Laurier. I think it is the best hotel on this continent.

Mr. FRASER: The finest piece of architecture on the continent.

Mr. GORDON: I am glad you inspired these compliments, Mr. Smith!

Mr. SMITH (*Calgary South*): You asked for it.

Mr. CHEVRIER: Was some investigation or survey made of transportation facilities by the Canadian National Railways in the Atlantic region?

Mr. GORDON: Are you referring to the inter-departmental committee?

Mr. CHEVRIER: Yes, and to a statement which was made by the former Minister of Finance in the house that the Canadian National Railways was undertaking a survey of transportation for the Atlantic region.

Mr. GORDON: There is an inter-departmental committee dealing with the whole question of transportation facilities in the Maritime Provinces. The Canadian National Railways has an observer on that committee; we are not

active members because it is an inter-departmental committee of Government but we have an observer on the committee and we have undertaken to give them all the assistance we can in their inquiries.

Mr. CHEVRIER: Could you tell me who is the chairman of the committee?

Mr. GORDON: Perhaps the Minister of Transport could answer that, but he is not here at the moment.

Mr. CHEVRIER: Can you tell us what has been the result of the investigation thus far?

Mr. GORDON: No, I do not know where the committee is at. They are not reporting to us. Apart from that the CNR is making an industrial survey with the intention of finding out the industrial potentialities of the region and trying to work out an attractive brochure that can be placed before industry. The point is that the inter-departmental committee is a departmental committee under the jurisdiction of the Minister of Transport and we are only observers or consultants or whatever you may want to call us in that respect, so I cannot tell you about the progress.

Mr. CHEVRIER: I understand that the Canadian National Railways were undertaking a survey of their own?

Mr. GORDON: That is right. An industrial survey.

Mr. CHEVRIER: Could you present some statement about the Canadian National Railways investigation?

Mr. GORDON: Only that it is in progress and we have not received a report. We started the survey last January and in January we covered Stellarton, New Glasgow, Trenton and so forth. Then they started at Truro and then Saint John and so forth, and those surveys include a careful mapping of the railway lines, streets, sewers and the like, all facts which would be of interest to prospective industries. It will take us some time to deal with it. The results will be put out in a sort of brochure form which will be available to prospective industries.

The CHAIRMAN: That was discussed in the general report.

Mr. GORDON: Yes, sir.

Mr. CHEVRIER: Following the construction of the Canso Causeway there was some fear by the two towns on both sides that they would be seriously affected and a committee was formed to see if some other industries could not be found to go to the assistance of those two areas on the north side. Can you tell me what has come of that?

Mr. GORDON: No, I do not know.

Mr. FISHER: Mr. Gordon, there have been some very bitter criticisms of Canadian National Railways service that have been made by Conservative members of the house, I think the member for Restigouche-Madawaska and Cape Breton North. If so, what steps are you taking to meet that sort of criticism?

Mr. GORDON: Well, I do not know what heading we are under now, Mr. Chairman.

Mr. FISHER: They commented upon the buildings.

The CHAIRMAN: I think you are getting pretty far afield from the agenda here and I think we should get back on the tracks. We have been through a lot of details. Let us concentrate on the budget. We were discussing yards, tracks, sidings and buildings and if there are no other questions on buildings—

Mr. MITCHELL: Mr. Chairman, could I ask a question? Some time ago I asked about the extension of service in the Sudbury area and I was told there

had been some consideration and it would be found in your budgetary estimates. Have you any idea what those items of service are that you are contemplating improving in the area?

The CHAIRMAN: That is in the Sudbury area?

Mr. MITCHELL: Yes.

Mr. GORDON: There is an item covering the purchase of 23 acres of land for freight and passenger facilities in the budget.

Mr. MITCHELL: You have the figure, but you do not care to give me the figure?

Mr. GORDON: I will give you the estimate if you want it. I prefer not to.

Mr. MITCHELL: All right.

Mr. PASCOE: Mr. Chairman, rather than ask a lot of questions in regard to the Hudson Bay Railway you have a list of the expenditures. Is that list available for inspection?

Mr. GORDON: No, because they are all in the form of estimates here. I would be very glad to run over them with you on any point.

Mr. PASCOE: Anything for Watrous, Saskatchewan, then?

Mr. GORDON: I will be glad to look up any specific item.

Mr. SMITH (*Simcoe North*): I would suggest, Mr. Chairman, that a lot of these small items could be answered to the satisfaction of the individual members if they wrote Mr. Gordon or some of his staff later.

The CHAIRMAN: I was going to suggest that. It seems we are getting into a lot of detail on our respective ridings. I would like to ask a lot of questions about Cookstown, Tottenham, Shelburne and Orangeville. We are all interested in our own ridings and in individual items. Mr. Mitchell's question was all right on Sudbury. He asked it yesterday and was told to ask again at the time the budget was discussed. He asked if there was going to be any general expenditure at Sudbury and he got his answer. But the answering of these individual items has taken up a lot of the committee's time. I think we should stick to general policy of the railway in the budget rather than go into a lot of detail.

I am, of course, particularly interested in my own cases and would have a lot of questions, but I happen to be acting as chairman of the committee.

Now, on buildings, is there anything further you wish to ask on that?

Well, highway traffic protection.

Mr. FRASER: Mr. Chairman, I brought this up on other occasions regarding highway crossing signs which are now on street crossings.

The CHAIRMAN: Yes, that is the one we are on now.

Mr. FRASER: I suggested in this committee some few years past that crossing signs should be sloped the way the railway crosses so that they show the people coming to the railroad track which way that track lies because sometimes it is rather dangerous. You might think it is a straight crossing, and it will turn out to be at an angle. If the railway was coming from the other direction you might put a stripe on the bars sloping from the lower right hand side up to the top on the left.

Mr. CHEVRIER: Is that not a matter for the Board of Transport Commissioners?

Mr. GORDON: I think it would come under the regulations of the Board of Transport Commissioners, yes.

Mr. FRASER: Would it not be a good idea for your company to suggest it if you thought it worth while?

Mr. GORDON: Yes, but I would not care to deal with it as a practical matter at the moment. However, I will make a note of it and have our operating people look at it.

Mr. FRASER: Thank you. I brought up before in this committee about the new freight cars which you are building. Why not put a coloured line across the bottom of those freight cars so that people at night—and in a rainstorm—might see them, instead of seeing the present dirty brown colour only.

Mr. GORDON: Because it would be extremely dangerous.

Mr. FRASER: Why?

Mr. GORDON: Because in the marshalling of trains we cannot control the type of freight cars which may be in those trains. We handle freight cars from all over North America and from every railway in the United States. There are over one million involved.

If we had our cars marked with a light stripe, then, anyone coming along at night would see them with the headlights on his car, but there might be a blank occasioned by the cars of some other railway which did not mark its cars with a light stripe, being included in that freight train. Therefore the automobile driver might presume that the train had gone by, and drive into the side of the train. So I think it would be very dangerous.

The CHAIRMAN: You are getting into technical engineering aspects.

Mr. FRASER: I think that most American freight cars have big white lettering on them. I have not seen any American freight cars yet that have not got big white lettering on them stating to which line they belong.

Mr. GORDON: Are you talking about reflectors and lights?

Mr. FRASER: No, I mean something painted on the bottom of the freight car, let us say six inches or a foot high which would reflect your lights.

Mr. GORDON: This whole question of safety measures is under constant examination by a joint committee of the railways. I cannot answer whether this particular point has been brought up, but certainly every possible idea which would mean safety has been under consideration.

Mr. FRASER: Every week or so you can read where somebody has been killed by striking freight cars.

The CHAIRMAN: Consider highway crossing protection and signals. These signals involve about \$11 million. Does that mean signals on the highway?

Mr. GORDON: No. It means operational signals, centralized traffic control, and that sort of thing.

The CHAIRMAN: I think in general there is a feeling throughout the country that we do lack on both railroads sufficient warnings at the tracks.

I have been a member of parliament for some 30 years, and I can remember in conjunction with other members along the border in Peel and other places, that we got signal lights installed through the Board of Transport Commissioners.

The railroad has put in hundreds and hundreds, but there are still lots of places where the train service is fast, and there are a lot of dangerous places yet. With the increase of automobile traffic and with the speed of cars increasing, this is a very important point.

The item you have under railway crossings is not very large in view of the whole dominion. It is \$799,000.

I think nearly all the members here have similar situations in their districts, and that they feel very strongly about it. There are a great many accidents still and there are a lot of places where safety measures could be increased. I merely pass that on.

Mr. RYNARD: I would like to ask a question about this point: whether the highway department and the elimination of level crossing is a better answer than signals or lights, because often times these signals fail to operate.

The CHAIRMAN: A crossing would be safer.

Mr. GORDON: We have had practically no reports of failure of signals where they are installed. They are under very careful supervision all the time and I cannot recall any accident report that I have looked at—and I look at them very carefully—where the cause has been the failure of signals.

If a signals fails, it fails negatively. It will go red. If anything goes wrong with it, it will show "stop." So it is not the failure of a signal which causes an accident.

I would like to comment in a general way on what the chairman said. I think there is a popular misconception that the matter of grade crossing accidents is the sole responsibility of the railway. It is not the responsibility of the railway.

The cause of accidents arises in most part out of the highway approach. In most cases we have been there for half a century before there was any highway traffic. So when motor cars begin to come along, there is a grade crossing and this makes it dangerous for us as well as for themselves.

As a railway we do not see why we should pay for the cost of signals or underpasses or overpasses to look after highway traffic. There is a grade crossing fund established, out of which contributions can be made upon the authority of the Board of Transport Commissioners for any grade crossing which becomes dangerous. Any person may make representations in regard to a dangerous crossing.

We will always approach these representations on the basis that we are perfectly happy to have signals installed, or underpasses or overpasses constructed, but not solely at our expense. We are prepared to pay a share of it, but not all of it.

Mr. CHEVRIER: My comment is this: that while what you have just said is true, it strikes me that the amount provided for highway protection in this item is small in relation to the fact that parliament last year or the year before increased the amount to be paid into the grade crossing fund. It is now, I think, \$15 million.

The Board of Transport Commissioners will determine that out of that fund there will be so much money paid to the Canadian National Railways and so much paid to the Canadian Pacific Railway; and the railways themselves have to pay a certain portion depending on what you said a moment ago as to relationship between the highway and the railway and how long the railway has been there, vis-à-vis the highway.

In view of the fact that the grade crossing fund has been so highly increased, it seems to me that the amount paid by the Canadian National Railways should be greater than the amount stated here. I do not say that critically.

Mr. GORDON: You are looking only at the portion that we will pay out; but our portion of a particular project may be only ten per cent, so you cannot judge it.

Mr. CHEVRIER: In view of the fact that the grade crossing fund was so highly increased, it seems to me that this figure should have gone up in proportion. It seems to me that this is not sufficiently high compared to what it used to be.

Mr. GORDON: Inspired by whom?

Mr. CHEVRIER: By the Board of Transport Commissioners.

Mr. GORDON: Who should take the initiative? That is the question. If we ourselves reach the conclusion that a particular crossing has become

dangerous we will take the initiative and bring it to the attention of the Board of Transport Commissioners and ask for action. But remember there are 33,000 crossings across Canada.

Mr. CHEVRIER: As I understand it, the matter is generally taken up by the municipality or the province, whichever is the owner of the highway. Most of the time of course it is done by the railways. But it strikes me as important that this amount seems to be rather small in comparison with what parliament has done to increase the grade crossing fund.

However, I may be wrong.

Mr. GORDON: You cannot judge it merely from the figures you see here because you have fourteen other railways in Canada who are dealing with the grade crossing fund.

It would appear that there is an implied criticism of the Board of Transport Commissioners in what has been said here. I do not think it is a fair criticism at all, and the matter should be looked at in the overall. This fund covers all the railways in Canada and you cannot judge it by our particular share of it.

You may find that the Board of Transport Commissioners has substantially increased the fund in the light of the factors you mentioned.

Mr. CHEVRIER: The criticism was meant to be of the Canadian National Railways as well as the Board of Transport Commissioners. I hope you understood me rightly.

Mr. GORDON: I am not aware of any crossing applications which we have resisted apart from representations about our share of cost.

Mr. SMITH (*Simcoe North*): I take it that this \$799,000 includes the Canadian National Railways' contribution to both signal lights as well as to grade separations?

Mr. GORDON: You are talking about highway crossings?

Mr. SMITH (*Simcoe North*): Yes.

Mr. GORDON: It covers all forms of crossing protection.

Mr. SMITH (*Simcoe North*): What has been the experience of the Canadian National Railways in the matter of changing the arms on your gates? I mean the shortening of the arms so that they actually cover only one half of the road? What has been your experience in respect to that change?

Mr. DINGLE: There is no difference at all. Both types are broken.

Mr. SMITH (*Simcoe North*): Following that question, what results have you had from receiving complaints about the removing of the pedestrian arm on the gates?

Mr. GORDON: It has not come to my attention.

Mr. SMITH (*Simcoe North*): On the big gate there is a short arm on some crossing gates, and these have been removed.

Mr. GORDON: I have heard nothing about it. However you just cannot fool the public: They will crawl under it or climb over it or do anything at all. They will commit suicide as far as we can see, if they are bound and determined to get across; they will take chances no matter what you do.

Mr. RYNARD: When you meet with the Board of Transport Commissioners to deal with these problems, what criteria are there having to do with the putting in of grade crossing separations or putting in lights?

Mr. GORDON: The Board of Transport Commissioners will at any time upon application from a responsible party, conduct an examination of the crossing and arrive at a conclusion as to whether it is dangerous and needs protection.

Mr. RYNARD: Accordingly to the ones I have observed in my own small way, a few people have to be killed before there is any action taken. There is one right close to my home town where two people were killed. It is a very dangerous crossing.

Mr. GORDON: Every crossing is potentially a killer. It does not matter how limited the traffic may be. There are bound to be occasions when someone is careless at a time when the train happens to be passing. Consider a crossing where there may be only one train a week. It is quite possible that somebody will step in front of that train.

Mr. RYNARD: My point is this: There must be criteria. The crossing I mentioned looks dangerous to me. The main line of the Canadian National Railways goes through there, and not only that, but on that road traffic has increased terrifically over the last ten years because of the big tourist development in that area.

Mr. GORDON: In those circumstances it is the public duty of the local municipal authority to make representations about that crossing.

Mr. RYNARD: They did, but nothing was done.

Mr. GORDON: I know, and the reason is that it will cost them some money.

Mr. RYNARD: What are the criteria? Is it the cost in money or the loss of life?

Mr. GORDON: It is the degree of danger in relation to the traffic going across that crossing.

Mr. SMITH (*Simcoe North*): Sometimes where there is a real need for a light, the municipalities have found that the railway involved drives a pretty hard bargain.

Mr. GORDON: I am glad to hear that. It shows we are watching costs.

Mr. SMITH (*Simcoe North*): But in our desperation to get a light, where pressure is put on the local municipality, sometimes they might agree to pay more than their just share.

Mr. GORDON: What happens is this: we appear before the board. Let us say it is a municipality involved. The Board of Transport Commissioners is the judge and they will decide on the basis of the evidence coming before them what is a fair apportionment of that expenditure. You might say that we drive a hard bargain.

The CHAIRMAN: We probably all have a responsibility for it.

Mr. RYNARD: What is the cost of establishing one of those warning lights or warning signals?

Mr. GORDON: Do you mean a flashing light?

Mr. RYNARD: Yes.

Mr. GORDON: There are several different types. The cost runs about \$12,000.

Mr. RYNARD: On one railroad a man was killed at the age of 22 years. He had an earning power of \$150,000. His father was completely crippled.

Mr. GORDON: I suggest to you that this is unfair special pleading because even if we put in a \$12,000 light, it would not guarantee that a young fellow would not get killed. We have many accidents taking place at protected crossings because people will take chances. They will drive over the crossing after the light has begun to flash and the bell had begun to ring, again and again.

I am not so sure but that if you made an analysis you would find there were almost as many people killed at protected as at unprotected crossings. I do not think it is fair to bring in an emotional suggestion that a young fellow is worth more than \$12,000.

Mr. RYNARD: I am not being emotional in any way. But I would like to know what the results are. You are making the statement or suggestion that these flashing signals are not all right.

Mr. GORDON: They are all right.

Mr. RYNARD: You are suggesting that they might be all right. We think so.

Mr. GORDON: There is only one positive cure, and that is an underpass or an overpass.

Mr. RYNARD: Have you the figures that show where accidents have happened where there were flashing signals?

Mr. GORDON: The Board of Transport Commissioners keep very careful records of accidents. They are the governing body in respect to that particular point.

Mr. RYNARD: I will drop you a line about it.

Mr. GORDON: Or perhaps you had better write to the Board of Transport Commissioners.

Mr. HEES: Might I suggest that Mr. Rynard or anybody else who has a problem about safety crossings or anything like that go to see the Board of Transport Commissioners. The board is located at the Union Station. You should go to see Mr. Sheppard, the chairman, and have a talk with him about it, or with whoever he designates, and find out what the situation is in your particular area. He will be glad to see you.

Every person I have suggested should go to see him has had a good reception.

Mr. RYNARD: I thank the minister for this kind suggestion.

Mr. CREAGHAN: The federal government is now contributing approximately \$15 million towards the grade crossing fund per year. Who does the construction? Is it done by the Canadian National Railways or the Canadian Pacific Railway? Do they get that money and spend it?

Mr. GORDON: We usually install the protection.

Mr. CREAGHAN: Who actually spends or administers that \$15 million federal government grant?

The CHAIRMAN: It is the Board of Transport Commissioners.

Mr. GORDON: In the simple matter of installing lights, we do the work and we recover the sum. Larger projects however, such as an overpass are usually carried out in cooperation with the highway departments. In that case the work is done by either authority as directed by the board. Whoever does the work, will recover the amount that has been agreed upon by the Board of Transport Commissioners.

Mr. GUNDLOCK: Might I have an approximate figure of the usual cost sharing of such lights that have been mentioned?

Mr. GORDON: There is no standard. It depends on the circumstances.

The CHAIRMAN: The municipality pays for part of it and the province pays for part of it.

Mr. GORDON: If you take it on an average for last year, our share of expenditures for the various projects affecting the C.N.R. amounted to 17.3 per cent. 24.7 per cent was the portion paid by the municipalities and the other authorities of like character, and 58 per cent was the contribution from the grade crossing fund. That is the average. The individual items will vary, depending on the circumstances.

Mr. CHEVRIER: How much does that represent in total?

Mr. GORDON: About \$965,000 for grade crossings on the CNR. That was for the year 1957. That was my point a moment ago. The amount we require in our budget is small compared to the \$15 million which has been voted this year.

Mr. CREAGHAN: There is no doubt that the railway was there first and that you own the facts. But you brought in dieselization and you are speeding up your passenger trains all the time.

I think it would be only appropriate, seeing that it is a national company, that you adopt a different outlook and say: because we are putting on this type of equipment, we should be consistent, because our trains are now going faster all the time, and the municipalities are very hard up for funds, so perhaps we should bear a greater share of the cost.

Mr. GORDON: I think there is a great distortion being written into the record.

The Canadian National Railways has no objection whatsoever to protection at each and every crossing. Nothing would suit us better.

The only point is, that of the apportionment of cost.

A court has been set up by parliament known as the Board of Transport Commissioners which sits in judgment on each case. Every party having an interest appears before that court and it is the decision of the court which decides on what shall be a fair apportionment. We only put forward our views.

Mr. CREAGHAN: But the small or rural municipality cannot afford to send a solicitor to appear before the board.

Mr. GORDON: The Board of Transport Commissioners will take that into account. It is their judgment as to what is a fair apportionment.

Mr. HEES: If any member feels that any crossing is improperly guarded in his constituency or in any other constituency, he should go and see Mr. Sheppard and talk it over with him at the Board of Transport Commissioners. If he will go and explain his case to Mr. Sheppard, it is possible that he will get a better deal for a particular crossing where he thinks an injustice has been done.

Mr. GORDON: Or, if members of parliament should feel that the grade crossing fund should be administered on a different basis, then let them change the law and have it done, or make the government do it. You can increase that \$15 million if you want to, and the Board of Transport Commissioners could be given authority to bear 100 per cent of the cost if you so wished it.

The CHAIRMAN: There is a lot in what the president has said. Even before the election I have heard fellows promise to eliminate all level crossings. But following the election, with the long term objective and everything, in order to eliminate them it would only cost \$360 million to put in lights at all the 33,000 crossings. I have heard people talking about it for years.

Mr. CREAGHAN: I know of the case of a retired old lady who was killed in the centre of Moncton.

The CHAIRMAN: There was a fellow in my district who drove right through a gate at Allendale. He smashed the gate, and it cost him something, but he did not get killed. People will drive right through sometimes; and older people will go right through with their automobiles.

Mr. GORDON: I read that there were 76 deaths on the highway just over the week-end.

The CHAIRMAN: If we could get the Board of Transport Commissioners to eliminate all level crossings, I think it would bring better results. And as to having as many lights as possible, we have not to my mind made as comprehensive a job of it as it might be.

Mr. CHEVRIER: I think the president has put his finger on the matter when he gave us the figures that in one year the expenditure amounted to about \$900,000.

My point is that the Board of Transport Commissioners have so many other duties that I do not think they have the necessary time to deal with these applications. They take a great deal of time, particularly those for overpasses and underpasses. There is always a long list of applications before the board, and by the time the board gets to deal with them, these accidents are taking place.

In other words, with the increase of money coming out of the grade crossing fund, I do not think that the money is being spent on the same basis as it is being voted. I may be wrong, but I think there is something to it.

The CHAIRMAN: We have had a pretty good discussion about it, and we know where the responsibility lies, and the probable charges for each.

Now, "Roadway and shop machinery".

Mr. CARTER: Before we leave signals, may I ask if the same system of signals is used on the Newfoundland railway as is used on the mainland?

Mr. GORDON: You are talking about the signals on the railway or about crossing lights?

Mr. CARTER: I mean railway signals.

Mr. GORDON: No. We took over the Newfoundland railway with the signals then in use, but we have not yet included in the Newfoundland district any of the most modern signals such as the centralized traffic control because it has not been found necessary to do it.

We only put centralized traffic control on single track lines where there is a sufficient density of traffic to repay us for the very heavy expenditure. We do not think that C.T.C. is necessary in Newfoundland.

The CHAIRMAN: You pretty nearly have to be an engineer in order to discuss signals.

Mr. GORDON: Our program is not mentioned in the report, but we have made a survey of the entire system to establish just where we could instal C.T.C. in the light of density of traffic in particular areas.

We now have 4,489 miles of track in various divisions across the system where we believe the economics would justify that installation.

Now, if we were to do that all in one fell swoop the cost of that installation would be something in the order of \$40 million. What we are doing, therefore, is bringing forward a certain amount each year, depending on the total amount of our capital budget. We are planning approximately 498 miles for completion in the 1958-59 period, and we are also providing for budget approval for an additional 593 miles.

Mr. CHEVRIER: Could you tell us where this traffic control system is going to be installed?

Mr. GORDON: You will see it goes right across various areas and the ones we are doing in the 498 miles are, Napadogan to Edmunston, New Brunswick, which is 114 miles; Capreol to Foleyet, Ontario, which is 148 miles; Redditt to Transcona, which is near Winnipeg, 121 miles, and Boston Bar to Port Mann, British Columbia, which is a distance of 115 miles, totalling 498 miles, at a cost of \$4,239,000.

Then, we are taking forward into the budget for the following items: Edmunston, New Brunswick, to Monk, Quebec, 124 miles; Coteau, Quebec, to Hawthorne near Ottawa, 71 miles; Hornepayne to Nakina, Ontario, 136 miles; Redditt to Sioux Lookout, Ontario, 123 miles, and Sioux Lookout to Armstrong, Ontario, a distance of 139 miles, making a total of 593 miles.

So that the grand total, as shown in the budget, comes to \$11,205,400, of which \$9,381,000 is represented by our centralized traffic control program.

Mr. CHEVRIER: How much more will have to be done to complete the program?

Mr. GORDON: On the program we have formulated we have a total of 4,489 miles, and we hope to handle this on the basis of past provisions over the next five years.

Perhaps it might be of interest and I think part of the record what our position is in comparison with the Canadian Pacific Railway. They have approximately 3,211 miles of automatic signals. We have a total of 1,500 miles of automatic and 689 miles of centralized traffic control, so if you add the two together we have 2,189 miles of this specialized signalling equipment against 3,211 miles for Canadian Pacific Railway.

Mr. CHEVRIER: Do they have automatic block system or centralized traffic control?

Mr. GORDON: They have automatic block. They have no centralized traffic control.

Mr. CHEVRIER: What is the difference?

Mr. GORDON: You get into a pretty technical description, but we believe the centralized traffic control is the last word in automatic signalling.

The CHAIRMAN: Any other questions on communications?

Mr. GORDON: You see, with centralized traffic control we operate without any train orders whatever; the engineer is guided entirely by the lights he sees in front of him and he can proceed so long as the signal indications permit.

With simple automatic block train orders are required in addition to the signals. Centralized traffic control is much more flexible but also much more costly.

Mr. FISHER: Mr. Gordon, you made some remarks that the centralized traffic control might have some ramifications as far as the number of employees is concerned. If you intend within the next few years to have centralized traffic control from Winnipeg right through to Hornepayne that will be 455 miles—

Mr. GORDON: Yes.

Mr. FISHER: —will you give any sort of prediction as to how that may affect the working forces in the running trades?

Mr. GORDON: I would not like to put it in terms of figures because again you get offsetting figures. Centralized traffic control will require a different type of maintenance workers which we will probably train from our own maintenance forces, but it will be a different type of maintenance than there is now in regard to signals.

Mr. FISHER: Will it eventually have an effect?

Mr. GORDON: Let me deal with the maintenance. We do not think the actual maintenance staff will be much affected in terms of numbers.

Mr. FISHER: What would you say as to the effect of centralized traffic control on the running trades—do you think it would have much effect?

Mr. DINGLE: No, I do not.

Mr. FISHER: You have been experimenting with inter-communication within trains. Is that in these estimates?

Mr. GORDON: No, we have nothing in these items for radio communication.

Mr. FISHER: Has that been successful?

Mr. GORDON: It has been successful in tests. The crews are very anxious to use it but some have requested additional pay if we ask them to use these radio phones. This is one of the items under negotiation at the present time.

The CHAIRMAN: Roadway and shop machinery. I think that is just general. What is the wish there?

Communications. I see that includes the Hudson Bay Railway, which looks \$24 million for Hudson Bay Railway?

Mr. GORDON: No, this is the total for all. It is everything, including Hudson Bay Railway, the grand total for the system.

Mr. CHEVRIER: Is there anything concerning your microwave in communications?

Mr. GORDON: Yes, there is.

Mr. CHEVRIER: Would you tell us about that, please?

Mr. GORDON: The microwave that we have, I believe, is, of course, a re-vote item because it has been in play for some time and covers contracts that we have successfully tendered on for the C.B.C. The microwave system between Quebec and Jonquiere totals \$360,000.

Mr. CHEVRIER: Is there one from Winnipeg to Montreal and Toronto?

Mr. GORDON: No, we have not got the Winnipeg one. Really we have got the French language broadcasts. That is what we have successfully tendered on.

The microwave from Sydney to St. John's is a main item and we have a total re-vote item covering \$8,200,000. We also have included in this item quite a lot of work for the Department of National Defence, which is treated as secret items. We provide the facilities for them, but we do not divulge the nature of the facilities or the locations.

Mr. CHEVRIER: Does that arise out of the construction of submarine cable?

Mr. GORDON: No, I am talking about microwave.

Mr. CHEVRIER: Has it any relationship to the submarine cable which comes out at Sydney and you take the line on to St. John's?

Mr. GORDON: That is not the Department of National Defence; that is our regular service.

Mr. CHEVRIER: For this \$8,200,000?

Mr. GORDON: The \$8,200,000 here is for the microwave arrangement between Sydney and St. John's, which will have a by-product effect on our own communications. Basically it has to do with the Canadian Broadcasting Corporation.

We are continuing the work on our microwave system, which will extend from Sydney to St. John's. That covers that and a lot of additional work and technical work—access roads to the site, land, auxiliary items to this system such as 21 repeater stations along the route. All that contract work has been awarded covering the erection of the towers and so on. The first stage of the project will, we believe, be completed in 1959. The second phase will be the installation of the general communications system. The total of all this is estimated at \$8,200,000.

The CHAIRMAN: Any further questions on communications?

Mr. SMITH (*Simcoe North*): Generally speaking, on this summary I would like to make a suggestion that possibly another year highway crossing protection might be divided into two categories, one, grade separation, and the other lights and other protective devices.

Mr. GORDON: It might be possible to do that.

Mr. SMITH (*Simcoe North*): In the subdivisions of the budget.

Mr. CHEVRIER: You will have to consult your counsel first.

Mr. GORDON: We would be quite willing to do it but we have spent a lot of time trying to simplify this presentation and I think it would be wise to leave it as is. We do not want to lengthen it.

Mr. SMITH (*Simcoe North*): Except I think that was one item we took an unnecessarily long time to pass this morning.

Mr. GORDON: We could put it on the basis that I will endeavour to make a breakdown for the committee, if at all possible.

The CHAIRMAN: Page 4, then.

Mr. CHEVRIER: That first line, Mr. Gordon, is completed, is it, the Hillsport-Manitouwadge?

Mr. GORDON: Yes, the only amount you will notice we have got in there is \$60,000 to complete it.

This section covers all the branch lines that have been authorized by special acts. The bottom part of the report shows you the amounts of expenditures we are making on each line in the 1958 period. The Hillsport-Manitouwadge, \$60,000; then the Beattyville-Chibougamau-St. Felicien is \$7,300,000 this year, and including this it will cost \$10,305,000 to complete that line. Then there is Bartibog-Heath Steele Mines \$200,000, the amount required to complete; then Sipiwesk-Thompson, the International Nickel line, \$4½ million will be spent this year, and total cost will be \$5,385,000. The Optic Lake-Chisel Lake line is estimated to cost \$10,165,000 and we expect to do \$2 million of the work this year.

Mr. CHEVRIER: Is it too early to make any comment on how the first half of the Beattyville-Chibougamau line has operated?

Mr. GORDON: From a traffic point only?

Mr. CHEVRIER: Yes.

Mr. GORDON: At the moment and in the last few months the traffic has been disappointing, largely because of the lead-zinc decline generally in regard to exports.

Mr. FISHER: Is it in order for me to ask at this particular point on new lines if you have received any inquiries as to any sort of a line near Nakina to the area of those large low-grade iron ore deposits that are held by Anaconda?

Mr. GORDON: Yes we are studying that now, but we have not got to the stage of anything definite as yet.

Mr. CHAIRMAN: Anything on page 4?

Page 5.

Mr. ROBINSON: Mr. Chairman, I am just wondering if our hotel service is making money?

Mr. FISHER: Could I pass this list down to him?

The CHAIRMAN: Was that not taken up yesterday?

Mr. FISHER: Yes. Here is a summary.

The CHAIRMAN: This is the capital budget for 1958 that we are discussing.

Mr. ROBINSON: I understand we are spending a total of \$11 million on these hotels for 1958, so I would like to find out—

Mr. GORDON: No, the total we are spending in 1958 is \$6,859,000, of which \$5,841,000 is represented by the clean-up work on the Queen Elizabeth. The Queen Elizabeth is well within its budget, I may say. So the other expenditures for all the hotels is only \$1,018,000, of which \$600,000 represents an addition to the Nova Scotian hotel in Halifax.

Mr. CHOWN: May I ask again the cost of the Queen Elizabeth hotel?

Mr. GORDON: The budget item for the building itself is \$20,837,000 and for the furnishings and equipment the budget item is \$4,950,000. We have not finalized all accounts yet, but, as I say, on present expectations we expect to be within that budget.

Mr. ROBINSON: May I ask, Mr. Chairman, in picking out this profit and loss has this capital expenditure been taken account of on that?

Mr. GORDON: I do not know what statement you have, but our figures include interest on capital.

The CHAIRMAN: Any other comments or questions on hotels? Equipment, page 6; any questions on equipment?

Mr. CHEVRIER: Just one question, Mr. Chairman. Of the amount of equipment, for instance, locomotives, passenger cars, sleeping cars, freight cars, special cars, and so on, how much of this goes to the Newfoundland railway?

Mr. GORDON: We have budgeted for delivery in Newfoundland three locomotives, five items of passenger equipment, 130 items of freight equipment, making a grand total of 138 units—\$3,287,000.

Mr. GUNDLOCK: I would like to ask a question about locomotives, the comparison of price between Canadian locomotives and United States locomotives.

The CHAIRMAN: I think you mentioned that yesterday.

Mr. GUNDLOCK: Well, I did not get the answer to that question yesterday, Mr. Chairman.

Mr. GORDON: Let me put it this way: I cannot give you a precise figure because we are not actually getting tenders from American companies for diesel locomotives delivered in Canada. We have bought diesel locomotives over in the United States and delivered in the United States, but I can say that the 22½ per cent duty effectively shuts out the purchase of diesel locomotives from American manufacturers here.

Mr. GUNDLOCK: I realize that, Mr. President, but I would just like for information to have a figure regardless of duty on how much a locomotive costs in the United States and how much it costs in Canada.

Mr. GORDON: This is as near as we have got it and it is a few thousands one way or the other. If you take a typical road switcher unit—that would cost us about \$180,000 in the United States and that same unit will cost us in Canada \$220,000 to \$225,000.

Mr. GUNDLOCK: Thank you very much.

Mr. SMITH (*Simcoe North*): What is the life expectancy of an average road diesel?

Mr. GORDON: We do not know, we have had no experience. It depends on what kind of maintenance. Let me state it this way: you take a steam locomotive, it can last forever because you just keep on rebuilding parts in and it never needs to be retired at all until finally it gets to the point where it is an obsolete model. However, steam locomotives are going out. With diesel locomotives, we have not had sufficient experience with them to decide their life. For depreciation purposes we have estimated a life of 20 to 25 years.

Mr. SMITH (*Simcoe North*): The purpose of that question, Mr. Gordon, was that once your dieselization is completed there will not be a great field for manufacturers of diesel railway locomotives in Canada?

Mr. GORDON: No. They are very well aware of that fact.

The CHAIRMAN: Any more questions on equipment?

Mr. BOURBONNAIS: How many proposed box cars are to be built this year?

Mr. GORDON: You will notice on the page in front there are 2,472 items of freight cars in this budget, which were authorized in prior years.

The new requests included this year cover 200 flat cars for Canadian lines, 100 flat cars for the Grand Trunk Western, 500 gondolas, 900 hoppers, 125 auto transporters, 100 covered hoppers, 100 special pulp wood cars and 455 enterprise hoppers, making a grand total of 2,480 units. We have no box cars on order or intended to be ordered this year.

Mr. BOURBONNAIS: No box cars whatsoever?

Mr. GORDON: We have a surplus of box cars in relation to present-day traffic volume and anticipated volume over the next year.

Mr. BOURBONNAIS: That means the car builders will be out of work for a good period of time?

Mr. GORDON: No. There are orders for other types of freight equipment which they are working on now and which have not been delivered yet. They are working on past orders because you will see in the item there are 2,472 freight cars, to be delivered, which I have touched on, and 225 cars in process of delivery, and on 2,255 to be ordered for delivery in 1959. You are quite right in this sense, that our orders or anticipated orders for the car building companies will not be as large as in the past.

Mr. BOURBONNAIS: How about the Budd car program, is the Canadian National Railways interested in buying them?

Mr. GORDON: Yes, I mentioned that yesterday and in this budget we have a requested authority for 20 self-propelled R.D.C.'s, that is the Budd cars, and we expect 15 to be delivered in this current year.

The CHAIRMAN: Any further questions on equipment?

Mr. CHEVRIER: Would I be impertinent if I asked the position of box cars vis-a-vis the United States and Canada? How many box cars are in the United States and how many here?

Mr. GORDON: I think I have that with me.

Mr. CHEVRIER: Can we get it later?

Mr. GORDON: I have it right here. I have got it for December 1957.

Mr. CHEVRIER: It seems to me it is a quarterly report.

Mr. GORDON: I have got the figures as related to our annual report, but I should have more up-to-date figures.

Mr. CHEVRIER: Could we have it as of December?

Mr. GORDON: Yes, as of December Canadian National Railways cars in the United States were 8,602 boxes, and at that time the United States box cars on Canadian lines totalled 3,254. Do you want me to name all the different classifications?

Mr. CHEVRIER: Oh, no.

Mr. GORDON: The grand total, I think would be of some interest to you. As of December 31 Canadian National Railways cars in the United States of all kinds totalled 10,598, and United States cars operating on Canadian National lines in Canada was 13,558. So we were using a balance of roughly 3,000 more of their cars than they were of ours.

Mr. CHEVRIER: Could I get a later dated figure later?

Mr. GORDON: Mr. Dingle can give it to you in a moment.

Mr. ROBINSON: Mr. Chairman, near the bottom of the page, \$2 million for special experimental equipment. Could we be given an idea of along what lines that experimental work is?

Mr. GORDON: That is an item we put in more or less as a contingency item to enable our research people, if they run into some specially good idea during the year, to start research on it. We have had very great success with our research. For instance, we produced the auto transporter and it is now in use. That was a result of our own experimentation in consultation with industry. We now handle eight automobiles per car as compared with three or four. We have also developed the pulp wood car. Also under consideration is what we call the all-purpose box car, a car with adjustable doors that will open wide enough to take in any kind of traffic, such as grain, lumber and many other kinds of traffic.

We are experimenting with a heated box car that we can use heated in the winter and unheated off-season. We have designed flat cars for truck trailers and we have examined various kinds of metals in trying to develop a light-weight car. Aluminum is a case in point. We have developed a number of uses for aluminum which will fit in and will give us as much stability as steel, but will give us light weight.

Mr. ROBINSON: This automobile car, for what purpose is that?

Mr. GORDON: Transporting new automobiles from the manufacturers to various places in Canada for delivery.

Mr. CHEVRIER: Are there any studies being carried on with reference to locomotives, new coal-burning locomotives?

Mr. GORDON: No, the last research job that I remember was the Mordell job in McGill University on the use of gas turbines, but there has been no progress from a coal-burning point of view. There have been some developments in the United States towards extending that study to oil-burning locomotives.

I can give you those figures now, Mr. Chevrier, as of June 1. We might as well clean it up.

Mr. CHEVRIER: Thank you.

Mr. GORDON: Canadian National cars on United States lines on June 1 totalled 8,330, and United States cars on Canadian lines totalled 7,610.

Mr. DINGLE: And as of July 6 we had a credit balance of 2,694; in other words, United States lines have more Canadian cars than we have American.

Mr. CHEVRIER: To the extent of 2,694?

Mr. DINGLE: Yes.

The CHAIRMAN: Any other questions on equipment?  
Investment in affiliated companies.

Mr. HARDIE: On page 7, we have in the past twelve months heard a great deal in regard to a survey being carried out by the Canadian National Railways on the proposed extension from Grimshaw, Alberta, to the south shore of Great Slave lake. I am wondering if the president could give us a preliminary report?

Mr. GORDON: I think the minister can deal with that.

Mr. HEES: We dealt with that yesterday, Mr. Hardie. These reports and surveys are being studied very actively by the government at the present time.

Mr. HARDIE: Has a report of the survey been made to the government?

Mr. HEES: Well, it depends on what you mean by a survey.

Mr. HARDIE: Well, according to the information we have from yourself and the Minister of Northern Affairs an economic survey and a road and route survey took place.

Mr. HEES: That is right. Weighing up one road against the other from the standpoint of cost of construction and what might be expected in the way of a return from carloadings and so on in the future, one route against the other.

Mr. HARDIE: Could not the minister tell us whether or not the railway companies have suggested that they will pay a portion of this rail line? There must be something in their report.

Mr. HEES: That is all in the report that the railways have given to us and we are considering at the present time.

Mr. CHEVRIER: How much will it cost to build the railway, Mr. Minister?

Mr. HEES: I think I would sooner wait until we have considered this matter fully and have come to some conclusion on it.

Mr. CHEVRIER: Well, might I ask this question, will legislation be introduced at this session?

Mr. HEES: That is what was forecast in the speech from the throne.

The CHAIRMAN: I think we are getting a little off centre here. You are dealing now with page 7, investments in affiliated companies.

Mr. HARDIE: I think these questions properly come under this item, and the Northern Alberta railroad.

Mr. GORDON: Do you want me to say anything about it?

Mr. CHEVRIER: I wish you would.

Mr. GORDON: My position is quite clear. It is that at the request of the government, the Canadian Pacific Railway and the Canadian National Railways have made a reconnaissance of the routes of railway into Pine Point, and we have also given collateral information as to the economic possibility of a railway line.

That report has been made to the government and the government is considering it. Therefore there is nothing more I can say about it. The report is in the hands of the government.

Mr. CHEVRIER: Have you considered both lines from Waterways north, and from Grimshaw north, both alternative routes?

Mr. HEES: Yes. Both these routes have been considered.

Mr. FISHER: Would you indicate how satisfactory the cooperative arrangement has been that exists here with the Northern Alberta railways between the two railways?

Mr. GORDON: It is a joint operation, 100 per cent. We have no difficulty at all in reconciling our mutual interest in that particular operation.

Mr. FISHER: So, projecting the thing ahead, it would probably continue to be satisfactory wherever the extension should go?

Mr. GORDON: That is why it would be dangerous to discuss this. There has been no decision made as to how that line is going to be operated.

Mr. CHEVRIER: Can you say whether the Northern Alberta Railways operated jointly by your railway and the Canadian Pacific Railway, will make a capital contribution to the cost of the construction of this line?

Mr. GORDON: The minister can tell you whether we said it or not. It is not for me to say because the report is in the hands of the government and I cannot comment on it.

Mr. HEES: I would not want to make a comment at the present time about any of these matters. They are all under very active consideration by the government at this moment. When we have reached a conclusion, then I shall be glad to make a statement.

The CHAIRMAN: It is pretty hard to expect the minister to tell us.

Mr. HARDIE: That is the same answer I got last November.

Mr. HEES: You are getting closer to the final answer.

The CHAIRMAN: I think it is pretty hard to expect the minister to give an answer about something that is being considered by the cabinet and not concluded yet.

Mr. CHEVRIER: But he does not change his answer anyway.

The CHAIRMAN: He has even more responsibility in that respect than I have to the committee.

Mr. CHEVRIER: Perhaps you could answer the question.

The CHAIRMAN: I would not even if I could.

Mr. HARDIE: From this reconnaissance survey can the railways give a fairly close estimate of the cost of constructing the railway?

Mr. GORDON: I have expressed my view to the minister.

The CHAIRMAN: Is number 7 agreed to?

Agreed.

Number 8, "Capital obligations including equipment principal payments during the year ending December 31, 1958."

Agreed.

"Operating budget, 1958", page 9. Would you like the president to make a short statement?

Mr. GORDON: Again, I would like to make a short statement of introductory comment on our 1958 operating budget.

The operating budget for the C.N.R. is at best an informed guess which actual events can easily alter. The figures involved are so large and the operating margin so narrow that a small percentage variation in any of the numerous revenue or expense items can produce a considerable variation in the predicted net result.

In common with other North American railways the Canadian National has been experiencing a persistent decline in carloadings with a resultant decrease in revenues. This decline began to show in the early summer of 1957 and has persisted through the first half of 1958. Although it is too early to be sure that this decline has been halted, recent figures give some reason to believe that the Canadian National's revenue position will strengthen during the second half of 1958. Consequently, the actual results to date, coupled with our estimate of revenues for the remainder of 1958, lead us to the expectation that if revenues total \$700 million the deficit for the year will be around \$55 million based on freight rates, material prices and wage rates prevailing at the end of 1957. Any increase in the cost factors will inevitably add to the deficit now forecast.

So, with that in mind, you can now examine the detailed figures.

The CHAIRMAN: Are there any further comments?

Mr. CHOWN: Is it possible for you to make a comparison between the net position of the Canadian Pacific Railway in 1957, and in the years 1956 to 1957 indicating to the committee the standard of the private line basis in those two years?

Mr. GORDON: Yes. Yesterday I dealt in some detail with the difference between the Canadian Pacific organization as compared with ourselves, and I pointed out at that time that there were a great number of factors which were not comparable.

One specific factor is that the Canadian Pacific Railway has other income included in their revenues to an extent that we do not have...

Mr. Crump himself pointed out that it amounted to about 60 per cent.

The CHAIRMAN: You were not here when the president explained this yesterday, Mr. Chown.

Mr. CHOWN: I do not want the committee to waste time on something which I can read in the minutes.

The CHAIRMAN: Well, he explained yesterday about the different situation.

Mr. CHOWN: Very well.

Mr. GORDON: I quoted Mr. Crump to this effect. He said that the proportion of total income provided by his railway enterprise dropped from 80 per cent in 1928 to around 60 per cent in 1957. That is what Mr. Crump said about the Canadian Pacific Railway; that only about 60 per cent of their revenue came from railway operations.

So that makes a comparison which would be very difficult for us to establish.

Mr. PASCOE: In your first report you show an operating revenue of \$753.2 million, while on the next page you show it as \$763.2. There must be an extra \$10 million somewhere.

Mr. GORDON: Where do you find \$763.2?

Mr. PASCOE: On the green chart on the next page.

Mr. FISHER: Is it poor proof reading?

Mr. GORDON: No. The chart on the next page includes other income. On page 29 you will find other income of \$10,055,332, which added to Railway Operating Revenues of \$753,165,964 produces the total revenue figure of \$763.2 million.

The CHAIRMAN: That proves that Mr. Pascoe is following very closely what is going on here.

Mr. ROBINSON: Could Mr. Gordon give us an idea of the profit and loss on the passenger service and on the freight service?

The CHAIRMAN: That was dealt with pretty extensively yesterday in this other report. I am sorry that you were not here, Mr. Robinson, but you will find it in the other report which we dealt with yesterday. I think the president can cover it fairly quickly, but I do not want him to repeat so much with all the talking that he has to do.

Mr. GORDON: I am not sure that I gave this figure accurately, as it is a very difficult thing to establish definitely what is the so-called passenger deficit.

If we work according to the I.C.C. formula—that is Inter-State Commerce Commission of the United States—they produce a formula which is a book-keeping formula to arrive at what the cost of passenger service is—if we apply this formula, we would show a deficit in passenger operations of \$90 million last year.

I immediately qualify that figure because I do not agree with the formula. It is a very complex one as it attempts to take account of all the probable overhead expenditures that should be allocated to the operations of the passenger business.

What I am trying to say is that if we went out of the passenger business completely, we would not save \$90 million. We would still require the railroad line, most of the terminal facilities, and so on, for our other rail operations.

However the passenger business uses the railway line, and the terminal facilities, and some share of the cost should be allocated to it.

I repeat, I am not suggesting that we would save \$90 million if we went out of the passenger business. But on the basis of the formula, \$90 million is the figure which confronts us.

Mr. ROBINSON: Could you give us an idea of how much they are gradually cutting the passenger lines of the company?

Mr. GORDON: To the maximum permissible where we are able to justify it in terms of alternative services available to the public.

Mr. ROBINSON: Can it be done to the extent of making passenger lines profitable?

Mr. GORDON: No, I do not think it is possible. I cannot foresee a situation where our passenger business in the overall will operate without some deficit.

Mr. CHEVRIER: It is the same in all countries.

Mr. GORDON: Yes, that is true. It is the same all over.

The CHAIRMAN: If there are no other questions or observations, we are ready for a motion.

Mr. CHEVRIER: May I ask one question in connection with the train which the Canadian National is withdrawing from service between Abitibi and Quebec city? Is the president aware of the facts?

Mr. DINGLE: We have a double service from Montreal to Hervey connecting with a duplicate service from Hervey west. The trains are scheduled about an hour apart, and there is to be a consolidation between the two, caused by lack of patronage, on August 10th.

Mr. CHEVRIER: Has consideration been given to reestablishing it?

Mr. DINGLE: We have some wires on hand about it, but we have not as yet answered them.

Mr. CHEVRIER: Well, will the representations that have been made from the Val D'Or-Rouen area to re-establish this train be considered?

Mr. GORDON: This matter has already gone before the Board of Transport Commissioners.

Mr. DINGLE: Yes, and we intend to make the change on August 10th. We have some representations as I said, but they have not yet been dealt with.

Mr. GORDON: I have not seen them. But I shall see what they are.

Mr. CHEVRIER: Perhaps you might be good enough to reconsider the decision.

Mr. GORDON: I will reconsider it so long as that does not bind me to changing it.

The CHAIRMAN: There is a statement on supplementary depreciation of steam locomotives which we should hear before we pass this report.

Mr. GORDON: Yes, I can deal with it quickly. This is an accounting matter which has given rise to some adjustment in our figures. That is unfortunate, but nevertheless it has arisen. It is a fact that there is a difference of opinion between lawyers and accountants as to the proper way to deal with this entry.

The reasons for including this charge may be summarized as follows:

(a) The Canadian National did not apply depreciation accounting to steam locomotives (or to other equipment) until January 1, 1940.

(b) In the normal course the normal depreciation rates would have been sufficient to care for the write-off of all steam locomotives at their normal retirement dates, i.e. at the time of physical exhaustion.

(c) The dieselization program now adopted will entail retirement of substantially all steam locomotives by the end of 1961. As a consequence the economic life of the 1,444 steam locomotives in service at December 31, 1957, will expire and the locomotives will be retired before their physical life—on which the depreciation rates are based—is exhausted.

(d) The depreciation reserve will, therefore, be deficient by an amount which may be in excess of \$30 million; the exact amount will be governed by retirement dates of the individual units.

(e) The company and its auditor—who is appointed by and reports to Parliament—reached the conclusion that the exercise of prudent business judgment requires the reequitment of this deficiency by charges against income. In effect this entails utilizing a part of the savings derived from the new diesel equipment to pay off the steam locomotives replaced thereby.

The amount included in the 1957 accounts is \$7.5 million; an identical amount was included in the original 1958 Capital Budget and Estimated Income Account.

The Government reached the conclusion that:

(a) Existing statutes do not permit it to pay to the Canadian National the portion of its deficit represented by a supplementary charge for depreciation on steam locomotives.

(b) It does not favour inclusion of specific authorization in the 1958 Financing and Guarantee Act.

In the light of these conclusions it was necessary for the Canadian National to take two steps to adapt itself to the government's decision:

(a) Reverse the 1957 charge by credit to operating expenses in 1958.

(b) Amend the 1958 Capital Budget and Estimated Income Account to reverse the 1957 charge and to eliminate the 1958 charge.

A means will have to be devised of disposing of this deficiency without charging it against income. This will probably entail charging the deficiency against shareholders' equity, either currently as each steam locomotive is retired, or in a lump sum when the retirement process is completed.

It is a question of a difference of opinion as to how the entry should be made. We have to be governed by the opinion of the law officers of the crown plus the wishes of the Minister of Finance.

Mr. FISHER: I have one final question in relation to your budget for this year. Would you agree that your central problem is that of the whole wage negotiation situation?

Mr. GORDON: I would say that it was the major problem confronting us now.

I repeat that these estimates take no cognizance at all of any possible wage increase we may be obliged to settle for.

We have stated to the conciliation board that we should not be giving any wage increase. That board has not made its report yet.

The CHAIRMAN: On page 10 you have the capital budget and the operating budget of the Canadian National (West Indies) Steamships.

Mr. CHEVRIER: You cannot deal with that until you have dealt with the report of the Canadian National (West Indies) Steamship lines.

You need a motion to adopt it.

Mr. SMITH (*Simcoe North*): I move that we adopt the report.

Mr. CHEVRIER: I second the motion. I intended to move it.

The CHAIRMAN: It has been moved by Mr. Smith (*Simcoe North*), and seconded by Mr. Chevrier that the Canadian National Railways budget be passed.

Agreed to.

Now, you have the annual report before you of the Canadian National (West Indies) Steamships Limited. Do you wish Mr. Gordon to read it?

Agreed.

## ANNUAL REPORT 1957

Operations of Canadian National (West Indies) Steamships, Limited were curtailed during 1957 by a strike called by the Seafarers International Union effective July 4. As a result of the strike, which remained unsettled at the year end, the number of voyages made by company vessels was reduced to 33 from 54 in the previous year. The year's operations produced a deficit of \$648,850, compared with a surplus of \$23,281 in 1956.

The company's financial results are summarized in the following comparative table:

	1957	1956
Operating revenues .....	\$4,012,162	\$6,125,470
Operating expenses .....	4,617,526	6,052,570
	<hr/>	<hr/>
Net operating <i>deficit</i> or surplus .....	605,364	72,900
Interest charges .....	43,486	49,619
	<hr/>	<hr/>
<i>Deficit</i> or surplus .....	\$ 648,850	\$ 23,281

*Traffic and Revenues*

Operating revenues amounting to \$4,012,162 showed a decline of 34.6%. Freight and charter revenues of \$3,887,740 showed a reduction of similar proportions, while passenger revenues totalled \$99,054, a drop of \$45,269. Miscellaneous revenues decreased by over \$5,000 to \$25,368.

During the six-month period when the ships were in service, the company benefited to some extent from higher rates on cargoes. The rates for south-bound and inter-island traffic increased by approximately 10% and 20% respectively while the rate for sugar showed an average improvement of about 12%. Sugar formed slightly more than half the total tonnage carried on all services.

*Operating Expenses*

Operating expenses were down \$1,435,044 or 23.7%. The fleet was maintained throughout the strike on a basis which would permit resumption of services on reasonably short notice and as a result considerable expense was incurred without any corresponding revenues. These expenses, which consisted of officers' wages, port and shore expenses and the cost of insurance, fuel and provisions, are recorded as "Lay-up expenses" and amount to \$602,556.

*Labour Dispute*

The events which culminated in a strike at mid-year began with the submission in September 1956 of demands by the S.I.U. for increases in basic wage and overtime rates, and for certain changes in working conditions. The ensuing negotiations having failed to produce agreement, a federal conciliation officer was appointed, and subsequently a Board of Conciliation and Investigation. The Board's report, issued late in March 1957, was accepted by the Company but rejected by the union as a basis for settlement.

Following the withdrawal from service of all the unlicensed personnel the Company offered a wage increase substantially higher than that recommended by the Conciliation Board. This offer was not accepted within the the specified period.

At the time of submission of this report the service had not been restored.

*Capital Expenditures*

Capital expenditures of \$64,019 were made during the year to provide additional refrigeration on the five smaller vessels. Installation of this equipment had not been completed at year end.

The Balance Sheet and Income Statement for the year will be found on pages 6 to 8.

## BALANCE SHEET AT DECEMBER 31, 1957

ASSETS	
CURRENT ASSETS	
Cash.....	\$ 150,956
Accounts receivable.....	22,727
Inventory of supplies.....	73,806
Government of Canada—Due on deficit account..	506,350
	\$ 753,839
INSURANCE INVESTMENT FUND.....	3,297,127
CAPITAL ASSETS	
Vessels.....	6,660,937
Less recorded depreciation.....	4,068,283
	2,592,654
	\$6,643,620

LIABILITIES	
CURRENT LIABILITIES	
Accounts payable.....	\$ 111,459
Government of Canada:	
Current accounts.....	\$ 33,409
Loan repayments due 1958.....	250,000
	283,409
Other current liabilities.....	26,625
	\$ 421,493
PROVISION FOR INSURANCE.....	3,297,127
GOVERNMENT OF CANADA LOAN AND ADVANCE	
2½% loan repayable semi-annually matur- ing September 1, 1963.....	2,000,000
Less repaid.....	575,000
repayments due 1958.....	250,000
	825,000
	1,175,000
Working capital advance.....	150,000
	1,325,000
SHAREHOLDERS' EQUITY	
GOVERNMENT OF CANADA	
Capital stock authorized and issued 16,400 shares par value \$100 per share.....	1,640,000
Less discount on capital stock issued.....	40,000
	1,600,000
	\$6,643,620

J. L. TOOLE  
Comptroller

## AUDITORS' REPORT

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

We have examined the books and accounts of the Canadian National (West Indies) Steamships, Limited, for the year ended December 31, 1957. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the above balance sheet and the related income statement are prepared on a basis consistent with that of the preceding year and are

properly drawn up so as to give a true and fair view of the state of the Corporation's affairs at December 31, 1957, and of the results of operations for the year then ended, according to the best of our information and the explanations given to us, and as shown by the books of the Corporation.

We further report that in our opinion proper books of account have been kept by the Corporation and the transactions of the Corporation that have come under our notice have been within the powers of the Corporation.

We are also submitting a supplementary explanatory report.

February 25, 1958.

GEORGE A. TOUCHE & CO.,  
Chartered Accountants.

## INCOME STATEMENT

## OPERATING REVENUES

	1957	1956
Freight and Charter .....	\$3,887,740	\$5,950,337
Passenger .....	99,054	144,323
Other .....	25,368	30,810
	<hr/>	<hr/>
Total .....	4,012,162	6,125,470
	<hr/>	<hr/>

## OPERATING EXPENSES

Voyage expenses .....	3,460,164	5,460,598
Lay-up expenses .....	602,556	15,948
Depreciation on vessels .....	275,231	275,231
Management and office expenses .....	210,251	215,523
Pensions .....	55,000	55,000
Other .....	14,324	30,270
	<hr/>	<hr/>
Total .....	4,617,526	6,052,570
	<hr/>	<hr/>
Net operating deficit or surplus .....	605,364	72,900
Interest charges .....	43,486	49,619
	<hr/>	<hr/>
Deficit or surplus .....	\$ 648,850	\$ 23,281

## FLEET AT DECEMBER 31, 1957

		Dead- Gross weight tonnage	tonnage
*"Canadian Challenger"....Diesel-powered and refrigerated..	6,745	7,460	
*"Canadian Constructor"....Diesel-powered and refrigerated..	6,745	7,460	
*"Canadian Cruiser".....Diesel-powered and refrigerated..	6,745	7,460	
"Canadian Conqueror"....Refrigerated .....	2,930	4,532	
"Canadian Highlander"....Refrigerated .....	2,966	4,532	
"Canadian Leader".....Refrigerated .....	2,930	4,532	
"Canadian Observer".....Refrigerated .....	2,967	4,532	
"Canadian Victor".....Refrigerated .....	2,963	4,532	
	<hr/>	<hr/>	
	34,991	45,040	
	<hr/>	<hr/>	

\*Each of these motorships has five double and two single staterooms providing first-class accommodations for up to 12 passengers.

This completes the annual report for the operations of the company.

The CHAIRMAN: Now, gentlemen, you have got page 10 here.

Mr. CHEVRIER: Dealing with the report.

The CHAIRMAN: Are the pall bearers here?

Mr. CHEVRIER: May we have a statement from the president about the recent change of the flag from Canadian to Panamanian or Trinidadian registry?

Mr. GORDON: Yes, we reached a point at which no settlement was in sight with the S.I.U., and we determined that if an effort was to be made to restore the service we would have to look elsewhere for crews. We could do that on the basis of changing the flag.

After consultation with the minister an appropriate agreements was reached, and it was permissive. We therefore changed the flag to that of Trinidad for the purpose of engaging, in this case, personnel outside of Canada to operate the vessels really on the basis of making the operational site at Trinidad rather than in Canada.

Mr. CHEVRIER: You recommended to the Minister of Transport that the flag be changed?

Mr. GORDON: I did.

Mr. CHEVRIER: Now you have recommended that the flag be returned to that of Canada.

Mr. GORDON: No, that is not strictly correct. What has developed is this: a decision has been made that having observed what transpired since the strike, and having seen that trade between Canada and the West Indies was adequately cared for by private or other ship operators, there was no need for continuing this service.

Any basis for the restoration of these services would involve a heavy deficit. So all things being considered, the company recommended to the government that the service be abandoned and the ships sold, and the company's assets disposed of.

In considering that recommendation it was decided that it would be better to transfer these ships back to Canadian registry for the purposes of sale, and to leave it up to the purchaser to make his own decision about what flag he would operate under.

Mr. CHEVRIER: It was on your recommendation that the flag was returned to Canada so far as these vessels are concerned.

Mr. GORDON: No.

Mr. CHEVRIER: Did you recommend to the minister that the flag be returned to Canada once again?

Mr. GORDON: No. Our recommendation was to sell the fleet. And since the Minister of Finance is the majority shareholder of the company, we had to get the shareholder's consent before the company could dispose of its assets.

Mr. CHEVRIER: Whose decision was it to return the flag to Canada?

Mr. GORDON: That would be the decision of the shareholder for the purposes of the sale.

Mr. HEES: It was the decision of the government that, having accepted the recommendation of the company that the ships should be sold, it seemed the sensible thing to do was to transfer the ships back to Canadian registry for the purpose of sale; and as Mr. Gordon said, to leave it to the final purchaser to decide how he wished to operate the ships.

Mr. CHEVRIER: What was the purpose of transferring the flag in the first instance?

The CHAIRMAN: Mr. Gordon has explained that.

Mr. GORDON: Yes, I have explained it. When the flag was transferred in the first instance, we were exploring every means whereby we could restore service and operate the ships despite the conflict and this discussion which had arisen with the S.I.U.

But once the S.I.U. had refused our offer, we decided we would have no more dealings with that union.

Mr. CHEVRIER: You also came to the conclusion that because there were other services for the West Indies it would not be profitable to operate the steamships. When did you come to that conclusion?

Mr. GORDON: We could not possibly operate them on the basis of the wages that were being asked by the S.I.U. If the ships had been returned to service, it would have resulted in a deficit in operations.

That decision was made when the matter of continuing the service was discussed. A few years ago we reviewed the service and we were very doubtful about the wisdom of continuing it. At that time consideration was given as to whether we would abandon it.

However a departmental committee was set up by the government, and the whole situation was examined from the standpoint of trade. A recommendation was made, adopted, and announced in the House of Commons, that the Company would continue the service over a period of five years in the hope of demonstrating that it could be operated profitably.

But then we got into this labour dispute.

Mr. CHEVRIER: How long did you operate under that five year period?

Mr. GORDON: Two years, and we had shown a small profit in the meantime. Then we were faced with these unreasonable demands, and on the basis of those demands we advised the government, and we satisfied ourselves that we could not operate that service on a profitable basis. It would mean a subsidy to be met by the Canadian taxpayers.

In the first instance the government wanted us to explore every possibility of continuing this service so we said "very well", if we should transfer the flag and hire crew personnel outside of Canada and pay the wages that our competitors pay, then there was a slight possibility that we could operate it at or near a break-even point. And that is why we transferred the flag.

Mr. CHEVRIER: Is your competitor under the S.I.U.?

Mr. GORDON: No. There are a number of foreign flag boats of which the Saguenay Terminals is the best known, but there are also a lot of other ships in the trade which are not under the Canadian flag.

Mr. CHEVRIER: You have not sold the ships?

Mr. GORDON: Not yet, they have been offered by tender and we are now in the process of examining the bids that have been received.

Mr. CHEVRIER: I have a complaint about the manner in which the ships have been put up for sale in that, contrary to the usual practice, there is no expiry or closing date on the sale of the ships. I have a notice that appeared in the *Montreal Gazette* and it just says:

The owners reserve the right to sell vessels at any time a satisfactory offer is received.

Why was that practice adopted?

Mr. GORDON: The sale of a fleet of ships is a completely different matter than selling doughnuts and milk. First of all, the offer is circulated through the shipping trade all over the world.

Now, in order to arrive at what seemed to us to be the best way of extracting all the money out of it that we could, we had to make them available on a basis of what somebody could offer for one ship or four ships or three ships, or for the whole fleet. We wanted to give everybody an opportunity to bid as suited their circumstances. There is no handicap in that to anybody because they are all free to bid as they wish. We did not want to put a closing date in for the reason that, as of now, the market for ships is seriously depressed and we had no way of knowing whether we could sell them within a matter of weeks or a month or three months. Therefore we wanted to offer ample opportunity for all interests who wished to bid to get a chance to get in their explorations and bids.

Mr. CHEVRIER: It is exactly those groups who are interested in purchasing ships that complain about the fact that there is a non-closing date. If you would just allow me to put on the record what their complaint is. They object to the lack of a closing date for the receipt of the tenders. They say it places them in an unfair position as it permits the Canadian National Steamships to negotiate what amounts to a private sale at any time. They maintain that this does not appear to be right from the fact that this is public property which should be disposed of in this manner, and they say if there was a closing date they would be in a better position to submit a bid. They say if they submitted a bid in those circumstances it is fair and reasonable because of the knowledge they have of the value of these ships they would have no way of knowing whether their tender had been accepted because of the lack of the closing date. They also stated if an unsatisfactory bid is received new tenders could easily be called for at a later date, and I am wondering why—I do not know a great deal about ships, but it strikes me that perhaps consideration might have been given to the position of a closing date.

The CHAIRMAN: Do you think we would get more that way?

Mr. GORDON: I would make two comments on that, Mr. Chairman. The first, if the complainants that you are referring to are seriously interested in the ships it is surprising to me that they have not made any representations to us about the question of a closing date. We have had no complaint along that line.

Mr. CHEVRIER: He has definitely.

Mr. GORDON: Well, I would like to know on what basis he has made it.

The second thing is, whatever his argument may be on that point it is from the point of view of the buyer and quite consciously we have adopted the method of sale which we hope will get for us the largest price we possibly can. The sale of ships is very, very tricky business. It took us over a year to dispose of the last ship we had for sale and I do not know when we will dispose of these. We are hoping in the next week or ten days that two or three bids which are of interest will have reached the point where we are able to dispose of them.

I do not want to speak disparagingly, but there are all sorts of tricks of the trade. It is a very complex business. For instance, you sell ships "as is, and where is", or you will get a bid where they insist on dry-docking. If we get into a position of dry-docking the vessels for examination the purchaser can raise all kinds of questions and cause all kinds of complications. So it is a difficult sale and I can only summarize it by saying that in my opinion a serious purchaser is not handicapped by the method which we have adopted.

Mr. CHEVRIER: Let me ask this final question then: has it not been the custom to give a closing date on sales of ships generally?

Mr. GORDON: Well, I would not like to say...

Mr. CHEVRIER: I am informed that it has and I thought that perhaps you knew that such had been the practice.

The CHAIRMAN: Well, are there any other questions?

Mr. GORDON: I would not like to make a statement here. We have pretty good information as to what transpires in the sale of ships elsewhere but I would rather not make the statement until I am sure of my facts. I believe there have been ships sold without any advertisement at all.

Mr. CHEVRIER: Not by any crown company.

Mr. GORDON: I wonder. I will not make that statement.

Mr. SMITH (*Simcoe North*): Have any firm bids been received?

Mr. GORDON: Yes. We have not received bids that could be regarded at all as enthusiastic bids. As I say it is a difficult sale.

The CHAIRMAN: Well, gentlemen, it is 12 o'clock. Is it your wish to complete this one item? Are you satisfied, Mr. Chevrier to complete it?

Mr. CHEVRIER: Yes, go ahead.

Mr. FISHER: One question: is the S.I.U. the one that has Mr. Banks at the head of it?

Mr. GORDON: Yes.

Mr. FISHER: Then he is the one that is having trouble with the Canadian Pacific Railway on the west coast.

Mr. GORDON: Yes.

Mr. FISHER: I have heard it said there is a certain poetic justice in this situation since Mr. Banks was brought to this country by the employer organizations.

Did the Canadian National Railways have anything to do with bringing him here to the organization?

Mr. GORDON: Back in 1948 and 1949—this is before my time and I am talking from hearsay—there was a dispute of this very company in which it was alleged that the then existing union was heavily infiltrated by communists and there was a strong communist influence in that union. There came into being a jurisdictional dispute in which Mr. Banks, dealing as the head of the S.I.U. made a big bid to take over the union. Now, when you say he was brought in, I do not think that is the case. He came in. But there is no doubt about it in the course of it all, he formed a union which made an agreement with the company at that time and the other union lost the right of representing the employees.

The CHAIRMAN: Are there any other questions?

Could we have a motion for the adoption.

Moved by Mr. Martini, seconded by Mr. Chown that the capital budget and operating budget of the Canadian National (West Indies) Steamships Limited be passed. What is your pleasure?

We pass them both, the annual report and budget.

Mr. CHEVRIER: No, they are passed separately, Mr. Chairman.

The CHAIRMAN: Well, I had a motion on it, Mr. Chevrier.

Mr. CHEVRIER: No, you did not have a motion from me on this. You had a motion from Mr. Martini to approve the annual report.

Mr. GORDON: This annual report of the Canadian National (West Indies) Steamships should be moved and seconded and passed and then the capital budget of the Canadian National (West Indies) Steamships should be moved and passed and this winds up the capital budget, Mr. Chairman, more or less.

The CHAIRMAN: Moved by Mr. Martini then, and seconded by Mr. Chown that the 1957 annual report pass. What is your pleasure?

Agreed to.

Now, we do not have a motion on the budget.

Moved by Mr. Smith...

Mr. CHEVRIER: May I ask the minister one question before this budget passes. Has any consideration been given to the purchase of one or two of these Canadian National ships by the government, to be given to the British Federation for purposes of control by them?

Mr. HEES: It is our understanding that these ships are not what is required or wanted by the West Indies Federation. It is a much smaller ship.

Mr. CHEVRIER: I fail to understand that because these ships operated, did they not, when they were in operation, between some of the islands of the West Indies?

Mr. GORDON: That is quite right, but the requirement of the West Indies is what they call inter-island trade and these ships are not suitable for the type of inter-island trade.

These ships were moved from port to port, but not in the kind of traffic that the West Indies is interested in.

Mr. CHEVRIER: Well, these ships operate from island to island, do they not?

Mr. GORDON: Not in this kind of trade.

Mr. CHEVRIER: Well, I am asking you if the ships operated from island to island. I did not say "in this kind of trade", I simply asked the question if these ships of the Canadian National (West Indies) Steamships operated from one island to another of the British Federation.

Mr. GORDON: They landed at various ports throughout the islands, yes. I have not got a list of the ports. For instance, we called at Trinidad and Nassau and we called at the Leeward islands, Kingston Jamaica, and so on. We called at those various points, but the trade which the Federation of the West Indies is interested in is a type of what might be called coastal trade between smaller ports among the islands from which these ships would not be suitable.

Mr. CHEVRIER: What does the dry cargo passenger vessel cost of the Canadian National?

Mr. GORDON: You want the cost of the individual vessel?

Mr. CHEVRIER: Yes, I want to compare it with the cost of the ship which is being provided to the British West Indies. Perhaps we could have it looked up in the estimates of the minister.

Mr. HEES: I have not got it here.

Mr. CHEVRIER: Do you not know what the cost of the new ship is going to be—around \$2 million, is it not?

Mr. HEES: Something in that nature, yes, I believe.

Mr. GORDON: That particular vessel?

Mr. CHEVRIER: The most up-to-date one.

Mr. GORDON: Dry cargo ships here are all of the same type and they are all in our books at a cost of \$546,154. That is the value at which each is recorded in our books. They are all at the same figure.

Mr. CHEVRIER: Well, I thought the minister said the ship wanted was a much smaller ship than this?

Mr. GORDON: That is right.

Mr. CHEVRIER: And I took it to mean much less costly?

Mr. GORDON: The diesel vessels cost \$1,288,000.

Mr. CHEVRIER: The diesel vessel is also a passenger vessel?

Mr. GORDON: Yes, it will carry twelve passengers.

Mr. CHEVRIER: That is what prompted my question in the first place, that it was going to cost the government money to provide the ship—

Mr. HEES: I am not sure of the figure, but I can check it up very easily.

Mr. CHEVRIER: It seemed to me that perhaps one or other of these vessels of the Canadian National Steamships could serve the purpose. You tell me it could not.

The CHAIRMAN: Are there any other questions? If not, there is a motion by Mr. Smith (Simcoe North), seconded by Mr. Bourbonnais, that the capital and operating budget of the Canadian National (West Indies) Steamships, Limited, pass. What is your wish?

Agreed to.

The CHAIRMAN: Now, gentlemen, we are a few minutes from the 12 o'clock deadline and we did have the securities trust and the auditors' report to deal with. Is it your wish that we might sit a few minutes longer and see by 12.30 if we can conclude the securities trust? It is only a matter of form, I think.

Mr. GORDON: The securities trust is a pure formality.

Mr. CHEVRIER: What did you want to deal with first—the annual report of the auditors?

The CHAIRMAN: The securities trust. It is just a matter of form.

Mr. CHEVRIER: Where is it, Mr. Chairman?

The CHAIRMAN: I think the securities trust is pretty much a matter of form.

### THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

MONTREAL, 3rd. March, 1958.

The Honourable George Hees, M.P.,  
Minister of Transport,  
Ottawa.

Sir,

In conformity with Section 17 of The Canadian National Railways Capital Revision Act, 1952 the Trustees of The Canadian National Railways Securities Trust submit the following report of the transactions for the calendar year 1957.

Application was made to the Governor in Council for the release of \$864,000 principal amount Canadian National Railway Company 4½% Thirty Year Guaranteed Bonds, due July 1, 1957 in accordance with resolution dated September 26, 1957 and approval was so granted under authority of Order-in-Council P.C. 1957—1487 dated November 18, 1957, which securities will be cancelled and cremated.

The Trustees present herewith the Balance Sheet at 31st December, 1957.

D. GORDON,  
*For the Trustees.*

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST  
BALANCE SHEET AT 31st, DECEMBER, 1957

ASSETS	LIABILITIES
Claims for Principal of Loans—	Capital Stock Owned by Canadian National Railway Company—5,000,000 shares of no par value capital stock:—
Canadian Northern Railway.....\$ 312,334,805 10	Stated value at 1st. January, 1952.....\$ 378,518,135 02
Grand Trunk Railway..... 118,582,182 33	
Grand Trunk Pacific Railway..... 116,006,599 08	
Canadian National Railway Company... 96,936,971 75	
\$ 643,860,558 26	
Claims for Interest on Loans—	
Canadian Northern Railway.....\$ 309,702,897 65	
Grand Trunk Railway..... 103,250,802 95	
Grand Trunk Pacific Railway..... 107,326,622 84	
Canadian National Railway Company... 54,501,313 57	
574,781,637 01	
Transactions of Canadian National Railway System from 1st. January, 1937, to 31st. December, 1951, affecting the book value of the capital stock of the Securities Trust..... 108,480,697 14	
Securities Held—	
Collateral Securities—Schedule A.1.....	Amount by which the book value of claims and interest thereon exceeded the initial stated value as of 1st. January, 1937. 948,604,757 39
Other Securities —Schedule A.2.....	
\$ 1,327,122,892,41	\$ 1,327,122,892 41

J. L. TOOLE,  
*Comptroller.*

CERTIFICATE OF AUDITORS

We have examined the books and records of The Canadian National Railways Securities Trust for the year ended 31st. December, 1957. The Collateral and Other Securities, as set out in Schedules A.1 and A.2 attached hereto, were verified by examination or by certificates from the depositaries. In our opinion, the above Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the Trust's affairs at 31st. December, 1957, in accordance with the provisions of The Canadian National Railways Capital Revision Act, 1952.

Dated at Montreal,  
3rd March, 1958

GEORGE A. TOUCHE & CO.  
*Chartered Accountants.*

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST  
SUMMARY OF INDEBTEDNESS TRANSFERRED FROM THE GOVERNMENT OF CANADA TO THE SECURITIES TRUST

## Loans Outstanding

## Notes and Collateral Held

## Canadian Northern Railway:

3½% Loan, Chapter 6, 1911.....	\$ 2,396,099 68
4% Loan, Chapter 20, 1914.....	5,294,000 02
5% Loan, Chapter 4, 1915.....	10,000,000 00
6% Loan, Chapter 29, 1916.....	15,000,000 00
*6% Loan, Chapter 24, 1917.....	25,000,000 00
*6% Loan, Vote 110, 1918.....	25,000,000 00
*6% Loan, Vote 108, 1919.....	35,000,000 00
*6% Loan, Vote 127, 1920.....	48,611,077 00
*6% Loan, Vote 126, 1921.....	44,419,806 42
*6% Loan, Vote 136, 1922.....	42,800,000 00
6% Loan, War Measures Act, 1918.....	1,887,821 16
*6% Equipment Loan, Chapter 38, 1918.....	56,926,000 82
*Mortgage covering loans above.....	

Total Canadian Northern..... \$ 312,334,805 10

## Grand Trunk Railway:

6% Loan, Vote 478, 1920.....	\$ 25,000,000 00
6% Loan, Vote 126, 1921.....	55,293,435 18
6% Loan, Vote 137, 1922.....	23,288,747 15
4% Loan to G.T. Pacific, Chapter 23, 1913, guaranteed by Grand Trunk.....	15,000,000 00

Total Grand Trunk..... \$ 118,582,182 33

## Grand Trunk Pacific Railway:

3% Bonds, Chapter 24, 1913.....	\$ 33,048,000 00
6% Loan, Chapter 4, 1915.....	6,000,000 00
6% Loan, Vote 441, 1916.....	7,081,783 45
6% Loan, Vote 444, 1917.....	5,038,053 72
6% Loan, Vote 110, 1918.....	7,471,399 93
Receiver's Advances, P.C. 635, March 26, 1919.....	45,764,162 35
Interest guaranteed by Govt. of Canada.....	8,704,662 65
Interest guaranteed by Provinces of Alberta and Saskatchewan.....	2,898,536 98

Total Grand Trunk Pacific..... \$ 116,006,599 08

None. Charge is on premises mortgaged October 4, 1911.

None.

None.

Mortgages dated June 23 and June 26, 1916.

6% Demand Notes.....	\$ 33,012,414 32
6% Demand Notes.....	27,203,003 65
6% Demand Notes.....	40,031,122 27
6% Demand Notes.....	53,008,779 65
6% Demand Notes.....	50,259,312 47
6% Demand Notes.....	46,691,634 60
6% Demand Notes.....	5,700,000 00
3½% Debenture Stocks.....	5,109,999 99
6% Demand Notes.....	56,858,496 44
Mortgage dated November 16, 1917.....	

6% Demand Notes.....	\$ 25,479,226 97
6% Demand Notes.....	56,646,816 12
6% Demand Notes.....	23,288,747 15
4% Demand Note.....	15,000,000 00
4% G.T.P. Debentures.....	15,000,000 00

3% 1st. Mortgage Bonds.....	\$ 33,048,000 00
4% Sterling Bonds.....	7,499,952 00
Mortgage, June 28, 1916.....	
Mortgage, October 18, 1917.....	
Mortgage, October 18, 1917.....	

Receivers' Certificates.....	53,339,162 74
Cremation Certificates, coupons destroyed.....	8,698,170 42
Cremation Certificates, coupons destroyed forward	2,925,723 88

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST  
 SUMMARY OF INDEBTEDNESS TRANSFERRED FROM THE GOVERNMENT OF CANADA TO THE SECURITIES TRUST

Loans Outstanding	Notes and Collateral Held
<b>CANADIAN NATIONAL RAILWAY COMPANY:</b>	
6% Loan, Vote 139, 1923..... \$ 24,550,000 00	{ 6% Canadian Northern Demand Note..... \$ 12,655,019 57 { G.T.P. Receiver's Certificates..... 3,313,530 01 { G.T.P. Interest Coupons (Cremation Certificates)..... 1,530,831 96
5% Loan, Vote 137, 1924..... 10,000,000 00	{ 5% Canadian Northern Demand Note..... 1,318,315 86 { G.T.P. Receiver's Certificates..... 4,691,173 58 { G.T.P. Interest Coupons (Cremation Certificates)..... 1,530,822 24
5% Loan, Vote 377, 1925..... 10,000,000 00	{ 5% Canadian Northern Demand Note..... 9,496,718 21 { G.T.P. Receiver's Certificates..... Cr. 1,422,425 17 { G.T.P. Interest Coupons (Cremation Certificates)..... 1,530,802 80
5% Loan, Vote 372, 1926..... 10,000,000 00	{ 5% Canadian Northern Demand Note..... 9,062,624 30 { G.T.P. Receiver's Certificates..... Cr. 364,898 78 { G.T.P. Interest Coupons (Cremation Certificates)..... 1,530,880 56
5% Loan, Vote 336, 1929..... 2,932,652 91	5% Canadian National Railway Company Demand Notes... 2,932,652 91
5% and 5¼% Loans, Chapter 22, 1931..... 29,910,400 85	5% and 5¼ Canadian National Railway Company Demand Notes..... 29,910,400 85
5¼% Loans, Chapter 6, 1932..... 11,210,815 56	5¼% Canadian National Railway Company Demand Notes. 11,210,815 56
Less: adjustment authorized by the Capital Revision Act, 1937..... Cr. 1,666,897 57	
Total Canadian National Railway Company..... \$ 96,936,971 75	
Total Loans..... \$ 643,860,558 26	

RAILWAYS, AIR LINES AND SHIPPING

## SCHEDULE A.2

## THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

Securities transferred from the Government of Canada to the Securities Trust pursuant to the provisions of  
The Canadian National Railways Capital Revision Act, 1952

Description of Issue	Amount	
	Sterling Currency	Dollar Currency
Canadian National Rly. Co. 4½% Thirty Year Guaranteed Bonds, due July 1, 1957.....		\$ 864,000.00
Canadian Northern Alberta Rly. Co. 3½% First Mortgage Debenture Stock, due May 4, 1960..... £	534,097	
Canadian Northern Ontario Rly. Co. 3½% First Mortgage Debenture Stock, due May 19, 1961.....	6,294,345	
Canadian Northern Rly. Co. 3½% First Mortgage Debenture Stock, due July 20, 1958.....	359,869	
Canadian Northern Rly. Co. 3½% First Mortgage Debenture Stock, due July 20, 1958.....		508,666.00
Grand Trunk Pacific Rly. Co. 3% First Mortgage Sterling Bonds, due Jan. 1, 1962.....	1,754,500	
Grand Trunk Pacific Rly. Co. 4% Sterling Bonds, due Jan. 1, 1962.....	90,900	
Grand Trunk Western Rly. Co. 4% First Mortgage Bonds, due July 1, 1950.....	649,500	
Grand Trunk Western Rly. Co. 4% First Mortgage Bonds, due July 1, 1950.....		1,293,500.00

Mr. CHEVRIER: Well, this is purely a matter of bookkeeping. I do not see that there is anything objectionable about it.

The CHAIRMAN: Moved by Mr. Kennedy and seconded by Mr. Tasse that the securities trust report pass.

Agreed to.

The CHAIRMAN: Now, the next item is the auditors' report, and it is made up by George A. Touche and Company, represented here today by Mr. J. A. Wilson, assisted by Mr. Beech. You have that auditors' report in front of you.

GEORGE A. TOUCHE & Co.  
CHARTERED ACCOUNTANTS  
410 St. Nicholas Street  
Montreal

MARCH 4, 1958.

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

Sir,

In accordance with the requirements of the Canadian National Railways Act we report, through you, to Parliament on our audit of the accounts of the Canadian National Railway System for the year ended December 31, 1957.

The following report appears at the foot of the balance sheet which together with the related statement of income is included in the annual report of the System.

We have examined the books and accounts of the Canadian National Railway System for the year ended December 31, 1957. Our examination included a general review of accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the above consolidated balance sheet and the related consolidated income statement are prepared on a basis consistent with that of the preceding year except for additional provision for depreciation referred to in Note 1 which we approve and subject to the position with regard to depreciation accruing prior to the adoption of depreciation accounting referred to in Note 1, are properly drawn up so as to give a true and fair view of the state of the System's affairs at December 31, 1957 and of the results of operations for the year then ended, according to the best of our information and the explanations given to us and as shown by the books of the System.

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

We are also submitting a supplementary explanatory report. This is the aforementioned supplementary explanatory report.

#### CONSOLIDATED BALANCE SHEET

##### *Temporary Cash Investments*

These investments are carried at a total cost of \$6.4 million and consist of System securities aggregating \$5.5 million and other securities issued or guaranteed by the Government of Canada or Provincial Governments. At December 31, 1957, the approximate market value of all these investments was \$6.0 million being 6 per cent below cost.

*Material and Supplies*

A physical inventory of material and supplies was taken by system personnel as at September 30, 1957, and the inventory records have been adjusted for overages and shortages disclosed by this count. Material and supplies at December 31, 1957 exceeded that of December 31, 1956 by approximately \$8.8 million. In addition to general price increases, the major factors accounting for this increase were:

Stores department increase.....\$ 2.4 million

The normal issues of stores items to the shops were severely curtailed during the latter part of the year as a result of a decline in activity. However, the stores department was still receiving new materials which had been previously ordered.

Roadway materials, rail and ties increase .....\$12.3 million

In the latter part of 1957 the Railway received materials with respect to 1958 requirements which customarily would have arrived at a later date.

Fuel stocks decrease .....(\$7.3 million)

Coal supplies have decreased by reason of the Railway's dieselization programme and the lead time on purchasing fuel oil is considerably less than that for coal stocks.

*Insurance Fund*

The investments of the fund comprise Government bonds and similar securities. Based on market quotations at December 31, 1957, the value of these securities was less than their cost by approximately \$1.4 million or 10 per cent. However, no loss will be sustained unless it is necessary to sell the securities prior to maturity.

*Investments in Affiliated Companies not Consolidated*

These investments are represented by capital stocks, bonds and advances to companies affiliated with but not forming part of the National System. Except for Trans-Canada Air Lines, they do not represent voting control and accordingly the companies are not treated as units of the System. Such investments have been made in association with other railways primarily to secure the benefits of traffic interchange and terminal facilities. The basis of the balance sheet figure is cost or, in respect of certain United States securities, at par which is less than the special valuations approved by the Interstate Commerce Commission.

We have carried out an audit of Trans-Canada Air Lines upon which we have reported separately. The amounts of the other companies have in the majority of instances been audited by joint committees composed of system accountants.

*Property Investment*

Additions to properties and equipment during the year, acquired in accordance with the approved Capital Budget, amounted to \$252.3 million. The property accounts of the Buffalo and Lake Huron Railway Company, were brought into the consolidated property accounts at December 31, 1957 accounting for an additional \$3.1 million increase in the property account.

Note 1 of the notes to financial statements deals with Property Investment and states, in part, as follows:

Depreciation on Canadian Lines: Depreciation accounting as adopted for equipment in 1940, for hotel properties in 1954 and for track and road structures and all other physical properties except land in 1956

has been continued in 1957. The depreciation rates used are based on the estimated service life of the properties but do not provide for depreciation which was not recorded in prior years under the replacement and retirement accounting principles then in force, nor for extraordinary obsolescence resulting from the introduction of more efficient equipment. In recognition of the obsolescence now occurring with steam locomotives, supplementary depreciation amounting to \$7,500,000 has been charged to operating expenses this year to provide in part for the deficiency in the depreciation reserves which will arise from the early retirement of steam locomotives and their replacement by diesel power.

In our report for the previous year, dated March 5, 1957, we referred to the anticipated deficiency in accumulated depreciation and we expressed the opinion that consideration should be given to providing out of income for the deficiency with respect to steam locomotives. We also noted that the railway's officers had been examining this situation with the object of devising remedial action which would be consistent with good accounting practice, acceptable to the Board of Transport Commissioners and compatible with the governing statutes. In our opinion the action taken by the Railway conforms with the foregoing requirements. We have been informed that further amounts will be provided in future years, the amount in each year being determined after considering, among other things, the influence of the dieselization programme which is related to the obsolescence of steam locomotives.

#### *Other Assets and Deferred Charges*

Included under the heading "Other investments" are deferred amounts receivable with respect to the disposal of certain properties, Government of Canada and System bonds valued at cost, and unlisted securities held primarily for purposes of traffic benefit valued at or below cost.

"Other assets" consist mainly of deferred receivables under agreement.

"Deferred charges" include the unamortized cost of opening ballast pits which will be written off on the basis of yardage used; the estimated salvage value of non-perishable material allotted temporarily to construction projects; miscellaneous debit items not otherwise provided for or which cannot be disposed of until additional information is received.

#### *Other Liabilities and Deferred Credits*

The principal items included under the above heading are the outstanding capital value of the workmen's compensation awards by the Provinces of Ontario and Quebec; percentages retained from contractors pending completion of work in progress; deferred payments of principal and interest under agreement; estimated liability for overcharge claims; estimated portion of prepaid revenues on freight in transit; liability to former members of Grand Trunk Railway Insurance and Provident Society, and miscellaneous items not otherwise provided for or which cannot be disposed of until additional information is received.

#### *Long Term Debt*

System securities of a par value of \$73.3 million held by the public were repaid during the year. Additional funds of \$270.3 million were received from the Government of Canada as temporary loans to finance public debt repayments, capital expenditures and additional advances to Trans-Canada Air Lines.

Subsequent to December 31, 1957, the Railway has sold to the public, through the Bank of Canada, \$300 million twenty-three year 4 per cent bonds, the proceeds of which have been applied to the repayment of temporary loans received from the Government of Canada.

*Shareholders' Equity*

In compliance with Section 6 of the Canadian National Railways Capital Revision Act, the Minister of Finance purchased during the year from the Company at par 22,750,879 four per cent preferred shares of one dollar par value equal to three per cent of the gross operating revenues of the System for the twelve months ended November 30, 1957. An additional, 1,737,359 preferred shares of an aggregate par value equivalent to three per cent of the gross revenues for the month of December were purchased in January, 1958.

## CONSOLIDATED INCOME STATEMENT

Net income for the year decreased \$55.7 million from that of the previous year. In round amounts this is explained as follows:

	Million
Decrease in operating revenues resulting from a decline in the volume of traffic partly offset by rate increases and an improvement in traffic mix .....	\$21.6
Increased road and equipment maintenance as a result of expansion of road maintenance work, principally on the Western Region, and also as a result of increased wage and material costs .....	18.3
Increased depreciation charges resulting from capital additions and \$7.5 million special depreciation on steam locomotives mentioned in Note 1 to the financial statements .....	14.8
Decrease in transportation expense due principally to dieselization and lower volume of traffic .....	( 3.8)
Increase in other operating expenses, net .....	2.0
Decrease in taxes and rents due principally to a reduction in equipment rentals as a result of lower traffic and the increased ownership of freight cars .....	( 4.1)
Decrease in other income, net .....	1.7
Increase in fixed charges due principally to interest on additional temporary loans .....	5.2
Decrease in net income .....	\$55.7

The deficit for the year of \$29.6 million is recoverable from the Government of Canada. At December 31, 1957, 13.0 million had been received on account and the balance due of \$16.6 million is shown on the balance sheet as an amount receivable.

## GENERAL

*Corporate Organization*

During the year The Dalhousie Navigation Company, Limited was amalgamated with the Canadian National Railway Company. This elimination was part of the continuing programme of simplifying the corporate structure.

Primarily to effect a reduction in rent for leased roads the System acquired the outstanding stock of the Buffalo and Lake Huron Railway Company at a cost of \$1.1 million.

*Accounting Methods*

Improvements are being made constantly in all areas of accounting and control as a result of the continuous review of clerical and accounting procedures being carried out. The principles of integrated data processing have been successfully applied in appropriate areas and, as part of this development, an electronic computer centre was opened in Montreal during the year.

We wish to record our appreciation of the excellent co-operation and assistance received from the officers and employees of the System during our audit.

Yours faithfully,  
GEORGE A. TOUCHE & CO.

GEORGE A. TOUCHE & CO.  
 CHARTERED ACCOUNTANTS  
 410 St. Nicholas Street  
 Montreal

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

Sir,

We report, through you, to Parliament on our audit of the accounts of Canadian National (West Indies) Steamships, Limited, for the year ended December 31, 1957.

The following report appears at the foot of the balance sheet which, with the related income statement, is included in the annual report of the Corporation.

"We have examined the books and accounts of the Canadian National (West Indies) Steamships, Limited, for the year ended December 31, 1957. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the above balance sheet and the related income statements are prepared on a basis consistent with that of the preceding year and are properly drawn up so as to give a true and fair view of the state of the Corporation's affairs at December 31, 1957, and of the results of operations for the year then ended, according to the best of our information and the explanations given to us, and as shown by the books of the Corporation.

We further report that in our opinion proper books of account have been kept by the Corporation and the transactions of the Corporation that have come under our notice have been within the powers of the Corporation.

We are also submitting a supplementary explanatory report."

This is the abovementioned supplementary explanatory report.

#### BALANCE SHEET

##### *Insurance Investment Fund*

The investments of the fund comprise Government bonds and similar securities. Based on market quotations at December 31, 1957, the value of these securities was less than their cost by approximately \$192,000 or 6 per cent. However, no loss will be sustained unless it is necessary to sell the securities prior to maturity.

##### *Capital Assets*

Vessels are carried at cost less accumulated depreciation. During the year expenditures totalling \$64,019 were made to provide for additional refrigerated cargo space on the five steamships. This work was not continued after July 4, 1957 when the vessels ceased operation due to labour difficulties.

Provision for depreciation during the year was made on a basis consistent with that of the preceding year, using the following rates:

Three diesel powered vessels  
 Five steamships  
 5 per cent on cost  
 3 per cent on cost

We are informed that all equipment has been maintained in efficient operating condition during the year.

## INCOME STATEMENT

The suspension of service as of July 4 has caused a substantial loss of revenues. Lay-up expenses, which include costs not directly attributable to revenue producing voyages, have increased \$586,608 during 1957. The greater part of this increase represents expenses of an operating nature which would have been related to revenues under normal conditions. The deficit for the year was \$648,850 of which at December 31 \$142,500 had been recovered from the Government of Canada and the balance of \$506,350 appears as an account receivable on the balance sheet.

## GENERAL

The following summary indicates how available funds have been utilized.	
Working Capital at December 31, 1956 .....	\$ 371,134
Additional funds provided:	
Amount recoverable from the Government of Canada on account of the deficit .....	\$ 648,850
Provision for depreciation, which does not involve the outlay of funds .....	275,231
	924,081
	\$1,295,215
Funds applied:	
Deficit for the year .....	\$ 648,850
Reduction in Government of Canada loan .....	250,000
Capital expenditure .....	64,019
	962,869
Working Capital at December 31, 1957 .....	\$ 332,346

Consistent with its established practice, the Corporation has not made transfers or allocations of funds for pensions conditionally accruing in respect of employees now in service.

Future operations will be seriously affected by the prolonged inactivity of the service, although to what extent we are not in a position to assess.

We wish to express our appreciation of the excellent co-operation and assistance received from officers and employees of the Corporation during our audit.

Yours faithfully

GEORGE A. TOUCHE & CO.

The CHAIRMAN: Do you wish to hear the auditors at the present time? Are there any questions on the auditors' report?

Mr. SMITH (*Simcoe North*): Moved by Mr. Martini and seconded by myself that the report be adopted.

The CHAIRMAN: Moved by Mr. Martini and seconded by Mr. Smith (*Simcoe North*) that the auditors' report be accepted and passed.

Agreed to.

Mr. John A. WILSON, F.C.A. (*George A. Touche and Co.*): Mr. Chairman, does that mean that the auditors' report will be passed without further comment, because if so there is one comment I would like to make?

The CHAIRMAN: Very well. Would you care to come around here?

Mr. WILSON: Excuse me, Mr. Chairman, I did not want to interrupt the proceedings, but in view of the statement the president made this morning in respect of depreciation and the fact that we were referred to in connection with that particular item I think that you should have a statement from us on it.

The president has made a very complete statement on it; I think I should refer to the last year's committee when we indicated that there was a variety of methods that might be used to take care of the anticipated deficiency in depreciation, but we indicated a preference for one, and that was the charge to income account. The president has said that with our concurrence the railway decided on that treatment in this year's accounts. He referred to a difference between legal and accounting opinion.

I would like to refer at this time to what we call our short form report. That appears on the first page of our report, in which you will notice that there is a comment with reference to depreciation accruing prior to the adoption of depreciation accounting. Had this charge not been made this way there is a possibility we may have had to include some additional reference there.

Furthermore, it is possible to have a difference in the deficit determination for accounting purposes and the deficit that the Department of Finance may reimburse. In public utilities you have the situation where various statutes govern or affect financial figures. The auditors must consider those, but at the same time they must consider other accounting aspects. All I am trying to say is, that it is a matter not without doubt at any time, and there can be honest differences of opinion in the determination of what is legally the amount which may be considered for a deficit reimbursement.

When the proper time comes, after these adjustments or repayments of the deficit account are recorded, it will be necessary for us to consider, at the time of our next report, the manner in which the railway officials have dealt with it. This has not been done and it is not necessary for us to comment further on this particular matter.

Finally I want to refer to the paragraph in our report under the consolidated income statement which states:

The deficit for the year of \$29.6 million is recoverable from the government of Canada. At December 31, 1957, \$13.0 million had been received on account and the balance due of \$16.6 million is shown on the balance sheet as an amount receivable.

I think I should point out to this committee that, due to the decision of the Department of Finance, part of that \$16.6 million, if received by the railway, will be repaid or deducted from future advances.

That is all I have to say, thank you.

The CHAIRMAN: Thank you very much, Mr. Wilson.

Now that the motion is passed I do wish to say I think on behalf of the committee how much we appreciate the clear-cut submission and presentation made by the president of the Canadian National Railways, Mr. Gordon, assisted by his vice-president of operations, Mr. Dingle, and Mr. Armstrong, vice-president in charge of finance, and also the presence of the minister at our sittings.

I want to pass on to you, Mr. Gordon and all your officials, the appreciation of the committee for the clear-cut report that you have given to the committee which helped to expedite their proceedings.

Mr. CHEVRIER: Mr. Chairman, would you allow me to add to that by saying that it is always a pleasure to have the officers of the Canadian National Railways here and surprised to see how they are in possession of so many facts and are able to answer the questions so well, as they do. Now, knowing

Mr. Gordon, of course, it is no surprise to me. He has been on this for some years now and he is in perfect possession of all the details of the Canadian National Railways.

So I would like to join with you, Mr. Chairman, in extending to him and his officials our thanks for the excellent manner in which he has presented these excellent reports to us.

Mr. Chairman, I wonder if I could make a comment. I see, much to my surprise, that the committee will sit on Wednesday evening from eight o'clock on and I think, although I may be wrong, that is in error. I doubt very much if the committee has the power to sit on Wednesday evening when the house is not sitting.

The CHAIRMAN: No, I think it may be an error.

Mr. CHEVRIER: I am sure the committee would appreciate it if we were not sitting on Wednesday from 8.00 to 10.00.

The CHAIRMAN: We have the power to sit when the house is not sitting, of course, as well as when it is sitting, Mr. Chevrier, but whether we have the power to sit on a Wednesday night I do not know that it would be desirable.

Mr. CHEVRIER: Well, I do not want to argue the point whether we have the power or not. I do not think we have, but the point I was making is, I do not think this committee has ever sat in the past on Wednesday evenings.

Mr. SMITH (*Simcoe North*): The question may be hypothetical because all we have to deal with is T.C.A. now and by tomorrow afternoon I hope we will be finished with them.

Mr. FISHER: Is it not your pleasure to bring before us some independent witnesses?

Mr. SMITH (*Simcoe North*): I have no plans.

The CHAIRMAN: We have a plan to sit at 3.30 this afternoon and tonight and tomorrow morning and afternoon. I am rather optimistic enough to assume we will not have to sit Wednesday night.

Mr. CHEVRIER: Then my point is not well taken.

The CHAIRMAN: Well taken, but it might not be needed.

Mr. CHEVRIER: Could we get assurance from the chairman that if we are not through we will not sit Wednesday evening?

The CHAIRMAN: Yes, all right. I have given Mr. Chevrier assurance that we will not sit tomorrow night, but we have here items 431, 432, 442 and 443. They are details that are not passed in this.

Mr. CHEVRIER: We can do that this afternoon.

Mr. GORDON: Mr. Chairman, in addition to any of these items will my presence be required?

The CHAIRMAN: I do not think so. No. 431 is Prince Edward Island ferry, and 432 is the Newfoundland ferry and terminals, 442 is the Maritime Freight Rates Act, 635 is the West Indies Steamships Limited main estimates.

Mr. CHEVRIER: They are all Canadian National Railways items, but the minister is familiar with them.

The CHAIRMAN: He asked if we wanted him here or not.

Mr. CHEVRIER: It is not up to me to decide that.

The CHAIRMAN: If I may make a suggestion that we carry on these items at 3.30 and seeing that they do touch on Canadian National Railways if you do not mind you could come back this afternoon.

Mr. GORDON: We will be here.

## AFTERNOON SESSION

TUESDAY, July 15, 1958.  
3.30 p.m.

The CHAIRMAN: Gentlemen, we have a quorum. We are now on item 431 of the main estimates:

Item 431. Prince Edward Island Car Ferry and terminals ..... \$1,963,000

Hon. G. H. HEES, *Minister of Transport*: Mr. Chairman, this item covers the deficit of the Prince Edward Island car ferry. This year it is \$1,963,000 as opposed to \$2,270,640 last year, or a decrease of \$64,640.

The CHAIRMAN: Are there any questions?

Item agreed to.

Item 432. Newfoundland ferry and terminals ..... \$3,637,000

Mr. CHEVRIER: Does this complete the construction of the terminals at Port aux Basques and North Sydney?

Mr. HEES: No. This is not capital. It is just an operating deficit.

Mr. CHEVRIER: But it says "Newfoundland ferry and terminals".

Mr. HEES: It is the operation of the ferry and the terminals from both ends.

Mr. CHEVRIER: How is the deficit so reduced? Why?

Mr. HEES: Well, as to the deficit for last year the 1957 figure included the operation of the North-Sydney-Argentia service and the North Sydney Island ports service for the full year. The 1958 estimate only includes provision for the operation of these services for six months and in addition heavy expenditures were incurred in 1957 in salvaging and repairing the *S.S. Cabot Strait* on account of grounding. It is also estimated that very substantial savings will be made in the cost of handling freight after the *M.V. William Carson* commences operating into Port aux Basques.

The estimated deficit for the full year for the North Sydney to Port aux Basques ferry, once it gets going, is estimated to be \$3,170,000 as opposed to a deficit last year of about twice that amount. It will be a less costly operation.

The CHAIRMAN: Are there any further questions?

Mr. CARTER: I would like to have the situation clarified. That is really a subsidy?

Mr. HEES: That is right.

Mr. CARTER: Most people in Newfoundland and possibly on the mainland associate that full total sum with the *William Carson*, but that is not so. That is a subsidy on all the C.N.R. boats which carry freight from North Sydney to Newfoundland, and it also includes chartered boats which carry freight from Halifax to points in the province of Newfoundland.

Mr. HEES: That is right.

Mr. GORDON: There is a gulf service and there is a coastal service.

Mr. CHEVRIER: The gulf service is not included in this sum?

Mr. GORDON: That is right.

Mr. HEES: This is for the North Sydney to Newfoundland run.

Mr. CARTER: That is the gulf service, North Sydney to Newfoundland.

Mr. HEES: No, it is for the gulf service which is included and not the coastal services.

Mr. CARTER: That is right. I said it was for any ship going from the mainland to the province of Newfoundland, whether it carried Canadian National freight or not, but only from North Sydney.

Mr. HEES: That is right.

Mr. CARTER: If that is the case, if ships are chartered by the railway to carry freight from Halifax to St. John's, do they come under this subsidy?

Mr. HEES: No.

Mr. CARTER: Is there a tendency to divert that freight and instead of carrying it directly from Halifax, to take it by rail up to Sydney and then take it from Sydney, in order to benefit from the subsidy?

Mr. BROOME: This is not a subsidy.

Mr. CHEVRIER: This is purely to make up the loss.

Mr. HEES: This is an operating deficit.

Mr. CARTER: It is a complicated deficit.

Mr. HEES: It is the deficit that is made up each year by the government.

Mr. CARTER: Yes, but it is not incurred solely with respect to the operation of the William Carson.

Mr. HEES: No, no.

Mr. CARTER: A lot of people have that idea.

Mr. HEES: Well you can assure them that it is not so.

Mr. CARTER: May we be given the William Carson deficit?

Mr. HEES: The William Carson deficit for the full year, operating from Sydney to Port aux Basques, is estimated to be \$3,170,000; that is the estimated net deficit for the full year.

Mr. CARTER: That is once she starts.

Mr. HEES: That is right, and for a full year.

Mr. CARTER: What was the deficit last year on the Argentinia run?

Mr. HEES: The deficit last year on the Argentinia run was \$963,618.

Mr. CARTER: That was less than \$1 million.

Mr. HEES: Yes.

Mr. BROOME: But not much less.

Mr. CARTER: Yes, and that \$6 million was incurred on the other ships. How much of this went for repairs to the Cabot Straits?

Mr. HEES: Maintenance of equipment altogether was \$525,062. We have not got separate items for the Cabot Straits.

Mr. CARTER: That was the cost of her operation last year?

Mr. HEES: The figure that I gave you was the cost of maintenance of equipment; that is the maintenance of the ship in this service.

The CHAIRMAN: Are there any other questions on 432?

Item agreed to.

Mr. BROOME: You do not intend to subsidize the run from Vancouver to Vancouver island on the same basis, do you?

Mr. HEES: Not under this vote.

The CHAIRMAN: You had better get another item for that. We are on item 442, Maritime Freight Rates Act.

Mr. CHEVRIER: There is not the same obligation.

The CHAIRMAN: I am calling item 442, Maritime Freight Rates Act.

Mr. CHEVRIER: What about item 433?

The CHAIRMAN: It has not been referred to us. I am calling item 442.

Item 442. Maritime Freight Rates Act—For the payment to the Railway Companies operating in the select territory designated by the Act, of the difference occurring on account of the application of the Act, between the tariff tolls and normal tolls under approved tariffs (estimated and certified to the Minister of Transport by the Canadian National Railway Company and approved by auditors of the said Company respecting the Eastern Lines of the Canadian National Railways and in the case of the Other Railways by the Board of Transport Commissioners for Canada) on all traffic moved during the calendar year 1958 ..... \$14,000,000

Mr. HEES: This appropriation provides for the payment of the amounts accruing to railways for the loss in revenue on account of the 20 per cent reduction in the tariff of tolls under the provisions of the Maritime Freight Rates Act as amended, and the 30 per cent reduction effective July 1, 1957, on all outward traffic referred to in paragraphs (b) and (d) of subsection (1) of section 4 of the said act as authorized by vote 668 of the further supplementary estimates (1), 1957-1958. The proposed payments are based on the estimated volume and class of traffic to be handled during the calendar year 1958 in the territory fixed by the act.

Certain assistance was given to the maritime provinces in a reduction of 20 per cent in general freight rates, and 30 per cent in all outgoing traffic, and this vote of \$14 million is to make up to the railways what they lost in freight rates.

Mr. CHEVRIER: There are three kinds of traffic which operate in the maritimes. There is the traffic which moves from the central provinces to the maritimes, from the so-called select territory; and there is the traffic which moves from the select territory outside; and there is the traffic within the select territory.

Mr. HEES: That is right.

Mr. CHEVRIER: Does this apply to the three movements?

Mr. HEES: It applies to the traffic moving in, and to the traffic moving out; the 30 per cent applies to the traffic moving out of the maritimes to the central provinces.

Mr. CHEVRIER: It applies to two of the movements but not to the third.

Mr. HEES: That is right.

Mr. CHEVRIER: Is any consideration being given to increasing that 30 per cent?

Mr. HEES: Not at the present time.

The CHAIRMAN: Are there any further questions on 442?

Mr. ROBICHAUD: Perhaps the minister will recall that on different occasions I have asked him in the house at what stage was the survey which was being made for freight rates within the maritimes, and what stage it had reached? Is the minister prepared to give us a report on it?

Mr. HEES: No.

Mr. ROBICHAUD: How long has the survey been going on?

Mr. HEES: A survey of maritimes transportation problems has been going on. I do not think that at any time I listed this particular item as one of the items being studied at the present time.

Certain other transportation problems which have to do with the Atlantic region are being studied by our department.

Mr. CHEVRIER: The president made a reference this morning—or perhaps it was yesterday—I am not too sure—in connection with a survey which is going on among certain departments and also to a survey being made by the Canadian National.

May I ask him if that study has anything to do with the Maritime Freight Rates Act?

Mr. GORDON: No.

The CHAIRMAN: Are there any further questions on item 442?

Item agreed to.

RAILWAY AND STEAMSHIP SERVICES

Item 443. Payment to Canadian National (West Indies) Steamships, Limited (hereinafter called the Company) upon applications approved by the Minister of Transport, made by the Company to the Minister of Finance, in the amount of the deficit, certified by the auditors of the Company, in the operations of the Company in the calendar year 1958 ..... \$190,000

Mr. CHEVRIER: What is this: how do you relate this item to the budget which we passed earlier today?

Mr. GORDON: It is the cash requirements which we estimate will be necessary to clean up the company.

Mr. CHEVRIER: I have not got the budget before me. Is it the same amount as this?

Mr. GORDON: No, it is not.

Mr. CHEVRIER: Could the minister explain it. What is the relationship between the budget item which we passed this morning, the amount of which I have forgotten, and this item?

Mr. GORDON: The deficit we estimate is \$1.3 million. It includes everything under operations of the company, and non-cash items such as depreciation.

Mr. CHEVRIER: Then this will be paid for by the Canadian National; it is in your accounts of the Canadian National?

Mr. GORDON: No.

Mr. CHEVRIER: It will not be covered by this item?

Mr. GORDON: We do not take it into the Canadian National accounts at all. This is an independent vote in connection with Canadian National (West Indies) Steamships and the government pays the deficit for the company.

Mr. CHEVRIER: It will be included in the bill which the Minister of Finance will bring down in the house later on in the session. Where do you get the funds for this deficit of \$1,359,000, and what is the relationship between that and the item in the estimates of 190?

Mr. HEES: Where is that figure of \$1 million?

Mr. CHEVRIER: The figure of \$1 million is the deficit for the operation of these seven or eight ships we discussed this morning.

Mr. SMITH (*Simcoe North*): That figure, Mr. Chevrier, which is a net charge is really a cash requirement of the company.

Mr. GORDON: This accounting confusion arises out of the fact that this year we are basing our figures on a basis of winding up, and I think I will ask Mr. Armstrong to give the details.

Mr. ARMSTRONG: The deficit, I think, will be \$1.3 million in 1958, that is for the period from January 1 to wind-up, whenever it comes.

Mr. CHEVRIER: Including depreciation?

Mr. ARMSTRONG: Yes, and of course this is for the total deficit. This year we are going to wind up the company and liquidate the insurance funds and other things. The \$600,000 is the supplementary estimate of cash required this year.

Mr. CHEVRIER: Where do you get that?

Mr. ARMSTRONG: That is a part of the deficit for which we require cash.

Mr. CHEVRIER: But it will be voted on in parliament in the estimates the Minister of Finance brings down?

Mr. ARMSTRONG: Yes.

Mr. CHEVRIER: What relationship has the deficit of \$190,000 which we are taking a vote on now?

Mr. ARMSTRONG: The two together make the amount required. The \$190,000 and the \$600,000 add to the total cash requirements of \$790,000.

The CHAIRMAN: Any other questions?

Item agreed to.

The CHAIRMAN: Now, the next, 635, supplementary.

Mr. HEES: That is the supplementary estimate that has to be voted.

Item agreed to.

The CHAIRMAN: Now, we have a motion by Mr. Chown and seconded by Mr. Bourbonnais. All in favour?

Agreed to.

Mr. BROOME: Mr. Chairman, are we just now winding up on this?

The CHAIRMAN: We are.

Mr. BROOME: I would like to make one remark if I can be accorded the same courtesy that Mr. Chevrier was, and that is that for the purposes of the record I would like to see that all major equipment, such as scheduled on page 6, when bids are called for that the Canadian National ask the bidding companies to supply the Canadian content and that in the consideration of these bids the figure of the Canadian content be taken into regard in the letting of the contracts. That puts the onus on the supplier to advise the railway company as to whether it is merely an assembly operation or whether they are carrying on a fully detailed manufacturing organization.

The CHAIRMAN: You are just asking that it be considered?

Mr. BROOME: Yes, by the railroad.

The CHAIRMAN: The railway have to buy the cheapest.

Mr. BROOME: They could know the content and even if one order were two per cent higher than the other and it had double the Canadian content, in the consideration of that bid that factor should be taken into account.

Mr. GORDON: I understand your proposal and in my opinion is a thoroughly impractical situation. It would be against the interests of the Canadian National Railways in calling for bids along the lines you suggest. However, I will take note of your suggestion and see what can be done about it.

What I think is serious, Mr. Chairman, is that the reports of the discussions of this committee have a habit of getting into the press in a very great hurry and I do not want the report to go out from this room that there has been that proposal made because it would be, in my opinion, most damaging in respect of the Canadian National Railways' purchasing policy. I would not want it thought we are being directed in any way in a manner that would tie our hands in doing what is best for the Canadian National Railways.

Mr. BROOME: All I am suggesting is that the Canadian National Railways get that information from their suppliers, that the railway ask the supplier for that information and the supplier does know the Canadian content, obviously.

The CHAIRMAN: Well, I think as the president, Mr. Gordon, has suggested, he can take your comments for consideration, but I do think we should not in any way leave the impression that it is tying his hands in any way or affecting any bids he might receive. That is the trouble sometimes, they are misunderstood.

Mr. BROOME: All I am suggesting is that they request that information, that they request and get it. It is purely in the normal course of business and that is done lots of times in lots of cases.

The CHAIRMAN: Yes, and as I understand what you are asking is that Mr. Gordon give consideration to the advisability of doing that?

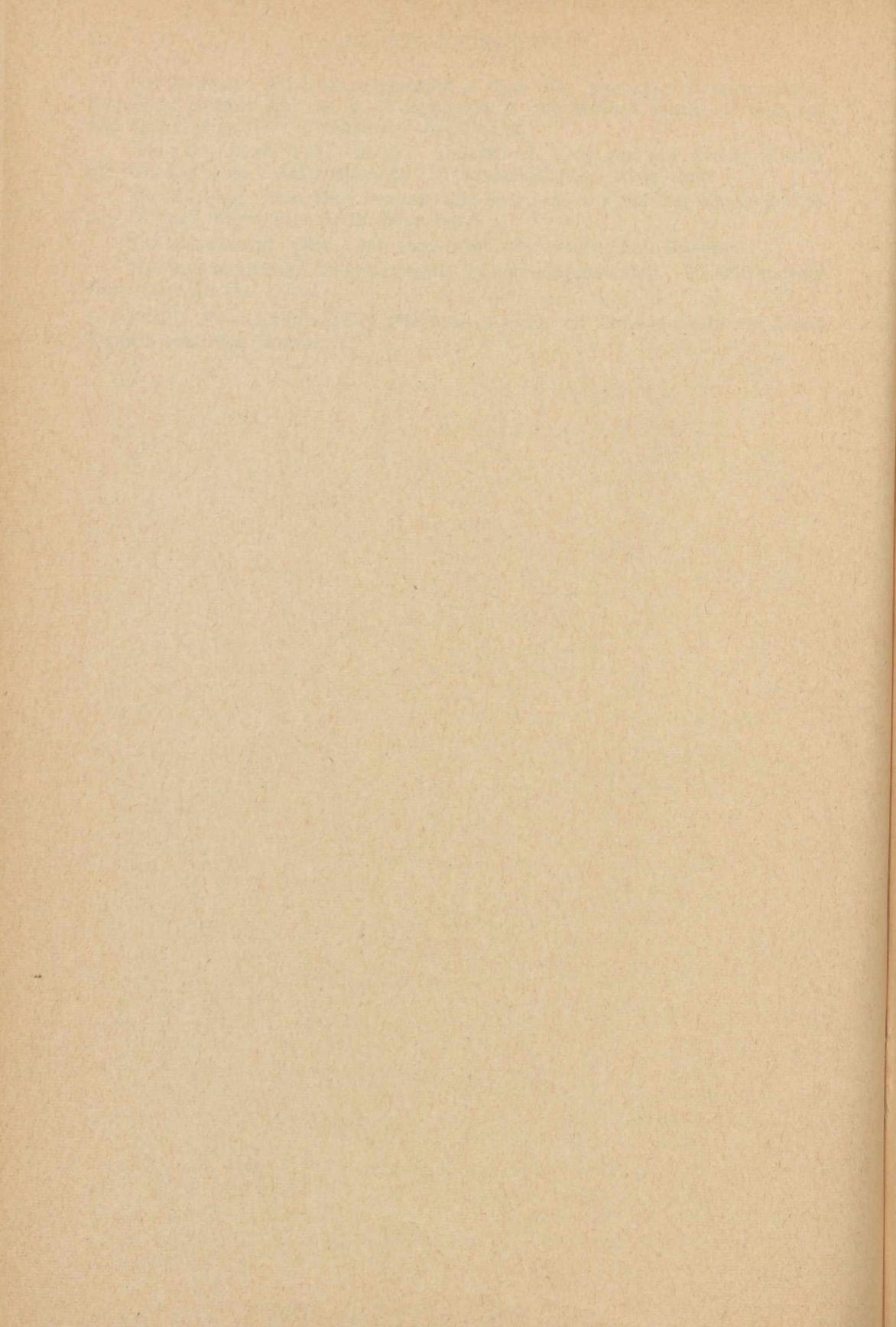
Mr. BROOME: That they request this only, ask the bidding companies to supply that information with their bid.

The CHAIRMAN: Very well, that is on the record, Mr. Broome.

We have adjourned once; I imagine we can adjourn again. We will merely carry on with the T.C.A.

NOTE: For continuance of afternoon Meeting on Trans-Canada Air Lines Reports see Issue Number 2.









HOUSE OF COMMONS  
First Session—Twenty-fourth Parliament  
1958

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SESSIONAL COMMITTEE  
ON  
**RAILWAYS, AIR LINES  
AND SHIPPING**

Owned, Operated and Controlled by the Government

*Chairman:* HONOURABLE W. EARL ROWE

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MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

including

REPORTS TO THE HOUSE

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TUESDAY, July 15, 1958

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Trans-Canada Air Lines Annual Report (1957) and Budget (1958);  
Auditors' Report to Parliament of George A. Touche & Company (1957).

WITNESSES:

Mr. G. R. McGregor, Mr. W. S. Harvey, Mr. H. W. Seagrim, Mr. S. W. Sadler of Trans-Canada Air Lines and Mr. J. A. Wilson and Mr. J. W. Beech of George A. Touche & Company.

*(Proceedings relating to the Canadian National Railways appear in Issue No. 1.)*

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1958

SESSIONAL COMMITTEE  
ON  
RAILWAYS, AIR LINES AND SHIPPING  
Owned and Controlled by the Government

*Chairman:* Hon. W. Earl Rowe

*Vice-Chairman:* Mr. Yvon R. Tassé

*Messrs.*

Bourbonnais,  
Brassard (*Lapointe*),  
Broome,  
Carter,  
Chevrier,  
Chown,  
Creaghan,  
Drysdale,  
Fisher,

Fraser,  
Grills,  
Gundlock,  
Hardie,  
Kennedy,  
Loiselle,  
Martini,  
Mitchell,  
Monteith (*Verdun*),

Pascoe,  
Robichaud,  
Robinson,  
Rowe,  
Rynard,  
Smith (*Calgary South*),  
Smith (*Simcoe North*),  
Tassé—26.

Antonio Plouffe,

*Assistant Chief Clerk of Committees.*

## ORDERS OF REFERENCE

HOUSE OF COMMONS,  
WEDNESDAY, July 9, 1958.

*Resolved*,—That a Sessional Committee on Railways, Air Lines and Shipping owned and controlled by the Government be appointed to consider the accounts and estimates and bills relating thereto of the Canadian National Railways, the Canadian National (West Indies) Steamships, and Trans-Canada Air Lines, saving always the powers of the Committee of Supply in relation to the voting of public moneys; and that the said Committee be empowered to send for persons, papers and records and to report from time to time and that, notwithstanding Standing Order 67 in relation to the limitation of the number of members, the said Committee to consist of Messrs. Bourbonnais, Brassard (*Lapointe*), Broome, Carter, Chevrier, Chown, Creaghan, Drysdale, Fisher, Fraser, Grills, Gundlock, Hardie, Kennedy, Loisel, Martini, Mitchell, Monteith (*Verdun*), Pascoe, Robichaud, Robinson, Rowe, Rynard, Smith (*Calgary South*), Smith (*Simcoe North*), and Tasse.

WEDNESDAY, July 9, 1958.

*Ordered*,—That the Annual Reports for 1957 of the Canadian National Railways; Canadian National (West Indies) Steamships Limited; Canadian National Railways Securities Trust; Auditor's Report to Parliament in respect of the Canadian National Railways and Canadian National (West Indies) Steamships for the year 1957, tabled on May 22, 1958; the budget for 1958 of the Canadian National Railways tabled on June 2, 1958; the Annual Report of Trans-Canada Air Lines for 1957; the Auditors' Report to Parliament on Trans-Canada Air Lines for the year 1957, tabled on May 23, 1958, and the budget for 1958 of Trans-Canada Air Lines, tabled on January 31, 1958, be referred to the Sessional Committee on Railways, Air Lines and Shipping owned and controlled by the Government, and that items numbered 431—Prince Edward Island Car Ferry and Terminals; 432—Newfoundland Ferry and Terminals; 442—Maritime Freight Rates Act; 443—Canadian National (West Indies) Steamships Limited as listed in the Main Estimates 1958-59, and item 635—Canadian National (West Indies) Steamships Limited as listed in the Supplementary Estimates 1958-59, be withdrawn from the Committee of Supply and referred to the said Committee, saving always the powers of the Committee of Supply in relation to the voting of public moneys.

FRIDAY, July 11, 1958.

*Ordered*,—That the quorum of the Sessional Committee on Railways, Air Lines and Shipping be set at 10 Members.

*Ordered*,—That the said Committee be empowered to sit while the House is sitting.

*Ordered*,—That the said Committee be authorized to print, from day to day, 1000 copies in English and 250 copies in French of its Minutes of Proceedings and Evidence and that Standing Order 66 be suspended in relation thereto.

MONDAY, July 14, 1958.

*Ordered*,—That the revised Budget for 1958 of the Canadian National Railways and the operating budget of the Canadian National (West Indies) Steamships Limited, tabled this day, be referred to the Sessional Committee on Railways, Air Lines and Shipping owned and controlled by the Government.

Attest

LEON J. RAYMOND

*Clerk of the House.*

## REPORTS TO THE HOUSE

FRIDAY, July 11, 1958.

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

### FIRST REPORT

Your Committee recommends:

1. That its quorum be set at 10 members.
2. That it be empowered to sit while the House is sitting.
3. That it be authorized to print, from day to day, 1,000 copies in English and 250 copies in French of its minutes of proceedings and evidence and that Standing Order 66 be suspended in relation thereto.

*Respectfully submitted,*

W. EARL ROWE,  
*Chairman.*

NOTE: Concurred in this day.

WEDNESDAY, July 16, 1958.

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

### SECOND REPORT

Your Committee has considered the following items of the Estimates referred to the Committee on Wednesday, July 9, 1958:

Vote 431—Prince Edward Island Car Ferry and Terminals;

Vote 432—Newfoundland Ferry and Terminals;

Vote 442—Maritime Freight Rates Act; and

Vote 443—Canadian National (West Indies) Steamships Limited, of the Main Estimates 1958-59, and item 635—Canadian National (West Indies) Steamships Limited of the Supplementary Estimates 1958-59.

Your Committee recommends their approval.

*Respectfully submitted,*

W. EARL ROWE,  
*Chairman.*

The Sessional Committee on Railways, Air Lines and Shipping, owned and controlled by the Government, begs leave to present the following as its

### THIRD REPORT

Pursuant to the Orders of Reference of the House of Commons of July 9th, 11th and 14th, 1958, your Committee had for consideration the following:

1. The Annual Reports of the Canadian National Railways; Canadian National (West Indies) Steamships, Limited; Canadian National Railways

Securities Trust, for the year 1957 and the Auditors' Reports to Parliament in relation thereto, tabled on May 22nd, 1958 and the Canadian National Railways revised capital and Operating Budget for 1958 tabled on July 14th, 1958; the Annual Report of Trans-Canada Air Lines for the year 1957 and the Operating and Capital Budget thereof for the year 1958, and the Auditors' Report to Parliament thereon.

2. Your Committee held eight meetings in the course of which the officials of the Canadian National Railways and the Trans-Canada Air Lines as well as representatives of George A. Touche & Co., Auditors, were heard and examined.

3. The Annual Report of the Canadian National Railways for 1957 disclosed operating revenues of \$753,165,964.00 and operating expenses of \$734,556,041.00 resulting in a net revenue from Railway operations of \$18,609,923.00. However, after taxes, rents, other income and fixed charges were taken into account the net result was a deficit of \$29,572,541.00 for the year's operations. This compares with a surplus of \$26,076,951.00 in the year 1956, the change being attributed to a combination of lower traffic and higher wage and material costs. Your Committee noted however that in spite of the traffic decline in 1957 the Canadian National continued to improve and modernize its equipment, facilities, methods and techniques.

4. Your Committee observed that in 1957 three separate new rail lines were added to the Canadian National System, opening up additional areas of Canada for settlement and development. In Quebec, a 161-mile line from Beattyville to Chibougamau was officially opened in November and progress made on a 133-mile line from St. Felicien to Cache Lake, where it will link up with the Beattyville-Chibougamau branch. In New Brunswick, a 23-mile line was opened between Bartibog and the base metal development of Heath Steele. In Manitoba, Canadian National took over operation of a new 31-mile line from Sipiwesk on the Hudson Bay line to the International Nickel Company development at Thompson.

5. Your Committee also noted with satisfaction that progress was made during the year on the Company's long range plans for the construction of new automatic train marshalling yards at main strategic centres in the Atlantic, Central and Western Regions.

6. The Annual Report of the Canadian National (West Indies) Steamships, Limited for 1957 disclosed a net deficit of \$648,849.80, compared with a surplus of \$23,280.72 for 1956. Operations of the Company were curtailed during 1957 by a strike called by the Seafarers International Union effective July 4. As a result of the strike, which remained unsettled at the year end, the number of voyages made by the company vessels was reduced to 33 from 54 in the previous year.

7. Your Committee was also informed that the decision had been reached to abandon the service, dispose of the assets by sale and wind up completely the above Company's affairs.

8. The Annual Report of Trans-Canada Air Lines for 1957 showed a net surplus of \$404,674, after provision for depreciation of \$6,819,160, and the payment of interest on capital invested in the enterprise in the amount of \$1,690,819. The year 1957 was the seventh consecutive one in which the company reported a profitable operation.

9. Of particular interest to your Committee was the fact that the programme of fleet conversion to turbine type aircraft, which by 1961 is expected to make TCA the first international airline in the world to have a fully turbine-powered

fleet, was adhered to during 1957, fourteen additional Viscounts being placed in service, and six DC 3's retired. Your Committee also noted that, as planned, the company in 1957 had increased its capacity by 20 per cent in relation to a 15 per cent increase in traffic carried. This action, while reducing the over-all load factor from 73.1 per cent in 1956 to 70.7 per cent in 1957, substantially improved the company's ability to meet the peak period traffic demand. It was also noted that as of the year end, the company had on order nineteen Viscounts, six full jet DC 8 long range aircraft, and twenty medium range Vanguard turbine propeller aircraft, which, with associated spares, represent a capital commitment of \$118,000,000, exclusive of payments already made on these orders.

10. Your Committee adopted the Annual Reports of the Canadian National Railways and Trans-Canada Air Lines for 1957, as well as their respective Capital and Operating Budgets for 1958. Your Committee also approved the C.N.R. Securities Trust and the Auditor's Report to Parliament. It also approved the Annual Report for 1957 of the Canadian National (West Indies) Steamships, Limited, and the Auditor's Report thereon.

11. Your Committee, in accordance with an Order of Reference of the House, dated July 9th, considered Votes 431, 432, 442 and 443 as listed in the Main Estimates for 1958-59, and Item 635 as listed in the Supplementary Estimates 1958-59. In its Second Report to the House, your Committee recommended the approval of the said Estimates.

12. Your committee feels indebted to all those who contributed to its inquiring by their attendance and their information, including the Minister of Transport and Mr. Donald Gordon, C.M.G., LL.D., Mr. S. F. Dingle and Mr. R. D. Armstrong for the Canadian National Railways; and Mr. G. R. McGregor, Mr. W. S. Harvey, Mr. H. W. Seagram, Mr. S. W. Sadler for Trans-Canada Air Lines, and Mr. J. A. Wilson and Mr. J. W. Beech, Auditors.

13. Your Committee also wishes to express its appreciation to Mr. McGregor, his officials, and T.C.A. crew for a flight on board Trans-Canada Air Lines Viscount over the St. Lawrence Seaway Development project which took place on Wednesday, July 16th.

14. A copy of the Minutes of Proceedings and Evidence adduced in respect of the matters referred to is appended.

Respectfully submitted,

W. EARL ROWE,  
*Chairman.*



## MINUTES OF PROCEEDINGS

FRIDAY, July 11, 1958.

(1)

The Sessional Committee on Railways, Air Lines and Shipping owned and controlled by the Government held its organization meeting at 10.30 o'clock a.m.

*Members present:* Messrs. Bourbonnais, Broome, Chown, Fisher, Grills, Gundlock, Hardie, Loiselle, Martini, Monteith (*Verdun*), Pascoe, Robinson, Rowe, Rynard, and Smith (*Calgary South*). (15)

The Clerk of the Committee attending, on motion of Mr. Broome, seconded by Mr. Martini, and there being no further nominations, Honourable W. Earl Rowe was elected Chairman.

Mr. Rowe took the Chair, thanked the Members for his election and proceeded to the routine business.

On motion of Mr. Chown, seconded by Mr. Fisher,

*Resolved:* That Mr. Tassé be elected Vice-Chairman.

On motion of Mr. Chown, seconded by Mr. Fisher,

*Resolved:* That the Committee recommend to the House that the quorum be 10 members.

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

*Resolved:* That the Committee ask power to print, from day to day, 1000 copies in English and 250 copies in French of its Minutes of Proceedings and Evidence.

On motion of Mr. Martini, seconded by Mr. Smith,

*Resolved:* That the Committee seek authorization to sit while the House is sitting.

After discussion on the most suitable hours of sitting of the Committee, beginning Monday July 14, on motion of Mr. Broome, seconded by Mr. Fisher,

*Resolved:* That the Committee be called for 9.30 o'clock a.m.

The Chairman reminded the Members that the practice for this Committee was to hold three meetings every day until completion of its business during which meetings officials of the Canadian National Railways and of Trans-Canada Air Lines would be in continuous attendance, and that it was customary to begin with the Canadian National Railways Annual Report.

The Chairman referred briefly to a letter of the President of Trans-Canada Air Lines inviting the members of the Committee to a special flight over the St. Lawrence Seaway Development as soon as practicable.

On motion of Mr. Rynard, the Committee adjourned until Monday, July 14, at 9.30 o'clock a.m.

T. C. A.

## AFTERNOON SITTING

(6)

TUESDAY, July 15, 1958.

Continuing its afternoon sitting and after having completed its examination of the C.N.R. Reports, the Committee began its consideration of the Trans-Canada Air Lines Annual Report for 1957, the Capital Budget for 1958 and the Auditors' Report, the Honourable W. Earl Rowe still presiding.

*Members present:* Messrs. Bourbonnais, Broome, Carter, Chevrier, Chown, Creaghan, Fisher, Fraser, Gundlock, Kennedy, Loisel, Martini, Mitchell, Monteith (*Verdun*), Pascoe, Robichaud, Rowe, Rynard, Smith (*Calgary South*), Smith (*Simcoe North*), and Tassé. (21)

*In attendance:* The Honourable George H. Hees, Minister of Transport; Mr. G. R. McGregor, President of Trans-Canada Air Lines; Mr. W. S. Harvey, Comptroller; Mr. S. W. Sadler, Assistant Comptroller; Mr. H. W. Seagrim, Vice-President, Operations; Mr. R. C. MacInnes, Director of Public Relations; Mr. Leo Palmer, Public Relations Manager, Ottawa; all of Trans-Canada Air Lines.

Mr. G. R. McGregor was called and he introduced his officials.

Mr. McGregor read the T.C.A. Annual Report, and its consideration was taken by headings. A brief discussion took place in the course of his examination on competition from other carriers.

At the request of Mr. Broome, Mr. McGregor undertook to file with the Committee a summary of passes issued by T.C.A.

On motion of Mr. Smith (*Calgary South*), seconded by Mr. Smith (*Simcoe North*), said Annual Report was approved.

The Committee adjourned at 5.45 p.m. until 8.00 o'clock in the evening.

## EVENING SITTING

(7)

The Committee resumed at 8.00 o'clock. The Chairman, Honourable Earl Rowe, presided.

*Members present:* Messrs. Broome, Carter, Chown, Creaghan, Fisher, Fraser, Grills, Gundlock, Hardie, Kennedy, Loisel, Mitchell, Monteith (*Verdun*), Pascoe, Rowe, Rynard, Smith (*Calgary South*), Smith (*Simcoe North*), and Tassé. (19)

*In attendance:* Same as at afternoon sitting.

The 1958 Financial Budget was considered and adopted on motion of Mr. Tassé, seconded by Mr. Chown.

Mr. McGregor's examination was concluded.

The Chairman expressed to Mr. McGregor and his officials the Committee's appreciation. Mr. McGregor in acknowledging, thanked in turn the members of the Committee.

The Committee proceeded to consider the Auditors' Report. Mr. J. A. Wilson was recalled, briefly questioned and retired.

On motion of Mr. Fisher, seconded by Mr. Smith (*Calgary South*), the Auditor's Report was adopted.

Mr. McGregor was assisted by Messrs. Harvey, Seagram and Sadler; Mr. Wilson was assisted throughout the proceedings by Mr. Beech.

On motion of Mr. Fraser, seconded by Mr. Carter,

*Ordered*,—That all answers filed with the Committee be printed as appendices. (*See Appendices A., B., C. and D.*)

The Chairman thanked Messrs. Wilson and Beech representing the firm of George A. Touche & Co. for their continuous attendance.

Before adjourning, the Chairman reminded the members of the Committee that the proposed flight over the St. Lawrence Seaway was scheduled for Wednesday between 11.20 a.m. and 2.20 p.m.

At 8.40 o'clock p.m., on motion of Mr. Smith (*Calgary South*), the Committee adjourned to the call of the Chair, at which meeting the Committee will consider its Third Report to the House.

Tuesday, July 29, 1958.

(8)

The Sessional Committee on Railways, Air Lines and Shipping met at 10 o'clock this day in camera to discuss its Third Report to the House. The Chairman, the Honourable Earl W. Rowe, presided.

*Members present*: Messrs. Bourbonnais, Carter, Drysdale, Martini, Mitchell, Robinson, Rowe, Smith (*Simcoe-North*), and Tassé—(10).

The Chairman tabled copies of a draft report for the consideration of the Committee.

After a brief discussion, on motion of Mr. Robichaud, seconded by Mr. Robinson, the said draft report was adopted.

*Ordered*,—That the Chairman present the draft report as the Committee's third report to the House.

The Committee adjourned to the call of the Chair.

Antonio Plouffe,  
*Assistant Chief Clerk of Committees.*

## APPENDIX A

TRANS-CANADA AIR LINES  
PASSES ISSUED

	NOC	Year 1957 CON	Total
ANNUAL .....	115	421	536

## COMPANY BUSINESS

Employees on business (including employee transfers) .....	171	4,080	4,251
Educational .....		591	591
Periodic tour or Familiarization			
Link Instructors .....		42	42
Flight Dispatch Supervisors and Dispatchers .....		230	230
Employee Familiarization .....		1,029	1,029
Dependent Transfers .....		427	427
Applicants for employment and employees leaving the Company .....		813	813
Total .....	171	7,212	7,383

## EMPLOYEES PERSONAL ACCOUNT

Vacation .....	12	20,103	20,115
Compassionate .....		654	654
Isolated Leave .....		403	403
Total .....	12	21,160	21,172

## PERSONS OUTSIDE THE COMPANY

Promotional and Public Relations .....	605	841	1,446
Courtesy Trips between points in the United Kingdom .....		173	173
Department of Transport .....		112	112
Air Transport Board .....	6		6
Canadian National Railways .....	313	142	455
Total .....	924	1,268	2,192

All passes issued in accordance with regulations or prior approval of ATB.  
N.B. Exclusive of flight crew dead heading between points.  
(The above in reply to a question by Mr. Broome.)

## APPENDIX B

## TRANS-CANADA AIR LINES

## TORONTO-MONCTON DIRECT SERVICE

Date of Inauguration—June 1, 1958

Type of Equipment—Viscount

\*Passenger Load Factors—June, 1958

Eastbound .....	77%
Westbound .....	58%

(The above in reply to a question by Mr. Creaghan.)

## TRANS-CANADA AIR LINES

## Boarding Passengers in Canada

Year 1957

Labrador	
Goose Bay .....	2,106
Newfoundland	
St John's .....	33,058
Gander .....	17,250
Stephenville .....	14,444
Nova Scotia	
Sydney .....	22,611
Halifax .....	67,245
Yarmouth .....	5,319
New Brunswick	
Moncton .....	26,034
Fredericton .....	10,900
Saint John .....	18,332
Quebec	
Seven Islands .....	8,410
Saguenay .....	6,221
Quebec City .....	43,911
Montreal .....	363,791
Val d'Or .....	6,218
Rouyn-Noranda .....	4,135
Ontario	
Ottawa .....	81,666
Toronto .....	455,964
London .....	22,340
Windsor .....	41,639
Muskoka .....	406
Earlton .....	1,871
North Bay .....	9,548
Sudbury .....	13,250
Timmins .....	8,613
Kapusking .....	2,928
Sault Ste Marie .....	10,335
Fort William .....	20,165

\* % of seats occupied

## Manitoba

Winnipeg .....	83,474
Brandon .....	1,837

## Saskatchewan

Yorkton .....	2,370
Regina .....	35,572
Swift Current .....	1,441
Saskatoon .....	16,591

## Alberta

Medicine Hat .....	1,624
Lethbridge .....	8,054
Calgary .....	91,646
Edmonton .....	80,954

## British Columbia

Vancouver .....	202,047
Victoria .....	150,534

(The above in reply to a question by Mr. Fisher.)

## TRANS-CANADA AIR LINES

## PROPERTY &amp; EQUIPMENT BUDGET—1958

## BUILDING EXPENDITURES BY LOCATIONS

## Vancouver

Single Bay Hangar (DC-8) .....	\$ 250,000
Concrete and asphalt work .....	60,000

## Winnipeg

New main guardhouse .....	7,000
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## Toronto

Alterations to hangar to accommodate DC-8's .....	50,000
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## Montreal

Engineering & Maintenance and other Operations Dept facilities .....	6,200,000
Lavatory servicing building .....	8,000
	<hr/>
	\$ 6,575,000

(The above in reply to a question by Mr. Smith (Calgary South).)

## EVIDENCE

### AFTERNOON MEETING (Continuation)

TUESDAY, July 15, 1958.  
3.55 P.M.

The CHAIRMAN: Now, gentlemen, I might introduce to you Mr. Gordon R. McGregor, President of the Trans-Canada Air Lines, and we will be glad to have his Annual Report on the T.C.A., copies of which you have before you. Is it your desire that Mr. McGregor give the Report by reading the high spots?

Mr. SMITH (*Simcoe North*): I think that the procedure which the Committee followed of the Reports of the Canadian National Railways was an excellent way to expedite business.

The CHAIRMAN: Very well, then, Mr. McGregor, you may proceed.

Mr. G. R. MCGREGOR (*President, Trans-Canada Air Lines*): Thank you, Mr. Chairman. May I begin, sir, by introducing the members of T.C.A. who are present—myself, Mr. W. S. Harvey on my right, who is the comptroller of the company, Mr. Sadler, who is in the room, is assistant comptroller, Mr. H. W. Seagrim, vice-president of operations, and Mr. McInnis, director of public relations. I may refer questions dealing with the specific operation of flights to Mr. Seagrim.

With your indulgence might I re-confirm an announcement about a flight that is proposed to be conducted tomorrow noon? I think most of the members of the committee, sir, are familiar with it, but the plan is if you will concur that we break off committee work, if it is still going on at that time, at 11.20 tomorrow. There would be a bus waiting at the main entrance of the centre block for departure at 11.30. The flight will take off from Uplands airport at 12.00 o'clock.

We will fly over the seaway between Cornwall and Iroquois and we will do it in both directions so that the passengers on one side can see the seaway development at one time and the passengers on the other side can see the same view during the return flight.

We will have the public relations officer of the seaway speaking on the cabin address system, and he will describe what we are passing and where we are at at any particular moment. Lunch will be served on the flight and it will be planned to land back at Uplands at 1.50 p.m., with bus departure for parliament hill at 2.00, arriving here at 2.20, which I understand is satisfactory.

Mr. CHOWN: May I ask Mr. McGregor if he is providing stewardesses?

Mr. MCGREGOR: Yes, just two.

Mr. FRASER: The minister will order fine clear weather, I hope.

Mr. HEES: Yes, I just put the order in now.

The CHAIRMAN: I know the committee will appreciate that, Mr. McGregor.

Mr. CHEVRIER: I hope the minister will countermand the order.

Mr. MCGREGOR: The report dated February 28, 1958 is addressed to the Hon. Minister of Transport, Ottawa, and reads as follows:

## ANNUAL REPORT

MONTREAL, February 28, 1958.

To the Honourable,  
The Minister of Transport, Ottawa.

Sir:

The Board of Directors submit the Annual Report of the Trans-Canada Air Lines system for the calendar year 1957.

*Financial*

The financial results recorded by the Company in 1957 reflect a substantial growth in gross revenue, an even greater increase in expenses and a consequent reduction in the net income as compared with 1956. Net income for the year was \$404,674.

The 1957 gross revenue of \$104,996,000 represents an increase of 15%, but it should be noted that this figure is the net result of an increase of 20% in the first half and 11% in the second half of 1957 with respect to corresponding periods of 1956.

A summary of the principal elements of revenues and their proportional contribution to the total is as follows:

	Amount	% of Total
Passenger .....	\$86,523,981	82.4
Mail .....	9,662,585	9.2
Express .....	2,059,920	2.0
Freight .....	4,159,443	4.0
Other .....	2,589,778	2.4

While the most rigid possible control was exercised, operating expenses increased 16% to a total of \$103,500,000, made up as follows:

	Amount	% of Total
Salaries and Wages.....	\$44,539,866	43.0
Fuel and Oil.....	15,895,420	15.4
Maintenance Materials .....	11,554,019	11.2
Depreciation .....	6,819,160	6.6
All other .....	24,691,048	23.8

Apart from the increased volume of transportation work performed, expenses were adversely affected by higher rates of employee remuneration, increased scales of aircraft landing fees in Canada and the United Kingdom, an increase in the average cost of aviation fuel, and a tax of 2c per gallon levied by the province on all aviation fuel loaded in Ontario.

With air transportation as with other industries, unit costs tend to decrease as the total volume of work performed by a company increases. This effect, together with the higher proportion of more efficient aircraft which were in service, partially but not fully compensated for the continuing rise in the cost of the ingredients of the product.

Had this volume increase not occurred, a deficit would have resulted.

Capital expenditures during the year amounted to \$25,572,000, representing for the most part, final delivery payments on new aircraft. TCA is now committed by purchase contracts to spending \$118,000,000 on turbine aircraft and spares during the period 1958 to 1961 inclusive.

### *Service and Traffic Growth*

In 1957 the transportation capacity of the airline, measured in terms of seat-miles available to passengers, was increased by 20%. By adding aircraft to the fleet and increasing flight frequency on many routes, TCA continued its progressive expansion of public service. The chart on page 8 illustrates the steady growth of passenger-carrying capacity during the past decade and its relationship to actual demand.

The planned increase of available transportation was well utilized during the first half of the year, but the percentage of seats occupied declined during the latter half of the year.

An event in Canadian transportation history was the introduction of non-stop air service between Toronto and Vancouver, reducing transcontinental travel time to seven hours. Also of significance were the inauguration of non-stop Atlantic service between Toronto and the United Kingdom and the routing of a daily transcontinental flight through Windsor.

Operations with the propeller-turbine Viscounts were extended to London (Ontario), Quebec City, Saguenay, Seven Islands, Moncton, Fredericton, Saint John, Yarmouth, Halifax and Boston. On the majority of routes served by Viscounts prior to 1957 the flight frequency was increased to meet the public demand for this extremely popular aircraft type.

The transcontinental main line was particularly well served with seven daily flights to the West Coast, and two additional daily flights operating between the eastern centres and Albertan centres. During the peak traffic period, twelve flights per week crossed the Atlantic in both directions.

TCA engaged in active promotion of air transportation, with particular emphasis upon newspaper, radio and television advertising. For the second successive year, well over two million passengers were carried.

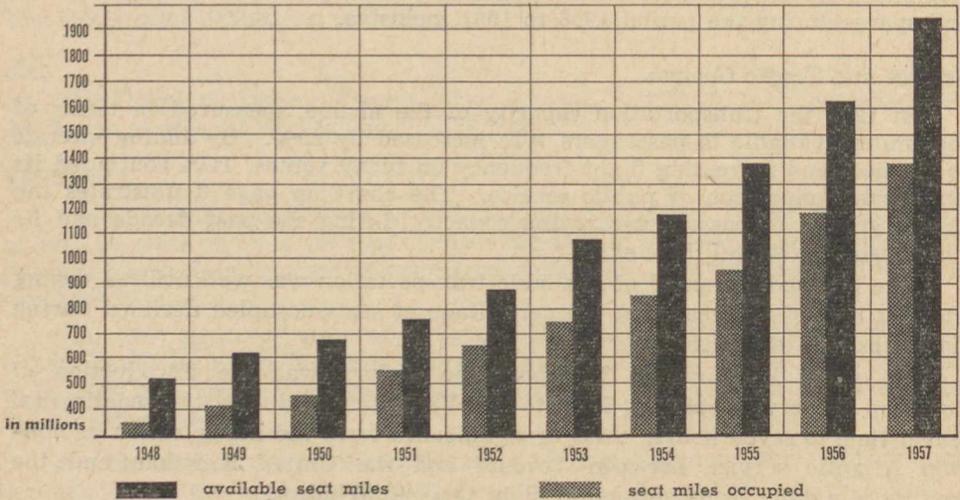
In conformity with its policy to keep the cost of air transportation in Canada at the lowest level consistent with the maintenance of a sound financial position, the Company again avoided general increases in passenger fares or cargo rates. In fact, a reduction in average return to the Company per revenue passenger mile was achieved.

First class mail moved by air in heavy volume, expediting delivery wherever the use of aircraft offered advantage over surface transportation. TCA enjoyed the closest cooperation of the Canadian Post Office Department and endeavoured to operate, to the greatest possible extent, schedules consistent with postal requirements. As mail traffic again increased, there was a further decline, by contract, in the unit mail payment received for the transportation provided. This trend of recent years is illustrated on page 16.

The growth of air freight and air express continued, although traffic remained strongly directional and was still far from sufficient to fill the extensive capacity offered by the airline in its endeavour to stimulate this type of load. A daily transcontinental freight service was flown with all-cargo North Stars, each capable of carrying nine tons of commodities, and other cargo accommodation was offered on all scheduled flights. TCA was able to provide most domestic

freight shippers next-day delivery within a 1,500-mile radius and second-day delivery to points beyond.

#### SEAT MILES MADE AVAILABLE & SEAT MILES OCCUPIED 1948-1957



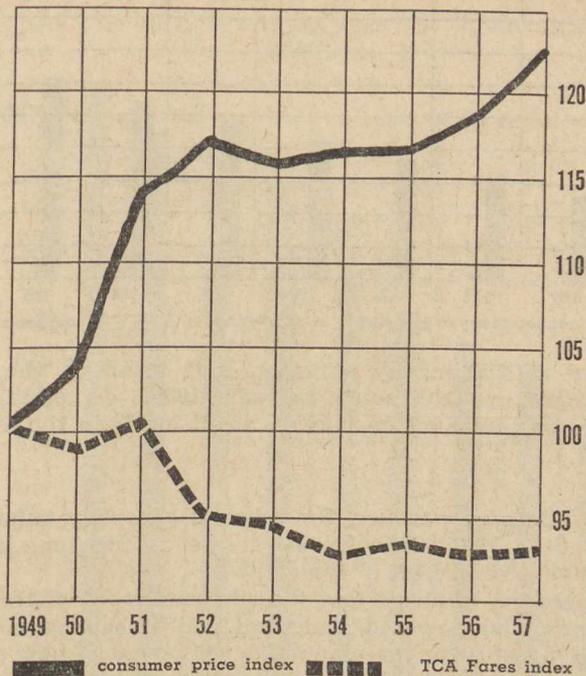
The airline, at the end of 1957, was operating on 27,782 miles of air routes and serving 56 communities, 39 of them in Canada. Of the latter, 27 had populations of less than 100,000. The route map on pages 14 and 15 illustrates the scope of the Company's routes within Canada and to the United States, British Isles, France, Germany, Bermuda and the Caribbean.

#### *Equipment and Facilities*

Fourteen more Viscounts and two additional Super "G" Constellations were acquired by the Company, while six DC-3s were retired from service and offered for sale. An option was exercised on thirteen additional Viscounts. The fleet at year-end was comprised of eleven Super Constellations, thirty-two viscounts, twenty-one North Stars and eighteen DC-3s. 84% of the airline's total aircraft mileage was flown by four-engine pressurized equipment.

During the year the Company announced its selection of the Rolls-Royce Tyne powered Vickers Vanguard as the aircraft which it would operate in the future on all routes which, due to either traffic volume or length, were not ideally suited to either the comparatively short-ranged Viscount or the very long-ranged DC-8. Twenty of these large propeller-turbine airliners were ordered and an option taken on four more. This purchase, amounting to \$67,000,000, was the largest single dollar order placed in post-war Britain and a further expression of TCA's confidence in the Vickers-Armstrongs and Rolls-Royce companies.

INDEX OF TCA FARES VS CONSUMER PRICE INDEX 1949-1957  
(YEAR 1949 = 100)



Wing tip fuel were installed on the Super Constellation fleet, making possible the operation of non-stop trans-Atlantic flights to and from Canadian termini west of Montreal. The installation of airborne "weather" radar for the Super Constellation fleet was proceeded with.

The excellent performance of the flight equipment throughout the year again fully justified the company's strict adherence to the highest standards of maintenance and overhaul. 97.5% of all scheduled mileage was completed.

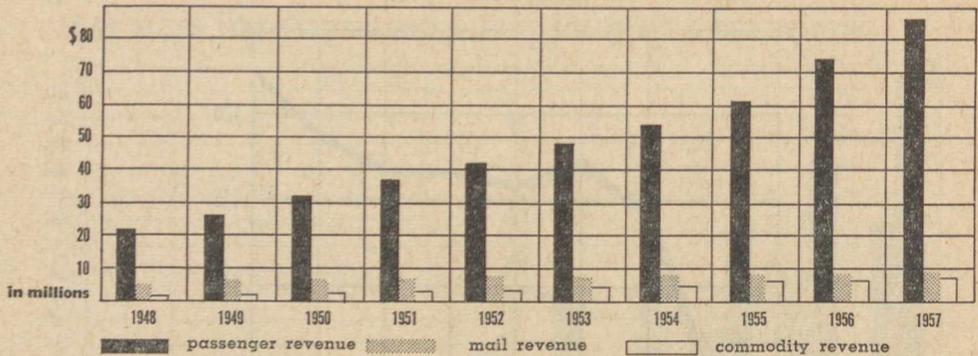
TCA's ground facilities were expanded, to meet the greater traffic volume and larger scale of operations. In particular, sales and reservations offices were enlarged at several points.

The Department of Transport continued a broad programme of airport improvements throughout Canada. Extensive runway construction took place and the initial installations of long range surveillance radar represented a marked advance in airway traffic control.

#### Personnel

TCA staff at December 31st numbered 9,726, approximately two-thirds of these being employed in the technical departments. The average number of employees on the company's payroll in 1957 was 7.9% greater than in 1956, while the volume of work performed, expressed in ton-miles made available for sale, increased by 16%. These figures represent a further increase in employee productivity.

## SOURCES OF TCA SYSTEM REVENUE 1948-1957



In conformity with Company policy of long standing, the "management development" programme continued through 1957. In addition, particular attention was paid to personnel instruction at all levels in the organization.

### Planning

The pace of TCA's preparation for what is generally referred to as the Jet Age quickened in 1957 and will accelerate as the time approaches for delivery of the advanced aircraft of tomorrow.

Scheduled operation of aircraft of the size and speed of the full jet DC-8 and the turbine propeller powered Vanguard which the Company will undertake in 1960 and 1961 calls for the planned development of new procedures and facilities, for air and ground personnel training, maintenance and overhaul, ramp handling and flight management. It is gratifying to be able to report that a large proportion of this exacting work has been completed.

To the extent that the equipment plans of other carriers are now known, TCA will be the first international air line in the world to be completely equipped with turbine powered aircraft.

The DC-8, of which six are on order, will carry 120-135 passengers and fly at 550 miles per hour. The Vanguard will accommodate as many as 107 passengers and fly in excess of 420 miles an hour. Together with the proven Viscount, they will give Canada an unexcelled standard of air transportation. The DC-8 will enter service in early 1960 and the Vanguard in 1961. The speed and capacity of these airliners will make them extremely productive, if sufficient traffic is available to ensure good load factors and utilization. In acquiring them, TCA is expressing confidence in Canada's future.

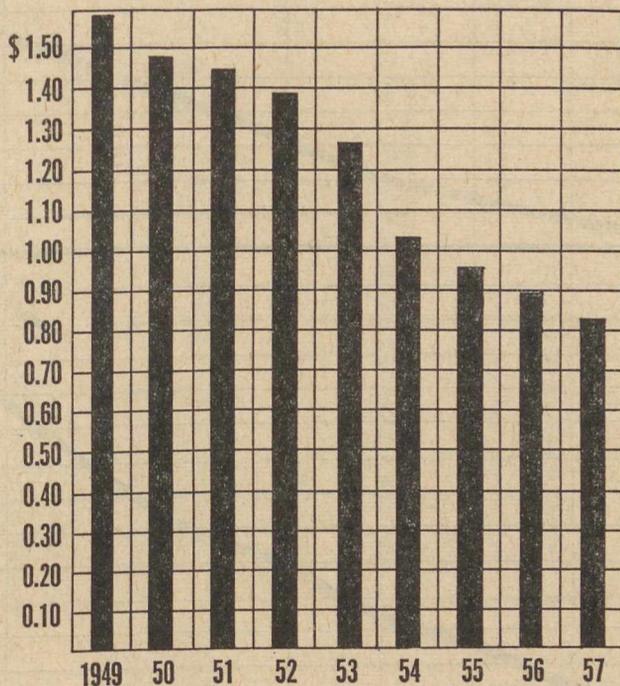
For the care of the DC-8s and Vanguards, a large overhaul and maintenance base will be built at Montreal. It will be the first of its kind to be devoted entirely to the needs of turbine aircraft.

TCA has, for some years, been engaged in the study of special applications of modern electronic techniques to air line operations. In 1958 the Company will take delivery of an IBM 650 Magnetic Tape electronic computer. The programming associated with revised inventory control procedures is well advanced and studies are under way with respect to possible applications in the areas of Maintenance and Operations Planning. In addition, good progress has been made in the development of the prototype of a new electronic reservations system which offers promise of speed and accuracy unattainable by manual means. Tests are continuing.

The delivery of fifteen more Viscounts during the first half of 1958 will enable TCA to introduce this fine equipment to a number of additional cities and to intensify its use generally on domestic routes. This expansion of the

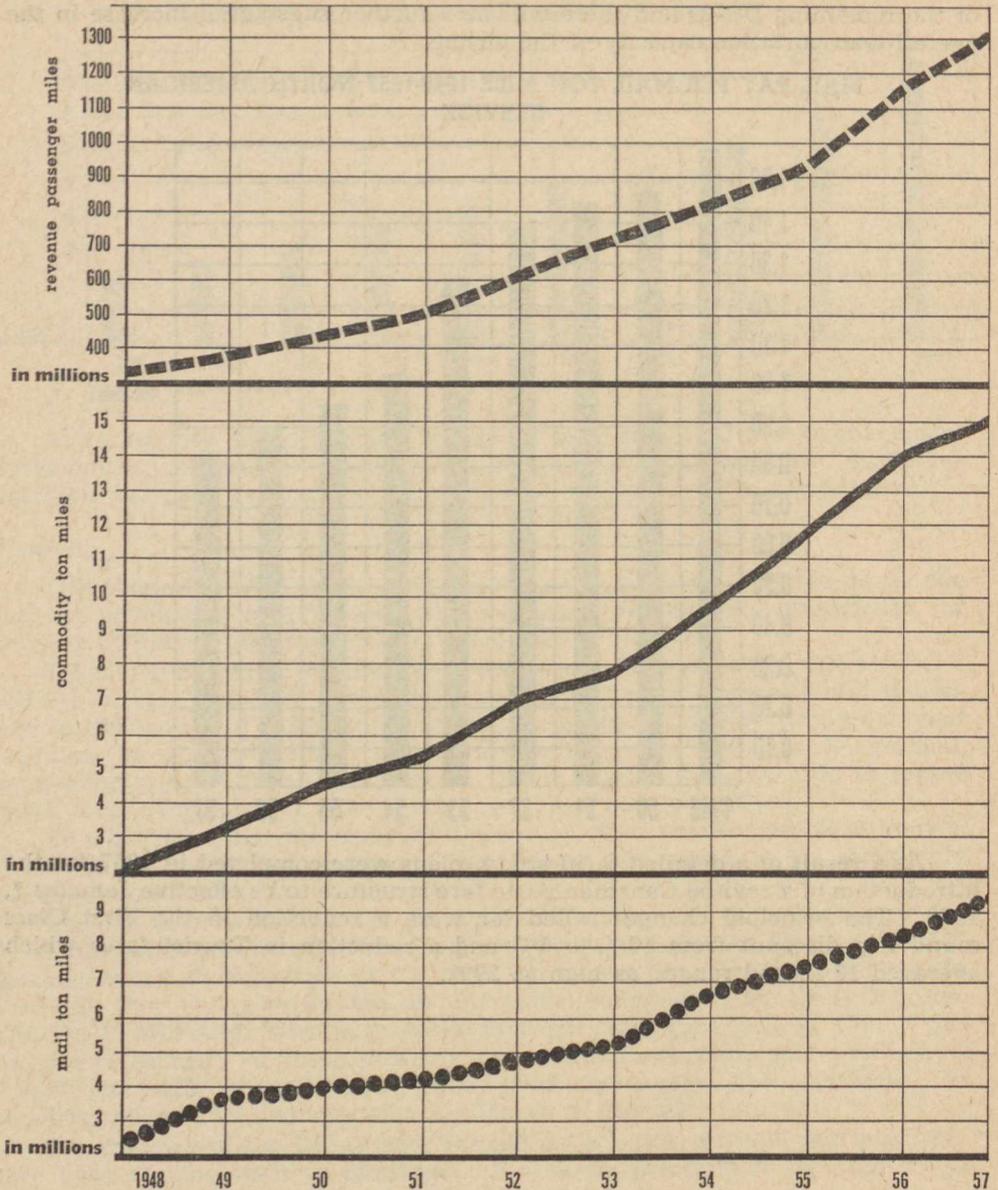
Viscount fleet to 47 aircraft will permit the retirement of a large proportion of the remaining DC-3s and there will be a further substantial increase in the overall transportation capacity of the airline.

**MAIL PAY PER MAIL TON MILE 1949-1957 NORTH AMERICAN SERVICE**



As a result of a detailed tariff study, plans were completed in 1957 for the introduction of a revised Canadian route fare structure to be effective January 1, 1958. The principal changes called for were a reduction in the First Class round trip discount from 10% to 5% and a reduction in Tourist fares which averaged 13%, and ranged as high as 20%.

## GROWTH OF PASSENGER, COMMODITY &amp; MAIL TRAFFIC 1948-1957



These passenger fare changes bring about virtually the same relationship between First and Tourist class fares as exists in the United States, and place air travel within the economic reach of a larger number of Canadians.

It should be noted that the Tourist tariff reduction occurred at a time when all the larger airlines in the United States were granted a general interim fare increase of 4% plus \$1.00 per one-way ticket.

The directors value the opportunity provided by the Company's annual report to publicly record their recognition and appreciation of the high quality of the work performed, and the unremitting care exercised by the personnel of TCA.

For the Directors,  
 G. R. McGREGOR,  
 President.

## ASSETS

## CURRENT ASSETS

Cash.....		\$ 1,172,647	
Accounts receivable:			
Government of Canada.....	\$ 1,831,136		
Traffic balances from other air lines.....	2,108,286		
Air travel plan.....	1,849,897		
Travel agents.....	763,117		
Other.....	1,743,396		
		8,295,832	
Materials and supplies—latest invoice price.....		12,563,725	
Other current assets.....		291,484	
		\$ 22,323,688	

INSURANCE FUND..... 5,670,577

## CAPITAL ASSETS

Property and equipment—at cost.....	\$ 99,275,232		
Less: Accumulated depreciation.....	42,411,470		
	\$ 56,863,825		
Progress payments on purchase of aircraft.....	6,187,224		
		63,051,049	
		\$ 91,045,314	

This is the balance sheet referred to in our report to the Minister of Transport dated February 20th, 1958.

GEORGE A. TOUCHE & Co.  
CHARTERED ACCOUNTANTS  
Auditors.

## LIABILITIES

## CURRENT LIABILITIES

Notes payable.....	\$ 5,000,000
Accounts payable.....	7,152,102
Traffic balances payable to other air lines.....	2,786,087
Air travel plan deposits.....	1,561,450
Salaries and wages.....	1,669,396
Prepaid transportation.....	2,623,306
Interest payable.....	719,574
	\$ 21,511,915

LOANS AND DEBENTURE—Canadian National  
Railways

Notes payable.....	\$ 32,000,000
Debenture, 3½% maturing January 1st, 1973.....	20,000,000
	52,000,000

## RESERVES

Insurance.....	\$ 5,670,577
Overhaul.....	391,714
	6,062,291

## CAPITAL STOCK

Common stock—authorized 250,000 shares par value \$100 per share. —issued and fully paid, 50,000 shares.....	5,000,000
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## SURPLUS

Balance, January 1st, 1957.....	\$ 6,267,011
Net income, year 1957.....	404,674
	\$ 6,671,685
Appropriated for Insurance Reserve.....	200,577
	6,471,108
	\$ 91,045,314

## CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

Balance of payment for equipment under contract.....	\$118,000,000
Notes under discount with the bank in connection with the Pay Later Plan.....	760,000

W. S. HARVEY,  
Comptroller.

## STATEMENT OF INCOME

OPERATING REVENUES	1957	1956
Passenger.....	\$ 86,523,981	\$ 74,478,516
Mail.....	9,662,585	8,869,934
Air Express and Freight.....	6,392,156	6,010,397
Excess Baggage.....	893,968	758,998
Charter.....	280,155	253,011
Incidental Services—Net.....	1,242,862	935,190
Total.....	<u>\$104,995,707</u>	<u>\$ 91,306,046</u>
OPERATING EXPENSES		
Flying Operations.....	\$ 23,837,126	\$ 19,890,279
Maintenance.....	28,721,065	25,356,118
Passenger Service.....	6,452,870	5,390,667
Aircraft and Traffic Servicing.....	19,090,650	16,196,418
Sales and Promotion.....	15,036,818	12,490,785
General and Administrative.....	3,541,824	2,901,273
Total.....	<u>\$ 96,680,353</u>	<u>\$ 82,225,540</u>
INCOME FROM OPERATIONS.....	\$ 8,315,354	\$ 9,080,506
Provision for Depreciation.....	6,819,160	6,971,575
	<u>\$ 1,496,194</u>	<u>\$ 2,108,931</u>
NON-OPERATING INCOME—NET		
Interest and Discounts.....	324,196	370,375
Sale of Aircraft.....	120,875	250,000
Miscellaneous.....	154,228	113,958
INCOME BEFORE INTEREST EXPENSE.....	\$ 2,095,493	\$ 2,843,264
Interest on Capital Invested.....	1,690,819	1,287,052
NET INCOME.....	<u>\$ 404,674</u>	<u>\$ 1,556,212</u>

NOTES:—No provision for Income Taxes has been made in 1957 by reason of expenses charged to the Insurance Reserve which are deductible for tax purposes.

For comparative purposes, 1956 operating expenses have been restated to conform with a reclassification of accounts in 1957. This has no effect on the net operating results for either year.

GEORGE A. TOUCHE & CO.  
CHARTERED ACCOUNTANTS

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

We have examined the books and accounts of Trans-Canada Air Lines for the year ended December 31st, 1957. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying balance sheet and related statement of income are properly drawn up so as to give a true and fair view of the state of the Corporation's affairs at December 31st, 1957, and of the results of its operations for the year then ended, according to the best of our information and the explanations given to us, and as shown by the books of the Corporation, and in our opinion the statements are prepared on a basis consistent with that of the preceding year, except that a provision of \$1,200,000 for accelerated depreciation on Super Constellation aircraft was included in the 1956 accounts and no such provision was made in 1957.

We further report that in our opinion proper books of account have been kept by the Corporation, and the transactions of the Corporation that have come under our notice have been within the powers of the Corporation.

We are also submitting a supplementary explanatory report.  
February 20th, 1958.

GEORGE A. TOUCHE & CO.  
*Chartered Accountants*

*Significant Statistics*

	1957	1956	% change
Revenue Passengers .....	2,392,713	2,072,912	+15.4%
Seat Miles Made Available (000's) .....	1,959,830	1,631,238	+20.1%
Seat Miles Occupied (000's) ..	1,385,777	1,191,784	+16.3%
Revenue Passenger Load Factor .....	70.7%	73.1%	
Mail Ton Miles (000's) .....	9,855	8,613	+14.4%
Express Ton Miles (000's) ....	2,575	2,548	+ 1.1%
Freight Ton Miles (000's) ....	12,903	11,928	+ 8.2%
Ton Miles Made Available (000's) .....	273,431	235,934	+15.9%
Ton Miles Used (000's) .....	162,577	141,778	+14.7%
Weight Load Factor .....	59.5%	60.1%	
Total Aircraft Miles Flown (000's) .....	46,667	41,039	+13.7%
% Scheduled Miles Completed	97.5%	95.6%	
Average Number of Employees	9,480	8,788	+ 7.9%
Seat Miles Made Available per Employee .....	206,733	185,621	+11.4%

The CHAIRMAN: Gentlemen, you have heard the president's report.

Mr. CHOWN: Are you having any difficulty in unloading these DC-3's? I presume there is a ready market for them?

Mr. MCGREGOR: The market has deteriorated over the last year and a half because other airlines are in the same position of having surplus DC-3's. It is a little early to say, however, I think all the DC-3's that have become redundant to the fleet requirement will have been sold within the next few weeks.

Mr. SMITH (*Calgary South*): Could I ask how you intend to proceed with the examination of this report? I would also like to know what the position is in respect of discussions that have taken place previously in regard to competition with T.C.A.

The CHAIRMAN: I think in regard to the first portion of your question, Mr. Smith, that we will proceed as we did in regard to the annual report of the C.N.R. We will proceed with the subjects listed under the headings in this report.

Mr. BROOME: What about the second part of his question?

Mr. SMITH (*Calgary South*): The point I raised was, in the evidence of a previous meeting there was some discussion with respect to the T.C.A. and competition.

The CHAIRMAN: You are speaking of competition of private ownership?

Mr. SMITH (*Calgary South*): I had in mind transcontinental competition. However, it has occurred to me that this may not be relevant to this particular discussion. I think we should have a discussion in this regard and if it is going to be introduced I would like to know at what point in these proceedings.

The CHAIRMAN: I do not think such a discussion relates to this report.

Mr. MCGREGOR: I might mention the fact that there have been applications submitted for transcontinental routes by two other carriers. An application was made to the Air Transport Board. The Air Transport Board has declared its intention of having a hearing. I think perhaps it would be prejudicial to that hearing if this subject were discussed here.

Mr. SMITH (*Calgary South*): I agree with that settlement. That is the reason I asked the question.

Mr. FISHER: Is there a possibility that we will be allowed to discuss the Wheatcroft report?

Mr. HEES: As I said in the House of Commons, Mr. Chairman, that report was primarily made for the guidance of the Air Transport Board in examining this whole matter. I think it should be treated as such. I do not intend to discuss it here.

Mr. CHEVRIER: Mr. Chairman, surely there must be some possibility of discussing competition generally? I can well understand the reason for not discussing the application which is before the Air Transport Board, which is a semi-judicial body and is to some extent raise *judicata*, but surely we can, without going into that, get Mr. McGregor opinion in regard to competition.

For instance, what does he think about competition by another airline or by other airlines having regard to the increased cost of these new aircraft, and having regard to density of traffic for instance? Surely there would be no objection to that type of discussion.

The CHAIRMAN: This might be desirable and interesting from your point of view but I do not think it would be fair to Mr. McGregor as president of T.C.A. to put him on the spot as to his opinions of competition.

Mr. SMITH (*Calgary South*): There is, in Mr. McGregor's own words, his opinion expressed in the brief to the royal commission which dealt with this subject rather extensively. I am sure this would be of interest to those who have not seen it.

The CHAIRMAN: This subject does not come within this committee's review.

Mr. SMITH (*Calgary South*): I agree with that statement but I am suggesting that if members wish to know what Mr. McGregor's opinion is, it is contained in this brief.

Mr. CHEVRIER: I am not going to put anyone on the spot, least of all Mr. McGregor; but it is a silly decision, with all the respect I owe the chair, to consider the operations of T.C.A. and not to discuss competition. If it is the decision, I abide by it.

Mr. HEES: I do not think there is any desire to limit the members of the committee in the expression of their ideas in respect to competition. As Mr. Smith said, Mr. McGregor's views as to competition were expressed a long time ago and before there was any thought of the hearings which will take place quite shortly. But in view of the fact that there is a hearing pending dealing with this whole matter I think it is not right that Mr. McGregor should be cross-questioned on his ideas about competition having to do with specific routes, or in general. His general ideas are available there for anyone to read. I think it is much more appropriate to proceed with the examination of the operations of T.C.A.

Mr. CHOWN: I think that the minister is absolutely right.

I would like to ask the president of T.C.A. about the interchange which took place in Winnipeg over the removal of the maintenance facilities there in reference to these new aircraft which are coming into operation in 1960 and 1961. Do you intend to retain a general residual there in Winnipeg?

Mr. MCGREGOR: I made an announcement to the personnel of T.C.A. at Winnipeg last year when the decision was taken to locate the maintenance and overhaul people who would look after the Vanguard and DC-8 aircraft at Montreal and I informed them that it was not the intention to move any of the facilities or the personnel out of Winnipeg with the exception of three or four small groups. They were dealing with aircraft such as the North Star, DC-3 and Viscount, and it was foreseen that the growth of the Viscount fleet would off-set the reduction in work represented by the retirement of the DC-3's and the eventual retirement of the North Stars.

I also advised them it was the intention to leave the Viscount operation, which will eventually number 51 aircraft, in Winnipeg, and that the aircraft will continue to be overhauled there through 1965.

Mr. BROOME: Could Mr. McGregor supply to the committee figures as to the yearly earnings per employee? Does a T.C.A. employee earn \$8,000 for the company, or \$10,000, \$15,000, \$18,000 or whatever it might be as compared to employees in half a dozen leading airlines in North America? That would give us a key to the staff as compared to company earnings in the way of sales. Do you understand what I mean?

The CHAIRMAN: You mean employee productivity?

Mr. BROOME: Yes.

Mr. MCGREGOR: I suggest it does not give you a key because of the rather unusual financing of T.C.A. Last year the company earned \$400 thousand-odd on \$100 million gross which is obviously dangerously small but, on the other hand, T.C.A. is so financed that nearly all of its capital is in the form of debentures and therefore that figure represents net earnings after the interest has been paid, on nearly all the capital.

All other airlines of which I know are financed in almost exactly the opposite manner with a substantial amount of capital stock and equipment trusts and the interest charges on the relatively small amount of debt capital would be much less than in the case of an airline financed basically by bonds and debentures with only a small proportion in stock.

The CHAIRMAN: If you figured it on the basis of \$400,000, and 10,000 employees, the productivity would be \$40 apiece.

Mr. BROOME: I do not think Mr. McGregor understood my question. My question would reflect, at the start, on the profit of the company, but what my question was is this: what is the number of the employees compared to revenue of the company of the T.C.A. as compared to other ones in other countries, to see whether or not T.C.A. is over-stocked? Is T.C.A. operating as efficiently as other airlines? I think that is one method of comparing airline operations.

Mr. MCGREGOR: I would like to submit that that has been attempted before. One of the methods used is to take the number of employees and divide it into units of transportation. That is probably a little better than comparing it against net or gross profits, but that again is no measure of a comparison between one airline and another.

A very large British airline, for instance, has nearly all its engine overhaul work done by other companies. Obviously no comparison of number of employees against volume of work produced is valid unless the companies being compared have adopted the same policy with respect to having work done by outside contractors.

Mr. BROOME: Then how do we compare the efficiency of the T.C.A. with other airlines?

Mr. MCGREGOR: There are several ways. The amount of production I would expect, in dollars and cents, in the case of the T.C.A. in relation to other airlines is a satisfactory method.

I can give you the figures of the net losses achieved by other airlines for the first three months of this year.

Mr. FRASER: Just the losses?

Mr. MCGREGOR: There are profits, but not too many. American Air Lines had a profit of \$1,950,000 for the first quarter of 1958 as against \$2,165,000 for the first quarter of 1957. B.N.F. Air Lines had a profit of \$667,000 for the first quarter of 1958 as against \$627,000 for the first quarter of 1957. C.A.P. Air Lines had a loss of \$670,000 as against a loss of \$992,000. Eastern Air Lines has a profit of \$5,500,000 as against \$8,016,000. National Air Lines has a profit of \$1,323,000 as against \$3,125,000. North East Air Lines has a loss of \$1,351,000 as against a loss of \$843,000. North West Air Lines has a loss of \$1,900,000 as against a loss of \$1,300,000. Pan American has a loss of \$7,407,000 as against a loss of \$2,138,000. T.W.A. has a loss of \$10,167,000 as against a loss of \$7,292,000. U.A.L. Air Lines has a loss of \$578,000 as against a loss of \$1,586,000.

Mr. CHEVRIER: Are the American airlines subsidized by the American government?

Mr. MCGREGOR: In some cases, yes, and in others, no. In the case of the four major carriers I believe there is no subsidy figure included in the figures I gave you. That is decided at the end of the year. At one time, you will remember, a subsidy was paid in the form of mail pay. More recently mail pay was calculated to cover costs and a reasonable amount of profit for the carriage of mail, and any company which ended the year with a financial deficit was paid a subsidy earmarked as such.

Mr. SMITH (*Calgary South*): Recently at a meeting of various airlines, they made it quite clear that the reduction of net income was due to a very large capital cost of operation which has grown as we have seen in a number of other businesses. But, I notice in your statement that part of the \$1 million of reduced total net income can be shown in the income from operation of T.C.A., and I think it is something like \$765 thousand-odd. Is that of any particular significance this year in the operation of the airline? Otherwise is there any particular reason you can amplify other than your one reference to it in the statement?

Mr. MCGREGOR: That is dealt with at page 6 of the annual report. First of all your analysis is quite correct. But the answer to your question is, as I mentioned, the costs of the ingredients of the product are going up steadily, particularly labour. I have also mentioned fuel and landing fees as being significant. The company was faced with respect to its operating budget in 1957 with over a million dollars of unforeseen expenses which were not included in the budget calculation and were completely outside the control of the company, these were the rise in the cost of fuel and landing fees and the two cents a gallon tax on gasoline boarded in Ontario.

Mr. BROOME: What was the extra cost in regard to landing fees?

Mr. MCGREGOR: The cost of landing a DC-3 at Canadian airports rose from \$3.30 in 1956 to \$5.40 in 1957. I can give you the percentage increase if you wish.

Mr. BROOME: What would that mean in thousands of dollars per year extra cost for the same number of landings?

Mr. MCGREGOR: \$145,000. That is for a six-month period when the increase of rate was in effect. It would be close to \$300,000 over an annual period. The same applies to other aircraft, but the DC-3 had the largest percentage increase.

Mr. CHEVRIER: You mentioned something about the cost of labour; what about the cost of aircraft, is that a contributing factor to your financial position?

Mr. MCGREGOR: Yes, in two different ways; first of all the higher investment in the aircraft increases the interest cost and we are replacing obsolescent aircraft with modern equipment, such as the Viscounts at the present time. These new aircraft come under depreciation whereas the aircraft they are replacing, the DC-3's and the North Stars have been fully depreciated down to their residual value for some years. In acquiring new aircraft we confront ourselves with both increased interest charges and depreciation.

Mr. SMITH (*Calgary South*): Your cost of operation through purchase of new aircraft is much more efficient.

Mr. MCGREGOR: Yes, very much.

Mr. CARTER: What would be the biggest item in your \$24 million of operating expenses? It is still a pretty large percentage of your total.

Mr. MCGREGOR: That is mostly due to the type of flying done. You see we increased the capacity of the airline by 20 per cent the expenses went up by 16 per cent.

Mr. CARTER: You set out salary and wages, fuel and oil, maintenance materials, depreciation, and then you say, "all other". "All other" is \$24 million as against \$11 million for maintenance. What would be your largest item in that \$24 million?

Mr. MCGREGOR: "All other" is made up of rentals and utilities, that is telephone, light and services of that kind. That is up 16 per cent, and represents \$7 million. "Other services and expenses", \$3,400,000; that is up 8.3 per cent. Service to company personnel is \$3 million, up 12.3 per cent.

Mr. BROOME: What does that mean?

Mr. MCGREGOR: Travelling expenses primarily.

Mr. BROOME: \$3 million for travelling? Do they not travel T.C.A.?

Mr. MCGREGOR: Yes, but they have to stay at hotels when they get there, and it includes the movement of personnel on transfers and a large proportion is movement of crews which are going out to pick up a flight or coming back from completing a flight.

Mr. FRASER: Would that include the hotel expenses where you have a layover and have to look after the passengers?

Mr. MCGREGOR: Yes, but not company personnel.

Mr. FRASER: No, but passengers would come out of "all other"?

Mr. MCGREGOR: Yes.

Mr. FISHER: Have you a division of what you receive through tourist fares and first-class fares?

Mr. GORDON: Yes.

Mr. CHEVRIER: How many categories are there?

Mr. MCGREGOR: There are two domestic and four, I regret to say, on the trans-Atlantic.

Mr. CHEVRIER: Why do you say you regret it?

Mr. MCGREGOR: Four is too many. It complicates the handling and it is confusing to the passenger. It is a matter that has been regulated by the International Air Transport Association and this particular regulation will I think be modified at the next traffic conference.

Mr. CHEVRIER: Is that the economy, tourist, first-class and deluxe?

Mr. MCGREGOR: Yes, economy, tourist, first-class and deluxe, and in some carriers there is a fifth category if you buy a berth.

Mr. CHEVRIER: Has that been in operation for just a year?

Mr. MCGREGOR: Since last April. I will now answer the question about the proportion. North American first-class produces \$58,700,000 and tourist \$11,900,000. From overseas first-class we produce \$3,114,000 and tourist \$12,732,000.

Mr. FISHER: Why the tremendous difference there in ratio between the trans-Atlantic and the others?

Mr. MCGREGOR: Well, the demand on the trans-Atlantic due I think to the higher price of the ticket is primarily very much in favour of the lower categories of service.

Mr. FISHER: Has that anything to do with the fact you do not offer as wide a tourist service on the domestic lines?

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

Mr. FISHER: I am interested in the line going into Fort William; in most cases it is a tourist fare in there.

Mr. MCGREGOR: First-class.

Mr. CHEVRIER: Which is the most profitable part of your operations?

Mr. MCGREGOR: The trans-Atlantic.

Mr. CHEVRIER: How do you divide them up? Would you tell us what the four or five divisions of your operations are and how they fare financially?

Mr. MCGREGOR: Yes. There are only two main divisions. That is what we call the domestic operation which includes the Canadian and trans-border operations to the United States and the other major division the overseas section which includes the trans-Atlantic and the Bermuda, Caribbean, and Florida services. Of the two, the overseas operation is the more profitable. The rate per mile on trans-Atlantic, for instance, is in the order of 7.45 cents per passenger mile, whereas in the domestic operation the average is 6.14 cent.

Mr. BROOME: Could you indicate whether your picture is showing any improvement this year over last or is that a question that should not be asked? I am referring to the first quarter.

Mr. MCGREGOR: No, the picture this year is worse than last year for the first quarter and for that matter for the first half.

What is happening is that as the total volume of air transportation increases, this very heavy seasonable fluctuation between winter and summer tends to increase.

By the same token, the net profit for the month of June was the highest in our history. So I think that the overall results for the year may be in the same order as was the case in 1957. However, the extremes of off season loss and on season profit are increasing in magnitude.

Mr. BROOME: Is it fair to say that T.C.A. does have an advantage in its lower financing costs, and this must surely be reflected in a fairly good statement because you do pay less for your money?

Mr. MCGREGOR: I do not know that we do. We pay over four per cent for our money.

Mr. BROOME: I do not know of many private firms that get it for four per cent.

Mr. SMITH (*Simcoe North*): Referring to the first class and tourist fares on short hauls, would there be any appreciable difference, for example, if there were a tourist service between Ottawa and Toronto? Would the fare be substantially lower?

Mr. MCGREGOR: Yes, it would be. The relationship between the two is about 20 per cent.

Mr. SMITH (*Simcoe North*): Even on a short haul?

Mr. FISHER: Isn't that enough of an incentive to create more users?

Mr. MCGREGOR: It does not seem to be. We operate a tourist service between Montreal and Toronto which is slightly longer than between Ottawa and Toronto, but the proportion of people who request tourist service is about in the order of 18 to 20 per cent.

Mr. BROOME: Is that not significant? The reason for it is that for people who are inclined to go airborne with air services, there is a considerable difference in income. I refer to those who take airline service and the difference in the cost for lower or cheaper forms of transportation. If they wish to go by air, they prefer to go with first class service.

Mr. MCGREGOR: I think that is right; 20 per cent, of a long-haul ticket represents a substantial saving but people do not pay much attention to the small actual discount it represents on a short journey and they like being given a meal and the other amenities of first class.

Mr. SMITH (*Calgary South*): I do not think anyone would question that, and as a good commercial pilot I agree that your line is one of the finest.

I am sure you are aware, however, that there has been considerable criticism of what we might call the ground practice, such as ticketing, the dispatching and so on.

Some of it may be justifiable and some not. I wonder what your airline has done with reference to making such a survey as it can to improve this situation, assuming that a good proportion of the criticism is legitimate?

I know of certain areas where you have improved your dispatching and ticketing; but when a passenger does not know that there is going to be a flight and then finds that there is one, for instance, and he is not given an indication that the flight was available, there is resentment.

Would you care to comment on the public relations of your airline and how they could be improved?

Mr. MCGREGOR: I would like very much to talk on that subject because we have probably spent more money on this particular phase of our operation than most airlines. However, that is one of the things that a service organization in our opinion should stress very strongly.

I think I should begin by saying that this business about once again: "T.C.A. is wonderful in the air, but it stinks on the ground," is said of every airline, mostly by the nationals of the carrier referred to who travel over it.

I have spoken with the administration of the larger American airlines and I find that the phrase is a standard one. The reason for it, of course, is that when the passenger gets into a difficulty in connection with air transportation he is confronted by the man behind the counter or by the girl behind the telephone.

Because the difficulty, as in the case of the tough steak and the waiter in the restaurant, is always brought home to him by an individual who has had nothing to do with it—such as to advise him that a flight is delayed, whereas the actual cause of the trouble in probably 99 cases out of 100 as nothing to do with the clerk who is in contact with the traveller or with the potential traveller.

But to get back more to your question; we carry on two complete surveys a year, one in the winter-time and one in the summer, with questionnaires which are sent out to a random selection of about 1500 passenger names and addresses which appear on our reservation lists as having travelled during the previous two months.

The answers to those questionnaires—they cover everything from food to handling of baggage and reservations, irregular operations, flight information, schedules and all other facilities—are tabulated both against the previous survey of the year before and the whole string of surveys which have now gone on for five years.

In addition we have comment cards installed in the aircraft for any comments from passengers.

You might be interested in the figures for the number of passengers carried in relation to the commendations we have received and the complaints.

In 1957 we carried 2,390,000 passengers and we received commendations from 5,250 people, or 2.2 commendations per thousand passengers carried.

We received 3,797 complaints or 1.6 complaints per thousand passengers carried.

These figures compare with 1956, if you are interested, when the total carried was 2,066,000 from which we received 5,020 or 2.4 commendations per thousand passengers as against 2.2 in 1957, and similarly we received 3,579 complaints or 1.7 per thousand passengers, so that the ratio of commendations to complaints is better than 5 to 4.

I think it is also true to say that people are a little bit more prone perhaps in the heat of the moment to complain than they are to busy themselves in sitting down and writing a letter of commendation.

Mr. SMITH (*Calgary South*): I said that some were justifiable and some were not. I think you will accept the idea that there is still room for improvement.

Mr. MCGREGOR: Yes.

Mr. SMITH (*Calgary South*): Is it not possible that 80 per cent of the complaints are caused by lack of information rather than by too much information, where the public is not informed? Is there any survey being carried on in that respect?

Mr. MCGREGOR: It is a continuous one; it is part of the survey to which I referred.

Also we use a system which has been developed, I think to a fine point by most of the Bell system telephone companies. It is what we call an index measurement. Under that system each month's phase of the operation is subject to a weighted index or measurement, and if that index is not moving in the right direction, an investigation is carried on at once to find out what is adversely affecting it.

For example, the delivery time for passenger baggage at Montreal showed up badly at one time. But the speed has been revised to 5.3 minutes from something about 10 minutes.

Mr. BROOME: On the figures which Mr. McGregor gave us, the 5 to 4 ratio, that means that 44 per cent of your passengers have complaints. I take it from the way you set this out that you had 5,000.

Mr. MCGREGOR: I said 1.6 passenger per thousand had complaints.

Mr. BROOME: Doesn't that appear from the sample you sent out?

Mr. MCGREGOR: No. This is the overall result in a year.

Mr. CREAGHAN: I wonder if complaints from passengers are getting to the right source? I received two T.C.A. complaints in the last two days. Last week an aircraft with American passengers was supposed to land at St. John, New Brunswick, for customs and immigration. However, it could not land there, and it landed at Moncton.

The passengers had to wait 90 minutes for immigration inspection. They thought it was the fault of T.C.A.

I contacted customs and they blamed it on immigration. Then I contacted immigration, and both agreed it was the fault of T.C.A. that the customs and immigration were not advised about the re-routing.

One of the passengers was a nine year old girl who had never been in Canada before, and another passenger was pretty nearly a stretcher case.

Mr. MCGREGOR: Did you check with T.C.A. to find out if they had advised customs and immigration?

Mr. CREAGHAN: My last inquiry was made to the man in charge of customs for the Atlantic region and he told me that the immigration people blamed it on T.C.A. because of the re-routing.

Mr. SMITH (*Calgary South*): One of the most common complaints is that it is the duty of the captain to determine whether or not an aircraft will take off under adverse weather conditions.

Too often I have found that it was for the protection of the passengers' lives that the aircraft did not take off, yet there was no explanatory answer given. I realize you do not have a big enough staff to make known to people information of that type, so I suggest that many complaints are brought about by lack of information rather than by too much of it.

Mr. MCGREGOR: Yes, I think that is true. But on the other hand, I think we can agree that aviation has now reached a point that places it in what might be called the mass-transportation category, and I think you will agree that under those circumstances it is desirable, if possible, to tend to ease off on the extremely personalized handling of passengers, because if that should continue, when we get into 2½ million passengers a year, we are headed for real trouble.

Mr. BROOME: Are you contemplating continuing short haul flights such as from Vancouver to Victoria?

Mr. MCGREGOR: It is a workable arrangement between Vancouver and Victoria, it has been done now for the last six months, as long as the weather behaves reasonably well. But if conditions arise in which there is good weather at Vancouver and bad weather at Patricia Bay we would probably end up with three or four hundred passengers at Vancouver, wondering why they could not be taken to Victoria.

Mr. SMITH (*Calgary South*): Has T.C.A. indicated to the board whether they would like to fly a route south into the United States from Calgary to complete the triangle?

Mr. MCGREGOR: Yes, indeed, and for many other routes into the United States. Steadily over the last four years the Air Transport Board and the Minister of Transport have been endeavouring to bring the United States comparable authorities into bilateral negotiation but so far without success.

Mr. SMITH: (*Calgary South*): Has T.C.A. requested it?

Mr. MCGREGOR: Yes.

Mr. CHEVRIER: What is the position with respect to the air agreement with the United States? I understand that for some time T.C.A. has been trying to get additional transport routes but without success.

Mr. HEES: We have been trying steadily to work out some exchange of routes with the United States authorities. We were able to get them to sit down and talk with us in preliminary discussions. I think that was last February, but once again these discussions seem to have faded away.

Just recently they assured us that they will sit down and resume these informal discussions.

Mr. CHEVRIER: When was the last air agreement signed between Canada and the United States?

Mr. HEES: I would not know. It certainly was a long time ago.

Mr. CHEVRIER: When is there likely to be a formal meeting with a view to amending the present agreement?

Mr. HEES: I wish I could tell you. I am trying very hard to get the two countries together in an informal way to lead up to a formal meeting.

I think you have gathered from what I have said that it seems to be a difficult thing to accomplish.

Mr. CHEVRIER: Is it possible to find out what additional routes T.C.A. would like to get, or is that an embarrassing question?

Mr. MCGREGOR: It might be prejudicial to the efforts being made.

Mr. CHEVRIER: Very well, I shall not insist.

Mr. MCGREGOR: I think the last formal amendment to the bilateral agreement was made in 1951.

Mr. FISHER: Might I ask the minister what in his opinion are the complicating factors in connection with bringing about this perfect meeting of the minds?

Mr. HEES: I would sooner not reply. But I can assure you that I am trying and that my department is trying. All I can say is, I have been trying and the Air Transport Board has been trying to get these talks going.

Mr. FISHER: I want to make the remark that we also are under pressure.

Mr. HEES: I know and appreciate it, and I feel about it the way you do. I can assure the committee that both T.C.A. and the government are most anxious to endeavour to work out reciprocal agreements for increasing air traffic between our country and other countries throughout the world. We are ready to sit down and talk with anybody who will sit down and talk with us about arriving at reciprocal arrangements.

Mr. SMITH (*Calgary South*): Any bilateral agreements then would not include any difficulty with reference to limited discussions in areas. Can a limited discussion dealing with a specific case be approved without the full formality of a complete agreement?

Mr. HEES: We are trying to get full discussions and if that is impossible, limited discussions, and I assure you we are doing our best. There is no lack of trying on our part.

Mr. SMITH (*Simcoe North*): I would ask the minister if T.C.A. or some other commercial airline were to build a north-south route would it provide additional complications for American airlines already flying those routes?

Mr. MCGREGOR: In some cases, but there are several transported routes that might be regarded as having a good potential of traffic that there is no service on at all.

Mr. HEES: And we are willing to give just as much as we get. We will take a route and give a route of equivalent benefit.

Mr. CHEVRIER: Is that not almost a matter on which the joint House of Commons and House of Representatives committee might be helpful?

Mr. HEES: I think it might.

Mr. CHEVRIER: Because this unquestionably could be added to the four points that were discussed between the two heads of state last week.

Mr. HEES: I think that is a good suggestion.

Mr. BROOME: Mr. Minister, and through you to the president—

Mr. SMITH (*Calgary South*): Bring it to the president's attention next time you play golf.

Is it a fair thing to ask, Mr. McGregor, if we have a good deal in connection with United States routes into Canada versus Canadian routes into the United States?

Mr. MCGREGOR: If you would allow me to answer the question I think at the present time we have a fairly reasonable saw-off. The popularity of the Viscount aircraft gives us a competitive advantage over our U.S. counterparts on the New York routes.

Mr. SMITH (*Calgary South*): I meant in routes.

Mr. MCGREGOR: We are carrying very many more passengers between Toronto and New York than American airlines and more passengers between Montreal and New York than Eastern Airlines.

Mr. CHEVRIER: Your answer then is yes?

Mr. MCGREGOR: Yes.

Mr. BROOME: Are you contemplating any charge for no-shows? That is the bane of airline scheduling to prevent no-shows. You are talking about mass transportation and getting millions of passengers and it would appear to me that no-shows are a contributing factor to your high costs.

Mr. MCGREGOR: In the first place I would question the high costs in relation to other airlines. But speaking of no-shows, no-shows are a problem but they are less of a problem in Canada than in the United States by a very large margin. I think that is due to the average Canadian being perhaps a little more considerate of people he is doing business with than may be the case elsewhere. The no-show penalty has been tried and abandoned and tried again, and more recently, within the last few months abandoned yet again, and the reason for it is fairly obvious. If a man presents a ticket on a flight for the previous day and for which there was no notice of cancellation and said, "I would like my money back," or "I would like to take another flight," if he is confronted with a financial penalty all he has to do—and in many cases does—is say, "Oh, I called up your office, I said I was not going on that flight, I was talking to some little girl, I don't know who she was, but I cancelled", you are then confronted with the problem of calling your potential customer a liar or giving him his money back.

The CHAIRMAN: And he won't be back?

Mr. MCGREGOR: That is right.

Mr. SMITH (*Calgary South*): I wonder if Mr. McGregor would give us a breakdown of the actual sections or divisions of T.C.A. in Canada. I think you have section lines?

Mr. MCGREGOR: Yes, we call them regions.

Mr. SMITH (*Calgary South*): Would you give us those regions?

Mr. MCGREGOR: Yes. The western region extends from the west coast as far east as and including Winnipeg, the central region from that boundary east to Montreal, and the eastern region from Montreal, to the Maritimes, and then there is the overseas region which is the operation I described before.

Mr. SMITH (*Calgary South*): Do you not have a further breakdown as between regions in which you keep your crews?

Mr. MCGREGOR: We have three crew bases. That is not to be confused with the region divisions which I described previously.

Mr. SMITH (*Calgary South*): What are these three crew bases?

Mr. MCGREGOR: Vancouver, Winnipeg, Toronto and—I am sorry there are four—Montreal.

Mr. SMITH (*Calgary South*): Was Winnipeg recently just established in preference to another city?

Mr. MCGREGOR: No, I think Winnipeg has been a crew base for a long time. I think there was a consolidation in Winnipeg, fairly recently.

Mr. CARTER: Mr. Chairman, I have a few questions but while we are on this international thing may I ask if any consideration has been given to improving the service flights to Sault Ste. Marie? At the present time you have to go to Toronto and wait a long time.

Mr. MCGREGOR: The reason for that is that we use a United States army airport on the south side of the border at Sault Ste. Marie and they recently closed it to Viscount service while they carried on a runway expansion program. The situation will be cured, we are assured, in November.

Mr. CARTER: And what is the situation in respect to Kinross? Will that airport be able to carry that flight?

Mr. MCGREGOR: Yes, and I believe the Department of Transport have some work going on in that area.

Mr. CHEVRIER: Are we still paying the capital expenditure on the operation at Kinross?

Mr. HEES: I am afraid I do not know.

Mr. FISHER: Can the president file a tabulation of the number of passengers lifted at the various points across the country?

You did in 1956 and I would like to have it on the record.

Mr. MCGREGOR: The number of passengers boarded by points?

Mr. FISHER: Yes.

Mr. MCGREGOR: We can do it, but I do not think it has ever been submitted as part of this report.

Mr. FISHER: In 1956 it is in the record.

The CHAIRMAN: You are still dealing with service, I presume?

Mr. SMITH (*Calgary South*): I would like to ask one more question on service.

On one flight in your constellations you showed, or did show—I may be wrong, it may be out of print—that the passengers were assisted by a steward and two stewardesses. I believe in actual fact that that is not so, that you have been carrying a stewardess and a steward.

The information I have is that the crews find they are awfully busy with the size of the aircraft.

Mr. MCGREGOR: You are speaking of trans-continental?

Mr. SMITH (*Calgary South*): Yes, of flight eight, as a matter of fact in the Super Constellations.

Mr. MCGREGOR: Mr. Seagrim would you like to comment on this?

Mr. H. W. SEAGRIM (*Vice-president of operations, Trans Canada Air Lines*): We did operate a three person cabin crew on Super Constellations for quite a period of time and we found—I think as a matter of fact all the flights were not busy enough, and when we investigated the situation as to what other airlines were doing on a similar type of trans-continental operation and similar type of aircraft, we found a two-person crew was standard, practically an industry standard.

We reverted to that on the understanding that some are kept quite busy but the average flight not.

Mr. SMITH (*Calgary South*): While we are on the subject of stewardesses, do you find that the lowering of the standard of your service in which your stewardesses are not R.N.'s is still maintaining the proper standard in the service?

Mr. MCGREGOR: Yes.

Mr. CARTER: May I ask about how the Viscount flight is working out to Torbay? If I remember in a former committee I think you said that it was not quite feasible because of the length of flight possibly.

Mr. MCGREGOR: We have been worrying about the regularity of the Torbay flight. It started, as you know, late this spring and so far it has done well under summer conditions and we are very much hoping it will continue to, but as I pointed out to you the range limit of the Viscount is not sufficient to start it off on a flight to Torbay under doubt weather conditions have it arrive there and find the airport is below weather limits and have sufficient remaining fuel to return to the mainland.

Mr. SMITH (*Calgary South*): You have reduced the status of stewardesses so it is not necessary to be a registered nurse, but I think you also employ on your staff a fairly large number of non-Canadian citizens. I would like to know the number of non-Canadian citizens you are employing. There are a number of foreign girls who are acting as stewardesses.

Mr. MCGREGOR: We have several English girls.

Mr. SMITH: (*Calgary South*): I was not referring to English specifically.

Mr. MCGREGOR: We have employed legitimate immigrants to Canada wherever they met the requirements.

Mr. SMITH (*Calgary South*): Canadian citizens?

Mr. MCGREGOR: Yes, or in the process of becoming Canadian citizens.

Mr. PASCOE: Mr. Chairman, I would like to ask Mr. McGregor a few questions in regard to Saskatchewan. Two cities out there, Regina and Moose Jaw, 40 miles apart, Regina has poor T.C.A. service and Moose Jaw none. Is the fact that they are 40 miles apart, does that preclude the possibility of T.C.A. service?

Mr. MCGREGOR: It is not that, we have other flights to other cities where we fly equally short distances.

The primary reason is that the company's plans call for the implementation of aircraft requiring pretty long runways and it was obviously going to be extremely expensive to have viscount-type runways in all these places. You will know similar points that have service such as Moose Jaw, Medicine Hat, where due to the empire air training plan they had airports that would otherwise probably not have been constructed.

Mr. PASCOE: We have a large airport near there. I wonder would that provide us with service?

Mr. MCGREGOR: I am not sure the airport could use Viscounts.

Mr. SEAGRIM: No, I do not think so. There is may be one runway suitable for Viscount operation.

Mr. KENNEDY: I would like to ask for some advice. This is in connection with the maritime region. Down there, to meet a flight, for instance, when you have somebody arriving and you may have to drive 70 or 80 miles to the airport, in the meantime the flight gets mixed up with weather and that effects it in two ways. It may be diverted to any airport like Greenwood 100 miles from Halifax or also if the weather is more foul it is put off.

You get to Halifax and the fellow that was leaving has not left, and he gets there and he says: "What the hell is going on"?

The CHAIRMAN: Drive 100 miles to another place.

Mr. KENNEDY: I had an actual experience. I phoned the airport and asked them to page a fellow who was waiting and had gone from Montreal but his flight was delayed until late. They never contacted him. He had been meeting a flight at 2.30 and the fellow he was meeting had not actually got on the plane at Montreal.

Mr. MCGREGOR: Any sea coast area is subject to very sudden weather changes and I can understand your friend being disgruntled at the inconvenience which he experienced.

Mr. KENNEDY: Is there no way a passenger list could be dispatched to the terminal and then the terminal will know what passengers are on that flight and know where they are going?

Mr. MCGREGOR: That is normally done and why it was not possible to get in touch with him I do not know unless he left the passenger waiting room. That is a condition we hope will improve at Halifax with the new airport, but it is not easy to remedy it at Dartmouth.

Mr. SMITH (*Calgary South*): The point I had with regard to stewardesses, non-Canadian stewardesses, I understand you are recruiting people for T.C.A. services.

Does that indicate that even though you reduced the qualifications of those who were eligible to become stewardesses that you are running short of the number of people who are capable of being stewardesses?

Mr. MCGREGOR: I would not say we are carrying on any active recruiting of non-Canadian, but we are glad to get people for air service, either stewards or stewardesses who are multi-lingual. As you know the Europeans tend to be very much more multi-lingual than Canadian.

Mr. FRASER: May I ask a question? I asked Mr. McGregor some time ago regarding the Chicago station. Have you done any improving there? I have not been in there for over six months, but six months ago it was not very good.

Mr. MCGREGOR: I think you will find it is cleaner.

Mr. FRASER: That would be some improvement. It was certainly very dirty.

Mr. MCGREGOR: As you know an airline is just a tenant in terminal buildings and while we can criticize we cannot insist on renovations, but I think you will find conditions have substantially improved when you next visit Chicago.

Mr. FRASER: I think you should have somebody on your desk instead of having to ring a bell.

Mr. MCGREGOR: I think we have somebody on the desk all the time now. We have eight flights daily in there.

Mr. FRASER: Well, I have not been there for the past six months. There was no one on the desk then.

Mr. FISHER: In connection with this table that I asked for that was filed two years ago as appendix E, boarding passengers in Canada, I think it is too technical, and would not be capable of being reproduced in the record, and I wonder if you could arrange for something in less detail.

Mr. MCGREGOR: We will certainly do that.

Mr. MITCHELL: I wonder if I can ask Mr. McGregor if there has been any consideration given to Sudbury being used as a port of call in services from Sudbury from Montreal or Sudbury to the head of the lakes or even further west. At present to go through to Winnipeg we must go to Toronto and then to Winnipeg and the same when we go to Ottawa or Montreal, we have to detour in each case for these two cities.

Viscount service has been inaugurated in Sudbury now and I am wondering if you have any chance to say that if the traffic is good from Sudbury, either east or west, that a flight from Toronto to Winnipeg west, would warrant dropping down to pick passengers up or disembark passengers.

Mr. MCGREGOR: We keep records of all requested traffic and carried traffic, and that is the sort of record that produced the commencement last year of the service between Ottawa, Windsor and Winnipeg and presumably if the traffic at Sudbury is sufficient that sort of an operation would be supplied to Sudbury or any other point.

Mr. MITCHELL: In other words you are studying the traffic there to see if it could be feasible?

Mr. MCGREGOR: We do at all points in the system, yes.

Mr. SMITH (*Calgary South*): May I ask a question supplementary to that?

Before scheduling each year in which you determine the time, routes, and location of flight areas, is any consideration given to a situation which we experience in Alberta, where T.C.A. is consistently late in meeting the Western Air Lines which carry traffic to Lethbridge and has consistently left passengers stranded in Lethbridge en route to Calgary. Is there any coordination in your schedules?

Mr. MCGREGOR: There is no coordination between T.C.A. and Western Air Lines.

Mr. SMITH (*Calgary South*): Why?

Mr. MCGREGOR: Because they are deliberately evading coordination of timetables and have for the past five years. The reason might be that they think it improves their chances of getting into Calgary.

Mr. CARTER: In the president's opinion does he think it might be feasible to put in a non-stop flight from Montreal to St. John's, Newfoundland?

Mr. MCGREGOR: I would not like to venture a guess.

The CHAIRMAN: Are there any other questions?

Mr. BROOME: On a question that is rather dear to my heart, could the president file with the committee a summary of passes issued during the past year?

The CHAIRMAN: To members of parliament, you mean.

Mr. CARTER: No, passes classified by categories.

Mr. MCGREGOR: I can read it into the record or file it.

The CHAIRMAN: I think it would be agreeable if you filed it.

Mr. FISHER: Supplementary to that question, we know from the minister's statement to the house he had a report from T.C.A. on the question of passes for members of parliament. Could the minister give the president permission to let us know what the substance of that report is.

Mr. HEES: I will be very glad to give it to you again. I simply asked the president to let me know what it would cost to transport every member of parliament from Ottawa to the nearest airport in their riding and back to Ottawa.

The CHAIRMAN: Every week.

Mr. HEES: This is just for one trip. The cost per round trip is approximately \$25,000, if you take every member of parliament. The other question was to find out what it would cost for these members of parliament who live farther away from Ottawa than 400 miles and who were given the privilege. It only cut down the cost by \$3,000. The cost to send all members of parliament living farther away than 400 miles and back again would cost \$22,000 per trip.

Mr. SMITH (*Calgary South*): Did you make the same survey for 1,000 miles or more?

Mr. HEES: No. It is surprising how little the saving is.

Mr. BROOME: What would the cost be for 1,000 miles or more?

Mr. HEES: Well the more you look into it the more impossible it would be to set an arbitrary dividing line. Everybody just under the dividing line would be up in arms and would have all sorts of justifications as to why they needed the service more than the member who is a greater distance away.

Mr. FISHER: Could the president comment on the efficacy and the difficulties of giving members of parliament the privilege of going on T.C.A. where there was space.

Mr. MCGREGOR: Well I would like to comment on that if I have the minister's permission.

Mr. HEES: Yes.

Mr. MCGREGOR: Our own employees travel on what is called the space available basis. At least some of them do. The number is decreasing in spite of the size of the company. We did a survey some time ago and we found that of an estimated 400 employees for one week in the summer time who sought their vacation pass, 150 of them had an interruption to their flight arrangements due to deplanment. The thought that out of 400 attempted journeys by members of parliament 150 of them might be deplaned enroute, is too much for me to face.

Some Hon. MEMBERS: Hear! Hear!

Mr. HEES: He is having enough trouble with us as it is.

Mr. SMITH (*Calgary South*): A very logical answer.

Mr. SMITH (*Simcoe North*): Are there any days of the week when traffic on airways is noticeably less?

Mr. MCGREGOR: Yes, in those days the family fare plan is in effect but we are getting into dangerous ground here.

Mr. HEES: One of the interesting things Mr. McGregor pointed out to me was on this particular reference and I have explored all the suggestions with him, and that is that the time when members of parliament would want to use the planes most would be at this period of the year when they would be going home for good.

Mr. BROOME: We are allowed that anyway—going home for good. The normal session is from January to June.

Mr. HEES: I was thinking more of an extended session which might run later than usual. It has happened in the past when they have said, "I have to get home and get back". That is the time when T.C.A. is having its peak summer period and there is a chance of getting bumped off and not having an uninterrupted trip.

The CHAIRMAN: I think we should stick to services and equipment rather than free rides for ourselves.

Mr. SMITH (*Calgary South*): I realize the limitations T.C.A. has in control of this question. You have a number of airports, many of them municipal, being constructed in Canada. You have the obvious example of one in Edmonton. It is going to be 18 miles from the centre of the city. One of your problems is competition with other forms of traffic. Is there any way in which T.C.A. or for that matter the Air Transport Board can sit and make municipal and government officials realize that you are going to lose a large proportion of your traffic if we continually put our airports so completely outside an area without having regard to the time a person has to spend to get into the city again.

Mr. MCGREGOR: There are many facets of this particular problem. Certainly we always regret to see the ground time in relation to flight time going up as it tends to do with traffic congestion increasing on streets and roads. It begins to make the time saved in the air by faster aircraft, disappear because of the increase in time consumed in ground transportation. On the other hand we must be careful in advising the Department of Transport on this point to avoid the condition in which an airport located too near a civic centre is surrounded by new housing, particularly with the noise nuisance that we can look for to some degree with jet aircraft.

Mr. SMITH (*Calgary South*): That is my point. I think many municipalities today are making provision of not issuing permits in built up areas to encroach upon the area that you will require for jets. It seems to me that some job should be done to see to it that we do not lose our major city airports through this same practice.

Mr. MCGREGOR: You are perfectly right.

Mr. CHEVRIER: May I interject? The minister knows I am sure, that a zoning act was introduced to cover that point I think three, four or five years ago and I would like to know how it has worked out, particularly with reference to a city like Edmonton which is building up so fast in the adjoining area.

The CHAIRMAN: To say nothing of Calgary.

Mr. SMITH (*Calgary South*): Edmonton, the second fastest growing city in Canada.

Mr. HEES: In my experience it is working very well.

Mr. FRASER: May I ask a question of the president. Did you ever think of using "egg beaters" to carry the passengers from the city to the airport?

Mr. MCGREGOR: Yes, we have thought of it and studied the problem closely and we are still not convinced that the helicopter in its present stage of development, at least for that particular type of work, is economical.

Mr. FRASER: They are much more improved than what they were a year ago.

Mr. MCGREGOR: Yes, they are improved but the one example of this sort of service that I know a little about is the New York Airways who are operating helicopters between the three major airports of the New York metropolitan area. They are heavily subsidized and financially, I believe, having difficulties.

Mr. FRASER: Who subsidized them there?

Mr. MCGREGOR: The U.S. Government or perhaps the New York Port authority.

Mr. CHEVRIER: I wonder if we may have a word from the president on this question.

Mr. SMITH (*Simcoe North*): I have a question which follows what was asked. Has it been considered as a condition to the extension of air services that the municipalities affected revise their traffic regulations to provide quick access to and from the airport? Some of the traffic regulations taking traffic into airports seem designed deliberately to keep people away. Lots of airports cannot be moved. You have to live with them. Has it ever been discussed, if you are going to increase the services of the municipalities that they should provide better access to and from the airport?

Mr. HEES: I would say that is the responsibility of the municipality. As they expand, they know pretty well what the developments are likely to be. The municipality should make provision for this planning, I think.

Mr. CHEVRIER: The question I wanted to ask of Mr. McGregor is this. In view of the new aircraft you are purchasing in T.C.A. such as the Vanguard and the DC-6's and so on, what is going to be the position of the present air service in the large transcontinental airports of Canada? Will the runways have to be lengthened or strengthened because of these new aircraft.

Mr. MCGREGOR: In some cases yes, but more recently constructed runways are adequate.

Mr. CHEVRIER: For the Viscount I suppose the answer is that the present airstrips are adequate.

Mr. MCGREGOR: Yes, in most cases.

Mr. CHEVRIER: But what about the Vanguards and the DC-8's that you are going to purchase within the next few years.

Mr. MCGREGOR: Your remarks apply more to these. Perhaps the minister could answer that.

Mr. HEES: We need for turbo-jets a minimum strip of 9000 feet.

Mr. CHEVRIER: The airport at Uplands covers that situation.

The CHAIRMAN: It is nearly two miles.

Mr. CHEVRIER: And what about Malton and Dorval?

Mr. MCGREGOR: Dorval is being extended and the most recent runway at Malton is satisfactory. Is that right Mr. Seagrim?

Mr. SEAGRIM: Yes.

Mr. CHEVRIER: Are you contemplating the purchase of any Britannias?

Mr. MCGREGOR: No.

Mr. FRASER: Do you have to fix runways to stand that extra stress?

Mr. MCGREGOR: They have to be strengthened and lengthened.

Mr. FISHER: I have one question on service and complaints. I would like to let the president know that the constant complaint at the Lakehead against T.C.A. services is the impossibility to book flights in much of the year because there just is not the space available. I hope you will keep that in mind.

Mr. MCGREGOR: In certain months of the year?

Mr. FISHER: Yes, and that has lead to the large demand there locally for competitive airlines.

Mr. MCGREGOR: If I could have a general word there. I referred earlier to the extreme fluctuation in seasonal traffic volume. T.C.A. could so engineer its capacity as to be able to meet peak demands but we would have an extremely large deficit if we did so because neither aircraft can be put out to useful work in the off seasons nor can personnel trained to operate and maintain them be fully employed in off seasons. So it is a regrettable necessity on the part of this or any other company that they can only engineer their capacity both with respect to personnel and equipment to come as close as they can to being in a position to meet the peak demands but not to fully meet the peak demands or they are certainly in financial trouble.

The CHAIRMAN: Are there any further questions on services and growth. We will proceed to equipment and facilities.

Mr. SMITH (*Calgary South*): I have a question here, Mr. Chairman, on equipment and facilities. The equipment—by this I am speaking first of all about hangar equipment—I wonder if, as a general policy, you can indicate under what terms—perhaps there is not any general policy—it must be negotiated that you will enter into any specific municipal airport in order to provide or share on such servicing or maintenance that you may have to do. I recognize that in many areas you will only service. You will not maintain aircraft because you have maintenance areas. I am thinking of a situation where—do you have a scale or is it purely by negotiations that you come to some conclusions whether you will participate with the municipality in the financing of a hangar?

Mr. MCGREGOR: We do not have a scale. We would negotiate in that regard depending upon requirements. This would depend upon conditions such as whether an aircraft is laid over at such a point, or whether it is desirable for one reason or another to have what we call a protection aircraft located at a point. Whether or not we would participate in the use of a hangar occupied by more than one airline would depend on the airline's need for hangar accommodation at that point.

Mr. SMITH (*Calgary South*): Supposing you have a situation where you have an aircraft available in the event that an engineer—take Ottawa as an example—could only make a superficial inspection, and in the event that he found an indication of a high r.p.m. or an engine that was not running smoothly, he then must take his instruction from Montreal, which is the nearest repair base?

Mr. GOLDEN: In the case of Ottawa that is the case.

Mr. SMITH (*Calgary South*): Yes. Is it considered that you are working toward some objective where you are going to have a few more aircraft to make available in the event of this situation? You have only these aircraft spotted at three areas in Canada, is that right?

Mr. MCGREGOR: This varies depending on the types of aircraft but I think there are something like eight or nine aircraft which are designated as protection aircraft.

Mr. SMITH (*Calgary South*): There are eight or nine centres for protection aircraft?

Mr. MCGREGOR: There are perhaps three protection aircraft located at one centre, such as Montreal or Toronto.

Mr. SMITH (*Calgary South*): I am interested in the areas. Are there three areas?

Mr. MCGREGOR: For the location of protection aircraft I think that is right.

Mr. SMITH (*Calgary South*): Do you consider that is adequate in keeping with the service and time schedules?

Mr. MCGREGOR: I'm sorry there are four; Vancouver, Winnipeg, Toronto and Montreal.

Mr. SMITH (*Calgary South*): You do not consider that with the new equipment and with the advent of competition that you must face that you may have to increase that number?

Mr. MCGREGOR: I do not think so.

Mr. BROOME: You are purchasing the two Constellations in the event that you do not receive the Vanguards until 1961, I suppose?

Mr. MCGREGOR: No. We always expected to receive the Vanguards in 1961 and still do.

Mr. BROOME: That is why you purchased the Constellations?

Mr. MCGREGOR: I thought you said that was the reason for the delay.

Mr. BROOME: No, you purchased the Constellations to tide you over until the time you receive your Vanguard. The Constellation is not going to be considered in your eventual fleet, as I read your report?

Mr. MCGREGOR: No, we do not expect to be operating Super Constellations beyond 1961.

Mr. BROOME: Thank God for that!

Mr. SMITH (*Calgary South*): I do not suppose you are considering any improvements to the Constellation's kitchens, for example?

Mr. MCGREGOR: We are installing radar on Super Constellations as the report mentions. We have installed wing-tip tanks on all but one of them.

Mr. SMITH (*Calgary South*): You are not improving the kitchens of the Super Constellations. I have heard that the kitchens are all substandard.

Mr. MCGREGOR: I do not think they are substandard.

Mr. SMITH (*Calgary South*): You have only got one heating unit for coffee.

Mr. MCGREGOR: We have only one heating unit?

Mr. SMITH (*Calgary South*): You have only one heating element.

Mr. MCGREGOR: I have not heard that the coffee making capacity was inadequate.

Mr. CHEVRIER: On what runs are you going to operate the Vanguard?

Mr. MCGREGOR: We will operate the Vanguard on the two New York runs and all the transcontinental runs except the non-stops and the one-stops, and on the Caribbean service.

Mr. CHEVRIER: Does that mean that they will supersede the Viscounts on the New York run?

Mr. MCGREGOR: Yes.

Mr. CHEVRIER: What are you going to do with the Viscounts? Will you put them on shorter runs?

Mr. MCGREGOR: I do not think we will have a surplus of Viscounts at that time. We are speaking of 1961, of course. I would hope that the traffic created on the shorter runs will fully utilize that fleet.

Mr. BROOME: Will you increase the allowable passengers and baggage at that time?

Mr. MCGREGOR: I do not think so.

Mr. SMITH (*Calgary South*): Are you satisfied now, Mr. McGregor, that the air regulations so far as accident prevention is concerned in relation to the area of flight levels of your aircraft, and in regard to protection from military aircraft?

Mr. MCGREGOR: I would think in the main that the regulations are satisfactory. I would personally like to see greater segregation of military and civilian operations at airports themselves. I think that as a result of the unhappy background that the North American airlines have experienced in this matter of the near approach of two aircraft in flight that the regulations have been for the most part, suitably modified, and in certain cases, airways have been re-routed away from troublesome areas.

Airlines, of course, are unhappy about that latter approach to the problem because it increases operating cost by increasing average flight length. However, I think that great steps have been made in Canada particularly with the gradual introduction of surveillance radar.

If I must express a personal opinion on this subject I would say that I would like to see, as a basic policy, an effort to segregate civil and military operations at airports.

Mr. SMITH (*Calgary South*): I would like to ask a question of the minister.

Is there any attempt being made to see that such recommendations are being followed through where facilities are available such as ex-R.C.A.F. airports which could perhaps be allocated for private flying?

Mr. HEES: We give as much consideration as possible to such recommendations. Small private aircraft, for instance, are segregated in commercial airports. In Toronto, for instance, most of us know that the private aircraft are located at the Island airport, and so on. Wherever it is possible we keep these operations separate.

Mr. CHEVRIER: How many airports in Canada are joint civil and military operations?

Mr. HEES: I do not know.

Mr. CHEVRIER: Do you know the answer to that question, Mr. McGregor?

Mr. McGREGOR: No, I do not know but it is a fairly large number.

Mr. CHEVRIER: How does that number compare with the number in the United States?

Mr. McGREGOR: I think there is more segregation, in proportion.

Mr. CHEVRIER: In the United States?

Mr. McGREGOR: Yes.

Mr. SMITH (*Calgary South*): This would apply to everything west of Montreal. It would apply to Vancouver, Calgary, Edmonton, Saskatoon, and Regina?

Mr. McGREGOR: At the moment Montreal is also a military establishment in that the transport command is located there. This is true of Dartmouth as well.

Mr. CHEVRIER: I suppose complete segregation would involve tremendous cost?

Mr. McGREGOR: It would be very expensive.

Mr. MITCHELL: In regard to the paragraph on personnel, Mr. McGregor, are stewardesses required to be registered nurses?

Mr. McGREGOR: No, that qualification was abandoned last year.

Mr. CHEVRIER: In regard to the article on planning, I see that you are going to instal an overhaul and maintenance base for DC-8's and Vanguards. Will that be installed at Dorval?

Mr. McGREGOR: Yes.

Mr. CHEVRIER: Where at Dorval?

Mr. McGREGOR: I think its location is best described as the northwest area of that airport. It is right by Cote Vertu.

Mr. CREAGHAN: I think quite recently, Mr. McGregor, you inaugurated a new run from Toronto to Moncton, New Brunswick. I wonder if you might tell me how that run is panning out in so far as capacity load is concerned?

Mr. McGREGOR: I do not have the load factor in regard to that flight at the moment. I could get it for you.

Mr. CREAGHAN: This was only inaugurated about a month ago, is that right?

Mr. McGREGOR: Yes. I think this flight went into effect with the June 28 timetable.

Mr. CREAGHAN: That flight was commenced because of the new supply of Viscounts, was it?

Mr. McGREGOR: No. The apparent volume of traffic between those two points, as in the case of Sudbury, coupled with the strong desire on the part of the airline to avoid landings wherever the through traffic is sufficient to support a non-stop flight. The benefits are better service, lower costs and a reduction in the extreme congestion which exists at most ramps at airports.

Mr. FISHER: Has the morale of the personnel been affected at all by the discussions, hints and so on of competition and possible changes in the whole set-up?

Mr. MCGREGOR: Certainly I think there is a general feeling of concern in the airline as a result of the announcements that have been made and so on. Most of the employees I think know fairly well what the financial situation would be.

Mr. SMITH (*Calgary South*): I put it to you, sir, that the concern would be in the hope that, unlike a city which only has one newspaper, a two newspaper city has certain advantages.

The CHAIRMAN: We should stop the discussion in this regard right there.

Mr. BROOME: In regard to the fares, the report states that the relationship between first class and tourist class fares have been brought to the point where they are at the same differences as they are in the United States. How do first class fares compare to American fares for equivalent mileage?

Mr. MCGREGOR: I will have to divide this answer into three parts.

Below 500 miles our rate per passenger mile for first class transportation is less than the equivalent rate for corresponding distances in the United States. For 500 miles the rates are identical, or nearly so. The rates are within 1/100 of a cent. Beyond 500 miles our rate per passenger mile is greater than the rate in the United States. The over-all picture is almost exactly the same. I believe the exact figures to 1/100 is 6.14 cents in the case of T.C.A. on North American routes.

Mr. BROOME: That is the average, you say?

Mr. MCGREGOR: Yes, that is the over-all "domestic" average,

Mr. BROOME: That is the per passenger mile rate?

Mr. MCGREGOR: Yes, and that figure includes tourist fares.

Mr. FISHER: Mr. Chairman, I asked Mr. Gordon a similar question. This question is parallel to that. Is it true, and would you comment on the general opinion that most of the airlines in the United States are in very difficult positions at the present time?

Mr. MCGREGOR: Yes, I think that is a fair comment. They have certainly represented their position as being extremely difficult. I am quite certain it is. I suppose it is true to say that part of this situation was brought on by themselves. They applied for a substantial rate increase about a year ago. In support of that increase they did not refrain from deteriorating their financial position. When their rate increase was denied, very rightly, or very naturally the sources of capital that were going to provide capital for a very substantial investment—jet aircraft, and so on—said that if the case was as bad as they made it out to be, and since the airlines did not get a rate increase, they were not going to lend them money, so the carriers were in considerably more difficulty.

Mr. CHEVRIER: Mr. McGregor, are there any example of airlines in the United States, not subsidized by the government, going into bankruptcy?

Mr. MCGREGOR: I do not think so. There have been some that come very close to that. There have been some mergers that probably avoided bankruptcy, of airlines such as in the case of Colonial Airlines.

Mr. CHEVRIER: Surely that does not apply only to United States airlines? I suppose this is true of airlines throughout the world?

Mr. MCGREGOR: Yes.

Mr. FISHER: I gather that non-scheduled operators in the United States are in great difficulty.

Mr. MCGREGOR: Two of those non-scheduled operators have gone out of business, to answer your comment.

Mr. FISHER: I have sometimes used the argument in Canada that we need more of these non-scheduled airlines. Have you any comment to make on that statement?

Mr. MCGREGOR: I do not think that we need more. In fact, as a result of the DEW line operation coming to a close in so far as construction is concerned I think the fact is that we have too many non-scheduled airlines at the moment. Several of them are in extreme financial difficulty.

The CHAIRMAN: Gentlemen, if there are no further questions in regard to the article on planning, we are now open for a motion to adopt the annual report.

Mr. SMITH (*Calgary South*): I so move the adoption of this report.

Mr. FISHER: I second that motion.

Motion agreed to.

Mr. FISHER: I would like to congratulate the chairman. On going back through the records I find that this is the fastest that the annual reports of the C.N.R and the T.C.A. have carried in many years.

Mr. SMITH (*Calgary South*): With an assist from the weather.

Mr. HEES: We have had a very active chairman.

Mr. FISHER: I think a tribute should be paid to the change of approach.

The CHAIRMAN: I appreciate your compliments, gentlemen, but you have not mentioned the reason at all.

The reason lies in the efficiency of so many bright new members.

Mr. HEES: On that very high note, I think we should adjourn.

Mr. CHEVRIER: I must protest on that note. I was going to move the adoption but I cannot now.

#### EVENING SESSION

TUESDAY, July 15, 1958,  
8.00 p.m.

The CHAIRMAN: Gentlemen, we have a quorum. We still have a lot to do here. Our first order of business is the capital budget for Trans-Canada Air Lines for the year 1958.

#### TRANS-CANADA AIR LINES CAPITAL BUDGET—YEAR 1958

##### *Application of Funds*

Property and Equipment Budget .....	\$42,000,000
Re-financing Loans—	
Canadian National Railways .....	5,000,000
Repayment of Loans—	
Bank of Nova Scotia .....	5,000,000
Additional Working Capital .....	3,000,000
	<hr/>
	\$55,000,000

##### *Source of Funds*

Deprecation Provisions .....	10,000,000
	<hr/>
Loans from Canadian National Railways ...	\$45,000,000

TRANS-CANADA AIR LINES  
PROPERTY & EQUIPMENT BUDGET—YEAR 1958

	Projects Previously Authorized	New Projects	Total
<b>AIRPLANES AND COMPONENTS</b>			
Airplanes.....	\$ 23,820,000	\$ 2,800,000	\$ 26,620,000
Betterment Projects.....	370,000	2,540,000	2,910,000
Aircraft Spares.....	1,640,000	1,200,000	2,840,000
Total.....	<u>\$ 25,830,000</u>	<u>\$ 6,540,000</u>	<u>\$ 32,370,000</u>
<b>GROUND FACILITIES AND COMPONENTS</b>			
Ground Communications.....	\$ 10,000	\$ 15,000	\$ 25,000
Hangar & Shop.....	290,000	455,000	745,000
Ramp.....	55,000	160,000	215,000
Motorized Vehicles.....	135,000	530,000	665,000
Office Equipment.....	120,000	410,000	530,000
Miscellaneous Equipment.....	390,000	185,000	575,000
Total.....	<u>\$ 1,000,000</u>	<u>\$ 1,755,000</u>	<u>\$ 2,755,000</u>
<b>BUILDINGS AND IMPROVEMENTS.....</b>		<u>\$ 6,575,000</u>	<u>\$ 6,575,000</u>
<b>CONTINGENCY FUND.....</b>		<u>\$ 300,000</u>	<u>\$ 300,000</u>
<b>TOTAL PROPERTY &amp; EQUIPMENT.....</b>	<u>\$ 26,830,000</u>	<u>\$ 15,170,000</u>	<u>\$ 42,000,000</u>

NOTES:—The expenditure in respect of each of the above items may exceed the amount shown by not more than 10% without further approval, provided the total expenditure on the said items does not exceed \$42,000,000.

Initial down payments shown in this Budget for aircraft, engines and buildings carry with them commitments for expenditures in subsequent years, and these commitments, together with commitments associated with previously approved Budgets, produce total committed expenditures in future years as follows:

Year	Committed Expenditures in Future Years		
	Commitments Previously Authorized	Commitments per 1958 Budget	Total Future Years' Commitments
1959	\$ 20,514,000	\$ 14,141,000	\$ 34,655,000
1960	37,890,000	—	37,890,000
1961	28,041,000	—	28,041,000
	<u>\$ 86,445,000</u>	<u>\$ 14,141,000</u>	<u>\$100,586,000</u>

Mr. BROOME: How can Canadian National Railways lend money when they are in a deficit position? I know my question is somewhat facetious.

The CHAIRMAN: You and I have to lend it to them, I guess, through our taxes.

Mr. McGregor were you not going to supply us with copies of the budget?

Mr. G. R. MCGREGOR (*President, Trans-Canada Air Lines*): I think the clerk has been supplied with several copies, and I think they have been distributed. Yes, those are the documents.

Mr. PASCOE: We all have them.

The CHAIRMAN: Have you all got them? The first page is just a summary. Are there any questions you want to ask Mr. McGregor about the first page, under aeroplanes and components, aeroplanes, betterment projects, aircraft spares?

Mr. MCGREGOR: Perhaps, while Mr. Broome's question may have been a little facetious, I should answer it.

The Canadian National Railways, as you know, submits for approval each year a Finance and Guarantee Act. The program has been in the past that as a wholly owned affiliate of the Canadian National Railways, the Canadian National Railways has, in effect, acted as bankers for the T.C.A.

Our capital requirements are made known to the Canadian National Railways and that amount is included in the Canadian National Railways Finance and Guarantee Act, and we pay the going rate of interest to the Canadian National Railways, the Government provides the funds to the Canadian National Railways for them to advance to us.

The last formal issue of that kind was at a rate of four and one quarter per cent.

Mr. BROOME: What are "betterment projects"?

The CHAIRMAN: Mr. McGregor will answer your question.

Mr. MCGREGOR: Such things as passenger announcing systems, that is, the cabin passenger system in the aircraft; fuel jettisoning systems; weather radar installations on the Super Constellations, and the Viscounts and load limit control systems, which Mr. Seagram will explain to you if you wish.

Mr. BROOME: No. it was just for improvements to aircraft.

Mr. MCGREGOR: That is right.

Mr. FISHER: You pay no dividends on the stock which the Canadian National Railway holds?

Mr. MCGREGOR: That is right.

The CHAIRMAN: Aircraft spares. What is that?

Mr. MCGREGOR: Those are all the spare components used in the maintenance and overhaul of aircraft, including engines.

The CHAIRMAN: Ground facilities and components?

Mr. FISHER: Under "betterment projects", has that discussion or disagreement finally been cleared up in connection with whether an extra flight engineer was going to be carried on a certain type of aircraft?

Mr. MCGREGOR: No. The type of aircraft was the D.C.8, the cockpit of which has been designed so that it could be flown with or without one. The company advised the organization which was raising the point that the cockpit work load would be established after the aircraft was in commission and flying. It would then be determined whether a flight engineer would be used or not subject to any government regulations which might apply.

Mr. FISHER: So a decision has been made?

Mr. MCGREGOR: No, not until the aircraft is tested in flight.

The CHAIRMAN: Are there any other questions on airplanes, and component parts?

Then, ground facilities and components; ground communications; hangar and shop; ramp, motorized vehicles.

Mr. FISHER: This probably reveals too much ignorance, but I would like to know concerning the facilities of the Department of Transport which you use, and in connection with ground communications, if the charge which you pay at various airports is supposed to cover the contribution towards this kind of facilities?

Mr. MCGREGOR: It is a contribution. I do not think it completely offsets the cost by a large margin, but it does help somewhat. The charges are levied on all airlines using the facilities.

Mr. FISHER: The Department of Transport may be subsidizing you, but it is also done in respect to other aircraft using them?

Mr. MCGREGOR: It may be. I am not familiar with their costs.

Mr. FRASER: It says here "ramp". Is that the ramp to the airport?

Mr. MCGREGOR: That is the area in front of the terminal building. We do not do anything about that area. It is a little bit too condensed there. It refers to the vehicles which move the cargo into and out of the aircraft; the loading steps, and the towings units which are used to put the aircraft in position. It should read "ramp equipment".

Mr. FISHER: In connection with office equipment, I have been struck at the number of people who are required to handle passengers—I do not mean for your office setup—and I wondered if you had any studies under way with a view to introducing any electronic equipment which would enable you to cut down on your staff?

I was stunned when, by a quirk of circumstances, I saw a list of the employees you have at the Lakehead. It seemed to be a very high number in relation to the number of passengers handled. Are there any steps being taken to cut down on that type of personnel?

Mr. MCGREGOR: If you are talking about the reservation personnel, page 12 of the report refers to the development of an automatic reservation system which would greatly reduce the number of people who would in the future be required in the reservation offices.

It is a very unique system. As a matter of fact we are a bit proud of it. Like most things connected with aviation, it will be expensive. However, it will be adopted if it can demonstrate economy, and we are certain, it will result in the elimination of human error.

Mr. FISHER: Is that included in this office equipment here?

Mr. MCGREGOR: No.

Mr. FISHER: Well, that is looking after all offices.

Mr. MCGREGOR: Yes.

Mr. FISHER: Will there be line communication between offices?

Mr. MCGREGOR: It will be centralized and the communication will be over Canadian National Railways teletype service.

Mr. FISHER: Sort of a telex service.

Mr. MCGREGOR: Yes.

Mr. BROOME: Is that broken down still further by regional set-ups?

Mr. MCGREGOR: There will be one centralized control and that provides the reservation service with the exception of Vancouver and Victoria.

Mr. CHOWN: Mr. Chairman, we do not have the capital expenditure for 1957 on this. Shown against this particular budget it might be helpful if in

future years we had the expenditures. I know the information is here and you could probably make it up and your comptroller prepare it while other questions are being asked and we can come back to it. We can probably put them against the columns here.

Mr. MCGREGOR: I can give you the figures now. The 1957 capital budget was a total of \$27,755,000, and the actual expenditures were \$25,572,409.

Mr. CHOWN: Is that under aeroplanes and components?

Mr. MCGREGOR: That is the total capital budget for 1957.

Mr. CHOWN: I am sorry, I did not get those figures.

Mr. MCGREGOR: \$27,755,000 is the budget which was approved by the counterpart of this committee and actual expenditures of \$25,572,409.

Mr. FISHER: Your budget for motorized vehicles, both last year and this year, remains—well, I do not know whether it is fairly high, but to a neophyte it seems rather high. What are you spending that on?

Mr. MCGREGOR: The major expenditure is for ramp vehicles, loading equipment and other vehicles for air cargo, air express and so on, for fork lift trucks, to the amount of \$342,000 prototype OC 8 passenger stand \$15,000. Ground Power Units—are connected to aircraft as soon as the engines are stopped to supply electrical power to all the functions in the aircraft—\$212,000.

Mr. PASCOE: Mr. McGregor, under that list projects previously authorized, were they authorized last year or have they been completed, or what?

Mr. MCGREGOR: I beg pardon?

Mr. PASCOE: Projects previously authorized. When were they authorized?

Mr. MCGREGOR: Some of them last year, some the year before. You see aircraft are under delivery up to three and a half years after they are ordered, so when we present our budget it shows the commitment in future years that is involved in the year of payment on the original order.

Mr. PASCOE: Will some of that be expended now, some of this list?

Mr. MCGREGOR: Some of these things be expended?

Mr. PASCOE: Yes.

Mr. MCGREGOR: Expenditures previously approved with respect to 1958 are in the process of being made.

The CHAIRMAN: Any other questions? There seems to be—I might just pause here, Mr. McGregor, and give my observations, having thrown them out over the last number of years. It seems to me that one of the things where the greatest effort should be made or a greater effort should be made is in expediting the handling of packages when the planes are disembarking.

Some airports are better than others and I have noted over the years in places like New York, Chicago, Toronto, Montreal or wherever it is that there is quite a variation in the physical handling of baggage. Some places they handle baggage very rapidly. Very often in Toronto there is quite a little hold-up. Sometimes in Montreal. The other day I got off a plane in Montreal and, Mr. McGregor, I think I saw you getting off the same plane and there was quite a little hold-up, and other times at Ottawa. At other times I have gone in to New York where there is heavy traffic and it is remarkable how they do it.

I will not ask any question, but just put out the suggestion that I do think there is a need for a quicker method of handling baggage. It is quite provoking sometimes to a woman with a couple of children waiting for baggage to get in from the plane. I do not think they mind having to drive fifteen miles, but it just seems to have a great impression on the travelling public. I think every effort should be made to expedite the handling of baggage.

Mr. SMITH (*Calgary South*): Is that not quite often personnel rather than equipment? You are using the same equipment pretty well throughout Canada.

Mr. MCGREGOR: We are using the same equipment. I do not think it is a matter of personnel, it is the actual facilities at the airport. Some of them are much better equipped to handle baggage quickly than others, and also whether it is a through point or terminal point affects it. In the case of a through flight, a plane that is going on, say, such as the Montreal-Toronto flight operating through Ottawa, in that case there has to be care exercised by the baggage handling personnel in the aircraft that they do not take out at Ottawa the bags destined for Toronto or Montreal. If the particular plane has to be emptied it can be handled more quickly.

Mr. SMITH (*Calgary South*): I would presume that your raised stairway equipment is going to be sufficiently elevated to handle your new equipment. I was under some embarrassment at Vancouver getting off the Russian 104 when we had a one-foot step to get down.

Mr. MCGREGOR: This motorized passenger ramp is quite a device. It would almost take people out of a second storey, I believe.

Mr. SMITH (*Calgary South*): I must have landed on the air force side.

Mr. FISHER: Comparing your capital budget last year with this year your 1956 re-vote only totalled \$2,371,000. This year is this "projects previously authorized" the equivalent of that column last year of re-votes?

Mr. MCGREGOR: No.

Mr. FISHER: There has been a change then in your set-up?

Mr. MCGREGOR: The re-vote consists of money that was included in previous budgets, which was fully expected would be spent during that particular year and for one reason or another not spent.

In the case in point a large proportion of the re-vote is associated with the Vanguard contract. In the case of projects previously authorized that refers to a specific—well, I should begin by explaining that when we buy an aircraft like the DC-8 there is a percentage of the cost of the aircraft which is paid at the time the order is signed and then there is a schedule of payments to be made between the signing of the agreement and the actual delivery of the aircraft that "projects previously authorized" refers to that.

Item agreed to.

The CHAIRMAN: Now, office equipment. Are there any questions there? It is all under ground facilities and components. There is \$120,000 under the projects previously authorized, \$410,000 under new projects, for a total of \$530,000.

Miscellaneous equipment, that is a matter of technical management, any comments?

Item agreed to.

The CHAIRMAN: Buildings and improvements, \$6,575,000. New projects, it is the total.

Mr. CHOWN: How much to be spent in Winnipeg, Mr. Chairman?

Mr. SMITH (*Calgary South*): Could we have all the cities while you are at it?

Mr. CHOWN: I got the question in first.

Mr. MCGREGOR: If you are interested, sir, I will answer that question.

Mr. SMITH (*Calgary South*): No, just table it.

Mr. CHOWN: I will write you a letter.

Mr. MCGREGOR: We are constructing a main guard-house at Winnipeg airport.

Mr. FISHER: I had better ask for Port Arthur or the defeated Conservative candidate will be announcing it up there.

The CHAIRMAN: How are you going to table it, by location? I do not know that you need to do that right across Canada.

Mr. SMITH (*Calgary South*): Not unless it is available.

The CHAIRMAN: But do you want that table in every instance?

Mr. SMITH (*Calgary South*): I would like the one area.

Mr. HEES: I think there are only about half a dozen cities.

The CHAIRMAN: Any objection?

Mr. MCGREGOR: No, not at all.

The CHAIRMAN: I think you had better table it.

Mr. SMITH (*Calgary South*): I meant to have it tabled, I thought you were going to read it.

Mr. MCGREGOR: We will turn that over to the clerk of the committee.

The CHAIRMAN: Contingency fund, \$300,000.

Mr. FISHER: Is this your insurance liability?

Mr. FRASER: It is like an insurance, is it not?

Mr. MCGREGOR: Yes, that is in the case of an estimate being made of the cost of a project which may or may not underrun. As a matter of fact in relation to the total budget the contingency fund is small and I do not think we have ever fully used it. In the last year we undershot the budget.

Mr. FISHER: Where do you show the figures for your insurance costs, passenger and accident and that sort of thing?

Mr. MCGREGOR: Under the operating expenses at the back of the report. You understand that we self-insure the first \$1,500,000 of the larger type aircraft and the first \$1 million of the smaller ones.

Mr. FISHER: No, but I am glad to hear it.

The CHAIRMAN: Total property and equipment, \$26,830,000, projects previously authorized; new projects, \$15,170,000; making a total of \$42 million in all. That is a summary of all these costs and various expenditures.

Item agreed to.

Mr. HARDIE: Mr. Chairman, I was wondering if Mr. McGregor could give me some information, not now, he could send it to me later, I wonder if he could give me the per seat mile operating costs of each type of aircraft, the North Star, Viscount and the new DC-8 and Vanguard?

Mr. MCGREGOR: Yes.

Mr. SMITH (*Calgary South*): Could that be tabled? It would be useful information.

Mr. FRASER: And also put in the number of seats in the different craft whether it is tourist or other accommodation and so on.

Mr. MCGREGOR: There is only one complication about that, because one aircraft, the Superconstellation, has two different seating arrangements, one on the Atlantic and one domestic.

Mr. HARDIE: Give the domestic, that is what I am interested in.

Mr. MCGREGOR: What we will do is give you the operating costs per mile and the number of seats in both configurations, plus the per seat mile in both configurations.

Mr. HARDIE: You have a northern run in the province of Quebec from Quebec city to Seven Islands.

Mr. MCGREGOR: We operate through Quebec city to Seven Islands via the air force station near Chicoutimi. I do not think that is the one you were referring to. Perhaps the service through Val d'Or is the one you are referring to.

Mr. HARDIE: The farthest north point.

Mr. MCGREGOR: The farthest north point is Val d'Or.

Mr. HARDIE: I wonder if you could give me at the same time with respect to the aircraft you use on that run, the per seat mile operating cost on that run.

Mr. MCGREGOR: You would automatically get it because we use Viscounts on it now.

The CHAIRMAN: If you pass it, Mr. Hardie, you will have it printed in the report.

Mr. SMITH (*Calgary South*): I believe you are using an American advertising agency for your business. Is there any real justification for it?

Mr. MCGREGOR: Yes, we thought so. That change was made about two years ago and we felt that the Canadian agency tended to be out of touch at least in some degree with the form of advertising used in American publication. It is only used with respect to the southern end of our trans-border routes. It is a very small percentage.

Mr. FISHER: What is the name of your Canadian agency?

Mr. MCGREGOR: Cockfield Brown and Company Limited.

Mr. SMITH (*Calgary South*): Is it a continuing contract?

Mr. MCGREGOR: No. There is no contract.

Mr. SMITH (*Calgary South*): It is just hired on a no-contract basis.

Mr. MCGREGOR: That is right.

The CHAIRMAN: We would like to keep to the report. If you are through with that one, there is another paragraph which is quite important.

Mr. FISHER: What happened to the flight that they gave up—the franchise they gave up—in order to get the Seven Islands route?

Mr. MCGREGOR: You mean the Mexico service.

Mr. FISHER: Yes.

Mr. MCGREGOR: We keep an eye on the load factors. We have not been sorry.

Mr. FISHER: You have not been sorry?

Mr. MCGREGOR: No.

The CHAIRMAN: If there are no further questions on that, I would like to read the next paragraph which says "Initial down payments shown in this budget for aircraft, engines and buildings carry with them commitments for expenditures in subsequent years, and these commitments, together with commitments associated with previously approved budgets, produce total committed expenditures in future years as follows". You will notice there at the bottom of the page that for the year 1959 the total future year's commitments are \$35,655,000, and 1960, \$37,890,000, and in 1961, \$28,041,000, or over \$100 million for the next three years.

Mr. SMITH (*Calgary South*): These are commitments that you must meet in relation to the contracts you have placed and the expected equipment on which you intend to take delivery.

Mr. MCGREGOR: Yes, and the first column is already authorized and committed.

The CHAIRMAN: So that is the picture of the property and equipment budget for 1958. Are there any further comments on the over-all general picture?

Mr. BROOME: Are you going over the statement of income or anything like that. I was looking at the sales promotion expenses for 1957 of \$15 million and 1956 of \$12 million. This is part of the operating expenses statement of income on page 20 of the report.

The CHAIRMAN: I thought we had adopted the report.

Mr. BROOME: Yes we have adopted the report but there was nothing in the report referring to sales and promotion and it seems to be a pretty hefty increase of \$2½ million on sales and promotion, considering that a great part of the traffic is aircraft traffic. I wonder where the increase came.

Mr. SMITH (*Calgary South*): We would like to have an explanation.

Mr. MCGREGOR: I think I should explain the term "sales and promotion." "Sales" is a departmental name in the company and it includes all the reservations and all the passenger handling up to the ramp.

Mr. BROOME: This is operating expenses?

Mr. MCGREGOR: That is correct.

Mr. BROOME: This is not just sales promotion.

Mr. MCGREGOR: No.

The CHAIRMAN: Are there anymore questions, gentlemen?

Mr. FISHER: I take it that we can ask a question on insurance on the auditor's report.

Mr. MCGREGOR: Whichever you like.

Mr. FISHER: I just wondered how you cleared up all these suits in connection with the bad crash in British Columbia.

Mr. MCGREGOR: Of the 60 odd people who were involved I think there are about 25 or 26 that have been finalized and the remainder are under negotiation. But the company has long since been beyond any future liability because I think I explained that the company's insurance policy is self insuring with respect to the first \$1,500,000 in that type of accident, and the costs of the accident, including loss of the aircraft, has far exceeded that. So from now on any expense associated with that accident is borne by the underwriters.

Mr. FRASER: With regard to these negotiations the underwriters have to cover them.

Mr. SMITH (*Calgary South*): I wonder if I could place a final question which deals with your capital budget. The same question was placed to Mr. Gordon whose company is in a much more difficult position, showing a net loss, whereas your reduction is about \$1 million. Can we assume correctly that a large portion can be assigned to a lowering of net profits of other airlines throughout the world, otherwise a trend in costing operations as compared with that income plus, secondly, the most important factor, that is the gain which in the transitional period you are going to get through the purchase of new equipment. Is that fair?

Mr. MCGREGOR: Yes, that is fair. The company is under a lot of expense and will be under more expense in 1958 and 1959 associated with the intended use of new equipment.

Mr. SMITH (*Calgary South*): That would also be reflected in the earnings of the next year.

Mr. FISHER: The 43 per cent figure of wages has been pretty constant, has it?

Mr. MCGREGOR: Yes.

Mr. FISHER: How does that compare roughly with other airlines?

Mr. MCGREGOR: With the exception of the airlines that are going outside for a lot of their maintenance work, it is just about an industry figure. Some of them are a little bit higher.

The CHAIRMAN: Are there any other questions?

Moved by Mr. Tasse, seconded by Mr. Chown that the capital budget be concurred in.

Motion agreed to.

We now come to the auditor's report for the year ended December 31, 1957.

Mr. MCGREGOR: I would like to thank the committee, through you, Mr. Chairman, for its courtesy, and you personally for the way the committee was handled.

Mr. SMITH (*Calgary South*): Which agency prepared your report?

Mr. MCGREGOR: We prepared it ourselves.

Mr. SMITH (*Calgary South*): Thank you.

The CHAIRMAN: I might say, Mr. McGregor, before we conclude and your annual report is passed, on behalf of the committee members, that we appreciate your clear-cut presentation and thank you and your officials for giving us such splendid answers to all the questions and queries that have been put before you. We appreciate the orderly style in which you have presented your report, generally.

Gentlemen we need a motion that the outstanding answers be printed.

Mr. FRASER: I will move that, Mr. Chairman.

Mr. CARTER: I will second that motion.

The CHAIRMAN: It has been moved by Mr. Fraser and seconded by Mr. Carter that the outstanding answers be printed.

We have the auditors' report, gentlemen. This report has been prepared by George A. Touche & Co. This company has had quite a bit of experience in this sort of thing. I think they are a very reputable firm. I do not know that you need doubt this report.

Mr. FISHER: I will move that this auditors' report be adopted.

Mr. SMITH (*Calgary South*): I will second that motion.

The CHAIRMAN: It has been moved by Mr. Fisher and seconded by Mr. Smith (*Calgary South*) that the auditors' report be adopted.

If there are any questions with regard to this report we have Mr. Wilson and Mr. Beech here to answer them.

Mr. FISHER: Has the Auditor General any relationship in an advisory way or in any way at all with auditing firms that deal with crown corporations like this?

Mr. WILSON: No, we are an independent auditing firm appointed by Parliament and we carry out our audit independently of anyone else.

Mr. SMITH (*Simcoe North*): Does the Auditor General check your auditing practices?

The CHAIRMAN: Is this audit subject to the Auditor General's approval if he so wishes?

Mr. WILSON: No, it is not. That is not provided for under the act.

The CHAIRMAN: Gentlemen, I think whether you have questions to ask or not I should, on your behalf, thank Mr. Wilson and Mr. Beech, the representatives of the George A. Touche & Co. for being here ready to answer your questions. These gentlemen have come here prepared to answer any questions that might be asked of them.

Mr. SMITH (*Simcoe North*): What is the reason for the change in the accelerated write-off against one of the types of aircraft which has been dropped this year? Could you tell us what the reason behind this practice is?

Mr. WILSON: Last year as we pointed out in our report of this year, there was a special provision in the amount of \$1,200,000 in regard to Constellation aircraft in order to catch up on anticipated requirements for accumulated depreciation. That procedure was not repeated this year.

We drew attention to this fact in our report because it was in our opinion, a change in what we considered consistency. The reason behind this was a management decision.

In management making that decision there is quite a problem involved. In deciding the amount to be written off, consideration must be given to the amount of the estimated residual value, and no one is in a position to know accurately what the aircraft will be worth at the time of their retirement. We called attention to it, but we have no other comment because no one can say now just how much that write-off should be.

Mr. MCGREGOR: I wonder if I could add a word to Mr. Wilson's reference to the fact that this was a management decision. Perhaps I should elucidate a little bit in that regard.

It was originally a long-range plan of the company to retire Super Constellations before North Stars, and to retire Super Constellations in 1960 with the delivery and placing in service of the DC-8's, and to retire the North Stars in 1961 on delivery of the Vanguards. We have taken delivery of Super Constellations annually since 1954. We had the situation where the Super Constellations which had been delivered earlier were very much further along their depreciation life than the ones that had been delivered more recently. In 1956 we had the special accelerated depreciation of \$1,200,000, as Mr. Wilson has mentioned, on the more recently delivered Super Constellations.

Later in our planning we came to the conclusion that it would be wiser to reverse the original plan and to retire the North Stars before the Super Constellations, the latter being the more modern type.

Mr. SMITH (*Calgary South*): I move we adjourn.

The CHAIRMAN: Before I accept Mr. Smith's (*Calgary South*) motion to adjourn I would like to thank Mr. McGregor and his associates, and also Mr. Wilson and Mr. Beech for being here with us. On your behalf I would also like to thank the minister for his evident interest in the meetings of this committee. He has spent a good deal of time yesterday and today in helping us along in our considerations.

Mr. FRASER: Mr. Chairman, I think we should also thank you for your work in carrying out your work as chairman of this committee.

