HOUSE OF COMMONS

First Session—Twenty-third Parliament

1957

STANDING COMMITTEE

ON

RAILWAYS, CANALS AND TELEGRAPH LINES

Chairman: G. K. FRASER, ESQ.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1 including First and Second Reports

Bill No. 18 (Letter B of the Senate), An Act respecting British Columbia Telephone Company.

TUESDAY, NOVEMBER 26, 1957

WITNESSES:

Representing British Columbia Telephone Company:
Messrs. Gordon Farrell, President; W. S. Pipes, Vice-President and and General Manager; and A. C. Des Brisay, Counsel for the company.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1957.

50020-7—1

STANDING COMMITTEE

ON

RAILWAYS, CANALS AND TELEGRAPH LINES

Chairman: G. K. Fraser, Esq.,

and Messrs.

Barbes
Barnett
Batten
Begin
Bonnier
Blanchette
Brassard
Broome
Byrne
Cameron
Chevrier
Crouse
Doucett
Dupuis
English
Fairfield
Gauthier (*Lac St. Jean*)
Gauthier (*Chicoutimi*)
Grills
Haidasz
Harrison
Herridge
Holowach
Howe (*Vice-Chairman*)
Johnston (*Bow River*)
Kennedy
Lafontaine
Lavigne
Leboe
Macdonald (*Vancouver-Kingsway*)
MacDonald (*Antigonish-Guysboro*)
Marler
Martini
McBain
McGrath
McIlraith
McIvor
McLeod
McPhillips
Muir (*Cape Breton North and Victoria*)
Murphy (*Westmorland*)
Nixon
Olson
Phillips
Rea
Regier
Rouleau
Small
Smith (*Calgary South*)
Smith (*Lincoln*)
Smith (*Simcoe North*)
Smith (*Battle River-Camrose*)
Stanton
Stuart (*Charlotte*)
Taylor
Villeneuve (*Roberval*)
Vincent
Winch
Wratten

A. Small,
Clerk of the Committee.

ORDERS OF REFERENCE

HOUSE OF COMMONS,
MONDAY, November 18, 1957.

Resolved,—That the following Members do compose the Standing Committee on Railways, Canals and Telegraph Lines:

Messrs.

Barbès,
Batten,
Bégin,
Bonnier,
Blanchette,
Brassard,
Broome,
Bryson,
Byrne,
Campbell (*The Battlefords*),
Chevrier,
Crouse,
Doucett,
Dupuis,
Ellis,
English,
Fisher,
Forgie,
Fraser,
Gauthier (*Lac Saint Jean*)
Gauthier (*Nickel Belt*),
Gauthier (*Chicoutimi*),
Grills,
Harrison,
Herridge,
Holowach,
Howe,
Johnston (*Bow River*),
Kennedy,
Lafontaine,
Lavigne,
Leboe,
Lewry,
MacDonald (*Antigonish-Guysborough*),
Marler,
Martini,
McBain,
McGrath,
McIvor,
McLeod,
McPhillips,
Muir (*Cape Breton North and Victoria*),
Murphy (*Westmorland*),
Murphy (*Lambton West*),
Nixon,
O'Hurley,
Olson,
Phillips,
Rea,
Rouleau,
Small,
Smith (*Calgary South*),
Smith (*Simcoe North*),
Smith (*Battle River-Camrose*),
Stanton,
Stuart (*Charlotte*),
Taylor,
Villeneuve (*Roberval*),
Vincent,
Wratten—60.

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

TUESDAY, November 5, 1957.

Ordered,—That Bill No. 18 (Letter B of the Senate), intituled: "An Act respecting British Columbia Telephone Company" be referred to the said Committee.

FRIDAY, November 8, 1957.

Ordered,—That the following Bill be referred to the said Committee:

Bill No. 27 (Letter C of the Senate), intituled: "An Act respecting The Bell Telephone Company of Canada".

THURSDAY, November 21, 1957.

Ordered,—That the name of Mr. Smith (*Lincoln*) be substituted for that of Mr. O'Hurley; and

That the name of Mr. Fairfield be substituted for that of Mr. Murphy (*Lambton West*), on the said Committee.

50020-7—1½

FRIDAY, November 22, 1957.

Ordered,—That the following Bill be referred to the said Committee:

Bill No. 30 (Letter D of the Senate), intituled: "An Act respecting Ottawa and New York Railway Company".

MONDAY, November 25, 1957.

Ordered,—That the name of Barnett be substituted for that of Mr. Bryson; and

That the name of Mr. Cameron be substituted for that of Mr. Campbell (*The Battlefords*); and

That the name of Mr. Macdonald (*Vancouver-Kingsway*) be substituted for that of Mr. Ellis; and

That the name of Mr. Regier be substituted for that of Mr. Fisher; and

That the name of Mr. Winch be substituted for that of Mr. Lewry; and

That the name of Mr. McIlraith be substituted for that of Mr. Gauthier (*Nickel Belt*); and

That the name of Mr. Haidasz be substituted for that of Mr. Forgie on the said Committee.

TUESDAY, November 26, 1957.

Ordered,—That the quorum of the said Committee be reduced from 20 to 12 members, and that Standing Order 65(1)(b) be suspended in relation thereto.

Ordered,—That the said Committee be empowered to print such papers and evidence as may be ordered by the Committee, and that Standing Order 66 be suspended in relation thereto.

Attest.

LEON J. RAYMOND,
Clerk of the House.

REPORTS TO THE HOUSE

TUESDAY, November 26, 1957.

The Standing Committee on Railways, Canals and Telegraph Lines has the honour to present the following as its

FIRST REPORT

Your Committee recommends:

1. That its quorum be reduced from 20 to 12 members and that Standing Order 65(1)(*b*) be suspended in relation thereto.

2. That it be empowered to print such papers and evidence as may be ordered by the Committee and that Standing Order 66 be suspended in relation thereto.

Respectfully submitted,

G. K. FRASER,
Chairman.

TUESDAY, November 26, 1957.

The Standing Committee on Railways, Canals and Telegraph Lines has the honour to present the following as its

SECOND REPORT

Your Committee has considered the following Bill and has agreed to report it without amendment:

Bill No. 18 (Letter B of the Senate), intituled: "An Act respecting British Columbia Telephone Company".

A copy of the Committee's Minutes of Proceedings and Evidence in respect of the said Bill is appended hereto.

Respectfully submitted,

G. K. FRASER,
Chairman.

MINUTES OF PROCEEDINGS

TUESDAY, November 26, 1957.

The Standing Committee on Railways, Canals and Telegraph Lines met at 10.30 a.m. The Chairman, Mr. G. K. Fraser, presided.

Members present: Messrs. Barnett, Batten, Blanchette, Broome, Byrne, Cameron, Crouse, Dupuis, English, Fraser, Gauthier (*Chicoutimi*), Haidasz, Herridge, Holowach, Howe, Kennedy, Lafontaine, Lavigne, Macdonald (*Vancouver-Kingsway*), Marler, Martini, McBain, McGrath, McIlraith, McIvor, McLeod, McPhillips, Murphy (*Westmorland*), Nixon, Olson, Phillips, Rea, Regier, Small, Smith (*Calgary South*), Smith (*Lincoln*), Smith (*Simcoe North*), Stanton, Winch, and Wratten.—(40).

In attendance:

For British Columbia Telephone Company:

Messrs. Douglas Jung, M.P., Sponsor; Gordon Farrell, President; W. S. Pipes, Vice-President and General Manager; W. G. Angus, Secretary; A. C. Des Brisay, Q.C., Counsel for the Company; and W. G. Burke-Robertson, Q.C., Parliamentary Agent.

On motion of Mr. Rea, seconded by Mr. Martini,

Resolved,—That Mr. W. M. Howe be Vice-Chairman of this Committee.

On motion of Mr. Martini, seconded by Mr. McGrath,

Resolved,—That a recommendation be made to the House to reduce the Committee's quorum from 20 to 12 members.

Moved by Mr. Broome, seconded by Mr. McGrath,—

That a recommendation be made to the House to authorize the Committee to sit while the House is sitting.

After discussion, the said motion was allowed to stand.

On motion of Mr. Howe, seconded by Mr. Rea,

Resolved,—That a recommendation be made to the House to empower the Committee to print such papers and evidence as may be ordered by the Committee.

On motion of Mr. McGrath, seconded by Mr. Broome,

Resolved,—That the Committee print 700 copies in English and 200 copies in French of its Minutes of Proceedings and Evidence in relation to Bill No. 18, "An Act respecting British Columbia Telephone Company".

The Chairman called on the sponsor, Mr. Jung, to introduce the witnesses for the company.

The Committee commenced consideration of Bill No. 18 (Letter B of the Senate), "An Act respecting British Columbia Telephone Company".

On the Preamble:

On request of the Chairman, the sponsor of the Bill called and introduced Messrs. Farrell, Pipes and Des Brisay appearing on behalf of British Columbia Telephone Company. The said witnesses explained the purpose of the Bill and were questioned thereon.

The Preamble, Clause 1, the Title and the Bill were adopted.

Ordered,—That the Chairman report the Bill to the House without amendment.

At 12.30 p.m., the Committee adjourned to the call of the Chair.

A. Small,
Clerk of the Committee.

PRELIMINARY DISCUSSION

TUESDAY,
26th November, 1957.
10.30 a.m.

The CHAIRMAN: Gentlemen, this morning we have Bill B of the Senate, No. 18 of the House of Commons, entitled "An Act respecting British Columbia Telephone Company". This bill was brought into parliament on November 5 and debate was held on it at that time.

Before we go into the bill there are a few motions which we have to deal with. First of all, we should have a vice chairman.

Mr. REA: Mr. Chairman, I move, seconded by Mr. Martini that William Howe be elected vice chairman of this committee.

The CHAIRMAN: It has been moved by Mr. Rea and seconded by Mr. Martini that William Howe be vice chairman of this committee. What is your pleasure?

Agreed.

Now we should have a motion to reduce the quorum from 20 to 12. This has always been done in this committee. I would like to have your opinion.

Mr. MARTINI: I move, seconded by Mr. McGrath, that we recommend a reduction of the quorum of this committee from 20 to 12 members.

The CHAIRMAN: You have all heard the motion. Are there any objections?

Carried.

Now, we should have a motion to sit while the house is sitting.

Mr. BROOME: I move seconded by Mr. McGrath that a recommendation be made to the house seeking permission for this committee to sit while the house is sitting.

Mr. MCILRAITH: Mr. Chairman, unless there is some reason for asking for that extraordinary right, I do not think it should be asked for. It may be as we go along we may need to have that right and I would agree, if there was some reason for it. Simply to propose that the committee sit while the house is sitting is something very new in parliament and something which has had its origin during the last three or four years. In my own view it is a bad practice. I am agreeable to sitting while the house is sitting if there is some real reason for it, but I do not think that blanket authority should be given to the committee by the house and I am opposed to our asking for it without some real reason first being shown.

The CHAIRMAN: You said in the last three or four years. My recollection goes back to 1940 when I first came here. I remember that a motion of that kind was always put.

Mr. MCILRAITH: If you care to look at the speeches of former Prime Minister King, you will see that the War Expenditures Committee asked for that privilege on one occasion and there was a debate in the house. It is a very extraordinary thing and it is contrary to general practice. I have no objection if you show some reason for wanting it in any particular case, but I object to this motion being put this morning.

The CHAIRMAN: The reason I ask for it is because these people are here from British Columbia and if we only sit while the house is not sitting that

would give us only Thursday morning because tomorrow morning, being Wednesday, is a time when most parties have their caucus. And on Friday we shall be sitting at 11 o'clock in the house anyway. So we would be greatly limited in our time.

Mr. McILRAITH: Mr. Chairman, I submit that the motion might be properly put if we still require it at the end of this morning's session. In addition, there is a very important external affairs debate starting later, this afternoon, and I do not think that the British Columbia Telephone Company is more important than national security.

The CHAIRMAN: Might I say that point has been considered. We wondered—if we did not sit this afternoon—that perhaps we might sit tonight, say at 8 o'clock.

Mr. McILRAITH: What I mean is this: coming back to the original question, why put the motion now? We do not know if we will want to sit this afternoon or this evening because we may be all through with this matter by 1 o'clock.

The CHAIRMAN: Well, if we did not put the motion this morning and if we did not ask the house for it at 2.30, then we would be out of luck and we could not sit this afternoon or tonight.

Mr. McILRAITH: I shall leave it at that. But we do not know whether or not we shall be all through with this bill by 1 o'clock.

The CHAIRMAN: Let us leave it to the opinion of the committee, and if they feel that they do not want to sit this afternoon, it will be up to the committee to say whether they wish to sit tonight or tomorrow afternoon.

Mr. McILRAITH: Why put the motion now? Why not leave it until later on in our proceedings?

The CHAIRMAN: It would delay us for a whole day.

Mr. McILRAITH: The house does not sit until 2.30 and we are now meeting at 10.30. We may be finished with this company before lunch and if we are finished with them, there would be no purpose in putting the motion at all. Otherwise, I would agree to the motion being put.

Mr. WINCH: You have already raised the point I had in mind. Personally I do not like committees sitting at the same time as the house, but if we have to, then we have to. But in view of the external affairs debate, a number of us feel that we should not sit today because this will be the first time that the matter of external affairs will have been brought up.

The CHAIRMAN: You mean this afternoon?

Mr. WINCH: We do not know how long it will go on this afternoon. There might be major speakers that we will all want to hear in the evening.

The CHAIRMAN: We shall leave it then. Are there any other comments?

A motion has been moved by Mr. Martini and seconded by Mr. McGrath that a recommendation be made to the house to reduce the quorum of this committee from 20 to 12. That motion was put through. Then we have it moved by Mr. Broome, seconded by Mr. McGrath, that a recommendation be made to the house to authorise this committee to sit while the house is sitting. What is your opinion?

Hon. Mr. MARLER: Why not let the motion stand until the end of this morning's session?

The CHAIRMAN: Is that the feeling of the committee? Then we shall let it stand until the end of the sittings this morning. All right.

Now we should have a motion to obtain authority to print the record of our meetings.

Mr. HOWE: I move, seconded by Mr. Rea that we seek authority to empower this committee to print its evidence and such papers as may be ordered by the committee.

The CHAIRMAN: It is moved by Mr. Howe and seconded by Mr. Rea that a recommendation be made to the house to empower this committee to print such papers and evidence as may be ordered by the committee.

Mr. BROOME: Mr. Chairman, I thought every committee had that power.

The CHAIRMAN: We have to ask for it here.

Mr. WINCH: Is it not customary to mention the number to be printed in English and the number to be printed in French?

The CHAIRMAN: We shall ask for that next. You have all heard the motion. Is it agreeable?

Agreed.

Now, we should have a motion to print with respect to Bill 18, "An act respecting British Columbia Telephone Company".

Mr. McGRATH: I move, seconded by Mr. Broome, that the committee print 700 copies in English and 200 copies in French of its Minutes of Proceedings and Evidence in relation to Bill 18.

The CHAIRMAN: You have all heard the motion. What is your pleasure?

Agreed.

EVIDENCE

Now, gentlemen, as I said before, this is a bill respecting the British Columbia Telephone Company. Mr. Jung who is here introduced this bill in the house and if it is your pleasure we shall ask him to introduce the officials of the British Columbia Telephone Company who are here as witnesses today, following which you may ask them questions.

Mr. JUNG: Gentlemen, at the time I presented this bill in the house I gave my undertaking that during the committee stage of this bill executives of the company would be available to you for interrogation. Therefore I have pleasure in introducing to you first of all Mr. Gordon Farrell, the President of British Columbia Telephone Company; Mr. W. S. Pipes, the vice-president and General Manager of the company. Mr. A. C. Des Brisay, Q.C., Counsel for the company; and I should state that Mr. W. G. Burke-Robertson, Q.C., who is the parliamentary agent, expected to be here but he has been delayed for a few moments. So with your indulgence he will attend later on.

Now I shall turn the meeting over to Mr. Des Brisay who will answer your questions.

Mr. A. C. Des Brisay, Q.C., Counsel for the British Columbia Telephone Company, called:

The CHAIRMAN: Mr. Des Brisay, you have a statement to make to the committee, have you not?

The WITNESS: Yes. I thought it might be helpful if I outlined the purpose of the bill and gave you some information about it before questions are asked.

Any questions which I am unable to answer, will be answered by Mr. Farrell or Mr. Pipes.

The sole purpose of this bill, as you will have noted, is to increase the authorized capital of the company from $75 million to $250 million.

Perhaps I should say here that no capital is issued without the approval of the Board of Transport Commissioners.

The act which you are asked to amend was passed in 1916. At that time the capital provided for us was $5 million, with a total authorized capital of $10 million. That sum was increased in 1941 to $11 million; in 1946, to $25 million; and in 1951, to $75 million.

The reason the company has now come to parliament again for a further increase is to enable it to keep pace with the requirements of the population in British Columbia and its industries for telephone service in the areas which it serves, and to enable it to keep pace with the upsurge in general development in the Province which has been going on apace for some years.

The company operates over 91 per cent of the telephones in British Columbia; and the population in the areas in which it carries on is about 93 per cent of the population of British Columbia.

The company does not finance alone by the issue of shares. It finances it through bonds which are a charge on its assets, and with depreciation and surplus reserves.

The capital of the company which was previously authorized is practically exhausted. There is left available for issue $3,500,000, which necessitates our seeking a great deal of money within the next few years, and to do that it must have this increase of authorized capital.

If it does not obtain it, then it just will not be able to carry out its plans and to spend large sums of money which at the present time would provide a great deal of employment and the use of a great deal of material manufactured —a good deal of it—in eastern Canada, Quebec and Ontario. The balance of the expenditures would be entirely met in British Columbia.

In 1951 when the company applied for an increase to $75 million, the estimated required capital expenditure expected to cover a period of 10 years commencing with 1951, was $120 million.

The actual gross capital expenditure which the company has made in the six year period from 1951 to 1956 amounted to $108,712,000.

Today, in order to bring the picture up to date, there should be added what will be expended in 1957 which will amount to $43,437,000; so that the gross capital expenditure in the seven years ending this year will be $152,-439,000 as against $120 million which it was anticipated would be the needs up to the end of 1960.

The net amount of capital expenditure made in the seven years, after taking into account salvage and recovery from replaced materials was $115,500,000.

This amount of expenditure was financed in part by the sale of shares to a total of $41,500,000. Actually, this has now been increased, by $10 million.

The company is presently issuing $10 million of preferred shares. The issue has been approved by the Board of Transport Commissioners and is now being offered on the market in Canada. So its total issued capital now will be $71,500,000 up to the end of this year, leaving $3,500,000 of authorized capital.

Now a word as to population. In British Columbia, the population in 1950 was 1,138,000. This has shown an increase to 1,399,500 in 1956. That is a 22.9 per cent increase as compared with 14.8 per cent for Canada as a whole. The average annual increase over the six years was 43,500; but the increase made from 1955—or in 1955-56—was 94,000; so you see that at the moment, at any rate, the population increase has taken a very big jump. I think that our population will grow having regard to the vast attraction which British Columbia seems to have for people, because of its climate and so on.

The number of telephone installations in British Columbia of the British Columbia Telephone Company is presently about 450,000. Let me give you some idea of how rapidly the number has been increased.

From 1951 to 1956—the number of telephones in service increased from 246,486 in 1951 to 412,135 in 1956; that is an increase of 67 per cent for those years.

This rate of increase very much exceeded the company's estimate made in December 1952 which was a total of 373,767 of telephones up to the end of 1957. The actual figure up to that time will be about 450,000.

The company's payroll tells the same story. In 1951 its employees numbered 4,990, while at the present time they number 6,969. These are the employees regularly employed in the company's operations and do not relate in any way to the people who are employed as a result of the capital expenditures on buildings and that sort of thing which they have to provide.

This company plays a most important part in the economy of British Columbia by the expenditures which it makes by way of regular payroll and by its capital expenditures which are very large.

In the year 1956 the total operating payroll of the company was over $15 million. That is entirely apart from the people employed in providing the buildings and equipment and extending the services, putting in automatic phones, the toll system, the long distance toll system, and so on, each of which provide employment for a good many thousand people.

Now as to the future, I am instructed that after a most intensive and careful study, it is estimated that the company—if it is to get the best with automation in telephones—will provide a fully modern and efficient service and it will require to make over the next 13 years, beginning with the year 1958, a net capital expenditure totalling $765 million.

Plans have already been made for capital expenditures in the next three years starting with 1958 on an average of $50 million a year.

The estimate for next year is in the amount of $51 million and over the following years, 1959 and 1960, the balance of this $150 million.

It is difficult to say just how many jobs there will be, but you can imagine for yourself what that expenditure would mean in Canada in the way of work for the people of this country. And as far as British Columbia is concerned, as the result of strikes and the lumber situation and so on, it would provide work which in British Columbia is very badly needed.

In order to carry out its plans, the company must have this authorized capital increase. In view of its need, the proposed increase would appear to be not more than would be required to finance the needed expenditure of $\$\frac{3}{4}$ billion.

Before concluding I would like to give you some information as to the actual structure of the company. Of the total authorized capital that the company has issued, there are 315,000—it will really be 325,000 preferred shares by the end of this year—with a par value of $100 each; and 1,200,000 ordinary shares with a par value of $25 each, representing a total par value of $61,500,000.

And at that time those shares were held by a total number of 17,881 shareholders, the large proportion of whom are in Canada; I mean that 17,881 shareholders are holders of preferred shares and ordinary shares.

The total number of those holding ordinary shares was 7,001, and of preferred shares, 10,880. Of its ordinary shareholders 6,842, or 97 per cent reside in Canada, of whom 4,280 reside in British Columbia. The balance of the shares are held, some in sterling countries, and some in the United States.

There is one ordinary shareholder, a Canadian company, the Anglo-Canadian Telephone Company, that holds 35.85 per cent of the ordinary shares. The balance of the ordinary shares are pretty well held in Canada. Certainly over 50 per cent of the ordinary shares are held by the public.

This company cannot, as I said before, issue its shares or do anything with them without the approval of the Board of Transport Commissioners.

I think I have pretty well covered the picture, although I wish to emphasize again the advantage to Canada of the granting of this application. I would suggest it is even a necessity. The work and the jobs that will be created by the expenditure of this large sum of money in the immediate future, are very badly needed now across Canada. This company's expenditures will assist both the east and the west.

Mr. MARLER: Mr. Des Brisay, are the preferred shares voting shares or not?

The WITNESS: They are non-voting shares.

Mr. SMITH (*Calgary South*): Mr. Des Brisay, are there any senior securities, debentures, or bonds that—

The CHAIRMAN: Just one moment. As there are a number of new members here I would ask you, when you stand up, or when you ask questions, to give your name so that the reporter will be able to put it down in his notes.

By Mr. Smith (Calgary South):

Q. Would you perhaps reply to my question?—A. The question was, whether there are—

Q. Is there anything senior, ahead of the preferred or common shares? In other words, what is the complete capital structure of the company?—A. The bonded indebtedness—

Q. That is right.—A. There is $71,121,000 in bonded indebtedness. The ratio as between ordinary and common shares is about 47 per cent to 53 per cent.

Mr. FARRELL: That is of the issued shares.

The WITNESS: That is issued shares, yes. The equity money in the company is about 47 per cent and the bonded indebtedness is about 53 per cent. 53 per cent, that is approximate, but it is within a fraction.

By Mr. Cameron:

Q. I wonder if Mr. Des Brisay could tell us this: he has told us of the number of shareholders in Canada, and I think he mentioned the number in other countries; could he tell us how the shares are held, how many are held by Canadians and how many are held by citizens and corporations of other countries.—A. Of the ordinary shares, in 1956, the total was 7,001. Of that number 6,848 were held in Canada. In British Columbia, of that number, there are 4,280 shareholdings. In Canada, other than British Columbia, there are 2,562.

Q. It is not the number of shareholders, Mr. Des Brisay, that I want to know about, but how these shares are held.—A. I mentioned that the Anglo-Canadian Telephone Company of Montreal holds 35.85 per cent of the ordinary shares.

Q. Can you tell us who holds the shares?—A. I beg your pardon?

Q. Can you tell us who holds the shares of the Anglo-Canadian Company? Are they held in Canada or in the United States?—A. I will have to have Mr. Farrell answer that question. I have not got that information. Would you please make a note of it until Mr. Farrell is here.

The CHAIRMAN: Mr. Winch, you are next.

By Mr. Winch:

Q. Mr. Chairman, I would like to ask Mr. Des Brisay if he could tell us, with respect to the past seven years, what is the amount out of the depreciation and other reserves that has been used for capital expenditure, and what is the anticipated amount, in respect of the next three years, that will be available from these sources for capital expenditures?—A. What were the years, Mr. Winch?

Q. For the last seven years. You quoted the expenditures for the past seven years.—A. Yes. In 1950 gross plant expenditures were $7,368,000, of which there was provided, from the reserves, $3,410,000. In 1951 the expenditure was $9,391,000, and the amount from that same source was $3,843,000. In 1952 the gross plant expenditure was $11,350,000, and the amount provided from reserves was $5,948,000. In 1954 the gross was $18,996,000. The reserves provided $7,733,000. In 1955 the gross was $21,255,000, of which $10,814,000 was provided from reserves. In 1956 the gross was $27,694,000, of which $11,851,000 was provided from reserves.

Q. How much is now available for the three years, with which you have dealt, for future expenses?—A. You mean from the reserves?

Q. Yes, from the reserves. What have you in the reserves now?—A. I do not know. I will have to get that information.

The CHAIRMAN: Mr. McIvor is next.

By Mr. McIvor:

Q. I was just going to ask a simple question. Are these shares sold in the United States as well as in Canada? Will this bill cost the Canadian government anything?—A. Well, I do not know. I do not think it will cost the Canadian government anything. We have paid into the Canadian government a large sum of money as a result of its increase. I think it was $35,000. The shares are issued in Canada, they are not sold by the company in the United States.

Q. But you would accept American money?—A. I suppose if an American wanted to invest, yes. The majority of the shareholders are Canadians, and residents of Canada, at any rate.

By Mr. Macdonald (Vancouver-Kingsway):

Q. Mr. Des Brisay, I am interested to know whether you have some plan now to present to the Board of Transport Commissioners as to the issuance of some of these shares. Do you propose to give share rights to existing shareholders, to take up so much at a certain price?—A. In the past the ordinary shares have all been sold by giving rights to existing shareholders. Mr. Farrell can explain that procedure better than I can. That has been the method of marketing the ordinary shares. The preferred shares are underwritten.

Q. I am concerned more with the ordinary shares. Would that be the plan for the future, to give share rights to existing shareholders?—A. Mr. Farrell will have to answer that.

The CHAIRMAN: We could ask Mr. Farrell right now.

Mr. MCPHILLIPS: Mr. Chairman, if I might say something please. After all, we have some rights in this committee. Why cannot this bill be dealt with in the accepted way? Counsel has made a statement, and counsel is not supposed to be subjected to examination. There is an accepted way of dealing with private bills. Counsel has made his statement, now he should proceed to prove the preamble, as it is called, by putting the witnesses from his corporation before this committee. We will get nowhere by asking counsel questions.

The CHAIRMAN: That was never done before.

Mr. WINCH: Mr. Chairman, you will remember, Mr. Des Brisay at the opening of his remarks said he was going to make a statement, and that he would be available for questions, and if he did not know the answers he would call upon the executives.

The CHAIRMAN: As a matter of fact, if you peruse the proceedings of this committee of 1951, you will find that the method that is now being adopted was the method followed.

Mr. MCILRAITH: It has always been followed here.

The CHAIRMAN: I will ask Mr. Farrell to answer that question.

Mr. GORDON FARRELL *(President, British Columbia Telephone Company):* Up to date, the common shares have been offered to the existing shareholders through rights. I see no reason why that procedure should not be continued in the future, but one cannot always prognosticate on the future. We have no plan at the present time for issuing any ordinary shares at all. We have just recently sold 10 million in preferred shares.

Mr. MACDONALD *(Vancouver-Kingsway):* Would these share rights be given to the shareholders to purchase shares at less than the market price?

Mr. FARRELL: Yes.

Mr. MACDONALD *(Vancouver-Kingsway):* Could you tell us about the last issue of ordinary shares of the company; what rights were given in relation to the market price at that time?

Mr. FARRELL: I cannot remember exactly what was done. Shares would be offered to shareholders at 5 to 6 points below the market. I think that is about right.

Mr. MACDONALD *(Vancouver-Kingsway)*: Could you tell us, and perhaps it may have come out in the House of Commons already, what shares were offered to employees in the company?

Mr. FARRELL: There has been no share offering to employees. If they were in a position to buy, they, like anybody else, bought on the market. We have no employee plan for selling shares to employees.

Mr. MACDONALD *(Vancouver-Kingsway)*: Would the employees be given a chance to participate in share rights in the future?

Mr. FARRELL: If they own shares, yes. They can buy ordinary shares on the market any time, which would put them in the position of receiving rights when the time comes.

Mr. MACDONALD *(Vancouver-Kingsway)*: I wonder if the company would consider making it possible for employees to participate in the share rights offered with the issuance of new ordinary shares as a result of this increased capitalization?

Mr. FARRELL: We have discussed that many times. There are times when it would not be to the employees' advantage—for example, when the price goes down, and instead of having a happy employee we would have a very disgruntled one. There are two ways of looking at it.

Mr. MACDONALD *(Vancouver-Kingsway)*: Could that not be just left to him? Could the rights not be offered to him, and let him decide whether it is of value to him to take them up, or not to?

Mr. FARRELL: It would hardly be right, I suggest, to offer share rights to the employees unless they own shares already. Consideration has been given from time to time, and we are considering it again, as to whether or not we can make some provision for an employee purchase plan. At the present time we have not one, but there is one under consideration.

Mr. MACDONALD (*Vancouver-Kingsway*): Judging from your explanation, the shares would not be offered to the general public, but would be offered in the form of share rights to existing shareholders?

Mr. FARRELL: Ordinary shares, yes.

Mr. MACDONALD (*Vancouver-Kingsway*): Would the company consider putting the public in an equal position, in respect of acquiring shares in the company, to the existing shareholders?

Mr. FARRELL: I do not know why they should. It is the custom, with all large issues of that kind, to offer rights to the existing shareholders. If the existing shareholders do not want to take them up they can sell their rights. The other people can buy those rights and subscribe to the new shares.

Mr. MACDONALD (*Vancouver-Kingsway*): There would be no opportunity, then, to broaden the ownership of the company?

Mr. FARRELL: Every time we have an issue the business is broadened because a great many of the old shareholders do not take up their rights. Those rights are sold to new shareholders. That is indicated by the way our shareholder list has increased over the years.

Mr. MACDONALD (*Vancouver-Kingsway*): That would be a capital gain? If an existing shareholder sold his rights, presumably that would be a capital gain to him.

Mr. FARRELL: Yes.

Mr. McPHILLIPS: Mr. Chairman, I think I made my point quite clear before. I think there is a proper way of doing these things. Now that counsel has made a statement he should proceed to prove what is termed the preamble of the bill. He should put the company representatives before this committee and proceed to show why this money is needed, and, what it is going to be used for, and so forth. Asking Mr. Des Brisay questions would lead to only hearsay evidence. He has some papers prepared by the company, but presumably the company officials know the answers, of their own knowledge. I would suggest their evidence is much better.

The CHAIRMAN: Mr. McPhillips, it is the privilege of every member of this committee to ask questions of the officials of the company. They are here for that purpose.

Mr. McPHILLIPS: You cannot very well ask questions out of the blue. The company should be prepared to prove the preamble to this bill. The company is asking for $250 million in capital. What does it need it for? If they are not prepared to prove the preamble of their bill they are not entitled to it.

The CHAIRMAN: We will come to the bill in a moment. Are there any more questions?

Mr. SMITH (*Calgary South*): I would like to ask Mr. Farrell a question. One of the members dealt with the question of issuance of rights at some length. I think, perhaps, the impression might have been left that this was an unusual procedure. I would like to ask Mr. Farrell if this is in fact the normal accepted procedure for corporate financing, and perhaps he could give a number of other companies which follow the same practice.

Mr. FARRELL: I think it is the normal procedure in practically all the large companies, and particularly utility companies. They have all adopted this procedure.

Mr. WINCH: What is the amount of reserve that you now have available for capital expenditures? I ask that question because, I notice that in the past seven years, over 40 per cent of the capital expenditures have come from the reserves.

Mr. FARRELL: We have no reserve left. It has all been used.

Mr. WINCH: It has all been spent?

Mr. FARRELL: Yes.

Mr. MURPHY (*Westmorland*): I would like to ask about the remaining 64.15 per cent. We were told that the Anglo-Canadian Telephone Company owned 35.85 per cent. Of the balance, 64.15 per cent of the ordinary shares, how much is held by Canadians, or people residing in Canada, and how much of this balance is held by other corporations; telephone or communication corporations, or other corporations?

Mr. FARRELL: Your question was in several parts.

Mr. MURPHY (*Westmorland*): That is right.

Mr. FARRELL: I would like to answer it in parts.

Mr. MURPHY (*Westmorland*): How much of the remaining 64.15 per cent, that is not owned by the Anglo-Canadian Telephone Company, is owned by residents of Canada?

Mr. FARRELL: In British Columbia, 391,271 shares are owned by shareholders. In the rest of Canada, 266,767 shares are held by individual shareholders in Canada.

Mr. MURPHY (*Westmorland*): Would you continue and tell us how many are not held by Canadians?

Mr. FARRELL: In the United States there are 74,772 shares held, and in the sterling area there are 31,533 shares held. In other areas there are 5,480 shares. Those shares together with the Anglo-Canadian Telephone Company's holding of 430,176 shares make a total of 1,200,000 shares.

Mr. MURPHY (*Westmorland*): Have you got the percentage of shares held by the Anglo-Canadian Telephone Company, and the percentage of shares held by shareholders outside of Canada?

Mr. FARRELL: The Anglo-Canadian Telephone Company holds 35.85 per cent of the total.

Mr. MURPHY (*Westmorland*): That is right. What percentage of the shares is held outside of Canada?

Mr. FARRELL: There is 6.25 per cent of the shares in the United States, and a very small percentage of the shares held in sterling and other areas.

Mr. MURPHY (*Westmorland*): There is a little less than 6 per cent in the sterling areas and about 6 per cent in the United States?

Mr. FARRELL: I was just trying to calculate it quickly.

Mr. MURPHY (*Westmorland*): The second part of my question was: what percentage of shares are held by corporations other than the Anglo-Canadian Telephone Company?

Mr. FARRELL: There are certain corporations, of course, that are private corporations. I do not know whether you refer to those corporations, who are really individual investors—there are trust companies, and so on. I do not know just what you refer to there.

Mr. MURPHY (*Westmorland*): I am talking about other telephone companies.

Mr. FARRELL: No.

Mr. MURPHY (*Westmorland*): Or communication companies.

Mr. FARRELL: No.

Mr. MURPHY (*Westmorland*): How many are held by these private corporations, or holding companies?

Mr. FARRELL: I cannot give you that figure offhand. As you know, certain investors incorporate themselves as a company, and they buy shares in all parts of Canada. I presume they do that for the purpose of the succession duty, so they only have one succession duty to pay to the province in which their company is incorporated.

Mr. MURPHY (*Westmorland*): You do not have the figures in respect of those?

Mr. FARRELL: No, they are just private investors.

Mr. MURPHY (*Westmorland*): Yes, I know.

Mr. CAMERON: Mr. Farrell, I wonder if you are in a position to tell us where the ownership of the Anglo-Canadian Telephone Company lies?

Mr. FARRELL: It lies with the General Telephone Corporation in the United States.

Mr. CAMERON: Does that corporation own all the shares of the Anglo-Canadian Telephone Company?

Mr. FARRELL: Oh, no, it owns 50 per cent of shares of the Anglo-Canadian Telephone Company.

Mr. CAMERON: Where does the other 50 per cent lie, do you know, sir?

Mr. FARRELL: The other 50 per cent is owned by general shareholders throughout Canada. I believe some of the shares have gone to individual share-

holders in the United States, because they are traded on the market. I have not got a list of the Anglo-Canadian Telephone Company's shareholders with me.

Mr. CROUSE: This question arises out of a question asked by Mr. Winch, I believe. Are these common shares available on the market at the present time?

Mr. FARRELL: Yes. I see there were some sales yesterday on the Toronto market.

The CHAIRMAN: Any other questions gentlemen?

Mr. BROOME: From my calculations it appears that the British Columbia Telephone Company is 75 per cent owned in Canada; 75 per cent owned outside the United States mainly in Canada.

Mr. FARRELL: Well, that is hardly correct.

Mr. BROOME: I have taken half of your Anglo-Canadian Telephone Company, and you have to add that to your 58 per cent.

The WITNESS: That is correct.

Mr. SMITH (*Lincoln*): Have any of the municipalities, for instance Vancouver or Victoria, raised any objection to the increase of the capital of this company?

Mr. FARRELL: No. We have advised them all and have sent them copies of our submission to Ottawa. We have had no objection from any of them.

Mr. MACDONALD (*Vancouver-Kingsway*): A number of the individual shareholdings are in the form of investment companies' investments and you cannot really say whether the investment company is Canadian or whether its shareholders are really in the United States.

Mr. FARRELL: No. Some of these holding companies which have been formed are buying all kinds of shares of Canadian corporations. The chances are that some of our shares end up in those hands.

Mr. MACDONALD (*Vancouver-Kingsway*): It would be very hard for you to say to what extent the company was owned in Canada because here you have a corporate investment. It is a holding company and that company might be owned in the United States but would be counted as a Canadian investment.

Mr. FARRELL: We would have rather few of those because they have been buying shares which are trading more freely on the market than ours, like the large public utilities, large Canadian companies and big industrials.

Mr. MACDONALD (*Vancouver-Kingsway*): Would you agree that a block ownership of about 35 per cent by Anglo-Canadian would be control of the company?

Mr. FARRELL: It is not control, but could be said to be effective control.

Mr. MACDONALD (*Vancouver-Kingsway*): From what company do you purchase your telephone equipment and supplies?

Mr. FARRELL: We have a purchasing company which is a purchasing agent, Canadian (B.C.) Telephones and Supplies.

Mr. MACDONALD (*Vancouver-Kingsway*): Is that owned by your company in part?

Mr. FARRELL: Owned by Anglo-Canadian Telephone Company.

Mr. MACDONALD (*Vancouver-Kingsway*): It is a wholly owned subsidiary of Anglo-Canadian?

Mr. FARRELL: Yes.

Mr. MACDONALD (*Vancouver-Kingsway*): I realize the importance of your expansion program, but the question I have is this: with your equity of

47 per cent and bonded indebtedness of 53 per cent, at the present time it seems to me you should be in a position to borrow the additional funds required in order to finance your expansion program.

Mr. FARRELL: I would like to ask you how long that would last. I am afraid we would soon run out of money.

Mr. MACDONALD (*Vancouver-Kingsway*): Is that not a very high proportion of equity ownership in comparison to bonded indebtedness as companies go today?

Mr. FARRELL: No. It is a little higher than most of the bonded indebtedness.

Mr. MACDONALD (*Vancouver-Kingsway*): You are not proposing to issue preferred shares?

Mr. FARRELL: We have just recently issued $10,000,000.

Mr. MACDONALD (*Vancouver-Kingsway*): Have you more of those in the treasury?

Mr. FARRELL: We have no more shares of any kind at the present time.

The WITNESS: Only $3,500,000.

Mr. MACDONALD (*Vancouver-Kingsway*): You have issued preferred shares?

Mr. FARRELL: They are just ordinary shares until they are made preferred shares.

Mr. MACDONALD (*Vancouver-Kingsway*): Do you not feel you could raise additional capital now by bonds or debentures?

Mr. FARRELL: A small issue of bonds, $10 or $15 million, yes.

Mr. MACDONALD (*Vancouver-Kingsway*): The security of your enterprise would be very substantial?

Mr. FARRELL: Yes. But we have a $50 million program for 1958. Half of the money which we have just obtained will be spent by the end of December and by the end of February we will be out of money.

Mr. MACDONALD (*Vancouver-Kingsway*): Do you not feel that by the end of February you would be able to float bonds?

Mr. FARRELL: We probably will. That would take us for another five or six months and then we would be out again.

Mr. MACDONALD (*Vancouver-Kingsway*): You do not feel you could finance this expansion by bonds and debentures?

Mr. FARRELL: No. Not a chance in the world.

The CHAIRMAN: Are there any other questions on the preamble?

Mr. CAMERON: There has been some reference made to preferred shares. Could you tell us, in the first place, what is the status of those shares with respect to voting rights in the company and how they are distributed as far as the voting rights are concerned?

Mr. FARRELL: They are the usual preferred shares and until the company gets in arrears for twelve months they do not have any voting rights.

Mr. CAMERON: Has your company ever been in that position?

Mr. FARRELL: No, thank goodness.

Mr. CAMERON: Can you tell me how they are distributed?

Mr. FARRELL: I would have to give them all to you. We have six different issues. In the 6 per cent cumulative shares which is the original issue—do you want the number of shareholders?

Mr. CAMERON: What I would like is information as to where they are held, in Canada or elsewhere?

Mr. FARRELL: Of the issue of 10,000 shares, and that was a million dollar issue, 247 of the shareholders are in British Columbia; 20 are in Canada outside of British Columbia; 6 are in the United States and 39 in the sterling area.

Mr. CAMERON: That is the number of shareholders?

Mr. FARRELL: Yes.

Mr. CAMERON: What are the shareholdings; how are they distributed?

Mr. FARRELL: In British Columbia, 7,385; in Canada, other than British Columbia, 1,104; in the United States, 141; in the sterling area, 1,370. That makes up 10,000 shares.

Mr. CAMERON: You have other issues?

Mr. FARRELL: Yes. We have a 6 per cent cumulative preferred share. 39,862 shares are held in British Columbia. I have a copy of this.

Mr. CAMERON: Perhaps it could be included in the proceedings of the committee.

The CHAIRMAN: If it is the wish of the committee?

Agreed.

BRITISH COLUMBIA TELEPHONE COMPANY

—	6% Cumulative Preference	6% Cumulative Preferred	$4\frac{3}{4}$% Cumulative Redeemable Preferred	$4\frac{3}{4}$% Cumulative Redeemable Preferred (Series 1956)	$4\frac{1}{2}$% Cumulative Redeemable Preferred	$4\frac{3}{8}$% Cumulative Redeemable Preferred	Ordinary	Total
DISTRIBUTION OF SHARES—								
British Columbia	7,385	39,862	55,272	41,157	20,916	24,636	391,272	580,500
Canada (other than B.C.)—								
Held by Public	1,104	1,572	18,420	33,698	28,819	35,144	266,767	385,524
Anglo-Canadian Telephone Co., Montreal, P.Q.	.....	.....	.....	.....	.....	.....	430,176	430,176
United States	141	907	982	100	90	100	74,772	77,092
Sterling Area	1,370	2,498	161	20	.....	50	31,533	35,632
Other	.....	161	165	25	175	70	5,480	6,076
Total	10,000	45,000	75,000	75,000	50,000	60,000	1,200,000	1,515,000
DISTRIBUTION OF SHAREHOLDERS—								
British Columbia	247	2,001	2,484	1,437	879	893	4,280	12,221
Canada (other than B.C.)	20	88	548	784	648	638	2,562	5,288
United States	6	53	32	1	6	1	80	179
Sterling Area	39	41	12	2	.....	1	55	150
Other	.....	3	6	1	6	3	24	43
Total	312	2,186	3,082	2,225	1,539	1,536	7,001	17,881

As at July 31, 1957.

Mr. REGIER: Mr. Chairman, I realize the need of the company to embark on an expansion program. When we consider this need I realize there are three interests involved. First of all there are the interests of the users of the telephone system, the interests of the telephone company as a corporate entity, and the interest of the owners of the corporate entity. I wonder if Mr. Farrell would explain how their method of marketing or disposing of ordinary shares by the issuance of rights is of advantage either to the consumer or to the corporation as such. Is there any advantage in it to either the British Columbia Telephone Company or to the users of the British Columbia Telephone Company in the method of disposal of shares?

Mr. FARRELL: To begin with, the issuance of rights always adds a little bit to the value of the common share because, from time to time, when new issues are made the value of the rights adds to the value of the stock. If the policy of the company was not to issue rights the stock would be at a little less price than if they were issuing rights. If no rights were issued we would then have to have the shares underwritten which of course costs money.

Therefore you arrive at a position of where would the value of the stock be without rights. Undoubtedly it would be below the price if we were issuing rights. Therefore, the price at which you could sell your shares, less the commission, would probably be somewhere near the position when the stock was sold at the rights price.

Mr. REGIER: I notice the relatively large reserves of this company which have, in former years, been used for an expansion program. We, of course, know these reserves have only one origin, the consumer. Could Mr. Farrell give us the rates of an ordinary residential private line telephone in the cities of Toronto, Winnipeg, Regina and Vancouver? May we also have a comparison as to what the average householder pays on a single line phone in each of those cities?

Mr. FARRELL: I am sorry, but I do not have that information. I would ask Mr. Pipes, he is the General Manager.

Mr. PIPES: I have the rates here for our own and the Bell Telephone Company. I do not have it for Winnipeg. Did you mention other cities?

Mr. REGIER: Toronto, Winnipeg, Regina and Vancouver.

Mr. PIPES: In a comparison, the rates increase as the size of a city increases. Consequently we are comparing a small city with a large city and they are not comparable rates. However, we will give you the rates.

Mr. REGIER: I wonder if the witness would furnish us with the rates for urban centres of roughly even size in the four provinces?

Mr. PIPES: I will have to look it up. I have it for Vancouver; for individual residential service it is $5.35. I will get you the information.

The CHAIRMAN: Would it be in order if the information is obtained and placed in the minutes?

Agreed.

The following is a comparison of individual residential rates for Toronto, Winnipeg, Regina and Vancouver.

City	Individual residential rates	Number of telephones that can be called
Toronto	$5.45	643,800
Winnipeg	3.90	154,347
Regina	3.50	36,406
Vancouver	5.35	256,696

Mr. WINCH: Might I direct another question to Mr. Farrell. We all appreciate the great expansion which has to be undertaken in the immediate future in British Columbia. I take it as being an established fact that within that expansion the company wants to be able to do it at as reasonable a price as possible. I was intrigued by Mr. Farrell's statement that the Anglo-Canadian Company have a wholly owned subsidiary and that subsidiary is the purchasing agent of the British Columbia Telephone Company. That intrigues me, and I would like to know if that is a normal procedure and if by going through another company such as the Anglo-Canadian, which owns a big share of the British Columbia Telephone Company, does that not bring up the cost of equipment when it reaches your company. I assume this subsidiary buys on the wholesale market and is not selling to you at the same price and therefore there is an intermediary which must increase the cost of the material you have to purchase. Would you explain and clarify that situation and tell us why that system is followed and why you do not buy direct or through your own agent in your own company. On the same point, when a telephone of the British Columbia Telephone Company is taken out of a house does it go back to the British Columbia Telephone Company or does it go back to the subsidiary or sold to the subsidiary and resold to your company and if so on what basis?

Mr. FARRELL: I would be very pleased to answer it, but Mr. Pipes perhaps is in a better position to answer it. However, you have asked a lot of questions there.

Mr. WINCH: It boils down to only two and it is a clarification of a unique situation.

Mr. FARRELL: It is not unique at all; it is very practical.

Mr. PIPES: The Canadian British Columbia Telephone Company was formed many years ago when there were five associated companies in British Columbia. Three of those have since been acquired by British Columbia Telephone Company and the company serves the purpose of purchasing agent of materials for these various companies, does the installation of our central office equipment and also the repair work on our central office equipment. They act as our agents and receive a small commission for their services. The prices of the purchases are the prices charged by the manufacturer of the product to us. There is no added price. They are just a purchasing agent for us.

Mr. WINCH: Is there a commission on the cost of the material they purchase and install for you?

Mr. PIPES: The commission runs from three-quarters of 1 per cent to three-eighths of 1 per cent, depending on the equipment. If it is a completely automatic installation in a large office the rate is three-eights of 1 per cent, and for other types of equipment it is three-quarters of 1 per cent. They buy in the order of $30 million worth of material. I am guessing at that figure. In the order of $9 million comes from what you might say is an associated manufacturing firm, the Automatic Electric. The balance of the equipment is purchased from other various telephone manufacturers in Canada, and other types of equipment, such as poles and hardware which represents some 60 odd per cent, comes from other sources. They act as our purchasing agent and they obtain the best price for us. For that service they get three-quarters of 1 per cent. It is not an unusual practice. You will find it is not an exceptionally high charge.

Mr. WINCH: Do you sell back that equipment?

Mr. PIPES: No. The equipment is sent back there and they rehabilitate it and charge their own labour plus 10 per cent plus supervision, and it comes back to us.

They install all of our central office equipment, both manual and automatic, and do this work also for other companies in Canada. This company also installs equipment for the Okanagan Telephone Company in Prince Rupert and various others.

Mr. WINCH: Is the Automatic Electric Company either owned by that company or associated with it?

Mr. PIPES: Associated with it. The Automatic is owned by Associated, but this company acts as installer for equipment sold by Automatic Electric and they do work all across Canada. The other companies besides British Columbia Telephone Company are charged 5 per cent more as an administration charge than is charged British Columbia Telephone. Therefore we benefit to the extent of 5 per cent by having our equipment installed by them.

Mr. SMITH (*Simcoe North*): You mentioned a manufacturing supply company. Where is their manufacturing done?

Mr. PIPES: In Brockville, Ontario.

Mr. HERRIDGE: Mr. Chairman, I wish to congratulate you on meeting one of your life's ambitions.

I would like to ask Mr. Farrell how many directors of the British Columbia Telephone Company are also directors of the Anglo-Canadian Company and the General Telephone Corporation?

Mr. FARRELL: They changed these around and I want to be sure. I am pretty sure it is four. I do not have that information.

Mr. HERRIDGE: Four of the directors of the British Columbia Telephone Company are directors of the Anglo-Canadian Company?

Mr. FARRELL: Yes.

Mr. HERRIDGE: And how many are directors of the General Telephone Corporation in the United States?

Mr. FARRELL: One of those would be.

Mr. HERRIDGE: One of the directors of the British Columbia Telephone Company?

Mr. FARRELL: Yes. And one of the directors of Anglo-Canadian.

Mr. HERRIDGE: Would you tell us the total amount paid out by your company in dividends in the last ten years and the total cumulative in reserve? I will change that and make it over the last seven years.

Mr. FARRELL: I could not tell you that off-hand but we will obtain that information for you.

The CHAIRMAN: Will it be in order if it is put in the minutes?

Agreed.

Mr. Herridge requested to know the total dividends paid by the Company during the past seven years. They are as follows:—

Year	Common & Preferred Combined	Common Dividend Only
1950	$1,031,883	$ 520,000
1951	1,547,711	880,000
1952	1,646,250	960,000
1953	1,923,594	1,200,000
1954	2,262,500	1,520,000
1955	2,708,125	1,600,000
1956	3,466,718	2,100,000
1957 (estimated)	3,930,000	2,400,000

Mr. Herridge also requested to know what the total accumulated cash reserves were for the past seven years. There have been none. All earned surplus has been re-invested in plant during the said period of seven years.

Mr. MACDONALD (*Vancouver-Kingsway*): I was not sure about the answer in respect of Automatic Electric. Did you say they were owned by a company called Associated Telephone and Telegraph?

Mr. FARRELL: It is owned by Associated Telephone and Telegraph Company and in turn owned by General Telephone Corporation, which is an intermediate company.

Mr. MACDONALD (*Vancouver-Kingsway*): Are your rates controlled by the Board of Transport Commissioners?

Mr. FARRELL: Yes.

Mr. MACDONALD (*Vancouver-Kingsway*): Has the Board of Transport Commissioners any authority over what is charged for installation by Automatic Electric through the supply company?

Mr. FARRELL: Well, the Board of Transport Commissioners in our last rate hearing went very thoroughly and minutely into all details of our operations.

Mr. MACDONALD (*Vancouver-Kingsway*): Has it any control over the cost of the supplies to you?

Mr. FARRELL: We have to prove to them that we buy our supplies as cheaply as anybody else which I believe we did at that time.

Mr. MACDONALD (*Vancouver-Kingsway*): They do not have jurisdiction over the cost of supplies to you?

Mr. FARRELL: Yes. I think they have, because if we are buying supplies at a great deal more than the market they are not going to give us the rates to cover it.

Mr. MACDONALD (*Vancouver-Kingsway*): You say that is a factor which they take into consideration?

Mr. FARRELL: Yes. They go into it in great detail.

Mr. MACDONALD (*Vancouver-Kingsway*): Don't you feel it to be an unhealthy situation that Anglo-Canadian should have effective control of your company and at the same time effective control of the source from which you purchase your supplies and obtain your installation services?

Mr. FARRELL: I am afraid I do not remember just what you said to begin with.

Mr. MACDONALD (*Vancouver-Kingsway*): Do you not consider it to be an unhealthy situation?

Mr. FARRELL: I do not like the word "unhealthy". There has not been anything unhealthy about it. In my opinion the manager and directors of the British Columbia Telephone Company have done a magnificent job in British Columbia and I do not think there is anything unhealthy about it.

Mr. MACDONALD (*Vancouver-Kingsway*): Generally speaking it is not a good situation for the company which has effective control of your company also to have control of your suppliers?

Mr. FARRELL: If there were no control such as that of the Board of Transport Commissioners, then I might agree with you. But there is very effective control through the Board of Transport Commissioners over all these things.

The CHAIRMAN: Are there any other questions?

Mr. HOWE: Perhaps Mr. Farrell or one of his colleagues could tell me whether all the supplies required by this company are available in Canada or if you have to go outside of Canada to buy any of the supplies which are needed for your installations?

Mr. PIPES: In the main, the bulk of our supplies are manufactured in Canada. For example, wire and cables are manufactured here and we get them from two sources. Our telephone sets and our central office equipment, are manufactured at Brockville. There might be some odd pieces of equipment that we get from outside manufacturers such as office furniture, and there might be a business machine which is not manufactured in Canada. I do not know. But in the main, our purchases are made through Canadian suppliers where possible.

Mr. HOWE: One other question: In regard to this tremendous development that is taking place: is it entirely in the field of telephones, or is it also in the field of telecommunications, television and radio?

Mr. PIPES: It is in relation to ordinary exchange service, and it is an expansion of the long distance service, with an entry into more automation in long distance, and more long distance dialing and control having regard to the great improvements which are being made. We also have a leased wire business which includes television channels, radio broadcasting channels, and leased wire for telephotos and so on; anything relating generally to the telephone industry.

The CHAIRMAN: Now Mr. Barnett, to be followed by Mr. Stanton and then Mr. Cameron.

Mr. BARNETT: Perhaps Mr. Farrell might explain to the committee what relationship there is between the British Columbia Telephone Company and the North West Telephone Company. What is the corporate relationship of the two?

Mr. FARRELL: There is no corporate relationship between the British Columbia Telephone Company and the North West Telephone Company. The North West Telephone Company was formed some years ago when the radio telephone was coming into vogue. At that time the British Columbia Telephone Company had a charter and was incorporated before anybody thought of radio telephones. The British Columbia Telephone Company did not have the right to be in the radio telephone business. Therefore we had quickly to incorporate a company, which we did, in British Columbia, and that has been our radio company.

The officers of that company are the same as those of the British Columbia Company but it is run separately, and it takes care of radio development in British Columbia. It is owned by Anglo-Canadian Telephone Company one hundred per cent, because the British Columbia Telephone Company has no right in its charter to own shares of another company. Does that answer your question?

Mr. BARNETT: In other words, the relationship between the British Columbia Telephone Company and the North West Telephone Company is through the Anglo-Canadian Telephone Company.

Mr. FARRELL: Yes. The British Columbia Telephone Company would be very glad to hold the stock of the North West Telephone Company too, but it has no power to hold it.

Mr. BARNETT: You did say that the structure of the two companies is single?

Mr. FARRELL: Yes.

Mr. BARNETT: The North West Telephone Company has other operations than radio telephones I take it?

Mr. FARRELL: Yes, it has, but they are very minor compared to the radio.

Mr. BARNETT: Am I correct in suggesting that the North West Telephone Company operates the radio telephone links on the coast of British Columbia?

Mr. FARRELL: Yes.

Mr. BARNETT: And that it operates the telephone service between Vancouver and Alert Bay?

Mr. FARRELL: Yes. We have about 3,000 boats which are connected through our radio system.

Mr. BARNETT: I wonder what the source of expansion funds of the North West Telephone Company is? I think you can see some point to my question, because the services operated by the two companies are closely connected.

Mr. FARRELL: The British Columbia Telephone Company has the power to be in the radio business. Of the new television-two circuit running across Canada we are building the part in British Columbia—this being part of the British Columbia Telephone Company's area, so the expansion of the North West Telephone Company is rather limited to the area in which they are.

Mr. BARNETT: Does the North West Telephone Company have to rely on the capital funds provided to the British Columbia Telephone Company in order to undertake expansions and modifications?

Mr. FARRELL: No. They have public financing.

Mr. BARNETT: They act separately in the bond market?

Mr. FARRELL: Yes.

Mr. BARNETT: Is the present capital set-up of the North West Telephone Company adequate to provide for their expansion and needs?

Mr. FARRELL: Yes. They are getting along all right.

Mr. BARNETT: In its review of the affairs of the company by the Board of Transport Commissioners and of the set-up or the structure, does the company or the board take the approach that all segments or sections of the system should provide, let us say, a more or less even rate of return on the rates that are set?

Mr. FARRELL: Well, I do not know.

Mr. BARNETT: Or is it related to the rate structure and the earning position of the company as a whole? Is that really the guiding principle?

Mr. FARRELL: Oh yes.

Mr. BARNETT: On what basis is the decision made as to which particular construction or expansion of facilities the company is going to undertake in a given time—that is to say, as between the metropolitan areas and the lower mainland, or Vancouver Island, or the northern centres of Vancouver Island?

Mr. FARRELL: Well, that is left to the company to decide. We try to be fair and to take care of all the requirements in every one of the 107 places in which we do business.

Mr. BARNETT: Is it the policy of the company that all extensions shall be on a self-sustaining basis? That is, does an expansion in northern Vancouver Island have to stand on its own feet before it is considered by the company?

Mr. FARRELL: We would expect it to be reasonable. We look forward to the future, and if we believe that the place is going to grow, we would be satisfied to go in there at the present time and probably lose money in that particular area, but hoping in the future that it would pick up. Yes.

Mr. STANTON: I would like you to give me, roughly, the percentage of your total supplies that you purchase from Automatic Electric?

Mr. PIPES: The total amount? In the year ending October 31, out of a total amount of approximately $26 million of material and supplies, $9,662,000 would be purchased from Automatic Electric, that is just a little over one third, and it is made up primarily of telephone sets and central office and automatic equipment that we buy with a view to standardization.

Mr. STANTON: Is there any independent telephone company in British Columbia?

Mr. PIPES: Yes, the Okanagan Telephone Company and of course the North West Telephone Company, and in addition the Prince Rupert Telephone Company which is a civic operation.

Mr. STANTON: Has your company absorbed during the past few years any of these smaller companies which might have existed?

Mr. PIPES: We absorbed three of them, the Mission, the Chilliwack and the Kootenay companies; and in the last two years we acquired that proportion west of the rocky mountains of the federally owned line and generally north of that, in that area.

Mr. STANTON: In other words, we are led to believe that the smaller independent companies are gradually going out of existence?

Mr. PIPES: Well, I think so. It appears that way. In former days telephone service was unconnected. Telephones just existed here and there, and we used to have cities very few of which were joined together. But today with the elaborate networks of long distance circuits, we think it is better that they should be put under one control.

Mr. WINCH: On that basis, you ought to be publicly owned, just as the situation in the adjoining provinces.

Mr. PIPES: We operate very well with the adjoining provinces and the United States.

Mr. STANTON: How do your rates compare with those of smaller independent companies?

Mr. PIPES: There again, you must qualify it. Rates vary with the size of the exchange. For example, if you compare a large exchange of the British Columbia company with that of the Okanagan company, and if you apply the Okanagan company rate to our subscribers, we would, I think, have a slight increase, with more revenue than we would get under our rates. In other words, their rates are slightly higher. Their business rates might be a little up, or their residence rates might be a little higher.

The CHAIRMAN: Shall the preamble carry?

Mr. CAMERON: I would like to ask Mr. Farrell a question. Did I not understand you to say just now that the Anglo Canadian Company had effective control of the British Columbia Telephone Company?

Mr. FARRELL: Yes, I said that. In a large operation, a large utility, such as a bank and that sort of thing, if there is a large compact block of stock, 25 per cent might be effective control.

Mr. CAMERON: You would agree that it does give effective control to the Anglo Canadian Company?

Mr. FARRELL: Yes, I agreed to that before.

Mr. CAMERON: I notice that the Anglo Canadian Company is in the control of Associated Telegraph and Telephone Companies in the United States by 51 per cent. I thought you said 50 per cent this morning but I see according to Moody's Annual that it is 50.01, thus giving them complete control.

Mr. FARRELL: Well?

Mr. CAMERON: Would you say that in fact your company is a subsidiary of the American Telephone and Telegraph Company?

Mr. FARRELL: We have nothing to do with the American Telephone and Telegraph Company.

Mr. CAMERON: Does your company purchase any appreciable quantity of equipment from any company which is either controlled by or closely associated with the American Telephone and Telegraph Company?

Mr. FARRELL: Well, I do not know what Mr. Cameron would say about the Northern Electric Company? I think it would be up to you to decide on that situation. We do purchase a lot of equipment from the Northern Electric Company.

Mr. CAMERON: What proportion of your purchases?

Mr. FARRELL: About $5 million.

Mr. CAMERON: Out of what?

Mr. PIPES: That is out of $26 million. We have in the order of $5 million in purchases from the Northern Electric Company for the period ending October 31. These are approximate figures.

Mr. CAMERON: I take it that four-fifths of your purchases come from a company that is either controlled or associated with the American Telephone Company?

Mr. FARRELL: No, only one-fifth. Please leave out the American Telephone and Telegraph Company.

Mr. CAMERON: Your evidence was that the Anglo-Canadian Telephone Company is effectively controlling the British Columbia Telephone Company, and the Anglo-Canadian Telephone Company is wholly controlled by the American Telephone and Telegraph Company.

Mr. FARRELL: I did not say that; you said that.

Mr. CAMERON: You dispute the figure in Moody's Annual, do you, sir?

Mr. MARLER: You are giving the wrong names.

Mr. CAMERON: It is the associated telephone company, I am sorry. That is the A.T.T.

Mr. FARRELL: No, the Associated Telephone and Telegraph Company has nothing to do with the so-called A.T.T., which is the American Telephone and Telegraph Company.

Mr. CAMERON: I have used the wrong name.

Mr. FARRELL: It is 78 per cent owned by the General Telephone Corporation.

Mr. CAMERON: We will not go further into the ramifications of your family tree, Mr. Farrell. The point I want to make is this: you told us that the Anglo-Canadian Telephone Company has effective control of your company. We have a public document that states that company is wholly controlled by an American corporation.

Mr. FARRELL: Yes.

Mr. CAMERON: Is it not a fair assumption that your company is controlled by an American corporation?

Mr. FARRELL: Yes, it is effectively controlled, yes.

Mr. CAMERON: Yes, effectively controlled.

Mr. FARRELL: Yes.

Mr. CAMERON: To come back to the question as to the purchases of your materials—could we have, Mr. Chairman, on the record of this committee, the companies from which the bulk of the purchases of the British Columbia Telephone Company are made? The point I want to get at, Mr. Chairman, is this: it may be that the interests of this American corporation, which has the effective

control of the British Columbia Telephone Company may be closely connected with the companies from which the British Columbia Telephone Company purchases its equipment, and that the policies of the British Columbia Telephone Company, in regard to the purchase of equipment, may be in fact dictated by this American corporation. I would like to have on the record the purchases of the major lines of equipment.

Mr. FARRELL: Mr. Cameron, Mr. Pipes has already answered that question. If you would like him to repeat the percentages we would be very glad to.

Mr. CAMERON: I do.

Mr. PIPES: I believe I mentioned that for the year ending October 31 we have purchased materials in the order of $26 million. That was for the past year. Of that $26 million, $9,662,000 was purchased from the Automatic Electric Company, which is a company associated with the Associated Telephone and Telegraph Company. The other equipment, which is slightly under two-thirds of the total, was purchased from companies throughout Canada, with no affiliation such as that.

Mr. HERRIDGE: I would like to ask Mr. Farrell two questions. Did you say that your company, in the area in which it offers services, has a virtual monopoly in respect of telephone service?

Mr. FARRELL: I think it is agreed by everybody that a telephone company must have a monopoly.

Mr. HERRIDGE: You say it is a monopoly. When you say it is a monopoly operating in British Columbia, it is controlled indirectly by an American corporation?

Mr. FARRELL: Substantially controlled, yes.

Mr. HERRIDGE: Thank you.

Mr. FARRELL: I would like to mention, though, that our complete operating staff are all Canadians.

Mr. MARLER: Mr. Farrell, do you know of any telephone company in Canada that has not got what might be described as a monopoly in the territory in which they operate?

Mr. FARRELL: If it was not a monopoly you would have a lot of disgruntled subscribers, because they would have to have two phones on their desks.

Mr. CAMERON: We have them now.

Mr. FARRELL: I do not think that is a fair statement, Mr. Cameron; you may have a few. I do not know of any large company that operates without a few disgruntled subscribers.

Mr. CAMERON: I would suggest, Mr. Farrell, that you go to Vancouver Island and talk to some of my constituents.

The CHAIRMAN: Shall the preamble carry?

Mr. MARLER: The preamble should be disposed of after the clauses of the bill have been carried, surely.

The CHAIRMAN: We can do that if you wish.

Mr. MARLER: The general rule is that the preamble is carried at the end.

Mr. HERRIDGE: Mr. Chairman, I would like to ask a question before you leave the preamble.

The CHAIRMAN: Yes. Before we start with that, Mr. Marler, I mgiht say that according to the clerk, the preamble is generally carried first.

Mr. MARLER: I will not quarrel with the clerk, Mr. Chairman.

The CHAIRMAN: I would not dispute it, but the committee clerk tells me that.

Mr. HERRIDGE: Mr. Farrell, in what direction does the Board of Transport Commissioners control your company, and what things has the Board of Transport Commissioners the right to ask you to do?

Mr. FARRELL: They have complete control over everything. If it is not absolutely direct control, it is certainly indirect control.

Mr. HERRIDGE: Would you say that the Board of Transport Commissioners has control over the services, as to where you will extend your line, or where you will give improved services, and so on?

Mr. FARRELL: Indirectly they do, yes.

Mr. HERRIDGE: In what way?

Mr. FARRELL: If a complaint is laid with the Board of Transport Commissioners about some particular instance, they immediately ask us the reasons why this has not been done. If we have good and sufficient reasons, we submit them to the Board of Transport Commissioners, and that board in turn submits those reasons to the subscriber.

Mr. HERRIDGE: Mr. Farrell, I think that control must be very lax, because I have the distinct recollection of being informed by the secretary of the Board of Transport Commissioners that they do not have control over services.

Mr. FARRELL: That is so, but they do have a very heavy hand on us all the time, in regard to services. If we do not extend them here, and do not extend them there, they are after us all the time, if there is a good case for extended services.

Mr. HERRIDGE: Could you tell the committee on how many occasions in the last year the Board of Transport Commissioners has asked your company to extend services, as a result of complaints?

Mr. FARRELL: I do not think the Board of Transport Commissioners would put themselves in the position of asking us to extend services, because they have not got the power to make us extend them. However, we pay a great deal of attention to their suggestions, and I do not think there is any place, where the matter has been referred to them, that we have not dealt with. Are you thinking of the little place you are interested in, Mr. Herridge?

Mr. HERRIDGE: Naturally, yes.

Mr. FARRELL: I think that you received a copy of the letter on that point from us.

Mr. HERRIDGE: No.

Mr. FARRELL: I am sure you did, because Mr. Pipes has a copy of it.

Mr. HERRIDGE: I have not received it.

Mr. PIPES: That was in 1954 when you wrote about it, Mr. Herridge.

Mr. HERRIDGE: I beg your pardon?

Mr. PIPES: That was in 1954.

Mr. HERRIDGE: I was thinking of this last three or four month period.

Mr. FARRELL: Yes. That is a very difficult situation, Mr. Herridge, as you know. It is very difficult for us to give service there because of the two power lines on each side of the road.

Mr. SMITH (*Calgary South*): What are we speaking about?

Mr. HERRIDGE: We are speaking about a little community in my constituency, seven miles south of Trail, of about 30 residents, which has been denied telephone service to date.

Mr. FARRELL: Mr. Pipes has that situation at his fingertips, Mr. Herridge.

Mr. HERRIDGE: I should certainly pull the fingertips.

Mr. BARNETT: Would Mr. Farrell, or Mr. Pipes, care to tell us whether they would like to have the Board of Transport Commissioners given a little more definite authority in respect to this matter of services?

Mr. FARRELL: Nobody likes authority.

Mr. MARLER: Mr. Chairman, that is a very interesting question, but surely far from the scope of this.

The CHAIRMAN: Mr. Marler, in regard to the preamble being carried first, in respect of public bills, the preamble comes last, but on private bills it comes first.

Mr. CAMERON: Could Mr. Farrell, or Pipes, tell me if it was this year that their company purchased all the federal telephone property west of the Rocky Mountains?

Mr. PIPES: No, it was two years ago.

Mr. CAMERON: Two years ago?

Mr. PIPES: In April.

Mr. CAMERON: Could you tell us, Mr. Pipes, what your company paid for these properties?

Mr. FARRELL: It was something over $500,000, as I recall it. It was a great deal too much.

Preamble agreed to.

Clause 1 agreed to.

Title agreed to.

The CHAIRMAN: Shall I report the bill?

Agreed to.

—The committee adjourned to the call of Chair.

HOUSE OF COMMONS

First Session—Twenty-third Parliament

1957

STANDING COMMITTEE

ON

RAILWAYS, CANALS AND TELEGRAPH LINES

Chairman: GORDON K. FRASER, ESQ.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2 including Third Report

BILL No. 27

(Letter C of the Senate), An Act respecting The Bell Telephone Company of Canada

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THURSDAY, NOVEMBER 28, 1957

WITNESSES:

From The Bell Telephone Company of Canada:

Mr. T. W. Eadie, President; and

Mr. Norman A. Munnoch, Q.C., Vice-President and General Counsel.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1957.

50093-4—1

STANDING COMMITTEE

ON

RAILWAYS, CANALS AND TELEGRAPH LINES

Chairman: Gordon K. Fraser, Esq.,

and Messrs.

Barbes
Batten
Begin
Bonnier
Blanchette
Brassard
Broome
Byrne
Castleden
Chevrier
Crouse
Doucett
Dupuis
English
Fairfield
Fisher
Gauthier (*Lac St. Jean*)
Gauthier (*Chicoutimi*)
Grills
Haidasz
Harrison
Herridge
Holowach
Howe (*Vice-Chairman*)
Johnston (*Bow River*)
Kennedy
Lafontaine
Lavigne
Leboe
Lewry
Macdonald (*Vancouver-Kingsway*)
MacDonald (*Antigonish-Guysborough*)
Marler
Martini
McBain
McGrath
McIlraith
McIvor
McLeod
McPhillips
Muir (*Cape Breton North and Victoria*)
Murphy (*Westmorland*)
Nixon
Olson
Phillips
Rea
Rouleau
Small
Smith (*Calgary South*)
Smith (*Lincoln*)
Smith (*Simcoe North*)
Smith (*Battle River-Camrose*)
Stanton
Stuart (*Charlotte*)
Taylor
Villeneuve (*Roberval*)
Vincent
Winch
Wratten

A. Small,
Clerk of the Committee.

ORDERS OF REFERENCE

HOUSE OF COMMONS,
MONDAY, November 18, 1957.

Resolved,—That the following Members do compose the Standing Committee on Railways, Canals and Telegraph Lines:

Messrs.

Barbès,
Batten,
Bégin,
Bonnier,
Blanchette,
Brassard,
Broome,
Bryson,
Byrne,
Campbell (*The Battlefords*),
Chevrier,
Crouse,
Doucett,
Dupuis,
Ellis,
English,
Fisher,
Forgie,
Fraser,
Gauthier (*Lake St. John*),
Gauthier (*Nickel Belt*),
Gauthier (*Chicoutimi*),
Grills,
Harrison,
Herridge,
Holowach,
Howe,
Johnston (*Bow River*),
Kennedy,
Lafontaine,
Lavigne,
Leboe,
Lewry,
MacDonald (*Antigonish-Guysborough*),
Marler,
Martini,
McBain,
McGrath,
McIvor,
McLeod,
McPhillips,
Muir (*Cape Breton North and Victoria*),
Murphy (*Westmorland*),
Murphy (*Lambton West*),
Nixon,
O'Hurley,
Olson,
Phillips,
Rea,
Rouleau,
Small,
Smith (*Calgary South*),
Smith (*Simcoe North*),
Smith (*Battle River-Camrose*),
Stanton,
Stuart (*Charlotte*),
Taylor,
Villeneuve (*Roberval*),
Vincent,
Wratten—60.

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

FRIDAY, November 8, 1957.

Ordered,—That the following Bill be referred to the said Committee:

Bill No. 27 (Letter C of the Senate), intituled: "An Act respecting The Bell Telephone Company of Canada".

THURSDAY, November 21, 1957.

Ordered,—That the name of Mr. Smith (*Lincoln*) be substituted for that of Mr. O'Hurley; and

That the name of Mr. Fairfield be substituted for that of Mr. Murphy (*Lambton West*), on the said Committee.

MONDAY, November 25, 1957.

Ordered,—That the name of Mr. Barnett be substituted for that of Mr. Bryson; and

That the name of Mr. Cameron be substituted for that of Mr. Campbell (*The Battlefords*); and

That the name of Mr. Macdonald (*Vancouver-Kingsway*) be substituted for that of Mr. Ellis; and

50093-4—1½

That the name of Mr. Regier be substituted for that of Mr. Fisher; and

That the name of Mr. Winch be substituted for that of Mr. Lewry; and

That the name of Mr. McIlraith be substituted for that of Mr. Gauthier (*Nickel Belt*); and

That the name of Mr. Haidasz be substituted for that of Mr. Forgie on the said Committee.

TUESDAY, November 26, 1957.

Ordered,—That the quorum of the said Committee be reduced from 20 to 12 members, and that Standing Order 65(1)(b) be suspended in relation thereto.

Ordered,—That the said Committee be empowered to print such papers and evidence as may be ordered by the Committee, and that Standing Order 66 be suspended in relation thereto.

WEDNESDAY, November 27, 1957.

Ordered,—That the name of Mr. Castleden be substituted for that of Mr. Barnett; and

That the name of Mr. Fisher be substituted for that of Mr. Cameron; and

That the name of Mr. Lewry be substituted for that of Mr. Regier on the said Committee.

Attest

LEON J. RAYMOND,
Clerk of the House.

REPORT TO THE HOUSE

THURSDAY, November 28, 1957.

The Standing Committee on Railways, Canals and Telegraph Lines has the honour to present the following as its

THIRD REPORT

Your Committee has considered the following Bill and has agreed to report it without amendment:

Bill No. 27 (Letter C of the Senate), intituled: "An Act respecting The Bell Telphone Company of Canada".

A copy of the Committee's Minutes of Proceedings and Evidence in respect of the said Bill is appended hereto.

Respectfully submitted,

G. K. FRASER,
Chairman

MINUTES OF PROCEEDINGS

THURSDAY, November 28, 1957.

The Standing Committee on Railways, Canals and Telegraph Lines met at 10.30 a.m. The Chairman, Mr. G. K. Fraser, presided.

Members Present: Messrs. Bonnier, Blanchette, Castleden, Crouse, Fairfield, Fraser, Grills, Haidasz, Herridge, Holowach, Howe, Johnston (*Bow River*), Lafontaine, Lewry, Macdonald (*Vancouver-Kingsway*), MacDonald (*Antigonish-Guysborough*), Marler, Martini, McBain, McIlraith, McIvor, McLeod, McPhillips, Olson, Rea, Small, Smith (*Calgary South*), Smith (*Simcoe North*), Smith (*Battle River-Camrose*), Stanton, Stuart (*Charlotte*), Villeneuve (*Roberval*), Winch, and Wratten—(34).

In attendance:

On behalf of The Bell Telephone Company of Canada:

Mr. Charles E. Rea, M.P., Sponsor; Messrs. Duncan K. MacTavish, Q.C., and H. P. Hill, Q.C., Parliamentary Agents; Messrs. T. W. Eadie, President, Norman A. Munnoch, Q.C., Vice-President and General Counsel, E. A. Rolph, Executive Vice-President, P. C. Venne, Assistant General Counsel, of the company.

On motion of Mr. Rea, seconded by Mr. Martini,

Resolved.—That the Committee print 700 copies in English and 200 copies in French of its Minutes of Proceedings and Evidence in relation to Bill No. 27, "An Act respecting The Bell Telephone Company of Canada".

The Committee commenced consideration of Bill No. 27 (Letter C of the Senate), "An Act respecting the Bell Telephone Company of Canada".

On the Preamble:

On request of the Chairman, Mr. Rea called and introduced the Parliamentary Agents and the officials from the company.

Mr. Munnoch presented and read a statement outlining the various proposals contained in the Bill, copies of which were also distributed to members present.

During the questioning of the witnesses, Mr. Herridge, moved, seconded by Mr. Winch,

That, in view of the hearings before the Board of Transport Commissioners on rate increases, the Committee postpone further consideration of this Bill until the hearings are completed.

After discussion, the Chairman cited a ruling by the Speaker of the House of Commons of June 12, 1951, and ruled the motion out of order on the grounds that the question of telephone rate increases remains "sub-judice" until a decision has been made thereon by the Board of Transport Commissioners.

After further consideration, the Preamble, Clauses 1, 2, 3, 4, the Title, and the Bill were adopted.

Ordered,—That the Chairman report the said Bill to the House without amendment.

At 12.30 p.m., the Committee adjourned to meet again at 10.30 a.m., Tuesday, December 3, 1957.

A. Small,
Clerk of the Committee.

EVIDENCE

THURSDAY, November 28, 1957.
10.30 a.m.

The CHAIRMAN: Gentlemen, we will come to order.

This is Bill No. 27, a bill to increase the capital of the Bell Telephone Company of Canada; it has been before the Senate and it has, of course, been in the House.

First of all, we should have a motion to print the minutes of the proceedings in English and in French.

Moved by Mr. Rea, seconded by Mr. Martini, that the Committee print 700 copies in English and 200 copies in French of its Minutes of Proceedings and Evidence in relation to Bill No. 27.

Motion agreed to.

We will leave until later the motion in respect of sitting while the house is sitting.

I am going to call on the sponsor of the bill to introduce the parliamentary agents and officers of the company. The witnesses will then be heard and questioned. I now call on Mr. Rea.

Mr. REA: Mr. Chairman, I will introduce the parliamentary agents and officers of The Bell Telephone Company of Canada. First, we have Mr. Duncan K. MacTavish, Q.C., who is counsel; Mr. H. P. Hill, Q.C.; Mr. T. W. Eadie, President of the Bell Telephone Company; Mr. Norman A. Munnoch, Q.C., Vice President and General Counsel; Mr. P. C. Venne, Assistant General Counsel; and the Executive Vice-President, Mr. E. A. Rolph.

The CHAIRMAN: Thank you, Mr. Rea.

Would the officers please come up to the head table and we will proceed with the preamble of the bill. Shall the preamble carry?

We will now hear from Mr. Munnoch.

Mr. Norman A. Munnoch, Q.C., Vice-President and General Counsel, Bell Telephone Company of Canada called:

The WITNESS: Honourable Chairman and honourable members of the House of Commons, my name is Norman Munnoch and I am Vice-President and General Counsel of the Bell Telephone Company of Canada. I wish, first of all, to express my appreciation of the privilege of being heard before this honourable committee.

Bill No. 27, an act respecting the Bell Telephone Company of Canada, consists of but four clauses.

Clause 1—would authorize the petitioner to increase its capital stock by $500,000,000—that is, from $500,000,000 to $1,000,000,000, divided into shares of the par value of $25 each. The par value is the same as that of its present shares of capital stock.

Clause 2—would re-enact the provision, which has already been embodied in the petitioner's special acts since 1929, requiring the approval of the Board of Transport Commissioners for Canada of the amount, terms and conditions of any issue, sale or other disposition of any part of the petitioner's capital stock.

The last sentence has been added to the existing enactment to clarify the effect of the board's approval.

Clause 3—would empower the petitioner, subject to the approval of the Board of Transport Commissioners for Canada, to pay commissions upon subscriptions for shares of its capital stock.
and

Clause 4—would repeal section 1 of chapter 81 of the statutes of 1948 which authorized the increase of the petitioner's capital stock to $500,000,000. This section would be replaced by clauses 1 and 2 of this Bill.

Clause 1
Since an increase in capital is sought, it seems appropriate to show what the petitioner has done with its capital stock since its last increase was authorized by parliament in 1948.

At the end of 1947 the petitioner had unissued capital stock of the par value of	$ 23,579,100
The statute of 1948 authorized an increase of (par value)	350,000,000
So the petitioner has had available to it since the end of 1947 a total amount of capital stock of	$373,579,100
After allowing for $19,315,950 of stock under subscription by employees under its Employees' Stock Plan, the petitioner now has remaining of its capital stock available for its corporate purposes	$ 34,695,875
So that from the end of 1947 to July 31, 1957 it has used up of its authorized capital	$338,883,225

During this period December 31, 1947–July 31, 1957, the petitioner has expanded and developed its communication system for serving the public very greatly. The following statistical information establishes this fact, viz:—

	Dec. 31 1947	July 31 1957	Increase
Telephones	1,306,975	2,873,105	1,566,130
% Dial of Total	70%	87%	17%
Miles of Wire	4,966,432	11,858,982†*	6,892,550
In underground cable	3,542,193	7,974,597*	4,432,404
In aerial cable	1,153,523	3,581,071*	2,427,548
Open wire	270,716	303,314†*	32,598
Miles of long distance circuits	331,000	1,058,000‡	727,000
Average Daily Connections**—			
Local	8,497,000	18,463,000	9,966,000
Long Distance	165,000	323,000	158,000
Number of Central Offices	430	760	330
Employees	23,335	42,400	19,065

* June 30, 1957.
† Excludes Drop and Block Wires.
‡ December 31, 1956.
** For year ending Dec. 31, 1947 and 7 months ending July 31, 1957.

This expansion and development has brought about an increase in the petitioner's plant investment, i.e. land, buildings, central office equipment, poles, wires, cable, underground conduit, telephone equipment on customers' premises, motor vehicles, office furniture and other equipment of $825,509,154 and was accomplished by an increase of $319,567,275 in its capital stock and of $272,500,000 in funded debt, or a total of $592,067,275.

Need for Additional Capital

As already stated, as at July 31, 1957, the petitioner had available but $34,695,875 of unissued or uncommitted capital stock. This remaining amount of authorized capital, $34,695,875, is continually being reduced by the issue

monthly of shares which have been paid up under the petitioner's "Employees' Stock Plan". The operation of this stock plan will reduce this balance of authorized capital stock to something less than $26,000,000 during the course of next year. This $26,000,000 would fall far short of the amount required to enable the company to make an issue of capital stock to provide it with the capital funds it will require when it next finances by that means, that is by the issue of capital stock, and is wholly insufficient to enable the petitioner to carry on the very substantial construction program which it now has under way and which it must carry on if the citizens of Ontario and Quebec, in which the petitioner operates, are to have the telephone service they require and are demanding and to enable them to have communication with the citizens of the other provinces of Canada, the United States of America and elsewhere.

Construction Programme

Although in the period from the end of 1947 to the end of July 1957—10 years and 7 months—the petitioner has placed 1,566,130 (net) additional telephones in service and expended the sum of $928,978,000 on construction, it is still faced with

(a) a backlog of 25,517 unfilled applications for telephone service;
(b) a current demand for new telephone service at the rate of about 10,000 applications per month;
(c) a backlog of 53,080 applications for a higher grade of service, i.e. for individual line service for those with 2-party service;

These applications cannot be met until the requisite facilities can be provided. Of course, as the hon. members understand, it takes capital to provide these facilities.

(d) But this is not the whole picture. There is still the need to increase the capacity of its long distance lines.

In 1947, the petitioner's long distance lines carried an average of 165,000 calls per day. By 1956, they were required to carry 317,000 calls per day and this volume continues to increase. Its local and long distance lines now have to carry some 18,000,000 calls daily; more than double the amount carried in 1947 (8,497,000). The petitioner has not been able to provide adequate facilities to carry this load. Then too the petitioner is faced with the requirement of adjusting its system so as to provide operator toll dialing and eventually customer toll dialing in order, not only to speed up its service but also to make its system work in conjunction with the systems in the United States which are providing this faster and more efficient service.

The provision of telephone facilities to meet these requirements and the heavy demand which faces the petitioner is not a mere matter of producing telephone instruments and stringing wires. Telephones and wires are useless unless they can be connected through switchboards and the other telephone equipment necessary to make them function. Switchboards and central office equipment are exceedingly complicated pieces of apparatus. They are not available ready-made. They must be designed, engineered and manufactured for the precise place where they are to function.

Then such equipment cannot be installed and put into service without having buildings in which to house them. These buildings and additions to buildings must be designed and erected.

It will be readily appreciated that the planning, designing, manufacturing and erecting of switchboards, central office equipment and buildings all involve projects which must be anticipated well in advance and require, under present

conditions, time to carry out. Projects of this nature often require from 18 to 24 months to bring to completion and put the facilities into service.

The planning of such projects necessarily involves the estimation of the probable future demand and requirements so that provision may be made for future development in carrying out the works and the benefit of the economic advantages of so doing may be had. It is therefore necessary to plan projects of this nature extending some years into the future.

In a situation of this kind, it is essential that the petitioner be in a position where it can see its way to finance such projects, because in a continuous construction program of the magnitude of that in which the petitioner is engaged, and has been engaged since the end of the war.

It is almost continuously committed to spend upwards of $150,000,000, which involves serious risks.

Having regard to the nature of the service the petitioner furnishes and to its position with relation to the Canadian economy, in the petitioner's humble submission it is unthinkable that it should let itself, or be permitted, to run out of authorized capital required for providing and extending its essential service to the people of Canada.

While authority is sought for a substantial increase in capital stock—$500,000,000—the construction program with which the petitioner is now faced requires substantial expenditures. In the next five years, 1958-62, the petitioner plans to spend an estimated $962,000,000 on construction, that money is going to be spent broadly as follows:

Right of Way	$ 1,000,000
Land and Buildings	66,000,000
Central Office Equipment	339,000,000
Station Equipment	236,000,000
Outside Plant	281,000,000
General Equipment	39,000,000
	$962,000,000

By years, this works out at

$191,000,000 in 1958—increase in telephones of 234,000
204,000,000 in 1959—increase in telephones of 229,000
197,000,000 in 1960—increase in telephones of 226,000
189,000,000 in 1961—increase in telephones of 226,000
181,000,000 in 1962—increase in telephones of 228,000

So, in that period, the number of telephones in service is expected to rise from this present 2,980,000 to something in the neighbourhood of 4,123,000 telephones in service.

This basic five-year plan is the result of estimates which are necessarily based on present views of industrial activity, business prospects and the progress of Canada during that period. This estimate of $962,000,000 is based on contnuous development studies and is the best estimate the petitioner can make in the light of those studies.

It is not intended to imply that all of this vast sum of $962,000,000 is to be raised through the issue of capital stock. A substantial portion of it will be obtained through borrowings and other available resources of the petitioner, such as depreciation and such like, which will be used and invested in the plant to be constructed.

Taking these internal resources into account, the petitioner will require more than $120,000,000 of new investor capital to finance its construction program for the year 1958.

Applying the 40 per cent debt ratio, which the Board of Transport Commissioners has laid down as being reasonable for the company, it means that for the year 1958 we must raise something in the neighbourhood of $72 million by the issue of capital stock, and the rest by bonds.

It is a difficult thing to estimate in advance for the next decade or so the amount of money that will be involved in the construction program with which the petitioner is faced. It is apparent, however, from the five-year program that in the next decade very substantial capital expenditures will be required. This is strongly supported by the estimates of population and housing development submitted by the various authorities to the Royal Commission on Canada's Economic Prospects. In the past three years, the par value of stock which the petitioner has issued has averaged in excess of $50,000,000 and it is expected that a high level of construction will be necessary in the years ahead.

Attention is drawn to the petitioner's special act chapter 41 of the statutes of 1902 section 2. This is the obligation imposed by law upon the company to provide telephone service.

> Upon the application of any person, firm or corporation within the city, town or village or other territory within which a general service is given and where a telephone is required for any lawful purpose, the company shall, with all reasonable despatch, furnish telephones, of the latest improved design then in use by the company in the locality, and telephone service for premises fronting upon any highway, street, lane, or other place along, over, under or upon which the company has constructed, or may hereafter construct, a main or branch telephone service or system, upon tender or payment of the lawful rates semi-annually in advance, provided that the instrument be not situated further that two hundred feet from such highway, street, lane or other place.

This enactment imposes a statutory obligation upon the petitioner to furnish telephones and telephone service upon demand.

It is respectfully submitted that it is in the public interest that the petitioner be put in a position where it can meet this statutory obligation.

The only points in which the text of clause 1 differs from the present act are—

(1) the words "proper extension of the undertaking of the company" become

purposes, objects and undertaking of the company;

(2) the words "by and with the consent of a majority in value of the shareholders present or represented by proxy at any annual general meeting of the shareholders called for that purpose"

become

by resolution of the directors duly confirmed by a majority of the votes cast at any annual or special general meeting of the shareholders called for considering the resolution;

This would bring the act more in conformity with modern corporate practice. The effect is the same and the objectionable words "majority in value of the shareholders" are eliminated.

I have never been able to find a lawyer to tell me what the "majority in value of the shareholders" means. It has been in the act for a long time, and we are trying to modernize the act by using more up to date terminology.

(3) the amount of authorized capital is increased from $500,000,000 to $1,000,000,000.

Clause 2

The first sentence of this clause is identical with the whole of the present provision contained in sub-section (2) of section 1 of the petitioner's special act chapter 81 of the statutes of 1948 which was first enacted in 1929.

Petitioner asks that the second sentence be added to the clause to make it clear that an issue of stock in conformity with the board's approval and applicable securities laws, makes the issue valid for all purposes.

The board is a "court of Record" and its order approving an issue of stock should bring finality to the matter just as does the judgment of any other court. Once the board's approval has been obtained and the securities acts complied with, no question should arise as to the legal effect of anything done with that approval.

The added sentence is also a necessary complement to clause 3 of the bill which extends the board's jurisdiction to the matter of commissions.

Clause 3—is new.

It empowers the petitioner to pay commissions to persons agreeing to subscribe, or procuring subscriptions, for shares of its capital stock.

Parliament has given this power to the British Columbia Telephone Company by chapter 85 of the statutes of 1951—

> 6. (5) Subject always to the provisions of subsection three of this section the company may pay a commission to any person in consideration of his subscribing or agreeing to subscribe, whether absolutely or conditionally, for any shares in the company, or procuring or agreeing to procure subscriptions, whether absolute or conditional, for any shares in the company.

Since January 1, 1946, the petitioner has issued $359,467,000 (par value) of capital stock and $277,500,000 of bonds. This is a total of $636,967,000—the largest financing job that any company has undertaken in Canada.

Petitioner's stock is now held by 154,000 shareholders of whom 151,000, or 98 per cent, holding 16,400,000 shares, or 92 per cent, reside in Canada; 60 per cent of its shareholders are women holding 38 per cent of the shares and 11,000, or 7 per cent, are employees holding 6 per cent of the stock.

The petitioner is a Canadian owned company, and is not controlled by any foreign interests.

With the capital raising program with which petitioner is faced, which requires that new investors must be found to buy its capital stock, it may well be that the time may come when it will have to pay commissions to raise the capital it will require.

The petitioner should not be left to face such a situation without having the power to pay a proper commission in proper circumstances.

The payment of such commission would, of course, necessarily be subject to the approval of the Board of Transport Commissioners for Canada as required by clause 2 of the bill and this should ensure of the propriety of anything done under this clause.

Clause 4—is, of course, the repeal section to which reference has been made.

Having concluded the brief, there is just one other matter I would like to mention, and that is that, with a program to spend $962 million in the next five years, hon. members of this committee will appreciate the effect that will have on employment in Canada. It takes a great many people to carry out the construction program with which the company is faced. With about $26 million of uncommitted capital stock remaining available your petitioner's position is serious and its risks at the present time are great. I have mentioned that we are continually committed to an expenditure of $150 million. For the next bit of stock financing we do we require more than double, or at least double the amount of this $26 million we have left.

Now without the necessary authority to issue capital stock and to finance, by that means, we have been concerned as to what our position is going to be. With the risks that we now face of a commitment of $150 million and a program of $962 million we have got to consider that if the capital is not made available to us—we cannot make bricks without straw—we will have to proceed to give consideration to the curtailment of the construction program. It will have to be curtailed to the extent that we can carry on with borrowing and internal financing.

If this becomes necessary, we believe we will have to cut our construction program during the next 18 months by some $75 million, or about 30 per cent. If that course should be necessary it may result in our having to reduce our forces by some 2,000 men. Our suppliers of equipment will have their orders cancelled and that may reduce their employee requirements by some 3,000 people. This would also involve a cancellation of some $10 million for construction work, which would have a widespread effect. Now this is the program your petitioner is facing and with respect to which it comes to this parliament seeking authority to take the necessary steps to carry it out we submit, in the public interest in any way you care to look at it.

Thank you, gentlemen.

The CHAIRMAN: Thank you. Now, gentlemen, any questions on the preamble?

By Mr. Macdonald (Vancouver-Kingsway):

Q. Speaking as one member, I appreciate your very complete brief.—A. Thank you, sir.

Q. We appreciate that you were indicating an extension program and also that you are perhaps going to be able, by the issue of these additional shares, to widen the base of your ownership of the company. I would like to ask how you plan to issue the new capital. I think in the past you have issued share rights, have you not?—A. Yes.

Q. To existing shareholders?—A. Yes.

Q. I would like to refer to the last time it occurred and you will correct me if I am wrong. I understand that in 1956 you issued to shareholders of record the right to take up 1,725,000 of your shares at the price of $37 each?—A. That is right.

Q. Exercisable up to 1956?—A. Yes.

Q. Now was not the market price at that time considerably in excess of $37 per share?—A. Yes, sir. The offering price was about 80 per cent of the market quotation.

Q. 80 per cent?—A. The offering price was about 80 per cent of the market price the day before we got the approval of the Board of Transport Commissioners for the sale at that price.

Q. And you made that offer available only to your existing shareholders?—A. Only to existing shareholders, but those who did not want to take up this stock had the right to sell their rights and get what they could for them. I think about 60 per cent of our existing shareholders took up their stock. The other 40 per cent of the warrants were taken up as a result of sales of rights to other individual investors. I think we added about 15,000 new shareholders as a result of that issue.

Q. In quite a number of years you used the same method of disposing of your capital stock. I refer to the years 1946, 1947, 1949, 1952, 1955, and 1956.—A. Yes sir; nine times since the end of the war.

Q. An effect of an issue of that kind is to give a minimum capital gain of about 20 per cent to your existing shareholders.—A. That is rather a double-barrelled question. That is one way of looking at it. If a shareholder sells his rights, he is reducing his investment in the company and getting back some of

the capital which he put into it. It is true that under the Income Tax Act the value of the right is not taxable, but that is by express provision in the Income Tax Act.

Q. Yes, but that is the effect, that in the past you have given rights, and they were really capital gains to your existing shareholders.

Hon. Mr. MARLER: Mr. Chairman, I cannot understand why we should qualify these as capital gains. I think that if a question is going to be put, it should not be a loaded question. Let us just deal with the facts!

By Mr. Macdonald (Vancouver-Kingsway):

Q. I used the words "capital gain" because it is a non-taxable increase going to the existing shareholders as a result of this method of issuing their capital stock.—A. If you were a mortgagee with a mortgage on a house, had a chance to get back some of your principal, that would not be a capital gain—that is the getting of it back.

Q. I realize there are capital gains which take place in other fields.—A. It is not a capital gain.

Q. I am just questioning you, Mr. Munnoch, on the wisdom of the course you have followed in issuing rights to shareholders when you issue your capital stock, and whether or not it is really beneficial to the communities you serve.—A. Well, sir, I think it is undoubtedly beneficial to the community. We have had nine successful issues of this kind since the end of the war. It enables us to get these large sums of money we require and to get them in fast. It enables the existing shareholder to retain his proportionate interest in his investment in the business and after all, it is the people who have invested in the business in the past who have built up this big industry. Surely it is fair that they should be allowed to retain their proportionate interest.

For instance, particularly in the United States, shareholders are given the right—they have the first right to buy stock. I do not see how it does anybody any harm, because we are compelled to issue this stock at a price above par by the Board of Transport Commissioners for Canada, and those who invest in the stock have to pay a premium.

Q. Should that premium be as much as 20 per cent? That is the extent of the commission you are really paying.—A. No sir! We pay no commission.

Q. If you receive 80 per cent of the current price of the new shares that are issued, you are in fact paying a commission of 20 per cent.—A. Well, I do not think so. The point simply is this: if you are going to go out and sell a couple of million shares in the market, and you have to sell them in a short period of time, then you have to make them attractive to the investor or he will not take them. If he could go out and buy them on the market at the same price, he would have gone out and bought them on the market.

Q. What commission would you pay if the shares were underwritten in the usual way?—A. We have never done that. It would depend on what commission we could justify, if this bill is passed, before the Board of Transport Commissioners for Canada.

Q. Don't you think that if you could issue this capital at the market, that you could get more for it than 80 per cent if it was open to the public generally?—A. I do not think so, because by going to the public, you would have to fix a price below the market in order to attract investors. Otherwise they would be buying it on the stock market.

The CHAIRMAN: May I ask a question? Is it not true that as soon as you issue this stock the price of the stock goes down?

The WITNESS: It drops by pressure of the issue, and the value of the rights.

By Mr. Smith (Calgary South):

Q. My experience has been that in under-writing a company invariably receives a greater proportion of the capital for its working purposes from the issuance of rights than it would from under-writing through investment firms as a whole. Probably this company has followed this practice as being in the interests of the shareholders, and really to obtain the biggest proportion of capital back.

By Hon. Mr. Marler:

Q. Might I ask another question? Mr. Munnoch spoke of the results of the last issue of stock. I understood him to say that as a result of the fact that about 60 per cent of new shares had been taken up by existing shareholders, some 15,000 were added to the list of shareholders. I am not sure about that number of 15,000.—A. Approximately.

Q. You say approximately 15,000. Could Mr. Munnoch tell us approximately what growth there has been in the number of shareholders over the period, let us say, since January 1st, 1946 which is the date mentioned in the brief?—A. At the end of 1946 we had 28,840; at the end of 1947, 34,439; at the end of 1948, 38,889; at the end of 1949, 59,591; at the end of 1950, 77,965; at the end of 1951, 83,551; at the end of 1952, 100,890; at the end of 1953, 115,789; at the end of 1954, 114,782; at the end of 1955, 125,223; at the end of 1956, 140,726; and now, 155,000.

Q. So there has been an increase in the number of shareholders in a relatively short period of about 125,000?—A. Yes.

By Mr. McIvor:

Q. I would like to ask a question. You have no competitor, have you?—A. Well, in what sense? We have some, but none of them in the territory where we give telephone service. There are several hundred telephone systems in Ontario and Quebec that we do not own; and then in long-distance we have to compete with the telegraphs and also with the fast mails that the government is providing. But in the sense in which you mean it I think, in the territory where we give telephone service, we have no competitors.

Q. It is the Board of Transport Commissioners that keeps an eye on you, is it not?—A. That is our competitor!

By Mr. Winch:

Q. May I ask Mr. Munnoch for the years from December 1, 1947 to July 31, 1957, the period that he quoted—what is the amount of reserves that were used for capital expenditure and what is the amount of reserves that the company now has in hand that are available for future capital expenditure?—A. Let me look up a couple of figures. I can answer your last question right now. The number and amount of reserves available for further necessary expenditures is none. They have all been used up.

Q. I mentioned those specific dates because those are the ones you gave for capital expenditures in the past.—A. Yes, I shall have that answer in just a minute. Perhaps I should have brought an adding machine. From internal resources in the last ten years which you have mentioned we have taken $407 million and invested it in plant.

Q. More than $400 million?—A. Yes, sir.

Q. Could I also ask what you paid out in the same period for dividends?—A. We paid $2.00 per share almost from the beginning of the company except during the depression years.

Q. Does your company do all its own purchasing and installation or does it let it out to some other company as is done by the British Columbia Telephone

Company?—A. The purchasing is done by the Northern Electric Company at cost to us. It acts as our purchasing agent.

Q. Who owns Northern Electric?—A. The Bell Telephone Company owns 90 per cent of the Northern Electric Company.

Q. And there is no charge on your company?—A. They charge their costs. We pay them at cost. They have to have a purchasing organization for their own purchases. Rather than the Bell Telephone Company having to set up a purchasing organization of its own, we use the purchasing organization of the Northern Electric Company at a cost saving to us.

Q. Is the Northern Electric Company also engaged in manufacturing?—A. Yes, sir. We pay no commission on what we buy from them in the way of manufactured products.

Q. Can you state whether or not the Bell Telephone Company would pay the same prices to Northern Electric on what they manufacture as would any other firm?—A. We pay a lower price than any other firm. This is something which is always investigated by the Board of Transport Commissioners because they must assure themselves that we are not paying higher prices to Northern Electric than we would pay if buying from anybody else.

Q. Do they also do the installation?—A. Yes, on some of the large switchboards which they manufacture.

Q. Is there a charge over and above cost on that?—A. Of course they have their profit.

Q. Is there any limitation on that?—A. There is the limitation that we can decide what profit they will get.

Q. If the Northern Electric Company is going to install equipment, is it done on a competitive basis? Can other firms put in a price for installation, or is it on a flat-rate charge?—A. I do not think there is anyone else in Canada who could do this kind of installation work. They manufacture these switchboards which are highly complicated things, and the manufacturer is the one, I think, who knows how to do it. They engineer it and install it and turn it over to us in working condition.

Q. You do not think it could be done even by a firm owned by Anglo-Canadian Telephone Company?—A. We do not do it in that way. We do not pay a commission like they do. We do not pay a commission on what is manufactured and installed for us. We pay a price. No commission is paid on that; the only commission we pay them is where they act as a purchasing agent and go out and buy for us materials which they do not manufacture themselves.

Q. What is the cost on that?—A. It is the Northern Electric Company's cost, audited annually by our auditors.

Q. Is that information submitted when you make an application before the Board of Transport Commissioners?—A. It is not always submitted but it is inquired into.

By Mr. Smith (Simcoe North):

Q. Who owns the remaining 10 per cent of the Northern Electric Company if the Bell Telephone Company owns 90 per cent?—A. WECO Corporation, which is a United States corporation.

Q. What are they?—A. A subsidiary of Western Electric Company. They own 10 per cent, other than qualifying directors' shares.

Q. How do the Northern Electric Company buy? Do they buy in Canada or is a great deal of the buying done in American manufactured equipment?—A. We only buy outside Canada what we cannot obtain in Canada. Now, with the advances which Northern Electric Company and other

manufacturers have made in Canada we do not buy very much in the United States. Sometimes there is a special piece of equipment which we are not able to obtain here, but that is all.

By Mr. Johnston (Bow River):

Q. If this bill is passed, would it be necessary then, after you have obtained the necessary working capital for your desired expansion, to raise the rates to gain more money?—A. I do not see how an increase in capital has anything to do with an increase in rates. Rates are based on your costs of operation. Capital is what you put into plant to earn your revenue.

Q. If you have obtained all the money for your desired expansion through this means of issuing an increased stock, would it not always naturally follow that you would be able to continue the service you are giving now without additional rates at increased cost to the people.—A. That would depend on whether wage levels remain as they are now and whether the cost of materials and supplies which we had to buy will remain as they are now, and whether the cost of bond issues will be low or high.

The CHAIRMAN: Gentlemen, I have a ruling from the clerk of the house in which he says we cannot, in this committee, discuss rates owing to the fact that rates are at present before the Board of Transport Commissioners. He gave me different citations here. I do not think we need go into it.

Mr. JOHNSTON (*Bow River*): That might be so, but I doubt whether, because of the fact that this rate hearing is before the Board of Transport Commissioners, that should prohibit us asking questions on rates which relate to the telephone company itself because they are now making an application. I think if we follow out your suggestion we should postpone the passing of this bill until such a time as the Board of Transport Commissioners finishes its hearing.

Some hon. MEMBERS: Hear, hear.

Mr. MCILRAITH: Mr. Chairman, your ruling is quite correct that we cannot discuss the rates which are before the court of record, but Mr. Johnston was discussing the capital of this company and therefore there is no conflict between what Mr. Johnston was questioning about and the matter of rates which is before the Board of Transport Commissioners.

The CHAIRMAN: I agree with you on that and that is why I allowed his question to be asked.

Mr. JOHNSTON (*Bow River*): Right now one of the things with which we as a parliament are concerned is the ever-increasing costs. I am not objecting to anything at all, but I am asking for information. What I am trying to get at is, if the committee here decides to pass this bill and permits the company to expand its capital program, then I think we as a parliament should have our eye on the result of this granting of increased capital expansion. If it results in increased charges on the public generally in my estimation it would not be a very good thing to happen at this time if it is at all possible to offset it. That is why I asked Mr. Munnoch the question, if this is granted could he tell us whether or not it would then be necessary for the company to ask, as we all know they are asking, for increased rates.

The CHAIRMAN: The reason I brought this up is that I did not want somebody to get up and say, why are you going to ask for different rates and why are you going to do this and do that. Your question, Mr. Johnston, was quite legitimate.

Mr. JOHNSTON (*Bow River*): I agree we should not deal with the question which is before the Board of Transport Commissioners. However, I take it Mr. Munnoch is going to reply to my question.

The WITNESS: I was going to read to you the rule which the Board of Transport Commissioners has laid down as their basis for regulations of the company's rates. It reads as follows:

> "It must be admitted that under efficient management tolls and charges should be such that they would normally provide all reasonable and normal expenses including taxes and also a sufficient amount for reasonable dividends and surplus to maintain the credit of the company so that as and when advisable new capital can be attracted to meet new demands for service or for the modernizing of existing facilities. The interest of management and subscribers run parallel to this point and beyond this the subscriber should not be asked to contribute. With this in view it is incumbent upon the board in its regulatory capacity to give careful scrutiny to all items of expense incurred or proposed to be incurred and other matters which might reflect themselves in unjust or unreasonable or unjustly discriminatory impositions on the tolls and charges to be paid by the subscribers."

A great deal of this capital which we are seeking is going to be used for mechanization which if anything will tend to cut the inflationary spiral as far as the industry is concerned.

By Mr. Johnston (Bow River):

Q. The thing that is before the Board of Transport Commissioners now is whether or not in their opinion your rates are high enough to cover the things which you are discussing.—A. The thing to do is to cover the things that they are discussing now. What may be in the future, or where we will stand rate-wise at some future date, depends on the whole economic condition of Canada.

By Mr. Castleden:

Q. Has the Board of Transport Commissioners granted you any increase in rates?—A. I did not hear the first part of your question.

Q. You just read us the regulation under which the Board of Transport Commissioners grant you permission to increase your rate.—A. Yes.

Q. In how many cases have they granted this? Can you give me the dates and the amount, or the percentages?—A. Well, the last increase was in 1952.

Q. Is that 16 per cent?—A. I think that was about 16 per cent. Then in 1950 it was about 24 per cent, and the previous increase to that was in 1926 or 1927. I have not the percentage increase.

Q. Quite small? The present request is 15?—A. About 8 per cent.

Q. Eight per cent?—A. Eight per cent on the over-all of revenue requirements.

By Mr. Stanton:

Q. It is a known fact in the past that the Bell Telephone Company has absorbed or purchased many independent companies in Ontario and Quebec. Are they earmarking a certain portion of this extra capital to purchase future independent companies here in Ontario and Quebec?—A. We have no plans. I am told by Mr. Eadie, our president, that there is nothing under way at the present time to purchase any other company. It sometimes happens that some of these smaller companies get to the point where they go nearly broke, and they come and beg us to take them over. We have had forty purchases in the last five years. They are mainly companies which we had owned ourselves through stock control and we absorbed them for economic reasons into the

Bell Telephone Company. May I say this, that in both Ontario and Quebec we cannot buy any independent company unless we get approval of the Ontario Telephone Authority or the Public Service Commission of Quebec.

Q. Will you inform me, within the last ten years approximately, how many independent telephone companies you have purchased or absorbed?—A. Forty in five years. I do not think we have the ten-year figure. During the war I cannot think of any that we acquired.

Q. Well you must realize that the role of the smaller independent companies has in the past performed a useful function to the residents and citizens of our country, and I know that perhaps sometimes they are in financial difficulties. I want to ask you this question: you must realize too that they are the only competitive telephone companies to the Bell Telephone Company in Ontario and Quebec. Is it your desire or long-term view to perhaps absorb or purchase all these independent telephone companies?—A. I do not think we are entertaining any such idea. We usually acquire these telephone companies when a local company gets to the point where it cannot successfully operate. Sometimes provincial government pressure requires us to take them over, but we have no program of which I am aware to absorb them all.

Q. I am just wondering whether a portion of this capital that you are asking for now is to be used for that purpose?—A. I might say, sir, that we give these independent companies all the assistance that we can. We are very anxious to maintain them in operation, and we give them assistance. We give them engineering and technical advice. We help them in every way, and the Ontario Telephone Authority, which is the controlling body in Ontario, has highly commended us for the aid that we give not only to the Ontario Telephone Authority but to the independents over which they have jurisdiction. We do not want to take them over, but sometimes in the interests of providing service we have to take them over.

Mr. MACDONALD (*Vancouver-Kingsway*): With all respect, I think that the question of increases in capitalization is definitely relevant to the question of rates. I think what Mr. Munnoch has read makes it clear that one of the factors the Board of Transport Commissioners takes into account is a fair return on the issued capital and I think we must be able to discuss existing rates of the company. If the company has come to the Parliament of Canada, which is the supreme body—at the same time they have an application before the Board of Transport Commissioners—then they should withdraw that application temporarily from the board if they are taking the point we cannot discuss existing rates.

Mr. MARLER: It cannot be the company that is taking that point of view. That is the ruling of the chair.

Mr. MACDONALD (*Vancouver-Kingsway*): The company have brought both on at the same time. I think the chairman has relaxed his ruling somewhat already. We should be able to ask questions at the present time about the rates because I think that this, after all, is the supreme governing body in Canada, and one of our creatures, the Board of Transport Commissioners, should not interfere with the full and fair hearing before this committee.

The CHAIRMAN: Here is the opinion that was given. This opinion is sustained very clearly in a ruling by the Speaker of the House of Commons of June 12, 1951, (see Journals of the House, 1951, page 486):

> On a motion for the house to resolve itself into committee of supply the following amendment was moved:
>
> > 'in the opinion of this house no further increases in freight rates should become effective prior to consideration by parliament of the government's proposed legislation arising out of the report of the Royal Commission on Transportation.'

Whereupon Mr. Speaker ruled the proposed amendment out of order on the ground that any matters before the Board of Transport Commissioners for decision are of a judicial character within the meaning of the rule which prohibits the debate in the House of matters which are sub-judice, and that the present amendment would be bound to affect the adjudication by the board of any application for an increase in freight rates now before the board.

In accordance with citation 534 of Beauchesne's 3rd Edition, namely, 'committees are portions of the house and are governed for the most part by the same rules prevailing in the house' it would seem quite clear that the question of the Bell Telephone rates would come under the same ruling as that of June 12th, 1951.

By Mr. Herridge:

Q. Mr. Macdonald said the question of the present rates and the rates of the immediate future are related to a study of this bill. Could one of the witnesses tell us how long it is expected that this matter will be before the Board of Transport Commissioners before that matter will be decided?—A. I am sorry, sir, I cannot possibly guess as to how long the board may take to write its judgment after the hearing stops, in perhaps a couple of weeks from now. It will reserve judgment and take its own time to deliberate on it. How long that will be I cannot guess.

Q. How long will the hearings last?—A. They may last another week or two weeks.

Mr. HERRIDGE: Well, Mr. Chairman, in view of the fact that a proper settlement of this bill is related to the question of present rates I move that this committee postpone its consideration of this bill until after the Board of Transport Commissioners has given its decision, after the hearings are completed.

The CHAIRMAN: That is not a motion unless it is in writing. Any other questions?

By Mr. Smith (Simcoe North):

Q. My question deals with the division of the new capital which comes into the company. What proportion of that is likely to go into more or less orthodox telephone systems, and what proportion is being put into all these mysterious and fairly obscure things that we hear about, microwave transmission, television transmissions, and so on?—A. Well all those mysterious things are an effective part of giving telephone service today. These microwave systems are a type of system that is used for long distance operations which, once you have the system established, become a very economical method of operation. These so-called mysteries are all an effective part of the operation of the telephone service. I cannot classify these mysteries. Perhaps I hear a little more of them than you do, but they are all part of the general plant for telephone service, and it would be difficult to make any division.

Q. This work of the company that apparently goes on in far northern Canada, is that completely separated?—A. It is a contract business. We take it on a contract basis.

By Mr. Winch:

Q. I should like to ask Mr. Munnoch if in their share of holdings there are corporations or individuals that hold large blocks of shares of the Bell Telephone Company, and if so, who are they?—A. Well, the largest block that I know of, and I think it is the only thing that can be identified as a block,

is that held by the American Telephone and Telegraph Company. Its present holdings are 4.18 per cent of our stock. I think that is the largest identifiable block.

Q. The American Telephone and Telegraph Company?—A. Yes; not the Associated Telephone and Telegraph Company.

Q. May I ask how many directors of the Bell Telephone Company are also directors of the Northern Electric Company?—A. Four.

Q. Are there any directors of the American Telephone and Telegraph Company on the board of directors of the Bell Telephone Company?—A. One.

Q. Do you know whether any of the shares of the Northern Electric Company are also held by the American company?—A. None. The shares of the Northern Electric Company are held by the Bell Telephone Company, 90 per cent, and the Weco Corporation, the subsidiary of Western Electric, 10 per cent, and somewhere in between the two are some directors' qualifying shares.

Mr. HERRIDGE: In order to comply with your ruling, I move, in view of the hearings before the Board of Transport Commissioners on rate increases, that the committee postpone further consideration of this bill until the hearings are completed.

Mr. WINCH: I second that.

Hon. Mr. MARLER: I do not expect to quarrel with the right of the hon. member to put forward this motion but I think we ought to be realistic about it. Mr. Munnoch has told us that the hearings will go on a week or two before the Board of Transport Commissioners, and, I take it, it will probably be several months before the board would, in the ordinary course of events dispose of that motion.

Mr. CASTLEDEN: Only until the hearings are over.

Mr. MARLER: Mr. Chairman, whether it is until the hearings are over, or whether until the judgment is rendered, in my view, is not material. The matter is before the Board of Transport Commissioners at the present time and, for the life of me, I cannot see the connection between what the Board of Transport Commissioners may do now, with regard to the existing rate structure, which is based on the existing capitalization of the company and the power, which we are now considering, of the company, to issue additional stock at some time in the future.

It seems to me it is perfectly clear from the brief that the Bell Telephone Company, like a great many other public utility companies in Canada, in order to continue to serve the people of Canada, and more particularly the subscribers such as in the two central provinces, Quebec and Ontario, needs further capital. It seems to me it is quite elementary that the amount they require cannot be raised solely by selling bonds on the market. We all know there is a recognized reasonable proportion which bonds may represent of the capital involved. Therefore, necessarily, the company must have additional stock capital so that it may finance this program of improvement.

It seems to me, Mr. Chairman, that we are at a time, at this moment, when we should encourage private enterprise to make the kind of expenditure that furthers employment, and cuts down the number of those people who are not in jobs; which will be the result of spending these very substantial sums mentioned in the memorandum. For my part, I would be opposed to any motion which would be designed to postpone the consideration of this bill. My own feeling is, the sooner we get on with the job, the better it will be for those who are now unemployed.

Mr. MCLEOD: I am inclined to agree with the speaker in respect of this motion that is before us at the present time. I do not agree, whatsoever, with any submission that we are here to inquire into the rates of the company. I

do not believe we are here primarily to discuss the internal management of the company. We are here solely to inquire into whether or not it is advisable to allow the company to float and to sell further issues of stock to the Canadian people, or to the shareholders. Therefore, it would appear to me that our function is to find out, and to satisfy ourselves whether, with regard to the record of the company in the past, it is—to put it in plain English—safe to allow this company to float another $500 million in shares. In other words, we should decide whether or not the company is going to make good use of this money, or whether it is going to be—in slang perhaps—a swindle of the Canadian people. Therefore, Mr. Chairman, I think the main thing for us to consider is whether or not the company is giving sound management, and whether it intends to use the extra money for sound business practices.

In connection with that I notice on page three that you have a capital inventory increase of $825,500,000 during the past ten year period. That was financed by capital stock, and bonded debt to the tune of $592,067,275, which shows that there was a surplus in capital expenditure of $223,441,889. In my humble figuring that could come from either profit or cash reserves. If it comes from profit during the past ten years, or the ten years in which it was spent, I would consider that the company has been pretty soundly managed, and operated well. Even if it came from cash reserves, I do not think that would give us the answer that the company is not managed soundly and well, and will not make good use of the $500 million, in stock, which they are asking us to authorize.

Mr. SMITH (*Simcoe North*): I rise to speak against the motion to delay the decision here.

I think within the rules of the committee, and also within the ruling as to how much dicussion may be permitted in regard to how rates are arrived at, a sufficient number of questions can be asked and answered to satisfy the questioners who are concerned with that particular part of the company's expansion. Since the expansion is necessary, and a vast amount of money will be spent, as we have been hearing, and in view of the fact that there is a certain increase in unemployment in parts of the country, I do not think any delay of this hearing would serve a useful purpose, either in regard to a reduction of rates or otherwise. I do not feel that a sufficient number of questions can be asked to satisfy those people who are so inclined.

Mr. JOHNSTON (*Bow River*): Mr. Chairman, I just want to say a word because maybe I started this discussion going when I asked questions regarding the possible increase that may result from the passing of this bill.

It is my understanding that it is not within the competence of this committee to make a thorough investigation of the proposed increases the company may desire. If we were to accept the amendment it seems to me we, in this committee, would be holding up the proceedings that we are endeavouring to follow, for a very considerable time. We cannot possibly go into the whole rate structure of the company, to see whether or not it was permissible for it to increase the rates, because that would entail the calling of hundreds of witnesses. I do not think we would be in a position to judge properly whether or not the company should increase their rates, or to what extent they should do so.

I do think—and this is the only point I had in mind when I asked that question—that we have a responsibility to the public.

One of the things that did concern me, and which the witness brought out very clearly was the result to our general economy. I thought the witness handled that very well when he pointed out, in his brief, that as a result of passing this bill, it is going to engage a great many more people in work, which will mean quite a large number of people who are going to be employed on this project.

It certainly is not my intention to offer any obstruction to the work of this committee, to prevent us getting this bill through. The only purpose I had in mind was to get information, and the witness answered that to my satisfaction.

I do not think I could support the resolution because, in my mind, it would withhold the passing of this bill for many months. In my experience in the house, I have seen committees like this, which drag on, and on and on. I do not think that type of procedure would be in the interests of Canada; I do not think it would be in the interests of the company, or of parliament either. For that reason, I do not think I could support the motion.

Mr. WINCH: Mr. Chairman, I am afraid there is a slight misunderstanding here. As far as I am concerned, I recognize the need for expansion and the need for money for that expansion. The question in regard to rates can be tied in as to whether or not the company's request for $500 million is what should be done. It is our desire to find out whether the issue of new shares is going to increase the cost over and above what otherwise would apply, and therefore have an effect on rates. We have heard or read in the past that companies of this nature very often borrow on a far higher percentage than the Bell Telephone Company. That is how it ties in with the question of rates.

That is the reason we thought it should be held over, not for a long time but just until the hearings are completed, so that we would at least know the evidence and information that was placed before the Board of Transport Commissioners which, in turn, might answer a lot of our questions. It would only be a very short delay. I can assure you, sir, we are not blocking or unduly delaying this legislation, as far as we are concerned.

The CHAIRMAN: I would ask Mr. Munnoch to tell us how that capital increase might affect the rates.

The WITNESS: The Board of Transport Commissioners for Canada decide how we are going to finance our expansion program. They have decided in the past that 40 per cent of the expansion must come out of debt securities, leaving 60 odd per cent to come out of equity securities. If this bill is to be delayed until the Board of Transport Commissioners hearing is over, and the decision given—

Mr. MACDONALD (*Vancouver-Kingsway*): That is not the motion, Mr. Chairman. The motion would only delay it until the hearings were completed, so that we could see what evidence had been submitted to that board.

The WITNESS: Until the board has rendered its judgment, as I understand the law, the matter is still subjudice, and the judgment may not come out until early next year. This would mean that we would get no relief for increased capital until probably the next session of parliament. In that case, as I mentioned, we would have to go ahead and start to curtail our construction program. We have no alternative. As I mentioned, if you do not give us straw we cannot make bricks. We have got to have that capital, or else we have to start to cut down on employment by curtailing our operations, in order to keep ourselves in a sound position. We cannot do anything else.

The amount of capital that we are going to need over that period, which we have shown in the memorandum, is not going to be one issue of $500 million. I do not want any hon. member to think that. There will be issues from time to time as we need capital, and as the Board of Transport Commissioners approve the issue, when we have satisfied the Board of Transport Commissioners that we need so much money, and that we are going to issue the stock on such and such terms. We have got to get the approval of that board, before we can do anything.

Now here we are rendering a public service; we need the capital to give the people we serve a telephone service. There are 10,000 of them a month

coming in for telephone service. If they are to do without service, well, we have done the best we can. It is beyond our capacity to build without capital.

The CHAIRMAN: Gentlemen, I am going to rule the motion out of order owing to the fact it only says "further consideration of this bill until the hearings are completed." Now, according to the ruling I gave when the rates came up it is "until the decision is given." As it has been mentioned, that might take months. I am going to rule this motion out of order. Any objections?

Now, gentlemen, Mr. Olson.

Mr. OLSON: Mr. Chairman, on the motion I would like to know this. Has the company to date curtailed its operations because of a lack of capital and secondly when would you find a serious or a large curtailment of your operations and extensions if this bill is not passed? The third part is, when does the company feel that the expansion cost of the passage of this bill will begin to show in the employment picture?

The WITNESS: At the moment with our construction program going on in full force, we are increasing employment. The funds that we have now for that construction program will not last us for very long. We are spending money at the rate of $10 million a month on construction. Now in anticipation and in the hope that this bill will be passed, we have not started to curtail our construction program but if we are faced with the fact that this bill is not going to be passed, the only sensible thing for us to do would be to start curtailing right away and that is going to mean within the next 18 months we will have to lay off some 2,000 employees. The Northern Electric will have to lay off some 3,000 employees and building contractors will, as a result, just have to drop $10 million worth of building contracts and what the effect of that on employment will be I do not know, but we cannot risk going ahead. I mentioned to the committee that we are continually committed to $150 million, for goods and, materials ordered but not yet paid for, and we cannot continue very long without additional capital. If we are going to be good administrators, we will have to start cutting our suit to our cloth just as fast as we can. In the last 12 months we have added 2,084 employees.

By Mr. Winch:

Q. I have only one question. Is there anything to stop your company in the immediate future on capital expenditure having more than 40 per cent come from the field of borrowing?—A. The 40 per cent is a general average, a general long-term average. If you finance today by stock, your debt ratio goes down. If your next piece of financing is by bonds, it goes up. It is going up and down all the time. The investing public know that the Board of Transport Commissioners has approved this 40-60 debt ratio. Now if we start changing that or monkeying with it, we do not know what the investing public will think of our securities. If you get too much debt out, nobody will lend you any more money.

Q. I understand you always have and I presume you are in the future, going to pay at the rate of $2 a share?—A. We hope so.

Q. Now that works out at $25 par?—A. Yes, $25 par.

Q. That is 8 per cent?—A. 8 per cent on par value but nobody is buying stock at par value today.

Q. You pay 8 per cent.

Mr. MARLER: Depending upon what the investor pays for the stock.

By Mr. Winch:

Q. It depends on your surplus revenue as to how much you pay out, what is your rate of borrowing?—A. Borrowing?

Q. Yes.—A. The last was 5¼ per cent.

Q. Is not that cheaper than your dividend ratio?—A. Generally speaking, up to a point borrowing is cheaper than issuing equity capital but if you borrow too much then the cost of your borrowing goes up and so does the cost of your equity capital, or else you cannot sell your equity capital.

Q. So you bring it up to an equalization and that is when you start again on your capital?—A. Equalization is to try to adhere to this 40 per cent debt ratio which the Board of Transport Commissioners, after thorough investigation, has set as reasonable for our company. There are few companies having to raise as much capital as we have to raise.

Q. You are still borrowing 5¼ per cent?—A. The last issue was 5¼.

Q. I understand from the government the interest rates are going down? —A. Maybe they are going down, but we have to judge what the money market is at the time we need the money. The British Columbia Telephone Company are paying 5¾ per cent on the $10 million they are now offering.

By Mr. Lewry:

Q. I did want to bring here the statement carried in last night's Ottawa Journal of the evidence before the Board of Transport Commissioners stating that Mr. Hirsch, from Washington, advised that the company could finance expansion projects more cheaply by bond instead of stock issues. He said the amount of company debt in bonds should be increased from 36 per cent to between 45 and 50 per cent. He also said the company could safely carry more long-term debt and this would enable it to finance at a lower cost than through stocks and said that the Bell can carry as much, if not more, long-term debt than leading electric utilities.

I believe Mr. Munnoch has partially answered it. Why does Bell not finance on bond issues in this case? With the threat—I do not mean it from Mr. Munnoch's point of view—of increasing unemployment if this bill does not go through. Could not that be overcome if, in this case, a bond issue was made to take care of this needed expansion?—A. First let me say we are not through with Mr. Hirsch yet in the rate case. Secondly, we do borrow. We raised, I think I gave you the figure, $232 million of debt since 1947. Our debt now is $343 million that we have raised by bonds.

By Mr. Winch:

Q. What is the average interest rate?—A. The average interest rate is about—it varies from 3¾ to 5 per cent depending on the money market at the time we raise the money.

By Mr. Smith (Battle River-Camrose):

Q. I wonder if Mr. Munnoch could tell us approximately the number of people they have employed in the construction phase of their company?—A. We will have the figure in a minute, sir.

By Mr. Grills:

Q. There has been no mention and I wonder if it does not merit consideration, of the advancement of our communication system in Canada in which the Bell Telephone has shown leadership. I wonder if it does not merit consideration in our national or civil defence and also in national economy. I wonder if it is not worthy of some consideration?—A. Well, as far as national defence is concerned of course you have got a system that extends—at least our system extending, through our territory, is connected with virtually every other telephone system in Canada and in the United States and overseas, so that you have the fastest possible means of communication available in national defence. As for the economy of Canada—well, the expenditure of $962 million with the

employment and industry that that involves must have a very important part, although not perhaps as large as the economic effects which the government and parliament can play in the country; we are doing our part and I think we are doing a very substantial part from the point of view of one corporation.

The CHAIRMAN: We now have an answer to Mr. Smith's question. About 7,000 people are employed in construction.

By Mr. Grills:

Q. Supposing this bill is not passed, what percentage of those 7,000 people would likely be laid off work within the next six months?—A. 30 per cent.

By Mr. Holowach:

Q. I would like to ask a question following the reasoning of Mr. Stanton. I am concerned about the plight of the small and medium sized business in Canada. You will appreciate that there is a very dangerous trend developing in Canada with respect to mergers. Am I correct in assuming from your statement that this capital required, $962 million, is not to be used, or is not being asked for the purpose of acquiring the existing assets of some of those smaller independent companies?—A. Well, sir, it is not being asked for that purpose, and we have no program or projects before us now for any such acquisitions. But I cannot assure you that if at some time in the near future some small telephone company starts going bankrupt and we are called upon by a provincial government to step in, that we won't have to do so.

Q. You yourself indicated that over the past five years you have acquired 40 independent smaller companies.—A. Yes sir.

Q. 40 seemed to me to be a very large number, and I just wanted to indicate a very dangerous trend with regard to mergers.—A. At least 17 of them were companies of which we owned the stock and had owned it for years before and we decided after careful economic examination that we could operate more effectively by taking them in as part of our system. Some of them were municipal telephone systems and the municipalities were very anxious to get rid of their telephone systems and get us in there to operate them. The Ontario telephone authority put on some pressure in certain cases for us to come in and buy, so that people in that locality could get telephone service. I do not think anybody can suggest, if he knows the facts, that we are trying to grab up small telephone systems. We do not want them. But in the interests of giving telephone service to Ontario and Quebec, and indirectly to the rest of Canada through long distance lines, we simply have to do it.

By Hon. Mr. Marler:

Q. How many telephone companies are there in Quebec? Have you any idea?—A. There are about 700 in Ontario and Quebec.

By Mr. Holowach:

Q. My second question deals with the substantial construction program. Is that program to be confined to the provinces of Ontario and Quebec?—A. Yes sir.

Q. I have one further question: with respect to the $962 million. Is that amount to be met by the issue of capital stock?—A. No. $962 million is the total expenditure and I said that we would raise about 60 per cent by capital stock, 40 per cent by debt, and that we would make up the rest of that $962 million from our internal resources.

Q. I wondered if you could give us some information with respect to the depreciation which has been piled on, let us say, during the past five years?

—A. Yes, we can give you that. Mr. Marler asked for it. There are 700 companies in Ontario and Quebec; and there are 2,700 telephone companies in Canada.

The CHAIRMAN: Mr. Howe is next.

The WITNESS: I have a question to answer here. In the last ten years $240 million from our depreciation reserves has been invested in plant.

By Mr. Howe:

Q. I wonder, in connection with Mr. Smith's question a few moments ago, and in respect to developments and the expenditures to be made for cable, underground and overhead, does the Bell Telephone Company foresee at some time in the future, not too far away, a time when its cables will be eliminated altogether?—A. Well, I do not know that we foresee it, but there is continuous development going on in the art of communications in the long distance field where we use carrier channels, and we eliminate cables; that is the radio type of operation. There is no cable used there except a little bit in the towers which transmit from one point to another. Mr. Eadie reminds me that it would now be possible for everyone to carry a telephone around in his pocket if it were not for the fact that there are not enough frequencies in the spectrum to go around. I think the Hon. Mr. Marler knows a bit about that.

By Mr. Macdonald (Vancouver-Kingsway):

Q. I have two or three short questions. First, in view of the employment situation which you say requires you to have this capital issue immediately, do you not think that you should have made your application to parliament sooner? Would that not have been the wiser course for the company to follow?—A. It probably would have been the wiser course but we are always faced with the problem that if we come and tell you that we now have some $34 million available which subject to the employees stock plan to issue—next year it will be around $26 million—we are always concerned that if we come too soon we will be told to go away and to come back later. You never know just how to answer the question. But we try to carry on as best we can, and we come when we find that we need to seek adjustments and increased stock authority.

Q. You have been getting rather close to the practice of "brakemanship", which does not seem to be in great favour at the present time. You mentioned $2 per share. That was dividend?—A. That was dividend.

Q. And the earned amount on your shares at the present time is more like $2.40.—A. It was $2.40 last year; and for nine months this year it is $2.25.

Q. In the present application you are now making there would be an increase of the $2.40 to $2.65 on your shares, in your rate application?—A. Yes. But by autumn of next year we will be back to the $2.40 presently earned.

Q. You mean to $2.65 earned?—A. $2.65 is our estimate, and that is what we are asking for, that is, in 1958; it won't be that much.

Q. My final question is this: can you assure the committee that none of the money from this issue will be used to promote that type of phones where people using them may see the other people to whom they are talking?—A. No, I cannot assure you of that, because if people want that kind of thing we will have to provide it, but they are going to pay for it.

The CHAIRMAN: Shall the preamble carry?

By Mr. Herridge:

Q. On page 11 of your brief I was very much interested in the short paragraph where you say:

> The petitioner is a Canadian-owned company, and is not controlled by any foreign interest.

Would you care to give us an explanation of that?—A. Yes sir. I think I have given it to you in the paragraph just above it, where I say:

> Petitioner's stock is now held by 154,000 shareholders of whom 151,000 or 98 per cent holding 16,400,000 shares or 92 per cent, reside in Canada; 60 per cent of its shareholders are women holding 38 per cent of the shares, and 11,000 or 7 per cent are employees holding 6 per cent of the stock.

That is all we mean by "a Canadian-owned company". The people who own that 92 per cent of the stock reside in Canada.

Q. And they are Canadian citizens?—A. I cannot guarantee that.

Q. Are any of the directors of your company directors of any American companies?—A. Yes. One of our directors is. No, no. None of our directors are directors of any American telephone company.

By Mr. Castleden:

Q. Is Mr. "Romnes" of New York not one of your directors?—A. Yes.

Q. And is he not a director of any other American company?—A. Yes. I thought I was asked if any of our directors were directors of any American companies.

By Mr. Herridge:

Q. Perhaps I might repeat my question. Are there any directors of American telephone companies who are directors of your company?—A. Yes. Mr. "Romnes" is the only one.

The CHAIRMAN: Shall the preamble carry?

By Mr. Castleden:

Q. There have been some extensions in the microwave system. Has your company built microwave stations across Canada?—A. No, but we have built them across Ontario and Quebec where we are linking up with the systems operating in other provinces.

Q. And those are owned by the provinces themselves?—A. Yes sir. We provide them in our own territory. In the case of Manitoba it would be the Manitoba system; in the case of Saskatchewan it would be the Saskatchewan system; in the case of Alberta, it would be the Alberta system and they will own all the sections in their own territory.

Q. It is not a case of a lease?—A. No. They build them and own them, and we only come into it for telephone purposes.

Q. Have these any value or purpose with regard to television programs?—A. Yes sir.

Q. In the same way as with radio?—A. Yes.

Q. What is the extent of your contract with the federal government with regard to communication to the northern area? What is the total value?—A. We are doing the maintenance on a contract basis for the government on about three-fourths of the mid-Canada line. The rest of it is being maintained by an electronic company; it is a maintenance job, a contract job.

Q. What is the expenditure on that annually?—A. I am afraid I do not know the answer to that. It is a matter of government contracts on a fixed fee basis. It is subject to renegotiation if the government thinks we are getting too much.

Q. Has there been any renegotiation in recent years?—A. No. We are just starting.

Preamble agreed to.

Clause 1 agreed to.

On clause 2—Issue and sale of stock, subject to approval of Board of Transport Commissioners for Canada.

By Mr. Castleden:

Q. On clause 2 the explanatory note says:

> The clause re-enacts subsection (2) of section 1 of chapter 81 of the statutes of 1948, which would be repealed by clause 4 of this bill. The last sentence has been added. It is a necessary complement to clause 3 of this bill which extends the jurisdiction of the Board of Transport Commissioners for Canada to the matter of commissions which may be paid in respect of the issue of capital stock. Once the Board's approval is obtained, no question should arise as to the legal effect of anything done pursuant thereto.

is this being done without any amendment to the act which set up the Board of Transport Commissioners?—A. The Board of Transport Commissioners' authority over our capital stock arises from our own special acts. In 1929 the provision was put in our special act of that year which said:

> The Company shall not have power to make any issue, sale or other disposition of its capital stock, or any part thereof, without first obtaining the approval of the Board of Transport Commissioners for Canada of the amount, terms and conditions of such issue, sale or other disposition of such capital stock.

That has been in our special act since 1927. We are seeking to add this additional sentence so that when the board says we may issue the stock in conformity with its orders, or with a certain commission which it approves, after examining into the transaction, then it will not be open to question.

By Hon. Mr. Marler:

Q. Has that question arisen in past issues?—A. No sir, because we never had to pay commissions.

Q. I am referring to the validation of a stock issue and the decision of the Board of Transport Commissioners.—A. It arose once but it did not get very far, when the city of Montreal attempted to block one of our stock issues. It would be a very serious thing, when we start a large stock issue, if somebody were to go to the court and obtain an injunction to tie it up after it had been cleared by the Board of Transport Commissioners. It would strangle the whole operation.

Clause 2 agreed to.

On clause 3—Company may pay commissions on subscriptions.

By Mr. Castleden:

Q. This clause has to do with commissions?—A. Yes.

Q. Under this clause the board is to give permission to you to pay commissions in the sale of your stock?—A. If we apply for it and can show a reason for it.

Q. Do they set the amount of commission payable?—A. They would have to approve the amount and the terms.

Q. In every case?—A. Yes.

Q. The board has complete control over it?—A. Yes. All it has to do is say no, and we are in difficulty.

Clause 3 agreed to.

Clause 4 agreed to. The Title and Bill adopted.

The CHAIRMAN: Shall I report the bill?

Agreed to.

Gentlemen, on Tuesday morning at 10.30 we will have before us Bill No. 30, an act respecting Ottawa and New York Railway Company.

Is that agreeable? I understand the witnesses will all be here.

Mr. MACDONALD (*Vancouver-Kingsway*): Mr. Chairman, will the evidence of today's hearing be printed before the matter reaches the House of Commons?

The CHAIRMAN: There is a chance this bill will come up tomorrow. If that is the case it will not be ready. If it is later it will be ready. However, there will be a typewritten transcript which the members of the committee may see by getting in contact with the Committees Branch.

Mr. MACDONALD (*Vancouver-Kingsway*): I think we should make every effort to have the Queen's Printer print the proceedings so that it can be before the other members of the house when they come to debate the bill itself.

The CHAIRMAN: I will ask the Committees Branch to endeavour to have it as quickly as possible.

Mr. SMITH (*Calgary South*): With respect to the dates for the future hearings of this committee, I wonder if you would attempt to co-ordinate the dates because I happen to know the External Affairs committee is also meeting on Tuesday morning.

The CHAIRMAN: During the seventeen or eighteen years I have been here we have been trying to do this. All I can say is that the members have to split themselves up.

The committee adjourned until Tuesday, December 3, 1957.

HOUSE OF COMMONS

First Session—Twenty-third Parliament

1957

STANDING COMMITTEE

ON

RAILWAYS, CANALS AND TELEGRAPH LINES

Chairman: GORDON K. FRASER, ESQ.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 3

including 4th, 5th, 6th and 7th Reports

BILL No. 196,

An Act respecting the Construction of a line of railway by Canadian National Railway Company from Optic Lake to Chisel Lake, etc.;

BILL No. 197,

An Act respecting The Hamilton Harbour Commissioners; and

BILL No. 72

(Letter I of the Senate), An Act to amend the Canadian Vessel Construction Assistance Act.

THURSDAY, DECEMBER 5, 1957

WITNESSES:

On Bill 196: Dr. D. O. M. Solandt, Vice-President Research and Development, Canadian National Railway Company.

On Bill 197: Mr. R. C. L. Harstone, Hamilton Harbours Board.

On Bill 72: Mr. L. Audette, Chairman, Canadian Maritime Commission.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1957.

50142-9—1

STANDING COMMITTEE

ON

RAILWAYS, CANALS AND TELEGRAPH LINES

Chairman: Gordon K. Fraser, Esq.,

and Messrs.

Barbes
Batten
Begin
Bonnier
Blanchette
Brassard
Broome
Bryce
Byrne
Chevrier
Crouse
Dupuis
English
Fairfield
Fisher
Gauthier (*Lac St. Jean*)
Gauthier (*Chicoutimi*)
Grills
Haidasz
Harrison
Herridge
Holowach
Howe (*Vice-Chairman*)
Johnston (*Bow River*)
Kennedy
Lafontaine
Lavigne
Leboe
Lewry
Macdonald (*Vancouver-Kingsway*)
MacDonald (*Antigonish-Guysborough*)
Marler
Martini
McBain
McDonald (*Hamilton South*)
McGrath
McIlraith
McIvor
McLeod
McPhillips
Muir (*Cape Breton North and Victoria*)
Murphy (*Westmorland*)
Nixon
Olson
Phillips
Rea
Rouleau
Small
Smith (*Calgary South*)
Smith (*Lincoln*)
Smith (*Simcoe North*)
Smith (*Battle River-Camrose*)
Stanton
Stuart (*Charlotte*)
Taylor
Villeneuve (*Roberval*)
Vincent
Winch
Wratten

A. Small,
Clerk of the Committee.

ORDERS OF REFERENCE

TUESDAY, December 3, 1957.

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

TUESDAY, December 3, 1957.

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

TUESDAY, December 3, 1957.

Ordered,—That the following Bills be referred to the said Committee:

Bill No. 196, An Act respecting the Construction of a line of railway by Canadian National Railway Company from Optic Lake to Chisel Lake, and the Purchase by Canadian National Railway Company from the International Nickel Company of Canada, Limited, of a line of railway from Sipiwesk to a point on Burntwood River near Mystery Lake, all in the Province of Manitoba

Bill No. 197, An Act respecting The Hamilton Harbour Commissioners.

Bill No. 72 (Letter I of the Senate), intituled: "An Act to amend the Canadian Vessel Construction Assistance Act".

TUESDAY, December 3, 1957.

Ordered,—That the following Bills be referred to the said Committee:

Bill No. 102 (Letter X-1 of the Senate), intituled: "An Act respecting Alaska-Yukon Pipelines Ltd".

Bill No. 195 (Letter O-5 of the Senate), intituled: "An Act respecting St. Mary's River Bridge Company".

WEDNESDAY, December 4, 1957.

Ordered,—That the name of Mr. McDonald (*Hamilton South*) be substituted for that of Mr. Doucett on the said Committee.

Attest.

LEON J. RAYMOND,
Clerk of the House.

50142-9—1½

REPORTS TO THE HOUSE

TUESDAY, December 3, 1957.

The Standing Committee on Railways, Canals and Telegraph Lines has the honour to present the following as its

FOURTH REPORT

Your Committee has considered the following Bill and has agreed to report it without amendment:

Bill No. 30 (Letter D of the Senate), intituled: "An Act respecting Ottawa and New York Railway Company". *

Respectfully submitted,
GORDON K. FRASER,
Chairman.

TUESDAY, December 3, 1957

The Standing Committee on Railways, Canals and Telegraph Lines has the honour to present the following as its

FIFTH REPORT

Your Committee recommends that it be authorized to sit while the House is sitting.

Respectfully submitted,
GORDON K. FRASER,
Chairman.

FRIDAY, December 6, 1957.

The Standing Committee on Railways, Canals and Telegraph Lines has the honour to present the following as its

SIXTH REPORT

Your Committee has considered the following Bills and has agreed to report them without amendment:

1. Bill No. 196, An Act respecting the Construction of a line of railway by Canadian National Railway Company from Optic Lake to Chisel Lake, and the Purchase by Canadian National Railway Company from The Internationl Nickel Company of Canada, Limited, of a line of railway from Sipiwesk to a point on Burntwood River near Mystery Lake, all in the Province of Manitoba.

2. Bill No. 197, An Act respecting The Hamilton Harbour Commissioners.

3. Bill No. 72 (Letter I of the Senate), intituled: "An Act to amend the Canadian Vessel Construction Assistance Act".

A copy of the Committee's Minutes of Proceedings and Evidence in respect of the said Bills is appended hereto.

Respectfully submitted,
GORDON K. FRASER,
Chairman.

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* *The evidence heard on this private bill was not authorized to be recorded or printed by the Committee.*

FRIDAY, December 6, 1957.

The Standing Committee on Railways, Canals and Telegraph Lines has the honour to present the following as its

SEVENTH REPORT

Your Committee has considered the following Bill and has agreed to report it without amendment:

Bill No. 195 (Letter O-5 of the Senate), intituled: "An Act respecting St. Mary's River Bridge Company".*

Respectfully submitted,

GORDON K. FRASER,
Chairman.

**The evidence heard on this private bill was not authorized to be recorded or printed by the Committee.*

MINUTES OF PROCEEDINGS

TUESDAY, December 3, 1957.

The Standing Committee on Railways, Canals and Telegraph Lines met at 10.30 a.m. The Chairman, Mr. Gordon K. Fraser, presided.

Members present: Messrs. Blanchette, Bryce, Fairfield, Fisher, Fraser, Herridge, Lavigne, Lewry, MacDonald (*Antigonish-Guysborough*), Marler, Martini, McIlraith, McIvor, McLeod, McPhillips, Murphy (*Westmorland*), Nixon, Olson, Phillips, Smith (*Calgary South*), Smith (*Simcoe North*), Winch, and Wratten.—23.

In attendance: Mr. George J. McIlraith, Q.C., M.P., Sponsor of the Bill; and Mr. Cuthbert Scott, Q.C., Parliamentary Agent.

The Committee commenced consideration of Bill No. 30 (Letter D of the Senate), "An Act respecting Ottawa and New York Railway Company".*

On the Preamble:

The Chairman called on the sponsor to introduce the Parliamentary Agent for hearing and questioning.

The Preamble, Clauses 1 and 2, the Title, and the Bill were adopted.

Ordered,—That the Chairman report the said Bill to the House without amendment.

On motion of Mr. Martini, seconded by Mr. Smith (*Simcoe North*),

Resolved,—That a recommendation be made to the House to obtain authority for the Committee to sit while the House is sitting.

At 10.45 a.m., the Committee adjourned to meet again on Thursday, December 5, 1957.

A. Small,
Clerk of the Committee.

**The evidence heard on this private bill was not authorized to be recorded or printed by the Committee.*

MINUTES OF PROCEEDINGS

THURSDAY, December 5, 1957.

The Standing Committee on Railways, Canals and Telegraph Lines met at 3.00 p.m. The Chairman, Mr. Gordon K. Fraser, presided.

Members present: Messrs. Barbes, Broome, Bryce, Chevrier, Crouse, Fisher, Fraser, Gauthier (*Lac St. Jean*), Harrison, Howe, Kennedy, Lavigne, Leboe, Lewry, Macdonald (*Antigonish-Guysborough*), Marler, Martini, McBain, McDonald (*Hamilton South*), McGrath, McIlraith, McIvor, McPhillips, Nixon, Olson, Phillips, Smith (*Simcoe North*), Stanton, Stuart (*Charlotte*), Wratten.—30.

In attendance:

On Bill 196: Messrs. D. O. M. Solandt, Vice-President, Research and Development; K. M. Ralston, Commissioner of Development; and Pierre Taschereau, Solicitor; all of the Canadian National Railway Company.

On Bill 197: The Honourable George, Hees, Minister of Transport, and the following members of the Hamilton Harbours Board: Messrs. R. C. L. Harstone, P. T. McCulloch, and Cliff Morgan, Port Manager.

On Bill 72: The Honourable George Hees, Minister of Transport, and the following members of the Canadian Maritime Commission; Messrs. L. Audette, Chairman, and L. J. Leavey, Legal Branch.

On Bill 195: Mr. G. E. Nixon, M.P., Sponsor of the Bill.

On motion of Mr. Smith (*Simcoe North*), seconded by Mr. McDonald (*Hamilton South*),

Resolved,—That the Committee print 700 copies in English and 200 copies in French of its Minutes of Proceedings and Evidence in respect of the following Bills:

(1) Bill No. 196, An Act respecting the Construction of a line of Railway by Canadian National Railway Company, etc.;

(2) Bill No. 197, An Act respecting The Hamilton Harbour Commissioners; and

(3) Bill No. 72 (Letter I of the Senate), An Act to amend the Canadian Vessel Construction Assistance Act.

The Committee commenced consideration of Bill No. 196, An Act respecting the Construction of a line of railway by Canadian National Railway Company from Optic Lake to Chisel Lake, and the Purchase by Canadian National Railway Company from The International Nickel Company of Canada, Limited, of a line of railway from Sipiwesk to a point on Burntwood River near Mystery Lake, all in the Province of Manitoba.

On Clause 1:

Dr. Solandt was called, heard and questioned.

Clauses 1 to 11 inclusive and the Schedule were considered and adopted.

The Title and the Bill were adopted.

Ordered,—That the Chairman report the said Bill to the House without amendment.

The Committee commenced consideration of Bill No. 197, An Act respecting The Hamilton Harbour Commissioners.

On Clause 1:

Mr. R. C. L. Harstone of the Hamilton Harbours Board was called, heard and questioned.

Clauses 1 to 4 inclusive were considered and adopted.

On Clause 5:

Mr. Marler moved, seconded by Mr. Chevrier, that the said Clause be amended by deleting the word *any* in the first line thereof and substituting therefore the word "the".

After discussion, upon the undertaking of the Minister of Transport to consider the proposed amendment and to report thereon when the Bill is next considered in the House, the said motion was, by leave of the Committee, withdrawn.

Clause 5 was adopted.

The Title and the Bill were adopted.

Ordered,—That the Chairman report the said Bill to the House without amendment.

The Committee commenced consideration of Bill No. 72 (Letter I of the Senate), An Act to amend the Canadian Vessel Construction Assistance Act.

On Clause 1:

Mr. L. Audette, Chairman, Canadian Maritime Commission, was called, heard and questioned.

Clauses 1 to 3 inclusive were considered and adopted.

The Title and the Bill were adopted.

Ordered,—That the Chairman report the said Bill to the House without amendment.

On the request of Mr. Nixon, leave of the Committee was obtained to consider this day Bill No. 195 (Letter O-5 of the Senate), An Act respecting St. Mary's River Bridge Company.*

On the Preamble:

Mr. Nixon gave an explanation of the purpose of the Bill.

The Preamble and Clause 1 were considered and adopted.

The Title and the Bill were adopted.

Ordered,—That the Chairman report the said Bill to the House without amendment.

At 4.30 p.m., the Committee adjourned to meet again on Tuesday, December 10, 1957.

A. Small,
Clerk of the Committee.

**The evidence heard on this private bill was not authorized to be recorded or printed by the Committee.*

EVIDENCE ON BILL 196

THURSDAY, December 5, 1957.
3:00 p.m.

The CHAIRMAN: Gentlemen, we have a quorum. The first bill will be an act respecting the construction of a line of railway by Canadian National Railway Company from Optic Lake to Chisel Lake, and the purchase by Canadian National Railway Company from the International Nickel Company of Canada, Limited, of a line of railway from Sipiwesk to a point on Burntwood river near Mystery lake, all in the Province of Manitoba.

I believe that you are all in possession of the bill, but before we go into that, I should like to have a motion authorizing us to print 700 copies of the minutes of the meeting in English and 200 copies in French.

Moved by Mr. Smith (*Simcoe North*), seconded by Mr. McDonald (*Hamilton*) that the committee print 700 copies in English and 200 copies in French of its minutes of proceedings and evidence in respect of bills 196, 197, and 72.

The CHAIRMAN: What is your pleasure gentlemen?

Motion agreed to.

The CHAIRMAN: I have just had a note from Mr. Hees, the Minister of Transport, and he is tied up in a cabinet meeting at present and cannot be here, so I am going to ask—

Mr. CHEVRIER: Perhaps I could act in his place!

The CHAIRMAN: I am going to ask the officers of the C.N.R. if they will come up here on the platform. Dr. Solandt is the vice-president of Research and Development, Mr. Ralston, the commissioner of development and Mr. Taschereau, the solicitor. Dr. Solandt, you are the one who is going to give the evidence?

Dr. SOLANDT: Yes, Mr. Chairman.

The CHAIRMAN: Dr. Solandt is up here on the platform and he will give the evidence. If you wish to ask anything further from the others, we can have them come up as well. Now on clause 1 of the bill, are there any questions?

Mr. CHEVRIER: Would it not be a good idea if we had Dr. Solandt outline the position of the line and then perhaps it would be easier to take the bill clause by clause.

The CHAIRMAN: Dr. Solandt, would you outline what is required? Will you do that and point it out on the map, or have you a brief?

Dr. SOLANDT: No, I just wondered how complete a story you want. You have had it in the house.

The CHAIRMAN: We have had it in the house, but if you could show them on the map I think it would be much better.

Dr. D. O. M. Solandt, Vice-President, Research and Development, Canadian National Railway Company, called:

The CHAIRMAN: Can you all see the map, gentlemen?

The WITNESS: This is a map of northern Manitoba, with the main line from Winnipeg coming up here; the Pass here, the Hudson Bay Railway to Churchill

going off in this direction; this is the branch line which goes to Flin Flon and which formerly just went to Sherridon, and then it was extended in 1953 up to Lynn lake.

The Hudson Bay Mining and Smelting Company have been operating at Flin Flon for about 30 years, and during that period they have been exploring the area very intensively. In recent years they have located a series of base metal deposits, principally zinc, with a good deal of copper, in these areas marked here. A couple of years ago, we discussed the possibility of a branch line to serve this area and we investigated two possibilities; one of a line running straight south from Chisel lake to join the Hudson Bay Railway; the other one, the line that is shown in red and the one it is proposed to construct now which goes from Chisel lake to Optic lake on the existing Sherridon branch.

This route was chosen because, at the present time, the Hudson Bay Mining and Smelting Company intend to move the ore from Chisel lake to Flin Flon and to put it through their mill and smelter at Flin Flon. The movement will be heavy and there will be very substantial economies in the shorter mileage, about 100 miles this way rather than by the alternative route.

By Mr. Chevrier:

Q. What relationship is there between this line from Optic lake to Chisel lake and the line which the Canadian National Railways built some time ago from Lynn lake to Sherridon? Is there any relationship between the traffic and volume of traffic?—A. As far as volume of traffic is concerned this one will have much heavier traffic.

By Mr. McIlraith:

Q. Which one? For the record, name and describe the line rather than say "this one".—A. The line from Chisel lake to Optic lake will have a heavier tonnage than the line from Lynn lake because the shipment here will be of crude ore. As you were told, the minimum guarantee is 350,000 tons a year. The traffic from Lynn lake is a concentrate and consequently the tonnage is smaller.

By Mr. Chevrier:

Q. Is the guarantee being filled in the other line, the Lynn lake to Sherridon line?—A. Yes, it has been.

Q. Could the witness give any reason why most of these lines always go towards the north rather than towards the east and west. For instance I am thinking of the Kitimat to Terrace line, Lynn lake to Sherridon, the Chibougamau railway and one in Ontario to the south, all go up to the north rather than across east and west?—A. Well I do not know of any fundamental reason why they should except in general the northern areas are less developed than the southern ones.

Q. Perhaps there is more mineral wealth?—A. From Optic lake to Chisel lake is not far from running east, but it does go somewhat northerly. I think the explanation is that the northern areas of the country in general were not fully explored and they are the areas in which there are still major mineral deposits to be found, although the discoveries in New Brunswick give the lie to that suggestion.

Q. Will the other line that is being purchased add to the profitable aspect of the Hudson Bay Railway?—A. Yes it should substantially increase the total traffic on the Hudson Bay Railway because, as you know, apart from the grain movement in the summer, the traffic on the Hudson Bay Railway is quite light.

By Mr. Bryce:

Q. I should like to ask you if there has been any consideration given to taking the line straight up through? You have a good line up to Gypsumville. There is a lot of traffic on it. Then you would go up through Grand Rapids which is to be developed in the near future where there is an 81 foot drop on the river and right up through and then you would serve the whole of the country instead of just buying a little bit of a line here that is only going to serve the one company. I have been drawing that to the attention of the Transport Department for 14 years now and here we are making little lines again.—A. We did, in fact, look at it quite carefully at the time. The possibilities of developing in this area were first discussed and it did not seem to be an economically reasonable proposal because the mileage of line that would be needed would be very much greater than this small addition here and the country through which we would have to build from Gypsumville north past Grand Rapids on the Saskatchewan is very difficult swampy country and has very limited local natural resources. There is no doubt there is an attraction in the basic idea. We did certainly look at it but we could not see that it was justified on the basis of this development. This seemed to be a much cheaper and productive way of meeting this immediate problem.

Q. We could save money in the movement of the grain and freight on the way to Hudson Bay Junction. If we ever got back into the cattle trade, as we were before, we would only need to unload the cattle once, going straight through, and going the other way we have to unload them three times.

By Mr. Chevrier:

Q. Is not the determining factor the profit or loss aspect of the branch line that determines the C.N.R. in submitting the building of it?—A. Yes, and we could not see any economical justification in building from Gypsumville up to Mystery lake for the needs of the International Nickel Company.

Q. And here you have a guarantee, have you, in the case of—A. Oh yes, we have a guarantee in both these cases which reduces the risk from our point of view to a reasonable commercial risk.

Q. How much is the guarantee in tons?—A. The guarantees are quite different. This is an interesting example.

The CHAIRMAN: I wonder if it would be wise to take clauses 1, 2, and 3 first and then we will take the other clauses relative to the purchase.

Mr. CHEVRIER: I have no objection but I was wondering if we could not get a general description of the whole picture. I think we would get along faster in that way.

By Mr. Chevrier:

Q. Could we get an idea of the guarantee?—A. I think that these two lines that we are discussing today are interesting because they are examples of two different kinds of guarantees and I think it is very simple in this case why the guarantees are different. The line from Chisel lake to Optic lake is being constructed almost entirely for hauling ore from the mine to the smelter. There would be very little revenue from the inbound products so the sensible thing to do is to put the guarantee in terms of tons of ore shipped; and the guarantee that you have here is that they will ship a minimum of 350,000 tons of ore or, alternatively, should they put in a mill at Chisel lake, they will ship 70,000 tons of concentrate at a higher freight rate each year for 10 years, and this guarantee is designed to share the risk between the mining

company and the railway. If they fail to meet their guarantee we would undoubtedly lose a little money, but not much. But if they make their guarantee we hope to make money. It is only reasonable that we should share the risk with them.

In the case of the line from Thompson to Sipiwesk the outbound tonnage will be quite small because the International Nickel Company are putting in a mill, a smelter and a refinery so they will be shipping a refined product. Inbound tonnage will be much greater because there will be all the materials for the smelter and refinery, including coal and other things. It seems more reasonable in that case to put the guarantee in terms of gross revenue arising from the construction of the line, and the guarantee in that case is that the gross revenue will equal one tenth of the purchase price of the line each year for 10 years.

The CHAIRMAN: Are there any other questions?

By Mr. Fisher:

Q. Is there any possibility of any pulp traffic on these routes?—A. Yes, I think there is a possibility of pulp traffic. It may not arise on either of these branch lines. It is unlikely it will arise on a branch line but there is quite a likelihood of pulpwood traffic from the Hudson Bay Railway in this area.

Q. Who controls the limits up there now; are they held by anyone?—A. I am not quite sure.

Mr. RALSTON: There have been several people after the limits. I do not know, at the moment, who has them. The Manitoba government has been negotiating with several people in the last few years.

By Mr. Marler:

Q. I should like to ask one question in connection with the branch line between Optic lake and Chisel lake. The average cost per mile is given in the schedule at $170,000 which I think was the cost that was mentioned by the railway company earlier when I had occasion to make representations to cabinet in connection with the project. Is that more or less a typical cost average with that kind of country?—A. I think it is safe to say, sir, that the cost of this line is estimated to be a little higher than average for several reasons. It tends to run across the grain of the country. You can see the drainage is down in this way. There is quite a lot of rock work and there is quite a lot of muskeg, and the other factor that will add more to the cost is that there is no suitable material for ballast except in the center of the line.

There is a large ridge of sand and gravel almost in the middle of the line, and it is the only place you are able to obtain suitable material for building the line, and it will be necessary to grade the line roughly from both ends. You can work from both ends because you can get your machinery in by road and roughly grade it, lay the track and, after the track is laid, haul the gravel and fill from this central point in both directions. The track is then lifted, and these various factors make the cost a little above average.

By Mr. Chevrier:

Q. How do they compare with the other line?—A. They are just a little bit high.

The CHAIRMAN: That is on account of red granite.

The WITNESS: I think it is granite in both areas.

By Mr. Howe:

Q. The witness indicated, or it is stated in the bill, that the estimated cost is $170,000. I notice that the purchase price which International Nickel Company is being paid for the other line is $180,000. Why would there be that

difference between the figure they are paying for the other line and the estimated cost for the new line?—A. I think the misunderstanding there is that the original estimated cost of branch line No. 2, the one from Sipiwesk to Thompson, was in round figures $4½ million, and then to that was added a contingency of 15 per cent, which is the normal practice in railway construction, and has been the practice in past bills. The price that will be paid for the railway is not necessarily $5,400,000. We hope it will be much nearer. Actually, the exact estimate was $4,685,000. That was the exact estimate.

By Mr. McIvor:

Q. Is mining the chief source of business or is there going to be any farming in there?—A. I think there will be little or no farming. Apart from mining, there may be a very small amount of fishing, and there may be in this general area substantial pulpwood but I think not much on either of the lines. These are essentially pure mining branch lines.

By Mr. MacDonald (Antigonish-Guysborough):

Q. Are there any people residing along the proposed line from Optic lake to Chisel lake, or is it a barren waste?—A. There is virtually no population in the area in between but there is quite a sizeable town at Snow lake.

Q. Is that the name of the town?—A. Snow Lake. Yes, I think the town is called Snow Lake. The mine is Britannia mine and it is sometimes called Howe Sound. But I believe Snow Lake is the name of the town, and as was pointed out in the house, one of the fortunate coincidences of the discovery of the base metal here is that the gold mine that was operating at Snow Lake has just closed and so the construction of this line, if we decide to proceed with it, would be a distinct advantage to the people in this town.

By Mr. Olson:

Q. I should like to ask at what stage of construction is the line from Thompson? Are there any miles completed?—A. The line from Sipiwesk to Thompson was officially opened on October 20 and is in service now. It is not completed from the railroad point of view. It still has to have a good deal of ballast added to it next spring but it is in operation.

Q. Are you in a position now to say what the actual construction costs were?—A. No, we are not yet in a position to say but from the railway point of view, it is not completed. It still has to have its final ballast put on and the track lifted and the final grading done. But so far the costs have not been unreasonable. I think you have the full information from the returns regarding the cost.

We felt it was only reasonable for the C.N.R. to pay a price for this line that would be equivalent to the price it would cost us to build it at the normal rate we build a line. The International Nickel Company, for purposes of developing the mine, wanted to build the line much more quickly and they agreed that our engineers and their engineers would watch the construction of the line carefully and try to agree what element of the expense was being added at each stage.

By Mr. Chevrier:

Q. Is there an agreement in writing to that affect?—A. Yes there is and these interchanges between the engineers have been going on continually but we have not attempted to add them up, but in general the costs are turning out quite satisfactorily and the Canadian National Railway will not pay the International Nickel Company what it cost them to build the line but will pay them substantially less than that.

The CHAIRMAN: Are there any more questions?

Mr. FISHER: Is there absolutely no chance of competition in this particular situation, such as we have at Manitouwadge?

Mr. CHEVRIER: There is no other railway but your own in that area.

By Mr. Fisher:

Q. We have a situation in northern Ontario with deep rock iron mines where they were dissatisfied with the service provided by the C.N.R. Are there any regulations in the agreement that would cover an eventuality such as that?—A. Well, I think geography is very strongly on our side in this case, but we have no agreement concerning International Nickel, no more than any other. We did our best to keep them satisfied and I think, particularly in the case of a large operation like this, there is no great difficulty. Presumably, they are satisfied.

By Mr. Lewry:

Q. Did the witness say that the No. 2 line was completed on October 20 this year?—A. Yes.

Q. And how many stops would there be on either line?—A. No, we do not anticipate any stops on either line and naturally the passenger business on them will be essential because there are no roads—at least, there is no road to Thompson. There is a road from the railway up to Chisel lake, but there will be no stops on either of these lines. There is no habitation, there is no one along this way except the sectionmen.

Q. Stationed at the end of each line?—A. Yes. Of course, I should not eliminate the possibility of the development of other mines along the route, particularly in the case of the line from Optic lake to Chisel lake. There have been many claims staked in that area and at least one property has been explored to some degree and has shown evidence of enough copper that it might be worth opening a mine if there is a railway there; although it would not have been worth considering without the railway. So, there is a possibility of further mineral development along this line and I should also emphasize that in addition to the mine at Chisel lake the Hudson Bay Mining and Smelting Company Limited have several other properties in this area which they fully expect to develop as time goes on.

Q. Is this to be a full service, express and mail on both these lines? —A. On both the lines, the service initially will be almost entirely freight and will be adjusted to the tonnage that is offered.

Q. Did you state a few moments ago that the passenger potential is important? Is that for the present or for the future?—A. I am sorry, I think I was misleading there. I meant to say that the passenger service would be important for the localities but passenger potential is most unimportant from the railway point of view. We will probably lose money on it but it is a case where obviously we have to give passenger service because there is no other way of getting in.

Mr. MARLER: Mr. Chairman, during the discussion of the bill in the committee stage, I drew to the attention of the minister that the amount specified in the bill for the purchase of the line between Sipiwesk and Mystery lake was stated in the bill at a substantially higher amount than the estimate of the cost as represented to me at the time I was Minister of Transport. I have since had conversations with the present minister on the subject and I would like to perhaps have the witness clear up the discrepancy which existed in my mind between the amount of the estimated cost of the line I have just referred to, when the matter was dealt with by the former government, and the amount that is provided for in the bill. Dr. Solandt a moment

ago said the original estimate had been $4½ million but after that a revised estimate he said was for an amount of $4,685,000 and of course, the bill provides for a total amount of $5,400,000.

Now at the time the matter was considered by the cabinet. The outside limit was considered to be $4,500,000. Now, I think there has been a misunderstanding between the management of the railway and the department concerning the cost of this particular branch line, while we looked on the original estimate of $4½ million as the maximum cost, the railway has been looking at it as the usual basis for a branch line plus an allowance of 15 per cent. The situation has been further complicated by the fact that the railway's own estimate of the cost has increased by approximately $185,000 since the proposal was approved by the cabinet. I wonder if Dr. Solandt would explain to the committee, just exactly what the facts are with regard to these costs and why the authorization to buy has been fixed at $5,400,000 when it was originally estimated that the maximum would be $4½ million.

The CHAIRMAN: Could you answer that, Dr. Solandt?

The WITNESS: Yes, sir. As far as I know, this has been entirely due to a misunderstanding. I think the railway from the beginning, has put the cost at $4,685,000 and this was in some correspondence rounded off to $4½ million as a round figure.

It is the custom in dealing with branch lines to deal with the estimated cost and then to include in the bill, which authorizes their construction, authority to exceed the estimated cost by 15 per cent, subject of course coming back to parliament for the additional fund should the original estimated be exceeded. But as the authority has been used in the past, it meant that the railway could go ahead and build the branch line. If it exceeded the original amount estimated it would then come back to parliament for subsequent authority to spend the extra money within the 15 per cent allowance. In this case, it was realized that the situation was somewhat different because the railway would be faced with the problem of paying the International Nickel Company whatever the agreed price was under the formula I have outlined to you and that if this amount happened to be more than the $4,685,000 even by a small amount, then the railway would not be able to pay and would have to come back to parliament again. So instead of putting in, as we would have, if we were building the branch line, the figure of $4,685,000 or $4½ million plus 15 per cent contingency, we put in that figure with the contingency added at $5,400,000. As I said before, we do not expect that the railway will cost that much but do ask for that, since that is the normal estimated cost of the railway plus the 15 per cent contingency.

By Mr. Marler:

Q. I thought it was important that the witness should clear up the doubts on that point because I do not want to leave the impression in the minds of the house, or this committee, that there had been some strange transformation in price between the time I was Minister of Transport and the present, because there was certainly no such suggestion on my part. But I think it is quite clear there has been a very definite misunderstanding. I did not take away with me all of my correspondence of the Canadian National Railways, consequently, I am not in a position to deal with the matters that were subsequent to the time it was submitted to the cabinet but Dr. Solandt will recall perhaps, if he will look in his records, that the amount submitted to the cabinet was for $4½ million and not the large sum we are dealing with today. I think Dr. Solandt's explanation disposes of the question satisfactorily so far as I am concerned.—A. The concise answer is that there has been no

change in our estimates of the cost of the railway, in spite of the misunderstanding. Our estimate is still the same as it was initially although I agree there has been a misunderstanding.

Q. And, of course I think that the final price to be paid to the Nickel company will depend on the total costs which will be determined when all the work is finished.—A. That is correct, sir, and we have in fact supervised the construction of this line almost as closely from the engineering point of view as if we had been doing it ourselves. So that we will, I think, feel perfectly confident that we know exactly what the costs have been and what they should have been and we can be assured we get just as good value for our money as if we built the line ourselves which, of course, is the object.

Q. One more question, Mr. Chairman, during the course of discussion the other night, the minister gave me the impression that there was an addition to the line at the Thompson end of it, which was not being acquired by Canadian National Railways but which would be used by the International Nickel Company itself. Is it a fact that there will be part of the line to be under the control of the International Nickel Company and not under the control of Canadian National Railways?—A. The International Nickel Company plan to build over the years, quite extensive railway lines of their own connecting Thompson, where their main mill smelter and refinery will be, with other mines. But they will be in the nature of internal conveyor systems to bring ore from outlying mines into the refinery.

There will be little or no transshipment between their lines and our lines. The terminus of the railway proper will be at Thompson where there will be a station and freight yards and an interchange point. The situation at Flin Flon at present is almost exactly the same. The Hudson Bay Mining and Smelting Company operate something over 20 miles of railroad of their own which just connects outlying mines with the mill.

By Mr. Stanton:

Q. Is there any possibility within the foreseeable future for an extension of those lines to the unexplored parts in and around the immediate district? —A. We do not see any immediate need but you certainly cannot rule it out. Both of these areas are highly mineralized. They are very promising areas for exploration. In the case of Chisel lake line, of course, the possibility for extension to some of these other ore bodies is quite a real one. In the case of the Thompson line, there is the possibility of extension to other ore bodies around about but naturally as long as the ore bodies along Thompson belong to the International Nickel Company and the ore is coming to their central mill, they will probably prefer to build their own lines because they will be highly specialized lines, especially for ore.

Mr. CHEVRIER: I am satisfied with the economics of both these lines and I have no further questions.

By Mr. Howe:

Q. I was just wondering whether there is no fixed agreement as to price in regard to certain parts of this branch line that is being bought from the International Nickel Company. Why should there not be some fixed agreement between the railway and the mining company as to prices before this proposal is put through?—A. We felt that we could get the line more cheaply by the type of agreement that we entered into because if you ask a person to build a railway line for a fixed price, they will usually fix the price fairly high because there are a great many unknown factors in building railway lines through terrain of this sort. You cannot be sure of how much difficulty

you will have with muskeg and bridge footings and so on, because in the past we have found that it is cheaper to build a line under close engineering supervision and pay for what we get in construction value.

Q. This line has been already built?—A. Yes, but in essence, the C.N.R. has built it. We have supervised the construction of this line just about as closely as if we had built it ourselves. The International Nickel Company have paid for it, they have negotiated with the contractors but our own C.N.R. engineers have been resident on the job throughout and we know just as much about the costs of this line as if we had built it ourselves.

The CHAIRMAN: Any other questions, gentlemen?

Clauses 1 to 11 inclusive, agreed to.

Schedule agreed to.

Title agreed to.

The CHAIRMAN: Shall I report the bill?

Mr. CHEVRIER: Before you do, I would just like to say one word in connection with the witness. I understand it is his first appearance before the committee since his appointment as vice-president of research and development for the Canadian National Railway which is one of the most important positions which the Canadian National Railway has to offer. His predecessor, Mr. Fairweather, gave evidence over a period of many, many years during the 9 years I was minister. I am very happy to see that Dr. Solandt is following his footsteps, and I am sure that the committee would want me to extend to him and the other officials of the Canadian National Railways our thanks for the very lucid manner in which this bill has been explained.

Mr. McIVOR: He knows his job.

The CHAIRMAN: I was going to remark this same thing. You are an excellent witness, Dr. Solandt and you have, I believe, satisfied every member of the committee. Thank you very much.

Shall I report the bill?

Agreed to.

EVIDENCE ON BILL 197

The CHAIRMAN: Now, gentlemen, the next bill we have is being distributed to you now and the bill is respecting the Hamilton Harbour Commissioners. We have witnesses here, Mr. R. C. L. Harstone, Mr. P. T. McCulloch and Mr. Cliff Morgan, the port manager in Hamilton. I am going to ask these gentlemen if they will come up here.

Now, gentlemen, we have bill No. 197, An Act respecting the Hamilton Harbour Commissioners. On clause 1, I am going to ask Mr. Harstone what this bill represents.

Mr. R. C. L. Harstone, Member, Hamilton Harbours Board, called:

On clause 1—Short title:

The WITNESS: May I say that I had the opportunity of reading *Hansard*, and I really think the minister explained the bill perhaps a good deal better than I can. Our commission, sir, desires to extend its facilities. These facilities are necessary in view of the St. Lawrence Seaway development and we propose to build a new transit shed capable of taking care of all types of commodities

that may be brought in by boat at Wellington street. That transit shed is to cost $1 million. At Ship street, it is proposed to extend or build a new dock at that point costing some $3 million of which the Hamilton Harbour Commission have obligated themselves to pay 50 per cent. The same applies to what we call Strathearne street project on which the Hamilton Harbour Commissioners are providing 50 per cent of the cost of that project. All of these undertakings have been given study by our engineer and by our commission and we feel satisfied that they will be self-liquidating and that the revenues that the commission will receive from these projects will take care of the amortization costs amounting to 50 per cent of the total costs of these projects. Is there anything further you would like me to say?

The CHAIRMAN: Well, Mr. Harstone, I am going to ask the members if there are any questions they wish to ask.

Mr. CHEVRIER: I have a statement which I would like to make right away before anyone accuses me of being one way or the other. I have looked at this bill and what is more than looking at it, I have been in close contact with what is happening in that area since acting in my capacity as former president of the St. Lawrence seaway authority. I cannot support this bill strongly enough. I say that because I know the effect of the original Welland canal upon the whole economy of Hamilton and I know that the effect of the St. Lawrence seaway is going to be even greater.

What I intend to state now is that I do not believe that the facilities which are being built under this bill will be sufficient in my opinion to look after the increased traffic which I hope, and which all the economists, both Canadian and American, maintain, will be brought about by the St. Lawrence seaway development. So I for one, have not the slightest hesitation in supporting the expenditures that are being put forward in this bill. Now, there is another matter. The question of the financial aspect. I presume that the Harbours Commissioners of Hamilton have looked at this carefully and are prepared to apply to the government for the loan. There is another aspect too which was discussed in the house by my colleague, the former Minister of Transport, Mr. Marler, as to the policy of the government in connection with this particular project. He probably wants to comment upon that. That is another matter altogether with which perhaps the house is concerned more than this committee. If the minister had been here, I would have liked to make a suggestion to him in connection, not only with the city of Hamilton but Toronto, Port Arthur and Fort William and all the other ports along the St. Lawrence seaway from the gulf right up to the head of the lakes because I think there is going to be a tremendous change in the activities of all these areas.

Right now, there is being spent for investment purposes along these ports more than is being spent on the St. Lawrence seaway itself. But since he is not here, I will reserve this for another time, perhaps in the house but I did want the committee to know that I have not the slightest doubt in my mind that these facilities not only are required, but in my opinion, will not suffice because of the enhanced traffic that will flow from the St. Lawrence seaway development.

The CHAIRMAN: I am quite sure the minister will read your remarks in the minutes.

Mr. MARLER: Might I make these general comments. In the discussion in the house the other night, the discussion turned on two topics of the question. First of all the bill which deals with the subject of a loan of $4 million to the Hamilton Harbour Commissioners and there is the second aspect of a contribution which the Department of Public Works is going to make to the building of these facilities. Now the second question is not before this committee. We are

dealing solely with the question of the loan. I do not propose to raise the question of policy at this stage, particularly what Mr. Chevrier has said. The minister is not here and I am not stating that this would be the appropriate place to consider it, but I wonder if I might ask Mr. Harstone if he could give us the benefit, and perhaps I should say in capsule form, of the economic studies which the commission has made with regard to these facilities.

I take it, Mr. Chairman, that Mr. Harstone could tell us the approximate gross revenues they expect will develop from these facilities, what the operating expenses are likely to be and what the net operating results likely to be during the early life of these facilities. If Mr. Harstone can give us this information, I think the committee will find it interesting.

The WITNESS: Mr. Chairman, may I say that we estimate that the revenue that the commission will receive from these projects—the warehouse at Wellington street, the extension of Ship street and Strathearne street comes to a figure of more than $200,000. You understand that the amortization and interest charges in connection with these projects amount to some $200,000, so that the additional revenue we will receive, will pay for all of the charges which the commission will incur in connection with these projects.

By Mr. Marler:

Q. Perhaps I did not put the question sufficiently clearly. What Mr. Harstone said to us is that the net revenue from the facilities will provide at least $200,000 a year but my question was not whether it would provide at least that but how much will it provide?—A. The exact amount, sir?

Q. Well, in round figures.—A. Well, we have estimated approximately $230,000.

Q. As being the additional?—A. The additional revenue that will be received from these three projects.

Q. And that would be net after operating before repaying principal interest to the federal government?—A. That is right, sir.

The CHAIRMAN: Any other questions, gentlemen?

By Mr. Fisher:

Q. I would like to ask a question, and it is just a general question. I would like to have some information which I may find informative to me later on in another harbour situation. In the facilities that you are developing, is there dockage for vertical loading. Have you got a situation where you are going to have both truck and rail access to the docks which you are building?—A. Yes. There will be rail access at Wellington street, rail access at Strathearne street and we are making a study, and if necessary, there will be a rail access at Ship street of the three projects. Well, I am quite satisfied, I know two of them will and I am satisfied that the third will have rail access.

Q. Did you have any representations from the trucking associations before you went ahead with this?—A. We have had meetings with the trucking people sir, and we have another development in mind that we feel will be primarily devoted to trucking. That is in the planning stages at the present time.

Q. These others are both ship, rail and truck.

The CHAIRMAN: Any other questions, gentlemen?

By Mr. Fisher:

Q. Who made your economic studies for you? Were they made in your own commission or did you hire outside experts?—A. No. We made them ourselves.

By Mr. McIvor:

Q. I asked a question in the house and suggested that forty years was a long time because Hamilton is a great city and has been making a lot of noise lately. Do you not think forty years is a long time?—A. May I say, we understand that the amortization period in connection with the St. Lawrence seaway is fifty years and we thought we should not be fifty years, but rather forty years.

By Mr. Fisher:

Q. Do you receive any financial support from the city of Hamilton? —A. No sir.

Clauses 1 to 4 inclusive agreed to.

On clause 5—Repayment of loans.

Mr. MARLER: I am wondering why clause 5 has been drafted so that in the first line it suggests there may not always be interest on the loans. Clause 5 reads:

> The principal amount of and any interest on loans made to the corporation under this act shall be repayable by the corporation out of its tolls, rates, penalties and other sources of revenue, and shall rank as a first charge thereon subject to the repayment of debentures issued by the corporation prior to the coming into force of this act.

Surely it should read, "the principal amount of and *the* interest on loans". It rather suggests loans may be made without interest. I can hardly believe that is what is contemplated by the bill.

The CHAIRMAN: Mr. Marler, Mr. Harstone has advised me that as far as the commissioners are concerned they agree to the suggested change in the wording.

Mr. MARLER: May I move an amendment that it read: "the principal amount of and *the* interest on loans". I suggest that the word "any" be replaced by the word "the" in the first line.

The CHAIRMAN: You have heard the motion, seconded by Mr. Chevrier, that the word "the" be substituted for the word "any" in the first line of clause 5 of bill 197.

Mr. MCPHILLIPS: In my opinion the word "any" is quite a proper word and properly used in this sense because the words "the interest" would not cover all features of interest. You might have interest in arrears and you might have different groups of interest. The word "any" covers everything, interest in arrears or interest of several kinds. In my opinion the word is properly used.

Mr. CHEVRIER: The word "the" also covers any situation.

Mr. MARLER: That is the language which has been used in other bills in which the Department of Finance has made loans to other harbour commissioners.

Mr. SMITH (*Simcoe*): It is with a great deal of hesitation that I speak before gentlemen who have a good deal of legal learning. However, I am not satisfied in my mind that the word "any" is not the correct word in such a case. There might be another wording which could be used there, "all interest on loans made". It seems to me "any" or "all" from a legal draftman's point of view are better words than the word "the".

The CHAIRMAN: Gentlemen, we could have the minister here in a few minutes.

Mr. MARLER: I would be delighted to withdraw my motion if the minister would have a look at the wording.

The CHAIRMAN The minister is here.

Mr. MARLER: I would be quite happy if the minister would agree to take a look at it.

Mr. STANTON: What is the opinion of the witnesses?

Mr. CHEVRIER: I do not think the witnesses should be asked about this. It is a legal point. I think the suggestion made by Mr. Marler is the best one.

Hon. Mr. HEES: I would be very glad to do that.

By Mr. Fisher:

Q. What happens if the developments are not as they are optimistically figured? Suppose the commissioners are not able to obtain enough income to pay back the loan? What happens then?—A. May I say that our commission this year will have a net operating profit of between $15 and $20 thousand. That will increase from year to year, not as a result of these new projects but as the result of additional tonnages coming into Hamilton harbour and in the increase in capacities of various steam plants and other things. Therefore money would be available from our general fund to pay any deficiency, if it ever did occur, from the moneys we receive from rentals and tariffs on these other projects.

The CHAIRMAN: If we carry clause 5, the minister will have a look at it and advise you in the house when the bill comes up.

Clause 5 agreed to.

Title agreed to.

The CHAIRMAN: Shall I report the bill?

Agreed to.

Thank you, gentlemen. Mr. Hees wishes to speak to you for a moment.

Mr. HEES: I wish to thank you all very much for being here today and to apologize for being late. I have just come from a cabinet meeting and it was not possible for me to be here earlier. I am sure you will all understand.

The CHAIRMAN: I wish to thank Mr. Harstone and the other witnesses here for appearing before us. Mr. Harstone has been an excellent witness.

The WITNESS: Thank you, gentlemen.

EVIDENCE ON BILL 72

The CHAIRMAN: Gentlemen, we will now take up bill 72, an Act to amend the Canadian Vessel Construction Assistance Act.

The witnesses are Mr. L. Audette, Chairman of the Canadian Maritime Commission; Mr. L. J. Leavey of the Legal Branch and Mr. D. R. Pook from the Department of National Revenue.

I now call Mr. Audette who wishes to make a statement.

Mr. CHEVRIER: I think we should have a general review of the meaning of this bill.

The CHAIRMAN: Mr. Audette will give us a review.

Mr. L. Audette, Chairman, Canadian Maritime Commission, called:

The WITNESS: Mr. Chairman and gentlemen, perhaps I might open up by attempting to summarize the act in its present form. In its present form the act really does, in substance, two things. First of all, for the owner who

is building a ship in Canada for use in Canadian waters it allows him a rate of depreciations of 33⅓ per cent in any one year instead of the usual rate of depreciation allowed under the Income Tax Act of 15 per cent on the reducing balance. The 33⅓ per cent interest is a straight line of depreciation on the cost of the vessel instead of being on the reducing balance as is the 15 per cent which is provided by the Income Tax Act.

The other benefit which this act confers upon a ship built in Canada—and this act and all the benefits therein apply only to ships built in Canada—is where a ship is sold and the proceeds of sale are used for replacement in Canada there will not be recapture of depreciation. Perhaps later I will go into the matter of recapture of depreciation, but I think this summarizes the present position of the act. Perhaps the easiest thing to do is simply to go through the amendments now as they come up in the bill.

By Mr. Chevrier:

Q. This is complicated and I do not know whether I understand it too clearly. Over and above what you said, what is the general position with reference to the person who wants to build a ship; what depreciation is he entitled to if he wants to build it in a Canadian yard, say Vickers at Montreal?—A. If he builds in Canada at the moment he is entitled to a depreciation of 33⅓ per cent.

Q. Under this he will be entitled to it?—A. He still will be entitled to that but we are enlarging the classes of vessels. I thought it would be easier to come to these as we go along.

Q. You are not enlarging the amount of depreciation; you are enlarging the class?—A. Only the number of vessels to which the benefit may attach.

Q. Does this apply to vessels built outside of Canada?—A. No.

Q. Does it apply to vessels under the Canadian flag now in the United Kingdom?—A. I think you mean, for example, owned in Canada but under the U.K. flag?

Q. Yes.—A. Under this new act it will apply to such vessels if built in Canada.

By Mr. Smith (Simcoe):

Q. Would it apply if they were replaced in Canada?—A. Not only that, if a ship is built in Canada and then put under U.K. registry under the special arrangements in existence, then the benefits would apply; whether it is a replacement or not.

By Mr. Fisher:

Q. I have a general question. What are your reasons for these extensions?—A. Because the building of a ship in Canada is more expensive than it is in European or Japanese shipyards. For instance, the cost in U.K. shipyards is 50 per cent lower; that is one half as much. Therefore the owner needs incentive in order to bring him into our yards; otherwise he will go abroad. That is the basic reason. Our costs are higher as well as our wage rates.

By Mr. Chevrier:

Q. Both in the cost of construction and operation?—A. Yes.

Q. Does this act apply to the Canadian National Steamships whose flag has been transferred?—A. No sir. Those ships were built some time ago and this envisages new construction or alteration in Canada.

By Mr. Bryce:

Q. What is the increase in tonnage you are asking now?—A. It applies to any ship regardless of its tonnage.

Q. Regardless of weight?—A. Yes.

Q. The rate is 33⅓ per cent?—A. Yes; if built in Canada.

By Mr. McIlraith:

Q. And for any type whether ocean-going or lake?—A. Laker, coaster, canaler or any other type.

By Mr. Chevrier:

Q. How long has this act been in force?—A. The act, as it now stands, came into force in 1950 if I am not mistaken.

Q. How many ships have applied under and benefited by the act? How many owners or operators have made application to claim depreciation under the Canadian Vessel Construction Assistance Act?—A. My recollection is that the amount is about $100 million. Are you speaking of new construction?

Q. Yes?—A. About 337 ships in all have been built under this act. The total, in my recollection, is slightly over $100 million as the act now stands.

By Mr. Crouse:

Q. Since what date?—A. That covers the years 1950 to 1956 inclusive.

By Mr. Fisher:

Q. This would also seem to be of advantage to the workers in the shipyards and the unions who are organized in the shipyards. Have you received any representations from them to expand the act?—A. I received no representations from them but this is, of course, also designed to maintain employment in Canadian shipyards.

Q. Was any consideration given to the question of taking care of some of the differentials in wages which penalize our shipyards in comparison with other shipyards in a lower wage area?—A. There is no regional allowance made in this act.

Q. Has it ever been considered?—A. I cannot say it has, but I think it would be extremely difficult to implement.

By Mr. Chevrier:

Q. Were recommendations not received from the various groups of which Mr. Fisher speaks when the act was originally introduced?—A. Well, the labour unions have constantly made representations in order to preserve the ship-building industry. Yes, there is no doubt about that; but specifically along these lines is the way I had interpreted the question.

Mr. FISHER: Yes.

By Mr. Leboe:

Q. Is it not true that the ships have to bring in revenue before the depreciation does them any good? There is no advantage in depreciation as far as the company is concerned unless they make money?—A. Yes.

Mr. SMITH (*Simcoe*): I would like to assure Mr. Fisher that the shipyards at Collingwood are very interested in the passage of this act because they are presently building ships which may very well be used outside Canada and they are most anxious to have these amendments passed.

Mr. HEES: I would like to say, for the benefit of the new members of the committee and of the house who would not otherwise know, that this act was introduced when Mr. Chevrier was the minister, and I think we will all agree it is a magnificent act and has done a tremendous job for the shipbuilding industry in Canada.

By Mr. McPhillips:

Q. With respect to their conversion costs, I do not see anything in the act to indicate that the conversion has to be done in a Canadian yard.

Mr. CHEVRIER: Then they do not qualify in that case for depreciation.

The WITNESS: It does, sir, in section 2 of the act, subsection (c):

"conversion or major alteration" means a conversion or major alteration made in Canada. . . .

By Mr. McPhillips:

Q. Where did you find that?—A. Subsection (c) of section 2 of the act.

Q. Of the prior act?—A. Yes. It is not in the bill.

The CHAIRMAN: These are amendments.

By Mr. Marler:

Q. On clause 1, I see no objection at all to the change that is underlined in subsection (a) of section 3, but subsection (c) introduces a new idea. The new idea is covered by the explanatory notes in the bill, and it is intended to extend the benefits of the act to vessels built by a shipyard for sale to any purchaser. Then there is the proviso, "provided that no capital cost allowance had previously been made to anyone in respect thereof."—A. No sir; to any other taxpayer, not to anyone.

Q. I am reading from the explanation in the bill. The point that is in my mind is this: if a shipyard builds a ship for sale and sells it to a purchaser whom we will call A, A operates the vessel for a year and is able, because he is operating it profitably, to take 33⅓ per cent depreciation; but he dies, or desires to discontinue operations and therefore wishes to sell the vessel to, let us say, B. As I understand the restriction, B would not be entitled to the same benefits to which A would be entitled. Consequently I take it, Mr. Chairman, that the value of the ship in A's hands will be greater than it will be in B's hands. Therefore by putting in this restriction you give A a benefit but you take it back in the sense that you refuse to allow him to pass it along to a successor in title.—A. That is right.

Q. I am not arguing in favour of more than 100 per cent of the cost being depreciated. But I think it seems short sighted to put in this paragraph (c) which seems to limit advantages only to the first purchaser. I am not suggesting an amendment, because the wording is much too complicated to be able to do that just off the cuff. However, I should like to suggest to the minister that he should reconsider the principle which is involved in this sub-paragraph (c) and see whether it is desirable to restrict these benefits in the way which is being followed in that paragraph.—A. Perhaps I can explain the background of this. Under the act as it now stands, for a ship to receive the benefits of the act it must be built by or for—and I am quoting the language used—the taxpayer. It must be by or for the man who is going to own the ship. He must order it.

We sought to eliminate this requirement in order to allow shipyards to indulge in what I might call speculative building. That is, during a low period of employment they might build a barge or a vessel of any kind, knowing, or at least speculating that they may sell it at a later date, and thereby keep their yard employed.

To do this we eliminate the words "by or for". Also under the old act, or under the act as it now stands, the benefits were only available so long as the title vests and remains in him.

Those words were struck out in order to allow this speculative building. There then arises the danger that I might order a ship, and I might own

this ship for three years, and take 33⅓ per cent in each one of three years. Then I would sell it to Mr. Marler, let us say, who has raised the point, and he then could own it for three years, and take 100 per cent depreciation. And over 21 years there would be taken 700 per cent of depreciation.

These words were put in to guard against that. And also these words were put in to ensure that only the man who places his order in Canada, and who incurred himself the additional cost of building in Canadian yards would reap the benefit of the higher rate of depreciation.

Once he sells the ship he will lose this benefit, as Mr. Marler suggests. But the ship will then have its ordinary market value, as any other ship and the purchaser will not have incurred any additional cost in Canada. It is true that the man who sells the ship may find he cannot get quite as high a price as he could if he were selling it with the benefits attached to it. But the man who purchases it did not incur the additional cost.

The CHAIRMAN: Are there any other questions?

Mr. MARLER: I hope the minister will look into this matter, because I think there is a great deal to be said for the change that is now being made. But I think more could be said for something which assured the owner of the ship, regardless of who he may be, receiving the full benefits under the act, and in making that dependent on the same taxpayer holding it until the full benefits have been secured.

The CHAIRMAN: I think the witness has something to add.

The WITNESS: The other disadvantage, I might say that I can see in the suggestion is that we will raise the price of second-hand tonnage instead of raising the incentive for new building. In that sense, I would prefer it to stand almost as it is, because there should not—and I say this as one who is trying to support shipyards—there should be less and less incentive to purchase second-hand tonnage, and more and more incentive for the construction of new tonnage.

Mr. MARLER: I consider that a good argument.

Mr. HEES: Are you satisfied, then?

Mr. MARLER: I am still ready to be convinced.

By Mr. Smith (Simcoe North):

Q. Is there not a provision later in the amendment that encourages the man who sells the ship, while he still has some of his depreciation not taken, to put that money back into another ship, either personally or through another company, which has the effect of encouraging capital invested in ships to stay in the ships?—A. There is now, yes.

By Mr. Fisher:

Q. Where you have a situation where a company both controls shipyards and also has shipping, what would be the situation at the end of three years? You might say their own organization has built the ship and they have had 100 per cent depreciation, and then they sell. What advantage is there to them in that situation?—A. There is no advantage for them to sell at that point, from the point of view of depreciation, because the person who purchases will not be allowed these higher rates.

By Mr. Chevrier:

Q. Does not the government step in to recapture the amount taken? —A. Furthermore, the government will recapture the excess over the depreciated value, unless that goes back into new building.

By Mr. Crouse:

Q. If that ship was sold outside of Canada, would they not be able to depreciate it—you are assuming it would only be sold in Canada?—A. No, because if the ship is sold outside of Canada, the purchaser will not be a Canadian taxpayer so he will get no benefit under the act. But the seller—

Q. The seller will.—A. The seller will get subsequent benefits of freedom from recapture, no matter where it is sold—in or out of Canada.

The CHAIRMAN: Mr. Hees would like to speak.

Mr. HEES: I should like to ask Mr. Marler, in connection with his suggestion to change, did he mean that if a ship is held by a purchaser for perhaps one year, and he is able to take 33⅓ per cent depreciation, if he then sold it the subsequent purchaser should be allowed to depreciate the ship for himself a further 66⅔ per cent?

Mr. MARLER: Yes, that is correct.

Mr. HEES: In other words, so long as the ship has not been completely depreciated by the original buyer, whatever is left undepreciated could be depreciated by the subsequent buyer. Is that correct?

Mr. MARLER: Yes.

The WITNESS: I hate to see the second-hand market enhanced in value.

Mr. SMITH (*Simcoe North*): Mr. Chairman, I should like to call the attention of the committee to the title of the bill, which is to encourage the construction and conversion of vessels in Canada. I am afraid that Mr. Marler's suggestion is made having in mind the tax saving for people who have ships already built. What we are doing is encouraging the construction of ships in Canada. I do not think his suggestion goes to that point at all.

The CHAIRMAN: Are there any other questions on this clause? Mr. Audette wishes to give some explanation with respect to paragraph (*a*).

The WITNESS: Perhaps I might say a word about paragraph (*a*) because the questions took me straight down to (*b*) and (*c*). Under the present law, any ship built in Canada that is receiving the 33⅓ per cent allowance must remain on Canadian registry. We are all aware of the fact that operation under Canadian registry is a great deal more expensive than it is, let us say, under United Kingdom registry. Indeed, it is one and one-half times the cost. Both the ship building and ship operating figures average out at about the same.

By Mr. Chevrier:

Q. But it is less than under United States registry?—A. Yes, less than under United States registry. Indeed, for a 10,000 ton ship it is $100,000 per annum more under Canadian registry than under United Kingdom registry.

With this in mind, we now have, as you are aware, certain special transfer arrangements with the United Kingdom where the vessels can be recalled, and where we retain a measure of control over them.

The purpose of paragraph (*a*) is to allow the continuation of 33⅓ per cent, even if the vessel goes to United Kingdom registry under these arrangements.

This is designed to encourage the owners who simply cannot and will not operate otherwise, to build ships in Canada. Without this they will be building abroad.

Q. How many ships have we now under United Kingdom registry?—A. We have 60—it is up close to 60.

The CHAIRMAN: Are there any other questions under this clause?

By Mr. Fisher:

Q. I should like to ask a general question. I am interested in the source of this amendment. Mr. Hees has credited Mr. Chevrier with introducing this legislation. Now amendments have come up, and they are fine. Who was at the centre in making arrangements for and initiating these amendments?—A. The gentleman on my right, Mr. Leavey, and myself, and the ship building industry, and the ship owning industry, and Mr. Hees—all the people connected with this over a period of time.

Clause 2 agreed to.

On clause 3—Application.

By Mr. Marler:

Q. Would Mr. Audette explain why we put in clause 3?—A. Yes; clause 3 was introduced for this reason; it is not always certain that a bill will get through in a given session of parliament.

Q. We have discovered that already.

By Mr. Chevrier:

Q. May I follow up that question by asking this one: how many ships are going to benefit by this clause?—A. May I say one more thing. Certain owners, on the basis of the introduction of a very similar bill in the last session of parliament, did make commitments and if this bill had not passed at this session of parliament it could well have been that the legislation would not have been applicable until the 1958 taxation year. The owners who had made commitments in our Canadian yards would have found themselves in a difficult position.

Q. How many of them have made commitments in Canadian yards, and will benefit by this section in 1957?—A. By clause 3, do you mean?

Q. Yes.—A. It should be close to half a dozen.

Q. They get in by the skin of their teeth.—A. That is right.

The CHAIRMAN: I believe Mr. Hees wishes to speak with respect to clause 3.

Mr. HEES: I just wish to say again, to the new members of the house, that Mr. Marler had a great deal to do with the generation of this amendment, and deserves a great deal of credit for what I believe are very excellent amendments. I hope you will feel the same.

Clause 3 agreed to.

The CHAIRMAN: Shall I report the bill.

Agreed.

The CHAIRMAN: Now, gentlemen, I do wish to thank Mr. Audette and Mr. Leavey for having come here. Mr. Audette has been an excellent witness, and I feel sure that the reporters could hear everything he said. His observations were distinct and clear.

Mr. CHEVRIER: I think he was well prepared, Mr. Chairman.

The CHAIRMAN: Well, I think he did very well in his handling of the bill.

The Committee proceed to consideration of a private bill, namely (Letter O-5 of the Senate), "An Act respecting the St. Mary River Bridge Company".

HOUSE OF COMMONS

First Session—Twenty-third Parliament

1957

STANDING COMMITTEE

ON

RAILWAYS, CANALS AND TELEGRAPH LINES

Chairman: GORDON K. FRASER, ESQ.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 4
including 8th Report

BILL No. 102

(Letter X-1 of the Senate), An Act respecting Alaska-Yukon Pipelines Ltd.

TUESDAY, DECEMBER 10, 1957

WITNESSES:

Mr. John G. Porteous, Q.C., Director, Alaska-Yukon Pipelines Ltd.; and Mr. R. G. Robertson, Deputy Minister, Department of Northern Affairs and National Resources

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1957.

50534-7—1

STANDING COMMITTEE

ON

RAILWAYS, CANALS AND TELEGRAPH LINES

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Olson
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Rea
Rouleau
Small
Smith (*Calgary South*)
Smith (*Lincoln*)
Smith (*Simcoe North*)
Smith (*Battle River-Camrose*)
Stanton
Stuart (*Charlotte*)
Taylor
Villeneuve (*Roberval*)
Vincent
Winch
Wratten

A. Small,
Clerk of the Committee.

ORDERS OF REFERENCE

MONDAY, November 18, 1957.

Ordered,—That the Standing Committee on Railways, Canals and Telegraph Lines be empowered to examine and inquire into all such matters and things as may be referred to it by the House; and to report from time to time its observations and opinions thereon, with power to send for persons, papers and records.

TUESDAY, November 26, 1957.

Ordered,—That the quorum of the said Committee be reduced from 20 to 12 members, and that Standing Order 65(1)(*b*) be suspended in relation thereto.

Ordered,—That the said Committee be empowered to print such papers and evidence as may be ordered by the Committee, and that Standing Order 66 be suspended in relation thereto.

TUESDAY, December 3, 1957.

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

Ordered,—That the following Bill be referred to the said Committee:

Bill No. 102 (Letter X-1 of the Senate), intituled: "An Act respecting Alaska-Yukon Pipelines Ltd.".

Attest.

LEON J. RAYMOND,
Clerk of the House.

50534-7—1½

REPORT TO THE HOUSE

WEDNESDAY, December 11, 1957.

The Standing Committee on Railways, Canals and Telegraph Lines has the honour to present the following as its

EIGHTH REPORT

Your Committee has considered Bill No. 102 (Letter X-1 of the Senate), intituled: "An Act respecting Alaska-Yukon Pipelines Ltd." and has agreed to report it with the following amendments:

Clause 1

1. On page 1, line 11, delete the words "gas and";
2. On page 1, lines 23 and 24, delete the words "natural and artificial gas and"; and
3. On page 1, line 29, delete the words "natural and artificial gas and".

A copy of the Committee's Minutes of Proceedings and Evidence in respect of the said Bill is appended hereto.

Respectfully submitted,

GORDON K. FRASER,
Chairman.

MINUTES OF PROCEEDINGS

TUESDAY, December 10, 1957.

The Standing Committee on Railways, Canals and Telegraph Lines met at 10.30 a.m. The Chairman, Mr. Gordon K. Fraser, presided.

Members present: Messrs. Bryce, Crouse, English, Fairfield, Fisher, Fraser, Grills, Herridge, Holowach, Howe, Johnston (*Bow River*), Kennedy, Lavigne, Leboe, Lawry, MacDonald (*Antigonish-Guysborough*), McBain, McGrath, McIlraith, McIvor, McLeod, McPhillips, Olson, Small, Smith (*Calgary South*), Smith (*Lincoln*), Smith (*Simcoe North*), Stanton, Winch, and Wratten.—(30)

In attendance: Mr. Gordon Chown, M.P., Sponsor; Mr. Cuthbert Scott, Q.C., Parliamentary Agent; Mr. John G. Porteous, Q.C., Director, Alaska-Yukon Pipelines Ltd.; Mr. R. G. Robertson, Deputy Minister, and Mr. C. H. Herbert, Chief of Economic Division, both of the Department of Northern Affairs and National Resources.

The Committee commenced consideration of Bill No. 102 (Letter X-1 of the Senate), "An Act respecting Alaska-Yukon Pipelines Ltd."

Mr. Lewry, on a point of order, requested the Chairman to rule whether the Committee might be precluded from considering this Bill on the grounds that the question of pipelines was now before the Royal Commission on Sources of Energy. The Committee, however, agreed to proceed by virtue of an Order of the House and also because the matters before the said Royal Commission relating to the principle of this Bill were not considered to be "sub-judice" (*see Mr. Speaker's statement at page 119 of the unrevised edition of "Hansard" for October 17, 1957*).

On motion of Mr. Kennedy, seconded by Mr. Herridge,

Resolved,—That the Committee print 700 copies in English and 200 copies in French of its Minutes of Proceedings and Evidence in respect of Bill No. 102, "An Act respecting Alaska-Yukon Pipelines Ltd."

On the Preamble:

On request of the Chairman, Mr. Chown called and introduced the Parliamentary Agent and witnesses for hearing and questioning.

The Preamble was considered and adopted.

On Clause 1:

Mr. Winch moved, seconded by Mr. Fisher, that Clause 1 of the Bill be amended so as to restrict the purpose of the Bill to the transmission and transportation of oil and other liquid products and gaseous hydrocarbons.

The said motion was carried, subject to redrafting by the Law Clerk (*For text of amendments, see Eighth Report*).

Clause 1, as amended, was considered and adopted.

The Title was adopted.

The Bill, as amended, was adopted.

Ordered,—That the Chairman report the said Bill, as amended, to the House.

At 12.15 p.m., the Committee adjourned to the call of the Chair.

A. Small,
Clerk of the Committee.

EVIDENCE

TUESDAY, December 10, 1957.
10:30 a.m.

The CHAIRMAN: Gentlemen, we have a quorum. This morning we are on Bill No. 102 (Letter X-1 of the Senate), An Act respecting Alaska-Yukon Pipelines Ltd.

On the preamble.

I am going to call on Mr. Gordon Chown, the sponsor of the bill.

Mr. LEWRY: On a point of order, Mr. Chairman. We have been advised in the house that matters respecting bills have been referred to a royal commission, and any discussion suggested in the house was *sub judice*. I would ask your ruling as to whether or not this is in the same category.

The CHAIRMAN: Well, I think on that, Mr. Lewry, I will ask the opinion of the members. Are there any objections to our going on with this bill this morning?

Mr. LEWRY: I am not objecting to it; I just want a ruling.

The CHAIRMAN: I think if this referred to a special pipe line that a court or a royal commission was sitting on, it would be a different proposition; but there is no royal commission on this Bill at the present time.

Mr. SMITH (*Simcoe North*): I think in any event this matter does not deal with a principle of the disposal of a natural resource or power in Canada. It is a very narrow subject dealing only with the location of a pipe line already in existence. This does not come within the general objection stated by Mr. Lewry.

The CHAIRMAN: Gentlemen, this is also a private bill and I doubt if any commission would have authority over it.

Mr. WINCH: So was the Bell Telephone.

Mr. JOHNSTON (*Bow River*): Is it not a fact that you can deal with anything on pipe lines as long as it does not deal with anything in the form of evidence which is coming before a royal commission?

The CHAIRMAN: I understand that is the case.

Mr. McILRAITH: I am not objecting on this point but I do think there have been a lot of inaccuracies as to the legal position. If you are going to make a ruling on it you ought to have it stated accurately. The Borden Commission does include references to all matters of principle relating to pipe lines in Canada and to sources of energy. The order in Council setting up the Royal Commission is somewhat badly drafted but it does have broad references to pipe lines. It has been asserted in the house, I believe, by the Prime Minister—although I did not turn it up—that this prevented us from discussing pipe line matters in the House of Commons. Now the committee, of course, cannot do anything beyond what can be done by the house itself. Its authority is not any wider than that of the house. The only point at issue in the Bill before us is the matter of principle as to whether parliament should grant the applicant the right to build a main pipe line outside of Canada. As I say, the government has given us no lead whatever on this private bill.

I mentioned it to the government leader because there is a flat inconsistency in the stand they are taking in the house. They are saying you

cannot deal with some pipe lines but you can deal with others. This is a privately-owned pipe line, and all the others such as Trans-Canada, are privately owned, with one exception. But the principle is the same. I think it should be on record that there is a different stand being taken by the government, that they are saying one thing in the house about pipe lines generally and saying another thing when this particular bill comes up. Apparently it is a matter of whose pipe line it is.

There is one other preliminary point I should like to raise but perhaps I can do it separately after we deal with the point raised by Mr. Lewry.

The CHAIRMAN: This bill was referred to this committee by the House of Commons. We are charged with looking after it and therefore, we have authority to go ahead. That would be my opinion.

Mr. JOHNSTON (*Bow River*): The bill that was referred to in the house was referred to by the hon. member from Calgary South (A. R. Smith) and he objected to the pipe line being discussed because the matter was before the royal commission. But the chairman overruled him and said it was permissible to go ahead and we did go ahead.

The CHAIRMAN: Yes, I understood it in that way.

Mr. WINCH: I personally have no objection to going ahead with this bill but I do think certain things should be made clear. Only a few days ago we had the Bell Telephone bill and that was a private bill, the same as this. We were told that because there were certain issues before the Transport Board it could not be discussed here. This is also a private bill but there has been a reference—and it was given by the Prime Minister a few weeks ago—a reference to a royal commission.

I do not know whether you remember, sir, but I did raise a question at that time about a line exporting outside of Canada and raised the question as to the law of Canada, that it could not be exported at a price lower in the United States or lower outside of Canada than inside of Canada. The answer I got from the Prime Minister was that this is a matter for the royal commission and that, therefore, I was out of order. And so you can understand why we have our difficulties.

The CHAIRMAN: I remember you bringing that up, and you mentioned the Bell Telephone Bill. But the Board of Transport Commissioners have a definite matter before them at the present time and it is the Bell Telephone Company rates.

Mr. WINCH: The royal commission on the terms of reference that were given in the House of Commons makes a reference on matters concerning this. I am not objecting but I do think all these points ought to be noted.

Mr. HERRIDGE: I suggest we should proceed without prejudice but that the chairman obtain a ruling on this point from someone competent to give it. But this is a point that has to be considered.

The CHAIRMAN: It is a point that has to be considered and after this meeting I will take it up with the Speaker of the House and ask for a ruling on the matter. (See Mr. Speaker's statement, p. 119 of the unrevised edition of *Hansard* for October 17, 1957).

Mr. HERRIDGE: Thank you.

Mr. MCPHILLIPS: I do not agree in committee with this business of getting outside rulings because that is not the way we should operate. You should make the ruling. The Bell Telephone matter is entirely different.

The CHAIRMAN: That is right.

Mr. MCPHILLIPS: The matter of rates was not involved. You said we could not deal with rates. The same thing applies here. This is simply getting a corporate power. Corporate power does not mean anything unless this

company can obtain the necessary permit. It is simply asking for corporate power. Surely we certainly have the right to deal with that. If, as a result of the Borden Commission, certain restrictions are brought into play, of course they would be subject to it.

The CHAIRMAN: Well, gentlemen, are you agreed that we go on with the bill?

Some Hon. MEMBERS: Agreed.

Mr. KENNEDY: I move, seconded by Mr. Herridge, that the committee print 700 copies in English and 200 copies in French of the minutes of proceedings and evidence in respect to Bill No. 102, an act respecting the Alaska-Yukon Pipelines Ltd.

Mr. JOHNSON (*Bow River*): Are you going to need that many?

Mr. FISHER: It will depend on the number of libraries to which copies are sent. That is the basic principle.

The CHAIRMAN: I notice in the daily notice from the Printing Bureau that our proceedings on other bills that have been before us are on sale at 15 cents each.

Mr. KENNEDY: I am agreeable to cutting it down to 500.

The CHAIRMAN: 500, gentlemen? I understand from our clerk that 650 is about the minimum for basic circulation so I think we had better let it stand, if that is satisfactory, at 700.

Agreed.

I am going to call on Mr. Gordon Chown, the sponsor of the bill, to introduce the parliamentary agent, Mr. Cuthbert Scott, Q.C., and also Mr. J. G. Porteous, Q.C., a director of the company.

Mr. McILRAITH: Mr. Chairman, before you do that, I want it stated on the record that I made a request a week ago that this committee not sit until I had an opportunity of speaking to you about choosing a date that would be suitable. Now it happens that the time for the meeting of this committee this morning is at the exact time of the general caucus of the Liberal party. This does raise an embarrassing situation. This committee has carried on in a co-operative spirit in the past and I regret the procedure adopted in sitting this morning. The time this morning is particularly inconvenient and as I had made the request I should like that fact entered on the record.

The CHAIRMAN: Yes. The notice of this meeting has been on votes and proceedings since last Thursday and I only heard of the Liberal caucus meeting at 10:10 this morning, which was too late to call off this meeting. Mr. McIlraith did speak to me and I told him at that time that it had been decided to hold this meeting either today or tomorrow. It was found that it was most convenient to hold it today, so it was held today; and if Mr. McIlraith had come to me, perhaps yesterday, I could have switched the meeting. I thought that there was sufficient notice of it for any objections. Now I will call upon Mr. Gordon Chown.

Mr. CHOWN: Mr. Chairman and members of the committee, I am not a member of this committee, but I was asked to sponsor this bill in the house, which I did a short time ago, and explained the contents of it to the best of my ability. I appreciated the comments and enquiries made by hon. friend, Mr. McIlraith, following my introduction. We have with us today Mr. Scott who is the parliamentary agent. I would ask him to stand up.

The CHAIRMAN: Mr. Scott, will you come up here please.

Mr. CHOWN: And he has with him as his chief witness a director of the company, Mr. Porteous, who might as well likewise go up.

Mr. JOHNSTON (*Bow River*): Mr. Chairman, may I just ask for clarification. Did I understand the sponsor to say that the Board of Transport Commissionners had recommended this.

Mr. CHOWN: No, I did not say that.

Mr. JOHNSTON (*Bow River*): What was your reference to that in the house? Have the Board of Transport Commissioners recommended this?

Mr. CHOWN: No. They recommended that this matter be referred back to the Senate and House of Commons for the amendment. That has been given second reading in the house and referred to this committee. It all has to be referred, in due course, to the Board of Transport Commissioners for reconsideration after it has been cleared by this committee. It has to go back to them.

Mr. JOHNSTON (*Bow River*): I understand that.

Mr. CHOWN: We also have with us Mr. Robertson, the Deputy Minister of Northern Affairs and National Resources.

The CHAIRMAN: Mr. Robertson, do you want to come up here?

Mr. CHOWN: He has with him his assistant, Mr. C. H. Herbert, chief of the Department's Economic Division.

The CHAIRMAN: Mr. Herbert.

Mr. CHOWN: Mr. Chairman, there is nothing I can really add and I will leave it to the witnesses to answer any questions that might be asked.

The CHAIRMAN: Thank you, Mr. Chown.

Mr. WINCH: May I ask if the federal civil servants are appearing on behalf of the company or for the purpose of answering questions.

Mr. SCOTT: Mr. Robertson, the Deputy Minister, is here on behalf of the government. Because there were some questions asked on the floor of the house, when the bill was given second reading, about the three and four inch pipe lines, I thought Mr. Robertson would know about them.

If I may make a brief statement, Mr. Porteous, as well as being a director of the company and thoroughly familiar with it, is also a lawyer, so that he is more familiar with it than I am. However, I should like to remind the members of the committee of this, that this company, Alaska-Yukon Pipelines Ltd., was incorporated, as you will remember last year, and the plans of the company were carefully gone into before this committee as it was composed during the last session of parliament, and it was passed. Then, under the provisions of the general pipe lines act which parliament passed a number of years ago before there was this rash of pipe lines, it is necessary for any pipe line company to apply to the Board of Transport Commissioners for authority to construct a line. It has to submit to the board its plans and also must satisfy the board as to its requirements and so on. Now, so there will be no misunderstanding, we have here as many as I could get—about 15—printed copies of the judgment of the Board of Transport Commissioners. The board refused the application made by this company for a number of reasons. One of the reasons was that as the board interpreted the language of the companies incorporating act, the board felt the company did not have the corporate capacity, as Mr. McPhillips has well pointed out, to construct the proposed pipe line. So, even if the company had made out a case before the Board of Transport Commissioners on the merits, the board felt that on the interpretation of the incorporating act, that it could not grant the application. So the first step for this company was to come back to parliament and have its incorporating act of last year amended to give it that corporate capacity.

That is all we are asking for here. The explanatory note to the bill makes it clear. The point is a narrow one which the Board of Transport Commissioners raised, and it was this, and I shall read from the explanatory note.

The original act that was passed last session had the proviso:

> Provided that the main pipe line or lines for the transmission and transportation of gas and oil shall be located entirely within Canada.

Now as Mr. Porteous will explain this line will run partly in the Yukon and partly in Alaska and when parliament approved this bill last year the thinking was that the main line, as far as Canada is concerned, would be entirely in Canada, and there will also be a line in Alaska. The board said "no", that is not the way we should read it. The way we read the act the main pipe line runs partly in Canada and partly in Alaska and you have not the power to build such a pipe line, and that is why we are here.

Mr. McILRAITH: I think we can clear up the background of the misunderstanding from this witness. I think I ought to refresh the minds of the committee, when this proviso was put in, I believe, by Mr. Green, the present leader of the house, the language used was not the language usually used in these pipe line bills. The limitation put in these bills incorporating pipe line companies requiring them to be built in Canada was usually made applicable only to gas pipe lines. That was pointed out at the time. For some reason the sponsors of this bill did not follow the usual language. I myself pointed it out on two occasions. Rather specifically, I went so far as to show them the usual language used in other pipeline bills.

Now there are two points I would like this witness to clear up. One is this: it was stated repeatedly as appears in *Hansard* that the Board of Transport Commissioners recommended that this company should come back to parliament. Having appeared in the case before the Board of Transport Commissioners I think that is not an accurate way of stating it and I would like the comments of this witness on that point.

Mr. SCOTT: I think that was perhaps a mistaken choice of words on Mr. Chown's part, and it was just a mistake. I may say Mr. Chown had very short notice on the preparation of this matter. The Board of Transport Commissioners did not recommend we come back to parliament but they pointed out we lacked the power to do what we wanted to do. The only way we could get that power was to come back to parliament.

Mr. McILRAITH: Perhaps that is right but the board has no jurisdiction in recommending that you come back to parliament at all. They turned down the application on several points, and one of the points on which they turned it down was the fact you did not have the corporate capacity under this proviso.

Mr. SCOTT: That is right.

Mr. McILRAITH: I wanted the record correct because the *Hansard* reference may be used in other debates on pipe lines and I think it is important it should be clarified on that point.

Now the other point I wanted to ask this witness about is this: as I read the amending bill, I am not clear as to whether you intend to retain the limiting clause on gas pipe lines. Will you just clarify that.

Mr. SCOTT: I think the answer to that is that this company is not dealing with gas at all. It is only dealing with oil.

Mr. McILRAITH: That is the point.

Mr. SCOTT: It is only dealing with oil.

Mr. McILRAITH: Why do you not put in the usual limiting clause concerning gas, pipe lines, as has been done in all other private bills since the point was first made?

Mr. SCOTT: The answer to that is that it was in that form in the Senate and the Senate committee considered that the nearest way of handling the situation was to delete the proviso in its entirety. We are not in the gas business.

Mr. MCILRAITH: I understand that.

Mr. SCOTT: We do not intend to go into it.

Mr. MCILRAITH: Why do you ask for the corporate capacity to build a main pipe line for the import and export of gas, for the transmission of gas outside of Canada

Mr. SCOTT: As you know very well, the business of this company—

Mr. MCILRAITH: —is all oil.

Mr. SCOTT: All oil and it is the importation of oil from tide water to feed The Yukon, Alaska and the Northwest Territories.

Mr. MCILRAITH: I want to state for the benefit of all new members that for a number of years now all pipe line acts have contained a proviso similar to the proviso just read by Mr. Scott in the existing act but limited to lines for the transmission of gas. Now, as a matter of fact, I am at a loss to understand why the company does not want that clause included.

Mr. SCOTT: No. I think the reason was there was a general form of pipe line bill, as you will remember, that was adopted by all companies applying for incorporation and that general form of bill was adopted last year when this company was incorporated.

The CHAIRMAN: Any further questions?

Mr. SMITH (*Calgary South*): The implication which undoubtedly the hon. member for Winnipeg South had in mind was that this was the only way in which this could be corrected and, therefore, it was referred back by the house. I think it should be made abundantly clear that while the transport board has not the authority to refer the subject matter of this bill to the house, it is quite obvious that the applicants have no other alternative but to come back to this committee. That is the reason they are before us this morning. If the correction were purely a matter of record in the committee, that is satisfactory; but there must be no implication that Mr. Chown is making an incorrect statement.

Mr. WINCH: Mr. Chairman, before Mr. Porteous gives his evidence, it might be of some help to Mr. Porteous if we directed a few questions to him. I myself find it difficult to understand the explanatory note and the clause of the bill itself. In the explanatory note, it is made very clear that the proposed amendment is wholly and solely for the purpose of removing a restriction as it deals with an oil pipe line. The section itself has very definitely included the words "natural gas", and things of that nature. If it is correct that the company is wholly concerned with an oil pipe line, would there be any objection by the company to an amendment or a change in the actual wording of this amending bill itself so that in the working of the law, it shall only apply to an oil pipe line and secondly—

Mr. SCOTT: Would you like me to deal with that first?

Mr. WINCH: I would like to know because the original bill was introduced by the company for the purpose of an oil pipe line wholly and solely in Canada, and they have found that they now require to go outside the boundaries of Canada. Will that be a pipe line wholly and solely as a transmission line in and out of Canada or will there be any take-off lines of supply of oil outside of Canada? That makes a great difference.

Mr. SCOTT: Yes.

Mr. WINCH: And I hope those two questions will be clarified by yourself or Mr. Porteous.

Mr. SCOTT: I think with your permission, Mr. Chairman, I will ask Mr. Porteous to answer.

Mr. MCILRAITH: I think it is only fair to say that this company has not changed its position with respect to the pipe line they propose to construct. It was always intended to construct the pipe line from the Haines area to Haines junction—from Alaska into Canada. I mention that in case your question may have arisen out of my remarks.

Mr. WINCH: The only reason my question has arisen is because of the law on the export of gas or oil at certain prices.

The CHAIRMAN: I think, gentlemen, Mr. Porteous will explain the bill.

Mr. SMITH (*Simcoe North*): Just before questions are directed to Mr. Porteous, there are a lot of new members, and if he told us a little bit about the purpose of the functions of this proposed company, I think it would make our questions a little more intelligible.

The CHAIRMAN: That is what I was going to say, Mr. Smith. After Mr. Porteous explains just what it is for, I think it will be clear to all the members.

Mr. J. G. Porteous, Q.C., Alaska-Yukon Pipelines Limited, called:

The WITNESS: Mr. Chairman and members of the committee, the Alaska-Yukon Pipelines was incorporated as one stage of a general program to distribute and market petroleum products in the Yukon Territory and also the Fairbanks area of Alaska.

This is one step in a general program, part one of which, the distribution, is now in course, and the third step which is contemplated, is the construction of a refinery.

Now our pipe line that we asked for or intended to build—in fact, though we had the corporate capacity to build until the Board of Transport Commissioners decided otherwise—starts from Tidewater in Alaska, in the Alaskan panhandle and would run some 160 miles, 40 odd miles of which is in Alaska, 18 miles in British Columbia. There is a little narrow neck of British Columbia and the balance in the Yukon territory to a place known as Haines junction. Haines junction is where one of the existing Canol system pipe line runs through. The general conception of this marketing project was to tie in with the existing Canol system which was built during the war by the Americans. It still belongs to the Americans but it is built—and Mr. Robertson knows more than I do about it—and it will eventually be turned back to Canada under a treaty and will be available for use of pumping petroleum products from Haines north and west to Fairbanks and from Haines east to Whitehorse; and subject to a considerable amount of rehabilitation of part of the line, the Canol system will be available further east to Watson Lake, (which is on the boundary of the Yukon territory and British Columbia) the northern territory.

By Mr. Smith (Simcoe North):

Q. Where do you get the oil from?—A. I am just coming to that. In order to get oil from the Yukon, it has to come from the ocean. It is the only way in and it has to come through Alaska because all the ports are Alaskan ports all the way up the coast. It is the only way in through Alaskan ports, it comes in by ocean tankers. It may well be Albertan oil, or it might be

Indonesian oil, Californian oil or whatever is offered at the best rate. It has nothing to do with the use directly of Canadian natural resources. It is a marketing distribution project.

It might be that Canadian oil would be marketed. It might well be that in time they will be refining oil that can be connected more closely to us up there. But the function of this company is to import either crude oil or refined petroleum products into Canada, into the Yukon. It is to import, not to export—to distribute it. We necessarily have to start from Alaska because of the Alaskan panhandle. When the bill passed last year, and I propose to take responsibility for it, I saw no difficulty with the proviso because to comply with Alaskan law we have to operate through an Alaskan corporation, just as in our Canadian law we have to have a Canadian company operating in Canada. So the 40 odd mile of pipe line that would be in Alaskan territory would be owned and operated by an Alaskan corporation.

True, it is two pieces joined together but it is all one unit for the purpose just as much as the interprovincial pipe line that runs from the west coast through the United States. Understand that it is a United States corporation that owns it in the U.S.A. Then it comes back into Canada. That was our idea with the Alaska-Yukon Pipelines Company, that the main line would always be in Canada because we can only go to the boundary, but the Board of Transport Commissioners took the view, as they said, it is all one line.

We did not have, in their opinion, and I do not agree with their interpretation, the power or corporate capacity, so far as Alaska is concerned. I did not agree with their opinion on that, but that is what they did and said to us in their judgment. It is so, of course, that their decision does not prevent us going back before them. So in effect they recommend that we go back to parliament to amend the charter Parliament gave us. The Board made it very clear that the proviso had to be removed before we could go back to the Board and that is why we are back before parliament this year to overcome what might be called a technical obstacle in carrying out the project.

If we did not have to go into Alaska, there would be no question. It is just a geographical problem and when I drafted my bill which was introduced in the Senate, I did exactly what Mr. Winch had in mind. In the proviso, I merely amended to delete the reference to oil. If you look at the original bill, the proviso as set out and my original amendment was merely, delete the words, "and oil", so that the restriction remained so far as gas was concerned.

The Senate committee, for reasons of their own, said that they did not like the way we dealt with it, and they dealt with it another way, and the way they chose to deal with it was satisfactory to the applicant company. We have no objection. I am perfectly frank. We are quite happy to go back to our original amendment if this committee thinks it is preferable. The result is the same so far as we are concerned. The reason that we kept the reference to gas in, was merely following a dozen other of these charters. Section 6 is exactly the same as the Yukon Pipeline, Trans-border and four or five others. It is the standard thing and we did not attempt to revise it in case it led to more difficulty; but so far as restricting the gas side of it, we are not interested in it and never will be. That is quite clear. The Senate took it out of my hands and suggested an amendment of their own.

Q. It is a marketing company?—A. Yes, it is purely for the distribution of petroleum products.

By Mr. Winch:

Q. I appreciate the answers given by the witness. It clarifies quite a bit to me. Do I understand there is no intention, at least at the present time or for some time, to have all the marketing of oil on the Canadian side of the boundary? You are strictly marketing. The products you are going to market

come in on the Alaskan boundary?—A. In so far as the pipe line is concerned, it will be fed from Alaska Tidewater at Haines. Once we get the petroleum product to Haines junction, which is the point of distribution, we will have marketed the product not only in the Yukon Territory and possibly British Columbia, but also in Alaska in the Fairbanks area.

Q. Will Mr. Porteous tell us who are the shareholders of the Alaska-Yukon Pipelines Limited and does the Alaska-Yukon Pipelines Limited own the company who will operate 40 miles in the Alaska area?—A. We have had a United States company incorporated. It has not been organized. We have just got the charter. We have made an application for a permit, but the permit is mainly actually a right-of-way over the United States department of interior lands.

Q. The company operating 40 miles in Alaska will be a wholly-owned subsidiary of the Alaska-Yukon Pipelines?—A. Correct.

Q. Where are your shares spread on the Alaska-Yukon Pipelines Limited? —A. Apart from the six directors, who at the moment own one share each, 100,000 shares have been issued to Alaska-Yukon Refiners and Distributors Limited which is the distributing company, the marketing company.

Q. Who owns the shares?—A. Alaska-Yukon Refiners and Distributors Limited.

Q. I mean, is it owned by a small group or a large group?—A. There are six shares issued to the directors and 100,000 shares issued to the Alaska-Yukon Refiners and Distributors Limited. The latter is a publicly-owned company whose shares were sold and distributed publicly last year throughout Canada so there are no shares of the pipe line in the hands of the public because it has nothing to offer at this stage.

Q. I still do not know who owns this company. Is it the six directors?

The CHAIRMAN: There is a list here.

By Mr. Winch:

Q. We do not have that list, Mr. Chairman.—A. I can tell you who are the directors.

Q. Is it owned by individuals or companies in Canada?—A. There are 100,006 shares outstanding at the moment. The 100,000 shares are owned by Alaska-Yukon Refiners and Distributors Limited which is an Albertan company.

Q. Who are the directors?—A. The directors are: Mr. Sparling of Edmonton, Mr. Drury of Montreal, Mr. Duggan of Edmonton, Air Vice Marshal Guthrie of—

Q. Of Victoria?—A. No, he is of Edmonton. Then there is Mr. Rogers of Montreal and myself, and those are, at the moment, the directors of the Alaska-Yukon Pipelines Company Limited.

Q. One more question, Mr. Chairman. I understood from what you are saying that it is your intention to build a refinery in the Yukon territory? —A. Well, it is our intention.

Q. Because you are importing crude only from Alaska to go through, you cannot bring in high octane gas, only crude. Is it your intention to establish a refinery and break the monopoly of the Imperial Oil, I hope?—A. Well, we have a partner in the distributing business and we are attempting to break somebody else's monopoly; I do not know about Imperial Oil. Actually, the location of the refinery now under active consideration and in the engineering stage is at Haines Junction.

By Mr. McIlraith:

Q. In Alaska?—A. No, in the Yukon.

By Mr. Winch:

Q. In the Yukon territory?—A. Yes. Right in the Yukon territory and if that refinery is built, the pipe line will merely move crude products to it.

By Mr. Smith (Calgary South):

Q. As I recall, and you bring it to my attention now, you have recently or are about to entertain, are you not, an underwriting which is to some extent or some substantial extent, to be sold in Canada?—A. It would be.

Q. Has it been offered yet?—A. No.

Q. I believe Mr. Eric Duggan who is a director is going to be one of the underwriters?—A. Yes, he is one of the underwriters.

By Mr. Johnston (Bow River):

Q. There is a question which comes to my mind. Are there any other companies distributing these products in this area now?—A. Yes. There is a company known as the British-Yukon Navigation which I understand is a subsidiary of the White Pass and Yukon Railway Corporation.

Q. Does British American Oil Company or Imperial Oil Limited do any distributing at all up there?—A. Royalite is distributing.

Q. What is going to be the position of this company in competition with the larger companies?—A. Well, we believe we can compete.

Q. Mr. Chairman, that brings up a very important point so far as I am concerned. I must admit that it brings up an important point in my mind. If this company gets this bill through and they start this construction and then they are up against a proposition of competing with the larger companies such as the Royalite, British American Oil or Imperial Oil, I think experience has proven that they just cannot stand that competition.—A. May I interrupt? You are under a misapprehension. Royalite is associated with us in current marketing. We are working with them.

Q. How are they associated with you? Do they own part of the company? —A. No, under leasing agreements of our facilities in a rather interesting contract, Royalite provides us with the oil and we handle it and they distribute it. There are also two other subsidiaries distributing. That is not the pipe line company; it is the refinery company that is doing that.

By Mr. Smith (Simcoe North):

Q. Do you say Royalite are providing you with oil?—A. Through outside purchasers.

By Mr. Winch:

Q. Who is going to build the refinery?—A. Alaska-Yukon Refiners and Distributors will build it.

By Mr. Johnston (Bow River):

Q. What would be your position if Royalite stopped providing you with oil? —A. They are the largest, they buy in tankers.

Q. But supposing they stopped providing you with the oil?—A. We could buy it too.

Q. I started asking questions here, Mr. Chairman, and I think we should have a statement as to the financial responsibility of the company because it does seem to me that this committee has a responsibility to the public. If we are going to allow the passing of the bill here and the incorporation of a company which in a matter of a year, or perhaps two years, has to fold up, are not the people who bought these shares going to be in a bad spot

then? I think it is a consideration this committee should take as to whether the company itself has the financial ability to go ahead and carry out this project?—A. As to that, so far as the pipe lines company is concerned, and I am not suggesting it is the committee's function, but that it is one in which the Board of Transport Commissioners takes a great deal of interest and requires most cogent evidence before it will allow or grant a permit to construct and operate the line. Now, we cannot provide financing if we have not, first of all, the corporate power to do what we want to do. If and when this committee and the house pass the bill and we have that settled, we then propose to make a new submission to the Board of Transport Commissioners giving them the project, the costs, the design, the financing and also our views as to the market in the area and the possibility of making it a profitable venture which we have already done once, and one which we think can be bolstered, as the board suggested, we have to do it. That is something which can only follow. We cannot tell you about the financing now because we have nothing to tell you about.

Q. And how do you propose to finance it after your other application goes to the Board of Transport Commissioners?—A. From the point of view of the pipe line company the normal procedure, subject to markets, is that you can borrow through loans or bonds a substantial part of the cost of the line which you have to provide out of that money for the difference. In the discussions we have had it has been the general idea that we would go ahead. A number of people have shown interest in the financing of this, but it has been more of an exploratory nature. Until we have our house in order, that is the corporate capacity, we are incapable of making a definite deal with anyone.

Q. Was the Board of Transport Commissioners satisfied with your financial ability to carry on this thing?—A. We placed evidence before the board last year on that point and we had an underwriting at that time; but that is a year ago.

Q. What was the board's view at that time?—A. The board did not comment on that. They did comment on the question of the market. There was quite a lot of discussion on that and they indicated in their judment that they did not know whether or not we had made out a case on the market. We believe we can now overcome that. When we appear before the board we have to have an underwriting agreement. That is not only in respect of the cost, but also in respect of the financing of the cost, and it is an agreement as of that moment. We may not appear before the board again until June, July or August.

Q. You do have to show financial responsibility to the Board of Transport Commissioners?—A. Yes. That is a sine qua non.

Q. When your last application was before the board did the board approve of your financial ability?—A. They did not comment on that. They, first of all, dismissed the application on the question of the corporate capacity. They questioned quite severely the possible market.

Q. They made no comments as to your financial ability?—A. They did not discuss that in their judgment.

Q. Would that be because they were refusing the application in any event?—A. Possibly.

By Mr. McIlraith:

Q. I would think it is a fair inference that they had turned down the application on other grounds and therefore they felt they did not have to deal with the matter of financing. My recollection is that they did not deal with it at all.—A. They did not comment on our submission as to the cost of construction and the operating costs which were before them.

By Mr. Fisher:

Q. Are any of the directors of this company directors of the Royalite Oil Company?—A. No.

Q. On page 13 of the judgment of the Board of Transport Commissioners it reads as follows:

> If the applicant does not succeed in arranging for use of the Canol system in conjunction with its proposed line and in consequence its throughput would be transported from Haines Junction by highway, the evidence does not satisfy us that the throughput would be sufficient to make the line economically feasible.

Do the statements which you have just made tie in with this, that you cannot prove this particular point until you have arranged for the use of the Canol system in the interval on some tentative basis?—A. When we appeared before the board we had a letter from Mr. Robertson, the deputy minister of northern affairs, to the effect that if and when the Canol system is delivered to Canadian hands the department of northern affairs would be prepared to lease it to us or make some arrangement so that the two-inch and three-inch line could be used by us as part of our project. The four-inch line, with which Mr. McIlraith is more familiar than am I although I have seen it, was to be dealt with separately by the White Horse or Yukon pipe lines.

Mr. McILRAITH: If and when the three-inch line is returned from the American authorities, I think it is clear that the applicant company would get it either by a lease or otherwise.

Mr. WINCH: Is it a fact that this will be turned over?

Mr. R. G. ROBERTSON (*Deputy Minister of Northern Affairs and National Resources*): The situation is as Mr. Porteous indicated it. The Canol pipe lines were built at various stages during the war. They are covered by about eight different agreements and those agreements are very complex. Included is a refinery at Whitehorse, a pipe line from Norman Wells in the Northwest Territories to Whitehorse, a pipe line from Whitehorse to Skagway on the Alaskan Coast, another pipe line from Whitehorse to Fairbanks, and a further pipe line from Carcross to Watson Lake in the Yukon. The line from Norman Wells to Whitehorse was disused by the end of the war and has been taken up. The two-inch line from Carcross to Watson Lake has been disused for some years but is not yet taken over by anyone, other than the United States government. The other pipe lines are still in operation and there are negotiations proceeding between Canada and the United States for these lines, that is the part that is in Canada, to be taken over by Canada. The negotiations are not yet complete.

A question arose some time ago as to what would be done with the pipe lines in Canada when they were taken over by Canada. The matter was considered with some care; representations were asked for from various companies who were known to have some interest in this as to what they proposed to do with parts or all of these lines if the lines were made available to them. The position that was taken by the department of northern affairs and the government was that the primary interest, as far as Canada is concerned, was in facilitating the supplies of petroleum products in the Yukon Territory at reasonable prices. I might add that there is an obligation to maintain these pipe lines in existence unless the permanent joint board of defense declares they are no longer required for defence reasons; no such declaration has been made.

The previous government considered the matter and, as a result of its consideration, in 1956 I wrote to the White Pass and Yukon Railway informing

them that the government would be prepared, after the pipe lines were turned over, on certain terms to lease the four-inch line from Whitehorse to Skagway to the White Pass and Yukon system. I also wrote to Alaska-Yukon Refinery and Distributors Limited to say that the government would be prepared to lease the three-inch line from Whitehorse to the Alaskan boundary, and the two-inch line to Alaska-Yukon Refinery and Distributors.

That decision was submitted again to the present government in July of this year in order that the position might be known firmly before negotiations continued with the United States. The present government confirmed those proposals.

Mr. WINCH: We, therefore, have an agreement with the Alaskan-Yukon Pipelines which has been confirmed by the government and by the company.

Mr. ROBERTSON: There is no agreement yet because it depends on the pipe line being turned over to Canada.

Mr. WINCH: There is an understanding?

Mr. ROBERTSON: Yes.

By Mr. Smith (Calgary South):

Q. I have a question to ask in respect of the relationship with the Canol company. Then I would like to ask whether or not it has been established what your potential market is in terms of imperial gallons.

Mr. PORTEOUS: I will give this from memory. We had different surveys and Royalite also made a survey. In the Yukon our figure was in the neighbourhood of 25 million gallons of petroleum products; that is, diesel oil, stove oil and gasoline. In the Fairbanks area, which we also propose to serve along the same system, there is a much larger potential market indicated. Unfortunately I do not have before me the evidence given to the board, but it was somewhat larger, I believe around 30 million gallons; that was the potential in 1955-1956.

Q. Did the Board of Transport Commissioners suggest that you had overestimated the market?—A. They said that the evidence does not satisfy them that the throughput would be sufficient. White Pass estimated how many petroleum products they were distributing and claimed to be distributing 97 per cent of the petroleum products in the Yukon. Their figure was around 18 million.

By Mr. McIlraith:

Q. I believe it was slightly under 16 million imperial gallons in the Yukon.—A. I do not know whether or not White Pass was marketing 97 per cent. However, we propose to proceed to reduce that percentage, if we can, to about 10 per cent.

By Mr. Smith (Calgary South):

Q. You would anticipate a very substantial rate of growth?—A. Yes.

Q. You would not make a guess as to what that would be?—A. The forecast of the growth in the throughput over the years is based upon the best engineering and economic studies available.

Q. Would you give us a brief explanation of the relationship of the transmission system of the pipe line to your distributing organization? Are you primarily concerned with piping oil or are you also concerned with selling the finished product at the retail level?—A. The pipe line is probably not more than a facility to the total enterprise. If it were not for the fact that there is a little neck of British Columbia through which we pass, and about which we are doing nothing, we would not be before this committee because we would not need to comply with the Pipelines Act. That is why we are here. The pipe line is really a facility to the program.

Q. It includes construction of refineries plus distribution?—A. Yes.

By Mr. Leboe:

Q. As a matter of interest, could you tell us what development has taken place and what explorations have been made in the northern area of British Columbia which may affect the pipe line project which you are contemplating here under this bill?—A. In northern British Columbia?

Q. Yes. And the Yukon.—A. Well, so far as northern British Columbia is concerned we would probably never serve there; it would be uneconomic.

Q. You mentioned coming into Watson Lake which is very close to the border.—A. Yes.

Q. I was wondering about the development of oil fields in the northern area which seems to be going forward each year and bringing oil wells into production?—A. As a matter of fact the reason we speak about Watson Lake is that it is about as far as we can economically go. Petroleum products push up the Alaskan highway from the south and transportation charges result. About Watson Lake is the cut-off. It is more economic to move up the Alaskan highway from Fort St. John and Fort Nelson and feed northern British Columbia from the road.

Q. I understand that quite a development is taking place in the northern area and there might be a time when the flow might be reversed in the old line. Has that been under contemplation by the company concerned?—A. Frankly I am not aware of any oil exploration which would materially affect us except near Seward in Alaska where they have found a new oil field. There is a great deal of mineral exploration work going on in the Yukon Territory, but I have not heard of any actual drilling for oil except to the east and nowhere near us.

Q. They have gone as far north as Fort Nelson.—A. If it was practicable to carry oil in that way you would just reverse your pumps.

By Mr. Winch:

Q. Mr. Chairman, may I say first of all that I appreciate the fullness and the absolute honesty of the answers given by Mr. Porteous. I am certain this information is of great assistance to us. There is one other question which I would like to ask. In the event of this bill being passed your company is asking for a corporate change which is required because of the 40 miles in Alaska, and I understand that is because the company will then have to go after finances. I would like to ask Mr. Porteous, if and when this bill goes through and he proceeds with his company's plans and goes after finances, whether it will be an appeal on the public market or if, in full or in part, shares of stock, or whatever term is used, will be offered to the present holders of shares in the Alaska-Yukon Pipelines Limited at a discount on the market price, or on par price?—A. Alaska-Yukon Pipelines Limited is contemplating what is called interim financing, which is to provide funds for the next step, that is complete the engineering, complete the negotiations, and tie ourselves up ready to make our application to the board. The shares will be Alaska-Yukon Pipelines Limited shares and it is intended to offer those to the present holders of Alaska-Yukon Refinery and Distributors shares.

Q. Will they be at a discount rate?—A. No.

Q. The evidence has been on previous bills—A. I know what you have in mind. There is a public offering price which will be fixed. We do not know what it is; it will depend on market conditions at the time. I understand it is intended that there will be some discount allowed Alaska-Yukon Refinery and Distributors Limited.

Q. Have you any idea what that discount may be?—A. No. I do not at the moment. They are already a part of the enterprise. That is the purpose of it. That is a publicly distributed thing, and we are offering those persons in the enterprise a better chance to continue in it, that is the present shareholders.

By Mr. Smith (Simcoe North):

Q. Mr. Porteous, you propose to operate in an area which is pretty much the exclusive domain of one marketing company now. Is that correct?—A. Frankly, I was up in White Horse this fall and I went to Haines Junction. From what I observed there are various stations along the road; that is, British-Yukon Navigation stations. But up in the Fairbanks area that company does not operate. However there are others, and I believe there is a subsidiary of Union Oil. There are other companies operating in that area so there will be competition. There is no question about that.

By Mr. McIlraith:

Q. I think you should go a little further and clear up a point. There seems to have been a misunderstanding arising out of an earlier remark. You are interested in two territories, the Yukon Territory and Alaska. The Yukon Territory has a population of approximately some 10,000 persons now—perhaps it is a little larger than that, and I am open to correction on that figure. The consumption in the year 1955-1956 was something in the order of 16 million imperial gallons per year. Your remarks a few moments ago about one company distributing in there in the past had to do only with the Yukon?—A. Yes.

Q. There was no suggestion that any part of the Alaskan territory was covered by the company which is presently distributing in the Yukon. I think it was also clear at the hearing before the Board of Transport Commissioners that the lines would be common carriers. It was also clear in the evidence as to the distribution that the reason the other company was in the distribution business was because no oil company had ever been there and they were therefore presently selling the products to anyone who would buy them. That is, the distribution arose by the nature of their operations in the territory rather than through an oil company going into the distribution business. I think that was pretty clear on the evidence. I think it is quite clear that while the existing company handled the bulk of the distribution in the Yukon Territory it had no distribution facility in the Alaskan territory.

There is a question before the hearing as to whether or not it would be economically feasible for you to build the line at all if you did not have the three-inch line in order to get into the Alaskan territory because the Yukon market is too small. I think that is right.—A. Yes.

Q. Perhaps you would clarify that?—A. The project involves two marketing areas; one is more important than the other actually.

The CHAIRMAN: Thank you.

Mr. FISHER: May I ask Mr. Robertson a question. Did the white Pass Company show any interest in the line in which this Alaskan-Yukon Company is interested?

Mr. ROBERTSON: Yes. They did. Actually the submissions that were made at the time the proposals were sought from various companies covered, in all cases, all the lines.

Mr. FISHER: Was the government policy based upon a desire to create a competitive situation here, or was it a case where they thought they could get a better price perhaps by dealing with two different agencies.

Mr. ROBERTSON: There was no thought of getting a better price. The feeling of the government, as I mentioned before, was that the primary interest, as far as the government was concerned, was to get an adequate supply of petroleum products in the Yukon area at a reasonable cost. If the government charged a high price for the lines, their price would turn up again in the price of the petroleum products. Therefore the proposal in each case was to lease the line at what would be, in the initial period, a nominal rent; but it was made clear

that the government would expect the fact that the lines were being made available at a nominal rate to be reflected in the prices of the petroleum products in the areas.

As to the lines themselves, in the case of the four-inch line a special situation prevails. The four-inch line is largely on the right of way of the White Pass and Yukon Railway, and it was felt it would not be feasible or realistic to think in terms of that line being handled by any company other than the White Pass. That was more or less settled in advance.

Then, as far as the other lines were concerned, it was a case of having two companies, both of which had expressed an interest in using these lines to supply petroleum products to the area. I think as far as both governments were concerned, it was felt that an equitable arrangement would be to give each company a share of the lines available.

Mr. FISHER: In other words a competitive arrangement?

Mr. ROBERTSON: Yes.

Mr. MCILRAITH: The cost of transportation of the product is not determined by permitting competitive lines because the pipe line act provides for application to the Board of Transport Commissioners so that there will not be competition. The safeguard will lie in the requirement that they shall be common carriers; the government put that safeguard in.

Mr. ROBERTSON (*Deputy Minister of Northern Affairs and National Resources*): I am no expert on the pipe line business but I should have mentioned, as Mr. McIlraith did, that it was made a condition in each case that the lines would be a common carrier.

Mr. MCILRAITH: That is right.

The CHAIRMAN: Any other questions?

Mr. SMITH (*Calgary South*): The only question is whether or not any other company have shown interest because it seems to me what we are looking at here now, is, first of all, it would seem somewhat conditional on this bill being passed for the present company which is now making application to have assurances that the bill would be passed so that they would be able to be in a position to negotiate for the Canol line. Otherwise, what we are doing by passing it is placing them in a competitive position so they can negotiate for it. I assume that is right.

The CHAIRMAN: Can you answer that Mr. Robertson?

Mr. ROBERTSON: On Mr. Smith's question there was a third company that indicated an interest, Trans-Border Pipelines Ltd. Each company, as I mentioned before, was asked to indicate what it proposed to do if it got the line, and it was felt on examination that the proposals of the two companies that were written in December 1956 were definitely the best proposals.

Mr. SMITH (*Calgary South*): Perhaps I can word it this way: while I am sympathetic towards this application, I would not want it felt that purely because it was done in the past that this company should, therefore, automatically fall heir to the line in competition with the others.

Mr. ROBERTSON: No, it would be definitely a matter for government action. As I mentioned before there has been no agreement with the companies because the lines are not yet in title of the Government of Canada.

Mr. SMITH (*Calgary South*): Assuming that to be the case, that the line was eventually under the control of the government.

Mr. ROBERTSON: Then there is a letter of intent to each company as to what the government would propose, but the conditions have not been spelled out, except in certain matters such as the requirement that they would operate as common carriers.

Mr. McILRAITH: I think there are one or two things perhaps we should clear up. The difficulty does not arise over which one shall get the three or four inch line. That has been settled. The problem before the committee now is whether or not they should grant this power to the applicant company before it has the three inch line. I should think if it had the three inch line—that is, had it from the United States—that it could make a very strong case for getting the power it asks for, I would think the question now is pretty narrow because it is clear and I think this is a fair assumption that if the three inch line does in fact become available and is turned over to the Canadian government, the applicant company will get it. That is a reasonable assumption. The point here is rather different. It does not involve the government. It is whether or not the committee feels it should give the applicant company this power to build an oil pipe line outside of Canada, before it gets the three inch line; or whether it should wait until it knows definitely that it is getting the three inch line. The question as to whether or not it will get the three inch line does not depend on the Canadian government's turning it over to the applicant company but rather depends on the conclusion of the negotiations now going on with the United States towards the turning over of these Canol lines to the Canadian government.

Mr. ROBERTSON: That is correct, Mr. Chairman.

The CHAIRMAN: Any other questions.

Preamble agreed to.

Clause 1—Repeal.

Mr. WINCH: On clause 1 I find myself somewhat in sympathy with this application. I believe that it will be of benefit. I have only visited on one occasion in the Yukon territories and Alaska but I think the establishment of a pipe line through there, a distributing agency and especially a refinery, which is of great interest to me, is all important. And that is the reason I find myself in sympathy with this bill. However, I have noted the remarks of Mr. Porteous to the effect that they are only interested in oil. That being so, I do not believe that there should be any confusion in anyone's mind by our passing what is before us now. It involves dealing with natural gas, and so because of that I would like to move, seconded by Mr. Fisher, that clause 1 of the bill be amended so as to restrict the purpose of the amending bill to the transmission and transportation of oil and liquid products. I think it will in no way meet the objection of Mr. Porteous but it will clarify the purpose of this bill.

Mr. SMITH (*Calgary South*): I agree to that.

The CHAIRMAN: It has been moved by Mr. Winch and seconded by Mr. Fisher that clause 1 of the bill be amended so as to restrict the purpose of the bill to the transmission and transportation of oil and other liquid products.

Mr. WINCH: I use that term because there is a reason. After refining you have to transmit your gas.

Mr. McILRAITH: We had better have a look at the precise wording of the section.

Mr. WINCH: I am going, sir, by your ruling at the last meeting, that all motions must be seconded and in writing, and in view of the length of this I could not draft the precise wording, and I thought if I moved that motion in writing in principle, it would be accepted and the correct wording would then be drafted.

The CHAIRMAN: You have heard the motion, gentlemen. Before it is put Mr. Porteous would like to say something in regard to it.

Mr. WINCH: I do not want to restrict his operation. It is just to remove what I understand he does not want anyway.

The WITNESS: In line 23 of the bill the words "natural and artificial gas", and in the 24th line "and"—if these were deleted I think perhaps that is what you have in mind, and also the same words in the 29th line.

Mr. WINCH: It is impossible to draft it while I sit here. I believe that members of the committee understand the broad principle and if it is agreed in principle the exact wording could be worked out. I have no intention of striking out words like "gathering and storing" and things of that nature.

The CHAIRMAN: Mr. Porteous, Mr. Winch has suggested that instead of your motion, if you would move that those words be struck off, that would be on the 11th line, "and transportation of gas and" on that line, and then in line 23 "of natural and artificial gas" and on line 29 "natural and artificial gas".

Mr. WINCH: Also the words "gaseous hydrocarbons".

The WITNESS: That relates to a form of petroleum product. High octane gasoline is a gaseous hydrocarbon.

Mr. MCILRAITH: It seems to me we are in a little danger here in drafting. It is clear what Mr. Winch has in his mind and may I suggest that counsel for the applicant company look at the precedents in the other pipe line acts of incorporation and restrict their proviso to gas.

Mr. WINCH: As a matter of fact it is something which is of such importance —Mr. Porteous knows what happened to him a year ago, just because of something not quite correct in drafting, and I think it would be dangerous for us to try now, sitting here and talking back and forth, to draft it. If we can accept it in principle, then I am sure between yourself and the law counsel and Mr. Porteous himself, you could work out the exact wording.

The CHAIRMAN: One way we could do this is to adjourn and meet again and allow this to come before the law officers.

Mr. MCILRAITH: I do not think it is necessary to meet again. I think the purport of Mr. Winch's motion is quite clear, and it is a matter of draftsmanship only. I did point this out the last time this applicant was before the committee.

The WITNESS: I think my original amendment, which the Senate did not agree with, was the simplest one. I am trying to give the simplest approach to it.

By The Chairman:

Q. What was your amendment in the Senate, Mr. Porteous?—A. To delete two words "and oil" from the proviso. If you look at the explanatory note side in the section as it then read, it will give you the proviso a little more than half way down "provided that the main pipe line or lines for the transmission and transportation of gas and oil shall be located". We just struck out "and oil".

Mr. MCILRAITH: You should also strike out "and transportation".

The CHAIRMAN: What was that Mr. McIlraith?

Mr. MCILRAITH: He should also strike out the words "and transportation", and follow the precedents in the other bills because you transmit gas and transport oil. That is the way other Bills are worded.

Mr. WINCH: I think it is still better if you pass the principle. I have sufficient confidence that I would leave it to you to work it out with the law clerk and Mr. Porteous. I have that confidence, sir.

The CHAIRMAN: What is your opinion, gentlemen? You have Mr. Winch's motion. Would you be satisfied with this motion if we submit it to the law officers to draft it properly.

Mr. SMITH *(Calgary South)*: Just one question, that you are not deleting line 24 with reference to gaseous hydrocarbons.

The CHAIRMAN: No. Mr. Winch's motion says to the transmission and transportation of oil and liquid products; it limits it to liquid products. Gentlemen, you have heard the motion.

Mr. MCILRAITH: I think, Mr. Chairman, there is a slight misunderstanding about gaseous hydrocarbons. They are included in all oil pipe line bills because when you are dealing with the oil you cannot resist including the gaseous hydrocarbons with certain oil products. They go with the oil group of words in the terminology and not with the gas group.

The CHAIRMAN: According to Mr. Porteous, Mr. Winch, you are in order. To have it covered completely, you would have to have oil and other liquid products and gaseous hydrocarbons.

Mr. WINCH: That is fine.

The CHAIRMAN: Would that be all right?

Mr. WINCH: I believe it is statutory anyhow. I understand on the statute that that is included as a liquid as far as petroleum is concerned.

The CHAIRMAN: You have heard the motion, gentlemen.

Mr. LEWRY: In connection with the point of order raised at first, you said you would obtain a ruling in that matter. Would that be included in the minutes? I do not think it is necessary to go back as long as it is understood that the ruling will be provided.

The CHAIRMAN: With regard to a ruling to consider this bill.

Mr. LEWRY: Regarding the discussion here considering the bill.

The CHAIRMAN: We will try to see if we can include it in the minutes. (See Mr. Speaker's statement at page 119 of the unrevised edition of *Hansard* for October 17, 1957).

Mr. SMITH (*Simcoe North*): I would like to suggest that Mr. Winch's amendment has pretty well made the point of order a matter of academic interest now.

The CHAIRMAN: You have heard the motion, gentlemen, what is your pleasure?

Amendment agreed to.

The CHAIRMAN: Shall clause 1, as amended, carry?

Clause 1 as amended agreed to.

Title agreed to.

The CHAIRMAN: Shall the bill as amended carry?

Bill as amended agreed to.

The CHAIRMAN: Shall I report the bill as amended?

Agreed to.

Mr. FISHER: Mr. Chairman, I should like to make a brief observation. It seems to me we operate in an antiquated way. Why could not we, when we come in, have a digest of what is going to be presented to us; why could we not have a map for each of us. In other words, I am referring to the work of the committee. It does not seem to me in the time that I have been here that we are as efficient as we could be if we had some sort of pre-digest. Now, in the United States Congress it is provided for by the library of congress. Is there not any way where we could have such matters set forth so I would not have to come in cold each time?

The CHAIRMAN: The bill of incorporation for this company was before the Railway committee last year and I understand complete information was given at that time. On the Canadian National Railway Extension Line bill there were maps distributed to each party in the house, and we have tried to give you

every bit of information that has been asked for. Now, I believe it was you, Mr. Fisher, who asked for a copy of the Transport Commissioner's judment.

Mr. FISHER: Yes and we did not get it until this morning.

The CHAIRMAN: Our clerk Mr. Small did not get copies until this morning for distribution.

Mr. FISHER: It seems to me we do not operate as smoothly as we could, and one of the reasons is that we have not the information here ahead of time and I cannot see any reason why every time we walk in here we should not come in with a file. Why should an individual Member of Parliament have to scramble through all the past references in order to get this. We are supposed to be a smoothly working organization. Why could not we request a service that could provide us with it.

The CHAIRMAN: Perhaps we had better find out from Mr. Small, the clerk. Mr. Small now tells me, Mr. Fisher, there have been a number of requests like this and they are being sent, as suggested, to the clerk of the house, and it is hoped that something will be done along the line suggested.

The committee adjourned to the call of the Chair.

HOUSE OF COMMONS

First Session—Twenty-third Parliament

1957

STANDING COMMITTEE

ON

RAILWAYS, CANALS AND TELEGRAPH LINES

Chairman: GORDON K. FRASER, ESQ.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 5

including 9th Report

BILL No. 194 (Letter L-6 of the Senate)

An Act to amend An Act respecting the Buffalo and Fort Erie Public Bridge Company.

FRIDAY, DECEMBER 13, 1957

WITNESS:

The Honourable Donald M. Fleming, Minister of Finance.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1957.

50724-4—1

STANDING COMMITTEE

ON

RAILWAYS, CANALS AND TELEGRAPH LINES

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and Messrs.

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Batten
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Fairfield
Fisher
Gauthier (*Lac St. Jean*)
Gauthier (*Chicoutimi*)
Grills
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Howe (*Vice-Chairman*)
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Kennedy
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MacDonald (*Antigonish-Guysborough*)
Marler
Martini
McBain
McDonald (*Hamilton South*)
McGrath
McIlraith
McIvor
McLeod
McPhillips
Muir (*Cape Breton North and Victoria*)
Murphy (*Westmorland*)
Nixon
Olson
Phillips
Rea
Rouleau
Small
Smith (*Calgary South*)
Smith (*Lincoln*)
Smith (*Simcoe North*)
Smith (*Battle River-Camrose*)
Stanton
Stuart (*Charlotte*)
Taylor
Villeneuve (*Roberval*)
Vincent
Winch
Wratten

A. Small,
Clerk of the Committee.

ORDERS OF REFERENCE

MONDAY, November 18, 1957.

Ordered,—That the Standing Committee on Railways, Canals and Telegraph Lines be empowered to examine and inquire into all such matters and things as may be referred to it by the House; and to report from time to time its observations and opinions thereon, with power to send for persons, papers and records.

TUESDAY, November 26, 1957.

Ordered,—That the quorum of the said Committee be reduced from 20 to 12 members, and that Standing Order 65 (1) (*b*) be suspended in relation thereto.

Ordered,—That the said Committee be empowered to print such papers and evidence as may be ordered by the Committee, and that Standing Order 66 be suspended in relation thereto.

TUESDAY, December 3, 1957.

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

THURSDAY, December 12, 1957.

Ordered,—That the following Bill be referred to the said Committee:

Bill No. 194 (Letter L-6 of the Senate), intituled: "An Act to amend An Act respecting the Buffalo and Fort Erie Public Bridge Company".

Attest.

Leon J. Raymond,
Clerk of the House.

REPORT TO THE HOUSE

FRIDAY, December 13, 1957.

The Standing Committee on Railways, Canals and Telegraph Lines has the honour to present the following as its

NINTH REPORT

Your Committee has considered the following Bill and has agreed to report it without amendment:

Bill No. 194 (Letter L-6 of the Senate), intituled: "An Act to amend An Act respecting the Buffalo and Fort Erie Public Bridge Company".

A copy of the Committee's Minutes of Proceedings and Evidence in respect of the said Bill is appended hereto.

Respectfully submitted,

GORDON K. FRASER,
Chairman.

MINUTES OF PROCEEDINGS

FRIDAY, December 13, 1957.

The Standing Committeee on Railways, Canals and Telegraph Lines met at 10.00 a.m. The Chairman, Mr. Gordon K. Fraser, presided.

Members present: Messrs. Blanchette, Broome, Bryce, Fraser, Grills, Haidasz, Kennedy, Lavigne, Lewry, Martini, McIvor, McLeod, Olson, Small, Smith (*Lincoln*), Stanton, and Wratten—(17).

In attendance: The Honourable Donald M. Fleming, Minister of Finance; Mr. Richard A. Bell, M.P., Parliamentary Assistant to the Minister of Finance; and Mr. John A. MacDonald, Treasury Board Division, Department of Finance.

The Committee commenced consideration of Bill No. 194 (Letter L-6 of the Senate), "An Act to amend An Act respecting the Buffalo and Fort Erie Public Bridge Company".

On motion of Mr. Small, seconded by Mr. Broome,

Resolved,—That the Committee print 700 copies in English and 200 copies in French of its Minutes of Proceedings and Evidence in respect of Bill No. 194, An Act to amend An Act respecting the Buffalo and Fort Erie Public Bridge Company.

On Clause 1:

The Minister of Finance made a statement explaining the purpose of the Bill and was questioned thereon.

After consideration and discussion, Clauses 1 to 4 inclusive, the Title and the Bill were adopted.

Ordered, That the Chairman report the said Bill to the House without amendment.

The Committee adjourned to the call of the Chair.

A. Small,
Clerk of the Committee.

EVIDENCE

FRIDAY, December 13, 1957.
10:00 a.m.

The CHAIRMAN: Gentlemen, we have a quorum. This morning we are on Bill No. 194 (Letter L6 of the Senate), An Act to amend An Act respecting the Buffalo and Fort Erie Public Bridge Company.

We have the Minister of Finance, the Hon. Donald Fleming, here this morning and he would like to say a few words before we start on the bill. Before we do that, however, I would like to have a motion regarding the printing of our evidence.

Mr. R. H. SMALL: I move, seconded by Mr. Broome, that the committee print 700 copies in English and 200 copies in French of the minutes of proceedings and evidence in respect of Bill No. 194, An Act to amend An Act respecting the Buffalo and Fort Erie Public Bridge Company.

Motion agreed to.

Hon. M. DONALD FLEMING (*Minister of Finance*): Mr. Chairman and gentlemen, I would like to thank you very much for the privilege of appearing before you and for the opportunity to say a few brief words about this bill. This bill, Mr. Chairman, was reviewed in the House of Commons yesterday. It is a bill to amend a statute that was passed in parliament in 1934 setting up the authority in which the Peace bridge between Fort Erie and Buffalo is vested. The bill has elements of very great urgency about it because the authority is an international one, with both Canadian and American representatives on it. The Canadians have been in a minority hitherto. Action, as outlined yesterday, was taken through legislative channels in New York State by which things were done without any concurrence on the part of this country, that quickly had to be undone. In the course of undoing what was rashly done over there, and which required not only action on the part of the New York State legislature, but also the Congress as well to undo, the American representation was set at five members, commencing January 1. The Canadian representation on this authority has consisted of three members hitherto, and one of the great elements of urgency in this bill is that we have authority to fix the number of Canadian representatives at five as from January 1st, so that there will be equal representation and in that way full safeguard for Canada's interests. That is one of the leading features of the bill.

It will be seen that, to cover the case where any Canadian member is not able to attend a meeting, in order to ensure that there will be full representation and five votes for Canada on any matter which might involve, a difference, provision is made for substitution for any absent member on such occasions.

Then there is the provision made here also, for the vesting of the property in Her Majesty in right of Canada to be disposed of as the governor in council may direct, on the latter of two dates namely, the first day of July 1992 or, secondly, the day that any bonds issued by the bridge authority prior to the first day of July, 1992, are paid in full or are otherwise discharged.

There is also provision that any money payable to the government of Canada shall be paid to the Minister of Finance and shall form part of the consolidated revenue fund.

Those, Mr. Chairman, are the provisions of the bill. It is a very short bill but an urgent one. In my statement in the House of Commons yesterday, I reviewed fully the history of this bill and the procedures of the bridge authority hitherto.

The CHAIRMAN: Now, gentlemen, you have heard the minister. Are there any questions?

Mr. STANTON: I was wondering whether the Canadian government made any representations to the New York state or the American authorities in regard to this calculation of the representation on that bridge authority.

Hon. Mr. FLEMING: That, sir, has all been done and the present measure is the outcome of the negotiations between our government and the American authorities and this present bill represents the extent of agreement that was reached.

Mr. STANTON: I presume it was on a friendly basis and the American authorities did not quibble.

Hon. Mr. FLEMING: That was all touched on yesterday in the House of Commons and reference was made to the fact that these negotiations were carried on in a very amicable way. Mr. Houck, member for Niagara Falls, who spoke in the house yesterday warmly in support of the bill, did make reference to the fact that the negotiations themselves had contributed very considerably to the spirit of goodwill at the border.

Mr. OLSON: Would the minister tell us what reasons the Americans gave for increasing the membership?

Hon. Mr. FLEMING: As a matter of fact, it was an action taken by the New York state legislature, we think rather hastily, without reference to this country, and it involved questions as to the title to the bridge and also the relationship of the American interests in the bridge to the Buffalo port authority.

It was a matter of hasty action, if I may say so, on the part of the New York legislature and it was following that enactment that the attorney general of New York pointed out to the legislative authorities of the state that they had exceeded their authority in the action which they had taken.

Now, the Americans on their part, both in the legislature of the state of New York and in the Congress have now done all that is required by them to be done to undo what was done on that occasion and to enable us to proceed on the basis of the provisions of the bill now before us.

The CHAIRMAN: Are there any other questions, gentlemen?

Clauses 1, 2, 3 and 4 agreed to.

Title and the Bill agreed to.

Shall I report the bill?

Agreed to.

The committee adjourned to the call of the Chair.